

Prospectus dated 25 August 2011



## **PGNiG Finance AB (publ)**

*(incorporated with limited liability in the Kingdom of Sweden)*

**Euro 1,200,000,000**

### **Guaranteed Euro Medium Term Note Programme Due from one to 10 years from the date of original issue unconditionally and irrevocably guaranteed by Polskie Górnictwo Naftowe i Gazownictwo S.A.**

*(a joint-stock company incorporated in the Republic of Poland)*

Under the Guaranteed Euro Medium Term Note Programme described in this Prospectus (the “**Programme**”), PGNiG Finance AB (publ) (the “**Issuer**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes guaranteed, subject to the limitations set out in the Deed of Guarantee (as defined in “General Description of the Programme – Guarantee”), by Polskie Górnictwo Naftowe i Gazownictwo S.A. (the “**Guarantee**” and the “**Guarantor**”, respectively) (the “**Notes**”). The aggregate nominal amount of Notes outstanding will not at any time exceed Euro 1,200,000,000 (or the equivalent in other currencies), subject to increase as described herein.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the “**CSSF**”) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities, for the approval of this Prospectus as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “**Prospectus Directive**”). Application has also been made to the Luxembourg Stock Exchange for the Notes issued under the Programme to be admitted to the official list of the Luxembourg Stock Exchange (the “**Official List**”) and to be admitted to trading on the Luxembourg Stock Exchange’s regulated market. References in this Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to the Official List and admitted to trading on the Luxembourg Stock Exchange’s regulated market. The Luxembourg Stock Exchange’s regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. However, unlisted Notes may be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Luxembourg Stock Exchange’s regulated market (or any other stock exchange).

Each Series (as defined in “General Description of the Programme – Method of Issue”) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**”). If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“**NGN**”) form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”). Notes in registered form will be represented by registered certificates (each a “**Certificate**”), one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Registered Notes issued in global form will be represented by registered global certificates (“**Global Certificates**”). If a Global Certificate is held under the New Safekeeping Structure (the “**NSS**”) the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Global notes which are not issued in NGN form (“**CGNs**”) and Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Tranche with a common depository on behalf of Euroclear and Clearstream, Luxembourg (the “**Common Depository**”).

The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in “Summary of Provisions Relating to the Notes while in Global Form”.

Tranches of Notes (as defined in “General Description of the Programme — Method of Issue”) may be rated or unrated. Whether or not a tranche of Notes is rated, together with the assigned ratings, will be specified in the relevant Final Terms. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will also be disclosed in the relevant Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under the section headed “Risk Factors” in this Prospectus.

#### **Dealers and Arrangers for the Programme**

**BNP PARIBAS**

**Société Générale Corporate & Investment Banking**

**UniCredit Bank**

*This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”) and for the purpose of giving information with regard to the Issuer, the Guarantor and the Guarantor’s subsidiaries and affiliates taken as a whole (the “Group”) and the Notes which, according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor.*

*The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).*

**No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any of the Dealers or the Arrangers (as defined in “General Description of the Programme”). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.**

**In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).**

**The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor, the Dealers and the Arrangers to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “Securities Act”) and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see “Subscription and Sale”.**

**This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Guarantor or the Dealers to subscribe for, or purchase, any Notes.**

**To the fullest extent permitted by law, none of the Dealers or the Arrangers accepts any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by an Arranger or a Dealer or on its behalf in connection with the Issuer, the Guarantor or the issue and offering of the Notes. Each Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Neither this Prospectus nor any other**

financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Guarantor, the Arrangers or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arrangers undertakes to review the financial condition or affairs of the Issuer or the Guarantor during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arrangers.

In connection with the issue of any Tranche (as defined in “General Description of the Programme – Method of Issue”), the Dealer or Dealers (if any) named as the stabilising manager(s) (the “Stabilising Manager(s)”) (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to (i) “U.S. dollars”, “U.S.\$” and “\$” refer to United States dollars, (ii) “kr”, “kronor” and “SEK” refer to Swedish kronor, (iii) “zloty” and “PLN” refer to Polish zloty, (iv) “Sterling” and “£” refer to pounds sterling, and (v) “euro”, “EUR” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

As at 24 August 2011, the National Bank of Poland average exchange rate between euro and zloty was €1 = 4.1601 PLN.

## **PROSPECTUS SUPPLEMENT**

If at any time the Issuer shall be required to prepare a prospectus supplement pursuant to Article 13 of the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities, the Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market, shall constitute a prospectus supplement as required by Article 13 of the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities.

Each of the Issuer and the Guarantor has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Guarantor, and the rights attaching to the Notes, the Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

## TABLE OF CONTENTS

	<b>Page</b>
PROSPECTUS SUPPLEMENT .....	iv
RISK FACTORS .....	1
DOCUMENTS INCORPORATED BY REFERENCE.....	24
GENERAL DESCRIPTION OF THE PROGRAMME .....	26
TERMS AND CONDITIONS OF THE NOTES .....	31
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM.....	58
USE OF PROCEEDS.....	64
THE GUARANTOR.....	65
REGULATORY ENVIRONMENT.....	131
THE ISSUER .....	148
TAXATION.....	150
SUBSCRIPTION AND SALE .....	155
FORM OF FINAL TERMS.....	158
GENERAL INFORMATION .....	170

## **RISK FACTORS**

*The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor are in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer or the Guarantor may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.*

### **Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme**

The Issuer is a special purpose financing entity with no business operations other than the entry into of financing arrangements (including the issuance of Notes under the Programme), the lending of the proceeds to the Guarantor, and the entry into of certain ancillary arrangements. The Issuer's only material assets will be the Guarantor's obligation to repay such amounts. Therefore, the Issuer is subject to all risks to which the Guarantor and the PGNiG Group are subject, to the extent that such risks could limit the Guarantor's ability to satisfy, in full and on a timely basis, its obligations. See "Factors that may affect the Issuer's and the Guarantor's ability to fulfil its obligations under or in connection with the Guarantee and the Notes issued under the Programme" below for a further description of certain of these risks.

### **Factors that may affect the Issuer's and the Guarantor's ability to fulfil their obligations under or in connection with the Guarantee and the Notes issued under the Programme**

#### **Risk factors related to the operations of the PGNiG Group**

##### ***Fluctuations in natural gas or crude oil prices***

Natural gas and crude oil prices are influenced by numerous external factors that have caused price fluctuations in the past. PGNiG cannot control fluctuations in gas and crude oil prices on international markets. Gas prices used in import contracts are determined in euros or dollars and are based on indexation formulae reflecting the prices of crude oil derivative products and the Company has no influence over such prices. Changes in foreign exchange rates and prices of crude oil derivative products materially affect the price of imported gas. Other factors that may influence such prices include the following:

- global and regional development trends, both economic and political, in regions rich in resources;
- changes in the scope of global and regional demand for, and the supply of, energy resources;
- the influence of OPEC and other countries' exploration of energy resources on exploration and price levels;
- changes in fuel prices on the international markets;
- prices of alternative fuels, which influence the financial terms of gas supply agreements;

- Polish and foreign legal regulations and Polish government policy;
- economic conditions in Poland, the central European region and in the rest of the world;
- the price and availability of new energy technologies; and
- weather conditions.

In view of the above factors, any specific forecast of natural gas and crude oil price changes is subject to a high margin of error. Lower natural gas and crude oil prices may decrease the volume of natural gas and crude oil that PGNiG may extract on economically reasonable terms, or decrease the profitability of planned development projects. However, any increase in gas procurement prices may not be, as long as PGNiG is obliged to apply the tariff established by the President of the Energy Regulatory Office (“**ERO**”), reflected in the gas prices imposed by the tariff and, consequently, the Company may not be able to pass on the gas price increase to its end-users. Natural gas and crude oil price changes, if any, may thus adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

#### ***Foreign exchange risks***

Payments received by the PGNiG Group for gas sales that constitute its main source of income are made in PLN, while a substantial part of the PGNiG Group’s liabilities, particularly with respect to imported gas deliveries, are denominated in dollars and euro. Consequently, the PGNiG Group is subject to foreign exchange risks related to fluctuations in the PLN/USD and PLN/EUR exchange rates. In order to minimise, among other things, the foreign exchange risk exposure, PGNiG operates a “Financial Risk Management Policy”, which allocates tasks among the various organisational units in the management and risk control procedure. As a consequence of the application of the above policy, foreign exchange forward transactions, currency and exchange rate swaps and currency options that decrease the Company’s exposure to such types of risk are entered into. However, no assurance can be given that any depreciation in the PLN would not adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

#### ***Risk of Competition***

*The risk from competitive gas suppliers in light of the elimination of restrictions on the application of third party access (“TPA”) and the loss of customers.*

PGNiG continues to hold the leading position in the Polish natural gas market with approximately 98 per cent. of the volume of supply to retail customers using natural gas in Poland. However, natural gas suppliers independent of PGNiG have existed in Poland for some time. These are mostly private enterprises, usually with foreign (mostly German) capital. Their operations are limited to certain areas of Poland only (mostly the Western parts) and focus on the distribution of gas among minor industrial customers and retail customers. The natural gas sold by these companies had previously been bought primarily from PGNiG. The liberalisation of the gas market has boosted the activity of gas suppliers operating throughout Europe who are competitors of PGNiG’s six regional gas companies (listed under “The Guarantor – Distribution – Companies of the Distribution Segment”, the “**Gas Companies**”). Over the past few years, these suppliers have increased their activity, gradually developing their gas networks and acquiring new customers, both among households and businesses.

PGNiG faces its strongest competition in the electric power sector and in connection with natural gas customers with stable financial positions. It is likely that major European gas companies will be interested in and seek to establish operations in Poland. One such company is Gazprom Export, which currently occupies a dominant position as the supplier of natural gas to Central and Eastern Europe, including to Poland. Gazprom

Export's strategy involves expanding its activities further downstream in the value chain of the European gas industry. It has already established wholesale and retail operations in markets such as Germany, France and the United Kingdom. Such expansion presents considerable competition to PGNiG. Although the Company believes that the overall composition of the Polish natural gas market should not change significantly in the near future, PGNiG may experience a decrease in its sales growth due to the emergence of new suppliers offering supplementary supplies of natural gas on the Polish market to PGNiG's existing customers and any such decrease may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

*Risk of competition in the natural gas and crude oil prospecting and exploration market*

In the international market, the oil and gas sector is highly competitive, particularly with respect to prospecting and exploration activities, as well as the extraction of newly discovered natural gas and crude oil deposits. In the domestic market, competition has in the past been limited but over the past few years has been growing steadily. The Issuer cannot provide any assurances that, in the future, no enterprise will emerge that will be able to compete effectively with PGNiG in the natural gas and crude oil prospecting and exploration market. Some of these potential competitors already enjoy a strong position in their own domestic markets and/or the international market and have greater financial resources than PGNiG. Consequently, they may be in a position to devote more funding than PGNiG to investigate new deposits or to purchase the rights to explore those deposits. Furthermore, some competitors are also able to investigate, value, offer for, purchase and operate a larger number of fields (including the underlying licences) than would be possible in the case of the PGNiG Group, given the Group's financial and human resources. This competitive edge of other market players is particularly important on the international market and may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

*Risks from competitive gas distributors who have their own transmission infrastructure*

Apart from PGNiG and the Distribution Companies that form part of the PGNiG Group, gas fuel distribution services are also offered by other enterprises, including those that have their own distribution infrastructure and offer, in addition to traditional network gas supply, innovative solutions of natural gas supply involving the use of LNG. Their operations are limited mostly to the western territories of Poland and focus on gas distribution to small industrial and retail customers. In 2008, a new regulation on tariff setting (the "**Tariff Regulation**") came into force that contained detailed instructions which enabled gas utilities to include a return on invested capital in the tariff calculation. However, in the intervening period, the activity of small, independent gas transmission, distribution or gas supply companies did not appear to increase. Lack of activity of other entities on the distribution market, despite the fact that favourable legal regulations concerning remuneration of capital invested were introduced, stems from the necessity to bear relatively high investment costs for the construction of infrastructure with long periods of return which act as a barrier to entry to the market. However, if independent enterprises were to establish cross-border interconnections on the eastern and western borders of Poland, this would pose a *significant* threat to PGNiG's interests. If these entities construct a gas transport infrastructure as an alternative to the PGNiG Group infrastructure, this may have an adverse impact on the development prospects of the PGNiG Group in the future, result in a loss of clients within areas containing more than one gas network and cause a decrease in transmission and distribution fees. This in turn may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.



#### *Risks from construction companies and manufacturers of equipment*

The operations of companies within the PGNiG Group offering construction and assembly services and manufacturing drilling equipment are significantly exposed to growing competition from foreign companies, both those operating in their domestic market abroad and those entering the Polish market, and from Polish market players. In the area of designing gas transport installations, consolidation of design offices specialised in designing installations for production, storage, transmission and distribution of gas, as well as setting up new design offices within gas industry operators, are competitive developments which adversely affect the PGNiG Group's design companies' capacity to form consortia with execution companies and secure new orders.

Furthermore, the presence of competitors in the domestic market carries a risk of these rival companies poaching specialised staff with extensive professional experience.

These risks may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

#### ***Risks related to operating activities***

##### *Risks related to natural disasters, equipment malfunction and human error*

PGNiG Group's operations are conducted on the basis of 6,985 km of high-pressure and increased-pressure gas pipelines, 5,409 gas pumping stations, (*stacje redukcyjno-pomiarowe*) 108,656 km of medium and low-pressure grid, eight underground natural gas storage facilities and 67 mines for exploring natural gas deposits and crude oil deposits. Operations consisting of prospecting, exploration, transmission and distribution as well as the storage of natural gas and crude oil, carry high risk and are prone to natural disasters, equipment malfunction, human error or other events that could cause gas or oil leaks, explosions, fire, equipment damage or loss of control over a well or underground gas storage, which in turn, may cause human injury or death or damage to shafts and production back-up facilities, and may cause damage to third parties or the natural environment. Hydrocarbon deposits developed by the PGNiG Group are usually located at great depth, which is accompanied by extremely high pressures, and many of these deposits include hydrogen sulphide in its chemical composition. Consequently, there exists a high risk of an explosion, eruption or hydrocarbon leakage, which in turn may pose a threat to workers and local inhabitants, the natural environment as well as the production equipment. Similar risks may be expected during the process of drilling prospecting and exploratory wells because the drills pass through layers of exceptionally high pressure, containing saltwater, gas or crude oil, and, in western Poland, hydrogen sulphide.

These risks, if they materialise, may have an adverse effect on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

##### *Risks related to third-party action*

The operations of the PGNiG Group may be disrupted by unforeseen events such as terrorist attacks, vandalism or sabotage. Such losses may affect the real estate, movables, financial assets or key employees. Unforeseen events may also cause additional operating costs such as higher insurance premiums. They may also result in the PGNiG Group's inability to obtain insurance protection against certain types of risk.

These risks may have an adverse effect on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risks related to losses and expenditures not covered by insurance***

PGNiG faces numerous operational risks in its gas and crude oil exploration, production and distribution activities, which may result in losses and additional expenditures and which may not be covered by insurance. It conducts its exploration activities in various geographical regions, which are characterised by their remoteness from population centres, challenging environmental conditions and high costs. For these reasons, the cost of drilling, completing and operating wells is often uncertain. As a result, PGNiG may incur cost overruns or may be required to curtail, delay or cancel drilling operations due to a variety of factors (See “Risks related to operating activities”). In addition, its overall drilling activity or drilling activity in particular project areas may be unsuccessful in that it may not find commercially productive reservoirs.

PGNiG has individually negotiated non-standard insurance contracts that have been formulated specially for PGNiG and are tailored to its requirements considering the broad range of its activities. General terms and conditions of insurance do not apply to these contracts and special non-standard insurance coverage provisions have been introduced to them, including:

- all risks property insurance, which includes provisions that are representative for Cargo Insurance, Electronic Equipment Insurance (“**EEI**”), Construction All Risks/Erection All Risk Insurance (“**CAR-EAR**”); and
- Legal and Third Party Liability Insurance, which includes additional provisions dedicated to Directors and Officers Liability Insurance (often called D&O insurance).

PGNiG has also concluded the following insurance contracts:

- Communication Insurance, insurance against civil liability of motor vehicle holders, motor hull insurance (covers the damage, destruction and loss of a vehicle), breakdown cover (also referred to as emergency roadside repair or roadside assistance), accident insurance (offers a payout when people experience injury or death due to an accident);
- additional D&O Insurance;
- Energy Exploration and Development Insurance (“**EED**”); and
- Terrorism Insurance.

Although PGNiG has individually negotiated non-standard property insurance, third-party liability insurance, directors’ and officers’ liability insurance, communication insurance, fleet insurance, terrorism insurance and energy exploration and development insurance, the terms and conditions of the insurance policies may provide for the payment of damages valued at less than the actual value of the damage.

No assurance can be given that in all cases damages paid under any insurance policy will be sufficient to cover all of the potential losses and damages incurred in connection with any of the abovementioned events. Therefore, in a number of cases, PGNiG may be required to cover financial losses arising from the abovementioned or other factors out of its own funds.

This risk may have an adverse effect on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Restructuring risk***

In July 2010, the Extraordinary General Shareholders Meeting (“**EGM**”) of PGNiG S.A. adopted a resolution to consolidate the service companies of the PGNiG Group. The principal objective of the consolidation is to build an organisation that will be able to effectively compete on domestic and foreign markets and

successfully participate in tenders for large investment projects. The consolidation will include, among others, BN Naftomontaż Sp. z o.o., BUG Gazobudowa Sp. z o.o., ZRUG Pogórska Wola Sp. z o.o. and ZUN Naftomet Sp z o.o., which companies will be combined to form a new entity to be named PGNiG Technologie Sp z o.o., which is to be transformed into a joint-stock company in the future. One of the key tasks to be undertaken by the company is the preparation and adoption of its strategy and defining the business scope and main development directions. The strategy will serve as a basis for implementing service and engineering projects.

PGNiG cannot provide any assurance that the above restructuring activities will be effectively implemented, that they will be completed within the proposed timeframe or that they will not adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to estimating the volume of deposits***

All data relating to natural gas and crude oil deposits is based on estimates, and the actual quantity, quality, production, revenues and costs related to such deposits may differ significantly from such estimates.

The accuracy of the estimates on documented deposits depends on a number of factors, including:

- the quality of geological, engineering and deposit-related data;
- regulatory, tax and contractual assumptions, crude oil, gas and other prices at the time;

and, after such estimates were made:

- production results; and
- technical analyses.

Many of the factors, assumptions and variables involved in estimating deposits may be incorrect due to imperfect equipment, technology or measurements made during prospecting or documentation of the natural resources in the deposits. Thus, estimates of the size of deposits, based on seismic research, drilling and production tests are verified during deposit exploration and may prove to be smaller than estimated. Any negative correction in the deposit volume may result in a decrease in future production and may therefore adversely affect the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to procuring new deposits and significant decreases in existing deposits***

PGNiG's documented deposits are situated in relatively well-explored inland territories of Poland. As a result of exploration, deposits are reduced by the volumes of mined natural gas and crude oil. Additionally, the volume of mined natural gas and crude oil from explored deposits decreases over time. Therefore, the future mining abilities of PGNiG depend on the discovery and acquisition of new deposits in order to balance the decreasing mined volumes. The fact that much of the possible exploration territory is already well known means that fewer, or smaller, deposits may not balance the existing depleted mining resources. Consequently, PGNiG's failure to secure adequate new mines may result in PGNiG being unable to achieve or maintain its target production volumes. The weight of this risk is further increased by the fact that the full business cycle from the commencement of exploration to the launch of production from a developed field takes six to eight years, while the hydrocarbon production cycle lasts from 10 to 40 years. Formation parameters established in the course of preparing the relevant documentation are reviewed after the production starts. Each downgrade of the size of the reserves or production quantities may lead to a lower revenue and may have an adverse impact on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risks related to exploration for unconventional gas***

The risk associated with exploration for unconventional gas in Poland relates to the lack of confirmed presence of shale gas and tight gas. Even if existence of in-place petroleum is confirmed, its production may prove uneconomic due to insufficient gas recovery and high investment expenditure necessary on drillings and construction of production infrastructure. Another material factor is connected with difficult access to unconventional gas given the environmental regulations and the necessity to obtain the landowners' consent for access to the area.

The main environmental risks associated with the development of unconventional gas are gas migration, groundwater contamination due to faulty well construction, blow outs, above-ground leaks and spills of waste water and chemicals used during drilling and hydraulic fracturing.

These risks may adversely affect the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risks related to gas storage***

The implementation of the Directive of the European Parliament and of the Council concerning common rules for the internal market in natural gas, repealing Directive 2003/55/EC, into the Polish law may significantly reduce PGNiG S.A.'s power to influence the gas storage services market. 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.

A further risk is related to a potential deficit of actual funding available for investments in gas storage facilities compared to planned capex. If the investments in the Mogilno Underground Gas Storage Cavern Facility, the Kosakowo Underground Gas Storage Cavern Facility, the Strachocina Underground Gas Storage Facility and the Wierzychowice Underground Gas Storage Facility are not co-financed by the European Union, PGNiG S.A. will have to seek additional funding to finance its investment projects. Before the end of 2010, PGNiG signed four agreements with Instytut Nafty i Gazu (the Oil and Gas Institute – the Implementing Entity) for partial financing of investments in the four above mentioned storages in total amounting up to PLN 673 million (100 per cent. of that amount being a direct payment). No assurance can be given that any such additional funding will be available at all or at commercially acceptable rates. These risks may adversely affect the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risks of the “take or pay” clauses in the gas supply agreements under the elimination of restrictions in the application of the TPA principle***

One of the consequences of Polish EU membership and the implementation of EU law, especially the New Gas Directive, is the elimination of restrictions applying the TPA principle and the opening of the Polish gas market to competition (See “The Guarantor – Regulatory Environment”). If the market for the sale of PGNiG gas is fully open to competition, PGNiG may be unable to sell all of the gas it procures, and will not be able to collect the minimum annual gas volumes provided for in its existing gas supply agreements, which will result in the obligation to pay for such uncollected but contracted for gas. This may have an adverse impact on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risk of interrupted deliveries of imported gas***

The majority of the gas required for PGNiG to conduct its operations is imported. In the year ended 31 December 2010, imported gas represented approximately 70 per cent. of PGNiG Group's supplies (29.3 per cent. came from PGNiG's own production and 0.7 per cent. came from other domestic suppliers). The

major supplier of natural gas to PGNiG is Gazprom, which, in 2010, provided approximately 89.7 per cent. (49.03 bcm) of the natural gas imported by PGNiG. In June 2010, there were disruptions in gas supplies. Although the lower gas deliveries from the Vysokoye cross-border point on the Polish-Belarusian border were compensated with higher deliveries from the Drozdoviste cross-border point on the Polish-Ukrainian border and, in this way, the level of planned gas deliveries from the east of Poland were maintained and changes in capacity did not affect natural gas consumers in Poland, disruptions in gas supplies may nevertheless occur in the future.

Disruptions in deliveries from NAK “Naftogaz Ukrainy” took place between 1 and 28 September 2010 due to the enforcement of Ukrainian 2467-VI Act (see “The Guarantor – Material Contracts – NAK Contract”). Reasons for the discontinuation of supplies include changes to Ukraine’s internal regulations, pursuant to which all the natural gas coming from Ukraine’s domestic production is required to be used exclusively to meet Ukraine’s own needs. As a result, PGNiG’s Ukrainian partners have been prevented from supplying gas to Poland.

Any interruption in supply, particularly with respect to PGNiG’s major supplier (for example, due to technical problems with the transmission infrastructure), may have a material adverse impact on the operations of the PGNiG Group, if alternative supply sources cannot be guaranteed. No assurances can be given that if problems arise with respect to imported gas deliveries based on current contracts, PGNiG will be able to meet its demand for gas with alternative sources of supply on terms no worse than those offered by existing suppliers.

Any interruption in deliveries may have a material adverse impact on PGNiG’s ability to supply gas to its customers, which may have an adverse impact on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to cash receivables of the PGNiG Group***

The PGNiG Group has material receivables for gas deliveries. These receivables are often overdue (i.e., more than 90 days). As a result of the economic crisis, which resulted in a downturn on the markets of PGNiG S.A.’s customers and a deterioration in the financial standing of customers purchasing gas, mainly those from the chemicals industry, there are still difficulties with timely settlement of payments for the gas deliveries. The total value of PGNiG trade receivables as at 31 December 2010 was approximately PLN 4,519 million. Although the Company has been taking steps to recover such receivables or negotiate repayment arrangements with debtors and has filed court claims, or, in extreme cases, filed motions for the declaration of the debtor’s bankruptcy, it is impossible to predict the outcome of negotiated settlements and bankruptcy and settlement proceedings. It is, therefore, impossible to determine how much PGNiG may be able to recover from such claims. Furthermore, PGNiG may also have problems with the sale, if any, of such receivables. PGNiG’s failure to recover a substantial part of the receivables may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to the financial standing of key customers***

Bankruptcy or arrangement proceedings relating to receivables of approximately PLN 350 million are currently pending or ongoing concerning certain key customers of the PGNiG Group. The bankruptcy, if any, of these gas customers would not only result in difficulty recovering the PGNiG Group receivables, but may also cause the loss of important customers which may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risk of the loss of key management and qualified employees***

The presence of foreign companies on the Polish market has, in recent years, intensified competition for highly qualified employees with extensive relevant professional experience. This risk is especially high with respect to professionals specialised in the exploration for natural gas and crude oil deposits. In countries where the PGNiG Group operates, highly qualified staff are difficult to recruit.

PGNiG (as a company with the State Treasury as majority shareholder) is subject to the Compensation Restrictions Act (*Ustawa Kominowa*). According to the Compensation Restrictions Act, the remuneration for the management board, the supervisory board and the chief accountant is restricted as to basic pay as well as the type and amount of additional employment benefits. As a result, PGNiG cannot provide compensation for these individuals that is competitive compared to other companies in its industry sector. These restrictions may influence decisions regarding the departure of key Company management from PGNiG and may impact the employment of duly qualified persons in their place. Moreover, the labour regulations in force at PGNiG restrict the possibility of creating a more flexible employment policy, which may also create an obstacle to finding suitable personnel and cause PGNiG employees to move to companies that offer better terms of employment. Such losses or the inability to hire key employees may adversely impact the operations, results or prospects of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risks related to involvement in emerging markets***

The PGNiG Group conducts prospecting, exploration and commercial operations and has already acquired, and intends to acquire further, licences and/or deposits for exploration. The development of such operations is part of PGNiG's business strategy. Some of the regions in which the PGNiG Group conducts or intends to conduct its operations, including Pakistan, North Africa and East Africa, may be characterised by a considerably higher risk associated with the conducting of commercial operations than the PGNiG Group would incur in Poland. Some countries where the PGNiG Group carries out exploratory activity face the risk of armed conflicts or terrorist attacks, which may result in limitation, suspension or discontinuation of the exploration and production business there.

In some areas of the PGNiG Group's operations, including Pakistan and North Africa, there is a risk of social and political destabilisation. Changes of governments may bring to a halt the processes of state administration issuing permits to conduct business activity related to oil. Additionally, these countries are at risk of internal conflicts and social unrest caused by poor social and demographic conditions in which their inhabitants live. The risks specified above may lead to limitation, suspension or discontinuation of the PGNiG Group's operations.

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.

Any destabilisation of the political, economic or social conditions in the countries in which the PGNiG Group conducts its operations, may have an adverse impact on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

### ***Risk of claims raised by persons from whom the PGNiG Group have taken over sections of the gas network***

On 1 June 1984, the order dated 24 August 1964, issued by the Minister of Mining and Energy (M.P. No. 62, item 286, as amended) partly expired. This order contained the terms under which connection could be made to a joint network for the production, processing, transmission, distribution and collection of electricity and thermal power and gas fuels. Under the expired part of the order, network sections and connectors became the

property of the State regardless of who paid for the completion of the work. After 1 June 1984, issues concerning the ownership of network equipment and sections of the network, including those completed at the cost of third parties, were governed by the Civil Code. Settlements of investment costs were also governed by the Energy Law and protected by competition laws.

There is a risk that certain sections of the gas network that are currently used by the companies of the PGNiG Group were taken over by PGNiG after 1 June 1984, in breach of the law. Consequently, the persons who constructed such network sections at their own expense may raise various claims against PGNiG or the companies in the PGNiG Group, including claims of unjust enrichment, and may institute various court suits against the companies in the PGNiG Group. It should be noted, however, that although the claims resulting from the unlawful takeover of gas network sections may apply to a material part of the gas distribution network used by DSG Sp. z o.o., GSG Sp. z o.o., KSG Sp. z o.o., MSG Sp. z o.o., PSG Sp. z o.o. and WSG Sp. z o.o., only a few such claims have been raised thus far and the size of such claims is not, in PGNiG's opinion, material.

In connection with such claims made against the Company, it was necessary to create a provision for potential compensation payments to those owners whose rights to make disposition of property was confirmed. As at 31 December 2010, the provision amounted to PLN 50 million. In accordance with the accounting principles applied by the Company, payments for transmission easement are not one-off payments but they comprise the acquisition or production cost of property, plant and equipment. Therefore, they are subject to amortisation.

The obligation to satisfy such claims following court judgments may impact the operations of the companies in the PGNiG Group, their financial condition and results and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

#### ***Risk of work interruptions as a result of labour union activities***

Approximately 60 per cent. of employees of the PGNiG Group are members of trade union organisations. Trade unions in Poland have a significant impact in shaping labour law and they exert influence over employers, including through labour dispute settlements. Although in recent years the PGNiG Group has not experienced any significant work interruptions due to employees' refusal to work, no assurance can be given that such work interruptions will not occur in the future. At present, no collective bargaining procedures, as defined in the Settlement of Collective Bargaining Disputes Act, are pending at the PGNiG Group. The abovementioned work interruptions may have an adverse impact on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

#### **Risk factors related to the environment in which PGNiG and the PGNiG Group conduct their operations**

##### ***Political and economic risks***

The energy sector in Poland and, consequently, the financial condition of PGNiG, are strongly influenced both by the Polish economy and by regional economic conditions. These factors include, among other things, fluctuations in GDP, inflation, unemployment, demographics and the development of the services and industry sectors. Operations of the companies within the gas sector depend to a large extent on the scale of ongoing investment projects in the area of oil and gas exploration and production, which stimulates higher or lower demand for the products and services offered. The global economic crisis has resulted in an economic slowdown, lower scale of key investment projects or suspension of their execution or, in some cases, in the projects being abandoned. There is a risk that the demand for natural gas and distribution services will decline in connection with deteriorating economic standing of manufacturing companies (as they will scale down or suspend their production activities).

These risks and any further adverse changes in one or more of the abovementioned factors, particularly any deterioration in the Polish economy (and any decreases in demand for PGNiG's products and services), or a currency or public financing crisis, may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risk related to the use of regulated prices***

The revenues of a gas company are determined by tariffs. According to the law, tariffs should cover reasonable costs of operation and should protect customers from unreasonable prices. Gas companies that hold licences are obliged to present the president of the energy regulatory office with a tariff for approval. The terms and conditions of setting tariffs are set out in relevant secondary legislation issued on the basis of the Energy Law. The President of the Energy Regulatory Office may exempt a gas company from the duty to present tariffs for approval. This may occur if the President of the Energy Regulatory Office determines that the company operates in a competitive market.

Gas companies are subject to changes in the methodology for determining tariffs. An additional risk is created when the President of the Energy Regulatory Office regulates prices according to the law and other external factors independent of the company, to protect customers, by rejecting what it believes to be unjustified costs or profit margins, or the prices and tariff-defined fees proposed by companies, and thereby affects the companies' revenues. An additional risk is created by price regulations' principles, under which the President of the Energy Regulatory Office, using legally admissible rules, taking into account other external factors independent of the enterprise, and with the objective of protecting customers while verifying costs, may determine that such costs are unreasonable or may not accept the assumed level of profit or the prices and tariff-defined fees proposed by the enterprise, thus influencing the revenues of the company.

Amendments to the Energy Law will give the President of the Energy Regulatory Office the power to establish a reasonable level of return on the capital applicable to energy companies. The methodology used to establish the level of returns on capital was set in the Regulation of the Minister of Economic Affairs of 6 February 2008 concerning detailed rules for determination and calculation of tariffs and settlements in natural gas trade (art. 6). Although this methodology does not set a minimum level of capital rate of return (with the exception of storage tariffs where a minimum level of 6 per cent. was set in the Energy Law) the President of the Energy Regulatory Office to date has accepted tariff applications with a rate of return of 8 per cent. to 10 per cent. No assurance can be given that any changes made to the methodology used for tariff calculation and PGNiG's expectations regarding the return of costs through prices and tariff fees and the return on capital, will be accepted by the President of the Energy Regulatory Office in connection with the approval of tariffs, which may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risk related to changes in the demand for gas***

The methodology used in determining tariffs is based on forecasting the costs and predicted volumes of sales of natural gas. A gas company's estimates of future demand may prove to be inaccurate or demand itself may be volatile and this may in turn cause inaccuracies in the Company's planned purchase of supplies as well as scope and volume of transmission services. A decrease in customer demand below the value used in determining tariffs means that the Company may not be able to recover its fixed operating costs through the amount of fees paid by its customers and an increase in customer demand above the value used in determining tariffs means that the Company will recover more profits to cover its fixed operating costs. On the other hand, in the case of a gas supply segment, an increase in demand above forecasted levels may force the Company to use up its supply of gas and force the Company to purchase gas on a contractual basis from more expensive sources.



These risks may have an adverse impact on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to changes in law***

Frequent amendments, inconsistencies and lack of a uniform interpretation of law in Poland, particularly tax law, create risks within the legal environment in which the PGNiG Group conducts its operations. Combined with a relatively long period under which tax liabilities become statute barred by limitation, such circumstances may adversely impact the operations, financial results and condition of the PGNiG Group.

In connection with Poland's accession to the European Union, regulatory changes that will be introduced in the forthcoming years may not reflect the specific character of the PGNiG Group's operations. Such a situation may adversely impact the operations of the PGNiG Group, its financial results and development.

In recent years, the Energy Law and related secondary legislation, the Public Procurement Law, the Anti-Monopoly Law and other laws that regulate the operations of the gas sector in Poland, have all been amended frequently. The amended Energy Law has implemented the regulations included in the Third Energy Package adopted by the European Parliament, including the Directive of the European Parliament and of the Council concerning common rules for the internal market in natural gas, repealing Directive 2003/55/EC. Regulation of the Minister of Economy on detailed terms of operation of the gas system (the so-called "systemic regulation") became effective in July 2010.

In addition the laws and regulations in some of the countries in which PGNiG operates change frequently and unexpectedly, potentially causing problems to entities conducting exploratory activity. This is a particular threat in countries where changes in law depend on the decisions of authoritarian governments (such as in some of the North African countries). Changes in regulatory law, including delays in amendments to legislation create risks stemming from uncertainty regarding ensuring compliance with those regulations, the potential restrictions on the scope of operations or the creation of greater costs, and may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to the draft law on energy efficiency coming into force***

*Draft law on energy efficiency*

In 2009, a draft law on energy efficiency, implementing Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services into the Polish law, was being prepared. Under certain provisions contained in the draft law, the power sector is given favourable treatment, which may lead to a situation where electricity providers are subsidised at the expense of other energy sectors (including the gas sector) and where the competitive balance among particular energy carriers is disrupted. Upon its enactment, the law will also require PGNiG S.A., as a gas trading company, to purchase white certificates or, alternatively, to pay any non-compliance penalty. This in turn will drive up the cost of regulated activities and, consequently, inflate the price paid by customers. Furthermore, after it is implemented, the law is likely to hinder the development of the Polish gas market, thus undermining a fundamental assumption of Poland's Energy Policy Until 2030. This may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to the extensive powers of the President of the Energy Regulatory Office with respect to energy enterprises***

The gas sector is subject to detailed regulation. The regulator's powers are exercised by the President of the Energy Regulatory Office, and include granting licences (*koncesje*), approving tariffs, agreeing on

development plans, appointing system operators, settling disputes within the scope defined in the Energy Law, imposing fines, defining a reasonable return on capital for energy companies that deliver tariffs for approval or selecting a last resort supplier in a tender. PGNiG cannot give any assurance that the actions of the President of the Energy Regulatory Office will not have an adverse impact on the operations, financial condition and results of the PGNiG Group in the future and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risk related to licences***

In Poland, operations conducted by the PGNiG Group require various licences under the Energy Law and the Geological and Mining Law. Securing new licences and maintaining current licences, or even extending their validity, has a major impact on the operations of the PGNiG Group. The most important licences held by the companies in the PGNiG Group, such as licences for trading in gas fuel, transmission and distribution of gas fuels, storage of gas fuel, exploration for and appraisal of crude oil and natural gas deposits, production of crude oil and natural gas from deposits, have been issued by the President of the Energy Regulatory Office or the Minister of the Environment. The PGNiG Group cannot give any assurance that, in the future, the President of the Energy Regulatory Office or the Minister of the Environment will not change their approach with respect to granting licences to the companies in the PGNiG Group or that they will not amend an existing licence on the basis of the relevant statutory authority, including restricting its scope, or that they will not revoke any of the existing licences. Also, the companies in the PGNiG Group cannot guarantee that they will always comply with all of the licence requirements.

Prior to the expiry of the most important licences, the companies in the PGNiG Group will apply for extensions, and, as their operations develop, they will apply for new licences. PGNiG cannot provide assurance, however, that the licences held by the companies in the PGNiG Group will be extended or that PGNiG will obtain all new licences required for its development. The Geological and Mining Law does not clearly regulate the issue of extending the validity of licences beyond the initial period of validity. Any attempts by PGNiG to obtain a replacement licence or a new licence for any new areas would require it to participate in an open tender for mining usufruct, the receipt of which is a condition for obtaining a licence. Consequently, in any open tenders, enterprises with greater funds than PGNiG can make better offers than PGNiG with respect to the funds committed for prospecting within the areas subject to the tender.

Failure to obtain new licences or to renew existing ones may have an adverse impact on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to delayed work***

An important factor with a bearing on the Gas Companies' operations is the long time required to prepare an investment project. Under the currently binding Polish legal regulations, obtaining a licence for exploration for and appraisal of crude oil and natural gas deposits can take from 12 to 18 months. As regards business activity on foreign markets, it can even take two years from the time that the tender for licence is awarded until the relevant contract is ratified. Moreover, complex provisions of the Construction Law and environmental regulations impose obligations to prepare adequate documentation and procure numerous approvals and decisions in order to obtain a building permit. Prior to the commencement of field work, the Company is required to obtain formal and legal permits and approvals for entering the area, meet environmental protection-related requirements and requirements related to protection of archaeological sites (where relevant) and abide by the regulations governing tenders held to select a contractor. Additionally, lack of up-to-date land use plans or zoning plans covering the communes crossed by the gas pipelines results in new projects not having the status of public benefit investments, which causes problems in obtaining permits for extension of gas networks. An overlong execution of new investment projects may inhibit the increase in the volumes of transmitted gas.

In addition, companies frequently wait for a very long time before their imported equipment receives customs clearance. These factors create the risk of delayed exploration work.

Formal and legal issues beyond PGNiG S.A.'s control include:

- local authorities' failure to adopt local land development plans;
- obstacles in incorporating investment projects into the local land development plans;
- need to obtain and comply with administrative or other formal and legal decisions, including environmental decisions;
- amendments to the current planning and development concept; and
- obstacles in obtaining permission from land owners to enter the site.

These factors significantly delay implementation of investment projects and commencement of on-site construction work. Concurrently, PGNiG S.A.'s obligation to comply with the Public Procurement Law frequently prolongs the tender procedure. Notices of appeal and complaints submitted by bidders lead to lengthy court proceedings and, consequently, to delays in implementing an entire investment project. A protracted investment process exacerbates the risk related to estimation of capital expenditure.

These risks may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to regulations on mandatory diversification of gas sources***

The regulation of the Council of Ministers, dated 24 October 2000, on the minimum level of the diversification of sources of imported gas (Dz.U. No. 95, item 1042) defines the maximum percentage of gas imported from a single country of origin in the entire volume of imported gas by any Energy Undertaking in a given year as being during the period 2001 to 2020, 88 per cent. in 2001 to 2002, 78 per cent. in 2003 to 2004, 72 per cent. in 2005 to 2009, 70 per cent. in 2010 to 2014, 59 per cent. in 2015 to 2018 and 49 per cent. in 2019 to 2020.

These thresholds did not apply until 1 May 2004 with respect to gas produced in EU Member States. The President of the Energy Regulation Office (the "ERO") treats EU gas supplies as intra-Community acquisitions, falling outside the category of imports, on the basis of his interpretation of the Excise Duty Act and the definitions contained therein. The interpretation of the regulatory provisions adopted by the President of the ERO does not account for the fact that the actual political and economic changes (Poland's accession to the European Community) were not reflected in the above regulation on the minimum level of the diversification of sources of imported gas, which was issued under the Act on Excise Tax Labels of 2 December 1993. This Act did not draw any distinction between imports and intra-Community acquisitions. The regulation on the minimum level of diversification of foreign sources of gas supplies was issued in 2000 and has not been amended since.

If gas sourced from Member States will not, in fact, be considered to be a foreign import, then PGNiG does not satisfy the requirements of the above regulation. Although it is expected that amendment of the agreement between the governments of Poland and the Russian Federation on the purchase of natural gas from Russia will force a revision of the relevant Regulation in order to ensure compliance of the newly signed agreement with the law, any enforcement of PGNiG's compliance with the above Regulation may have an adverse impact on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to consents and permits from local authorities and access to real estate***

The future success of the PGNiG Group will depend, in part, on it receiving various permits, consents and relevant legal title to key real estate, as well as reaching agreements with, local authorities. In the past, companies in the PGNiG Group have had trouble receiving such permits, consents and titles in a timely manner, as well as obtaining access to real estate, which caused delays in executing investment plans. The PGNiG Group is not in a position to assure that, in the future, it will be able to obtain the above permits, consents and agreements in a timely manner and that it will be able to enter into relevant agreements regarding real estate, which may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to fluctuations in the price of materials, including steel***

The PGNiG Group's operations are capital intensive because the production of crude oil and natural gas, as well as the storage and distribution of natural gas, requires the construction of adequate infrastructure. Roughly half of the total costs of constructing such infrastructure comes from purchasing materials, equipment and components, the prices of which are dependent on many factors beyond the PGNiG Group's control. In particular, the cost of exploration is especially sensitive to steel prices, which are passed on to prices of casing pipes and lifting casing that is used in drilling. Any increase in the price of these materials, equipment or components translates into an increase in the cost of exploration work and may decrease the profitability of proposed development projects as well as ***adversely affect*** the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Costs of complying with health, safety and environmental regulations***

Compliance with environmental regulations in Poland and abroad may materially increase PGNiG's costs of operation. Currently, PGNiG incurs significant costs and capital expenditure in harmonising its operations with the ever more complex and stringent regulations pertaining to the protection of human health and safety, and environmental protection, including the costs of reducing emissions and specific types of air pollution, and the costs of environmental clean up in facilities used currently and in the past or third-party facilities, as well as the costs incurred in relation to any waste produced in the course of the Company's operations or abandoned operations in certain areas as long as PGNiG's products or waste were stored in such areas, left over or utilised.

The act of 18 May 2005 amending the Natural Environment Protection Law and certain other acts (Dz.U. No. 113, item 954 of 27 June 2005) rendered the regulations governing the execution of projects which might affect the *Natura 2000* sites more stringent and enhanced the environmental protection-related requirements in the scope of entering the areas of the occurrence of protected plant species and habitats of protected animals. The tendency to tighten up the environmental protection regulations is present also in other countries where PGNiG S.A. conducts exploratory activity.

