Annual Report

PGNiG 2013

PGNiG
Polish Oil & Gas Company

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The following abbreviations and acronyms are used in this Report:

- PGNiG – the parent company of the PGNiG Group, i.e. Polskie Górnictwo Naftowe i Gazownictwo SA (Polish Oil and Gas Company)
- PGNiG Group – the PGNiG group of companies

Contents

Mission statement

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

We are true and faithful to our traditions and to the trust our customers place in us, but also remain open to new challenges and changes.

Acting in the best interests of our shareholders, customers and employees, we strive to be a reliable and trustworthy partner, pursuing business growth and value creation in accordance with the principles of sustainable development.

PGNiG in Numbers

The PGNiG Group is the leader in the Polish natural gas market. Our core business is the production and sale of natural gas and crude oil. Both domestically and abroad, we are engaged in geophysical and geological research, exploration for and production of hydrocarbons.

We sell natural gas produced in Poland and also imported gas. To ensure steady and uninterrupted supplies of natural gas, we use eight modern underground gas storage facilities, with another high-methane gas storage site scheduled to come onstream in the 2014/2015 storage year. Gas is supplied to our customers through more than 120 thousands of kilometres of pipeline, owned by Polska Spółka Gazownictwa. For several years, the Group has been developing its heat and power generation business, which gained new momentum after the acquisition of the Warsaw CHP plants in 2012.

PGNiG has been listed on the Warsaw Stock Exchange since September 2005. The PGNiG Group has enjoyed the growing trust and confidence of the capital market and has been assigned excellent credit ratings. Our strong position is confirmed by the fact that PGNiG shares are included in WIG20 – the blue-chip index of the Warsaw Stock Exchange. Since October 2009, our stock has also been included in the 'RESPECT Index' of socially responsible companies.

CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCTION

1,099 ths tonnes

NATURAL GAS PRODUCTION

4.58 bn m^3

NATURAL GAS IMPORTS

10.85 bn m^3

DISTRIBUTION NETWORK LENGTH

122.7 ths km

NATURAL GAS SALES

16.21 bn m^3

In 2013, the PGNiG Group was ranked fifth in the 'Lista 500' of the largest Polish businesses, compiled by the *Rzeczpospolita* daily.

The PGNiG Group also took fifth place in the 'Lista 500' of the *Polityka* daily, another ranking of the largest Polish companies, and was additionally awarded the 'Golden CSR leaf', a distinction for companies where implementation of the ISO 26000 guidance on social responsibility is a key element of their strategic business activities.

HEAT SALES

40.2 PJ

ELECTRICITY SALES

7.2 TWh

ELECTRICITY GENERATION

3.8 TWh

Key Events

January

On December 31st 2012, production of crude oil and natural gas was commenced on the Skarv field at the Norwegian Continental Shelf. The PGNiG Group holds a 11.92% interest in the Skarv licence, while BP is the project's operator. With the production launch, PGNiG became the first Polish company to produce significant volumes of oil and gas under an international project. It was also PGNiG's first offshore production venture.

February

On February 19th 2013, the President of the Energy Regulatory Office announced that all energy companies licenced to trade in gas fuels could apply for an exemption from the requirement to submit gas fuel tariffs for approval where gas fuels are sold to energy companies for trading. PGNiG believes that this exemption will have a positive effect on the liquidity of the wholesale market, including the exchange market, which in turn will benefit the other gas market segment.

On February 1st 2013, PGNiG Poszukiwania SA was merged with five other companies of the PGNiG Group: PNiG Kraków SA, PNiG NAFTA SA, PNiG Jasło SA, PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o., all of which were active in the area of drilling and oilfield services. The completed consolidation of the exploration and oilfield service companies in the Exploration and Production segment followed from the provisions of the PGNiG Group's 'Short-Term Value Creation Strategy in 2012–2014'.

March

PGNiG received the 'Bulls and Bears' award for WSE-listed companies from Gazeta Giełdy Parkiet. This time the Company was honoured in the 'WIG-20 Company of the Year' category.

PGNiG completed final acceptance of the Lubiatów–Międzychów–Grotów oil and gas production facility. The project, being one of the largest and most advanced Company's investments in the recent years, increased Poland's oil and gas production from conventional deposits.

April

The PGNiG-led consortium succeeded in obtaining financing for its projects as part of the first contest held under the Blue Gas programme organised by the National Centre for Research and Development. The total cost of the projects amounts to PLN 180 m, of which PLN 90 m is to be covered with the funds provided by the National Centre for Research and Development.

PGNiG and TAURON Polska Energia completed the process of securing financing for the construction of Poland's largest gas-fired CHP plant, to be located in Stalowa Wola.

On April 5th 2014, the press published information that a memorandum on the construction of the second leg of the Yamal-Europe natural gas pipeline was signed by representatives of OOO Gazprom Export and SGT EuRoPol Gaz SA. At its meeting on April 24th 2013, the PGNiG Supervisory Board heard the Management Board's explanations of the circumstances surrounding the preparation and execution of the memorandum. Having reviewed the relevant documentation, the Supervisory Board took a negative view of the position and actions of the President of the Management Board, Ms Grażyna Piotrowska-Oliwa, and Vice-President of the Management Board, Chief Commercial Officer, Mr Radosław Dudziński. On April 29th 2013, the Supervisory Board resolved to remove Ms Grażyna Piotrowska-Oliwa and Mr Radosław Dudziński from the PGNiG Management Board.