On 15 November 2010 a new decision of the Council of Ministers entered into force. This decision expands the range of projects related to PGNiG S.A.'s activities, for which a decision on environmental conditions of consent is required for project implementation to include the exploration and appraisal of mineral deposits using drilled wells of more than 1000 meters depth. This regulation may prolong the lead time required to obtain a concession for the exploration and appraisal of oil and gas resources and, in the cases falling under the EIA reporting requirements, make it necessary for PGNiG S.A. to bear the cost of the EIA report.

Further legislative changes affecting PGNiG's activities are currently being implemented or planned in Poland in relation to emissions management (reporting and payment requirements), emissions trading for the

accounting period 2013 to 2020, emissions from industrial facilities, wastes and excavation wastes, geological and mining law, *inter alia*, in respect of subsurface storage of CO<sub>2</sub> and fluorinated greenhouse gases.

With respect to the issue of emissions permits for the next accounting period 2013 to 2020, it remains unclear whether the allowances for installations will be allocated under the existing rules (free of charge), or whether they will have to be purchased in the exchange market.

Future expenditures incurred in order to satisfy such potential requirements may have a material adverse effect on the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

#### ***Protection of competition and consumers***

The PGNiG Group, similarly to other companies, must comply with regulations that protect competition and the interests of consumers. Under the Protection of Competition Act, the President of the Office for the Protection of Competition and Consumers oversees matters related to the protection of competition and consumers. The powers of the President of the Office for the Protection of Competition and Consumers include, among other things, filing legal suits against entities that use prohibited forms of agreement or finding that a specific practice of the entity constitutes an act of unfair competition, including the abuse of a dominant market position or a practice in breach of consumer interests. The significant proceedings conducted before the President of the Office for the Protection of Competition and Consumers in connection with the operations of the companies in the PGNiG Group are described in this Prospectus (see “The Guarantor Regulatory and Administrative Proceedings”). According to the Protection of Competition Act, entities that enjoy a greater than 40 per cent. market share are subject to stricter controls. In the past, the President of the Office for the Protection of Competition and Consumers has frequently commenced proceedings to establish whether or not various companies in the PGNiG Group abused their dominant position or used practices that were in breach of consumer interests. One of the proceedings commenced against Dolnośląska Spółka Gazownictwa Sp. z o.o. (“**DSG**”) by the President of the Office for the Protection of Competition and Consumers was concluded by a decision stating that the respective practice did constitute a prohibited abuse of the dominant position or a prohibited practice that was in breach of consumer interests. The President imposed on DSG a fine amounting to PLN 178,647.47. On 1 September 2010, DSG appealed against this verdict to the Court of Appeal. Although the company does not agree with the verdict, in order to appeal in a flexible way to customer needs it changed its practices.

On 3 January 2011, PGNiG SA received a notification of instigation of anti-trust proceedings by the President of the Office for the Protection of Competition and Consumers concerning abuse of dominant position on the domestic natural gas wholesale market by PGNiG. According to the President of the Office for the Protection of Competition and Consumers, the abuse consisted of:

- inhibiting sale of gas against the interest of other business players or consumers by refusing to sell gaseous fuel under a framework agreement to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw, which may be regarded as an anti-competitive practice defined in Art. 9.2.2 of the Competition and Consumer Protection Act of 16 February 2007 (the “**Act**”); and
- impeding the development of market conditions favourable to the emergence or growth of competition by refusing to sell gaseous fuel under a framework agreement to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw, which may be regarded as an anti-competitive practice defined in Art. 9.2.5 of the Act.

Pursuant to Art. 106 of the Act, the President of the Office for the Protection of Competition and Consumers may, by way of a decision, impose a fine on an entrepreneur abusing its dominant position of not more than 10 per cent. of the revenue earned in the financial year preceding the date of the decision. The amount of the

fine is determined taking into account the duration, extent and circumstances of the breach of statutory provisions, as well as any previous violations of these provisions.

In response to the charges contained in the notification submitted to the President of the Office for the Protection of Competition and Consumers PGNiG explained it did not refuse to enter into an agreement on the sale of gaseous fuel with NowyGaz Sp. z o.o. The matter needs to be investigated in detail (in formal, technical and economic terms) as it represents a precedent.

It is possible that, in the future, the President of the Office for the Protection of Competition and Consumers may issue a decision finding the practices of the companies in the PGNiG Group to be anti-competitive or contrary to consumer interests, may prohibit undertaking them and may apply sanctions (as described above) provided for in the Protection of Competition Act, which may adversely impact the operations, financial condition and the results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

***Risks related to the unregulated legal status of certain real property***

Certain properties in the possession of the PGNiG Group currently have an unregulated legal status. As at the date of this Prospectus, such properties constituted about 1.3 per cent. of all the real estate of the PGNiG Group (nieruchomości administracyjno-biurowe) and about 7 per cent. of the PGNiG Group's network infrastructure (infrastruktura sieciowa i technologiczna). The reason such property has an unregulated legal status is due mostly to the PGNiG Group companies' inability to prove they have legal title to the respective property, or because the right of perpetual usufruct enjoyed by the PGNiG Group companies is not disclosed in the relevant land and mortgage registers. This applies primarily where a motion to disclose the rights pertaining to PGNiG Group companies in a land and mortgage register has either never been filed, or had been filed, but was not reviewed by the land and mortgage register court. In many of these cases, it is likely that they will achieve regulated status, but there is a risk that some PGNiG Group companies may have to return certain properties to authorised persons or entities. The need to vacate or return any such real estate could have an adverse impact on the future operations, financial condition and results of the PGNiG Capital Group and/or the ability of PGNiG Capital Group to meet its obligations under the Notes.

***Re-privatisation claims***

Following the end of the Second World War, the Polish State Treasury expropriated real estate and businesses owned by individuals and legal persons. In many cases, assets were taken over either without any legal grounds or in breach of the law. As a result of the transformation that occurred in 1989, many former owners or their legal successors took action to recover the real estate and business expropriated after the war or to obtain an appropriate indemnity. For several years, attempts have been made to regulate the issue of re-privatisation claims in Poland; nevertheless, the Re-privatisation Act has not been adopted. The latest draft of the Re-privatisation Law dates from May 2009, which was a government proposal for an act to regulate the paying of compensation for the state's takeover of real properties and certain movable property. According to the proposal, a right to restitution was abandoned in favour of the right to receive compensation calculated as a certain percentage of the value of the property taken over. It was also proposed to apply a rule that as at the date, on which the decision on granting compensation becomes final, all the claims expire of the person holding any rights against the State Treasury, local government authorities, legal and natural persons who have acquired the State property are extinguished. The draft legislation has not yet been presented to the Parliament. The time frame within which the Act will be adopted is, therefore, difficult to foresee. Under the existing legal system, former owners of real property (or their legal successors) may apply to the public administrative authorities for administrative decisions concerning the basis upon which their property had been confiscated by the State. However, based on the information received from the Company as at the date of this Prospectus, no such administrative proceedings are pending which may find title to real estate held by PGNiG to be invalid. Such proceedings, if settled to the detriment of PGNiG, could result in re-privatisation

claims. It is also possible that other claims for the reinstatement of other assets will be raised and that the reinstatement of such assets will adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

#### ***Power generation projects***

PGNiG's involvement in power generation projects will to a large extent depend on the prices of CO<sub>2</sub> emission allowances, which, if they fall, will result in low profitability of electricity generation in gas cogeneration systems. Higher crude oil prices on global markets, resulting in increased prices of natural gas, will contribute to lower competitiveness of gaseous fuel relative to power coal. Moreover, an uncertainty factor affecting profitability of power projects is the fact that the government administration has not adopted a clear position on whether to maintain the gas cogeneration support system in the form of "yellow certificates" beyond 2012.

Furthermore, quick and easy access to alternative energy sources (fuel oil, LPG, hard coal, electricity or heat generated by central combined heat and power plants or local or community heat plants) and the development of nuclear power engineering may weaken the position of the Gas Companies on the local energy markets. This may adversely impact the operations, financial condition and results of the PGNiG Group and/or the ability of the Issuer and the Guarantor to meet their obligations under the Notes and the Guarantee, respectively.

#### ***Risk related to main shareholder***

The Polish State Treasury is the dominant shareholder of PGNiG. As at January 2011, it holds in total 72.5 per cent. of shares in the Company.

PGNiG's Supervisory Board is made up of nine members, of whom three are appointed by employees and the remaining six by shareholders. Due to the Polish State Treasury's majority shareholding, its candidates are always appointed. In addition, the Articles of Association (*Statut Spolki*) of PGNiG provide that, as long as the State Treasury holds a single share in PGNiG, it has the right to appoint and dismiss one member of the Supervisory Board of PGNiG. PGNiG is also subject to additional corporate supervision conducted by the State Treasury under the Polish Act on Special Prerogatives in Electrical Energy, Crude Oil and Gas Fuel Industries of 2010. This Act provides the State Treasury with special powers in respect of (i) receipt of information on PGNiG's business operations, (ii) access to PGNiG's documentation and (iii) the right to object to any disposals of assets of primary importance to PGNiG, its liquidation or other related decisions.

As the dominant shareholder endowed with special statutory prerogatives and additional rights under the Articles of Association, the State Treasury may, in effect, exert a decisive influence on the composition of the Supervisory Board and, therefore, the strategy pursued by the Company. This arrangement may expose the PGNiG Group to a less stable and predictable corporate governance environment than is the case with some of its competitors.

In addition, if the State Treasury were to decide to sell all or part of its shareholding, whether by privatisation or otherwise, any new controlling shareholder may pursue a strategy which is different from that of the Company at the date of this Prospectus. Any politically motivated influence or instability in corporate governance matters relating to the PGNiG Group could have a material adverse effect on the PGNiG Group's business, financial condition and the results of operations.

#### **Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

***Notes may not be a suitable investment for all investors***

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

***Risks related to the Guarantee***

The Guarantee is limited as to its duration and to a maximum amount, each as described under Condition 3(a) of the Notes. The Guarantor will not be obliged to make any payment in respect of the Notes, Receipts or Coupons, or pursuant to the Guarantee, if a claim is made after the expiry of the Guarantee. Similarly, the Guarantor would not be obliged to make payment pursuant to the Guarantee to the extent that, and at such time as, the aggregate amounts claimed exceed the maximum amount permitted under the terms of the Guarantee. In such circumstances, Noteholders could receive less than their anticipated principal, interest or other amounts in respect of the Notes.

***Risks related to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features.

***Notes subject to optional redemption by the Issuer***

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at



a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### *Index Linked Notes and Dual Currency Notes*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each a “**Relevant Factor**”). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

#### *Partly-paid Notes*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

#### *Variable rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

#### *Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

#### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer’s ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads

on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

*Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

***Risks related to Notes generally***

Set out below is a brief description of certain risks relating to the Notes generally:

*Modification, waivers and substitution*

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

*European Monetary Union*

If the Republic of Poland joins the European Monetary Union prior to the maturity of the Notes, there is no assurance that this would not adversely affect investors in the Notes. It is possible that prior to the maturity of the Notes the Republic of Poland may become a participating Member State and that the Euro may become the lawful currency of the Republic of Poland. In that event, (i) all amounts payable in respect of any Notes denominated in Polish zloty may become payable in Euro, (ii) the law may allow or require such Notes to be re-denominated into Euro and additional measures to be taken in respect of such Notes, and (iii) there may no longer be available published or displayed rates for deposits in Polish zloty used to determine the rates of interest on such Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Notes.

*EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual or to certain other persons in that other Member State. However, for a transitional period, Luxembourg and Austria may instead (unless during that period they elect otherwise) operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. A number of non-EU countries and territories, including Switzerland, have adopted similar measures with effect from the same date.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. However, the Issuer is required, as provided in Condition 7(e) of the Notes, to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

#### *Change of law*

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

#### *Integral multiples of less than €100,000*

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

#### ***Risks related to the market generally***

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### *The secondary market generally*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

#### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### *Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

*Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes.

Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with (i) the Guarantor's audited consolidated financial statements for the financial years ended 31 December 2009 and 31 December 2010, respectively, in each case which include the audit report thereon and (ii) the Guarantor's consolidated interim report for the first quarter of 2011, each which have been previously published or are published simultaneously with this Prospectus and which have been filed with the CSSF.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the Guarantor, the website of the Luxembourg Stock Exchange (*www.bourse.lu*) and/or *http://www.pgnig.pl/?s,main,language=EN*.

The table below sets out the relevant page references for the audited consolidated statements for the financial years ended 31 December 2009 and 31 December 2010, and the consolidated interim report for the first quarter of 2011. Information contained in the documents incorporated by reference other than information listed in the table below is for information purposes only.

### **Audited consolidated financial statements for the financial year ended 31 December 2009**

Auditor's opinion .....	Pages 6 – 8
Income statement.....	Page 20
Statement of financial position.....	Pages 22 – 23
Statement of cash flows .....	Pages 24 – 25
Changes in equity .....	Page 26
Applied accounting policies .....	Pages 34 – 55
Additional information (Notes) .....	Pages 27 – 127

### **Audited consolidated annual financial statements for the financial year ended 31 December 2010**

Auditor's opinion .....	Pages 6 – 7
Income statement.....	Page 20
Statement of financial position.....	Pages 22 – 23
Statement of cash flows .....	Pages 24 – 25
Changes in equity .....	Page 26
Applied accounting policies .....	Pages 35 – 57
Additional information (Notes) .....	Pages 27 – 127

## Consolidated interim report for the first quarter of 2011

Income statement.....	Page 6
Statement of financial position.....	Page 7
Statement of cash flows .....	Page 8
Changes in equity .....	Page 9
Adopted accounting policies .....	Pages 30 – 31
Notes .....	Pages 10 – 22

## GENERAL DESCRIPTION OF THE PROGRAMME

*The following general description is qualified in its entirety by the remainder of this Prospectus.*

<b>Issuer:</b>	PGNiG Finance AB (publ)
<b>Guarantor:</b>	Polskie Górnictwo Naftowe i Gazownictwo S.A.
<b>Description:</b>	Guaranteed Euro Medium Term Note Programme
<b>Size:</b>	Up to Euro 1,200,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
<b>Arrangers:</b>	BNP Paribas Société Générale UniCredit Bank AG
<b>Dealers:</b>	BNP Paribas Société Générale UniCredit Bank AG  The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to “ <b>Permanent Dealers</b> ” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “ <b>Dealers</b> ” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
<b>Fiscal Agent:</b>	Société Générale Bank & Trust Luxembourg S.A.
<b>Additional Paying Agent:</b>	Société Générale Nantes
<b>Common Safekeeper:</b>	Euroclear Bank S.A./N.V.
<b>Method of Issue:</b>	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ <b>Series</b> ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “ <b>Tranche</b> ”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the “ <b>Final Terms</b> ”).
<b>Issue Price:</b>	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be

issued, the issue price of which will be payable in two or more instalments.

**Form of Notes:**

The Notes may be issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) only. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “Selling Restrictions” below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “**Global Certificates**”.

**Clearing Systems:**

Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.

**Initial Delivery of Notes:**

On or before the issue date for each Tranche, if the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may (or, in the case of Notes listed on the Luxembourg Stock Exchange, shall) be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

**Currencies:**

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantor and the relevant Dealers.

**Maturities:**

Subject to compliance with all relevant laws, regulations and directives, any maturity between one and 10 years.

**Specified Denomination:**

Definitive Notes will be in such denominations as may be specified in the relevant Final Terms, save that, in the case of



any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

**Fixed Rate Notes:**

Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.

**Floating Rate Notes:**

Floating Rate Notes will bear interest determined separately for each Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. or
- (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.

Interest periods will be specified in the relevant Final Terms.

**Zero Coupon Notes:**

Zero Coupon Notes (as defined in “Terms and Conditions of the Notes”) may be issued at their nominal amount or at a discount to it and will not bear interest.

**Dual Currency Notes:**

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes (as defined in “Terms and Conditions of the Notes”) will be made in such currencies and based on such rates of exchange as may be specified in the relevant Final Terms.

**Index Linked Notes:**

Payments of principal in respect of Index Linked Redemption Notes (as defined in “Terms and Conditions of the Notes”) or of interest in respect of Index Linked Interest Notes (as defined in “Terms and Conditions of the Notes”) will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.

**Interest Periods and Interest Rates:**

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

**Redemption:**

The relevant Final Terms will specify the basis for calculating the redemption amounts payable.

**Redemption by Instalments:**

The Final Terms issued in respect of each issue of Notes that

are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.

**Other Notes:**

Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, Partly Paid Notes and any other type of Note that the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms and the prospectus supplement.

**Optional/Early Redemption:**

The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (and whether or not for tax reasons) and/or at the option of holders (and whether or not in the event of a change of control), and, if so, the terms applicable to such redemption.

**Status of Notes:**

The Notes and the Guarantee will constitute unsubordinated and unsecured obligations of the Issuer and the Guarantor, respectively, and shall at all times rank *pari passu* and without any preference among themselves, all as described in “Terms and Conditions of the Notes – Guarantee and Status”.

**Guarantee:**

The payment obligations of the Guarantor under the Guarantee shall at all times rank at least equally with all other unsecured and unsubordinated indebtedness of the Guarantor, present and future.

The Guarantee will expire on 31 December 2026 and will be valid in respect of all sums expressed to be payable by the Issuer from time to time in respect of Notes, Receipts and Coupons up to a maximum amount (when aggregated with all other amounts guaranteed under the Guarantee at any time) not exceeding Euro 1,500,000,000. Subject to the foregoing, the Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes, the Receipts and the Coupons.

The Guarantor’s obligations in respect of the Guarantee are contained in the Deed of Guarantee dated 25 August 2011 (the “**Deed of Guarantee**”).

**Negative Pledge:**

See “Terms and Conditions of the Notes – Negative Pledge”.

**Cross Default:**

See “Terms and Conditions of the Notes – Events of Default”.

**Ratings:**

Tranches of Notes may be rated or unrated. Whether or not a tranche of Notes is rated, together with the assigned ratings, will be specified in the relevant Final Terms. Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will also be disclosed in the relevant Final Terms.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Withholding Tax:**

All payments of principal and interest in respect of the Notes and the Guarantee will be made free and clear of withholding taxes of the Kingdom of Sweden or the Republic of Poland, as the case may be, subject to customary exceptions (including the ICMA Standard EU Tax exemption Tax Language), all as described in “Terms and Conditions of the Notes – Taxation”.

**Governing Law:**

English.

**Listing and Admission to Trading:**

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the Luxembourg Stock Exchange’s regulated market or as otherwise specified in the relevant Final Terms and references to “listing” shall be construed accordingly. As specified in the relevant Final Terms, a Series of Notes may be unlisted.

**Redenomination, Renominalisation and/or Consolidation:**

Notes denominated in a currency of a country that subsequently participates in the third stage of European Economic and Monetary Union may be subject to redenomination, renominalisation and/or consolidation with other Notes then denominated in euro. The provisions applicable to any such redenomination, renominalisation and/or consolidation will be as specified in the relevant Final Terms.

**Selling Restrictions:**

The United States, the Public Offer Selling Restriction under the Prospectus Directive, the United Kingdom, the Kingdom of Sweden, the Republic of Poland and Japan. See “Subscription and Sale”.

Category 2 for the purposes of Regulation S under the Securities Act, as amended, will apply to the Notes.

Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “**D Rules**”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “**C Rules**”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions) shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in these Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are issued pursuant to an Agency Agreement (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) dated 25 August 2011 between the Issuer, the Guarantor, Société Générale Bank & Trust Luxembourg S.A. as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the “**Deed of Covenant**”) dated 25 August 2011 executed by the Issuer in relation to the Notes and a Deed of Guarantee (as amended or supplemented as at the Issue Date, the “**Deed of Guarantee**”) dated 25 August 2011 executed by the Guarantor in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agent and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Fiscal Agent**”, the “**Paying Agents**” (which expression shall include the Fiscal Agent), the “**Registrar**”, the “**Transfer Agent**” and the “**Calculation Agent(s)**”. The Noteholders (as defined below), the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) and the holders of the receipts for the payment of instalments of principal (the “**Receipts**”) relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the “**Conditions**”), “**Tranche**” means Notes which are identical in all respects.

Copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agent.

### 1 **Form, Denomination and Title**

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) in each case in the Specified Denomination(s) shown hereon, provided that, in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes, in which case references to “interest” (other than in relation to interest

due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

## 2 No Exchange of Notes and Transfers of Registered Notes

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer’s or Noteholders’ option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is

already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2 (b) or (c) shall be available for delivery within three business days of receipt of the form of transfer, Exercise Notice or Change of Control Put Notice (as defined in Condition 6(e) or 6(f), as the case may be) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Change of Control Put Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Change of Control Put Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Transfer Free of Charge:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

### 3 Guarantee and Status

- (a) **Guarantee:** The Guarantor has, subject as provided below, unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes, the Receipts and the Coupons (the “**Guarantee**”). The Guarantee will expire on 31 December 2026 and will be valid in respect of all sums expressed to be payable by the Issuer from time to time in respect of Notes, Receipts and Coupons up to a maximum amount (when aggregated with all other amounts guaranteed under the Guarantee at any time) not exceeding Euro 1,500,000,000. The Guarantor’s obligations in respect of the Guarantee are contained in the Deed of Guarantee.
- (b) **Status of Notes and Guarantee:** The Notes and the Receipts and Coupons relating to them constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness of the Issuer and the Guarantor respectively, present and future.

#### 4 Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement), neither the Issuer nor the Guarantor will, and the Guarantor will ensure that none of its Material Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a “**Security Interest**”), other than a Permitted Security Interest (as defined below), upon the whole or any part of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness without at the same time or prior thereto according to the Notes and the Coupons or the Guarantee, as the case may be, the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders save that nothing in this Condition 4 shall prevent the Issuer, the Guarantor or any of their Subsidiaries from securing any Relevant Indebtedness as contemplated above where such Relevant Indebtedness is incurred for the purpose of, and the proceeds thereof are used in, the purchase and/or development of an asset and such Security Interest is provided over or in respect of such asset and such Security Interest is limited in recourse solely to such asset.

In this Condition:

“**Material Subsidiary**” means each Distribution Company and any other Subsidiary of the Guarantor which at any time:

- (a) holds assets representing 15 per cent. or more of the consolidated assets of the Guarantor’s Group; or
- (b) generates revenues representing 15 per cent. or more of the consolidated net revenues of the Guarantor’s Group;

Confirmation as to the satisfaction of the conditions referred to in paragraphs (a) and (b) above shall be made on the basis of the latest published consolidated financial statements of the Guarantor;

“**Distribution Companies**” means:

- (a) Dolnośląską Spółkę Gazownictwa sp. z o.o.;
- (b) Górnośląską Spółkę Gazownictwa sp. z o.o.;
- (c) Karpacką Spółkę Gazownictwa sp. z o.o.;
- (d) Mazowiecką Spółkę Gazownictwa sp. z o.o.;
- (e) Pomorską Spółkę Gazownictwa sp. z o.o.; and
- (f) Wielkopolską Spółkę Gazownictwa sp. z o.o.,

and a “**Distribution Company**” means any of the above;

“**Permitted Security Interest**” means a Security Interest over or affecting any asset of any company which becomes a Subsidiary after the Issue Date of the first Tranche of the Notes, where such Security Interest is created prior to the date on which that company becomes a Subsidiary, provided that:

- (a) the Security Interest was not created in contemplation of the acquisition (or proposed acquisition) of that company; and
- (b) the principal amount secured has not increased in contemplation of or since the acquisition (or proposed acquisition) of that company;

“**Relevant Indebtedness**” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable (in accordance with the terms of such indebtedness) of being, quoted, listed or dealt in or traded on any stock exchange or any regulated securities market having an original maturity of more than one year from its date of issue and 50 per cent. or more of the aggregate principal amount of which was initially offered and sold outside of the Republic of Poland; and

“**Subsidiary**” means any entity of which a person has direct or indirect control or owns directly or indirectly more than 50 per cent. of the voting capital or whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Guarantor.

## 5 Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).
- (b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**
- (i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.



(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) If the Relevant Screen Page is not available or if sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the

Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

- (z) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).
- (iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.
- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the

Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

- (d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.
- (e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.
- (f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**
  - (i) If any Margin is specified hereon (either (x) generally or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to paragraph (ii) below.
  - (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
  - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, “unit” means the lowest amount of such currency that is available as legal tender in the country of such currency.
- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be

required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5(i) but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to, but excluding, the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual – ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360; or
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCount Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + [D_2 - D_1]}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (v) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCount Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + [D_2 - D_1]}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

- (vi) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCount Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + [D_2 - D_1]}{360}$$

where:

“**Y1**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y2**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M1**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M2**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D1**” is the first calendar day, expressed as a number, of the Calculation Period, unless (A) that day is the last day of February or (B) such number would be 31, in which case D1 will be 30; and

“**D2**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (1) that day is the last day of February but not the Maturity Date or (2) such number would be 31, in which case D2 will be 30;

- (vii) if “**Actual/Actual-ICMA**” is specified hereon:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date;

“**Determination Date**” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s);

“**Euro-zone**” means the region comprising member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

“**Interest Accrual Period**” means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date;

“**Interest Amount**” means (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part and (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon;

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

“**Interest Period**” means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date;

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified hereon;

“**ISDA Definitions**” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

“**Rate of Interest**” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon;

“**Reference Rate**” means the rate specified as such hereon;

“**Relevant Screen Page**” means such page, section, caption, column or other part of a particular information service as may be specified hereon;

“**Specified Currency**” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes,

references in these Conditions to the “Calculation Agent” shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

## **6 Redemption, Purchase and Options**

### **(a) Redemption by Instalments and Final Redemption:**

- (i) Unless previously redeemed or purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

### **(b) Early Redemption:**

#### **(i) *Zero Coupon Notes:***

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the



date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.
- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Sweden (in the case of payment by the Issuer) or the Republic of Poland (in the case of payment by the Guarantor) or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two authorised signatories of the Issuer (or the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.
- (d) **Redemption at the Option of the Issuer:** If a Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon), redeem all, or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

In the case of a partial redemption, the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or, in the case of Registered Notes, shall specify the nominal amount of

Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (e) **Redemption at the Option of Noteholders:** If a Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option, the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) at the specified office of any Paying Agent or surrender (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed option exercise notice ("**Exercise Notice**") in the form (for the time being current) obtainable from the specified office of any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. Payment in respect of any Note so deposited will be made, if the holder duly specified a bank account in the Exercise Notice to which payment is to be made, on the Optional Redemption Date by transfer to that bank account and, in every other case, in respect of a Bearer Note, on or after the Optional Redemption Date against presentation and surrender or (as the case may be) endorsement of a receipt at the specified office of any Paying Agent or, in respect of a Registered Note, by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. No Note or Certificate so surrendered and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (f) **Change of Control:** If a Change of Control Put Event is specified hereon and a Change of Control Put Event occurs, the holder of any such Note will have the option (a "**Change of Control Put Option**") (unless prior to the giving of the relevant Change of Control Put Event Notice (as defined below) the Issuer has given notice of redemption under Condition 6(c) above) to require the Issuer to redeem that Note on the Change of Control Put Date (as defined below) at its principal amount together with interest accrued to (but excluding) the Change of Control Put Date.

A "**Change of Control Put Event**" will be deemed to occur if:

- (i) more than 49.9 per cent. of the issued share capital of the Guarantor ceases to be in the direct or indirect ownership or control of the Republic of Poland or such amount of shares in the capital of the Guarantor as carry more than 49.9 per cent. of the voting rights normally exercisable at a general assembly of the Guarantor ceases to be in the direct or indirect ownership or control of the Republic of Poland (each such event being a "**Change of Control**"); and
- (ii) on the date of the first Relevant Potential Change of Control Announcement, the Notes carry:
- (A) an Investment Grade credit rating (Baa3/BBB-, or their respective equivalents, or better), from any Rating Agency at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then investment grade credit rating (if any) from any Rating Agency of its own volition) and such rating is, within the Change of Control Period, either downgraded to a non-investment grade credit rating (*Ba1/BB+*, or their respective equivalents, or worse) (a "**Non-Investment Grade Rating**") or withdrawn and is not, within the Change of Control Period, subsequently (in the case of a downgrade) upgraded to an investment grade credit rating by such Rating Agency;

- (B) a Non-Investment Grade Rating from any Rating Agency at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then Non-Investment Grade Rating (if any) from any Rating Agency of its own volition) and such rating is, within the Change of Control Period, either downgraded by one or more rating categories (*from Baa1 to Baa2 being or such similar lowering*) or withdrawn and is not, within the Change of Control Period, subsequently (in the case of a downgrade) upgraded to its earlier credit rating or better or reinstated (in the case of withdrawal) by such Rating Agency; or
- (C) no credit rating and a Negative Rating Event also occurs within the Change of Control Period,

provided that if, at the time of the occurrence of the Change of Control the Notes carry a credit rating from more than one Rating Agency, at least one of which is Investment Grade, then subparagraph (A) above will apply; and

- (iii) in making any decision to downgrade or withdraw a credit rating pursuant to paragraphs (A) and (B) above or not to award a credit rating of at least Investment Grade as described in paragraph (ii) of the definition of Negative Rating Event, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such decision(s) resulted, either in whole or in part, from an event or circumstance comprised in or arising as a result of, or in respect of, the occurrence of the Change of Control or the Relevant Potential Change of Control Announcement.

Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a “**Change of Control Put Event Notice**”) to the Noteholders in accordance with Condition 14 specifying the nature of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

To exercise the Change of Control Put Option, the holder of a Bearer Note must deliver such Note to the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the “**Change of Control Put Period**”) of 30 days after a Change of Control Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a “**Change of Control Put Notice**”). The Note should be delivered together with all Coupons appertaining thereto maturing after the date which is seven days after the expiration of the Change of Control Put Period (the “**Change of Control Put Date**”), failing which the Paying Agent will require payment from or on behalf of the Noteholder of an amount equal to the face value of any missing such Coupon. Any amount so paid will be reimbursed to the Noteholder against presentation and surrender of the relevant missing Coupon (or any replacement therefor issued pursuant to Condition 12) at any time after such payment, but before the expiry of the period of five years from the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Note and Change of Control Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made, on the Change of Control Put Date by transfer to that bank account and, in every other case, on or after the Change of Control Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent. A Change of Control Put Notice, once given, shall be irrevocable. For the purposes of these Conditions, receipts issued pursuant to this Condition 6(d) shall be treated as if they were Notes.

To exercise the Change of Control Put Option, the holder of a Registered Note must deposit the Certificate evidencing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed Change of Control Put Notice obtainable from the Registrar or any Transfer Agent within the Change of Control Put Period. No Certificate so deposited and option so exercised may be withdrawn without the prior consent of the Issuer. Payment in respect of any Certificate so deposited will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made, on the Change of Control Put Date by transfer to that bank account and, in every other case, by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register.

The Issuer shall redeem or purchase (or procure the purchase of) the relevant Notes on the Change of Control Put Date unless previously redeemed (or purchased) and cancelled.

If 75 per cent. or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to this Condition 6(d), the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Noteholders (such notice being given within 30 days after the Change of Control Put Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Notes at their principal amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.

If the rating designations employed by any of Moody's, Fitch or S&P are changed from those which are described in paragraph (ii) of the definition of "Change of Control Put Event" above, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine the rating designations of Moody's, Fitch or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody's, Fitch or S&P and this Condition 6(f) shall be construed accordingly.

In this Condition 6(f):

**"Change of Control Period"** means the period commencing on the date of the Relevant Potential Change of Control Announcement and ending 90 days after the Change of Control (or such longer period for which the Notes are under consideration (such consideration having been announced publicly within the period ending 90 days after the Change of Control) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 days after the public announcement of such consideration);

**"Investment Grade"** means a rating of Baa3 or better by Moody's (or its equivalent under any successor rating categories of Moody's); a rating of BBB- or better by S&P (or its equivalent under any successor rating categories of S&P); a rating of BBB- or better by Fitch (or its equivalent under any successor rating categories of Fitch);<sup>1</sup> or the equivalent Investment Grade credit rating from any additional Rating Agency or Rating Agencies;

a **"Negative Rating Event"** shall be deemed to have occurred if at such time as there is no rating assigned to the Notes by a Rating Agency (i) the Issuer does not, either prior to, or not later than 21 days after, the occurrence of the Change of Control seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a rating of the Notes, or any other unsecured and unsubordinated debt of the Issuer, or (ii) the Issuer having so sought and having used such

---

<sup>1</sup> Fitch, Moody's and S&P are each established in the European Union and each have applied for registration under the CRA Regulation although notification of the respective registration decisions has not yet been provided.

endeavours as referred to in paragraph (i) above, it is unable to obtain such a rating of at least Investment Grade by the end of the Change of Control Period;

“**Rating Agency**” means Moody’s Investors Service Ltd. (“**Moody’s**”), Fitch Ratings Ltd. (“**Fitch**”) or Standard & Poor’s Ratings Services (“**S&P**”) or any of their respective successors or any rating agency (a “**Substitute Rating Agency**”) substituted for any of them by the Issuer from time to time; and

“**Relevant Potential Change of Control Announcement**” means any public announcement or statement by the Issuer, any actual or potential bidder or any adviser acting on behalf of any actual or potential bidder relating to any potential Change of Control where, within 180 days of the date of such announcement or statement, a Change of Control occurs.

- (g) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6(g) and the provisions specified hereon.
- (h) **Purchases:** Each of the Issuer, the Guarantor and their Subsidiaries as defined in the Agency Agreement may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (i) **Cancellation:** All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

## 7 Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
  - (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the 15th day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments Subject to Laws:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agent and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agent and the Calculation Agent(s) act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where these Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.
- In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.
- Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.
- (f) **Unmatured Coupons and Receipts and unexchanged Talons:**
- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), such Notes should be surrendered for

payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years of the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
  - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
  - (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
  - (v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
  - (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and, if necessary, another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph 7(h), “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign

exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

## 8 Taxation

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Kingdom of Sweden or the Republic of Poland or any authority therein or thereof having power to tax (each a “**Taxing Jurisdiction**”), unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with a Taxing Jurisdiction other than the mere holding of the Note, Receipt or Coupon;
- (b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the 30th such day (assuming such day is a business day as defined in Condition 7(h));
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another Paying Agent:** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, “**Relevant Date**” means, in respect of any Note, Receipt or Coupon, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition 8(d).



## 9 Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) of the appropriate Relevant Date in respect of them.

## 10 Events of Default

If any of the following events (“**Events of Default**”) occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable, unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

- (a) **Non-Payment:** default is made in the payment on the due date of interest or principal in respect of any of the Notes and the default continues for a period of five days in the case of interest;
- (b) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in respect of the Notes which default is incapable of remedy or is not remedied within 30 days of written notice of such default being given to the Issuer or the Guarantor by any Noteholder;
- (c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer or the Guarantor or any of their respective Material Subsidiaries (as defined in Condition 4) for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period or (iii) the Issuer or the Guarantor or any of their respective Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds €75,000,000, or its equivalent (on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank on the day on which this Condition 10(c) operates) (provided that only such events having the value exceeding €7,500,000 shall be taken into consideration);
- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a substantial part of the property, assets or revenues of the Issuer or the Guarantor or any of their respective Material Subsidiaries, and is not discharged or stayed within 90 days;
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any Material Subsidiary becomes enforceable (such encumbrance(s), either alone or when aggregated with other such encumbrances, relating to a payment(s) or other obligations of a value equal to or exceeding €75,000,000, or its equivalent (on the basis of the middle spot rate for the relevant currency against the euro as quoted by any leading bank on the day on which this Condition 10(e) operates) (provided that only such events in respect of an encumbrance having the value exceeding €7,500,000 shall be taken into consideration)), and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person);

- (f) **Insolvency:** any of the Issuer or the Guarantor or any Material Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any Material Subsidiary;
- (g) **Winding-up:** (i) an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer, or the Guarantor or any Material Subsidiary, (ii) the Issuer or the Guarantor or any Material Subsidiary shall apply or petition for a winding-up or administration order in respect of itself or ceases to carry on all or substantially all of its business or operations, except (in the case of a Material Subsidiary only) in respect of a Permitted Restructuring, or (iii) proceedings are initiated against the Issuer, the Guarantor or any Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any Material Subsidiary or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them and in any case (other than the appointment of an administrator) is not discharged within 60 days;
- (h) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer, the Guarantor or any Material Subsidiary;
- (i) **Ownership:** the Issuer ceases to be wholly owned and controlled by the Guarantor;
- (j) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order to (i) enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Guarantee, (ii) ensure that those obligations are legally binding and enforceable and (iii) make the Notes and the Guarantee admissible in evidence in the courts of the Kingdom of Sweden, the Republic of Poland or England is not taken, fulfilled or done;
- (k) **Illegality:** it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Guarantee;
- (l) **Analogous Events:** any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs; or
- (m) **Guarantee:** the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect.

In this Condition 10, “**Permitted Restructuring**” means:

- (x) any disposal by any Material Subsidiary (in each case where solvent) of the Guarantor (other than the Issuer) of all or any part of its business, undertaking or assets to the Guarantor or any other Subsidiary of the Guarantor;
- (y) any amalgamation, consolidation or merger (whilst solvent) of a Material Subsidiary (other than the Issuer) with the Guarantor or any other Subsidiary of the Guarantor; or
- (z) any amalgamation, consolidation, restructuring, merger or reorganisation (i) on terms previously approved by an Extraordinary Resolution (as defined in the Agency Agreement) or (ii) in the case of a

Material Subsidiary, whereby the undertaking and assets of the Subsidiary (in each case where solvent) are transferred or otherwise vested in the Issuer, the Guarantor or another of its Subsidiaries.

## 11 Meeting of Noteholders and Modifications

- (a) **Meetings of Noteholders:** The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification of Agency Agreement:** The Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.
- (c) **Substitution:** The Issuer, or any previous substituted company, may at any time, without the consent of the Noteholders or the Couponholders, substitute for itself as principal debtor under the Notes, the Receipts, the Coupons and the Talons, any company (the “**Substitute**”) that is the Guarantor or a Subsidiary (as defined in the Agency Agreement) of the Guarantor, provided that no payment in respect of the Notes, the Receipts or the Coupons is at the relevant time overdue. The substitution shall be made by a deed poll (the “**Deed Poll**”), to be substantially in the form scheduled to the Agency Agreement as Schedule 8, and may take place only if (i) the Substitute shall, by means of the Deed Poll, agree to indemnify each Noteholder and Couponholder against any tax, duty, assessment or

governmental charge that is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Note, Receipt, Coupon, Talon, the Deed of Guarantee or the Deed of Covenant and that would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution, (ii) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant shall be unconditionally guaranteed by the Guarantor by means of the Deed of Guarantee, (iii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute, and in the case of the Deed Poll and the Deed of Guarantee of the Guarantor have been taken, fulfilled and done and are in full force and effect, (iv) the Substitute shall have become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it, (v) legal opinions addressed to the Noteholders shall have been delivered to them (care of the Fiscal Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in paragraph (i) above and in England as to the fulfilment of the preceding conditions of this paragraph (iii) and the other matters specified in the Deed Poll and (vi) the Issuer shall have given at least 14 days' prior notice of such substitution to the Noteholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution that are referred to above, or that might otherwise reasonably be regarded as material to Noteholders, shall be available for inspection at the specified office of each of the Paying Agents. References in Condition 10 to obligations under the Notes shall be deemed to include obligations under the Deed Poll, and, where the Deed Poll contains a guarantee, the events listed in Condition 10 shall be deemed to include that guarantee not being (or being claimed by the guarantor not to be) in full force and effect.

## **12 Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that, if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **13 Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

## 14 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published, so long as the Notes are listed on the Luxembourg Stock Exchange, either on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 14.

## 15 Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor shall only constitute a discharge to the Issuer or the Guarantor, as the case may be, to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer, failing whom the Guarantor, shall indemnify it against any loss sustained by it as a result. In any event, the Issuer, failing whom the Guarantor, shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition 15, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

## 16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms.

## 17 Governing Law and Jurisdiction

- (a) **Governing Law:** The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons (including a dispute relating to any non-

contractual obligations arising out of or in connection with any Notes, Receipts, Coupon or Talons) and, accordingly, any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons (“**Proceedings**”) may be brought in such courts. Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the holders of the Notes, Receipts, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

- (c) **Service of Process:** Each of the Issuer and the Guarantor irrevocably appoints Hackwood Secretaries Ltd. of One Silk Street, London EC2Y 8HQ as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer or the Guarantor). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, each of the Issuer and the Guarantor irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Nothing shall affect the right to serve process in any manner permitted by law.
- (d) The Issuer and the Guarantor each hereby irrevocably and unconditionally waive, with respect to the Notes, the Receipts and the Coupons, any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

### 1 Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held under the NSS (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depository for Euroclear and Clearstream, Luxembourg (the “**Common Depository**”) or, if the Global Certificate is not held under the NSS, upon registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is a NGN or a Global Certificate held under the NSS, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note or Global Certificate (as the case may be) and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

### 2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (an “**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and, in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

### **3 Exchange**

#### **3.1 Temporary Global Notes**

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Final Terms indicate that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “General Description of the Programme – Selling Restrictions”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

#### **3.2 Permanent Global Notes**

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

- (i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

#### **3.3 Permanent Global Certificates**

If the Final Terms state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if principal in respect of any Notes is not paid when due; or
- (iii) with the consent of the Issuer,



provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

### **3.4 Partial Exchange of Permanent Global Notes**

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Notes.

### **3.5 Delivery of Notes**

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or, if the Global Note is a NGN, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

### **3.6 Exchange Date**

“**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

## **4 Amendment to Conditions**

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

#### 4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only. If the Global Note is a NGN or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system, and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "**business day**" set out in Condition 7(h) (*Non-Business Days*).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

#### 4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) of the appropriate Relevant Date (as defined in Condition 9).

#### 4.3 Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

#### 4.4 Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

#### **4.5 Purchase**

Notes represented by a permanent Global Note may only be purchased by the Issuer, the Guarantor or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

#### **4.6 Issuer's Option**

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of account holders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

#### **4.7 Noteholders' Options**

Any option of the Noteholders, including where a Change of Control Put Option is stated to apply, provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation. Where the Global Note is a NGN or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

#### **4.8 NGN nominal amount**

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

#### **4.9 Events of Default**

Each Global Note provides that the holder may cause such Global Note, or a portion of it, to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Fiscal Agent the nominal amount of such Global Note that is becoming due and repayable. If principal in respect of any Note is not paid when due, the holder of a Global Note or Registered Notes represented by a Global Certificate may elect for direct enforcement rights against the Issuer under the terms of a Deed of Covenant executed as a deed by the Issuer on 25 August 2011 to come into effect in relation to the whole or a part of such Global Note or one or more Registered Notes in favour of the persons

entitled to such part of such Global Note or such Registered Notes, as the case may be, as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note or, as the case may be, the Global Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion or Registered Notes, as the case may be. However, no such election may be made in respect of Notes represented by a Global Certificate unless the transfer of the whole or a part of the holding of Notes represented by that Global Certificate shall have been improperly withheld or refused.

#### **4.10 Notices**

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note, except that, so long as the Notes are listed on the Luxembourg Stock Exchange's regulated market and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) or in a leading newspaper having general circulation in Luxembourg (which is expected to be *the Luxemburger Wort*).

### **5 Partly Paid Notes**

The provisions relating to Partly Paid Notes are not set out in this Prospectus, but will be contained in the relevant Final Terms and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

## **USE OF PROCEEDS**

The net proceeds from the issue of each Tranche of Notes will be applied by the Issuer for on-lending to the Guarantor which will use those net proceeds for its general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## THE GUARANTOR

### Overview

Polskie Górnictwo Naftowe i Gazownictwo S.A. (“**PGNiG**” or the “**Company**”) is the Republic of Poland’s (“**Poland**”) largest company operating in the area of hydrocarbon exploration and production, and natural gas trading. It holds the leading position in all areas of the Polish gas sector, including natural gas import, exploration, oil and gas production, gaseous fuel storage and the sale of natural gas.

For the year ended 31 December 2010, PGNiG and its subsidiaries (the “**PGNiG Group**”) generated sales revenues of PLN 21.281 billion (EUR 5.314 billion) and a net profit of PLN 2.457 billion (EUR 614 million). As at 31 December 2010, the PGNiG Group had total assets of PLN 34.316 billion (EUR 8.665 billion) and total equity (net assets) of PLN 23.519 billion (EUR 5.939 billion).

The PGNiG Group’s primary scope of operations includes the exploration and production of natural gas and crude oil, the sale of crude oil and of domestically-produced and imported gas and the storage and distribution of natural gas.

The PGNiG Group’s exploration and production activities are mainly conducted onshore in Poland. During 2010, the PGNiG Group produced 4,220.4 bcm of natural gas and 487,800 tonnes of crude oil. As at 31 December 2010, PGNiG’s reserves amounted to 598 million barrels of oil equivalent (“**boe**”) of gas reserves and 155 million boe of oil reserves.

PGNiG owns oil wells and gas mines, a distribution system, underground storage facilities and other facilities ensuring the safe and proper operation of the domestic gas supply system. The main distribution and storage assets of PGNiG’s Group comprise a 6,595 km high-pressure grid (which forms part of a 117,355 km distribution grid) and eight underground gas storage facilities with an operational capacity of 1.83 bcm.

PGNiG has a 48 per cent. stake in the share capital of EuRoPol GAZ, which is the owner of the Polish section of the Yamal-Western Europe pipeline, operated by PGNiG. The other 48 per cent. belongs to Gazprom (48 per cent.) and Gas-Trading SA (4 per cent.).

The PGNiG Group is active in the distribution of natural gas in Poland through six wholly-owned regional Gas Companies, which supply gas to 6.6 million customers, including industrial and commercial users, as well as households. PGNiG is the largest gas importer in Poland, principally through a long-term gas import contract with Russia and medium-term contracts for deliveries from other countries, mostly from Germany.

The main market for the operations of the PGNiG Group is the Polish market. In 2010, 95.35 per cent. of the PGNiG Group’s total sales were made in the domestic market.

### History

PGNiG is incorporated under the laws of Poland and has its registered office in Warsaw, ul. Marcina Kasprzaka 25. It was established on 1 December 1982, as the state-owned enterprise “**PGNiG**” (*Przedsiębiorstwo Państwowe PGNiG*). On 30 October 1996, PGNiG was transformed into a joint-stock company wholly owned by the State Treasury. The Deed of Transformation, together with the company’s Articles of Association, were executed in the form of a notarial deed dated 21 October 1996 (Rep. A No. 18871/96).

The Company was entered in the commercial register of Warsaw under the name Polskie Górnictwo Naftowe i Gazownictwo S.A. on 30 October 1996 under entry No. RHB 48382. As of the registration date, the

Company acquired legal personality. On 14 November 2001, the Company was entered into the Register of Entrepreneurs of the National Court Register under entry No. 0000059492.

On 24 May 2005, PGNiG's shares were admitted to public trading pursuant to a decision issued by the Polish Securities and Exchange Commission. Its shares have been listed on the Warsaw Stock Exchange since 25 October 2005. On 3 April 2009, PGNiG began a process of free of charge shares distribution to its employees (750,000,000 shares).

## **Strategy**

In 2011, the PGNiG Group's strategy was updated through to 2015. Growth of value for shareholders and the further development of PGNiG as a multi-energy conglomerate have been made the Group's overriding strategic objectives. Alongside the implementation of this strategy, the Group will have regard for the need to ensure the long-term security of an uninterrupted supply of natural gas to the Polish domestic market.

The Group aims to increase shareholder value through both the development of the Polish domestic gas market and also by strengthening PGNiG's presence in selected foreign markets.

High commodity prices in the global markets and growing competition for access to natural gas reserves encourage the PGNiG Group to increase the growth of its exploration and production business in Poland and abroad by expanding its own natural gas and crude oil reserves and acquiring new licences in the selected foreign markets. The PGNiG Group intends to establish stable positions on two key foreign markets: the North Sea and also, North and East Africa regions.

Another important area of the PGNiG Group's growth is the extension and construction of underground gas storage facilities. The PGNiG Group strives to ensure sufficient storage capacities in order to enhance its ability to be flexible in responding to customer demands, to secure the continuity and stability of gas supplies, and to mitigate risks in situations when supplies from foreign sources are threatened.

The distribution business has an important role in the building of the PGNiG Group's value. One of the PGNiG Group's strategic objectives is to improve profitability in the distribution area by maximising revenue from regulated operations, cost rationalisation and distribution network development.

The PGNiG Group has been intensifying efforts aimed at expanding the scale and scope of its operations, by becoming involved in power generation projects where natural gas is used as fuel and entering the market of electricity trading. An important effect of the power generation projects pursued by the Group will be to drive the gas market's growth and generate additional demand for gas, while extending the product mix.

Implementation of these objectives will ensure gradual transformation of the PGNiG Group from a vertically integrated gas and oil organisation into a multi-energy company, which groups businesses from the power, fuel and heat sectors. The extension and expansion of the PGNiG Group's operations to include sale of electricity and heat will strengthen its position on the energy market in Poland and Central Europe.

The Company's key strategic objectives within each of its operating segments are set out in more detail below.

### ***Exploration and Production***

The Company's main strategic aims in this area are to further develop domestic and international exploration and production activity, increase the segment's expertise and optimise the organisation of activities therein.

These strategic aims are intended to be realised through the following initiatives:

- (i) increasing the Company's domestic natural gas and crude oil production to approximately 4.5 bcm and 1.0 million tonnes, respectively, per annum, developing exploration and production from the deep

structures and non-structural traps, maintaining the leading position in the licences for searching for unconventional gas in Poland and maintaining the substitution factor for domestic reserves at the level of at least 1.1;

- (ii) increasing the Company's international natural gas and crude oil production to between approximately 1.5 bcm and 2.0 bcm and 0.6 million and 1.0 million tonnes per annum, respectively, in key regions, and increasing its natural gas and crude oil reserves to between approximately 18.0 bcm and 22.0 bcm and 7.5 million and 9.5 million tonnes, respectively. International activity within the exploration and production segment shall focus on two key regions for gaining scale effects, organisational synergies and use of similarity of geological structures and local conditions: the North Sea (which comprises relatively low-risk countries) and Northern and Eastern Africa (which is a region posing higher risks). PGNiG will also take opportunities to acquire minority shares in attractive exploration and production licences outside the key regions by means of a licence exchange or partnership. In addition, it will negotiate with partners the possibility of exchanging national licences (in particular within the framework of unconventional gas deposits) for foreign licences in important exploration and production regions; and
- (iii) the Company will develop expertise in offshore logistics through co-operation with experienced partners under common licences. In order to conduct an ambitious exploratory programme in search of unconventional gas, PGNiG intends to obtain the relevant competences and technologies through joint participation in the exploratory licenses with partners who have the requisite know-how. PGNiG will also implement a new system for service settlement, including introduction of a "daily-rate" system. This system will allow for the individual negotiation of rates with the contractors of particular works thereby avoiding the margin of the general contractor; thus with the aim of increasing the efficiency of domestic activity. Implementation of the new settlement system requires organisational changes in the Sanok and Zielona Góra production plants. PGNiG also intends to participate in research projects relating to the evaluation of the possibility of CO<sub>2</sub> sequestration in the natural gas resources. These projects are designed to allow for implementation of the Enhanced Oil and Gas Recovery technology for intensification of production.

#### ***Wholesale/Trading***

The Company's main strategic aims in this area are to maximise use of the existing infrastructure and ensure sufficient capacity, increase flexibility of the natural gas supply and develop national and international cross-commodity trading and international sales activities.

These aims are intended to be realised through the following initiatives:

- (i) using free capacity in the LNG terminal for spot purchases on the global LNG market, reserving capacity in the expanded Lasów inter-connector on the German border, reserving potentially available capacity in the virtual reverse flow in the Yamal gas pipeline;
- (ii) renegotiating and increasing the flexibility of long-term contracts and restructuring the purchase portfolio such that, by 2015, not less than 15 per cent. of import volumes are made up of short-term contracts (with a duration shorter than three years); and
- (iii) establishing the function of Portfolio and Risk Management within PGNiG, establishing sales activities of between approximately 0.5 bcm and 0.7 bcm for industrial clients on the German market, merging gas and power trading into one entity by the end of 2013, developing the concept of marketing production volumes of gas and crude oil from international exploration and production activities and launching trading activity in crude oil, gas, power and emission certificates. POGC Trading, a new



subsidiary of PGNiG, was established in 2011 for the purposes of trading gas and crude oil. It will commence operations during the first half of 2012.

### ***Storage***

The Company's main strategic aims in this area are to (i) ensure sufficient storage capacity by expansion of its storage capacities to approximately 3.0 bcm through the construction of one new underground gas storage facility ("UGS"), expansion of the three existing UGS facilities and obtaining EU grants for investments for years 2014 to 2020, (ii) achieve legal unbundling of the Storage System Operator ("SSO") in accordance with Regulation EC 715/2009 of the third Gas Directive, create the internal structure of the new SSO entity and conclude service agreements within the PGNiG Group and (iii) maintain the profitability of the storage segment by maintaining the weighted average cost of capital indicator in the tariff before taxation at the level of between 8 per cent. and 10 per cent.

### ***Distribution***

The Company's main strategic aims in this area are to (i) increase profitability of the distribution segment by obtaining the approval of the Energy Regulation Office (the "ERO") to increase the regulatory value of the assets, (ii) rationalise costs and functions through closing the cost gap in tariffs, creating common service centres for distribution companies as regards IT support, remuneration and finance and accounting and implementing strategic sourcing, and (iii) optimise the distribution network; to include implementing a 10-year investment planning cycle, improving the market demand communication platform and preparing a feasibility study for the introduction of smart metering.

### ***Sales***

The Company's main strategic aims within the sales segment are to (i) maintain a leading position on the Polish market through development of new products to meet growing customer needs, acquiring new customers in gasified and non-gasified areas and entry into the electricity market and (ii) increase operational efficiency.

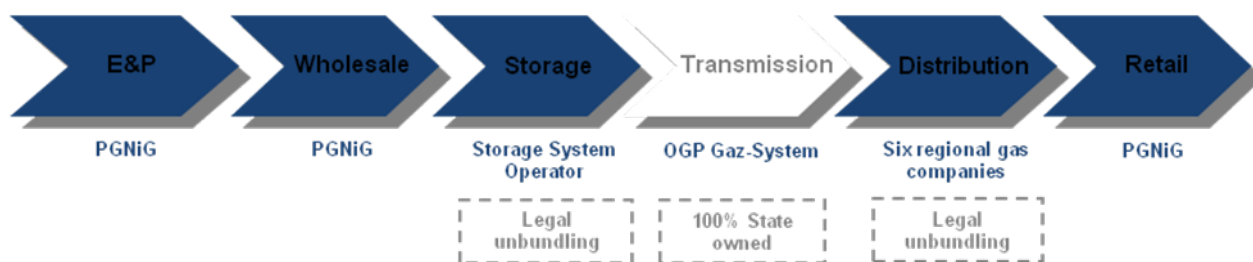
### ***New businesses***

The Company's main strategic aims within the new businesses segment are to (i) develop the energy sector by constructing its own production capacities and to achieve, by 2015, approximately 1,300 MW of its own installed power, (ii) reorganise the PGNiG Group to make the managerial and operational procedures more efficient, by better adapting the organisational and ownership structure of the companies to the current strategy and obtaining capital from the sale of non-essential assets, (iii) continue to increase efficiency by creating a more project-oriented working environment, and (iv) optimise logistics infrastructure by constructing an export sea terminal for oil.

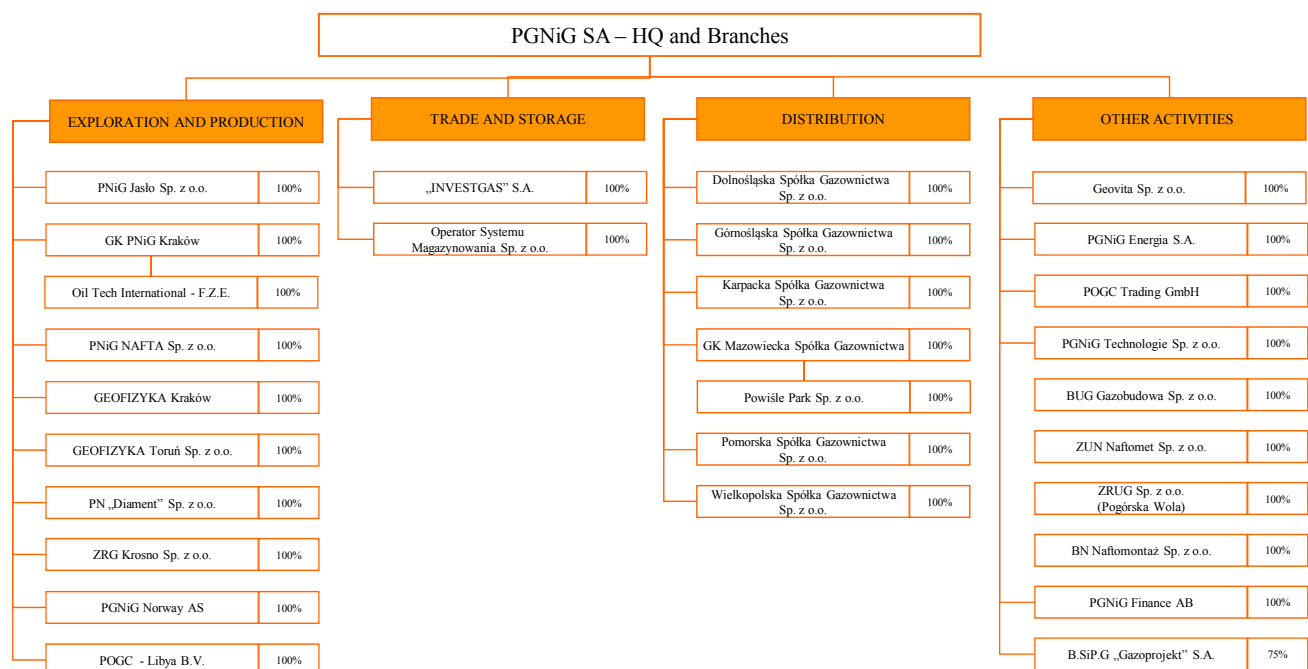
## **Business description of the PGNiG Group**

The PGNiG Group's business is divided into four main segments: Exploration and Production segment, Trade and Storage segment, Distribution segment and Other Activities segment.

The chart below outlines the basic functional structure of the PGNiG Group:



The chart below illustrates the companies of the PGNiG Group that are consolidated within financial statements:



The table below sets out selected financial data pertaining to the PGNiG Group for the years 2007 to 2010:

	2007	2008	2009	2010
	<i>(thousands PLN)</i>			
Sales income .....	16,652,134	18,432,048	19,331,527	21,281,161
Gross profit (loss) .....	1,002,728	935,366	1,483,189	2,936,099
Net profit (loss).....	916,065	865,742	1,236,886	2,457,184
Total assets .....	28,401,901	29,745,277	31,074,364	34,316,239
Equity (net assets).....	21,021,765	20,715,925	21,435,328	23,519,470

The table below sets out the PGNiG Group's revenues from domestic and export sales:

	Product sales revenues							
	2007	Share (%)	2008	Share (%)	2009	Share (%)	2010	Share (%)
Sales revenues – domestic ....	15,496,872	93	17,470,943	95	18,472,574	96	20,292,375	95
Sales revenues – export.....	1,155,262	7	961,105	5	858,953	4	988,786	5
Total revenues from the sales of products .....	16,652,134	100	18,432,048	100	19,331,527	100	21,281,161	100

The table below provides a breakdown of the PGNiG Group's sales revenue by segment of operations in the years 2007 to 2010:

	2007		2008		2009		2010	
	<i>(thousands PLN)</i>							
Total sales revenues.....	16,652,134	100%	18,432,048	100%	19,331,527	100%	21,281,161	100%
Exploration and production .	3,529,357	21	3,245,081	18	3,038,311	16	3,451,506	16
Trade and storage.....	13,885,004	83	16,719,791	91	17,370,573	90	19,079,616	90
Distribution.....	6,657,309	40	3,059,365	17	3,081,349	16	3,537,874	17
Other .....	333,682	2	364,884	2	460,591	2	567,998	3
Eliminations.....	(7,753,218)	(47)	(4,957,073)	(27)	(4,619,297)	(24)	(5,355,833)	(25)

The strong increase in the Exploration and Production segment's EBIT followed from significantly higher margins on crude sales in 2010. Prices at which PGNiG SA sold crude were up by 28 per cent., mainly on the back of crude returning to stronger price performance on the global markets. Moreover, the segment's operating profit improved due to a considerable decrease in net impairment losses and a fall in drilling expenses incurred on wells which were evaluated as negative.

The most significant performance improvement was seen in the Trade and Storage segment. The Group reported an increase in the profitability of high-methane gas sales resulting from a 6 per cent. decrease in the unit price of imported gas, driven primarily by the weaker U.S. dollar. The segment's better performance also follows from the discount for gas supplied under the contract with Gazprom Export. After negotiations with its regulator, PGNiG decided to transfer the discount in gas fuel tariff to its clients. This move is expected to influence the Group's revenue in the first quarter of 2011.

PGNiG sells gas to customers either directly or distributes it through the six regional gas companies (“**Gas Companies**”).

The Distribution 2010 segment's EBIT was up by PLN 405 million year on year, mainly due to the reversal of impairment losses on assets of the Gas Companies, higher rates and charges for network services as of June 2010, and a 7 per cent. year-on-year increase in the volume of distributed gas.

The table below provides gas sales amounts in the years 2007 to 2010, broken down by customer group:

	2007	2008	2009	2010	2007	2008	2009	2010
	<b>Trade and storage segment</b>				<b>Trade and storage segment</b>			
	(mcm)				(%)			
<b>TOTAL</b>	<b>12,975</b>	<b>13,119</b>	<b>12,515</b>	<b>13,562</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
including:								
Industrial customers	7,849	7,934	7,185	7,632	60.5%	60.5%	57.4%	56.3%
Trade and services	1,326	1,390	1,424	1,573	10.2%	10.6%	11.4%	11.6%
Households	3,641	3,622	3,724	4,096	28.1%	27.6%	29.8%	30.2%
Wholesale customers	119	137	142	218	0.9%	1.0%	1.1%	1.6%
Exports	40	37	39	44	0.3%	0.3%	0.3%	0.3%
Industrial customers including:								
Nitrogen plants	2,314	2,351	1,952	2,040	29.5%	29.6%	27.2%	26.7%
Power and CHP plants	553	606	582	569	7.0%	7.6%	8.1%	7.5%
Heat plants	236	240	288	310	3.0%	3.0%	4.0%	4.1%
Petrochemical and refining <sup>1</sup> industry	818	804	772	885	10.4%	10.1%	10.7%	11.6%
Food industry	662	693	700	729	8.4%	8.8%	9.7%	9.5%
Iron and steel making	614	569	452	484	7.8%	7.0%	6.23%	6.3%
Glass making	629	629	591	640	8.0%	7.9%	8.2%	8.4%
Building and ceramic materials	618	590	501	509	7.9%	7.5%	7.0%	6.7%
Other industrial customers	1,484	1,582	1,476	1,646	17.9%	18.3%	18.8%	19.2%
	<b>Exploration and production segment</b>							
	630	611	640	674				
<b>Total</b>	<b>13,686</b>	<b>13,862</b>	<b>13,284</b>	<b>14,417</b>				

Note:

- (1) PGNiG sales of Crude to Trzebinia Refinery and Jedlicze Refinery

## Exploration and Production

The Exploration and Production segment covers the entire process of oil and gas production from geophysical surveys prior to the exploration phase to field operation and product preparation for marketing. The PGNiG Group's presence in the gas and oil production segment makes PGNiG a competitive player on the liberalised

gas market. As a portion of the gas sold by PGNiG is produced at costs lower than the prices of imported gas, PGNiG may, to a certain degree, avoid the effects of rises in imported gas prices, driven by growing prices of oil derivatives to which the gas prices are indexed. Production of oil allows for the obtaining of high sales margins on the unregulated market.

The table below sets out selected financial data relating to the Exploration and Production segment for the years 2007 to 2010:

	<b>Key financial data</b>			
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(PLN m)</i>			
Revenues.....	3,529	3,245	3,038	3,452
Costs.....	(2,510)	(2,327)	(2,864)	(2,864)
EBIT.....	1,019	918	174	588
Assets.....	9,059	10,007	11,063	12,797

### **Exploration**

The PGNiG Group's prospecting activities are conducted both within Poland and abroad. The exploration work, which involves mainly exploration of geological structures for natural gas and crude oil deposits, analyses of historical and geological data, seismic reflection surveys and drilling campaigns is, for the most part, performed by specialist companies of the PGNiG Group as set out below in the section "– Exploration and Production companies".

#### ***Exploration in Poland***

Exploration and prospecting activity conducted by the PGNiG Group in Poland is realised within 93 exploratory concessions and is focused in three regions: the Carpathian Mountains, the Carpathian Foreland and the Polish Lowlands. In 2010, a total of 49,543 metres of drillings (also in collaboration with FX Energy Poland Sp. z o.o.) were made for PGNiG in these regions. Drilling work covered 24 wells, including 16 exploration wells and 8 appraisal wells. The work on 7 of the wells started in 2008. From among the 14 wells for which deposit characteristics are already known, 9 have been classified as positive (6 gas wells, one crude oil well and 2 gas-oil wells), and 5 were negative. In addition, a total of 2,763 km of 2D seismic surveys and 873 km<sup>2</sup> of 3D seismic surveys were performed on the PGNiG Group's licences both in Poland and abroad.

#### ***Production of unconventional gas***

There exist sub-soil structures in Poland that may produce unconventional gas, including tight gas and shale gas. PGNiG currently holds 15 concessions with expected shale gas reserves and 9 concessions with expected tight gas reserves.

At present, all concessions are being analysed by the Group in terms of shale gas occurrence. At the beginning of March 2011 an exploration borehole was drilled in the North of Poland (Lubocino-1 on Wejherowo concession). With respect to tight gas, drilling is ongoing in co-operation with FX Energy (Pławce-2 on Kórnik-Środa concession). Prospective directions for exploration in Poland include shale gas in the areas of ordovician–silurian shale occurrence, tight gas in the Fore-Sudetic Monocline and Pomeranian Anticlinorium areas, deep structures in the Carpathian and Carpathian Foredeep and their basement and deep structures in the Central Polish Basin.

### *Exploration abroad*

The PGNiG Group's international expansion began in 2007 with the acquisition of an interest in the Skarv/Snadd/Idun exploration and production licence on the Norwegian Continental Shelf as part of the Company's strategy to increase production of natural gas and crude oil outside of Poland. International activity is now conducted in five countries in four regions: the North Sea (Norway), Continental Europe (Denmark), Northern Africa (Libya and Egypt) and Southern Asia (Pakistan). In the past three years, the portfolio of international projects has been extended significantly through obtaining additional licences, mainly in the Norwegian Continental Shelf. PGNiG currently holds 14 international licences.

#### *Norway*

By the end of the first half of 2011, the PGNiG portfolio included eleven licences on the Norwegian Continental Shelf. The main asset is the Skarv Field offshore mid Norway, which is currently under development. PGNiG Norway holds a 11.9175 per cent. in the Skarv project. The project is operated by BP (23.835 per cent.) with Statoil (36.165 per cent.) and E.ON Ruhrgas (28.0825 per cent.) as partners. Production from the Skarv Field is expected to commence in the second half of 2011. According to the Norwegian Petroleum Directorate ("NPD"), the total proved reserves in the Skarv project amount to 42.1 bcm of natural gas, 16.5 mcm of crude oil and condensate, and 5.5 million tonnes of natural gas liquid ("NGL"). In other words, the total recoverable reserves in the Skarv project account for 434 mboe and PGNiG is holding 11.9175 per cent. of them. The average annual gas production is estimated at 0.5 bcm (net to PGNiG), and an average oil production in the first few years is 400,000 tonnes. In 2011 PGNiG Group's plan to produce 0.1 bcm of natural gas and 90 thousand tonnes of crude oil. In 2012 the production is estimated to 0.4 bcm of natural gas and 400 thousand tonnes of crude oil.

The reserves are developed using five subsea templates tied back to a floating, production, storage and offloading ("FPSO") vessel. The FPSO platform will be moored at a selected location by mooring lines. Measuring 292 meters in length and 52 meters in width, it will be the largest vessel of this kind in the world. The FPSO unit's capacity will amount to 140,000 cubic meters (880,000 boe). The design life of the FPSO is 25 years. The FPSO has been constructed in the Samsung yard in South Korea. The Skarv FPSO was completed in November 2010 and now it is being prepared for offshore installation. The reservoir development plan includes 16 wells comprising 7 oil producers, 5 gas producers and 4 gas injectors. The gas injectors will be reverted to gas producers in order to enable full recovery of the field's reserves.

By the end of the first half of 2011, the Skarv project was 93.7 per cent. advanced, by which time several important milestones had been achieved. These were, (i) the completion of the Skarv FPSO and (ii) the installation of most of the subsea structures at the field. In the first half of 2011, the FPSO arrived in Norway and the installation of X-mas trees commenced. Once moved into the production phase, oil will be transported by shuttle tankers, while gas will flow through the existing gas transport system via the Gassled Area B and Area D.

Skarv is an important asset with further exploration potential. In June 2010, PGNiG Norway together with its partners discovered the Snadd North field close to the Skarv field. The discovery is located within the Skarv licences and was confirmed through exploration well 6507/5-6ST2. The Snadd North discovery is estimated at between 9 bcm and 16 bcm of natural gas (PGNiG Norway has an equity of 11.9175 per cent.) and is not included in the base Skarv reserves. The Snadd North field can be connected to Skarv field in 2012 and full production from that field may start in 2015.

#### *Denmark*

Following the execution of an interest assignment agreement in 2007, PGNiG commenced exploratory work in the area of licence 1/05 in Denmark. In March 2009, PGNiG purchased a 40 per cent. interest in licence 1/05 from the existing holder, Odin Energi A/S. PGNiG (as operator) currently holds 80 per cent. of the

interests in the licence, while Nordsofonden holds the remaining 20 per cent. In the second half of 2009, 2D and 3D seismic shooting and processing of seismic data began. In early 2010, 2D and 3D seismic shots were completed; the processing and interpretation of the seismic data were completed. The location of the first well has been determined and drilling is planned in the third quarter of 2011. The majority of tenders required before drilling can commence are now finished. In March 2011, the Danish Energy Agency extended PGNiG's licence until 5 April 2012.

#### *Egypt*

In Egypt, PGNiG conducts exploration under the Bahariya licence (Block 3) on the basis of an Exploration and Production Sharing Agreement (“**EPSA**”) signed with the Egyptian government dated 17 May 2009. The Company holds a 100 per cent. interest in the licence. In the second half of 2009, preparations were made to reprocess 1,450 km of 2D seismic data and gravimetric analysis. The gravimetric analyses were finished in the first quarter of 2011. Based on their results, the 2D and 3D seismic surveys will be carried out in 2011. Tender for seismic acquisition is waiting for final approval of the Egyptian General Petroleum Corporation (“**EGPC**”). The civil and political unrest, seen in Egypt during the first quarter of 2011, had very limited effect on the activity of PGNiG's Egyptian Branch.

#### *Libya*

In February 2008, POGC Libya, a PGNiG Group company, executed an Exploration and Production Sharing Agreement pursuant to which it is able to conduct exploration work under exploration and production licence No. 113, covering an area of 5,500 km. The licence is located in the Murzuq petroleum basin in western Libya. Seismic surveys under licence No. 113 in the Murzuq basin commenced in March 2009. The first phase of the 3D and the first phase and the second phase of the 2D seismic surveys were completed and interpreted in 2011. Resource re-evaluation was then performed. In September 2009, the company executed an agreement with CGGVeritas on the processing of new seismic data acquired in the licence area. The processing of data from the first phase of the survey was completed in 2010. In June 2009, the company entered into an agreement concerning the creation of an orthophotomap of the entire licence area, with GEOKART as the contractor. Following acquisition of the images, data processing was performed. The first two well locations have been determined and, in December 2010, the Group started preparatory works in the place where the first drilling is to be made. However, due to political protests and as a consequence of military action in the country, PGNiG Group decided to evacuate its Polish staff from Libya in February 2011 and, as a result, it temporarily suspended the works on its licence.

#### *Pakistan*

PGNiG conducts exploratory work in Pakistan pursuant to an agreement between PGNiG and the Pakistani government dated 18 May 2005 relating to the exploration and production of hydrocarbons in the area covered by the Kirthar licence. Exploratory work in the Kirthar block area is conducted in co-operation with Pakistan Petroleum Ltd. (“**PPL**”) (with PGNiG holding 70 per cent. of the interest and PPL holding the remaining 30 per cent.). In the second half of 2009, the first exploration well (Rehman-1) was drilled with positive results, and performed tests show an inflow of gas. Currently, PGNiG is investigating with PPL the possible commerciality of the discovery and the possibility to produce and sell gas. As a next step, PGNiG is ready to finish a re-entry to the existing Hallel-1 (works in 2011) well and drill a horizontal sidetrack from this well. Also in 2010, seismic surveys 2D and 3D were conducted over the Kirthar licence. In January 2011, PGNiG commenced works concerning horizontal drilling at Hallel-1. Simultaneously, PGNiG is conducting preparations to launch an extended well test (“**EWT**”) which is due to commence in the fourth quarter of 2011.

## Production

Natural gas and crude oil production in Poland is one of the key drivers ensuring the competitive position of the PGNiG Group in the gas market. Production is conducted by two PGNiG branches in Zielona Góra and Sanok under 222 production concessions in 68 mines located throughout Poland. The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 22 mines (including 14 gas mines, and 8 oil and gas mines), while the Sanok Branch produces high-methane and nitrogen-rich natural gas and crude oil at 46 mines (including 26 gas mines, and 20 oil-and-gas and oil mines). In addition, a branch of PGNiG in Odolanów processes low-methane gas into high-methane gas and produces by-products of this process, including helium.

In 2010, the PGNiG Group produced 4.24 bcm of natural gas and 487,800 tonnes of crude oil.

The table below shows the volumes of PGNiG's production for the years ended 31 December 2008, 2009 and 2010:

	2008	2009	2010
	<i>(million cubic meters<sup>(1)</sup>)</i>		
Natural gas, including: .....	4,073.9	4,105.2	4,220.4
high-methane, including:.....	1,695.3	1,633.9	1,605.3
- Zielona Góra Branch.....	0	0	0
- Sanok Branch.....	1,695.3	1,633.9	1,605.2
nitrogen-rich, including:.....	2,378.6	2,471.3	2,615.1
- Zielona Góra Branch.....	2,297.4	2,391.9	2,530.9
- Sanok Branch.....	81.2	79.4	84.2
	<i>(thousand tonnes)</i>		
Crude oil.....	487.4	491.6	487.8
- Zielona Góra Branch.....	442.5	446.3	440.7
- Sanok Branch.....	44.9	45.3	47.1

\*Measured as high-methane gas equivalent

### *Production of gas*

PGNiG produces two types of gas with different composition and parameters: (i) high-methane gas, with a nominal calorific value of 34.0 MJ/cm; and (ii) nitrogen-rich gas, with a nominal calorific value of 26.0 MJ/cm.

In addition, a portion of the nitrogen-rich gas produced from a well operated by the Zielona Góra Branch is further processed at the denitrating plants in Odolanów Branch into high-methane gas. Gas with low methane content is treated in extremely low temperatures to remove nitrogen and then is pumped into the high-methane gas system. In 2010, the process of conversion of nitrogen-gas into high-methane gas yielded 1.36 bcm of the product.

### *Production of crude oil*

The Company produces crude oil mainly in Western Poland including the Barnówko-Mostno-Buszewo field ("BMB") (the largest among the currently producing fields) from which 76 per cent. of PGNiG's total oil and condensate production was sourced in 2010. In 2013, oil production is expected to be launched from the LMG field near Gorzow Wielkopolski, leading to a twofold increase in PGNiG's output. In 2010, total oil and



condensate production reached 501,000 tonnes, which represents a year-on-year decrease of 3,700 tonnes (0.7 per cent.), down from 504,000 tonnes.

#### **Production of other products**

The processing of crude oil generates commercial products such as condensate, sulphur and propane-butane. In addition, the cryogenic nitrogen removal process conducted by the Odolanów branch and in the now nitrogen removal facility in Grodzisk Wielkopolski generates liquid and gas helium, LNG and liquid nitrogen as process by-products.

LNG production for 2010 is 26.7 mcm. In subsequent years, if input is guaranteed and the full technical capacities of the nitrogen removal plants in Odolanów and Grodzisk Wielkopolski are utilised, LNG production may reach the maximum level of approximately 42,000 tonnes (56 mcm).

#### **Reserves**

Poland's resources are evaluated by the Mineral Resources Commission and confirmed by the Ministry of Environment (Geology and Geological Licences Department). As at the end of 2010, PGNiG's total documented reserves, expressed as barrel of oil equivalent ("boe"), or million barrels of oil equivalent ("mboe"), were estimated at 753.7 mboe, including 598.2 mboe of natural gas reserves and 155.5 mboe of crude oil reserves. In 2010, the R/P ratio, reflecting the relation of total reserves to the production volume, was 25. This implies that, with the current levels of production, the reserves could last for the next 25 years.

The table below sets out the volumes of PGNiG's reserves in the years 2007 to 2010:

<b>Reserves of natural gas and crude oil</b>					
<b>Product</b>	<b>Unit</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Natural gas.....	mboe	611	587	616	598
Crude oil.....	mboe	154	156	153	155
Total.....	mboe	765	743	769	754

#### **Sales**

The Exploration and Production segment derives its revenues mainly from non-regulated sales of natural gas and crude oil, but also from geological and exploration services.

The table below sets out off-tariff sales in the Exploration and Production segment, including natural gas sold directly from the fields to customers (including LNG), crude oil and other products to external customers by volume in the years 2008 to 2010:

	<b>Unit</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Natural gas, including: .....	million cubic metres	611.2	640	673.8
– high-methane gas .....	million cubic metres	47.2	46.8	53.7
– nitrogen-rich gas <sup>(1)</sup> .....	million cubic metres	564	593.2	620.1
Crude oil .....	thousand tonnes	497.2	503.7	499.0
Condensate .....	thousand tonnes	1.2	1.9	1.9
Helium .....	million cubic metres	2.2	2.5	3.1
Propane-butane .....	thousand tonnes	17.4	20.2	21.0
Nitrogen.....	thousand kilograms	1,221	1,261.2	783.1

	<b>Unit</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sulphur .....	thousand tonnes	20.3	24.6	25.2

Note:

- (1) Measured as high-methane gas equivalent

### ***Sales of gas***

PGNiG's exploration and production segment sells natural gas by way of direct deliveries from the fields (outside of the transmission and distribution system) via dedicated pipelines to specific customers. The gas is sold on free market terms, and delivery terms (including pricing) are agreed upon individually with the customers on a case-by-case basis depending on the characteristics of a given project. The key group of customers buying natural gas directly from the fields are industrial users such as the large Polish energy companies, large manufacturing companies and heating plants. In the majority of cases, this sales model is opted for by customers located in close proximity to PGNiG's gas mines. Sales of natural gas directly from the fields enable commercially viable development of gas reserves whose quality deviates from network standards and caters for customers for whom deliveries of system gas are not feasible for technical or economic reasons.

In 2010, direct sales of natural gas, at 674 mcm, accounted for roughly 5 per cent. of PGNiG's total sales. The direct sales model is used both in the case of high-methane gas and nitrogen-rich gas. In 2010, 54 mcm of high-methane gas and 620 mcm of nitrogen-rich gas were sold via this channel.

### ***Sales of crude oil***

PGNiG sells crude oil on free market terms, pricing it by reference to the crude oil prices on international markets. Crude oil is sold either via pipeline to foreign customers, or by road and rail tankers to domestic customers.

In 2010, 58 per cent. of crude oil and condensate sales were to Polish customers (Trzebinia and Jedlicze refineries), with the balance exported to German refineries (and transported through the Druzhiba pipeline) to TOTSА Total Oil Trading S.A.

### ***Sales of other products***

The table below sets out the sales revenues of the PGNiG Group from other products for the years 2008 to 2010:

	<b>2008</b>	<b>2009</b>	<b>2010</b>
		<i>(PLNm)</i>	
Helium.....	27.6	37.1	44.1
Propane-butane gas (LPG) .....	42.6	36.8	49.9
LNG .....	20.3	21.4	30.1
Geophysical and geological services.....	360.8	225.5	278.8
Exploration services .....	443.4	376.9	408.4
Other products and services .....	381.9	482.9	556.2

Currently, liquefied natural gas (“LNG”) sales account for a small share of the total gas sales volume generated by PGNiG. In 2010, sales of LNG amounted to approximately 26.3 mcm. The partial launch of the Grodzisk Nitrogen Removal Facility allowed the PGNiG Group to increase production of LNG and helium in 2010 relative to 2009, which led to higher revenue generated from sales of these products. The growth in revenue from sales of geophysical and geological services is primarily attributable to Geofizyka Toruń, which expanded the scale of its operations, predominantly in Poland, but also abroad. The higher revenue from sales of exploration services was mostly due to the extension of the scope of work conducted by PNiG Kraków (Uganda, Mozambique, the United Arab Emirates and the Czech Republic), PNiG Nafta of Piła (Poland and India) and PN Diament (Poland).

In 2010, foreign customers accounted for 81 per cent. of sales of helium. Most of the helium was sold in a liquid state to foreign wholesale customers who resell the product in European countries.

#### Exploration and Production companies

Please note that the financial data used in the table below reflects numbers shown in separate Annual Reports for each entity, as published on the Monitor Polski B website.

The table below sets out sales revenues from each of the main Exploration and Production companies for the years 2007 to 2010:

	2007	2008	2009	2010
	<i>(PLNm)</i>			
PNiG Jasło Sp. z o.o. ....	236,3	281,9	269,4	241.6
The PNiG Kraków Group .....	316.6	360.2	377.7	359.1
PNiG NAFTA Sp. z o.o. ....	262	284.7	251.7	296.4
The GEOFIZYKA Kraków Group .....	226.5	185.4	289.7	224.3
GEOFIZYKA Toruń Sp. z o.o. ....	314.6	332.4	268.3	302.0
PN “Diament” Sp. z o.o. ....	161.3	209.2	163.1	154.4
ZRG Krosno Sp. z o.o. ....	88.6	79.1	83.1	91.4
PGNiG Norway A/S .....	0	0	0	0
POGC-Libya B.V. ....	0	0	0	0

#### *PNiG Jasło Sp. z o.o.*

The core business of Poszukiwania Nafty i Gazu Jasło Sp. z o.o. (“**PNiG Jasło**”) consists of the drilling of exploration and production wells, the reconstruction and decommissioning of wells and the performance of specialist drilling services, including cementing, mud services and well reinforcement, as well as the maintenance of control and instrumentation at well surface installations.

In 2010, PNiG Jasło provided services mainly to the PGNiG Group. The company’s sales revenue was PLN 241.6 m, of which revenue from services provided to the PGNiG Group accounted for 63 per cent. Services provided to third-party customers included execution of wells for RWE Dea Polska Sp. z o.o. The company also performed drilling work in Libya, geothermal drilling work in Germany, and reconstruction work in Russia. PNiG Jasło performed specialist services in the area of reconstruction and drilling, cementing, as well as datawell services in countries such as Lithuania, Latvia and Ukraine.

The following table sets out certain financial information of PNiG Jasło:

		<b>As at/for the year ended</b>			
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	236.3	281.9	269.4	241.6
Net (loss) profit .....	PLN m	9.2	18.2	6.5	8.1
Equity .....	PLN m	127.6	142.0	139.9	148
Total assets .....	PLN m	194.1	219.6	213.3	251.2
Headcount .....	persons	861	932	904	925

### ***The PNiG Kraków Group***

The PNiG Kraków Group is composed of Poszukiwania Nafty i Gazu Kraków Sp. z o.o. (“**PNiG Kraków**”) and its subsidiary – Oil Tech International – F.Z.E. The core business of PNiG Kraków consists of geological, exploratory and production drilling, reconstruction of wells and maintenance services related to drilling, testing and operation of wells. The company also provides mine rescue services, as well as hospitality, catering, rental and training services. Oil Tech International – F.Z.E. provides services involving provision of operator teams, materials, and plant and equipment to PNiG Kraków. In 2011, PNiG Kraków established a subsidiary in Ukraine, Poltava Services LLC, in order to carry out works there. PNiG Kraków owns 99 per cent. of the shares in Poltava Services LLC.

In 2010, the PNiG Kraków Group sales revenue reached PLN 359.1 million. Revenue from services provided to third-party customers accounted for 70 per cent. of that figure (96 per cent. of that revenue was derived from export of services). Abroad, the PNiG Kraków Group performed production well drilling operations in Kazakhstan, Uganda, Ukraine and Pakistan. The group’s main customer in Poland was PGNiG.

The following table sets out certain financial information of PNiG Kraków Group:

		<b>As at/for the year ended</b>			
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	316.6	360.2	377.7	359.1
Net (loss) profit .....	PLN m	17.3	5.6	16.0	16.8
Equity .....	PLN m	166.3	182.5	182.7	174.3
Total assets .....	PLN m	371.2	395.3	359.4	392.5
Headcount .....	persons	1,353	1,344	1,211	1,182

### ***PNiG NAFTA Sp. z o.o.***

PNiG Nafta Sp. z o.o.’s (“**PNiG Nafta**”) offering consists primarily of design, execution and documentation of research, prospecting, exploratory and production wells. The company also provides specialist drilling services, and deals with drilling of wells for underground storage of hydrocarbons, decommissioning of wells with used-up reserves and reconstruction of developed wells. In addition, the company provides support 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 total sales revenue was PLN 296.4 million, with the revenue from the services provided to the PGNiG Group accounting for 73 per cent. of that figure. In 2010, the company conducted drilling work for PGNiG at Kosakowo, Mogilno and Wierzchowice underground gas storage facilities. Outside Poland, PNiG Nafta executed drilling work in Egypt, India and Slovakia.

The following table sets out certain financial information of PNiG Nafta:

		<b>As at/for the year ended</b>			
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	262.0	284.7	251.7	296.4
Net (loss) profit .....	PLN m	36.5	34.6	12.3	14.0
Equity .....	PLN m	160.9	180.2	182.8	192.5
Total assets .....	PLN m	267.1	318.2	300.2	321.1
Headcount .....	persons	713	773	763	799

#### ***The GEOFIZYKA Kraków Group***

The Geofizyka Kraków Group provides geophysical services in the area of field seismics with the use of 2D and 3D sources of vibration-induced or dynamite-induced excitation, processing and interpretation of seismic data from geophysical surveys, performance of measurements, operations and specialist work in wells, interpretations and perforations. The group also offers drilling seismometry services.

In 2010, the Geofizyka Kraków Group's sales revenue reached PLN 224.3 million. The revenue from services provided to the PGNiG Group companies accounted for 68 per cent. of the total, including 901 km of 2D seismic surveys carried out within the POGC Libya licence. The services provided by the Geofizyka Kraków Group to third-party customers included geophysical logging for Orlen Upstream Sp. z o.o., RWE Dea AG S.A. Branch in Poland, Saponis Investments Sp. z o.o., KGHM Polska Miedź S.A., as well as in Libya for Occidental Oil & Gas BV and in Pakistan for BP Pakistan Exploration & Production Inc.