May

On May 22nd 2013, the Annual General Meeting of PGNiG granted discharge to all members of the Company's Management and Supervisory Boards in respect of their duties in 2012, and made a decision on the distribution of net profit for the 2012 financial year. The dividend for 2012 was paid out to the shareholders from PGNiG's net profit, which last year amounted to PLN 1,918.5 m. PLN 767 m was allocated for the dividend payment, and the dividend amount per share was PLN 0.13.

June

PGNiG Upstream International AS was awarded interests in four exploration and production licences in Norway as part of the 22nd licencing round carried out by the Norwegian Ministry of Petroleum and Energy. Two licences are located in the Norwegian Sea, and the other two in the Barents Sea.

PGNiG launched natural gas production from two wells in the Rehman field, located in the Kirhtar licence area in Pakistan. Both production and sales reached 295 m^3 per minute. The gas is fed to the Pakistani transmission system. Initially, during test production, the wells can provide around 100m m^3 of gas per year. Test production is scheduled to continue for 22 months.

July

On July 1st 2013, pursuant to the PGNiG Group's 'Short-Term Value Creation Strategy in 2012–2014', the PGNiG Group executed the merger of:

- six gas distribution companies (Pomeranian, Greater Poland, Lower Silesian, Upper Silesian, Carpathian and Mazovian) through the acquisition of their shares by the newly established Polska Spółka Gazownictwa Sp. z o.o., and their transformation into the company's regional branches. The objective behind the consolidation was to adapt the company to new conditions prevailing on the gas market during its deregulation and opening up to competition.
- INVESTGAS SA and Operator Systemu Magazynowania Sp. z o.o. – the management and supervisory processes in the Trade and Storage segment were centralised in OSM Sp. z o.o., which should improve long-term operational efficiency in this area.
- PGNiG SA and PGNiG Energia SA, whose operations consisted mainly in electricity trading.

August

On August 14th 2013, PGNiG and LOTOS Petrobaltic SA signed an agreement for joint operation within the Kamień Pomorski licence area. The objective behind the partnership was to intensify exploration projects in Poland, which is expected to result in increased production of crude oil and natural gas. The Kamień Pomorski licence area situated in the Province of Szczecin is one of the most promising ones in this region. The planned joint exploration projects will allow the partners to evaluate the reserve volumes and make decisions on whether to proceed with production.

September

On September 11th 2013, the amended Polish Energy Law, called the 'Mini Three Pack', came into force, introducing regulations of fundamental importance, which provide for the development of the competitive gas market in Poland, and in particular the exchange sale obligation, i.e. the requirement that a defined percentage of gas volumes is to be sold through the power exchange. Based on the new regulations, the following quantities of gas are required to be sold through the exchange: until the end of 2013 – 30%, in 2014 – 40%, and in 2015 and beyond – 55% of the gas volume delivered to the transmission system.

October

On October 3rd 2013, PGNiG and PGE Górnictwo i Energetyka Konwencjonalna SA signed an agreement for the supply of nitrogen-rich gas from local wells to the new CCGT unit at the Gorzów CHP plant. The value of the agreement is estimated at PLN 3 bn.

On October 7th 2013, PGNiG introduced a new pricing policy for all natural gas instruments traded on the Polish Power Exchange, both on the futures market and the day-ahead market. The aim of the changes was to offer natural gas to other market participants at prices level with those on other deregulated wholesale, exchange and OTC markets closest to the Polish market.

PGNiG signed an agreement with the Polish Power Exchange whereby the Group became the first direct member of the gas market. Since November 1st 2013, it has also had membership of the Warsaw Commodity Clearing House operated by Izba Rozliczeniowa Giełd Towarowych.

November

PGNiG signed an agreement with the Polish Power Exchange to act as a market marker. The Company is now responsible for maintaining liquidity by regularly placing buy and sell orders on the Commodity Derivatives Market for gas in accordance with terms and conditions defined by the Polish Power Exchange.

On November 4th 2013, PGNiG executed an annex to the agreement for the sale of crude oil to TOTSA TOTAL OIL TRADING SA. The annex was signed for an indefinite term and the value of the agreement following its execution, i.e. in the period November 2013 to December 2015, was estimated at PLN 1.4 bn. The supplies will be transported from the Lubiatów and Dębno facilities via pipeline by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych Przyjaźń SA. The execution of the annex allowed the Company to include the oil from the Lubiatów facility in the supplies to TOTSA TOTAL and increase the flexibility of the parties' cooperation.

On November 4th 2013, PGNiG executed an agreement to sell crude oil to BP Europe SE. The agreement was made for the period from November 13th 2013 to the end of 2014, and was valued at approximately PLN 420 m. The supplies will be transported from the Lubiatów facility via pipeline by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych Przyjaźń SA.

December

PGNiG and Chevron Polska Energy Resources signed a memorandum on cooperation in shale gas exploration projects in south-eastern Poland.

The President of the Energy Regulatory Office approved a 1.5% increase in the gas fuel tariffs for household and industrial customers. The new tariffs have been in operation since January 1st 2014, and will remain in effect until July 31st 2014.

On December 20th 2013, PGNiG and Grupa LOTOS signed an agreement whereby PGNiG will supply Grupa LOTOS with crude oil in the years 2015–2019. The agreement was valued at approximately PLN 3.2 bn.