The following table sets out certain financial information of the Geofizyka Kraków Group:

		<b>As at/for the year ended</b>			
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	226.5	185.4	289.7	224.3
Net (loss) profit .....	PLN m	2.1	0.2	12.7	1.9
Equity .....	PLN m	64.0	90.1	100.6	97.7
Total assets .....	PLN m	202.0	205.0	218.1	221.1
Headcount .....	persons	874	1,124	1,361	1,517

#### ***GEOFIZYKA Toruń Sp. z o.o.***

GEOFIZYKA Toruń Sp. z o.o. ("**Geofizyka Toruń**") offers geophysical services in the area of seismic surveys, including design work and acquisition of data, digital processing of data and comprehensive geophysical and geological interpretations. The company also provides services in the area of geophysical surveys and operations in wells, including their interpretation, as well as drilling services. In addition, Geofizyka Toruń's offering includes geophysical tests as part of environmental protection activities, as well as geological and hydrogeological testing.

In 2010, Geofizyka Toruń's sales revenue amounted to PLN 302.0 million, 63 per cent. of which represented revenue from services provided to third-party customers (52 per cent. of that revenue was derived from export of services). The company's services abroad included acquisition of seismic data in India, Thailand and Germany. The company provided its services related to the processing of seismic data to customers in India, Cameroon, Thailand and Germany. In Poland, Geofizyka Toruń's operations included acquisition of seismic

data, geophysical surveys and operations in wells for PGNiG SA, 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 S.A. and for Polskie Akademia Nauk.

The following table sets out certain financial information of Geofizyka Toruń:

		<b>As at/for the year ended</b>			
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	314.6	332.4	268.3	302
Net (loss) profit .....	PLN m	16.9	32.2	3.1	22
Equity .....	PLN m	140.7	168.1	157.0	177.3
Total assets .....	PLN m	219.3	252.1	212.4	235.0
Headcount .....	persons	1,213	1,186	1,106	1,630

***PN “Diament” Sp. z o.o.***

The core business of PN “Diament” Sp. z o.o. (“**PN Diament**”) consists of providing specialist drilling services which include: well drilling, repair work, decommissioning of wells, production testing of wells, deep measurements, production intensification and other work with the use of coiled tubing and nitrogen units, as well as reinforcement and drillstem testing with blowout prevention equipment. The company also conducts activities comprising general construction engineering, road construction and municipal waste dump construction, and provides vehicle repair, transport and equipment services.

In 2010, PN Diament’s sales revenue amounted to PLN 154.4 million, 62 per cent. of which represented sales to the PGNiG Group companies. For the PGNiG Group, the company conducted well drilling work, carried out repairs and decommissioning of wells, and provided a range of specialist services, including well intensification and repair, cementing and mud services. PN Diament drilled six exploratory wells for KGHM Polska Miedź S.A. in copper deposit licences. Furthermore, the company rendered general construction engineering services (mainly related to road and on-ground structures) to third-party customers.

The following table sets out certain financial information of PN Diament:

		<b>As at/for the year ended</b>			
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	161.3	209.2	163.1	154.4
Net (loss) profit .....	PLN m	8.8	6.8	6.6	7.3
Equity .....	PLN m	91.7	92.2	95.6	99.8
Total assets .....	PLN m	132.9	134.0	125.4	135.3
Headcount .....	persons	613	675	675	674

***ZRG Krosno Sp. z o.o.***

Zakład Robót Górniczych Krosno Sp. z o.o. (“**ZRG Krosno**”) is a specialist well mining service company. Its business comprises, in particular, work in producing wells, including repair and reconstruction of oil and gas producing wells, shallow drilling (up to approximately 1 km), production well recompletion, and decommissioning of wells, infrastructure and drilling pits, as well as other reclamation work. In addition, the company provides a wide range of production intensification, measurement and laboratory services.

In 2010, ZRG Krosno posted total sales revenue of PLN 91.4 million, 62 per cent. of which represented sales to the PGNiG Group. Other customers included domestic well mining companies engaged in exploration for mineral reserves and geothermal waters. In Poland, ZRG Krosno provided services at wells, chiefly related to reconstruction, decommissioning, production intensification and measurement of deposit parameters. Outside Poland, the company provided services in the Czech Republic, Slovakia, the United Kingdom and Ukraine.

The following table sets out certain financial information of ZRG Krosno:

		<b>As at/for the year ended</b>			
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	88.6	79.1	83.1	91.4
Net (loss) profit .....	PLN m	3.9	3.9	2.3	0.1
Equity .....	PLN m	39.2	41.3	41.8	41.1
Total assets .....	PLN m	62.0	59.5	58.7	58.7
Headcount .....	persons	427	436	435	431

#### ***PGNiG Norway AS***

PGNiG Norway AS (“**PGNiG Norway**”) was established to implement the project on the Norwegian Continental Shelf, which is aimed at increasing the volume of oil and gas reserves held outside of Poland. PGNiG Norway’s core business comprises exploration and production of crude oil and natural gas fields on the Norwegian Continental Shelf.

PGNiG Norway holds interest in four licence areas (PL212, PL212B, PL262 and PL159) covering the Skarv and Snadd fields. The company’s interest in the Skarv, Snadd and Idun fields is 11.9175 per cent. The development of the fields is carried out from an FPSO unit and is one of the largest projects implemented in Norway. Under the project, 16 wells will be drilled, including seven oil production wells, five natural gas production wells and four injectors. At a later stage of the reserve life, the injectors will be transformed into gas producers in order to fully exploit the reserve potential. Production is expected to commence in the third quarter of 2011.

In January 2009, PGNiG Norway acquired, free of charge, a 30 per cent. interest in the PL350 licence (under an agreement with StatoilHydro Petroleum) and a 25 per cent. interest in the PL419 licence (under an agreement with Nexen Exploration Norge). Following completion of the licence awarding process in April 2009, PGNiG Norway acquired a 35 per cent. interest in the PL521 licence and, in January 2010, a 15 per cent. interest in the PL558 licence on the Norwegian Continental Shelf. In June 2010, the Company also purchased a 10 per cent. interest in the exploration licence PL326 from Statoil Petroleum AS. Following the 21<sup>st</sup> licensing round, PGNiG Norway has been awarded a 20 per cent. share in PL599, covering the Cancer project and a 30 per cent. share in PL600, covering the Vigro project. Since February 2010, PGNiG Norway has held the status of an operator on the Norwegian Continental Shelf, which gives the company the right to apply for the function of the operator of both the existing and new licences. The company was granted the status in the prequalification process involving an analysis of PGNiG Norway’s ability to conduct exploration and production operations.

The following table sets out certain financial information of PGNiG Norway:

		<b>As at/for the year ended</b>			
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	0.0	0.0	0.0	0.0
Net (loss) profit .....	PLN m	(7.2)	(41.8)	(32.4)	(76.8)
Equity .....	PLN m	216.8	162.8	382.4	314.2
Total assets .....	PLN m	1,074.6	1,410.2	2,545.3	3,424.1
Headcount .....	persons	10	19	20	22

#### ***POGC-Libya B.V.***

The core business of Polish Oil and Gas Company – Libya B.V. (“**POGC-Libya**”) consists of exploration for, and production of, hydrocarbon reserves in Libya. The company carries out exploration work under licence No. 113 located in the Murzuq petroleum basin pursuant to the Exploration and Production Sharing Agreement (EPSA) of February 2008 concluded with the Libyan government.

In 2010, the company completed the first and second phase of the 2D seismic survey and the first phase of the 3D seismic survey. In co-operation with CGGVeritas, 2D and 3D seismic data processing from completed surveys was also completed in 2010.

Due to the civil and political situation in Libya, all of PGNiG’s Polish employees left Libya in February 2011. Further operations in Libya will depend on the civil and political situation in this country.

The following table sets out certain financial information of POGC-Libya:

		<b>As at/for the year ended</b>			
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	0.0	0.0	0	0.0
Net (loss) profit .....	PLN m	(1.4)	(8.2)	(12.5)	(5.6)
Equity .....	PLN m	2.8	(6.3)	177.1	236.5
Total assets .....	PLN m	2.9	56.4	199.2	246.5
Headcount .....	persons	0	13	25	37

#### **Trade and Storage**

The Trade and Storage segment of PGNiG Group sells natural gas produced from domestic reserves, as well as imported natural gas. To secure stable and continuous natural gas supplies, the PGNiG Group stores natural gas in eight modern underground gas storage facilities. The gas is supplied through thousands of kilometres of pipelines owned and operated by the Gas Companies to private individuals, small and medium-sized businesses and large industrial plants. Sales of natural gas from the distribution networks and transmission grid are regulated by the Polish Energy Law, with prices established on the basis of tariffs approved by the President of the ERO.



The table below sets out selected financial data from the Trade and Storage segment for the years 2007 to 2010:

	2007	2008	2009	2010
	(PLN m)			
Total revenues.....	13,885	16,720	17,371	19,080
Total costs.....	(12,698)	(17,230)	(17,258)	(18,264)
EBIT.....	1,187	(510)	113	815
Assets.....	11,777	9,986	10,201	10,447

### Sources of gas supplies

In 2010, domestic production accounted for 29.43 per cent. of the natural gas procured by PGNiG. The remaining part was imported under long-term imports contract with Gazprom Export and VNG AG, and medium-term import contracts with VNG AG and Vitol SA.

PGNiG imports natural gas mainly under the agreements and contracts specified below:

- contract with Gazprom Export dated 25 September 1996, valid until 2022;
- contracts with VNG-Verbundnetz GAS AG, dated 17 August 2006 and 29 September 2008, valid until 1 October 2016 and 1 October 2011, respectively;
- individual contract with Vitol SA, dated 30 September 2009, valid until 1 October 2011; and
- contract with NAK “Naftogaz Ukrainy”, dated 26 October 2004, valid until 2020 (since 1 January 2011 this contract has not been executed).

The table below sets out the natural gas supply structure measured as high-methane gas equivalent in years 2008-2010 (in mcm):

	2008	%	2009	%	2010	%
Imports, including:.....	1,0264.3	99.8	9,135.9	99.4	10,066.4	99.1
- Gazprom Export.....	7,056.7	68.7	8,137.2	89.1	9,028.4	89.7
- VNG AG.....	585.4	5.7	938	10.3	890.8	8.8
- Other foreign suppliers.....	2,622.2	25.6	60.7	0.6	147.2	1.5
Domestic suppliers.....	22.1	0.2	58.1	0.6	96.1	0.9
Total.....	10,286.4	100	9,194	100	10,162.5	100

### Storage

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

The UGS facilities allow the PGNiG Group to maintain continuous deliveries of gas in periods of increased demand, as well as providing an adequate level of reserves for periods of short-term disruptions in gas supplies caused by system failures or limited gas availability. These facilities help to meet obligations

imposed under the Act on Mandatory Reserves. They also support optimisation of the natural gas supply chain and enable the Company to respond to sudden short-term changes in demand. Moreover, as the operator of these facilities, the PGNiG Group 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 (not coverable with the current production), it is drawn from the facilities. The storage segment also offers commercial services of gas storage to entities outside the PGNiG Group and sector services for the operator of the transmission system OGP Gaz-System S.A. Activity within the storage segment is regulated by the Energy Law, under the supervision of the ERO, and EU legislation on the common energy market. In particular, storage tariffs for commercial services, determining the reimbursement of operational costs of storage activity and the reimbursement from the regulatory value of the assets, are subject to regulation.

The Act on Resources is an additional source of regulation affecting the storage segment. The Act determines the obligation of gas importing entities (importing amounts of more than 50 mcm a year) to maintain reserves in national storage in the relevant amount, with the possibility of pumping the whole reserve out in 40 days. The Act influences the level of storage capacity to be maintained by PGNiG for the purposes of the aforementioned reserves. Gradual extension of the required level of import coverage to 30 days will lead to the need for PGNiG Group to own, by the year 2015, storage capacity of total volume of about 1.0 bcm. This is one of the reasons why PGNiG is increasing its storage capacity from the current 1.83 bcm to approximately 3 bcm in 2015.

On 1 November 2008, in response to market demand for gas storage services, PGNiG established a dedicated Storage System Operator Division in Warsaw, responsible for commercialising storage, injection and withdrawal capacities of the storage facilities.

As at the end of 2009, the aggregate working capacity of the underground high-methane gas storage facilities operated by PGNiG was 1.60 bcm, while the working capacity of the underground nitrogen-rich gas storage facilities amounted to 0.23 bcm. The working capacity of high-methane gas storage facilities operated by PGNiG represents around 12 per cent. of the total annual domestic gas consumption and 17.8 per cent. of the annual gas import by PGNiG, ensuring the coverage of 65 days of import.

#### ***Gas Storage System Operator (SSO)***

On 1 January 2009, by a decision of the President of the ERO, PGNiG was appointed as the Gas Storage System Operator (“SSO”) for the period from 1 January 2009 until 31 December 2025. The task of the SSO is to offer such capacity of storage facilities that will meet the demand of market players for gas storage services while optimizing the utilisation of the storage facilities and ensuring the performance of the existing gas sales contracts. The functions of enterprises that are subject to regulations governing the operation of mining entities are performed by Investgas S.A. and two branches of PGNiG in Sanok and Zielona Góra. Detailed terms of providing gaseous fuel storage services (working capacity, injection capacity, withdrawal capacity) and sale of storage services are contained in the “Storage Service Rules” (the “**Rules**”), which took effect on 1 July 2009. After public consultations on 17 May 2010, the Rules came into force. In order to adjust to the provisions of Regulation EC 715/2009 of the third Gas Directive, which came into force on 3 March 2011, new “Rules” entered into force as of 30 June 2011 (following a public consultation process), the “Rules” implemented on 17 May 2010 were then repealed with effect from 30 June 2011.

In compliance with the Rules, PGNiG made available in 2009 a total of 627 mcm of working storage capacity as part of bundled services provided on a continuous or interrupted basis. On 1 July 2010, under a short-term agreement, PGNiG made available, until 31 March 2011, an additional 8 mcm of working storage capacity at CUGS Mogilno on a continuous basis for the needs of third-party access (“TPA”) as part of a bundled services arrangement.

### **High-methane gas storage facilities**

High-methane gas is stored by PGNiG in six UGS facilities as set out in the table below.

UGS name	Type of UGS	Working volume	Max withdrawal rate	Max injection rate
		<i>(mcm)</i>		
Brzeźnica.....	Depleted gas field	65	0.93	1.10
Husów.....	Depleted gas field	350	5.76	2.80
Mogilno.....	Salt caverns	378	20.64	9.60
Strachocina.....	Depleted gas field	150	1.50	1.78
Swarzów.....	Depleted gas field	90	1.00	1.00
Wierzchowice.....	Depleted gas field	575	4.80	3.60
<b>TOTAL.....</b>		<b>1,608</b>	<b>34.63</b>	<b>19.88</b>

UGS Brzeźnica is located in Subcarpathian Voivodeship, in the commune and county of Dębica. The Brzeźnica natural gas field was discovered in 1966. Gas injection into the reservoir started in June 1979, and the regular operation of the storage facility dates back to 1985. The working volume of the facility is 65 mcm, and the maximum withdrawal rate is 0.93 mcm/day.

UGS Husów is located in Subcarpathian Voivodeship, in the commune of Markowa, the county of Łańcut. A natural gas field located between Kańczuga and Rzeszów was discovered in 1961. The gas injection to UGS Husów, which occupies one of the gas-bearing horizons of the reservoir, began in October 1987. Currently the working volume of the facility is 350 mcm, and the maximum withdrawal rate is 5.76 mcm/day. Further expansion of UGS Husów, up to the working volume of 500 mcm, is planned.

CUGS Mogilno is located in Kuyavian-Pomeranian Voivodeship, in the communes of Mogilno and Rogowo. PGNiG began developing the CUGS facility in Mogilno in 1989 in salt caverns. The completion of the relevant studies and analyses and the approval of the technical and economic assumptions for the construction of the facility in two stages was followed, in 1999, by the establishment of Investgas S.A., a company that was charged with implementing the investment project and operating the facility on behalf of PGNiG. Currently the working volume of CUGS Mogilno is 378 mcm, and the maximum withdrawal rate is 20.64 mcm/day.

UGS Strachocina is located in Subcarpathian Voivodeship, in the communes of Sanok and Brzozów in the county of Sanok. The first drilling works in the region Strachocina took place in 1895 and the operation of a storage facility in a partly depleted natural gas reservoir began in May 1982. The withdrawn gas volumes are distributed locally in the area of Sanok, Krosno, Iwonicz and Jasło. The UGS Strachocina facility is currently undergoing expansion up to the volume of 330 mcm. The new facility has passed the technical acceptance. Currently, technical tests of the facility are being performed to set the gas injection and withdrawal characteristics. The construction phase was finalised at the end of June 2011. Currently the working volume of the facility is 150 mcm, and the maximum withdrawal rate is 1.50 mcm/day.

UGS Swarzędów is located in Lesser Poland Voivodeship, in the communes of Dąbrowa Tarnowska and Olesno, in the county of Dąbrowa Tarnowska. The Swarzędów field was discovered in 1958. Efforts aimed at its adaptation as an UGS were undertaken in 1965. Gas injection to the reservoir began in July 1979. Currently, the working volume of the facility is 90 mcm, and the maximum withdrawal rate is 1.00 mcm/day.

UGS Wierzchowice is a gas storage facility developed in a partly depleted reservoir containing low methane-gas. The reservoir is located in the central part of the Foresudetic Monocline, in Wrocław Voivodeship, within

the territory of the communes of Milicz and Krośnice. The field was discovered in 1971. Production began in 1972 and was discontinued in 1995. Prior to gas production stopping, adaptation works were undertaken to utilise the infrastructure of the Wierzchowice Gas Production Facilities, including the compressor station for the injection and withdrawal of gas from the Wierzchowice reservoir. After completion of the above works, on April 1995, as set out in the table below, the first cycle of gas injection into the reservoir took place. The preparatory works, including three injection/withdrawal cycles have been referred to as the “stage zero”. At present, Stage I of the development of UGS Wierzchowice is underway, as a result of which the working volume was increased up to 1.2 bcm high methane gas. Completion has been scheduled for 2012. In the future, implementation of Stage II is planned, which will result in increasing the working volume of UGS Wierzchowice to 3.5 bcm. Currently, the working volume of the facility is 575 mcm, and the maximum withdrawal rate is 4.80 mcm/day.

#### ***Low-methane gas storage facilities***

Low-methane gas is stored by PGNiG in two UGS facilities as set out in the table below. There are two types of low-methane gas – one is a class Lw with gross calorific value 30-34 MJ/cm and class Ls with gross calorific value 26-30 MJ/cm.

UGS name	Type of UGS	Working volume	Max	Max injection rate
			withdrawal rate	
			(mcm)	
Bonikowo .....	Depleted gas field	200	1.68	2.40
Daszewo .....	Depleted gas field	30	0.38	0.24
<b>TOTAL</b> .....		<b>230</b>	<b>2.06</b>	<b>2.64</b>

UGS Bonikowo has been developed in a partly depleted gas field located in the territory of Wielkopolskie Voivodeship, in the communes of Kościan i Kamieniec. UGS Bonikowo is used to optimise local low calorific gas (class Lw) production in Western Poland. Currently, the working volume of the facility is 200 mcm, and the maximum withdrawal rate is 2.40 mcm/day.

UGS Daszewo has been developed in a partly depleted natural gas reservoir located in the territory of West Pomeranian Voivodeship, in the communes of Karlino and Białogard. The facility is used to optimise the production and provide the supply of natural gas (class Ls) to the region of Koszalin at periods of peak demand. The geological and reservoir conditions allow for the expansion of the UGS facility up to a working volume of 60 mcm. It will be possible to change the type of gas injected to UGS Daszewo from low-methane to high-methane natural gas. Currently, the working volume of the facility is 30 mcm, and the maximum withdrawal rate is 0.38 mcm/day.

#### ***Underground storage facility utilisation***

During 2010 and 2011 high-methane natural gas UGS capacities were utilised by:

- the gas production sector (exclusive use of storage services enables or improves production process) – 905 mcm;
- OGP Gaz-System S.A. (to secure stability and reliability of gas transportation system) – max. 50 mcm;
- under third-party access regulations (TPA rule), according to storage service rules and storage tariff – 627 mcm;
- 325 mcm booked until 31 March 2014;

- 302 mcm booked until March 2013;

The following table illustrates the firm and interruptible storage services offered by PGNiG:

### 1. SBU (Storage Bundled Unit)

Type of Service	Wierchowice		Husów		Mogilno
	Firm	Interruptible	Firm	Interruptible	Firm
SBU Working Volume (m3).....	500,000	500,000	500,000	500,000	500,000
SBU Withdrawal Rate (m3/h).....	570	241	839	479	1137
SBU Injection Rate (m3/h).....	208	125	208	233	527
Booking Period.....	up to 4 years	up to 4 years	up to 4 years	up to 4 years	up to 4 years

### 2. Flexible SBU

Type of Service	Wierchowice		Husów		Mogilno
	Firm	Interruptible	Firm	Interruptible	Firm
SBU Working Volume (m3/h).....	500,000	500,000	500,000	500,000	500,000
SBU Withdrawal Rate (m3/h).....	from 172 to 570	from 172 to 241	from 341 to 839	from 341 to 479	from 158 to 1,137
SBU Injection Rate (m3/h).....	from 89 to 208	from 89 to125	from 166 to 208	from 166 to233	from 45 to 527
Booking Period.....	up to 4 years	up to 4 years	up to 4 years	up to 4 years	up to 4 years

### 3. Unbundled Services

Unbundled storage services are offered for a period of 1 year and, in case of CUGS Mogilno, short-term services are available from 1 to 3 weeks or from 1 to 11 month periods.

### 4. Daily Services

For current UGS clients, unused capacities are offered as interruptible services on a daily basis.

POGC Company offers in total 627 mcm of working volume under TPA.

#### *Storage services demand for high-methane gas*

According to the market screening performed in 2009 by the SSO, the total storage services demand (including demand from OGP Gaz-System S.A., the production sector, compulsory gas reserves and trading activity requirements) exceeds available working volumes by 840 mcm. Until 2015, a further increase in the demand for storage services is expected and will reach 3.4 bcm of working volume as compared to the 2.8 bcm which will be developed. The obligation to maintain compulsory gas reserves has a significant impact on the demand for storage services – more than 1 bcm of active volume, available within not more than 40 days of withdrawal, should be offered to the market until 2013.

## Sales

The core business of the trade and storage segment comprises sales of high-methane and nitrogen-rich gas.

The table below shows the sales structure of the trade and storage segment in the years 2008, 2009 and 2010.

<i>(mcm)</i>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Natural gas, including:.....	13,119.1	12,514.5	13,562.2
– high-methane gas.....	12,313.8	11,874.0	13,044.9
– nitrogen-rich gas <sup>(1)</sup>	805.3	640.5	517.3
Propane-butane (in thousand tonnes).....	2.0	2.0	1.9

<sup>(1)</sup> Measured as high-methane gas equivalent.

Over the whole of 2010, sales of natural gas reached a new record volume of 14.417 mcm, which represented a 9 per cent. year-on-year increase (1.133 mcm). The growth was visible mainly among industrial customers, who purchased 7 per cent. (510 mcm) more gas than in 2009. Owing to the low temperatures in January, February and December, households' demand for gas increased by 10 per cent. (371 mcm) in comparison with 2009.

The PGNiG Group's main customers purchasing natural gas included companies from the chemicals, steel and power sectors, as well as households (approximately 6.4 million households). These groups made up the largest group of customers purchasing natural gas, accounting for 97 per cent. of the PGNiG Group's entire number of customers. The table below shows a breakdown of natural gas sales (measured as high-methane gas equivalent) broken down by major customers:

<i>(mcm)</i>	<b>2008</b>	<b>%</b>	<b>2009</b>	<b>%</b>	<b>2010</b>	<b>%</b>
Industrial customers.....	7,933.6	60.5	7,184.6	57.4	7,631.5	56.3
Trade and services .....	1,390.0	10.6	1,424.2	11.4	1,573.3	11.6
Households .....	3,622.4	27.6	3,724.4	29.8	4,095.8	30.2
Wholesale customers .....	136.5	1.0	142.4	1.1	217.7	1.6
Exports.....	36.6	0.3	38.9	0.3	43.9	0.3
Total.....	13,119.1	100.0	12,514.5	100.0	13,562.2	100

The table below provides a breakdown of the sales of natural gas to industrial customers in 2010:

<b>Industrial customers</b>	Nitrogen plants	Power and CHP plants	Heat plants	Petrochemical and refining industry	Food industry	Iron and steel making	Glass making	Building and ceramic materials	Other industrial customers
<b>Percentage</b>	26.7	7.5	4.1	11.6	9.5	6.3	8.4	6.7	19.2

## Transmission

The transmission system and interconnections with neighbouring countries constitute a framework that enables the PGNiG Group to provide domestic transmission services and, in the future, transit services.

PGNiG purchases transmission services from OGP Gaz-System S.A. (the “**Transmission System Operator**”) according to a transmission agreement entered into between these parties on 29 December 2010, valid until 31 December 2014. The settlement of this service is made according to the tariff for gas transmission services, approved by the President of the ERO. The current tariff for gas transmission services is binding from 1

August 2011 until 30 June 2012. OGP Gaz-System S.A. is fully owned by State Treasury and fully independent from PGNiG. OGP Gaz-System S.A. is not a member of the PGNiG Group following its separation from PGNiG in 2005 as a result of the legal unbundling requirements. Under a long-term operating lease agreement valid until 2020, PGNiG is obliged to sell certain components of the transmission network to OGP Gaz-System S.A.

In Poland, two types of gas are transmitted via the gas transmission network: high-methane gas and nitrogen-rich gas. The high-methane gas transmission networks are used for offtake of imported gas, gas from southern Poland and gas derived from nitrogen-rich gas at the Odolanów Branch produced from the reserves in western Poland. The nitrogen-rich gas transmission networks serve to route the gas from the domestic reserves located in the Polish Lowlands to the denitrating facilities and customers.

#### ***Yamal Western-Europe Pipeline***

PGNiG holds 48 per cent. of the share capital of EuRoPol GAZ, the owner and operator of the Yamal-Western Europe pipeline within the territory of Poland. Gas produced in northern Russia is transported over the Yamal-Western Europe Pipeline (with a total length of 4,196 km) to the countries of Western Europe. The Polish section of the pipeline is 682 km long, with a diameter of 1.4 meters. Two interconnector terminal points along the pipeline are located in Włocławek and Lwówek Wielkopolski. In 2010, the pipeline transmitted 27.7 bcm of natural gas through the territory of Poland compared with 31.6 bcm in 2009.

OGP Gaz-System SA is the operator of the Polish section of the Yamal-Western Europe pipeline, and is obliged to undertake gas transmission, report gas transmission in the gas pipeline, co-operate with the dispatcher's services of the operators of the other sections of the Yamal-Western Europe pipeline, optimise the work of the gas pipeline system and comply with reporting requirements within the scope agreed with EuRoPol GAZ.

#### **Companies of the Trade and Storage segment**

##### ***INVESTGAS S.A.***

INVESTGAS S.A. ("**Investgas**") specialises in hydrocarbon storage and transport projects. It also executes specialist and general construction projects. The company provides services covering the entire investment process, from preparation, to design, construction, technological start-up and operation of storage facilities in salt caverns and other types of facilities.

In 2010, the company's sales revenue totalled PLN 242.7 million, of which 99.5 per cent. represented revenue from services provided to PGNiG. Such services included (i) the operation and extension of the Mogilno underground gas storage cavern, (ii) construction of the Kosakowo underground gas storage facility, (iii) extension of the Strachocina underground gas storage facility and (iv) preparatory work and supervision over the construction of the KGZ Kościan-KGHM Polkowice/Żukowice gas pipeline and the Ostrów Wielkopolski-Wrocław fuel pipeline for PKN Orlen S.A.

The following table sets out certain financial information of Investgas:

		<b>As at/for the year ended</b>			
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	33.9	65.5	112.4	242.7
Net (loss) profit.....	PLN m	2.6	4.0	6.4	16.9
Equity .....	PLN m	10.5	13.1	19.5	33.5
Total assets .....	PLN m	24.9	30.6	81.8	111.8
Headcount.....	persons	86	91	106	108

## Distribution

The distribution segment's core activity consists of the distribution of high-methane and nitrogen-rich gas, as well as small amounts of propane/butane and coke-oven gas, via the distribution network. Six regional Gas Companies functioning in separate geographic locations ensure the uninterrupted, physical delivery of gas to households, industrial customers and wholesalers. Pursuant to a decision issued by the President of the ERO, the Gas Companies have enjoyed the status of Distribution System Operators since mid-2007. They are responsible for connecting new customers to the distribution network, transporting gaseous fuels, managing network assets and network traffic within their own networks and at the connection points with the networks of other operators, exploitation, renovation and network development and ensuring the safety of the distribution systems.

The table below shows the volume of gas transported via the distribution grid, the length of the distribution network, the number of metering devices and the employment in 2010:

	Unit	DSG	GSG	KSG	MSG	PSG	WSG
Volume of gas transmitted through the distribution system.....	million cubic meters	1,021.6	1,744.4	2,017.1	2,142.9	1,012.0	1,681.4
Length of network, excl. connections.....	km	7,741.2	20,875.2	44,762.0	18,900.0	9,588.1	15,488.8
Number of metering devices.....	million	0.7	1.3	1.4	1.5	0.7	0.9
Headcount as at 31 December 2010.....	person	1,420	2,619	3,319	2,925	1,772	1,826

As at the end of 2010, the distribution network (excluding connections) measured 117,355 km and was 1,350 km longer than in 2009. The Gas Companies provide services to approximately 6.6 million customers. The geographic footprint of the Gas Companies is shown on the map below.





## Sales

The distribution segment generates revenue from transmission of natural gas via the distribution network. As distribution activities are conducted under licences, the Gas Companies must seek the ERO's approval of the charge rates for gas fuel distribution. The tariffs set forth charge rates for the distribution services and subscription fees and a formula for determining fees for connecting customers to the high, medium and low pressure networks.

The tariff also defines the manner of determining the charges for exceeding the contractual capacity, penalties for illegal withdrawal of gas fuels and failure to comply with the imposed limitations, as well as price reductions for failure to maintain quality standards in customer service. Three distribution tariffs have been in force during 2010 and 2011: (i) from 1 June 2009 to 31 May 2010; (ii) from 1 June 2010 to 14 July 2011; and (iii) from 15 July 2011 to 31 December 2011; the rates and charges for network services have risen on average by 8.9 per cent. as against the preceding tariff.

In 2010, PGNiG's Gas Companies transported 9.28 bcm of natural gas. This represents a 0.60 bcm (7 per cent.) growth from 2009, when the transported quantity reached 8.68 bcm.

The revenue of the six Gas Companies is subject to seasonal changes throughout the year. The largest gas volumes are transmitted via the distribution network in winter (first and fourth quarters). In 2010, the distribution segment had an operating profit of PLN 1.491 billion (up by PLN 405 million on 2009). The Distribution segment's operating profit was up by PLN 405 million year on year, mainly due to the reversal of impairment losses on assets of the Gas Companies, higher rates and charges for network services as of June 2010, and a 7 per cent. year-on-year increase in the volume of distributed gas.

## PGNiG Group's main markets

The Polish market is the PGNiG Group's main market. In 2010, the PGNiG Group's domestic revenues accounted for 95.35 per cent. of its total revenues.

The PGNiG Group exports small amounts of natural gas and crude oil to Germany and exports geophysical and drilling services to countries such as Kazakhstan, India and Pakistan.

The PGNiG Group sells gas to approximately 6.6 million individual customers in Poland through its six regional Gas Companies ("Distribution Companies"). Its largest customers in terms of generated revenues include Zakłady Azotowe PUŁAWY S.A., Polski Koncern Naftowy Orlen S.A., Anwil S.A. (PKN Orlen Group), ZAK S.A. and Rafineria Trzebinia S.A. (PKN Orlen Group).

PGNiG's high-pressure installations are mainly used to supply gas to large industrial customers, to certain large customers from the commercial trade and services sector, and to certain gas distribution companies. Smaller customers from the industrial and commercial trade and services sectors, as well as households, are supplied by the Distribution Companies.

The table below sets out customers of the Distribution Companies as at 31 December 2010:

<b>Group tariff (m)</b>	<b>DSG</b>	<b>KSG</b>	<b>GSG</b>	<b>MSG</b>	<b>PSG</b>	<b>WSG</b>	<b>TOTAL</b>
<b>gas GZ-50</b> .....	<b>0,55</b>	<b>1,43</b>	<b>1,31</b>	<b>1,49</b>	<b>0,75</b>	<b>0,78</b>	<b>6,30</b>
W1-W7 .....	0,55	1,43	1,31	1,49	0,75	0,78	6,30
W8-W10 .....	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>gas GZ 41,5</b> .....	<b>0,19</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,07</b>	<b>0,27</b>
S1-S7, L1-L7 .....	0,19	0,00	0,00	0,00	0,00	0,07	0,27
L8-L9 .....	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>gas GZ 35</b> .....	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,06</b>	<b>0,06</b>
Z1-Z7 .....	0,00	0,00	0,00	0,00	0,00	0,06	0,06
L8-L9 .....	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>TOTAL</b> .....	<b>0,75</b>	<b>1,43</b>	<b>1,31</b>	<b>1,49</b>	<b>0,75</b>	<b>0,91</b>	<b>6,62</b>
<b>% of the total</b> .....	<b>11%</b>	<b>22%</b>	<b>20%</b>	<b>22%</b>	<b>11%</b>	<b>14%</b>	<b>100%</b>

As regards oil production, PGNiG has 100 per cent. of the onshore oil production market and approximately 65 per cent. of the entire domestic oil production market, including the production of Petrobaltic S.A. from the Baltic Sea shelf.

The total demand for crude oil in Poland is estimated at approximately 18 to 19 million tonnes per year, of which a little more than 1 million tonnes constitute deliveries to refineries located in the south of Poland.

As regards natural gas production, PGNiG's production constitutes more than 95 per cent. of the production from natural gas deposits and methane deposits in hard coal mines. PGNiG's subsidiaries conducting seismic tests and drilling activity in Poland in 2010 provided their services almost exclusively to PGNiG. Any services provided to other companies involved in prospecting activity in Poland do not exceed 10 per cent. of all services provided. Geophysical and drilling companies also conduct activities abroad for the benefit of non-PGNiG investors.

### Companies of the Distribution Segment

Please note that the financial data used in the tables below reflects numbers shown in separate Annual Reports for each entity, as published on the Monitor Polski B website.

#### *Dolnośląska Spółka Gazownictwa Sp. z o.o. (Lower Silesian Gas Company)*

Dolnośląska Spółka Gazownictwa Sp. z o.o. (“**DSG**”) supplies gas to customers in the Provinces of Wrocław and Zielona-Góra, and in the Wolsztyn and Nowy Tomyśl counties (Province of Poznań). 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, for instance in the area around the village of Świątoszów, the company provides customers with LNG. In December 2009, the ERO granted a 20-year licence to DSG for liquefaction of natural gas and re-gasification of LNG.

The total volume of natural gas transmitted by DSG via the distribution network in 2010 was 1.08 bcm, of which high-methane gas accounted for approximately 73 per cent., with nitrogen-rich gas comprising the balance. The company has approximately 748,000 customers. In 2010, DSG connected 6,600 new customers to the gas network.

The following table sets out certain financial information of DSG:

		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	711.3	342.4	333.0	374.9
Net (loss) profit .....	PLN m	(165.9)	40.8	57	216.1
Equity .....	PLN m	795.0	944.5	984.4	1,172.7
Total assets .....	PLN m	1,055.8	1,142.8	1,162.4	1,376.5
Headcount .....	persons	1,319	1,390	1,410	1,420

#### *Górnośląska Spółka Gazownictwa Sp. z o.o. (Upper Silesian Gas Company)*

Górnośląska Spółka Gazownictwa Sp. z o.o. (“**GSG**”) supplies gas to customers in the Provinces of Katowice and Opole, in 44 communes of the Province of Kraków, in five communes in the Province of Łódź and in three communes in the Province of Kielce. It serves approximately 1.3 million customers. The total volume of gas transmitted by GSG via the distribution network in 2010 was 1.47 bcm. In 2010, GSG connected 5,800 new customers to the gas network. In addition, the company carried out work on upgrading the network, while continuing to rollout the grid in areas west of Częstochowa.

The following table sets out certain financial information of GSG:

		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	1,126.9	518.6	542.4	633.3
Net (loss) profit .....	PLN m	19.2	21.4	53.5	117.7
Equity .....	PLN m	1,394.8	1,486.8	1,530.6	1,630.2
Total assets .....	PLN m	1,636.3	1,703.7	1,766.0	1,898.1
Headcount .....	persons	2,515	2,589	2,622	2,619

***Karpacka Spółka Gazownictwa Sp. z o.o. (Carpathian Gas Company)***

Karpacka Spółka Gazownictwa Sp. z o.o.'s ("KSG") operations cover the area of four provinces in south-eastern Poland, namely the Provinces of Kraków, Rzeszów, Kielce and Lublin. One of the main gas pipelines of the domestic transmission system runs through the company's operating area, fed with both imported and domestically-produced natural gas. The company serves approximately 1.4 million customers. The total volume of gas transmitted by KSG via the distribution network in 2010 was 1.92 bcm. In 2010, KSG connected approximately 9,000 new customers to the gas network. In addition, the company carried out work on the network extension and upgrading.

The following table sets out certain financial information of KSG:

		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	1,561.5	684.1	659.0	761.4
Net (loss) profit .....	PLN m	(16.6)	67.3	104.9	136.8
Equity .....	PLN m	1,947.8	2,189.2	2,262.1	2,353.5
Total assets .....	PLN m	2,405.9	2,577.7	2,669.9	2,802.6
Headcount .....	persons	3,265	3,306	3,313	3,319

***Mazowiecką Spółkę Gazownictwa sp. z o.o. (Mazovian Gas Company)***

Mazowiecka, Spółka Gazownictwa sp. z o.o. ("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 (an aggregate area of approximately 87,000 km<sup>2</sup>). The total volume of gas transmitted by MSG via the distribution network in 2010 was 2.13 bcm. Gas is supplied to approximately 1.5 million customers via the gas network and gas stations operated by the company. In 2010, the company conducted projects related to operating, extending and upgrading the gas network, and connected 23,100 new customers to the gas network.

The following table sets out certain financial information of MSG:

		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	1,413.8	659.2	639.9	711.9
Net (loss) profit.....	PLN m	(507.2)	91.1	83.5	481.4
Equity .....	PLN m	1,355.9	1,767.9	1,819.0	2,260.2
Total assets .....	PLN m	1,770.1	2,186.6	2,298.2	2,885.6
Headcount .....	persons	2,920	2,895	2,921	2,925

***Pomorska Spółka Gazownictwa Sp. z o.o. (Pomeranian Gas Company)***

Pomorska Spółka Gazownictwa Sp. z o.o.'s ("PSG") geographical reach covers the Provinces of Gdańsk and Bydgoszcz, a part of the Province of Olsztyn, as well as two communes in the Province of Szczecin (Sławno and Postomino). With respect to expanding the gas supply system, the area covered by the company's services is difficult to manage due to its challenging geographical conditions (i.e. a large number of lakes and woods). The total volume of gas transmitted by PSG via the distribution network in 2010 was 0.99 bcm. PSG provides its services to approximately 742,800 customers and connected 6,600 new customers to the gas network.

The following table sets out certain financial information of PSG:

		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	736.7	348.2	373.3	439.3
Net (loss) profit.....	PLN m	(160.7)	24.0	182.7	91.4
Equity .....	PLN m	672.5	808.5	987.2	1,038,7
Total assets .....	PLN m	1,017.7	1,192.5	1,363.4	1,428.3
Headcount.....	persons	1,741	1,760	1,769	1,772

***Wielkopolska Spółka Gazownictwa Sp. z o.o. (Greater Poland Gas Company)***

Wielkopolska Spółka Gazownictwa Sp. z o.o. (“WSG”) manages a network of distribution pipelines in the Provinces of Poznań and Szczecin and several communes in the Provinces of Łódź, Wrocław and Zielona Góra, 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 bcm, of which 88 per cent. accounted for high-methane gas, with nitrogen-rich gas comprising the balance. As at the end of 2010, the total number of customers served by the company was 911,700 and, throughout the year, the company connected approximately 7,700 new customers to the gas network.

The following table sets out certain financial information of WSG:

		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN m	1,121.6	525.3	531.0	612.0
Net (loss) profit.....	PLN m	(299.1)	39.0	355.2	130.4
Equity .....	PLN m	1,184.0	1,409.0	1,750.3	1,787.3
Total assets .....	PLN m	1,500.1	1,704.6	2,114.7	2,200.0
Headcount .....	persons	1,778	1,806	1,816	1,826

**Other Activities**

The other activities segment encompasses operations that involve designing and building structures, plant and equipment for the mining sector and the fuel and energy sector, as well as offering services associated with the catering and hospitality industry. Such operations are conducted in Poland mainly by the PGNiG Group companies. In 2010, the segment’s business scope was expanded to include execution of power projects using natural gas as fuel and trading activities in the electricity market.

The table below sets out selected figures of the other activities of the PGNiG Group:

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Assets.....	279,444	280,628	366,061	414,579
Employees .....	1,928	2,044	2,073	2,296
Sales Revenue.....	333,682	364,884	460,591	567,998
Net Operating Profit (loss).....	8,340	12,688	21,165	26,586

## Companies of the other activities segment

Please note that the financial data used in the tables below reflects number shown in separate Annual Reports for each entity, as published on the Monitor Polski B website.

### *PGNiG Energia S.A.*

PGNiG Energia S.A. was established on 7 December 2009. The company's share capital amounted to PLN 6 million at the end of 2010. All shares are owned by PGNiG. The company will be engaged in projects involving the construction of power generation units, investments in gas-fired co-generation units and in pilot bio-gas projects. The company will also be responsible for streamlining the purchases of electricity used by PGNiG and, ultimately, by other members of the PGNiG Group. It will also conduct trading on the wholesale electricity market as well as trading in property rights to certificates of origin for electricity and in credits related to emissions of carbon dioxide and other gases. On 11 March 2011, PGNiG Energia signed two agreements: an agreement on the Operation of Elektrociepłownia Stalowa Wola SA; and an agreement for sale of electricity, both as part of the "Construction of a CCGT Unit in Stalowa Wola" project. The upper limit of the first agreement's net value was set by the parties at PLN 1.950 million. The estimated value of the second agreement over its entire term amounts to ca. PLN 6.79 billion. It was estimated as at the date of the planned launch of operations of the CCGT unit on the basis of project assumptions and a discount rate adopted by PGNiG.

### *B.S.i P.G. "Gazoprojekt" S.A.*

The core business of Biuro Studiów i Projektów Gazownictwa S.A. ("**B.S.i P.G. "Gazoprojekt"**") is the comprehensive design of installations used in gas production, storage, transfer and distribution, as well as of gas system stations and switching stations. The company's majority shareholder is PGNiG, holding 75 per cent. of its share capital, and the remaining 25 per cent. of the shares are held by employees of B.S.i P.G. "Gazoprojekt".

In 2010, B.S.i P.G. "Gazoprojekt" generated sales revenue of PLN 95.8 million, of which 91 per cent. represented services performed for customers outside the PGNiG Group. The company's operations focus on the design of gas transmission pipelines, gas distribution networks, underground gas storage facilities and gas infrastructure, such as compressor stations, gas treatment stations or switching nodes.