On December 30th 2013, the Supervisory Board of PGNiG appointed the new Management Board, composed of Mariusz Zawisza, Jerzy Kurella, Jarosław Bauc, Zbigniew Skrzypkiewicz, and Andrzej Parafianowicz, for a joint three-year term of office.

On December 31st 2013, the framework agreement on joint exploration for and production of shale gas between PGNiG, KGHM and PGE, Enea and Tauron energy companies expired.

Letter from the President of the Management Board

Ladies and Gentlemen,

On behalf of the Management Board of PGNiG SA, I present the PGNiG Group's Annual Report for 2013.

Last year, we earned a net profit of PLN 1.9 bn. On the operating level, EBITDA totalled PLN 5.6 bn, up 22% year on year, with EBIT of almost PLN 3.2 bn, up 24% year on year. 2013 also saw a 12% rise in the PGNiG Group's revenue, to more than PLN 32 bn. Revenue was up across all product segments, notably crude oil and condensate. In fact, the record-high crude production and sales were the main driver of our solid 2013 performance. In consistent pursuit of our strategy of investment in oil and gas production, we commenced production from the Lubiatów field, which is one of the most modern oil and gas production facilities in Europe and the largest upstream project completed in Poland in the recent years, and we also launched production from the Skarv field on the Norwegian Continental Shelf. These projects allowed us to more than double our crude oil and condensate output and sales, to 1.1 m tonnes, leading to a 45% surge in revenue posted by the Exploration and Production segment.

2014 keeps bringing new tasks and challenges, including those related to market liberalisation, review and renegotiation of purchase contracts, strengthening of our corporate governance framework, and restructuring of the PGNiG Group. We are also planning to make necessary organisational changes in the sales segment, driven by our ambition to create a business line that would be delivering on our customers' needs in keeping with the highest standards of professional service. 2014 is also a year of new investment in the areas of exploration for and production of conventional and shale gas and oil, both in Poland and abroad.

Our overriding priorities for 2014 and the following years are to build the value of the PGNiG Group and to fulfil the expectations of our Shareholders and Customers.

Kind regards,

Mariusz Zawisza
President of the PGNiG Management Board

Management Board

As at August 14th 2014

With effect from March 31st 2013, Mr Sławomir Hinc resigned from his position as a PGNiG Management Board Member.

With effect from April 29th 2013, Ms Grażyna Piotrowska--Oliwa was dismissed from her position as Member and President of the Management Board of PGNiG SA, and Mr Radosław Dudziński was dismissed from his position as Member and Vice-President of the Management Board of PGNiG SA.

With effect from December 20th 2013, Mr Mirosław Szkałuba handed in his resignation as a Member of the Management Board of PGNiG SA.

Owing to the appointment of a new Management Board, on December 30th 2013 Mr Jacek Murawski was dismissed from his position as a Member of the Management Board.

With effect from August 7th 2014, Mr Andrzej Parafianowicz handed in his resignation as a Member of the Management Board of PGNiG SA.

Mariusz Zawisza President

appointed to the Management Board with effect from January 1st 2014

Mariusz Zawisza graduated from the Faculty of Economics of the Maria Curie-Skłodowska University in Lublin. He completed a post-graduate programme in Management Accounting and Control at the Lublin University of Technology, and a post-graduate course in International Accounting Standards and International Financial Reporting Standards at Kozminski University in Warsaw. He also holds a Master of Business Administration degree from the University of Central Lancashire in Preston, gained on completion of a programme run by the Lublin Business School.

For almost eighteen years Mr Zawisza has held a number of managerial positions, including (chronologically, from 1996 to 1999) Head of the Economic and Marketing Research Department, Head of the Quality Assurance Department, and Head of the Financial Control Department at Zakłady Remontowe Energetyki Lublin SA. From 1999 to 2001, he worked at Lubelskie Zakłady Przemysłu Skórzanego Protektor SA as Head of the Economics Research and Financial Control Department and as its Chief Economist.

Between 2001 and 2004, Mr Zawisza served as CFO and Member of the Management Board of Instal Lublin SA, and then, from June 2004 until June 2006, as a Member of the Management Board responsible for finance at MPWiK w m. st. Warszawa SA. From 2006 to 2007, he was a Member of the Management Board, CFO and President of the Management Board of Lubelskie Zakłady Energetyczne LUBZEL SA. From July 2007 until August 2010, he served as President of the Management Board of PGE Dystrybucja Lubzel Sp. z o.o., and from January 2010 to December 2013, as President of the Management Board of PGE Dystrybucja SA.

He has also sat on the Supervisory Boards of Elektrociepłownia Lublin Wrotków, EPC SA, Exatel SA, PGE Systemy SA, and others.

With effect from January 1st 2014, Mr Zawisza was appointed President of the Management Board of PGNiG SA.

Since February 4th 2014, he has performed the function of Deputy Chairman of the Supervisory Board of EuRoPol GAZ SA, and since February 11th 2014 he has also chaired the Board of Directors of PGNiG Upstream International SA.

Jarosław Bauc Vice-President, Finance

appointed to the Management Board with effect from December 30th 2013

Jarosław Bauc is a graduate of the University of Łódź (Faculty of Economics and Sociology), where he was awarded his PhD in 1991. He also graduated from the University of Windsor in Ontario, Canada, with a Master of Arts in Economics.

In 1996, he acted in an advisory capacity to the Minister of Finance in Mongolia, where he helped design reforms to the Mongolian tax system. In 1997, he served as an Asociatia Pro Democratia Adviser to the Romanian Ministry of Finance, and as a USAID Adviser to the Ministry of Finance in the Georgian government. Between 1998 and 2000, Mr Bauc served on the Supervisory Board of Bank PKO BP SA, for some time as its Chairman. From January 1998 to June 2000, he held the office of Secretary of State at the Polish Ministry of Finance and First Deputy Minister of Finance. Then, between June 2000 and August 2001, he held the office of the Polish Minister of Finance. In 1998–2000, Mr Bauc represented the Polish Council of Ministers on the Monetary Policy Council of the National Bank of Poland.

Between 2002 and 2004, he served as President of the Management Board of Powszechne Towarzystwo Emerytalne Skarbiec-Emerytura (a pension fund management company), where in 2004–2006 he continued as Deputy Chairman of the Supervisory Board. From 2002 to 2005, Mr Bauc also sat as a Member of the Supervisory Boards of such companies as Mostostal Gdańsk SA, Tras Tychy SA, Netia SA, and in 2004–2006, he held the post of Chairman of the Supervisory Board of BRE Skarbiec Investments and BRE Agent Transferowy Sp. z o.o. Between 2004 and 2006, he served as President of the Management Board of Skarbiec Investment Management SA, Skarbiec Towarzystwo Funduszy Inwestycyjnych SA and Skarbiec Asset Management Holding SA. He held the post of President of the Management Board of Polkomtel SA twice from February to July 2006, and from May 2008 to November 2011. Then, from November 2011 to March 2012, he sat as its Member. Later, he became Deputy Chairman of the Supervisory Board of BNP Paribas Bank Polska SA and Chairman of the Supervisory Board of Łódzka Spółka Infrastrukturalna Sp. z o.o. From August to December 2013, he served as Vice-President of the Management Board of HAWE SA.

Since 2009, he has served as a member of the Economics Council of Cardinal Kazimierz Nycz, and since 2011 as a member of the Group of Social Advisers to the President of the City of Łódź. Since February 2014, he has sat as Member of the Board of Directors of PGNiG Upstream International SA, and since April 2014, as Member of the Supervisory Board of Europol Gaz SA.

Jerzy Kurella Vice-President, Trade

appointed to the Management Board with effect from June 14th 2013

Jerzy Kurella is a graduate of the Law and Administration Faculty at the University of Warsaw, and a legal counsel. From 1998 to 2002, he served as legal counsel at the Office of the Management Board of TUiR Partner SA and Garda Life SA, insurance companies of the SEB Group (Sweden). Between 2002 and 2007, he worked for PGNiG SA in a number of capacities, including the positions of Managing Director for Legal Support and Managing Director for Negotiations. He was responsible for legal aspects of the unbundling of the transmission system operator, debt restructuring, redemption of Eurobonds, listing of Company shares on the Warsaw Stock Exchange, and negotiations of key contracts and ventures.

From March 2007 to June 2008, Mr Kurella served as Member of the Management Board, and then as Vice-President of the Management Board, of BOT Górnictwo i Energetyka SA (BOT GiE), and was responsible for the BOT Group's strategy and integration, its management and development, including supervision of IT, central procurement and logistics, and for legal support of BOT. From September 2008, he held the position of President of the Management Board of Wojskowe Towarzystwo Budownictwa Społecznego Sp. z o.o., and from September 2009 to June 2012, he was employed as Vice-President of the Management Board of Bank Gospodarstwa Krajowego. From July 1st 2012, he served as Adviser to the President of the BGK Management Board. He has sat as a Member or Chairman on multiple Supervisory Boards of such companies as PF-K Gaskon SA, Investgas SA, BOT GiE SA, BOT Elektrownia Turów SA, BOT Elektrownia Bełchatów SA, KUKE SA, and Krajowy Fundusz Kapitałowy SA.

From June 14th to December 30th 2013, he was Vice-President of the Management Board of PGNiG SA, and from July 1st to December 30th 2013 he was its acting President. He also served as Deputy Chairman of the Supervisory Board of EuRoPol GAZ SA and Chairman of the Board of Directors of PGNiG Upstream International. Currently Mr Kurella is Chairman of the Supervisory Board of Gas-Trading SA and Member of the Board of Directors of PGNiG Upstream International. As of December 30th 2013, Mr Kurella was appointed Vice-President of the Management Board for Trade.

Zbigniew Skrzypkiewicz Vice-President, Exploration & Production

appointed to the Management Board with effect from December 31st 2013

Mr Skrzypkiewicz graduated from the Faculty of Chemical Engineering of the Warsaw University of Technology. In 1996, he completed a post-graduate course in Business Administration at the Warsaw School of Economics.

From 1993 to 1997, he served as Deputy Head of Industrial Fittings at KSB Pompy i Armatura Sp. z o.o., a part of KSB AG, a leading global manufacturer of industrial pumps and fittings. From 1998 to 2000, he was Head of Sanitary and Heating Systems at Raab Karcher Materiały Budowlane Sp. z o.o., the Polish arm of the large Germany-based trading company. He also held an executive position at Otto Poland Sp. z o.o., a German-owned manufacturing and trading company.

From May 2001 until December 2004, he was President of the Management Board of Instal Lublin SA, a company listed on the Warsaw Stock Exchange. Afterwards, he was President of the Management Board of Finpol Rohr Sp. z o.o., a production company, from January 2005 to October 2013.

He was Member of the Supervisory Board of PGNiG SA from June 26th to December 30th 2013.