The company's main customers, other than the members of the PGNiG Group, are OGP Gaz-System S.A. and PBG SA. The projects for which the company performed designs, studies and as-built documentation in 2010 included the construction of a high-pressure gas pipeline in the Podbeskidzie region and Gustorzyn-Odolanów, and also construction of the surface infrastructure at the Wierzchowice Underground Storage Facility

The following table sets out certain financial information of B.S.i P.G. "Gazoprojekt":

	<b>Unit</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN million	34.9	59.2	95.8
Net profit (loss).....	PLN million	1.6	4.0	4.3
Equity .....	PLN million	28.1	31.3	33.6
Total assets .....	PLN million	38.3	55.7	55.0
Headcount.....	persons	222	241	246

***PGNiG Technologie Sp. z o.o.***

On 21 December 2010, an extraordinary general meeting of PGNiG (the “**EGM**”) passed a resolution for the subscription for shares in PGNiG Technologie Sp. z o.o. and the sale of shares in some consolidated companies. The EGM approved PGNiG’s disposal of shares in the following companies:

- 39,220 shares in BUG Gazobudowa Sp. z o.o. of Zabrze (a wholly-owned subsidiary of PGNiG);
- 9,244 shares in ZRUG Sp. z o.o. of Pogórska Wola (a wholly-owned subsidiary of PGNiG);
- 23,500 shares in ZUN Naftomet Sp. z o.o. of Krosno (a wholly-owned subsidiary of PGNiG); and
- 39,751 shares in BN Naftomontaż Sp. z o.o. of Krosno (in which PGNiG holds an 88.83 per cent. interest).

This move provided for merging the construction companies within the Group. The decision was based on a number of considerations including, particularly, the general consolidation trends which have already been observed in the engineering and construction market and the infrastructure construction market. It is intended that, after a period of internal stabilising and restructuring, the consolidation process should lead to a material increase in the value of PGNiG SA’s long-term investment in the companies in question. For the companies, the participation in the consolidation process and implementation of a strategy providing for achieving a position as part of a major player in the infrastructure construction market creates additional growth opportunities. The increased capital strength of the consolidated structure and strengthened management of comprehensive projects in the area of project preparation, logistics, supervision, etc., should enable the construction companies to strengthen their market position and execute major orders outside of the PGNiG Group in the future.

***BUG Gazobudowa Sp. z o.o.***

The business of Budownictwo Urządzeń Gazowniczych Gazobudowa Sp. z o.o. (“**BUG Gazobudowa**”) comprises construction and repairs of high- and medium-pressure gas pipelines, water pipes and oil pipes, as well as gas compressor stations and reduction and metering stations. The company provides services to customers in Poland and abroad.

In 2010, BUG Gazobudowa generated total sales revenues of PLN 135.7 million, 60 per cent. of which represented revenue from services performed for the PGNiG Group’s companies. Other large customers included OGP Gaz-System S.A., Alkat Sp. z o.o., Gmina Dąbrowa Górnicza and CONTROL PROCESS S.A. of Tarnów.

In 2010, the company built 76.7 km of pipelines, including 72.7 km of gas transmission pipelines.

The following table sets out certain financial information of BUG Gazobudowa:

	<b>Unit</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN million	171.2	169.9	135.7
Net profit (loss).....	PLN million	1.1	2.6	(15.7)
Equity .....	PLN million	26.2	28.9	13.1
Total assets .....	PLN million	85.8	102.1	107.7
Headcount .....	persons	604	633	613

*ZUN Naftomet Sp. z o.o.*

The core business of Zakład Urządzeń Naftowych Naftomet Sp. z o.o. (“**ZUN Naftomet**”) is the production and overhaul of equipment for the oil and gas industry. The company operates in Poland and abroad.

In 2009, ZUN Naftomet was engaged in production of pressure equipment used in surface development of boreholes, equipment and spare parts for oil platforms and drill ships, flame-proof transformer housings for coal mining as well as components and spare parts for construction equipment. The company also repaired and produced components and parts for drilling equipment.

In 2010, the company generated total sales revenue of PLN 36.2 million, 59 per cent. of which represented revenue from services performed for the PGNiG Group’s companies.

The following table sets out certain financial information of ZUN Naftomet:

	<b>Unit</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN million	44.6	38.1	36.2
Net profit (loss).....	PLN million	2.5	1.1	1.6
Equity .....	PLN million	22.8	23.9	25.6
Total assets .....	PLN million	36.1	38.7	38.9
Headcount.....	persons	500	465	441

*BN Naftomontaż Sp. z o.o.*

Budownictwo Naftowe Naftomontaż Sp. z o.o. (“**BN Naftomontaż**”) is engaged in delivery and construction of complete crude oil and gas mines. PGNiG holds an 88.83 per cent. interest in the company’s share capital. Other shareholders are PBG S.A. of Wysogotowo (7.82 per cent. interest) and CONTROL PROCESS S.A. of Tarnów (3.35 per cent. interest).

In 2010, BN Naftomontaż’s sales revenue totalled PLN 152.0 million, 97 per cent. of which constituted revenue from services performed for the PGNiG Group. In 2010, the company conducted work related to the development of natural gas and crude oil deposits across the country, including in particular construction and repair of technical equipment for crude oil and natural gas mines as well as construction of process equipment of underground gas storage facilities. Key projects conducted in 2010 included contracts performed for PGNiG for the development of the Wielichowo, Ruchocice and Łęki fields, construction of the surface infrastructure at the Bonikowo Underground Storage Facility and Strachocina Underground Storage Facility.

The following table sets out certain financial information of BN Naftomontaż:

	<b>Unit</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN million	71.9	165.9	152.0
Net profit (loss).....	PLN million	2.1	7.2	25.4
Equity .....	PLN million	12.5	19.7	45.1
Total assets .....	PLN million	45.8	101.6	75.0
Headcount .....	persons	274	293	298

*Geovita Sp. z o.o.*

Geovita Sp. z o.o. (“**Geovita**”) provides hospitality and catering services through 11 centres across the country, which form a network of recreation, training, conference and spa facilities. They are located either at



the sea coast, in mountainous areas or in the central area of Poland. The company offers its services to Polish and foreign customers.

In 2010, Geovita's sales revenue totalled PLN 32.8 million. The company's key customers were outside the PGNiG Group. Revenue from services performed for that group of customers accounted for 75 per cent. of the company's sales revenue.

The following table sets out certain financial information of Geovita:

	<b>Unit</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales revenue .....	PLN million	28.9	29.0	32.8
Net profit (loss).....	PLN million	(1.0)	(3.6)	0.2
Equity .....	PLN million	82.4	79.1	79.1
Total assets .....	PLN million	95.8	101.0	100.8
Headcount.....	persons	277	289	303

### Capital expenditure

The PGNiG Group makes significant capital expenditures in connection with the exploration for and production of natural gas, crude oil and their respective products, the development of its natural gas and crude oil fields and the maintenance and expansion of its pipelines.

Its capital expenditures (excluding the effect of acquisitions of subsidiaries and reclassifications) were PLN 3,840,760 and 3,669,900 thousands in the years ended 31 December 2009 and 31 December 2010, respectively.

The table below provides a breakdown of investment expense data for the PGNiG Group by main segments of operations for the years 2007 to 2010 (in PLN thousands).

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Total</b>
Exploration and production.....	(1,941,110)	(1,453,750)	(1,913,366)	(2,193,179)	(7,501,405)
Trading and storage.....	(205,956)	(225,258)	(779,674)	(505,599)	(1,716,487)
Distribution.....	(822,178)	(879,372)	(1,127,447)	(957,873)	(3,786,870)
Other.....	(10,743)	(21,088)	(20,273)	(13,249)	(65,353)
Total.....	<u>(2,979,987)</u>	<u>(2,579,468)</u>	<u>(3,840,760)</u>	<u>(3,669,900)</u>	<u>(13,070,115)</u>

The table below provides investment expense data for the Exploration and Production sector (in PLN millions):

	<b>Prospecting and exploration</b>			<b>Development and production</b>	<b>Total</b>
	<b>Domestic</b>	<b>Foreign</b>	<b>Total</b>		
2007.....	(247.8)	(7.1)	(254.9)	(1,686.2)	(1,941.1)
2008.....	(367.2)	(20.9)	(388.1)	(1,065.6)	(1,453.7)
2009.....	(398.5)	(31.5)	(430.0)	(1,483.4)	(1,913.4)
2010.....	(488.4)	(228.0)	(716.4)	(1,476.8)	(2,193.2)

	Prospecting and exploration			Development and production	Total
	Domestic	Foreign	Total		
Total.....	(1,501.9)	(287.5)	(1,789.4)	(5,712.0)	(7,501.4)

The table below sets out investment outlays made by the Distribution Companies (in PLN millions) for the years 2007 to 2010:

	2007	2008	2009	2010	Total
KSG Sp. z o.o. ....	173	201	266	223	863
MSG Sp. z o.o. ....	168	192	211	215	786
WSG Sp. z o.o. ....	110	123	220	145	598
GSG Sp. z o.o. ....	126	136	199	226	687
DSG Sp. z o.o. ....	101	75	110	84	370
PSG Sp. z o.o. ....	148	154	129	83	514
Consolidation adjustment .....	-2	-2	-6	-20	-30
Total.....	<b>822</b>	<b>879</b>	<b>1 127</b>	<b>958</b>	<b>3 787</b>

The table below sets out investment expenses in the Trade and Storage segment (in PLN millions) for the years 2007 to 2010:

	2007	2008	2009	2010	Total
	<i>(PLN millions)</i>				
Pipeline network .....	(115.24)	(43.64)	(33.69)	(5.25)	(197.8)
Storage facilities .....	(26.50)	(41.40)	(623.90)	(404.17)	(1,096.0)
Other.....	(64.22)	(140.22)	(122.09)	(96.18)	(422.7)

The table below sets out investment expenses for the construction of the Polish section of the Yamal-Western Europe pipeline for the years 2007 to 2010 (PLN millions):

Year	PLN million
2007.....	(10.9)
2008.....	(6.7)
2009.....	(17.1)
2010.....	(16.4)
Total.....	(51.1)

### Exploration and Production

In 2010, the most important investment projects in relation to which capital expenditure was incurred in the Exploration and Production segment included the following:

### ***Skarv project***

The project involves the development of deposits on the Norwegian Continental Shelf from a floating production, storage and offloading (“FPSO”) platform. Under the project, 16 wells will be drilled. In 2009, the FPSO hull was launched from a South-Korean shipyard and production modules were installed on the unit. In addition, an offshore pipeline was laid, linking the Skarv field with the existing transmission infrastructure on the Norwegian Continental Shelf. By the end of the first half of 2011, the Skarv project was 93.7 per cent. advanced. By this time, several important milestones had been achieved. These were (i) completion of the Skarv FPSO and (ii) the installation of most of the subsea structures at the field. In the first half of 2011, the FPSO arrived to Norway and the installation of X-mas trees commenced. Production is expected to begin in the fourth quarter of 2011.

### ***Lubiatów-Międzychód-Grotów project***

The aim of the Lubiatów-Międzychód-Grotów project is to develop the Lubiatów-Międzychód-Grotów (LMG) crude oil and natural gas fields and to facilitate transport, storage and sale of crude oil, natural gas, liquid sulphur and propane-butane from the LMG Crude Oil and Natural Gas Mine. The LMG project involves construction of (i) the LMG Central Facility to serve as a hub for collection, distribution and treatment of reservoir fluids (due to be completed in 2013), (ii) the Dispatch Terminal in Wierzbno to support collection and shipment of crude oil in rail tank cars and enable the pumping of crude oil collected from the LMG Crude Oil and Natural Gas Mine to the PERN Druzhba Pipeline and (iii) a gas pipeline to the Grodzisk Denitrating Plant to enable the transmission of excess quantities of commercial gas from the LMG Mine to Grodzisk Denitrating Plant. The expenditure incurred in 2010 was PLN 428 million. The total value of the project is estimated at PLN 1.63 billion.

### ***The Grodzisk project***

The aim of the Grodzisk project is to support the sale of gas from nitrogen-rich reserves after it is processed to achieve parameters of high-methane gas (cryogenic nitrogen removal). The Grodzisk Denitrating Plant has been constructed with a view to increasing nitrogen-rich gas production volume at the existing mines and from deposits earmarked for development. The project provides for the development of the Wielichowo, Ruchojce and Paproć W fields, connection of the Elżbieciny Jabłonna and Łęki wells, development of the Nowy Tomyśl 2k well, modernisation of the Paproć Natural Gas Mine (“**KGZ Paproć**”), extension of the KGZ Paproć-Cicha Góra Natural Gas Mine and construction of the Przyłęk-KGZ Paproć gas pipeline and the Grodzisk Denitrating Plant. In 2009, the development of the Nowy Tomyśl 2k borehole and construction of the Grodzisk Denitrating Plant were completed. The process start-up of the Denitrating Plant took place in May 2009. The target capacity of the Denitrating Plant will be ca. 35,000 cm per hour. The expenditure incurred in 2010 was PLN 112 million. The total value of the project is estimated at PLN 462.9 million. Six out of the eight principal stages of the Grodzisk Project have been completed and the completion of the last two is planned before the end of 2011.

### ***Gas pipeline to KGHM***

The project involves the construction of a high-pressure gas pipeline and optic-fibre cable along with infrastructure, from the Kościan Natural Gas Mine (KGZ Kościan) to KGHM Polkowice/Żukowice, in order to enable the PGNiG to sell natural gas directly to KGHM Polkowice/Żukowice. The expenditure incurred in 2010 was PLN 14.6 million. The total cost of the project is estimated at approximately PLN 220 million.

### ***Other investment projects in the Exploration and Production segment***

Other projects involve the development of reserves, including those already in production, maintenance and restoration of production capacity, or are related to the functioning of the production segment. Key investment tasks included the modernisation and extension of the existing natural gas mines, the development of the Góra Ropczycka gas field, the Rylowa-Rajsko gas field, the Łukowa gas field (completed in 2009), the Kaleje gas

field (completed in 2009), the Palikówka, Rudka, Sarzyna and Zalesie wells, the development of the Żołyńia wells (completed in 2009), the upgrade of production installations at the Odolanów denitrating plant and purchases of ready-to-use investment assets as well as backup facilities and infrastructure.

#### ***Underground gas storage facilities***

The expenditure incurred on underground storage facilities of the Exploration and Production segment totalled in 2010 PLN 245 million. Major work included completion of the drilling of six horizontal wells, beginning of the drilling of two new wells, commencement of the surface infrastructure construction for the storage facility in Bonikowo and completion of the nitrogen-rich gas storage facility in Daszewo.

#### **Trade and Storage**

The most important investment projects in relation to which capital expenditure was incurred in the Trade and Storage segment in 2010 included the extension of the working capacity of the CUGS Mogilno (a high-methane gas storage facility), work related to the extension of the working capacity of the UGS Wierzchowice, modernisation of the UGS Husów and drilling work for the new high-methane gas storage facility, the CUGS Kosakowo (PLN 633 million).

In line with the investment plan of OGP Gaz-System S.A. and the procedures specified in the agreement for the technical preparation and execution of projects for the purposes of the transmission grid, PGNiG also carried out projects involving transmission assets, which were subsequently entered in the register of property, plant and equipment under lease agreements (PLN 5.1 million).

#### **Distribution**

In 2010, capital expenditure amounting to PLN 958 million was incurred by the Gas Companies regarding the connection of new customers to their grids and upgrading and expanding their gas pipeline networks.

#### **Other Activities**

Key projects in relation to which capital expenditure was incurred in the Other Activities segment in 2010 included the purchase of production plant and machinery, transport vehicles and computer hardware as well as the extension and upgrading of buildings.

#### **Planned capital expenditure**

The table below sets out the planned and actual capital expenditure by PGNiG from 2009 to 2011:

<b>in PLN million</b>	<b>Type</b>	<b>2009 (real)</b>	<b>2010 (real)</b>	<b>2011 (plan)</b>
Polish upstream exploration.....	replacement	603	574	728,98
Foreign upstream exploration .....	growth	194	486	436,79
Polish upstream development .....	replacement	699	794	1139
Foreign upstream development (Skarv project).....	growth	707	614	421
Gas storages.....	growth	775	751	645
Gas storages.....	replacement	0	0	0
Capital investments (including power generation).....	growth	0	54	622
Sales & Marketing.....	replacement	30	16	33
Provision.....	replacement	0	0	30
OGP Gaz-System.....	replacement	34	5	0

in PLN million	Type	2009 (real)	2010 (real)	2011 (plan)
Other .....	replacement	106	74	153

The table below sets out the planned total available capital expenditure for the years 2011 to 2020 (in PLN millions):

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total</b> .....	6,311	5,172	6,037	4,651	4,658	4,192	4,594	4,750	4,497	4,141
Domestic E&P.....	1,849	1,115	962	830	830	830	905	905	905	905
International E&P.....	898	1,632	2,675	1,986	1,986	1,538	1,693	1,787	1,537	1,250
Wholesale and corporate centre .....	1	124	136	100	100	100	100	100	100	100
Transportation infrastructure investments.....	268	165	31	28	40	63	65	77	76	79
Storage.....	653	222	138	196	219	206	226	311	309	237
Distribution.....	1,276	1,256	1,278	1,000	1,000	1,000	1,050	1,050	1,050	1,050
Sales.....	41	14	20	20	20	20	20	20	20	20
New business.....	463	644	797	491	463	435	535	500	500	500
Reserve .....	861									

### ***Exploration and Production***

The total approved capital expenditure allocation for exploration and production for the years 2011 to 2015 and 2016 to 2020 is PLN 5.586 million and PLN 4.450 million, respectively, for domestic projects and PLN 9.177 million and PLN 7.805 million, respectively, for international projects.

#### *Exploration in Poland*

In 2011, PGNiG plans to conduct geophysical and drilling work at exploration wells (including work conducted in co-operation with foreign companies) in the Carpathians, Carpathian Foothills, the Fore-Sudetic Monocline, the Lublin basin, the Peri-Baltic Syncline and the Pomeranian anticlinorium.

#### *Exploration abroad*

In 2009, the PGNiG Group took a number of steps to acquire new sites for exploration and new licence areas in such countries as Algeria, Iraq, Iran and Morocco. All such efforts will be continued in 2011. The PGNiG Group also plans to continue the exploratory work in licensed areas in Denmark, Egypt, Pakistan, Libya and Norway.

#### *Underground gas storage facilities*

Throughout 2011, PGNiG plans to continue the expansion of the surface infrastructure of the UGS Strachocina, with the aim of increasing its working capacity to 330 mcm. Currently, technical tests of the facility are being performed in order to determine the gas injection and withdrawal characteristics. The construction phase was finalised at the end of June 2011. Currently, the working volume of the facility is 150 mcm, and the maximum withdrawal rate is 1.50 mcm/day.

#### *Natural gas production*

PGNiG is in the process of implementing an investment programme aimed at increasing natural gas production capacity. As part of the programme, the Company plans to develop new deposits and wells, modernise and expand the existing natural gas mines, build new underground gas storage facilities and

expand the existing ones. Moreover, PGNiG will take steps to maintain the volume of hydrocarbons output from the fields in production at the current levels.

The plans for 2011 assume a natural gas production volume of 4.3 bcm annually (high-methane gas equivalent), with a calorific value of 39.5 MJ/cm. In order to improve the production volume to approximately 4.5 bcm, in the next few years PGNiG intends to develop and commence production from a number of gas reserves, including in Wielichowo, Ruchocice and Międzychód (nitrogen-rich gas deposits in western Poland) as well as in Jasionka – Phase II, Kupno, Pilzno – Phase II and Rudka – Phase II (high-methane gas deposits in the Province of Rzeszów).

#### *Crude oil production*

In 2008, preliminaries for the sub-project “LMG Project – Central Facility, well areas, and other infrastructure” commenced. The development of the Lubiatów-Międzychód-Grotów (the “**LMG**”) as well as BMB deposit aims at increasing PGNiG’s crude oil production output by approximately 500,000 tonnes. The production target for crude oil produced in Poland in 2011 has been set at the level of 480,000 tonnes with an additional 90,000 tonnes from the Norwegian Continental Shelf. The estimated capital expenditure for the LMG project is PLN 1.4 billion.

#### **Trade and Storage**

##### *The Boernicke-Police interconnection*

The Boernicke-Police interconnection linking Poland and Germany is being constructed to support trade with the German market. In 2009, the Company received a permit to construct the final section of the gas pipeline in the territory of Poland, namely Tanowo-Trzeszczyn (Police). PGNIG holds a construction permit for the whole pipeline (approximately 18km), from Police (connection with transmission system) to the Polish-German border (at Dobieszczyn). In Germany, planning and designing works are ongoing – the length of the German part of the project amounts to approximately 140 km of pipeline. The project is being developed by InterTransGas GmbH company, which is owned by PGNIG and Verbundnetz Gas AG (“**VNG**”).

##### *The Moravia Interconnector (with the Czech Republic)*

On 18 September 2009, PGNiG took part in a procedure whereby OGP Gaz-System S.A. offered transmission capacity in the Podbeskidzie region on Morvia Interconnector between Poland and the Czech Republic. The companies entered into an agreement under which OGP Gaz-System S.A. is obliged to provide natural gas transmission services from the entry point in Cieszyn to specified exit points from the transmission system through an interconnection gas pipeline designed by OGP Gaz-System S.A. The interconnector with the capacity of 0.5 bcm will start operation at the end of 2011. All expenditure for it will be borne by OGP Gaz-System S.A.

##### *The Lasów Interconnector (with Germany)*

Currently, the Lasów Interconnector between Poland and Germany has a capacity of 1 bcm. At the end of 2011, OGP Gaz-System S.A. will finish the expansion of it to 1.5 bcm. All expenditure in this area will be borne by OGP Gaz-System S.A.

##### *LNG market*

PGNiG is currently engaged in activities aimed at developing the gas market using LNG. It is intended that sales of LNG will allow the Company to supply gas to areas which have not yet had access to the gas-supply system, and this will enhance PGNiG’s competitiveness.

##### *Underground gas storage facilities*

Throughout 2011, PGNiG will continue the extension of the UGS Wierzchowice (estimated value of PLN 2.4 billion) and the CUGS Mogilno (estimated value of PLN 797 million). The target working capacity of the

facility in Mogilno is 800 mcm. The first stage of the extension of the UGS Wierzchowice from the existing working capacity of 575 mcm to 1.2 bcm is planned to be completed at the end of 2011, and the capacity is expected to be made available in 2012. In addition, the Company will continue the construction of a new high-methane gas storage facility, the CUGS Kosakowo, which is to consist of 10 underground caverns with a total working capacity of 250 mcm and an estimated total value of PLN 760 million. The first phase of CUGS Kosakowo will be completed in 2015.

### ***Distribution***

Capital expenditure in this segment includes investments planned in the Distribution Companies' development plans for 2009-2013. In 2011, six Gas Companies plan to invest approximately PLN 1.2 billion, including PLN 361 million for development, PLN 190 million for new connections, PLN 303 million for modernisation and cast iron exchange, PLN 132 million for purchase of probing systems and PLN 244 million for other investments.

### ***Other Activities***

#### *Electricity and heat generation*

In 2010, PGNiG carried out activities aimed at creating a new segment for power sector operations. The Company conducted negotiations with its partners on the possibility of constructing gas co-generation units. The implementation of these projects should allow the Company to introduce a new offering of heat and electricity sale and supplies to end users.

In addition, the Company initiated work on constructing gas-fired electricity sources at its facilities, which will help optimise the uses of electricity and heat for PGNiG's own purposes. The commissioning of the first gas-fired electricity sources is scheduled for 2011–2012. Moreover, PGNiG plans to be the first company in Poland to implement a dual fuel (gas/electricity) offering. Currently, approximately PLN 5 million will be spent in this area (this includes amounts spent on the establishment of units for energy trade, assessing the potential legal and regulatory framework in the context of dual-fuel and preparation of tenders).

## **Licences**

### **Licences under the Energy Law**

As at 31 December 2010, PGNiG held the following licences granted by the President of the ERO under the Energy Law:

<b>Scope of operations under licence</b>	<b>Date of issue</b>	<b>Expiry date</b>
Trading in gas fuel.....	30 April 1999	31 December 2025
International gas trading .....	17 April 2001	30 April 2021
Trading in liquid fuels.....	16 October 2002	20 October 2012
Storage of gas fuel.....	1 February 2006	31 December 2025

On 17 August 2009, PGNiG filed with the President of the ERO a motion to change the scope of the concession for storage of gaseous fuels. The alterations of the scope of the concession involve the exclusion of those portions of storage facilities that are used for production purposes and OGP Gaz-System S.A.'s purposes, and also the change of CUGS Mogilno and UGS Husów's capacities which stems from technical conditions of conducted activities.

On 7 October 2010, the President of the ERO issued a decision regarding the change of scope of the concession for storage of gaseous fuels which modified the scope of the concession with regards to CUGS

Mogilno due to the change of technical conditions of conducted activities. Other alterations were not accepted, in particular the President of the ERO refused to exclude from the scope of the concession those portions of storage facilities that are used for production purposes and for OGP Gaz-System S.A.'s purposes.

In connection with the above, on 2 November 2010 PGNiG filed an appeal against the abovementioned decision to the Regional Court in Warsaw – the Court of Competition and Consumer Protection (via the President of the ERO). PGNiG requested either (i) that the scope of the concession for storage of gaseous fuels be changed per analogiam to that requested by the motion of 17 August 2009 or, alternatively (ii) that the court change the scope of the concession to include certain portions of gaseous fuels in storage facilities, but excluding those portions of storage facilities that are used for production purposes and OGP Gaz-System S.A.'s purposes (i.e. without numerical determination of the capacities of the storage installations). The proceedings were suspended for a period of time due to the fact that the seat of the President of the ERO – a party to the proceedings – was vacant. On 1 June 2011 however, Mr Marek Woszczyk was appointed to the position of the President of the ERO and, accordingly, the court resumed the proceedings on 21 June 2011.

### **Licences under the Geological and Mining Law**

As at 1 May 2011, the Company held the following licences granted under the Geological and Mining Law:

<b>Scope of operations under licence</b>	<b>Number of licences</b>
Exploration for and appraisal of crude oil and natural gas deposits.....	93
Appraisal of a salt deposit.....	1
Production of crude oil and natural gas from deposits.....	224
Underground gas storage (underground gas storage facilities).....	9
Storage of waste matter.....	3

PGNiG is currently in the process of obtaining 6 new concessions, 2 of which are at the stage of “environmental decisions/permissions”. In 2011, PGNiG intends to submit documents for another concession area.

8 concessions expired in 2010 and another 22 will expire in 2012. In case of concession for natural gas and crude oil exploration or production and according to the Geological and Mining Law, each concession extension application is treated as a request for a new concession and is granted by the Ministry of Environment.

### **Distribution licences**

As at 31 December 2010, the Gas Companies as well as EuRoPol GAZ S.A. had seven licences issued by the President of the ERO as required by the Energy Law. The related licences of the Gas Companies and by EuRoPol GAZ S.A. are summarised in the tables below:

<b>Scope of operations under licence</b>	<b>Date of issue</b>	<b>Expiry date</b>
Distribution of gas fuels by DSG Sp. z o.o. ....	30 December 2002	1 January 2013
Distribution of gas fuels by GSG Sp. z o.o. ....	30 April 2001	31 December 2030
Distribution of gas fuels by KSG Sp. z o.o. ....	30 April 2001	31 December 2030
Distribution of gas fuels by MSG Sp. z o.o. ....	16 May 2001	31 December 2030
Distribution of gas fuels by PSG Sp. z o.o.....	30 December 2002	1 January 2013
Distribution of gas fuels by WSG Sp. z o.o. ....	30 April 2001	31 December 2030



<b>Scope of operations under licence</b>	<b>Date of issue</b>	<b>Expiry date</b>
Distribution of gas fuels by EuRoPol GAZ S.A. ....	18 July 2008	31 December 2025

## Employees

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. The PGNiG Group companies employ approximately 30,000 personnel deployed mainly in Poland, but also in Algeria, Belarus, Belgium, Denmark, Egypt, Libya, Norway, Pakistan, Russia and Ukraine.

During the period July to August 2010, some trade union organisations of PGNiG entered into a collective dispute with the Board of PGNiG, mainly concerning remuneration for the work of employees in 2010. On 21 September 2010, the Management Board of PGNiG, signed an agreement with some of the trade union organisations within the Company, terminating the dispute.

The PGNiG Group is one of the largest businesses in Poland. It employs both highly qualified professionals and young people seeking their first employment. Employees are the most valued asset of the PGNiG Group. Their commitment enables the Group to supply gas to its customers, conduct successful operations on the international markets and implement the large-scale investment programme. In 2010, the PGNiG Group had 32,716 employees, up by 1,031 as compared to the previous year (31,685 employees in 2009).

The National Labour Inspectorate certified that six trade unions at PGNiG qualify as company trade unions having the capacity to be a party to the Collective Labour Agreement. In addition, small-scale trade unions operate locally, mainly at the Company's branches, but they do not negotiate with the Management Board of PGNiG. As at 30 June 2011, approximately 60 per cent. of PGNiG's employees belonged to trade unions.

<b>Employment at the end of period, by segments</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
PGNiG SA Head Office.....	604	837	833	840
Exploration and Production .....	10,151	10,725	10,800	11,592
Trade and Storage.....	4,104	3,793	3,836	3,809
Distribution.....	1,928	13,746	13,851	13,881
Other.....	1,928	2,044	2,073	2,296
<b>Total employment.....</b>	<b>30,325</b>	<b>31,145</b>	<b>31,393</b>	<b>32,418</b>

PGNiG has in place a 'Management by Objective' programme for its management staff. In 2010, the programme was extended to cover all employees holding managerial posts. By 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, 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. On 1 January 2011, the Performance Assessment System came into effect. The system aims to allow 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.

## **Management structure**

The PGNiG Group employs a two-board structure.

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 Management Board is an executive body managing the affairs of PGNiG and representing it in all actions before court and out of court. 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.

## **Management Board**

Pursuant to the Company's Articles of Association, the Management Board of PGNiG is composed of between two and seven members. The number of Management Board members is determined by the Supervisory Board. Members of the Management Board are appointed for a joint three-year term of office.

As long as the State Treasury remains a shareholder of the Company and the Company's annual average employment number exceeds 500, the Supervisory Board appoints as a Management Board member one person elected by the Company's employees, to serve for the Management Board's term of office.

Members of the Management Board are appointed following a qualification procedure carried out under the Regulation of the Polish Council of Ministers of 18 March 2003 concerning qualification procedures for members of management boards of certain commercial-law companies (Dz. U. No. 55, item 476) (the "**Regulation**"). The Regulation does not apply in the case of the Management Board members elected by employees.

Each Management Board member may be removed from office or suspended by the Supervisory Board or the shareholders at a General Shareholder's Meeting.

As at 30 June 2011, the Management Board was composed of the following five members ("**Management Board Members**"):

Michał Szubski.....	President
Radosław Dudziński.....	Vice-President, Strategy
Sławomir Hinc .....	Vice-President, Chief Financial Officer
Marek Karabuła.....	Vice-President, Oil and Gas Mining
Mirosław Szkałuba.....	Vice-President, Trade

The last term of office of the Management Board of PGNiG ended on 12 March 2011. On 12 January 2011, the Supervisory Board elected Mr Szubski as the President of the Management Board and Mr Dudziński, Mr Hinc and Mr Karabula as members of Management Board for another 3 year term. Moreover, on 8 March 2011 the Supervisory Board of PGNiG appointed Mr Miroslaw Szkaluba, a candidate elected by the Company's employees, as a Member of the Management Board of PGNiG for a joint term of office starting on 13 March 2011 and ending on 13 March 2014.

None of the members of the Management Board: (i) conducts any other activity outside PGNiG that would be competitive with PGNiG's activities; (ii) is a partner in a civil law partnership or a different type of partnership competitive with the Issuer; (iii) is a member of a body of any capital company or another legal entity competitive with PGNiG; (iv) has been entered in the register of insolvent debtors; (v) has managed or supervised entities that were declared bankrupt or went into liquidation during the person's term of office; or (vi) has been stripped of the right to conduct business activity for their own account by the bankruptcy court, or of the right to serve as a member of the Supervisory Board, representative or proxy in a commercial law company, a state-owned enterprise, a cooperative, a foundation or association, nor has any member of the Management Board been convicted under a valid and final judgment for offences specified in the provisions of chapters XXXIII-XXXVII of the Criminal Code and Article 585, 587, and 590-591 of the Partnerships and Companies Code.

There are no conflicts of interest between the duties of the members of the Management Board to the Issuer and their private interests or other duties.

#### ***Management Board contracts***

The employment contracts concluded with all Management Board Members contain a clause which reads: "In the event of removal from office or termination of the employment contract for reasons other than breach of basic responsibilities related to employment, the employee may be granted severance pay equal to three times monthly salary".

In 2010, non-competition agreements concluded with all Management Board Members were still in force. The non-competition agreements remain in force for 12 months from the date of termination of employment. In return for compliance with the non-competition agreement during its term, a Management Board member is entitled to monthly compensation of 100 per cent. of the average gross remuneration for the last three months, received under employment contracts.

#### ***Biographies of the Management Board Members***

##### *Michał Szubski – President of the Management Board*

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 adviser to the Management Board of PGNiG. Currently, Mr Michał Szubski holds the position of Vice-Chairman of the Supervisory Board of Yamal pipeline owner EuRoPol GAZ S.A. and serves as the Chairman of the Board of Directors of PGNiG Norway. On 12 March 2008, he was appointed by the Supervisory Board of PGNiG as President of the Management Board of PGNiG. On 12 January 2011, he was re-appointed for a further 3-year term which started on 13 March 2011.

*Radosław Dudziński – Vice-President, Strategy*

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 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. From 2006 to 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 S.A. 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 EuRoPol GAZ S.A. and a member of the Board of Directors of PGNiG Norway. On 12 March 2008 he was appointed by the Supervisory Board of PGNiG as Vice-President of the Management Board of PGNiG. On 12 January 2011, he was reappointed for a further 3 year term which started on 13 March 2011.

*Sławomir Hinc – Vice-President, Chief Financial Officer*

Sławomir Hinc is a holder of a Masters degree in Economics from the University of Gdańsk, where he 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 to 2000) and at Andersen Business Consulting (2000-2004), where he headed teams managing projects for clients from the energy sector. From 2004 to 2008, he held the position of Financial Director at Operator Gazociągów Przesyłowych GAZ-SYSTEM SA, (from 2006 to 2008, he was also the company's registered proxy). Since 2010, he has been a member of the Governing Board of Eurogas, an organisation of the EU gas industry. Currently, he is a member of the Supervisory Board of Yamal pipeline owner EuRoPol GAZ S.A. and a member of the Board of Directors of PGNiG Norway. On 12 March, he was appointed by the Supervisory Board of PGNiG as Vice-President of the Management Board of PGNiG. On 12 January 2011, he was reappointed for a further 3-year term which started on 13 March 2011.

*Marek Karabula – Vice-President, Gas and Oil Mining*

Marek Karabula holds a Masters degree in Economics from at the Cracow University of Economics, where he studied at the Faculty of Management. From 1994 to 2000, he was Vice-President of the Management Board of Browary Okocim SA. From 2000 to 2002 he held the position of Vice-President of the Management Board of Browary Dolnośląskie Piast S.A. From 2003 to 2004 he served as Vice-President of the Management Board of AUTOSAN S.A. and from 2004 to 2005 he was Vice-President of the Management Board of Browary Polskie Brok-Strzelec S.A. In 2005, he was appointed as Member of the Management Board of Rafineria Trzebinia SA and held this position until 2006. During 2006, he served as Member of the Management Board of ORLEN Oil Sp. z o.o. In 2010, he worked as Vice-President of the Management Board of Agencja Rozwoju Przemysłu SA and from 2008 to 2010 he was the President of the Management Board of Nafta Polska SA. In June 2010, Mr Marek Karabula was re-elected for another term of office on the Supervisory Board of PKN ORLEN S.A., where he has served as Vice-Chairman since July 2010. From 18 November 2008 to 19 July 2010, Mr Marek Karabula held the position of Member of the Supervisory Board of PGNiG. On 12 May 2010, Mr Marek Karabula was delegated to temporarily stand in as member of the Management Board of PGNiG – Vice-President for Gas and Trade in the period from 1 June to 31 August 2010. On 19 July 2010, he was appointed by the Supervisory Board of PGNiG as Vice-President of the Management Board of PGNiG. On 12 January 2011, he was reappointed for a further 3 year term which started on 13 March 2011.

*Mirosław Szkaluba – Vice-President, Trade*

A graduate of the Faculty of Drilling, Oil and Gas at the AGH University of Science and Technology of Kraków, with a degree of Master Engineer of Oil Mining. In 1998, Mirosław completed postgraduate courses in equity investments and corporate development projects at the Warsaw School of Economics. Mr Szkaluba joined PGNiG in 1994. Since 2005, he has worked at the Exploration Department as specialist responsible for planning, supervision and settlement of exploration activities. From 2005 to 2008, he was a PGNiG Supervisory Board member appointed by the employees. On 8 March 2011, he was reappointed for a further 3 year term which started on 13 March 2011.

## **Supervisory Board**

Pursuant to the Company's Articles of Association, PGNiG's Supervisory Board is composed of between five and nine members appointed by the shareholders at the General Shareholders' Meeting for a joint three-year term of office.

As long as the State Treasury remains a shareholder of the Company, the State Treasury, represented by the minister competent for matters pertaining to the State Treasury, acting in this respect in agreement with the minister competent for economy, has the right to appoint and remove one member of the Supervisory Board.

In accordance with the Articles of Association, shareholders at the General Shareholders' Meeting may appoint one independent member of the Supervisory Board. Pursuant to paragraph 36.3 of the Company's Articles of Association, the independent Supervisory Board member is elected in a separate vote. Written proposals of candidates for the post of an independent Supervisory Board member may be submitted to the Chairman of the General Shareholders' Meeting by the shareholders present at the General Shareholders' Meeting. Such written proposal is submitted along with a written representation by a given candidate to the effect that the candidate agrees to stand for election and meets the criteria for an independent member of the Supervisory Board. If there are no such candidates proposed by the shareholders, candidates to the Supervisory Board are proposed by the Supervisory Board.

If the Supervisory Board is composed of up to six members, two members are appointed from among the candidates elected by the Company's employees. If the Supervisory Board is composed of between seven and nine members, three members are to be appointed from among the candidates elected by the Company's employees.

As at 30 June 2011, the Supervisory Board was composed of the following eight members:

Stanisław Rychlicki.....	Chairman
Marcin Moryń.....	Deputy Chairman
Mieczysław Kawecki.....	Secretary
Grzegorz Banaszek.....	Member
Agnieszka Chmielarz.....	Member
Mieczysław Puławski.....	Member
Jolanta Siergiej.....	Member

On 19 July 2010, Marek Karabula resigned from his position as Member of the Supervisory Board of PGNiG.

None of the members of the Supervisory Board: (i) conducts any other activity outside PGNiG that would be competitive with PGNiG's activity; (ii) is a partner in a civil law partnership or a different type of partnership

competitive with the Issuer; (iii) is a member of a body of any capital company or another legal entity competitive with PGNiG; (iv) has been entered in the register of insolvent debtors; (v) has managed or supervised entities that were declared bankrupt or went into liquidation during the persons' term of office, except for Magdalena Bąkowska, who has served as a member of the supervisory board of Zakłady Przemysłu Dziewiarskiego Femina S.A. in bankruptcy; or (vi) has been stripped of the right to conduct business activity for their own account by the bankruptcy court or the right to serve as a member of the supervisory board, representative or proxy in a commercial law company, a state-owned enterprise, a co-operative, a foundation or association, nor has been convicted under a valid and final judgment for offences specified in the provisions of chapters XXXIII-XXXVII of the Criminal Code and Article 585, 587, and 590-591 of the Partnerships and Companies Code.

There are no conflicts of interest between the duties of the members of the Supervisory Board to the Issuer and their private interests or other duties.

#### ***Biographies of the Supervisory Board Members***

##### *Stanisław Rychlicki – Chairman of the Supervisory Board*

(member of the Supervisory Board since 15 February 2008)

A graduate of the Faculty of Geology and Exploration at the AGH University of Science and Technology of Kraków, Stanisław is a 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. From 1980 to 1986, Mr Rychlicki was Professor at the University of Science and Technology in Algiers, Algeria.

##### *Marcin Moryń – Deputy Chairman*

(member of the Supervisory Board since 19 June 2006)

Legal counsel and a graduate of the Law and Administration Faculty at the University of Łódź, Marcin has worked for the Ministry of State Treasury as a division head at the Legal Department from 2001 to 2006, 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*

(member of the Supervisory Board since 27 October 2005)

A graduate of the AGH University of Science and Technology of Kraków, Mieczysław has worked in the oil E&P 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*

(member of the Supervisory Board since 15 February 2008)

A graduate of the Faculty of Organisation and Management at the University of Warsaw, and of the Warsaw School of Economics, Grzegorz has co-operated with numerous financial institutions. Currently, he serves as member of the Management Board of Polskie Towarzystwo Ubezpieczeń S.A.

##### *Agnieszka Chmielarz – Member*

(member of the Supervisory Board since 30 April 2008)

A graduate of the Faculty of Chemical Technology and Engineering at the Academy of Technology and Agriculture in Bydgoszcz, Agnieszka has worked for PGNiG since 2004. Currently, she works at the Marketing Department of the PGNiG Head Office.

*Mieczysław Pulawski – Member*

(member of the Supervisory Board since 18 November 2005)

Professor at the Warsaw School of Economics and School of Commerce and Law of Warsaw, Mieczysław is a graduate of the Faculty of Foreign Trade at the former Central School of Planning and Statistics (now Warsaw School of Economics). From 1977 to 1978, Mieczysław studied at the Faculty of Social and Political Sciences at the University of Basel. He served as adviser to the President of the National Bank of Poland and the Minister of Finance.

*Jolanta Siergiej – Member*

(member of the Supervisory Board since 30 April 2008)

A graduate of the Szczecin University of Technology, Jolanta served on supervisory boards of Geofizyka Kraków (1998 to 2000), and Poszukiwania Naftowe Diament (2001 to 2002) – both PGNiG's subsidiaries. Ms Siergiej is Grade I Mining Director. In 1995, she was appointed Chief Accountant of PGNiG Branch in Zielona Góra.

## **Remuneration of the Management Board and Supervisory Board**

Information on the remuneration paid to the members of the Management Board and Supervisory Board is provided in the annual consolidated financial statements for the year ended 31 December 2010 (Note 37.5).

## **Material contracts**

### **Gas supply contracts**

#### *Yamal Contract*

On 25 September 1996, the Company entered into a contract (the “**Yamal Contract**”) with OOO Gazexport (since 1 November 2006 the company has used the name OOO “Gazprom Export”) for the sale of Russian natural gas to Poland until 2022. Pursuant to the contract, natural gas is transported to interconnection points in Kondratki, Vysokye, Tietierowka on the Belorussian-Polish border and in Drozdowicze on the Ukrainian-Polish border.

On 29 October 2010, PGNiG and Gazprom Export signed an annex to the Yamal Contract, whereby the volumes of gas supply were increased to 9.03 bcm in 2010, 9.77 bcm in 2011 and 10.24 bcm from 2012 to 2022. The annex has also lifted the ban on re-export of natural gas to third countries without Gazprom Export's consent and provided for a preferential price (relative to the applicable contract price) in the period 2010 to 2014 (inclusive) for the quantities of natural gas off-taken in a given year above the ‘Minimum Annual Quantities’. Additionally, gas delivered to Poland under the Yamal Contract may be of Russian origin and/or come from other sources.

The signing of the agreement with Gazprom Export is in line with the Company's policy of purchasing natural gas directly from producers (thereby eliminating or keeping the number of intermediaries to the minimum needed), which also supports the flexibility of supply. Taking into account the current prices of petroleum products, the average annual value of the contract for Russian gas supplies is estimated at approximately PLN 8.5 billion.