Waldemar Wójcik Member of the Board

appointed to the Management Board with effect from April 3rd 2014

Mr Wójcik is a graduate of the Oil Drilling Faculty at the AGH University of Science and Technology of Kraków, with a degree of Master Engineer of Oil Mining.

In 1981, he began work at Sanocki Zakład Górnictwa Nafty i Gazu, initially as an administrative assistant at a Natural Gas Production Facility, then as a shift manager in the Well Workover Department, and then as Head of the Oil and Gas Production Facilities Centre in Przemyśl.

In 1994-1996, he was a member of the Employee Council at PGNiG. From 2001 to January 2009, he served as Director of Sanocki Zakład Górnictwa Nafty i Gazu of Sanok, and then as Director of the Sanok Branch of PGNiG. Between January 2009 and August 2010, he held the position of Vice-President of the Management Board of PGNiG in charge of Crude Oil Extraction.

In September 2010, he was appointed to the Management Board of Polish Oil and Gas Company – Libya BV.

Letter from the Chairman of the Supervisory Board

Ladies and Gentlemen,

Despite a challenging macroeconomic landscape and new domestic regulations for gas market liberalisation, including those designed to liberalise the wholesale gas market for industry, the past year once again confirmed PGNiG's lead in oil and gas production and sales.

In 2013 the Supervisory Board, in consultation with the Management Board, made a number of decisions regarding development of oil and gas reserves in Poland and abroad, expansion of underground storage capacities and distribution of gas fuel supplies. All these initiatives were geared towards improving Poland's energy security and building value for PGNiG shareholders.

In 2013 the PGNiG Group more than doubled the crude oil and condensate output from its Polish and foreign assets to 1.1 m tonnes, from 492 ths tonnes in 2012. PGNiG's share in domestic production of liquid hydrocarbons was close to 80%, which confirms the direction taken in this market segment was the right one.

The Supervisory Board supported the PGNiG Group in its reorganisation effort to help bring about major operational efficiency improvements. The process is still ongoing, and the Group will escalate its reorganisation efforts further in the future.

In fulfilling a key part of its remit, in 2013 the Supervisory Board conducted a recruitment process for appointments to the Company's Management Board. The decisions we made in this respect were a step towards the objectives defined in the Group's strategy.

I am highly confident that, with the Supervisory Board's support, the various objectives set by our shareholders, including the State Treasury as the shareholder responsible for the country's energy security, were effectively reconciled in 2013.

The Supervisory Board will provide ongoing help and assistance to the Management Board in its efforts to improve the Group's operational efficiency. Challenging as this may be, we will also support new initiatives to harness the potential of PGNiG's alliances with other companies in which the State Treasury holds major shareholdings.

Yours faithfully,

Wojciech Chmielewski
Chairman of the Supervisory Board

Supervisory Board

As at August 14th 2014

Wojciech Chmielewski

Chairman

Member of the Supervisory Board since January 12th 2012, reappointed for another term off office since May 15th 2014

Graduate of the University of Wrocław in Polish Philology (1995) and Political Science (1998). He also completed postgraduate studies at Université de Strasbourg III in Politiques Publiques en Europe in 1997, and at the National School of Public Administration in Warsaw (KSAP) (2000).

Since 2000, Mr Chmielewski has worked at the Ministry of State Treasury, currently as Director of the Ownership Transformation and Privatisation Department. During his career, he has served on the Supervisory Boards of such companies as Stocznia Gdynia SA, Agencja Rozwoju Przemysłu SA, PKS Przemyśl Sp. z o.o. and Mostostal Wrocław SA. Since February 2009, he has served on the Supervisory Board of ENEA SA of Poznań and is currently its Chairman.

Agnieszka Woś

Deputy Chairman

Member of the Supervisory Board since May 15th 2014

Graduate of the master's studies in economics at the School of the University of Information Technology and Management in Rzeszów (Finance and Accounting) and the Cracow University of Economics (Operation and Development of Enterprises). In 2010, she was awarded a PhD degree in Economics – Management Sciences at the Cracow University of Economics.

She has also completed a number of certified training programmes in project management, operation of enterprises and non-government organisations, as well as different aspects of the European Union. She is an expert in the area of development and implementation of loyalty schemes and implementation of acquisition projects, as well as an author of numerous publications in prestigious science and business magazines, including conference magazines in Poland.

She worked at the Institute of Economics (Instytut Gospodarki) in Rzeszów, Solidex SA in Kraków, Polska Grupa Farmaceutyczna SA, and the Marshall's Office of the Rzeszów Province first as Head of the Ownership Supervision and Economic Analysis Department, and then as Head of the Ownership Supervision and Economic Analysis Office.

At present, she serves as the Minister's Counsel coordinating work at the State Treasury Ministry's Strategic Companies Department. She is also the Founder and President of the Management Board of the Podkarpacka Akademia Rozwoju Foundation, as well as a lecturer at one of the higher education schools of the Rzeszów Province, and a Board Member at Podkarpacki Park Naukowo-Technologiczny Aeropolis (a science and technology park).

Magdalena Zegarska

Secretary

Member of the Supervisory Board since May 15th 2014

Graduate of the Private University of Environmental Sciences (PWSOŚ) in Radom, where she obtained an Engineering degree in Occupational Health and safety. She also obtained a certificate of completion of studies in the field of Management of Large Enterprises from the School of Management and Marketing of the Business Initiatives Association in Warsaw. She has completed numerous training programmes and courses in psychology of team management.

Secretary of the Employee Council of the second term of office. She is a Class I Mining Engineer. Ms Zegarska joined PGNiG SA in 1998 as an employee of the gas distribution facility. She then moved on to become a customer service specialist at the Mazovian Trading Division. At present, she works as a debt collection specialist at the Retail Trading Department at the PGNiG Head Office. In the course of her professional career, she has worked on numerous projects carried out for the benefit of PGNiG employees. She has received honorary awards for outstanding service to the Mazovian Trading Division, as well as to the Oil Mining and Gas Sector.

Sławomir Borowiec

Member

Member of the Supervisory Board since May 15th 2014

Graduate of the AGH University of Science and Technology in Kraków, Faculty of Drilling, Oil and Gas. He is also a graduate of The Jacob of Paradyż University of Applied Sciences in Gorzów Wielkopolski – Institute of Management and Finance, where he completed studies in Management and Marketing, and a graduate of the Koszalin University of Technology, where his principal field of study was Accounting – Accounting of Business Entities.

In 1992, he joined Zielonogórski Zakład Górnictwa Nafty i Gazu and is currently Head of the Administrative Centre for Oil and Gas Production Facilities in Drezdenko. Mr Borowiec is a licensed Mine Operations Manager. In 2010, he received a title of Grade II Mining Director. In 2002, he passed an examination for candidates to supervisory boards of state-owned companies.

Andrzej Janiak

Member

Member of the Supervisory Board since March 26th 2014, reappointed for another term off office since May 15th 2014

Graduate of the Adam Mickiewicz University of Poznań, Mr Janiak completed legal training for court judges (1980–1982) and has been legal counsel since 1987.

Since 2005 he has held a post-doctoral degree of Habilitated Doctor (doctor habilitatus) in law. Mr Janiak has worked at the Adam Mickiewicz University of Poznań since graduation, and in 2008 became Professor at the Department of Civil, Commercial and Insurance Law. In 2009–2012, he was also Professor at the Department of Commercial Law of the Faculty of Management at the Poznań University of Economics, and since 2012 – at the Department of Civil and Commercial Law of the Faculty of Law and Administration at the Szczecin University. He has worked as a chief specialist at the Poznań Branch of the National Bank of Poland and adviser to the President of Wielkopolski Bank Kredytowy SA. He has also served as an adjudicator in arbitration tribunals, as well as a legal consultant and litigation attorney for a number of companies.

Bogusław Nadolnik

Member

Member of the Supervisory Board since May 15th 2014

Graduate of the Warsaw School of Economics, Faculty of Management and Marketing. He has also completed post-graduate studies in the field of Internal Audit and Internal Control at Instytut Organizacji i Zarządzania (Institute of Organisation and Management in Industry) ORGMASZ in Warsaw and Międzynarodowe Centrum Szkolenia i Doradztwa (International Training and Advisory Centre) Sp. z o.o. In 1990–1992, he completed studies in Small Business Management at Georgetown University Washington D.C. (US), where he started his professional career as an intern.

After his return to Poland in 1994, he joined the Organisation Department of the Minister's Office as a senior specialist, and then served as acting Chief of the Minister's Office at the Ministry of Agriculture and Food Economy. In 1996–2006, he worked for the Ministry of State Treasury as Deputy Director of the Treasury Finance Department, Deputy Director of the Budget and Finance Department, and acting Director of the State Aid Office. Between 2007–2008, he served as the Legionów County Secretary at the Legionów County Governor Office. In 2008, he went on to work at the Ministry of Agriculture and Rural Development, where he held the position of Under-Secretary of State. From 2008 until 2013, he served as Vice-President of the Agency for Restructuring and Modernisation of Agriculture (ARIMR).

At present, he is Director of the Post-Privatisation Activity Department at the Ministry of State Treasury. Mr Nadolnik has served on the Supervisory Boards of the following state-owned companies: Legnicka Specjalna Strefa Ekonomiczna SA, Polimex-Cekop Sp. z o.o., Metalexport Sp. z o.o., Beskidzkie Tartaki Bestar SA, Bank Gospodarki Żywnościowej SA, VII Narodowy Fundusz Inwestycyjny im. Kazimierza Wielkiego SA, Agencja Rozwoju Przemysłu SA, Uzdrowisko Krynica Żegiestów SA, and Rolno-Spożywczy Rynek Hurtowy SA. On January 16th 2014, he was appointed to the Supervisory Board of ENERGA SA by virtue of an announcement of the Minister of State Treasury.

Janusz Pilitowski

Member

Member of the Supervisory Board since January 12th 2012, reappointed for another term off office since May 15th 2014

Graduate of the Warsaw School of Economics, Mr Pilitowski worked for Mennica Polska SA (the national mint) in 1985–2003, where he held a number of positions, including Chief Accountant, Chief Financial Officer, and then Member and President of the Management Board. In 2004, Mr Pilitowski joined the Brasco Group, where he was responsible for the biocomponent and liquid biofuels market. Since 2007, Mr Pilitowski has worked in public administration first at the Energy Regulatory Office and then at the Ministry of Economy. Currently, he is Director of the Renewable Energy Department of the Ministry of Economy. He has considerable experience as a member of supervisory bodies.

Ryszard Wąsowicz

Member

Member of the Supervisory Board since May 15th 2014

Graduate of the School of Law and Public Administration in Rzeszów with a Bachelor's Degree in Administration – Human Resources Management (continuation – Master's Degree programme).