On 21 March 2011, PGNiG S.A. and OOO “Gazprom Export” executed another annex to the Yamal Contract. By this annex, the parties agreed that, if necessary, the daily offtake volume of natural gas at the interconnection point of Vysokoye may be increased by up to 15 mcm per day while keeping the annual contract quantity unchanged. PGNiG’s option to take the increased available quantities of natural gas shall be effective as of 31 December 2011.

On 31 March 2011, PGNiG S.A. requested that OOO “Gazprom Export” start renegotiation of the price of natural gas delivered by OOO “Gazprom Export” under the Yamal Contract, with a view to a price reduction.

This renegotiation process is underway.

#### ***Agreement with Qatargas***

On 29 June 2009, PGNiG signed a contract with Qatargas Operating Company Ltd. (the “**Qatargas Contract**”) for the annual supply of approximately 1 million tonnes of LNG for a period of 20 years, and commencing from mid 2014. The gas will be delivered on an ex-ship basis to the LNG terminal in Świnoujście. The value of the agreement will depend on the prices of crude oil on the global markets. The contract formula is based on 3 months’ lag of crude oil prices.

#### ***Re-gasification agreement***

On 18 March 2010, PGNiG signed a contract with Polskie LNG S.A., with its seat in Świnoujście (“**Polskie LNG**”), providing for re-gasification service at the LNG terminal in Świnoujście for 20 years, starting from 1 July 2014. The contract covers at least 10 LNG tanker callings to the terminal, LNG unloading and collection through the terminal, LNG re-gasification, supply of the regasified LNG into the gas network and reloading of LNG onto tankers. PGNiG has reserved the re-gasification capacity of 370 tcm/h in the Świnoujście terminal, out of the total 570 tcm/h offered. In order to fulfil the contract, Polskie LNG is obliged to build the terminal and to ensure its full operational functionality from 1 July 2014.

#### ***Lasów Gas Sale Agreement***

- On 17 August 2006, the Company entered into the Lasów 2006 Gas Sale Agreement with VNG-Verbundnetz Gas AG, valid until 1 October 2016. In the first two years, the supply volume was 5,623,000,000 kWh per annum (approximately 500 mcm/annum). Between 1 October 2008 and 1 October 2016, gas supply volume amounts to 4,498,400,000 kWh per annum (approximately 400 mcm/annum). Natural gas is transported via the interconnection point in Lasów on the German-Polish border.
- On 29 September 2008, the 2008 Lasów Gas Sale Agreement was executed with VNG-Verbundnetz Gas AG, valid until 1 October 2011. The annual supply volume equals 5,500,000,000 kWh (approximately 500 mcm). Natural gas is transported via the interconnection point in Lasów on the German-Polish border.
- On 28 July 2009, a frame gas sales agreement was entered into between PGNiG and VNG-Verbundnetz Gas AG, under which the following individual contracts were executed:
  - (i) An agreement for the purchase of gas between 1 October 2009 and 1 October 2011 in the point of Gubin, with VNG being the seller and PGNiG being the buyer. The annual supply volume under this agreement equals 55 M kWh (approximately 5 mcm/annum).
  - (ii) An agreement for the sale of gas between 1 October 2009 and 1 October 2011 in the point of Kamminke, with PGNiG being the seller and VNG being the buyer. The annual supply volume under this agreement equals 528 M kWh (approximately 50 mcm/annum).



- (iii) On 13 May 2011, PGNiG S.A. signed an individual agreement with VNG AG for summer-time deliveries of natural gas to the delivery point at Lasów. The contract covered the delivery period from 17 May 2011 until 3 July 2011.
- (iv) On 30 June 2011, PGNiG S.A. signed an Individual agreement with VNG AG for summer-time deliveries of natural gas to the delivery point at Lasów. The contract covers the delivery period from 3 July 2011 until 30 September 2011, or else when the entire contracted gas volume is taken.
- (v) On 24 January 2011, after the circumstances contemplated in the contract occurred, PGNiG S.A. approached VNG - Verbundnetz Gas AG with a formal request for renegotiation of the pricing terms of the 2006 Lasów Gas Sale Agreement. The gas price renegotiation process is underway.

***Gas Sale Agreement with Vitol SA***

On 30 September 2009, the Company entered into a natural gas sale agreement based on the EFET standard with Vitol SA. Under this agreement, an individual agreement was executed for the purchase of gas between 1 October 2009 and 1 October 2011 via the interconnector point in Lasów. The annual supply volume equals 1,568,040 MWh (approximately 140 mcm/annum).

On 13 May 2011, PGNiG and Vitol SA concluded an agreement on natural gas sale based on the EFET standard, to be implemented via a cross-border terminal located on the Polish-Czech border in the Cieszyn area. Under the agreement, PGNiG has agreed to purchase the equivalent of 6,169,580.0 MWh per annum (approximately 550 mcm/annum) of natural gas in the period from 1 October 2011 to 1 October 2014.

***NAK contract***

On 26 October 2004, the Company entered into a contract with NAK “Naftogaz Ukrainy” for the supply of natural gas to the Hrubieszów region, valid until 2020. Pursuant to the contract, up to 9 mcm of natural gas was required to be delivered to the Hrubieszów region before the end of 2010. PGNiG was due to offtake the gas at Zosin, near Hrubieszów. The gas was used for local consumption needs in the region of Hrubieszów. As of 1 January 2011, this agreement provided for an increased gas offtake by PGNiG SA, with a minimum yearly volume of 200 mcm to be taken until 2020. At the end of 2010, PGNiG was informed that NAK Naftogaz Ukrainy had stopped foreign gas deliveries due to internal regulations applicable in Ukraine (under the Ukrainian 2467-VI Act) which require that the entire Ukrainian production amount of natural gas be allocated to meet Ukrainian domestic needs only; thus preventing supplies of natural gas being directed to Poland. PGNiG does not agree with or accept the reason for suspending deliveries from the Ukrainian supply side, and PGNiG maintains that the gas supply agreement, valid until 2020, must be performed.

Despite the suspension of the natural gas supply from the Ukraine, the Company has met all of its delivery obligations to consumers in the Hrubieszów region due to previously accumulated stocks and due also to the national transmission system. The current situation has not therefore had any significant impact on the performance of the Polish economy.

On 7 July 2011, the President of Ukraine signed an act implementing amendments to the legislation relating to the natural gas market. This act was intended to supplement the legislation, with a provision that will permit NAK “Naftogaz Ukrainy” and its subsidiaries to export natural gas produced in the Ukraine in accordance with the quotas approved by the Ministry of Energy and Coal Industry. The amended legislation creates the necessary conditions for NAK “Naftogaz Ukrainy” to restore, as soon as possible, the supply of natural gas to Poland under the existing agreement with PGNiG S.A.

### ***Gas Sale Agreement with Severomoravská plynárenská***

On 27 March 2008, the Company entered into an agreement for comprehensive gas supply services between Severomoravská plynárenská, a.s. and PGNiG, valid until 31 December 2011. The annual gas supply volume is approximately 0.3 mcm. This agreement is renewed every year.

### ***Framework agreements***

The following are framework agreements executed by PGNiG, under which PGNiG may purchase gas volumes and sell gas surplus volumes:

- Framework agreement between PGNiG and Statoil ASA, dated 6 June 2006, with an unspecified duration: the agreement serves as the basis for individual gas supply transactions. It sets forth the general rules defining co-operation between the companies with regard to gas supply. Details concerning particular deliveries, their volumes and prices will each time be specified in the future gas sales agreements. In addition, the agreement provides PGNiG with access to Norwegian gas supply points in Europe, including TTF and BEB/VEP hubs, thereby allowing PGNiG to purchase additional gas volumes in periods of increased demand and resell any surplus volumes.
- General terms and conditions for the sale of gas between PGNiG and Total E&P Norge AS dated 27 March 2007, with an unspecified duration: the general terms and conditions are conceived as a framework agreement and provide a basis for execution of individual transactions for natural gas supply. They set forth the general rules defining co-operation of the companies with regard to gas supply, whereas the details concerning particular deliveries, their volumes and prices will each time be specified in the future transaction agreements. The General terms and conditions provide PGNiG with access to the delivery points for Norwegian gas in Europe, thereby allowing PGNiG to purchase additional gas volumes in periods of increased demand and resell any surplus volumes.

### **PGNiG's transmission contracts**

- An agreement has been entered into between PGNiG and EuRoPol GAZ S.A. for the transmission of gas from the Kondratki collection point on the Polish-Belarusian border to gas terminals in Włocławek and Lwówek Wielkopolski through the Yamal-Western Europe gas pipeline. The agreement is valid until 31 December 2012.
- Two agreements have been entered into with OGP Gaz-System S.A. which provide for high-methane gas transmission services and nitrogen-rich gas transmission services, binding until 31 December 2014.

### **PGNiG's construction contracts**

- Agreement for expansion of the capacity of the Gas Storage Facility in Wierzchowice from 0.575 bcm to 1.2 bcm entered into by PGNiG and a consortium composed of PBG S.A., Tecnimont S.p.A., Societe Francaise d'Etudes et de Realisations d'Equipements Gaziers Sofregaz, Plynostav Pardubice Holding A.S. and Plynostav – Regulace Plynu A.S. The contract is to be realised by the consortium by 18 November 2011.
- Agreement for the execution of “The LMG Project – Central Facility, Borehole Zones, Pipelines and Others”, which involves the development of crude oil and natural gas reserves located near Lubiatów, Międzychód and Grotów, entered into between PGNiG and a consortium composed of PBG SA, Technip KTI S.P.A. and Thermo Design Engineering Ltd . The project will double domestic crude oil production.

On 7 May 2010, PGNiG, PGNiG Energia S.A., TAURON Polska Energia S.A. and Elektrownia Stalowa Wola S.A. signed a project execution agreement relating to the construction of a 400MW

combined cycle gas turbine unit (“CCGT”) in Stalowa Wola. At least 50 per cent. of the agreement’s value will be financed with debt instruments secured by assignment of receivables under long-term trade contracts. The upper limit of the agreement’s value has been set by the parties at PLN 1.95 billion. The agreement was made for the period until the date of conclusion of the “SPV Operating Agreement”, but for no longer than 31 December 2010 (on 29 December 2010 an annex to the agreement was signed which extended the term of the agreement to 31 March 2011), and subject to obtaining approval of the planned concentration by the President of the Office for Competition and Consumer Protection and all the required corporate approvals from the parties to the project (all obtained). The final agreements were signed on 11 March 2011: (1) Agreement on the Operation of Elektrociepłownia Stalowa Wola SA as part of the “Construction of a CCGT Unit in Stalowa Wola” project, (2) Master Agreement for Supply of Gaseous Fuel as part of the “Construction of a CCGT Unit in Stalowa Wola” project, (3) Master Agreement for Supply of Gaseous Fuel as part of the “Construction of a CCGT Unit in Stalowa Wola” project . The project will be executed on a “project finance” basis. The parties will take all reasonable steps to obtain third-party financing for the project in an amount equal to at least 70 per cent. of the total actual costs of the CCGT. PGNiG will supply gas to the CCGT of approximately 540 mcm per annum. The unit will be constructed and operated by a newly-established SPV Elektrociepłownia Stalowa Wola SA. Pursuant to the agreement, the target shareholders in Elektrociepłownia Stalowa Wola S.A. will be Elektrownia Stalowa Wola S.A. (member of the TAURON Group) and PGNiG Energia S.A. (member of the PGNiG Group). Each of the companies hold 50 per cent. of shares in Elektrociepłownia Stalowa Wola S.A. The parties will be entitled to receive the electricity generated by the CCGT unit in amounts proportional to their interests in Elektrociepłownia Stalowa Wola S.A.

## **Legal Proceedings**

### **Legal actions against PI GAZOTECH Sp. z o.o.**

There are three legal actions against PI GAZOTECH Sp. z o.o. (“PI GAZOTECH”).

PGNiG instituted an action against PI GAZOTECH to rescind or declare invalid resolutions by the General Shareholders’ Meeting of PI GAZOTECH, dated 23 April 2004, including the resolution obliging PGNiG to pay additional contributions in the amount of PLN 52 million. The proceedings were held in turn before the Regional Court of Warsaw, the Warsaw Court of Appeals and the Supreme Court. On 25 June 2010, the Regional Court granted PGNiG’s claims and declared invalidity of the resolution concerning redemption of shares and the resolution concerning additional contributions. On 12 November 2010, PI GAZOTECH filed an appeal in the Regional Court in Warsaw, together with a request for court fee exemption. The request for court fee exemption was finally accepted and the appeal was allowed. PGNiG will respond to the appeal.

Also, proceedings are based on PGNiG’s action against PI GAZOTECH to rescind or declare invalid the resolution of the General Shareholders Meeting of PI GAZOTECH, dated 19 January 2005, pursuant to which PGNiG was obliged to pay additional contributions in the amount of PLN 25,999,998. Pursuant to a ruling on 31 October 2008, the Regional Court dismissed PGNiG’s action but, on 30 July 2009, the Court of Appeals reversed the ruling of the first instance and remanded the case for re-examination. By virtue of its ruling of 18 October 2010, the Regional Court in Warsaw rescinded the resolution on additional contributions. On 12 November 2010, PI GAZOTECH filed an appeal against the judgment finding in favour of PGNiG’s claims, together with a request for court fee exemption. The request for court fee exemption was finally accepted and the appeal was allowed. On 28 June 2011, PGNiG replied to the appeal to the Court of Appeals in the city of Warsaw.

Thirdly, proceedings are based upon PGNiG’s action against PI GAZOTECH to rescind or declare invalid the resolution of the General Shareholders Meeting of PI GAZOTECH, dated 6 October 2005, pursuant to which

PGNiG was obliged to pay additional contributions in the amount of PLN 6,552,000, were brought before the Regional Court of Warsaw. Pursuant to a ruling on 30 May 2008, the Regional Court dismissed the Company's claim and reversed the decision on securing the claim (the temporary injunction order). The proceedings to rescind or declare invalid the resolution on additional contributions and to maintain the security for the claim (the temporary injunction order) have been held before the Court of Appeals and the Regional Court of Warsaw since 2008. On 21 December 2009, the Court of Appeals reversed the Regional Court's ruling of 30 May 2008 (by virtue of which the Company's claim to rescind or declare invalidity of the resolution on additional contributions to equity had been dismissed) and remanded the case for re-examination by the Regional Court. On 25 May 2010, the Court of Appeal reversed the Regional Court's decision of 30 May 2008, reversing the decision concerning security for the claim and dismissing the request to rescind the decision on securing the claim. On 11 April 2011, the case was suspended by the Regional Court in Warsaw.

#### **Dispute with Bartimpex S.A.**

On 9 August 2005, in connection with a motion filed by PHZ Bartimpex S.A., the President of the Office of Competition and Consumer Protection ruled that the Company pursued anti-competitive practices through abusing its dominant position on the domestic natural gas transmission market, this being manifested in the refusal to provide the services of transmitting natural gas extracted outside Poland, and imposed a fine on PGNiG in the amount of PLN 2 million, along with an order to repay the costs of proceedings for the benefit of PHZ Bartimpex S.A. The President of the Office of Competition and Consumer Protection did also state that the abovementioned practices had ceased on 2 June 2003.

On 31 August 2005, PGNiG appealed against the decision. The case was heard successively by the Regional Court of Warsaw, the Warsaw Court of Appeals, and the Supreme Court. In connection with the cassation complaint filed by PGNiG, on 15 July 2009, the Supreme Court revoked the Court of Appeals' decision and remanded the case for re-examination by the Court of Appeals.

Pursuant to its ruling of 5 January 2010, the Court of Appeals reversed the decision issued by the President of the Office of Competition and Consumer Protection on 9 August 2005, dismissed PHZ Bartimpex S.A.'s appeal, and ordered the President of the Office of Competition and Consumer Protection to reimburse PGNiG for the costs of the appeal and cassation proceedings. The case has therefore been concluded.

#### **Other disputes**

- Dispute between Danuta Forcik c/a Mazowiecka Spółka Gazownictwa and PGNiG for the payment of PLN 30 million. The proceedings are underway before the Regional Court of Warsaw.
- Dispute between Halina Połec and Agnieszka Wasiak for the payment of PLN 5.4 million. The proceedings are underway before the Regional Court of Warsaw.
- An industrial gas customer of PGNiG has filed an arbitration claim against PGNiG. The dispute concerns the gas price indexation for 2010 and subsequent years. The value of the subject matter of the dispute amounts to more than PLN 28 million.

#### **Regulatory and administrative proceedings**

##### **Proceedings relating to LNG production**

PGNiG is involved in proceedings relating to the production of LNG in denitrating installations by PGNiG without a licence; however in PGNiG's opinion it is not required to obtain any such licence, pursuant to provisions of the Energy Law. PGNiG obtains LNG as a result of the processes that take place during the denitrating of low-methane natural gas to obtain high-methane natural gas of such quality and parameters that

enable its delivery to consumers by the gas network. These proceedings have been ongoing since February 2007 and are still in progress.

#### **Antitrust proceedings**

Dolnośląska Spółka Gazownictwa Sp. z o.o., with headquarters in Wrocław, (“**DSG**”) is involved in anti-trust proceedings relating to the suspected abuse by DSG of its dominant position in the regional natural gas market, including the area of southwest Poland, by imposing a contractual commitment stipulating that future gas recipients who apply for connection to the gas grid are obliged to make advance payments constituting 100 per cent. of estimated connection costs, which are seen as an onerous condition of the contract. On 13 February 2009, the decision of the President of the Office of Competition and Consumer Protection considered the practice of overusing its dominant position in the regional natural gas distribution market by DSG as competition-limiting and violating the regulation stated in Article 9, sec. 1 and 2, point 6 of the Act on Competition and Consumer Protection. The President imposed on DSG a fine amounting to PLN 178,647.47. On 1 September 2010, DSG appealed against this verdict to the Court of Appeal. The Court of Appeal has been processing the evidence since 1 September 2010 and the proceedings are ongoing.

On 3 January 2011, PGNiG received a notification of instigation of anti-trust proceedings by the President of the Office of Competition and Consumer Protection concerning abuse of dominant position on the domestic natural gas wholesale market by PGNiG. According to the President of the Office of Competition and Consumers Protection, the abuse consisted of (i) inhibiting sale of gas against the interest of other business players or consumers by refusing to sell gaseous fuel under a framework agreement to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw, which may be regarded as an anti-competitive practice defined in Art. 9.2.2 of the Competition and Consumer Protection Act of 16 February 2007 (the “**Act**”), as well as (ii) impeding the development of market conditions favourable to the emergence or growth of competition by refusing to sell gaseous fuel under a framework agreement to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw, which may be regarded as an anti-competitive practice defined in Art. 9.2.5 of the Act.

Pursuant to Art. 106 of the Act, the President of the Office of Competition and Consumers Protection may, by way of a decision, impose a fine on an entrepreneur abusing its dominant position of not more than 10 per cent. of the revenue earned in the financial year preceding the date of the decision. The amount of the fine is determined taking into account the duration, extent and circumstances of the breach of statutory provisions, as well as any previous violations of these provisions. PGNiG, in response to the charges contained in the notification submitted to the President of the Office of Competition and Consumers Protection, explained it did not refuse to enter into an agreement on the sale of gaseous fuel with NowyGaz Sp. z o.o. The matter must be investigated in detail (in formal, technical and economic terms) as it represents a precedent.

#### **Regulatory proceedings**

By virtue of a decision of 16 December 2010, the President of the ERO imposed on PGNiG a fine of PLN 2 million. The fine, imposed pursuant to Art. 56.1.12 in conjunction with Art. 56.2.1, Art. 56.3 and Art. 56.6 of the Energy Law, is equal to 4.85 per cent. of PGNiG’s 2009 revenue from licensed activities in the area of international trading in natural gas. The fine was imposed as a consequence of the Company’s breach of the terms of the licence for international trade in natural gas. The breach consisted in non-compliance by the Company in 2007 and 2008 with the requirements imposed pursuant to the Council of Ministers’ Regulation on the minimum level of diversification of foreign sources of gas supplies, dated 24 October 2000. According to the decision, PGNiG’s gas imports from Russia exceeded the permissible ratio to the total volume of gas imports by 1.14pp and 2.76pp, respectively, in 2007 and 2008. However, it should be noted that the share of gas imported from one country of origin was determined by the President of the ERO without taking into account the gas supplied to Poland from Germany and the Czech Republic. Pursuant to the decision, these supplies were treated as intra-Community acquisitions, falling outside the category of imports, on the basis of

the President of the ERO's interpretation of the Excise Duty Act and the definitions contained therein. Classification of these supplies as natural gas imports to Poland would have allowed the Company to meet the regulatory requirements. The interpretation of the regulatory provisions adopted by the President of the ERO does not account for the fact that the actual political and economic changes (Poland's accession to the EU) were not reflected in the discussed Regulation, which was issued under the Act on Excise Tax Labels of 2 December 1993. The Act of 1993 did not draw any distinction between imports and intra-Community acquisitions. The Regulation on the minimum level of diversification of foreign sources of gas supplies was issued in 2000 and, since then, it has not been amended. On 4 January 2011, PGNiG filed with the Competition and Consumer Protection Court at the Regional Court in Warsaw, through the agency of the President of the ERO, an Appeal against the above decision. PGNiG requested that the decision be revoked in full or changed in full and that the Court declare that the Company did not default on the obligation arising from its licence for international trade in natural gas. Pursuant to Art. 130.2 of the Code of Administrative Procedure, filing of an appeal stays enforcement of a decision.

## **Environmental protection**

Environmental protection forms a key factor in all areas of the PGNiG Group's activities.

The mission of the Group, as defined in its business strategy (2008) is to provide a reliable and safe supply of clean and environmentally friendly energy, using competitive and innovative energy solutions, and the development and value growth of PGNiG is underpinned by the principles of sustainable development.

In order to support the business goals pursued by the PGNiG Group, a Sustainable Development and Responsible Business Strategy ("**CSR Strategy**") was defined in 2009. The CSR Strategy addresses all the areas of responsible business, including the environment. The strategic commitment "to conduct business in a responsible manner and demonstrate respect for the natural environment" has been reflected in 7 operational goals, which include the following:

- implementation, maintenance and improvement of environmental management systems;
- use of the components of environmental management systems to meet the HSE requirements;
- education and promotion of environmental awareness among the employees, including the environmental dimension in the process of selecting new investments, solutions and technologies;
- improvement of the methods of environmental impact assessment at each stage of activity;
- reduction of air emissions through widespread use of natural gas;
- establishment of uniform environmental reporting standards with regard to internal reporting systems within the PGNiG Group.

PGNiG is Poland's first company in the energy industry to launch a comprehensive sustainable development strategy. Contributors to the strategy were employees from all operational areas of the PGNiG Head Office, as well as from branches and subsidiaries of the PGNiG Group. The Sustainable Development Strategy was formally approved by the Management Board in July 2009. The main objective PGNiG has embarked on by formulating its sustainable development mission is to be an active player on the Polish energy market, who acts responsibly and takes into consideration the expectations and needs of the stakeholders and the natural environment. The serious engagement of the company with questions of sustainability has been noticed by the Warsaw Stock Exchange. PGNiG has again been included (for the second time) in the elite group of socially responsible companies listed in the RESPECT Index.

## Permissions and Inspections

The PGNiG Group companies are required to obtain the relevant permissions with respect to the use of individual elements of the environment, and specifically as regards:

- pollutant emissions to the atmosphere – notification of an installation or an air emission permit are required;
- waste management – reporting on the generated waste and/or decision approving a hazardous waste management scheme and a permit for waste generation;
- water management – water permit for groundwater and/or surface water abstraction;
- sewage management – water permit for sewage discharge to waters and/or to soil (including rain and melt waters);
- noise emissions – permit for noise emission to the environment;
- nature conservation – permit for clearance of trees or shrubs;
- CO<sub>2</sub> greenhouse gas emissions – permit for participation in the EU Emission Trading Scheme; and
- installations that may cause significant pollution of individual natural features or the environment as a whole (*IPPC installations*) – integrated permits.

With respect to formal and legal compliance, the PGNiG Group companies undergo periodic audits, including those carried out as part of the inspection of the functioning of environmental management systems, or internal controlling processes. The environmental protection services within the PGNiG Group companies are responsible for fulfilling their respective obligations, keeping the documents up to date, filing for new permits and decisions and overseeing new projects that require, prior to their commissioning, that relevant approvals for the operation of facilities and installations are obtained.

External inspections are carried out by territorially appropriate Environmental Protection Inspectorates at the Voivodeship level and the Regional Mining Authorities, who are the first instance to identify any irregularities in this area.

Each year, around 50 inspections are carried out by the competent public administration agencies within the PGNiG Group. All the post-audit recommendations were implemented and, as a result, no penalties were imposed on the audited units.

### **Waste generation – neutralisation and recovery**

PGNiG Group companies that have implemented an environmental management system have efficient waste management procedures in place, in accordance with the following was achieved:

- identification of environmental aspects related to waste (defining all the locations and processes where waste could potentially be generated); and
- definition of the method of minimising the volume of generated waste, including, primarily, the waste removed to dumping sites (generating only un-segregated municipal waste).

The procedures set forth the methods of waste handling with preference being given to waste recovery, followed by selective waste segregation to obtain ready recyclable materials. The PGNiG Group companies have contracts with third-party providers for collection, neutralisation or recovery of waste. These providers have the necessary formal and legal documents and authorisations in respect of such activities. Each PGNiG Group company is responsible for adequate selection of its contractors.

### **Tree and shrub removal**

The operations carried out by the PGNiG Group companies involve removal of trees and shrubbery both at the stage of investment project development and during their ongoing activity. Due to the need to preserve protection zones along gas pipelines, crude pipelines and production facilities, periodic clearance of self-seeding plants growing in those areas is required. At the same time, maintenance of trees and shrubs and tree planting works are undertaken.

### **Reporting**

The PGNiG Group companies fulfil their reporting obligations with respect to the use of the environment in accordance with the applicable Polish regulations. Reports are generated for the local Voivodeship Authorities and Voivodeship Inspectorates of Environmental Protection.

Each PGNiG Group company presents reports on the use of the environment for the first and second half of each year, and a yearly summary report on waste inventory. The relevant documents are retained on file for 5 years and, at all times, are available for inspection to the competent authorities.

### **Ground surface protection – remediation**

In view of the specific nature of the operations carried out by the PGNiG Group companies, and the resultant impact on individual elements of the environment, the PGNiG Group companies undertake various remedial measures as outlined below.

These measures cover ground surface damaged by heavy equipment, terrain deformations resulting from, among other things, seismic surveys and well drilling, contamination of soil strata, local contamination of soil and surface waters (groundwaters in very rare cases) as a result of exploration and production operations, as well as the remediation of drilling waste disposal sites.

A separate category is constituted by sites contaminated as a result of the operation of traditional gasworks currently undergoing remediation, including the disposal of wastes remaining in underground, overground or in-the-ground tanks. This property constitutes largely non-productive assets under the management of the Head Office.

In 2009, as part of these efforts, the remediation measures covered contaminated soil at production facilities, crude oil terminals, drilling sites, sites of abandoned/worked over wells and sites of former traditional gasworks. The related measures included removal of contaminants, followed by landscaping works and top soil restoration. Further remediation activities, which started in 2009 and were completed in mid-2010, concerned other property constituting non-productive assets of PGNiG SA, namely, Wałbrzych, Wrocław, Jugowice, Świdnica, Łądek Zdrój and Ziębice.

The operating branches carried out a number of remediation projects in 2009 within the area of the Zielona Góra Branch. This included biological treatment of soil contaminated with petroleum products at the sites of crude oil terminals “Mrozów”, “Jarszewo”, “Wałowice”, “Kije” oil production facility, and surveys of the condition of the soil and water environment to determine the necessity of implementing remedial measures. Wielkopolska Spółka Gazownictwa abandoned gas pitch tanks on a site in Kalisz, while Pomorska Spółka Gazownictwa carried out the remediation of groundwater within a property in Sopot and Kowalewo Pomorskie. Exploration companies completed remediation works around exploration and worked over wells (30 wells in total). Companies engaged in pipeline construction in 2010 were reconstructing pipeline construction sites.

### **Environmental responsibility**

When implementing investment projects with a potentially significant impact on “Natura 2000” sites (environmental protection areas programme), the PGNiG Group companies act in accordance with the



applicable legislation in force and employ solutions to mitigate the projects' impact on the environment and species and habitats protected as part of Natura 2000 sites. Prior to the implementation of a project falling under the EIA reporting requirement under direct legislation or due to the requirement of an authority competent to issue the decision of environmental conditions of consent, a relevant report concerning the project's impact on the environment or Natura 2000 sites is prepared. In 2009, out of 67 projects under implementation, 15 projects did not fall under the EIA reporting requirement.

As PGNiG Group companies use modern technology solutions and mitigation measures, it is possible for them to implement investment projects in Natura 2000 sites without any significant impact on the protected species and habitats. In 2009, 45 projects were implemented in 71 Natura 2000 sites.

In addition, prior to launching investment projects, consultations are conducted with a wide group of experts and stakeholders. In PGNiG participated in the Community Consultation Board for Development of the LNG Terminal in Świnoujście set up by the West Pomeranian Province Governor. As one of the largest investment projects in the area, it plays a vital role in ensuring secure gas supply to all customers in Poland. The Management Board of the Company paid considerable attention to ongoing consultations with all the parties concerned by this investment so as to ensure that the LNG Terminal is built with due respect for the interests of all stakeholders and without harm to tourism or the natural environment of Świnoujście and its vicinities.

#### **Well abandonment**

Pursuant to the Polish Geological and Mining Law, PGNiG is required to properly abandon worked-out mining caverns, eliminate the danger, repair any damage caused by mining activities and restore the land to its original condition. Plugging wells and mining pits prevent leakage of crude oil and natural gas to the surface and to watercourses. In addition, if gas wells remained unplugged, there would be a risk that escaping gas could accumulate inside, posing a fire hazard. In the first half of 2010, PGNiG plugged and abandoned 22 wells which had reached their economic limit.

#### **Carbon credit trading system**

PGNiG has been a participant in the Emission Trading Scheme for CO<sub>2</sub> ("ETS") since 2005. Each year, the reports on CO<sub>2</sub> emissions from the installations of PGNiG participating in the ETS have been subject to review.

In the first settlement period covering the years 2005 to 2007, the Company was granted an allowance for the combustion unit at the Branch in Odolanów of up to 13,400 MgCO<sub>2</sub>/year and for the production facility in Dębno, (part of Branch in Zielona Góra) – 35,900 MgCO<sub>2</sub>/year.

In the National Allowance Plan for 2008 to 2012, the total credits granted to PGNiG's installations were 99,982 Mg CO<sub>2</sub> per annum. In the 2008 to 2012 trading period, installations participating in the scheme were those of the Odolanów Branch (2 installations), the Zielona Góra Branch and the Mogilno Underground Gas Storage Cavern Facility.

Under the existing carbon dioxide emission trading scheme, in 2010 PGNiG reviewed the annual reports on carbon dioxide emissions for 2010 and reconciled its emission volume with the permit held. Following cancellation of the carbon credits used in 2009, 18,278 Mg CO<sub>2</sub> credit units were retained.

The said installations are subject to internal audit in respect of the functioning of the monitoring and reporting plans for CO<sub>2</sub> emissions, as well as yearly reviews carried out by an independent reviewer from DNV Sp. z o.o., the company with whom PGNiG SA has signed a contract. Yearly reports on CO<sub>2</sub> emissions for the year 2009 and the preceding years were reviewed with a positive result and sent to the National Administrator of the Emissions Trading Scheme.

### **Methane emissions**

In 2010, the Company continued work on defining standardised methane emission indicators and unifying the methods for calculating the volume of methane emissions. Standardised and reliable methane emission indicators will help reduce the cost of environmental fees and charges.

### **Environmental Management System**

Implementation and certification of environmental management systems is one of the priorities of the PGNiG Group and a key factor in the policy of sustained development.

Most of the PGNiG Group's companies have implemented, obtained relevant certification and maintain an environmental management system under the PN-EN ISO 14001 standard. The systems, which have been in operation for more than 9 years, place PGNiG among strong and environmentally reliable companies both in Poland and on the foreign markets like those of Norway, Pakistan and Egypt. Owing to the operation of the Environmental Management System, PGNiG is not only able to meet the requirements of the applicable regulations in force, but can also respond more effectively to the expectations of its customers and communities who come in contact with its operations in order to build their trust in the Company.

In accordance with the key assumptions of the PN-EN ISO 14 001 standard, environmental management systems demonstrate that a company undertakes certain environmental responsibilities. The Environmental Management System operated in the companies of the PGNiG Group shows the companies undertake efforts to bring their environmental impacts to the minimum, observe all environmental requirements arising out of the applicable legislation in force and also undertake to ensure continuous improvements in the field of environmental protection.

The scope of rights and responsibilities in the context of the Environmental Management System is defined under specific system documents: procedures and guidelines. The most important of those documents relate to environmental aspects, legal requirements, internal and external information exchange, internal audits of the environmental management system, failure prevention plans, standards of conduct in case of emergencies and environmental incidents, management of hazardous substances and chemical preparations, measurements and monitoring, supervision of measurement and monitoring equipment and management of wastes other than hazardous wastes.

One of the key requirements of the PN-EN ISO 14 001 standard which enables the implementation of environmental duties is the identification of all emissions into the environment, called environmental aspects. The identification and listing of environmental aspects which have a significant impact on the environment constitutes one of the fundamental documents of the environmental management system. The environmental management system identifies significant environmental aspects which directly impact other elements of the system, including objectives and tasks, monitoring and measurements as well as operational control.

All activities of PGNiG Group are carried out in conformity with the strictest environmental protection standards.

### **HSE Management System**

PGNiG is in the process of creating and implementing the Health, Safety and Environment (“HSE”) Management System. It is an international management system of safety, occupational health and environmental protection. The system introduced in PGNiG will be based on the guidelines of the International Association of Oil & Gas Producers (OGP) and E&P Forum and according to company's regulations and Polish and EU legislation. At present, the highest standards are provided by Polish governing laws regarding health, safety and environment.

HSE is based on effective prevention and elimination of hazards, education and safe behaviour development among employees. The scope of the HSE system includes disciplines such as occupational health and safety,

occupational medicine, ergonomics, safety operation of equipment, public safety and environmental protection. HSE system has already been successfully implemented for certain Group companies: Geofizyka Kraków, Geofizyka Toruń, PNiG Jasło and PNiG Kraków.

PGNiG has set itself three primary goals to be achieved within the scope of the HSE system: zero accidents, zero environmental losses and good contact with the local community. These objectives will be achieved by conducting all operations with the utmost respect for the health and safety of employees, local communities and public assets. One of the actions taken to implement the HSE system was to create the Monitoring of Standards in Mining Division in the structure of PGNiG's Exploitation and Mining Department.

The system will include procedures that will serve to identify, analyse and determine risk and further proceedings. It also determines corrective action for the entire range of incidents regarding safety and environmental protection. There will be developed detailed procedures which will define the rules for work permits, procedures for safe travel, emergency procedures and emergency response to environmental risks. A detailed analysis of job-related risks will be introduced in the form of Job Safety Analysis (JSA). Training, audits and reviews will be carried out to improve, develop and upgrade the HSE system.

#### **Land reclamation and non-productive asset surveying**

Pursuant to the Environmental Protection Law, PGNiG conducts diagnosis tests and surveys and land reclamation work in the areas which became polluted due to past activities (including traditional activities related to gas) with a view to restoring them to the condition required under the environmental quality standards. In 2010, PGNiG completed supplementary tests and surveys concerning properties located in Toruń, Koźmin Wielkopolski, Gorzów Wielkopolski, Szczecin, Katowice–Mysłowice, Reszel, Gryfice, Czerny, Zabrze, Radków, Szprotawa and Wałbrzych, and initiated procedures for supplementary tests and surveys concerning properties located in Kargowa, Zabrze, Łabiszyn and Międzyzlesie. In 2010, PGNiG also completed reclamation work on properties located in Wrocław, Świdnica, Jugowice, Łądek Zdrój and Ziębice with the total area of approximately 60,000 square metres and commenced reclamation work on properties located in Bartoszyce, Radków, Piryzyce and Koźmin Wielkopolski with the total area of approximately 24,000 square metres.

### **Shareholder Structure**

#### **Share capital**

In the first half of 2011, the share capital of PGNiG amounted to PLN 5.9 billion, divided into 5.9 billion shares with a par value of PLN 1 per share. All shares were ordinary bearer shares and each of them conferred the right to one vote at the General Shareholders Meeting. The table below shows the shareholder structure as at 30 June 2011:

<b>Shareholder</b>	<b>Number of shares as at 30 June 2011</b>	<b>% of share capital held as at 30 June 2011</b>	<b>Number of votes conferred by shares held</b>	<b>% of total vote at GM as at 30 June 2011</b>
State Treasury .....	4,272,416,557	72.41	4,272,416,557	72.41
Others .....	1,627,583,443	27.59	1,627,583,443	27.59
Total.....	5,900,000,000	100.00	5,900,000,000	100.00

### PGNiG shares held by Management and Supervisory Members

The table below shows PGNiG's shares held by Management and Supervisory Members as at 30 June 2011:

Name	Number of shares as at 31 March 2011	Change in number of shares held	Number of shares as at 30 June 2011	Par value of shares (PLN)
Michał Szubski .....	6,825	—	6,825	6,825
Mirosław Szkałuba .....	9,425	—	9,425	9,425

### Shares held by supervisory personnel

Name	Number of shares as at 31 March 2011	Change in number of shares held	Number of shares as at 30 June 2011	Par value of shares (PLN)
Stanisław Rychlicki .....	9,897	—	9,897	9,897
Mieczysław Kawecki .....	19,500	—	19,500	19,500
Jolanta Siergiej .....	9,425	—	9,425	9,425

### Shares held by commercial proxies

Name	Number of shares as at 31 March 2010	Change in number of shares held	Number of shares as at 30 June 2011	Par value of shares (PLN)
Mieczysław Jakiel .....	30,101	—	30,101	30,101
Tadeusz Kulczyk .....	21,316	—	21,316	21,316

### Employee stock

On 25 June 2008, the Ministry of State Treasury disposed of one share in PGNiG allowing it to distribute up to a 12.71 per cent. stake to its current and previous employees free of charge. That is, up to 750,000,000 Series A1 bearer shares with a par value of PLN 1 per share. Pursuant to the Commercialisation and Privatisation Act, dated 30 August 1996, eligible employees or their heirs gained the right to acquire the Company shares free of charge as of 1 October 2008. The right expired on 1 October 2010. The Company shares acquired free of charge by eligible employees or their heirs could only be traded after 1 July 2010, and the shares acquired free of charge by members of the Company's Management Board cannot be traded before 1 July 2011. As a result of the free-of-charge acquisition of the Company shares, by eligible employees, the State Treasury's share of the total vote by 30 June 2011 decreased from 84.75 per cent. (before the distribution of shares) to 72.43 per cent. The start date for executing agreements on the acquisition of Company shares free of charge was 6 April 2009 and the end date was 1 October 2010. During this process on 30 June 2011 approximately 59,200 eligible persons acquired 727,583,442 shares (representing approximately 97.01 per cent. of the pool of shares available to be acquired free of charge and more than 12 per cent. of PGNiG's share capital). Currently all the shares acquired by eligible employees during the process form part of the Company's free float. The remaining part of the free float is owned by Polish pension funds, banks, foreign pension funds, individual investors, investment funds and insurance companies.

As the lock-up period applicable to employee shares pursuant to the Commercialisation and Privatisation Act of 30 August 1996 expired on 30 June 2010, on 1 July 2010 749,944,750 shares in PGNiG were assimilated to

the existing shares and introduced to trading on the Warsaw Stock Exchange. 55,250 shares acquired by members of the Management Board were assimilated and introduced to stock-exchange trading a year later, on 1 July 2011.

#### Relationship with major shareholder

As the majority shareholder of PGNiG, the State Treasury (represented by the minister responsible for matters pertaining to the State Treasury (the “**Treasury Minister**”) enjoys certain rights arising under the Articles of Association of the Company and other provisions.

State Treasury approval is required for any changes to material provisions of the existing trade agreements for import of natural gas to Poland and the conclusion of such agreements as well as for any strategic investment projects or the Company’s involvement in investment projects which, permanently or temporarily, impair the economic efficiency of the Company’s business activities but which are necessary to ensure Poland’s energy security.

The Company’s Management Board is obliged to submit to the Treasury Minister and the minister responsible for the economy, upon demand, detailed reports on the performance of tasks undertaken with a view to ensuring the country’s energy security.

In addition, at the end of each quarter, the Company’s Management Board is obliged to prepare and submit to the minister responsible for the economy, by the end of the month immediately following the calculation period, an economic and financial analysis of the PGNiG Group and the Distribution Companies.

#### Organisational structure

As at 31 March 2011, the PGNiG Group comprised PGNiG (the parent undertaking) and 37 production and service companies, including (i) 25 subsidiaries of PGNiG and (ii) 12 indirect subsidiaries of PGNiG.

The table below sets out the Group members as at 31 March 2011:

Name	Share capital (PLN)	Shareholding of PGNiG (PLN)	% of share capital held by PGNiG
<b>Subsidiaries of PGNiG</b>			
Poszukiwania Nafty i Gazu Jasło Sp. z o.o.....	100,000,000.00	100,000,000.00	100
Poszukiwania Nafty i Gazu Kraków Sp. z o.o.....	105,231,000.00	105,231,000.00	100
Poszukiwania Nafty i Gazu NAFTA Sp. z o.o. ....	60,000,000.00	60,000,000.00	100
GEOFIZYKA Kraków Sp. z o.o. ....	64,400,000.00	64,400,000.00	100
GEOFIZYKA Toruń Sp. z o.o. ....	66,000,000.00	66,000,000.00	100
Poszukiwania Naftowe “Diament” Sp. z o.o. ....	62,000,000.00	62,000,000.00	100
Zakład Robót Górniczych Krosno Sp. z o.o. ....	26,903,000.00	26,903,000.00	100
PGNiG Norway AS (NOK) 1).....	951,327,000.00	951,327,000.00	100
Polish Oil and Gas Company – Libya B.V. (USD) 1)	26,724.00	26,724.00	100
“Investgas” S.A. ....	502,250.00	502,250.00	100
Dolnośląska Spółka Gazownictwa Sp. z o.o.....	658,384,000.00	658,384,000.00	100
Górnośląska Spółka Gazownictwa Sp. z o.o. ....	1,300,338,000.00	1,300,338,000.00	100
Karpacka Spółka Gazownictwa Sp. z o.o. ....	1,484,953,000.00	1,484,953,000.00	100
Mazowiecka Spółka Gazownictwa Sp. z o.o. ....	1,255,800,000.00	1,255,800,000.00	100

Name	Share capital (PLN)	Shareholding of PGNiG (PLN)	% of share capital held by PGNiG
Pomorska Spółka Gazownictwa Sp. z o.o. ....	614,696,000.00	614,696,000.00	100
Wielkopolska Spółka Gazownictwa Sp. z o.o. ....	1,033,186,000.00	1,033,186,000.00	100
B.S.i P.G. "Gazoprojekt" S.A. ....	4,000,000.00	3,000,000.00	75
POGC Trading GmbH (EUR) 1)	10,000,000.00	10,000,000.00	100
Operator Systemu Magazynowania Sp. z o.o. ....	1,000,000.00	1,000,000.00	100
Geovita Sp. z o.o. ....	86,139,000.00	86,139,000.00	100
PGNiG Energia S.A. ....	20,000,000.00	20,000,000.00	100
PGNiG Technologie Sp. z o.o. (formerly Górnictwo Naftowe Sp. z o.o.)..	120,398,000.00	120,398,000.00	100
"NYSAGAZ Sp. z o.o." ....	6,800,000.00	3,468,000.00	51
BUD-GAZ P.P.U.H. Sp. z o.o. ....	51,760.00	51,760.00	100
Polskie Elektrownie Gazowe Sp. z o.o. ....	1,212,000.00	1,212,000.00	100
<b>Subsidiaries of subsidiaries of PGNiG</b>			
Geofizyka Toruń Kish Ltd (IRR) 1), 2) .....	10,000,000.00	10,000,000.00	100
Oil Tech International F.Z.E. (USD) 1).....	20,000.00	20,000.00	100
Powisłe Park Sp. z o.o. ....	81,131,000.00	81,131,000.00	100
Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła) .....	1,806,500.00	1,806,500.00	100
Biogazownia Ostrowiec Sp. z o.o. ....	105,000.00	105,000.00	100
CHEMKOP Sp. z o.o. (Kraków).....	3,000,000.00	2,550,000,000.00	85
GAZ Sp. z o.o. (Błonie) .....	300,000.00	153,000.00	51
GAZ MEDIA Sp. z o.o. (Wołomin).....	300,000.00	153,000.00	51
Budownictwo Naftowe Naftomonataż Sp. z o.o.....	44,751,000.00	39,751,000.00	88.83
BUG Gazobudowa Sp. z o.o. ....	39,220,000.00	39,220,000.00	100
Zakład Urządzeń Naftowych Naftomet Sp. z o.o. ....	23,500,000.00	23,500,000.00	100
ZRUG Sp. z o.o. (Pogórska Wola).....	9,244,000.00	9,244,000.00	100

Notes:

- (1) Figures shown in foreign currencies
- (2) Share capital not paid up

**Description of the most important inter-dependent entity – EuRoPol GAZ**

EuRoPol GAZ was established on 23 September 1993 and was entered in the commercial register under RHB 38963; and on 28 November 2001 was entered in the Commerce Register under KRS0000060709. The company was founded by the following entities: PGNiG, Gazprom and Gas Trading. The shares, with a nominal value of PLN 100 each and making up the share capital of PLN 80 million, were subscribed as follows and in the following proportions: PGNiG subscribed for 384,000 shares (48 per cent. of the share capital), Gazprom subscribed for 384,000 shares (48 per cent. of the share capital), and Gas Trading

subscribed for 32,000 shares (4 per cent. of the share capital). Since the company's creation, its share capital has not been increased and the shareholding structure has remained unchanged.

EuRoPol GAZ was established in connection with the "Understanding between the Government of the Republic of Poland and the Government of the Russian Federation on the construction of a pipeline system to transit Russian gas through the territory of the Republic of Poland and on the supply of Russian gas to the Republic of Poland", concluded on 25 August 1993 in Warsaw, and approved by resolution No. 76/93 of the Council of Ministers of Poland dated 14 September 1993. The principal objective of EuRoPol GAZ's operations is to create a network of transit pipelines to transport gas to European countries and to the Kalingrad district of the Russian Federation, through the territory of Poland, as well as to provide for the needs of the Polish economy, all in accordance with the provisions of the abovementioned agreement.

## **Recent Developments**

### **PGNiG agreement to acquire 99.8 per cent. of Vattenfall Heat Poland S.A. ("VHP")**

On 23 August 2011, PGNiG agreed to acquire 24,591,544 shares in VHP from its Swedish owner, Vattenfall S.A., for PLN 2.96 billion in cash (approximately EUR 720 million). The final price to be paid will vary depending on timing of settlement of the acquisition. The acquisition is subject to the approval of the President of the Antimonopoly Office and is expected to be concluded before the end of 2011.

VHP's heat generation assets represent over 23 per cent. of the total heat generating capacity in Poland. The acquisition will see PGNiG diversify into the Polish heat generation market for the first time.

## REGULATORY ENVIRONMENT

The following legislative acts are of particular significance for the operations of the PGNiG Group:

**The Energy Law of 10 April 1997** (Journal of Laws of 2003, No. 153, item 1504 as amended) – in reference to activity concerning fuel gas trading, gas distribution and fuel gas storage;

**The Act on Petroleum Stocks, Oil and Natural Gas Products and the Rules of Procedure in Situations Threatening the State's Fuel Security and Disruptions on the Oil Market of 16 February 2007** (Journal of Laws of 2007, No. 52, item 343) – in reference to activity connected with foreign trade in natural gas; and

**The Geological and Mining Law of 4 February 1994** (Journal of Laws of 1994, No. 27, item 96 as amended) – in reference to the extraction and associated sale of gas.

The Energy Law is the basic item of legislation regulating the operation of the gas market in Poland. It sets forth rules for how Poland's energy policy is to be determined and the rules and terms governing fuel and energy supply and consumption. It also identifies the authorities competent for fuel and energy management policy issues. The provisions of the Energy Law are supplemented by a number of regulations.

The entities forming part of the PGNiG Group act in accordance with the provisions of the law. The exception is the Regulation of the Council of Ministers of Poland dated 24 October 2000 on the minimum diversification level of sources of gas imports (Journal of Laws No. 95, item 1042) where compliance with the law would breach an Intergovernmental Agreement between the Republic of Poland and the Russian Federation (see section on Gas Exports and Imports below).

### Licences

The Energy Law provides for an obligation to obtain a licence for conducting business activity involving (i) the manufacture, (ii) storage, (iii) transmission and distribution, or (iv) trade in gas fuels (Article 32 paragraph 1 of the Energy Law). An entity which has been granted a licence is obliged to make annual payments towards the State budget through the President of the ERO (Article 34 paragraphs 1 and 3 of the Energy Law).

The President of the ERO may, at the request of an Energy Undertaking, change the terms under which the given licence is granted. It may also withdraw or change the terms of a licence *ex officio* due to national defence and security considerations or if the given Energy Undertaking divides or merges with another entity. The President of the ERO is obliged to withdraw a licence in the circumstances set out in the Energy Law, such as when the activities of such Energy Undertakings grossly breach the terms of the licence and the Energy Undertaking fails to remedy the breach by a specific deadline.

Licences are granted for a specified term of 10 to 50 years.

### Supply of gas fuels

The Energy Law (article 5, paragraph 1) stipulates that gas fuels may be supplied to a customer connected to the network, under (i) a sale agreement and an agreement for the provision of transmission and/or distribution services; or (ii) a sale agreement, an agreement for the provision of transmission and/or distribution services and an agreement for the provision of gas fuel storage services and/or an agreement for the provision of gas liquefaction services.

Gas fuels or energy may also be supplied under a so-called universal service agreement, i.e. an agreement containing the provisions of a sale agreement and an agreement for the provision of transmission and/or distribution services. A universal service agreement concerning the supply of gas fuels may also incorporate the provisions of an agreement for the storage of gas fuel and, with respect to heat purchased from other



Energy Undertakings, it should also specify the conditions for applying the prices and fee rates used by such undertakings. A universal service agreement may also contain the provisions of a gas fuel sale agreement, an agreement for the transmission and/or distribution of gas fuels and/or an agreement for the provision of gas fuel storage services, concluded by the seller for and on behalf of the end user with an Energy Undertaking involved in the transmission, distribution and/or storage of gas fuels.

Moreover, Article 4, paragraph 2 of the Energy Law specifies the rules of third-party access to energy networks. Energy Undertakings involved in the transmission and/or distribution of gas fuels are obliged to provide all customers and undertakings involved in the sale of gas fuels, based on the equal treatment rule, with services involving the transmission and/or distribution of gas fuels on such terms and within such scope as provided for in the Energy Law. Gas and/or energy may be transmitted or distributed pursuant to an agreement for the provision of such services. However, the implementation of this obligation has been delayed. So far, pursuant to the Regulation of the Minister of the Economy dated 6 August 1998, on the time frame for particular customer classes' eligibility to use transmission services (Dz. U. No. 107, item 671), subsequently replaced with the Regulation of the Minister of the Economy dated 20 January 2003, on the time frame for customers' eligibility to use transmission services (Dz. U. No. 17, item 158), which was later repealed following the entry into force of the Amended Energy Law, particular customer classes have gradually become eligible to use transmission services. The New Gas Directive requires that after 1 July 2004, all non-household customers become eligible to use transmission services and be free to choose their gas supplier (the third-party access rule). After 1 July 2007, all gas customers are to become eligible customers. This solution was mirrored in the Amended Energy Law, which also provides that non-household gas customers are to become eligible customers (i.e. subject to the TPA rule) only on 1 July 2007, upon the entry into force of the provisions fully liberalising the energy market. Pursuant to Article 8 of the Energy Law, any disputes arising from refusals to conclude network connection agreements, gas sale agreements, agreements for the provision of fuel or energy transmission and distribution services, agreements for the provision of natural gas transport services, agreements for the provision of gas storage services, agreements for the provision of natural gas liquefaction and universal service agreements, as well as from unjustified cessations of the provision of gas fuel or energy supply services, are examined and resolved by the President of the ERO at the request of a party to such dispute.

### **Tariff policy**

Unless the President of the ERO determines, under Article 49 of the Energy Law, that an Energy Undertaking operates in a competitive environment, an Energy Undertaking may only conclude agreements with its gas fuel customers incorporating the settlement terms arising from the prices and rates specified in the applicable tariff. Pursuant to Article 45, paragraph 1 of the Energy Law, Energy Undertakings determine the gas fuel tariffs according to the scope of their business activity. Tariffs should be calculated in such a way as to ensure: (i) coverage of the justified costs of the Energy Undertakings' business operations, such as the costs of manufacturing, processing, transmitting, distributing or trading in gas fuels and energy, the costs of storing, liquefying or regasifying gas fuels, as well as a justified return on the capital employed for such operations; (ii) coverage of the justified costs incurred by the transmission and distribution system operators in connection with the pursuit of their tasks; and (iii) the protection of gas customers from unreasonable prices and rates. Energy Undertakings may differentiate their prices and fees specified in gas fuel tariffs for particular customer classes only if such changes are linked to the costs of providing the service.

The PGNiG Group therefore considers making the company's revenue independent of these regulations to be a key element of its pricing policy. At present, the amount of revenue depends mainly on the level of fuel sale prices, which are regulated officially and directly connected with the tariff determination method used. The principles of determining tariffs are specified in the executive legislation for the Energy Law, above all in the tariff regulation.

In the tariff determination method used, prices and charge rates are specified on the basis of forecast costs and planned natural gas sale volumes, with account being taken of the costs of acquiring gas from all possible fuel gas supply directions – both from imports and domestic production. In practice, this means that both foreign trading and domestic production are subject to pricing regulations.

Energy Undertakings holding a licence submit tariff proposals either on their own initiative or at the request of the President of the ERO, and suggest the term during which such tariffs should remain in force. The tariffs are subject to the review and approval by the President of the ERO. The President of the ERO subsequently announces the approved gas tariffs in the Bulletin of the ERO, at the expense of the Energy Undertaking, within 14 days from the given tariff approval date. An Energy Undertaking may implement an approved tariff not earlier than 14 and not later than 45 days from its publication date.

Until 31 May 2010, settlements with customers were made according to Gaseous Fuel Tariff No. 2/2009, approved by virtue of the decision issued by the President of the ERO on 7 May 2009.

On 12 February 2010, PGNiG S.A. filed a request with the President of the ERO for approval of PGNiG S.A.'s Gaseous Fuel Tariff.

By virtue of his decision of 17 May 2010, the President of the ERO approved PGNiG S.A.'s Gaseous Fuel Tariff which has been effective for settlements with customers since 1 June 2010. The new Tariff comprises: (i) Part A – “Gaseous Fuel Supply Tariff No. 3/2010”, which will remain in effect until a new tariff is approved (see below); and (ii) Part B – “Gaseous Fuel Storage Services Tariff No. 1/2010”, which was to remain in effect until 31 May 2011 (see below).

On 2 July 2010, PGNiG S.A. filed an application with the President of the ERO requesting that the President's decision of 17 May 2010 approving PGNiG S.A.'s Gaseous Fuel Tariff (Part A – “Gaseous Fuel Supply Tariff No. 3/2010”) be declared invalid with respect to its effective period, citing the fact that the President of the ERO had unilaterally decided to extend that period by two months. The application was withdrawn due to the President of the ERO's decisions on adjustment of the Tariff with effect from 1 October 2010 (see below).

On 23 July 2010, the Company filed an application with the President of the ERO requesting adjustment of the Gaseous Fuel Tariff (Part A – “Gaseous Fuel Supply Tariff No. 3/2010”) with respect to the prices of gaseous fuels (except for propane-butane-air and decompressed propane-butane). The President of the ERO issued a decision approving an increase of prices for the period from 1 October 2010 to 31 March 2011. Subsequently, the Company filed another application regarding the Tariff adjustment proposing a price reduction for a period from 1 January 2011 to 31 March 2011, which was also approved by a decision of the President of the ERO. On 11 February 2011, the Company filed with the President of the ERO another application requesting adjustment of the Gaseous Fuel Tariff (Part A – “Gaseous Fuel Supply Tariff No. 3/2010”) with respect to the prices of gaseous fuels and extension of its effective period until 31 May 2011; however, on 16 May the President of the ERO decided to discontinue the proceedings. Subsequently, on 30 March PGNiG filed an application with the President of the ERO requesting approval of PGNiG S.A.'s new Gaseous Fuel Tariff (Part A – “Gaseous Fuel Supply Tariff No. 4/2011”) which would remain in effect until 30 September 2011. Until present, the President of the ERO did not issue any decision on the subject.

With regards to PGNiG S.A.'s Gaseous Fuel Tariff Part B – “Gaseous Fuel Storage Services Tariff No. 1/2010”, on 18 April 2011, the Company filed an application with the President of the ERO requesting that the President's decision of 17 May 2010 be amended through extension of its period of effectiveness until 30 September 2011. On 17 May 2011, the President of the ERO issued a decision approving such an extension. Furthermore, currently, PGNiG is preparing a new tariff for gaseous fuel storage services which will be taking into account the provisions of EU Regulation 715/2009.

### **Connection to the gas network**

Pursuant to Article 7, paragraph 1 of the Energy Law, an Energy Undertaking involved in the transmission and/or distribution of gas fuels is obliged to conclude network connection agreements with entities requesting to be connected to the network, based on the equal treatment principle, as long as the network connection and fuel supply is technically and economically viable and the entity demanding that the agreement be concluded meets the conditions for network connection and gas delivery. If an Energy Undertaking refuses to conclude a network connection agreement, it is obliged to notify the President of the ERO and the interested entity immediately in writing of its decision and state the reasons for such refusal.

Furthermore, Energy Undertakings involved in the transmission and distribution of power and gas fuels are obliged to ensure the implementation and financing of network construction and development, including as regards the requirement to connect entities requesting connection to the network. A fee, based on the connection fee rates specified in the tariff, is charged for a connection to the network. Any disputes arising from refusals to conclude network connection agreements, gas sale agreements, agreements for the provision of fuel or energy transmission and distribution services, agreements for the provision of natural gas transport services, agreements for the provision of gas storage services, agreements for the provision of natural gas liquefaction and universal service agreements, as well as from unjustified cessations in the provision of gas fuel or energy supply services, are examined and resolved by the President of the ERO at the request of a party to such dispute.

### **Technical requirements for gas networks**

The provisions of the Regulation of the Minister of the Economy dated 30 July 2001, on the technical requirements for gas networks (Dz. U. No. 97, item 1055), apply to the design, construction, conversion or extension of gas networks used for transmitting and distributing gas fuels. These requirements concern the location of gas pipelines (and provide that gas pipelines may be located underground or aboveground), the maintenance of pipelines and the construction and operation of gas stations, gas pumping stations and gas storage facilities. A restricted area is designated around a constructed pipeline during its term of operation, where no buildings may be erected and where no activity may be conducted which could threaten the durability of the pipeline. The location of buildings with respect to the location of gas pipelines must comply with the requirements specified in the legal regulations under which such pipelines were constructed.

These regulations include: (i) the regulation of the Minister of Industry and Trade dated 14 November 1995 on the technical requirements for gas networks (Dz. U. of 1995, No. 139, item 686); (ii) the regulation of the Minister of Industry dated 24 June 1989, on the technical requirements for gas networks (Dz. U. of 1989, No. 45, item 243); and (iii) the regulation of the Minister of Mining Industry dated 18 August 1978, on the technical requirements for gas networks (Dz. U. of 1978, No. 21, item 940).

### **Gas exports and imports**

There are no special restrictions related to the export of gas from Poland other than general customs and tax requirements. A legal entity importing and exporting gas from Poland must apply for a licence for foreign trade in gas.

Additional legal requirements are imposed for the import of natural gas. A legal entity importing natural gas from a non-EU country must fulfil certain diversification requirements. The amount of natural gas imported from one destination cannot exceed a certain value as set out in the Community Customs Code (see below). Additionally, under the Mandatory Reserves Act, it must store a certain amount of natural gas in Poland in proportion to the level of import.

Since 1 May 2004, gas imports to Poland have been regulated by the provisions of the Community Customs Code implemented under Council Regulation (EEC) No. 2913/92 dated 12 October 1992 establishing the Community Customs Code (Official Journal of the EC L 302 dated 19 October 1992) and based on the

executive regulation – Commission Regulation (EEC) No. 2454/93 dated 2 July 1993, setting out the provisions for implementing Council Regulation (EEC) No. 2913/92 establishing the Community Customs Code (Official Journal of the EC L 253 dated 11 October 1993). The provisions of these acts are supplemented by the provisions of the Customs Law dated 19 March 2004 (Dz. U. No. 68, item 622, as amended). Section 1 of the Regulation of the Council of Ministers of Poland dated 24 October 2000 on the minimum diversification level of sources of gas imports (Dz. U. No. 95, item 1042) provides that the maximum percentage of gas imported from a single country of origin in the entire volume of imported gas in a given year may not exceed: (i) 88 per cent. – in 2001 to 2002, (ii) 78 per cent. – in 2003 to 2004, (iii) 72 per cent. – in 2005 to 2009, (iv) 70 per cent. – in 2010 to 2014, (v) 59 per cent. – in 2015 to 2018 and 49 per cent. – in 2019 to 2020.

These thresholds did not apply until 1 May 2004 with respect to gas produced in EU Member States.

In the years 2001 to 2006, PGNiG did not exceed the abovementioned maximum percentage of gas imported from a single country of origin in the entire volume of imported gas in a given year.

By virtue of a decision dated 16 December 2010, the President of the ERO imposed on the Company a fine of PLN 2 million. The fine, imposed pursuant to Art. 56.1.12 in conjunction with Art. 56.2.1, Art. 56.3 and Art. 56.6 of the Energy Law, is equal to 4.85 per cent. of PGNiG's 2009 revenue from licensed activities in the area of international trading in natural gas. The fine was imposed as a consequence of the Company's breach of the terms of the licence for international trade in natural gas. The breach consisted in non-compliance by the Company in 2007 and 2008 with the requirements imposed pursuant to the Council of Ministers' Regulation on the minimum level of diversification of foreign sources of gas supplies, dated 24 October 2000 (the "**Regulation**"). According to the decision, PGNiG's gas imports from Russia exceeded the permissible ratio to the total volume of gas imports by 1.14pp and 2.76pp, respectively, in 2007 and 2008. However, it should be noted that the share of gas imported from one country of origin was determined by the President of URE without taking into account the gas supplied to Poland from the west (Germany) and the south (the Czech Republic). Pursuant to the decision, these supplies were treated as intra-Community acquisitions, falling outside the category of imports, on the basis of the President of URE's interpretation of the Excise Duty Act and the definitions contained therein. Classification of these supplies as natural gas imports to Poland would have allowed the Company to meet the regulatory requirements. The interpretation of the regulatory provisions adopted by the President of URE does not account for the fact that the actual political and economic changes (Poland's accession to the European Community) were not reflected in the discussed Regulation, which was issued under the Act on Excise Tax Labels of 2 December 1993. The Act of 1993 did not draw any distinction between imports and intra-Community acquisitions. The Regulation on the minimum level of diversification of foreign sources of gas supplies was issued in 2000 and, since then, it has not been amended.

On 4 January 2011, PGNiG filed with the Competition and Consumer Protection Court at the Regional Court in Warsaw, through the agency of the President of the ERO, an Appeal against the above decision. PGNiG requested that the decision be revoked in full or changed in full and that the Court declare that the Company did not default on the obligation arising from its licence for international trade in natural gas. Pursuant to Art. 130.2 of the Code of Administrative Procedure, the filing of an appeal stays enforcement of a decision. Until present, the Court did not rule on the subject. However, should it revoke PGNiG's appeal, the Company will have to pay the imposed fine of PLN 2 million.

Subsequent proceedings regarding the breach of the threshold of maximum percentage of gas imported from a single country of origin in the entire volume of imported gas in 2009 was instigated on 2 March 2011. However, on 15 April 2011, the President of the ERO stayed the proceedings until the ruling of the Competition and Consumer Protection Court at the Regional Court in Warsaw on the alleged breaches to fulfil this obligation in 2007 to 2008 (see above).

On 2 November 2010, the Republic of Poland and the Russian Federation signed protocols to the Intergovernmental Agreement that resulted in an increase of natural gas import from the Russian Federation to Poland, thereby contradicting the obligations imposed on gas importers regarding the minimum level of diversification of sources of gas imports. In consequence, it is not possible for the Company to act in compliance with the abovementioned Regulation.

The Amended Energy Law provides that any Energy Undertaking involved in the cross-border trade in natural gas is obliged to maintain reserves of natural gas at 3 per cent. of the annual volume of natural gas imports planned by such Energy Undertaking.

#### **The New Gas Directive and the Amended Energy Law**

On 22 June 1998, the European Parliament and the Council of the European Union adopted a directive on common rules for the internal market in natural gas (the “**1998 Gas Directive**”). The 1998 Gas Directive came into force on 10 August 1998. The currently effective Gas Directive 2003/55/EU (the “**Gas Directive**”) was adopted on 26 June 2003, and effective 1 July 2004, the Gas Directive replaced the 1998 Gas Directive.

The Gas Directive established common rules for the transmission, distribution, supply and storage of natural gas. The Gas Directive sets out rules for the organisation of the natural gas sector (including LNG), access to the market, the operation of transmission and distribution systems, and the criteria and procedures for authorising the transmission, distribution, supply and storage of natural gas in order to open domestic gas markets to competition. Since 1 July 2007, pursuant to the Gas Directive all customers have the right to choose their supplier. EU member states have the right to accelerate the rate at which they open their markets. While the 1998 Gas Directive provided for the possibility of both regulated and market-based access by third parties to gas transportation and distribution systems and to LNG terminals, the Gas Directive now in effect only provides for regulated access to such facilities. Such access is based on the tariffs that become effective only upon their publication and shall apply uniformly to all consumers.

The implementation of the 1998 Gas Directive led to significant structural changes in the European natural gas market, and the Gas Directive now in effect has brought about a significant liberalisation of the European natural gas market, going further than the Gas Directive’s minimum requirements. Even prior to the adoption of the Gas Directive, almost 80 per cent. of the total EU market (15 countries) was formally opened to competition.

The Amended Energy Law introduced an explicit rule that gas fuel customers have the right to purchase gas fuels from a supplier of their choice. From 1 July 2007, this rule applies to household gas customers.

The Amended Energy Law introduced a rule that the executive provisions issued, prior to its entry into force (based on authorisations amended under the Amended Energy Law), will remain in force until such date as new executive provisions issued based on authorisations under the Amended Energy Law enter into force.

#### **SoS Regulation**

Regulation No. 994/2010 of the European Parliament and of the Council concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC (hereinafter referred to as the “**SoS Regulation**”) entered into force on 2 December 2010.

According to the SoS Regulation, the security of gas supply is a shared responsibility of natural gas undertakings, member states and the Commission, with their respective areas of competence and, accordingly, the implementing measures shall establish roles for the different actors involved in such a way as to ensure that a three-level approach is respected. Consequently, the SoS Regulation requires establishment of Preventive Action Plans (containing the measures to be taken to remove or mitigate the risks of a gas supply disruption) and Emergency Action Plans (containing the measures to be taken to remove or mitigate the

impact of a gas supply disruption) both taking into account the role of natural gas undertakings such as PGNiG.

The SoS Regulation also introduces an infrastructure standard and a supply standard. The infrastructure standard requires member states to ensure that in the event of a disruption to the single largest gas infrastructure, the capacity of the remaining infrastructure is able to satisfy total gas demand of the calculated area during a day of exceptionally high gas demand occurring with a statistical probability of once in 20 years. The supply standard obliges the competent national authority to require natural gas undertakings (that it identifies) to take measures to ensure gas supply to protected customers of the member states in the following cases: (i) extreme temperatures during a seven-day peak period occurring with a statistical probability of once in 20 years; (ii) any period of at least 30 days of exceptionally high gas demand, occurring with a statistical probability of once in 20 years; and (iii) for a period of at least 30 days in case of the disruption of the single largest gas infrastructure under average winter conditions.

### **3rd EU Energy Liberalisation Package: Directive 2009/73/EC and Regulation 715/2009**

#### ***Directive 2009/73/EC***

Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (hereinafter referred to as “Directive 2009/73/EC”), provides rules for the unbundling of storage system operators and for providing access to storage services.

#### *Unbundling of storage system operators*

Article 15 of Directive 2009/73/EC stipulates that a storage system operator which is a part of vertically integrated undertaking shall be independent, at least in terms of its legal form, organisation and decision making from other activities not relating to storage. PGNiG was designated as a storage system operator on 31 December 2008. The Company plans to legally unbundle its storage system operator in line with the provisions of Directive 2009/73/EC before the end of 2010.

#### *Access to storage services*

Article 33 of Directive 2009/73/EC (like article 19 of Directive 2003/55/EC) obliges member states to ensure negotiated or regulated access to storage services on objective, transparent and non-discriminatory criteria. Poland applies a model of regulated access, which is transparent and friendly for entities ordering storage services. Tariffs for storage services are calculated in accordance with the detailed rules of the Regulation on developing and calculating tariffs and settlements in gas trade (*Rozporządzenie Ministra Gospodarki w sprawie szczegółowych zasad kształtowania i kalkulacji taryf oraz rozliczeń w obrocie paliwami gazowymi*, Journal of Laws of 2008, No. 28, item 165). Pursuant to Article 47 of the Energy Law, energy enterprises shall specify the tariffs, which are subject to approval by the President of the ERO. Terms and conditions of access to storage services are defined in the Storage Services Rules.

In the near future, the Ministry of Economic Affairs is expected to commence transposition of Directive 2009/73/EC into a new Polish Gas Law.

#### ***Regulation 715/2009***

Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission system (hereinafter referred to as “**Regulation 715/2009**”) contains a number of provisions relating to storage facilities, including rules on third-party access, principles of capacity-allocation mechanisms and congestion-management procedures and transparency requirements.

The Ministry of Economic Affairs is currently working on a revised draft of the Regulation on detailed rules for developing and calculating tariffs and settlements in gas trade (*Rozporządzenie w sprawie szczegółowych*

*zasad kształtowania i kalkulacji taryf oraz rozliczeń w obrocie paliwami gazowymi*, Journal of Laws of 2008, No. 28, item 165), which will adjust Polish law to the requirements of the Regulation 715/2009.

Implementation of the 3rd EU Energy Liberalization Package may lead to deregulation in the gas sector with respect to gas prices. Currently, the gas sector is fully regulated – all tariffs, both for households and industrial users, need to be approved by the President of the ERO. PGNiG expects that in the following two to three years, gas prices for large industrial customers might be deregulated, i.e. gas price formulas could be introduced for those users.

#### **Draft Act on Energy Efficiency**

The Ministry of Economic Affairs is currently working through the Draft Act on Energy Efficiency (*Projekt ustawy o efektywności energetycznej*) to transpose Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services which repeals Council Directive 93/76/EEC.

The Draft Act on Energy Efficiency sets out a national indicative final energy savings target of a 9 per cent. reduction of the annual average amount of consumption per year by 2016.

Sellers of electricity, heat and/or natural gas to end-users connected to the network in the territory of Poland will be obliged to obtain certificates of energy efficiency and present them to the President of the ERO for redemption. The obligation would be correlated with a sanction – if the energy enterprise should fail to deliver certificates in due amount, it will pay an alternative fee. As a result, the economic burden of this obligation will be carried by electricity, gas and heat suppliers.

An energy enterprise will be eligible to receive a certificate of energy efficiency, if it improves energy efficiency through: (i) an increase in energy saving by end-users; (ii) an increase of its own energy saving; and/or (iii) decrease of losses of electricity, heat and/or gas in transmission or distribution. Such investments will be possible only after winning a public tender, where only offers assuming energy savings of at least 10 toe would be taken into account.

Pursuant to the provisions of a Draft Regulation (to be adopted in accordance with a delegation incorporated in the Draft Act on Energy Efficiency) indicating the value of certificates of energy efficiency to be acquired by the sellers of electricity, heat and/or gas and submitted to the President of the ERO, it will be equal to 1 per cent. of the overall income of a given entity in 2013, 2 per cent. in 2014 and 3 per cent. in 2015. In consequence, PGNiG will have to file an application with the President of the ERO, requesting approval of a new tariff for sale of gaseous fuels that will establish accordingly higher prices.

#### **Energy Charter Treaty**

Poland signed the Energy Charter Treaty on 17 December 1994, which entered into force on 23 July 2001. Thus far, it has primarily been ratified by EU Member States and countries of the Commonwealth of Independent States. The Treaty provides for framework obligations requiring its signatories to remove gradually all obstacles, including all customs and administrative obstacles, which prevent free trade in energy materials and products and related technologies, equipment and services. These obligations mean, from a long-term perspective, that the fuel market will become more competitive and that certain obstacles might occur in using transmission networks based on previously applicable rules.

#### **Poland's Energy Policy Until 2030**

The Council of Ministers adopted, on 10 November 2009, Poland's Energy Policy Until 2030 (the "Policy"), developed by the Ministry of Economy. The Policy contains a long-term development strategy for the energy sector, the forecast demand for fuel and energy and an action programme until 2012.

The strategy responds to the crucial challenges facing the Polish energy sector in the short and long term. Improved energy efficiency is to reduce the impact of growth in demand for fuels and energy, which in turn will contribute to increased energy security, due to reduced dependence on imports. This will also limit the impact of energy on the environment by reducing emissions of greenhouse gases.

For each of the identified priority directions, the Ministry has formulated general and specific targets, identified activities for their implementation, and the anticipated results.

The six main directions are as follows:

#### ***Improving energy efficiency***

Improving energy efficiency is a priority direction for the Policy. Progress in this field will be the key to the achievement of all of its objectives. The principal objectives in this scope include maintaining zero-energy growth and consistent reduction in the energy demand of the Polish economy to the level of the EU-15.

The Ministry of Economy intends to stimulate pro-efficiency measures in the production, transmission and distribution, and the use of energy. One of the proposed support instruments would be a system of “white certificates”, which provides financial benefits for those making the biggest energy savings.

In addition, the Ministry plans a dynamic development of production of electricity and heat in the high-efficiency cogeneration technology. Further actions include introducing minimum standards for appliances and energy-using products, and marking their energy intensity. The Ministry of Economy will also conduct information campaigns to promote the rational use of energy.

#### ***Security of fuel and energy supplies***

Poland’s energy security will be based on domestic fuel and energy resources, especially hard coal and lignite. This will ensure independence from the production of electricity and, in large part, heat from external sources of supply.

In the area of oil, gas and liquid fuels, the Policy assumes diversification, which now applies not only to supply sources but also to production technologies. Support will be given to develop technologies whereby it will be possible to acquire liquid and gaseous fuels from domestic resources.

The current forecasts on the possibility of covering future demand for electricity in Poland indicate the need to increase capacity. Commitments for the reduction of greenhouse gas emissions force Poland to look for low-emission solutions in the production of electricity.

#### ***Introduce nuclear power***

A new field of activity is the introduction of nuclear power in Poland. In order to create conditions for the introduction of nuclear power, a key policy sets out measures aimed at creating a legal framework and organisational structure, as well as training human resources, including scientific research personnel. It will be also necessary to carry out analysis for the location of nuclear plants and radioactive waste burial sites.

In May 2010, Poland announced plans for its first nuclear power plant to be built in Zarnowiec, near Gdansk. This location has been confirmed by the government and, according to the current plans, the plant will begin its operation in 2020.

#### ***Develop RES utilisation***

Policies involve the following targets: to achieve 15 per cent. share of RES in final energy consumption by 2020, and a 20 per cent. share by 2030. It is also planned to achieve, by 2020, a 10 per cent. share of biofuels of the market of transport fuels, and increase the use of second-generation biofuels.



The basic measures provided for by the Policy in this area are to support the generation of electricity, heat and cooling from RES and the production of biofuels. An interesting initiative, currently being drafted by the Ministry of Economy, is the programme for the construction of agricultural biogas plants.

#### ***Develop competitive fuel and energy markets***

Competitive energy markets help reduce production costs and therefore dampen fuel and energy price increases. In this area, the Ministry of Economy aims to: solve the problem of dependence on supply of natural gas and crude oil from one source, abolish the barriers faced when trying to switch the provider of electricity and gas, rebuild the model for the electricity market and introduce market methods for establishing the price of heat.

#### ***Limit environmental impact***

Basic measures are aimed at reducing emissions of CO<sub>2</sub>, SO<sub>2</sub> and NO<sub>x</sub>, in accordance with the commitments assumed by Poland. The main objective in this area is to reduce emissions of CO<sub>2</sub> to a technically feasible level without affecting energy security.

The draft Policy provides for establishing a system to manage national ceilings on emissions of greenhouse gases and other substances, introducing product-specific limits on CO<sub>2</sub> emissions in electricity and heat generation, and adopting standards to reduce the emissions in these sectors.

#### **Act on stocks of crude oil, petroleum products and natural gas**

The Act of 16 February 2007 on stocks of crude oil, petroleum products and natural gas, and the rules of conduct in situations of threat to fuel security of the state and disruptions in the oil market (*Ustawa o zapasach ropy naftowej, produktów naftowych i gazu ziemnego oraz zasadach postępowania w sytuacjach zagrożenia bezpieczeństwa paliwowego państwa i zakłóceń na rynku naftowym*, *Journal of Laws No. 52, item 343*) are currently undergoing a process of revision.

Two significant amendments are proposed: the first would allow maintenance of strategic reserves in the territories of other EU member states if they meet the same requirements for those maintained in the territory of Poland; the second would provide for a possibility to exempt an energy enterprise, whose activity consists of the foreign trade of gas, from an obligation to maintain a strategic reserve of that gas, if the number of customers of that energy enterprise do not exceed 100,000 and the total volume of gas imported by that energy enterprise does not exceed 100 mcm. The proposed changes are not likely to have a significant impact on PGNiG. In light of the lack of free interconnector capacities and the potentially high costs of booking relevant transport capacities, it is unlikely that strategic stocks will be allocated outside the domestic territories of EU countries. The second change would impair the level-playing field between natural gas importers on basis of traded volume, however, it is not likely to have any significant impact on the PGNiG Group.

It should be noted that there is a likelihood that when Regulation 715/2009 enters into force, the Ministry of Economic Affairs will undertake a revision of the recently amended Act on stocks of crude oil, petroleum products and natural gas in order to adapt the rules concerning maintenance of natural gas strategic reserves to the supply standard put forward by the EU Regulation.

#### **Geological and Mining Law**

##### ***Mining usufruct rights***

The Geological and Mining Law sets out the terms and conditions for performing geological works and extracting minerals from deposits. The law also applies to business activities involving the bulk storage of substances and disposing of waste in rock mass, such as underground mining pits.

Pursuant to Article 7 of the Geological and Mining Law, mineral deposits which are not components of land real estate are the property of the State Treasury. The Geological and Mining Law further presumes that minerals which may be explored by opencast mining are not owned by the State Treasury. Mineral deposits owned by the State Treasury may not be subject to privatisation (Article 1, subparagraph 4 in conjunction with Article 2 of the Act on the conservation of the national character of strategic national natural resources dated 6 July 2001) (Dz. U. No. 97, item 1051, as amended). Consequently, entities other than the State Treasury may only use minerals owned by the State Treasury after a mining usufruct has been established in favour of such entities. A mining usufructuary may explore, prospect for or extract a particular mineral to the exclusion of third parties. A mining usufructuary may dispose of its right subject to the same restrictions. The restrictions on such rights are specified in the appropriate laws and the applicable mining usufructuary agreement. The right to establish a mining usufruct vested in the State Treasury is exercised by authorities competent to grant licences. Pursuant to Article 10, paragraph 1 of the Geological and Mining Law, a mining usufruct may be established with an agreement and upon payment of a fee, on condition that the prospective usufructuary obtains a licence. Article 10, paragraph 3 of the Geological and Mining Law provides that if the licence expires or is withdrawn, the mining usufruct automatically expires. An entity which has explored and documented a mineral deposit owned by the State Treasury and has prepared geological documentation which is sufficiently detailed to obtain a licence for extracting the given mineral, is entitled to demand that a mining usufruct be established in its favour with priority over other entities.

### ***Licences***

Under the Geological and Mining Law, a licence is required in connection with conducting the following types of business activity: (i) prospecting for or exploration of mineral deposits; (ii) extracting minerals from deposits; and (iii) the bulk storage of substances and disposal of waste in rock mass, such as underground mining pits. Licences for the types of activity regulated under the Geological and Mining Law with respect to basic minerals are granted by the Minister of the Environment for such periods of time as the authority deems appropriate. The grant of such a licence requires that the Minister of the Economy be consulted. If the area of the planned activity does not exceed 2 ha, the volume of the crude oil or gas produced within a calendar year does not exceed 20 mcm and the activity is conducted without the use of explosives, the licence can be granted by a *starosta* (head of a *powiat* which is an administrative district) in consultation with the appropriate *voivod* and a mining supervision authority. The grant of a licence for: (i) activity within Poland's offshore regions requires the approval of the Minister of the Economy; (ii) the extraction of minerals from land located under inland waters and from areas threatened by floods requires the permission of the authority responsible for water maintenance, and the approval of the authority for issuing water permits.

Pursuant to Article 26c of the Geological and Mining Law, a company that has obtained a licence for activity involving: (i) extracting minerals from deposits; and (ii) the bulk storage of substances and disposing of waste in rock mass, such as underground mining pits, is obliged to create a fund for the liquidation of a mining plant. These moneys are held in a separate bank account from the start of such business activity until the actual liquidation of the mining plant.

Unless contrary to the public interest or of particular significance for the national economy, the licence-granting authority is obliged to transfer a mining licence to another company other than that for which the licence was originally granted, provided that: (i) the owner of the original licence consents; (ii) the company to which the licence is to be transferred consents; (iii) the transferee company accepts all of the terms of the licence; (iv) such company proves its title to the land or the right of mining usufruct with respect to the land where it intends to conduct the licensed activity; and (v) such company proves that it is capable of meeting the requirements necessary for the performance of its planned activity.

The licence-granting authority may withdraw a licence or amend its terms *ex officio* due to national defence and security considerations. The authority is obliged to withdraw a licence if the activity conducted grossly

breaches the terms thereof and the company in question does not remedy the breach within the appropriate time frame. A licence expires if the licensee undergoes liquidation. If a company holding a licence is declared bankrupt, the licence-granting authority may issue a decision withdrawing the licence without awarding any compensation. The withdrawal or expiry of a licence does not release its holder from the duty to perform the environmental protection obligations specified therein and the obligations connected with the liquidation of a mining plant.

### **Gas storage legislation**

The provisions of Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC (hereinafter referred to as “**Directive 2003/55/EC**”) were transposed into Polish Energy Law (Ustawa Prawo energetyczne, Journal of Laws of 2006, No. 89, item 625). PGNiG acts in compliance with the Energy Law (and, consequently, is also in compliance with Directive 2003/55/EC).

In order to fulfill the obligations imposed by Directive 2003/55/EC concerning third-party access to storage facilities, PGNiG provides storage services to third parties. Since the appointment of PGNiG by the President of the ERO as Storage Service Operator (“SSO”) on 31 December 2008, a number of actions had been taken to provide access to storage services for third parties on an equal and non-discriminatory basis. The operations executed by PGNiG included in particular:

#### *Market screening concerning demand for the storage services.*

In order to obtain information regarding demand for the storage services, PGNiG – Storage System Operator Branch in Warsaw conducted the market screening procedure. Five replies were received which indicated that the aggregate total requested demand for storage services exceeded available storage capacity of the existing UGS facilities.

#### *Conducting market consultations regarding draft version of the Storage Services Rules and draft version of the Storage Services Agreement.*

Market consultation regarding the draft version of the Storage Services Rules as well as the draft version of the Storage Services Agreement was conducted from May to June 2009. Four companies responded. All comments were analysed and, where relevant, incorporated in the Storage Services Rules.

#### *Preparation and approval of the Storage Services Tariff*

On 16 June 2009, the President of the ERO approved a new Storage Services Tariff (decision no. DTA-4212-2(21)/2009/652/II/AG) “Part B Gas Storage Services Tariff No. 1/2009”. The approved Storage Services Tariff became binding on 1 July 2009.

#### *Publication of the terms and conditions regarding storage services as well as information concerning the volume of storage services offered*

On 1 July 2009, the Storage Services Rules, templates for ordering storage services as well as information on the introduction of storage services were published on the PGNiG internet page.

Available total working volume offered by PGNiG amounted to 627 mcm and consisted of:

- 302 Bundled Units in CUGS Mogilno (Firm Storage Services),
- 264 Bundled Units in Virtual Storage Installation (UGS Wierzchowice and UGS Husów) with additional withdrawal rate amounting to 248.16 ths. m<sup>3</sup>/h (Firm Storage Services),
- 61 Bundled Units in Virtual Storage Installation (UGS Wierzchowice and UGS Husów) with additional withdrawal rate amounting to 8.54 ths. m<sup>3</sup>/h (Interruptible Storage Service).

#### *Assignment of storage services to interested parties*

Interested parties were able to apply for storage services from 1 to 30 June 2009, during which period only one company applied. Preliminary assignment of the storage capacities occurred on 14 August 2009 in line with the Storage Services Rules. As a result of the application received, 627 Bundled Units (627 mcm of working volume) were offered subject to the abovementioned specification for the following periods:

- in case of CUGS Mogilno until 31 March 2013, and
- in case of Virtual Storage Installation (based on UGS Wierzchowice and UGS Husów), until 31 March 2014.

Appropriate information concerning available storage capacities is published and updated on the PGNiG – Storage System Operator Branch internet page ([www.osm.pgnig.pl](http://www.osm.pgnig.pl)).

Regulation 715/2009 obliges the Storage System Operator to offer services that are compatible with the use of the interconnected gas transport systems and to facilitate access through cooperation with the transmission system operator. In respect of the above, on 31 August 2009 PGNiG – Storage System Operator Branch and OGP the Transmission Service Operator concluded a Co-operation Agreement, the aim of which was to define the terms and conditions of collaboration between the TSO and SSO. The agreement regulates rules of cooperation with regards to exchange of information concerning services provided by the operators, defines rules of cooperation in situations of disruption regarding natural gas quality and in emergency situations concerning national energy security.

Pursuant to the provisions of Regulation 715/2009, the storage system operator shall make relevant information public, in particular data on the use and availability of services.

On the ([www.osm.pgnig.pl](http://www.osm.pgnig.pl)) website, the Polish Storage System Operator publishes data on availability of storage services and information on works in storage facilities that are necessary for technological reasons and which may have an influence on the availability of storage services.

Regulation 715/2009 defines the types of services that should be provided by the Storage System Operator. The Polish Storage System Operator offers both firm and interruptible services. The firm storage service is provided by CUGS Mogilno and Virtual Storage Facility (containing UGS Husów and UGS Wierzchowice). The interruptible storage service is provided by Virtual Storage Facility.

Pursuant to the provisions of Regulation 715/2009, the Polish Storage System Operator shall offer both long-term and short-term services. The basic period of service offered by the SSO is one storage year and the longest possible contract period is four storage years. Long-term storage service is provided with the use of CUGS Mogilno and the Virtual Storage Facility. Short-term services are provided only with the use of CUGS Mogilno due to its technical characteristics. The short-term storage contracts are concluded for a storage month or multiples thereof.