He started his professional career in 1978 at Sanocki Zakład Górnictwa Nafty i Gazu, working at the Husów gas extraction facility. In 1990–1992, he was a member of the Employee Council at Sanocki Zakład Górnictwa Nafty i Gazu, and in 1992–1996, for two (the fifth and sixth) terms of office, he was a member of the Employee Council at PGNiG SA. Until 1998, he was a member of the Consulting Board at PGNiG SA. In 1998, he completed a course for supervisory board members and passed a state exam before the State Treasury Commission. Since 1990, he has been delegated to work in trade union bodies. Mr Wąsowicz was nominated to the Supervisory Board of PGNiG SA by the President of the Trade Union of Workers of the Mining and Oil Industries (NSZZ Górników-Naftowców).

On June 26th 2013, Mr Mieczysław Puławski was removed from the PGNiG Supervisory Board.

On June 26th 2013, Mr Zbigniew Skrzypkiewicz was appointed to the PGNiG Supervisory Board. From September 16th to December 16th 2013, he temporarily served as Member of the PGNiG Management Board. On December 31st 2013, he was appointed to the PGNiG Management Board.

On May 15th 2014, in connection with the ending term of office of the Supervisory Board, from the Supervisory Board of PGNiG were removed: Agnieszka Chmielarz, Wojciech Chmielewski, Józef Głowacki, Andrzej Janiak, Mieczysław Kawecki, Marcin Moryń, Janusz Pilitowski, Ewa Sibrecht-Ośka, and Jolanta Siergiej.

With effect from July 30th 2014, Ms Agnieszka Trzaskalska handed in his resignation as a Member of the Supervisory Board of PGNiG SA.

PGNiG on the stock market

In 2013, the PGNiG share price hit an all-time high of PLN 6.55. Having delivered solid financial performance, the Company was able to pay a dividend and carry out major investment projects. However, 2013 was also a time of stock market volatility. At the end of the year, the PGNiG share price was close to that at the end of 2012.

Our position on the Warsaw Stock Exchange

From the day PGNiG shares were first listed on the Warsaw Stock Exchange (September 23rd 2005), they have been among the most recognisable and credible listed securities. They have been included in the WIG20 blue-chip index since December 15th 2005, as well as in the MSCI Emerging Markets Index, a global index of emerging market stocks put together by Morgan Stanley Capital International.

We are also proud that PGNiG has been included in the RESPECT Index of socially responsible companies since its inception. 2013 was the seventh year of the index's existence and PGNiG's inclusion in it. In 2013, the Warsaw Stock Exchange launched the WIG30 index, comprising Poland's 30 largest listed companies. First quoted on September 23rd 2013, the new index will ultimately take over the role of the WIG20. PGNiG shares are also included in the WIG Paliwa index of fuel sector companies, accounting for 34% of its portfolio (at the end of 2013).

Performance of the PGNiG stock

Over 2013, the PGNiG stock traded within the PLN 5.14–PLN 6.55 range (compared with PLN 3.62–PLN 5.21 in 2012). The first half of 2013 Saw a strong rise in the PGNiG stock price, which was also accompanied by high price volatility. The all-time high of PLN 6.55 was reached in August. From that peak, the PGNiG share price entered a declining trend and closed year-end at PLN 5.15. The trend reversed on the back of macroeconomic changes (such as monetary policy tightening by the US Federal Reserve) and regulatory developments in Poland (announcement of changes relating to open-end pension funds, requirement to sell a pre-defined amount of gas through the power exchange). Another contributing factor was investor pressure on profit taking, while PGNiG had to face growing challenges posed in particular by the gas market deregulation.