The Polish Storage System Operator is currently undergoing a process of further adjustments to EU regulations included in the 3rd Energy Liberalization Package, which entered into force on 3 March 2011. By the end of 2010, PGNiG established and registered a subsidiary company – Operator Systemu Magazynowania Sp. z o.o. (hereinafter “**OSM**”) – which is to play the role of a legally unbundled Storage System Operator, as stipulated in the provisions of Directive 2009/73/EC. On 1 March 2011, PGNiG filed an application with the President of the ERO requesting appointment of the OSM for the Storage System Operator. On 23 May 2011, the President of the ERO informed PGNiG that it will conclude the proceedings by 29 July 2011.

## **Environmental protection**

### ***The Environmental Protection Law 2001***

The Environmental Protection Law, together with the executive acts ancillary to it, aims at ensuring the protection of land, air and water from pollution, and protection from noise and electromagnetic fields. The restrictions imposed under the Environmental Protection Law concern both the investment stage and the operation of existing industrial infrastructure which may adversely affect the environment.

If an investment venture is likely to materially impact upon the environment, an environmental impact study must be carried out before a decision concerning such an investment is issued. An investment venture is understood as: (i) a construction investment; or (ii) any other modification of the natural environment involving a transformation or changing the utilisation of a given area of land or alteration of its use, including a change with a view to extracting minerals (Article 46, paragraph 1 of the Environmental Protection Law). Moreover, Article 51 of the Environmental Protection Law requires that the company prepare a report on the investment's environmental impact.

The operation of industrial installations or equipment requires appropriate emission permits and the payment of environmental exploitation fees, except when emission standards are not exceeded. Such installations or equipment should not harm the environment to a material degree nor should they constitute a threat to human life or health. An appropriate permit needs to be obtained for: (i) the emission of gas or dust into the air; (ii) releasing sewage into water or ground; (iii) waste generation; (iv) noise emission; or (v) generating electromagnetic fields the strength of which exceeds the allowed standards. A fee is collected for exploiting the environment within the thresholds specified in the permit. If the holder of a permit exceeds the specified thresholds, the *voivodship* (province) environmental protection inspector imposes administrative fines of up to 10 times the environment exploitation fee due from such company. At the same time, the performance of the activity without the required permit carries a fine amounting to twice the environment exploitation fee due from such company.

Pursuant to Article 237 of the Environmental Protection Law, if it is established that an installation is likely to impact adversely upon the environment, an environmental protection authority may, in its decision, oblige the company operating such installation and exploiting the environment to prepare and submit an environmental report. If such a report determines the existence of soil or land pollution or the occurrence of any unfavourable transformation of natural land forms in excess of the permitted norms, the company holding title to the area is obliged to reclaim such land. This obligation applies whether or not the pollution was actually caused by such company. If a land reclamation procedure needs to be carried out, the company holding title to the land in question may request reimbursement of the costs of such reclamation by the company that caused the pollution. Furthermore, if the activities of a company exploiting the environment adversely impact the environment, the relevant environmental protection authority may, in its decision, oblige such company to: (i) reduce the influence it exerts on the environment and the extent to which its activity poses an environmental threat and/or (ii) to recondition the environment.

### ***Waste management***

Waste management is governed by the provisions of the Environmental Protection Law and by the Waste Act dated 27 April 2001 (Dz. U. No. 62, item 628, as amended). Pursuant to Article 6 of the Waste Act, a producer of waste is obliged to apply such production techniques or forms of providing services, and to use such raw materials and semi-products which will prevent the generation of waste or will help to maintain the volume of generated waste at the lowest possible level as well as moderate the adverse environmental impact or mitigate the threat to human health or life. Holders of waste, which the Waste Act understands to include entities holding title to the land on which waste is stored, are in turn obliged, first and foremost, to attempt to subject the waste to a recovery procedure and, should such procedure be impossible to carry out for technological

reasons or, should it be not environmentally or economically viable, such waste should be rendered harmless in a manner consistent with environmental requirements and waste management plans. Depending on whether or not the waste generated constitutes an environmental hazard, and further depending on the volume of such waste, an entity generating waste should either obtain a permit for the generation of waste (hazardous waste and other waste) or a decision approving a hazardous waste management programme, or it should submit information on the waste it generates and the waste management methods it applies.

### ***Water protection***

Apart from the Environmental Protection Law, water is protected by the Water Law dated 18 July 2001 (Dz. U. No. 115, item 1229, as amended). Bodies of water are protected irrespective of the identity of their owner. The purpose of water protection is for water quality to be maintained or improved so that waters are maintained in a good ecological condition and are suitable for human consumption, wild fish life and recreational purposes. As a result, the Water Law unconditionally forbids the discharge of sewage directly into subterranean water-bearing strata, still water, lakes or the ground if the sewage has not been wholly treated and the underground water supply is located too close to the surface to guarantee that it can be protected from pollution from contaminated wastewater. The prohibition does not apply unconditionally to the release of sewage to ground water and soil, unless the sewage in question is released to nature reserves established under the Nature Preservation Act dated 16 April 2004 (Dz. U. No. 92, item 880, as amended) near watering places and bathing beaches. A Water Law permit is required for the off-take and discharge of surface or subterranean waters and for the release of sewage into water or soil.

### **Technical inspections**

The Technical Inspections Act dated 21 December 2000 (Dz. U. No. 122, item 1321, as amended) ensures the safe operation of technical equipment that might pose a threat to human life or health and property or pose an environmental hazard. Its provisions primarily apply to the sale, operation and repair of technical equipment. Pursuant to the technical inspection regulations and certain special provisions, inspections carried out by technical inspection units do not relieve designers, manufacturers, operators, repairmen and modernisation engineers from responsibility for the quality and condition of technical equipment to the extent that the safety of such equipment is affected. A person who permits the operation of technical equipment prior to obtaining approval to do so from the applicable technical inspection authority approving the operation or sale of such equipment, or permits such operation in defiance of a decision prohibiting the operation or sale of such equipment, is liable to prosecution.

### **Protection of competition and consumers**

Pursuant to the Competition and Consumer Protection Act 2007, the President of the Office for Competition and Consumer Protection oversees the actions of business entities that may influence their market share or market position, or affect the consumers of their goods or services. The President also monitors attempts to monopolise the market.

The provisions of the Competition Protection Act forbid agreements which restrict competition, or instances of abuse of a dominant market position, or practices harming consumers' collective interests, and require the notification of certain intended merger/acquisition transactions to the President of the Office for Competition and Consumer Protection. The provisions of the Competition Protection Act on the abuse of a dominant market position apply to those business entities that are in a position to hinder competition on their relevant market by being able to operate independently of their competitors, business partners and customers. It is assumed that a business entity has a dominant market position if its share in a given market exceeds 40 per cent.

The President of the Office for Competition and Consumer Protection is also entitled to file a suit against a business with the Competition and Consumer Protection Court if he believes that a provision of a form of

agreement used by such business is illegal, if it determines that such provision was not individually agreed upon with the consumer or if such form of agreement sets forth such consumer's rights and obligations in a manner contravening good practice and constitutes a gross breach of consumer interests. If the suit is successful, the court quotes the provision which has been declared unlawful and prohibits it from being used.

The President of the Office for Competition and Consumer Protection may impose a fine of up to 10 per cent. of the revenues earned (in the fiscal year preceding the year in which such fine is imposed) by a business that: (i) has concluded an agreement to eliminate, restrict or otherwise violate competition in a relevant market; (ii) has abused its dominant market position; (iii) has effected a market concentration without first obtaining the consent of the President of the Office for Competition and Consumer Protection; or (iv) has breached Article 81 or 82 of the Treaty Establishing the European Community. The fine may be imposed if the business entity acted unintentionally.

In addition, the President of the Office for Competition and Consumer Protection may impose other penalties, such as a fine of between EUR 1,000 and EUR 50 million if a business, whether intentionally or unintentionally: (i) has provided untrue or misleading information to the President of the Office for Competition and Consumer Protection; (ii) has failed to co-operate during an inspection conducted in the course of the proceedings by the President of the Office for Competition and Consumer Protection; (iii) has failed to notify the President of the Office for Competition and Consumer Protection of any proceedings pending abroad that were initiated against such business as a result of suspected anti-competitive conduct.

If the President of the Office for Competition and Consumer Protection declares a certain practice to be in breach of consumers' collective interests, the President of the Office for Competition and Consumer Protection may, when forbidding the employment of such practice, specify the means of remedying any persisting consequences of such breach.

#### **The Sureties and Guarantees Act**

The Sureties and Guarantees Act applies to sureties and guarantees granted by companies that are not banking institutions or insurance companies and in which the State Treasury owns more than half of the shares. The Sureties and Guarantees Act also applies to legal entities where the State Treasury owns more than half of the share capital or legal entities, such as State-owned legal entities established by operation of the law, companies in which the State Treasury owns more than half of the share capital or co-operatives in which the State Treasury owns more than half of the shares in such co-operatives' share fund.

Sureties and guarantees granted by such entities may not be for an unlimited term and may not be granted with the amount of such surety or guarantee left blank, even if the term of such surety or guarantee is specified. Pursuant to Article 8 of the Sureties and Guarantees Act, sureties and guarantees may be granted if the borrower establishes a security in favour of the surety or guarantor in case the surety or guarantor is required to perform its duties. Article 33 of the Sureties and Guarantees Act further provides that the amount covered by sureties and guarantees granted at any given time by any of the above-mentioned legal persons may not exceed 60 per cent. of their respective equity, as determined as at the end of the financial year directly preceding the year in which the surety or guarantee is to be granted, provided that the amount of the surety or guarantee granted to secure the obligations of a single entity may not exceed 20 per cent. of such respective surety or guarantor's equity. Surety providers and guarantors are obliged to disclose to the minister for public finance the following information on a bi-annual basis: (i) value of sureties and guarantees granted; (ii) the current balance of accounts receivable and liabilities under the granted sureties and guarantees; (iii) entities in favour of which and for the performance of whose obligations sureties and guarantees have been granted, together with information on the intended use of the amounts subject to the surety or guarantee; and (iv) a description of the procedure to be used to recover receivables arising in connection with the

performance of the sureties and guarantees granted. This information is to be provided within 30 days of the end of each half-year period.

#### **State-owned enterprises and wholly-owned State Treasury companies of particular importance to the national economy**

The list of state-owned enterprises and wholly-owned State Treasury companies of particular importance to the national economy is set out in an annex to the Regulation of the Council of Ministers of Poland dated 22 October 2010 on identifying state-owned enterprises and companies wholly owned by the State Treasury with particular importance to the state economy (Journal of Laws No. 212, item 1387). The privatisation of such enterprises and companies requires the consent of the Council of Ministers. The supervisory boards of wholly-owned State Treasury companies of particular importance to the national economy may comprise of up to nine persons. They are appointed by a general shareholders' meeting after consulting the minister responsible for such company's operations. Unlike the rules binding on other State Treasury companies, the management boards of wholly-owned State Treasury companies of particular importance to the national economy may also be appointed by a general shareholders' meeting, not only the supervisory board.

#### **The Commercialisation and Privatisation Act**

Pursuant to Article 12 paragraph 1 of the Commercialisation and Privatisation Act, as long as the State Treasury remains the sole shareholder of a company formed following a commercialisation procedure, supervisory board members are appointed and dismissed by the general shareholders' meeting, provided that two fifths of the supervisory board's membership are appointed by the company's employees. In companies wholly-owned by the State Treasury which are of key importance to the state economy, with PGNiG qualifying as such a company, the supervisory board may have up to nine members. Supervisory boards of such companies are appointed by the general shareholders' meeting after the opinion of the minister competent for the company's scope of operations has been sought and obtained. Supervisory board members representing employees are elected by all employees in direct secret ballot voting.

Pursuant to Article 14 of the Commercialisation and Privatisation Act, from the time the State Treasury ceases to be the sole shareholder of a company formed following the commercialisation procedure, the provisions of the statute concerning the appointment and dismissal of supervisory board members may be amended, provided that the employees retain the right to elect: (i) two supervisory board members in a six-member supervisory board; (ii) three supervisory board members in a seven to 10-member supervisory board; or (iii) four supervisory board members in a supervisory board with 11 or more members. Pursuant to Article 19a of the Commercialisation and Privatisation Act, in a company where the State Treasury owns more than half of the shares, management board members are appointed and dismissed by the supervisory board. A management board member may be appointed after the successful completion of a qualification procedure conducted by the supervisory board, provided that this restriction does not apply to the management board members selected by the employees. In companies wholly owned by the State Treasury which are of key importance for the state economy, the management board is appointed at the general shareholders' meeting. Pursuant to Article 16 of the Commercialisation and Privatisation Act, in companies formed following a commercialisation procedure, and after the State Treasury has disposed of its majority stake, employees retain the right to select one management board member, provided that the average annual employee headcount in the company exceeds 500.



## THE ISSUER

### General

PGNiG Finance AB (the “**Issuer**”) was incorporated as a public limited liability company under the laws of the Kingdom of Sweden on 3 August 2010, with registration number 556815-4917. It is domiciled in the Kingdom of Sweden. The registered office of the Issuer is located at Box 16285, 103 25 Stockholm, Sweden and the telephone number of its registered office is 08-402 72 00.

### Objects

The objects of the Issuer are set out in Article 3 of its Articles of Association. The objectives of the Issuer are to pursue financing services and services related thereto (*inter alia*, issuing bonds, including on the international markets, borrowing and lending from and to institutional and private investors) but excluding any business requiring a licence in accordance with the Banking and Financing Business Act (SFS 2004:297).

Since the date of its incorporation, the Issuer has not made any significant investments and, as at the date of this Prospectus, the Issuer is not committed to any significant investments. However, it is intended that the Issuer will lend funds to PGNiG under intercompany loan agreements.

### Capital stock

As at the date of this Prospectus, the Issuer is a wholly-owned subsidiary of the Guarantor. The Issuer has no subsidiaries.

The share capital of the Issuer is SEK 500,000 (divided into 500,000 fully paid-up ordinary shares).

### Management

The Issuer has a Board of Directors consisting of five members. The Board of Directors is responsible for managing the business of the Issuer in accordance with Swedish law and the Issuer’s Articles of Association. The Board of Directors also represents the Issuer in its dealings with third parties and in court.

The Issuer does not intend to hire employees of its own. Administrative tasks will be performed by a professional corporate service provider.

As at the date of this Prospectus, the members of the Board of Directors of the Issuer, whose business addresses are Box 16285, 103 25 Stockholm, Sweden, their functions and their principal activities outside the Issuer, where these are significant, are as follows:

<b>Name</b>	<b>Function</b>	<b>Principal activities outside the Issuer</b>
Michał Pietrzyk	Chairman – Director	Director, Financial Office, Polskie Górnictwo Naftowe i Gazownictwo S.A.
Piotr Sudol	Managing Director – Director	Director, Economic Department, Polskie Górnictwo Naftowe i Gazownictwo S.A.
Josefin Grolander	Director	Director of Corp Nordic Sweden AB
Maciej Miazio	Director	Director, Legal and Corporate Affairs, Polskie Górnictwo

Daniel Wais

Director

Naftowe i Gazownictwo S.A.  
Director, Corporate Governance  
Office, Polskie Górnictwo  
Naftowe i Gazownictwo S.A.

There are no conflicts of interest between the duties of the persons listed above to the Issuer and their private interests or other duties.

**Fiscal year**

The fiscal year of the Issuer is the calendar year. The Issuer has not produced or filed any financial statements since the date of its incorporation. The Issuer files its financial statement in SEK. The Issuer's first financial year will end on 31 December 2011. The Issuer will not produce or file interim financial statements.

**Auditors**

The independent auditors of the Issuer are Deloitte AB (public authorised accountants), enterprise number 556271-5309, with business address SE-113 79 Stockholm, Sweden. Deloitte AB carries out its activities in accordance with recommendations issued by Föreningen Auktoriserade Revisorer (FAR) which is a professional institute for authorised public accountants in the Kingdom of Sweden.

## TAXATION

### **Kingdom of Sweden**

*The following summary of certain tax issues that may arise as a result of holding of Notes is based on current Swedish tax legislation and is intended only as general information. This description does not deal comprehensively with all tax consequences that may occur for Noteholders, nor does it address rules regarding reporting obligations for, amongst others, payers of interest. Prospective applicants for Notes should consult their own tax advisers for information with respect to the special tax consequences that may arise as a result of acquiring, holding and disposing of Notes, including the applicability and effect of foreign income tax rules, provisions contained in double taxation treaties and other rules which may be applicable.*

#### ***Noteholders resident in Sweden***

Individuals and legal entities fiscally resident in Sweden, or that have a permanent establishment in Sweden to which the Notes are effectively connected, are normally taxed on all capital income (including interest payments and income from the sale, redemption or repayment of Notes).

The legal entity effecting an interest payment to an individual will normally be required to withhold Swedish tax, provided that the entity is subject to reporting obligations. The tax so withheld is normally equal to the final tax on the interest income, which means that there is generally no further tax payable on the interest.

#### ***Noteholders not resident in Sweden***

Payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to Noteholders who are not fiscally resident in Sweden, and do not have a permanent establishment in Sweden to which the Notes are effectively connected, are not subject to Swedish income tax.

Swedish withholding tax, or Swedish tax deduction, is not imposed on payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to a non-resident Noteholder.

#### **Payments under the Guarantee**

There are no specific Swedish tax rules for payments made by the Guarantor under the Guarantee, please therefore see the relevant section above.

### **Republic of Poland**

*The following summary outlines certain principal Polish tax law consequences resulting from investing in the Notes. It does not purport to be a comprehensive description of all potentially relevant Polish tax considerations. This summary is not tax advice; it is intended as general information only, and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Notes.*

*This summary has been prepared on the basis of the tax legislation, published case law, treaties, regulations, and published official interpretations of Polish tax law in force as at the date of this Prospectus, and does not take into account any developments or amendments thereto after that date, whether or not such developments or amendments operate retroactively.*

*In the following paragraphs, “interest” and other terms are to be understood within the meaning of Polish tax law.*

## ***Income Tax***

### *Taxation of non-Polish tax residents*

Companies and individuals who are non-Polish tax residents are subject to Polish income tax only on their income earned in Poland.

As the Notes are being issued by a non-Polish entity outside the territory of Poland, as a general rule, payments of principal, interest and other revenue with respect to the Notes to non-Polish residents should not be subject to Polish income tax regulations. However, payments made by the Guarantor may be subject to the Polish withholding tax.

Generally, Polish withholding tax, may apply to payments made by the Guarantor to non-residents of Poland, if these payments are classified by the tax authorities as interest or “similar payments as resulting from guarantee or suretyship” referred to in Polish tax regulations.

In principle, the income from interest derived in the territory of Poland by corporations being non-Polish tax residents (who does not have permanent establishment in Poland within the meaning of relevant double tax treaty to which this income would be attributed) is subject to standard 20 per cent. withholding tax. In principle, the interest generated by securities and income derived in the territory of Poland by individuals being non-Polish tax residents (who does not have permanent establishment in Poland within the meaning of relevant double tax treaty to which this income would be attributed) is subject to standard 19 per cent. withholding tax.

However, the standard withholding tax rate may be reduced or eliminated by an appropriate double taxation treaty to which Poland is a party or, in certain situations, under the Polish tax law implementing the provisions of the relevant EU Directives. It cannot be excluded that the Polish tax authorities could regard any payment made by the Guarantor as similar payments as resulting from guarantee or suretyship subject to 20 per cent. withholding tax, however, under most of the double tax treaties concluded by Poland the portion of the payment that does not correspond to interest should be withholding tax exempt. The benefit of a preferential rate of withholding tax or exemption from withholding tax provided for pursuant to double taxation treaties is obtainable only upon acquiring by the Guarantor a certificate of tax residency issued to the recipient of payments. Such certificate should be issued by the competent tax authority of the country in which such recipient is a tax resident. Furthermore, in certain cases the benefit of the preferential rate of withholding tax or exemption from withholding tax depends on fulfilling certain conditions as stipulated in the Polish tax law, among others the existence of the provisions on the exchange of the information between the tax authorities under the provisions of the mentioned double taxation treaties or other treaties to which Poland is a party.

The Polish tax regulations, subject to various conditions, provides also for specific tax exemption on the payments of interest to the foreign investment and pension funds as defined in the mentioned regulations.

It is advisable that any payment by the Guarantor be preceded by a thorough analysis of the applicable law and the respective double taxation treaty with the country in which the recipient of guarantee payments has its residence.

Moreover, with respect to the interest payments, the relevant provisions of the EU Savings Directive may apply.

Gains from the sale of Notes by holders of Notes who are non-Polish tax residents should not be subject to Polish income tax. However, in the view of the Polish Finance Ministry, income earned from a sale of securities constitutes income from a Polish source if the securities are sold on the Polish stock exchange.

Consequently, the income from sale of Notes should not be treated as income from a Polish source if the sale was not made on the Polish stock exchange.

Income earned by a non-Polish tax resident through a permanent establishment in Poland, as a rule, will be taxed in the same way as income of a Polish tax resident.

Income on a sale of Notes will be subject to income tax in Poland if the seller of the Notes is a non-Polish tax resident and has a permanent establishment in Poland and the income earned on the sale of Notes is attributable to that permanent establishment in Poland. The same rule will apply to proceeds from interest earned by a non-Polish tax resident who has permanent establishment in Poland and proceed from interest is attributed to the permanent establishment in Poland.

#### *Taxation of Polish tax residents*

Polish tax residents (corporate income taxpayers and individuals) are subject to Polish income tax on their worldwide income, including capital gains and interest derived from foreign instruments.

The corporate income tax rate is 19 per cent. (including capital gains).

Capital gains realised by Polish individuals on a sale of Notes as a general rule are subject to personal income tax at a flat rate of 19 per cent. and if the individual holds Notes as a business asset, either subject to 19 per cent. flat rate or the progressive rates (from 18 per cent. up to 32 per cent.), depending on the taxpayer's position. Income from interest earned by a Polish individual as a general rule is subject to personal income tax at a flat rate of 19 per cent. and if the individual holds Notes as a business asset, subject to 19 per cent. flat rate or to the progressive rates (from 18 per cent. up to 32 per cent.), depending on the taxpayer's position. If the interest was paid out by a Polish qualified third party (such as a Polish bank or brokerage house), the third party is obliged to withhold that tax and pay it to the relevant tax office.

Withholding tax paid abroad on interest received by Polish residents from foreign parties may, as a rule, be credited against their Polish income tax liability (depending on the method of avoiding double taxation foreseen in the relevant double taxation treaty and domestic tax law). The amount of deduction cannot, however, exceed that part of the tax assessed before deduction and corresponding proportionally to the income earned in the foreign country.

#### ***Civil law transactions tax***

Civil law transactions tax at the rate of 1 per cent. applies to a sale or exchange of property rights, including Notes, provided that the right attached to the security is exercisable in Poland, or that the right is exercisable outside of Poland but the civil law transaction was concluded in Poland and the purchaser has its registered office or place of residence in Poland. There are certain exemptions from the above mentioned rule stipulated by law.

Exempt from civil law transaction tax is, among others, sale of property rights that are financial instruments:

- (i) to investment firms and foreign investment firms;
- (ii) effected through investment firms and foreign investment firms;
- (iii) effected as a part of organised trading; and
- (iv) effected outside organised trading by investment firms and foreign investment firms if such rights had been acquired by such firms as a part of organised trading,

within the meaning of relevant regulations of Polish Act on Trading in Financial Instruments.

### ***Donation and inheritance tax***

Gift and inheritance tax is charged in the case of a donation or inheritance of property rights exercisable in Poland if, at the time of the donation or the inheritance, either the donor/decedent or donator/heir was a Polish resident or had a permanent place of residence in Poland, and also in the case of property rights exercisable outside the territory of Poland where, at the time of the donation or inheritance, the acquirer was a Polish resident or had a permanent place of residence in Poland. The amount of such tax depends on the relationship between donor and beneficiary, and on the value of the gift. Polish tax law on donations and inheritance also provides for certain exemptions from donation and inheritance tax, in particular for close family donations/inheritance as provided in the Donation and Inheritance Tax Act.

### **Luxembourg**

*The following summary of certain tax issues that may arise as a result of holding of Notes is based on current Luxembourg tax legislation and is intended only as general information. This description does not deal comprehensively with all tax consequences that may occur for Noteholders, nor does it address rules regarding reporting obligations for, amongst others, payers of interest. Prospective applicants for Notes should consult their own tax advisers for information with respect to the special tax consequences that may arise as a result of acquiring, holding and disposing of Notes, including the applicability and effect of foreign income tax rules, provisions contained in double taxation treaties and other rules which may be applicable.*

### **Withholding tax and self-applied tax**

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to individual Noteholders and to certain entities, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to individual Noteholders and to certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes.

### ***Luxembourg non-resident individuals***

Under the Luxembourg laws dated 21 June 2005 implementing the European Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”) and several agreements concluded between Luxembourg and certain dependent or associated territories of the European Union (“**EU**”), a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the procedure of exchange of information or for the tax certificate procedure. The same regime applies to payments of interest and other similar income made to certain residual entities within the meaning of Article 4.2 of the Savings Directive (“**Residual Entities**”) established in a Member State or in certain EU dependent or associated territories (i.e., entities which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the Savings Directive are not considered legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation, that are not UCITS recognised in accordance with the Council Directive 85/611/EEC or similar collective investment funds located in Jersey, Guernsey, the Isle of Man, the Turks and Caicos Islands, the Cayman Islands, Montserrat or the British Virgin Islands and have not opted to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC).

The withholding tax rate is 35 per cent. since 1 July 2011. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

### ***Luxembourg resident individuals***

In accordance with the law of 23 December 2005, as amended by the law of 17 July 2008 (the “**Law**”), interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents or to certain Residual Entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the Council Directive 86/611/EEC or the exchange of information regime) are subject to a 10 per cent. withholding tax.

Pursuant to the Law, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a 10 per cent. tax on interest payments made after 31 December 2007 by paying agents (defined in the same way as in the Savings Directive) located in an EU Member State other than Luxembourg, a Member State of the European Economic Area other than an EU Member State or in a State or territory which has concluded an international agreement directly related to the Savings Directive.

The 10 per cent. withholding tax or the 10 per cent. self declared tax represents the final tax liability for the Luxembourg individual tax payers receiving the payments in the course of their private wealth.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland). The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

### Summary of Dealer Agreement

Subject to the terms and on the conditions contained in a dealer agreement dated 25 August 2011 (the “**Dealer Agreement**”) between the Issuer, the Guarantor, the Permanent Dealers and the Arrangers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Final Terms.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

### Selling Restrictions

#### United States

The Notes have not been and will not be registered under the Securities Act, as amended, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has represented and agreed that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes of any identifiable Tranche (i) as part of its distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Fiscal Agent or, in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

#### Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a “**Relevant Member State**”), each Dealer has represented and agreed, and each further Dealer appointed



under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (ii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision only, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

#### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

#### **Kingdom of Sweden**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy Notes or distribute any draft or final document in relation to any such offer, invitation or sale except in circumstances that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (*lag (1991:980) om handel med finansiella instrument*).

#### **Republic of Poland**

The Polish Financial Supervisory Authority (FSA) has neither approved the base prospectus in relation to the Public Offering of the Notes in the Republic of Poland nor received a notification of the relevant regulatory

authority on the approval of such base prospectus in relation to the public offering in the Republic of Poland. Accordingly, the Notes may not be offered in the Republic of Poland in the public manner, defined in the Polish Act on Public Offerings, the Conditions Governing the Introduction of Financial Instruments to Organised Trading System and Public Companies dated 29 July 2005 (as amended) as an offering to sell or a purchase of securities, made in any form and by any means, if the offering is directed at 100 or more people or at an unnamed addressee (Public Offering). Each Dealer confirms that it is aware that regulatory conditions to proceed with the Public Offering of the Notes in the Republic of Poland have not been satisfied and represents, and each further Dealer appointed under the Programme will be required to represent, that it has not offered, sold or delivered and will not offer, sell or deliver the Notes in the Republic of Poland in the manner defined as Public Offering as part of their initial distribution or otherwise to residents of the Republic of Poland or on the territory of the Republic of Poland. Each Dealer acknowledges that the acquisition and holding of the Notes by residents of the Republic of Poland may be subject to restrictions imposed by Polish law (including foreign exchange regulations) and that the offers and sales of the Notes to Polish residents or within the Republic of Poland in secondary trading may also be subject to restrictions.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan.

## **General**

These selling restrictions may be modified by the agreement of the Issuer, the Guarantor and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has represented and agreed that it shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, any other offering material or any Final Terms in all cases at its own expense.

## FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated [●]

### PGNiG Finance AB (publ)

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

guaranteed by

**Polskie Górnictwo Naftowe i Gazownictwo S.A.**

under the

**Euro 1,200,000,000**

**Guaranteed Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 25 August 2011 [and the supplement[s] to the Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplement[s] to the Prospectus] [is] [are] available for viewing [at [www.bourse.lu]] [and] during normal business hours at [address] [and copies may be obtained from [address]].

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the Conditions) contained in the Agency Agreement dated [original date] and set forth in the Prospectus dated [original date] [and the supplement[s] to the Prospectus dated [●]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplement[s] to the Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus dated [current date] [and the supplement[s] to the Prospectus dated [●] and [●]]. The Prospectuses [and the supplement[s] to the Prospectus] [is][are] available for viewing [at [www.bourse.lu]] [and] during normal business hours at [address] [and copies may be obtained from [address]].

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing Final Terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]*

1. (i) Issuer: PGNiG Finance AB (publ)

- (ii) Guarantor: Polskie Górnictwo Naftowe i Gazownictwo S.A.
2. [(i)] Series Number: [ ]  
 [(ii)] Tranche Number: [ ]  
 (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.)
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount of Notes: [ ]  
 [(i)] Series: [ ]  
 [(ii)] Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
6. (i) Specified Denominations: [ ]  
 (ii) Calculation Amount: [ ]
7. (i) Issue Date: [ ]  
 (ii) Interest Commencement Date: [*Specify*/Issue Date/Not Applicable]
8. Maturity Date: [*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9. Interest Basis: [[●] per cent. Fixed Rate]  
 [[*specify reference rate*] +/- [●] per cent. Floating Rate]  
 [Zero Coupon]  
 [Index Linked Interest]  
 [Other (*specify*)]  
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
 [Index Linked Redemption]  
 [Dual Currency]  
 [Partly Paid]  
 [Instalment]  
 [Other (*specify*)]  
 [*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Notes will constitute*]

*derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No.809/2004 will apply and the Issuer will prepare and publish a supplement to the Prospectus.)]*

11. Change of Interest or Redemption:/ Payment Basis: [Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]
12. Put/Call Options: Put Option [Applicable/Not Applicable]  
Call Option [Applicable/Not Applicable]
- Change of Control Put Event [Applicable/Not Applicable] [(further particulars specified below)]
13. [(i)] Status of the Notes: [Senior]  
[(ii)] Status of the Guarantee: [Senior]  
[(iii)] [Date [Board] approval for issuance of Notes [and Guarantee] obtained: [ ] [and [ ], respectively]]  
*(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)]*
14. Method of distribution: [Syndicated/Non-syndicated]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. **Fixed Rate Note Provisions:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)] in arrear]
- (ii) Interest Payment Date(s): [ ] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [ ] per Calculation Amount
- (iv) Broken Amount(s): [ ] per Calculation Amount payable on the Interest Payment Date falling [in/on] [ ]
- (v) Day Count Fraction: [30/360/Actual/Actual] (ICMA/ISDA)/other]

- (vi) [Determination Dates: [ ] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/*give details*]
- 16. Floating Rate Note Provisions:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): [ ]
- (ii) Specified Interest Payment Dates: [ ]
- (iii) First Interest Payment Date: [ ]
- (iv) Interest Period Date: [ ]  
 (Not applicable unless different from Interest Payment Date)
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/*other (give details)*]
- (vi) Business Centre(s): [ ]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/*other (give details)*]
- (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): [ ]
- (ix) Screen Rate Determination:
- (a) Reference Rate: [ ]
- (b) Interest Determination Date(s): [ ]
- (c) Relevant Screen Page: [ ]
- (x) ISDA Determination:
- (a) Floating Rate Option: [ ]
- (b) Designated Maturity: [ ]
- (c) Reset Date: [ ]
- (d) [ISDA Definitions: [2000/2006]]

- (xi) Margin(s): [ +/- ] [ ] per cent. per annum
- (xii) Minimum Rate of Interest: [ ] per cent. per annum
- (xiii) Maximum Rate of Interest: [ ] per cent. per annum
- (xiv) Day Count Fraction: [ ]
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [ ]
- 17. Zero Coupon Note Provisions:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Amortisation Yield: [ ] per cent. per annum
- (iii) Any other formula/basis of determining amount payable: [ ]
- 18. Index Linked Interest Note/other variable linked interest Note Provisions:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula/other variable: [give or annex details]
- (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): [ ]
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [ ]
- (iv) Interest Determination Date(s): [ ]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [ ]
- (vi) Interest Period(s): [ ]
- (vii) Specified Interest Payment Dates: [ ]
- (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day

Convention/Preceding Business Day  
Convention/other (*give details*)

- (ix) Business Centre(s): [ ]
- (x) Minimum Rate of Interest: [ ] per cent. per annum
- (xi) Maximum Rate of Interest: [ ] per cent. per annum
- (xii) Day Count Fraction: [ ]

**19. Dual Currency Note Provisions:** [Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Rate of Exchange/method of calculating Rate of Exchange: [*give details*]
- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [ ]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

**PROVISIONS RELATING TO REDEMPTION**

**20. Call Option:** [Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Calculation Amount
- (iii) If redeemable in part:
  - (a) Minimum Redemption Amount: [ ] per Calculation Amount
  - (b) Maximum Redemption Amount: [ ] per Calculation Amount
- (iv) Notice period: [ ]

**21. Put Option:** [Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*



- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Calculation Amount
- (iii) Notice period: [ ]
- 22. Final Redemption Amount of each Note:** [ ] per Calculation Amount  
*[If the Final Redemption Amount is linked to an underlying reference or security, the Notes will constitute derivative securities for the purposes of the Prospectus Directive and the Requirements of AnnexXII to the Prospectus Directive Regulation No. 809/2004 will apply and the Issuer will prepare and publish a supplement to the Prospectus which shall constitute a supplementary prospectus pursuant to Prospectus Rule 3-4 and section 87G of the FSMA.]*
- In cases where the Final Redemption Amount is Index Linked or other variable linked
- (i) Index/Formula/variable: [give or annex details]
- (ii) Party responsible for calculating the Final Redemption Amount (if not the Agent): [ ]
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [ ]
- (iv) Determination Date(s): [ ]
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [ ]
- (vi) Payment Date:
- (vii) Minimum Final Redemption Amount: [ ] per Calculation Amount
- (viii) Maximum Final Redemption Amount: [ ] per Calculation Amount
- 23. Early Redemption Amount:**
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same [ ]

(if required or if different from that set out in the Conditions):

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: **[Bearer Notes]**
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice]
- [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Registered Notes]**
25. New Global Note: [Yes] [No]
26. Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii), 16(v) and 18(ix) relate]
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]
29. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/give details]
30. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/give details]

#### DISTRIBUTION

31. (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager(s) (if any): [Not Applicable/give name]

32. If non-syndicated, name of Dealer: [Not Applicable/*give name*]
33. U.S. selling restrictions: [Reg. S Compliance Category 2; TEFRA C/TEFRA D/  
TEFRA not applicable]
34. Additional selling restrictions: [Not Applicable/*give details*]

**[PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required for issue and admission to trading on the [regulated market of the Luxembourg Stock Exchange] of the Notes described herein pursuant to the Euro 1,200,000,000 Guaranteed Euro Medium Term Note Programme of PGNiG Finance AB (publ).]

**RESPONSIBILITY**

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. [*Relevant third party information*] has been extracted from (*specify source*). Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of PGNiG FINANCE AB (PUBL):

By: .....

Duly authorised

Signed on behalf of POLSKIE GÓRNICtwo NAFTOWE I GAZOWNICTwo S.A.:

By: .....

Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing and admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be listed on [the Official List of the Luxembourg Stock Exchange] [with effect from [●]] and to be admitted to trading on [the regulated market of the Luxembourg Stock Exchange] with effect from [●].]  
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be listed on [the Official List of the Luxembourg Stock Exchange] [with effect from [●]] and to be admitted to trading on [the Luxembourg Stock Exchange] with effect from [●].] [Not Applicable.]

*(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*

- (ii) Estimate of total expenses related to admission to trading: [●]

### 2. RATINGS

Ratings: The Notes to be issued have been rated:

[S&P: [●]]

[Moody's: [●]]

[[Fitch: [●]]

[[Other]: [●]]

[and endorsed by *[insert details]*]

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

*Insert one (or more) of the following options, as applicable:*

[[*Insert credit rating agency/ies*] [is]/[are] established in the European Union and [has]/[have each]/[have not] applied for registration under Regulation (EC) No. 1060/2009[, although the result of such application has not yet been determined.]]

[[*Insert credit rating agency/ies*] [is]/[are] established in the European Union and registered under Regulation (EC) No. 1060/2009.]

[[Insert credit rating agency/ies] [is]/[are] not established in the European Union and [has]/[have] not applied for registration under Regulation (EC) No. 1060/2009.]

**3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [ “Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

*[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

**4. [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES]**

(i) Reasons for the offer: [●]

*(See [“Use of Proceeds”] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]*

(ii) Estimated net proceeds: [●]

*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)]*

(iii) Estimated total expenses: [●]

*(If the Notes are derivative securities for which Annex XII of the Prospectus Directive Regulation applies it is] only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]*

**5. [Fixed Rate Notes only – YIELD]**

Indication of yield: [●]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield. ]

**6. [Index Linked or other variable linked Notes only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING]**

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details*

*of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]*

*[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information].

## 7. **[Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE**

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]*

*[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]*

## 8. **OPERATIONAL INFORMATION**

ISIN Code: [●]

Common Code: [●]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s) [and address(es)]]

Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): [●]

Names and addresses of additional Paying Agent(s) (if any): [●]

Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes][No] [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,] and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] [include this text if “yes” selected in which case bearer Notes must be issued in NGN form]

## GENERAL INFORMATION

- (1) Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the Luxembourg Stock Exchange's regulated market.
- (2) Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in the United Kingdom, the Kingdom of Sweden and the Republic of Poland in connection with the establishment of the Programme and the giving of the Guarantee. The establishment of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 25 August 2011 and the giving of the Guarantee by the Guarantor was authorised by a resolution of the Supervisory Board of the Guarantor passed on 10 August 2011 and a resolution of the Board of Directors of the Guarantor passed on 29 July 2011. The Ministry of Finance of the Republic of Poland has, by a letter dated 8 March 2011, authorised the giving of the Guarantee by the Guarantor.
- (3) There has been no significant change in the financial or trading position of the Guarantor or of the Group since 31 December 2010 and no material adverse change in the prospects of the Guarantor or of the Group since 31 December 2010.
- (4) Since the date of the Issuer's incorporation, on 3 August 2010, there has been no significant change in the financial or trading position of the Issuer and there has been no material adverse change in the prospects of the Issuer.
- (5) The Guarantor is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Guarantor is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Guarantor or the Group.
- (6) Since the date of the Issuer's incorporation, on 3 August 2010, the Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.
- (7) Each Bearer Note, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
- (8) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (9) There are no material contracts entered into other than in the ordinary course of the Issuer's or Guarantor's business, which could result in any member of the Issuer's Group being under an obligation or entitlement that is material to the Issuer's or Guarantor's ability to meet its obligations to noteholders in respect of the Notes being issued or under the Guarantee, as applicable.
- (10) Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information

published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.

- (11) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Issuer will not provide any post-issuance information, except if required by any applicable laws and regulations.
- (12) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the registered offices of the Guarantor and of the Fiscal Agent:
  - (i) the Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);
  - (ii) the Deed of Covenant;
  - (iii) the Deed of Guarantee;
  - (iv) the Memorandum and Articles of Association of the Issuer and the Guarantor;
  - (v) the published annual report and audited accounts of the Guarantor for the two financial years most recently ended and the audited consolidated annual accounts of the Guarantor for the two years ended 31 December 2009 and 31 December 2010;
  - (vi) the published interim report of the Guarantor for the first quarter of 2011;
  - (vii) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Issuing and Paying Agent as to its holding of Notes and identity);
  - (viii) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus; and
  - (ix) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

This Prospectus together with any Supplement and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market will be published on the website of the Luxembourg Stock Exchange ([www. bourse.lu](http://www.bourse.lu)).

- (13) Copies of the latest annual report and consolidated accounts of the Guarantor and the latest interim consolidated accounts of the Guarantor may be obtained, and copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding.
- (14) Deloitte Audyt Sp. z o.o. of 19 Jana Pawła II Av., 00-854 Warsaw, Poland (Statutory Auditors and a member of the National Council of Statutory Auditors, registered under number 73 on the list of entities authorised to provide audit services kept by the National Council of Statutory Auditors) have audited, and rendered unqualified audit reports on, the accounts of the Guarantor for the three years ended 31 December 2010, 31 December 2009 and 31 December 2008.



- (15) Deloitte AB (public authorised accountants), enterprise number 556271-5309, of SE-113 79 Stockholm, Sweden, are the auditors of the Issuer. Deloitte AB carries out its activities in accordance with recommendations issued by Föreningen Auktoriserade Revisorer (FAR) which is a professional institute for authorised public accountants in the Kingdom of Sweden.

**Registered Office of the Issuer**

**PGNiG Finance AB (publ)**  
c/o CorpNordic Sweden AB  
Sergels Torg 12, 12<sup>th</sup> Floor  
P.O. Box 16285  
SE-103 25 Stockholm  
Sweden

**Registered Office of the Guarantor**

**Polskie Górnictwo Naftowe i Gazownictwo S.A.**  
ul. Kasprzaka 25,  
01-224 Warsaw  
Poland

**Dealers and Arrangers**

**BNP Paribas**  
10 Harewood Avenue  
London NW1 6AA  
United Kingdom

**Société Générale**  
29 boulevard Haussmann  
75009 Paris  
France

**UniCredit Bank AG**  
Arabellastrasse 12  
81925 Munich  
Germany

**Fiscal Agent and Principal Paying Agent, Registrar and Transfer Agent, Calculation Agent**

**Société Générale Bank & Trust Luxembourg S.A**  
11 avenue Emile Reuter  
L-2420 Luxembourg

**Luxembourg Listing Agent**  
**Société Générale Bank & Trust Luxembourg S.A.**  
11 avenue Emile Reuter  
L-2420 Luxembourg

**Paying Agent**  
**Société Générale Nantes**  
32, rue de champ de Tir  
44312 Nantes Cedex 3  
France

**Auditors**

**To the Issuer**

**Deloitte AB**  
SE-113 79 Stockholm  
Sweden

**To the Guarantor**

**Deloitte Audyt Sp. z o.o.**  
19 Jana Pawła II Av.  
00-854 Warsaw  
Poland

**Legal Advisers**

**To the Issuer and the Guarantor**

*in respect of English law*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

*in respect of Polish law*

**Linklaters C. Wiśniewski i  
Wspólnicy Spółka Komandytowa**  
Warsaw Towers, Sienna 39  
00-121 Warsaw  
Poland

*in respect of Swedish law*

**Linklaters Advokatbyrå Aktieföretag**  
Regeringsgatan 67, Box 7833  
103 98 Stockholm  
Sweden

**To the Dealers and Arrangers**

*in respect of English law*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD  
United Kingdom

*in respect of Polish law*

**Allen & Overy, A. Pędzich sp. k.**  
Rondo ONZ 1, 34 Floor  
00-124 Warsaw  
Poland