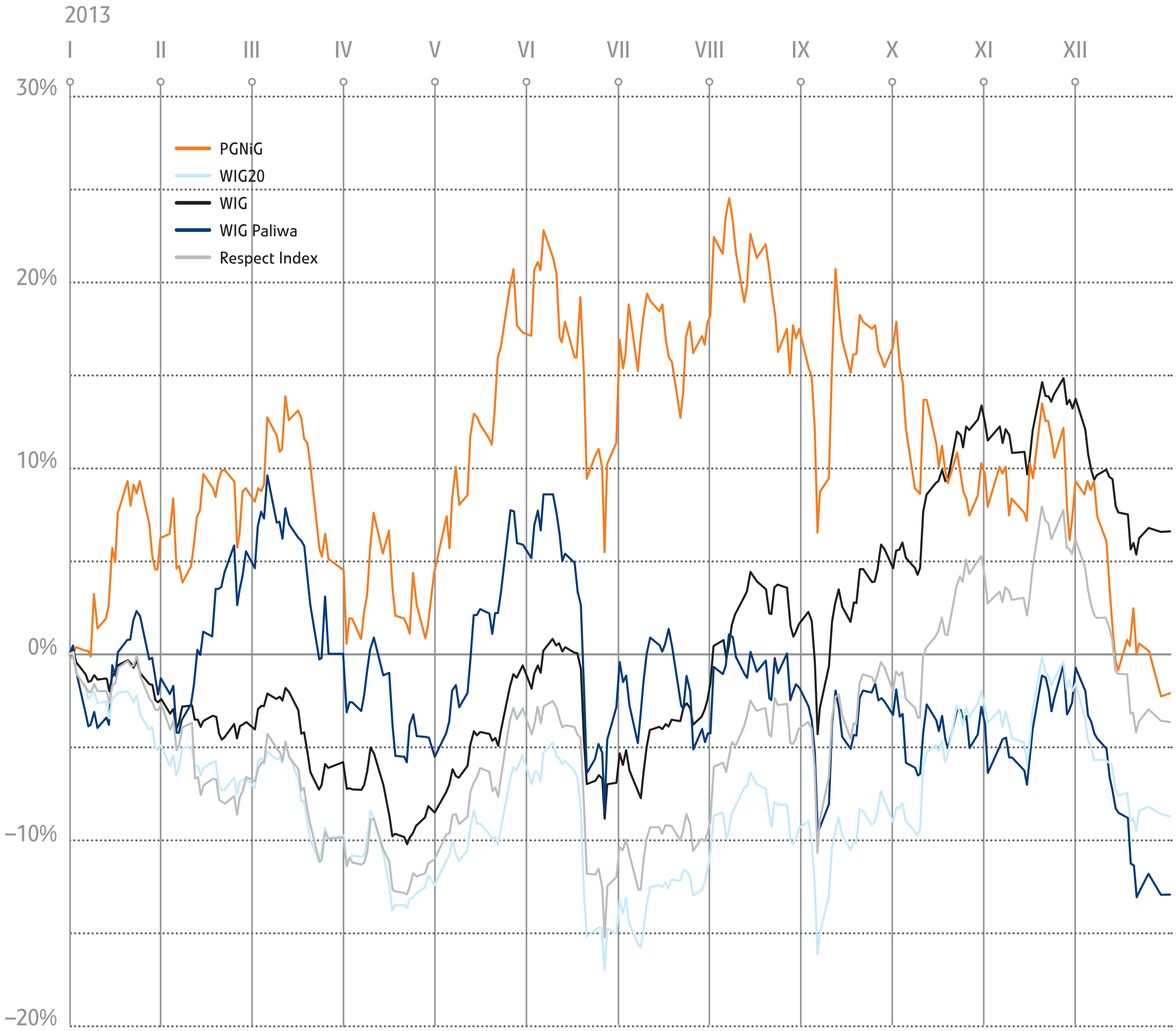
In 2013 alone, the return on investment in PGNiG shares was 1.3% (including dividend yield). Over the year, the return on investment in stocks included in the WIG20 index was -7%, WIG Paliwa shrank by 10%, whereas the WIG total return index went up by 8%. Net of dividend yield, the return on investment in PGNiG shares in 2013 was negative at -1.2%. Since the IPO of September 23rd 2005, the return on PGNiG shares (net of dividend yield) has exceeded 35%, far outperforming the WIG20 benchmark index, which has posted a loss of -2%. The return on the WIG index, which reflects the entire main market of the Warsaw Stock Exchange, has reached 54% in the same period.

Performance of WSE indices and the PGNiG stock

Index	Value/price as at Dec 28 2012	2013 high	2013 low	Value/price as at Dec 30 2013	PGNiG's weight in the index as at Dec 30 2013
WIG	47,460.59 points	55,246.4 points	43,159.57 points	51,284.25 points	3.0%
WIG20	2,582.98 points	2,628.36 points	2,177.02 points	2,400.98 points	4.7%
WIG-Paliwa	3,571.11 points	4,048.79 points	3,206.98,points	3,215.11 points	34.2%
Respect Index	2,591.15 points	2,854.54 points	2,250.8,pkt	2,559.17 points	9.3%
PGNiG S.A.	5.21 PLN	6.55 PLN	5.14 PLN	5.15 PLN	-

Source: gpwinfostrefa.pl

Performance of the PGNiG stock



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

Rates of return on WSE indices vs PGNiG stock in 2010-2013, as well as the rate of return since PGNiG's IPO

	Rate of return in 2010	Rate of return in 2011	Rate of return in 2012	Rate of return in 2013	Rate of return since PGNiG's IPO
WIG	18.8%	−20.8%	23.8%	8.1%	54.4%
WIG20	14.9%	−21.8%	17.7%	−7%	−2.3%
WIG-Paliwa	26.4%	−18.5%	34.8%	−10%	−9.7%[1]
Respect Index	32.2%	−12.9%	27.6%	−1.2%	155.9%[2]
PGNiG	−5.8%	14.3%	27.7%	−1.2%	35.2%[3]

Source: the WSE

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

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

3 In relation to the issue price of PLN 2.98, the rate of return on PGNiG shares since the IPO stands at 72.8%.

Shareholder structure

As at December 31st 2013, the share capital of PGNiG stood at PLN 5,900,000,000, and comprised 5,900,000,000 shares, with a par value of PLN 1 per share. The shares of all series, that is Series A, A1 and B, were ordinary bearer shares, each conferring the right to one vote at the General Meeting.

The State Treasury remains PGNiG's majority shareholder. On June 26th 2008, the Minister of State Treasury disposed of one PGNiG share on general terms, which – pursuant to the Commercialisation and Privatisation Act of 1996 – triggered the eligible employees' rights to acquire, free of charge, a total of up to 750,000,000 PGNiG shares. The start date for executing agreements on acquisition of free Company shares was April 6th 2009. The eligible employees' rights to acquire free PGNiG shares expired on October 1st 2010.

By December 31st 2013, nearly 60,000 eligible employees had acquired 728,259,522 shares, conferring the right to 12.34% of the total vote. Consequently, the State Treasury's interest in PGNiG amounted to 72.40%. The free Company shares acquired by eligible employees were locked up until July 1st 2010, while trading in free shares acquired by members of the Company's Management Board was restricted until July 1st 2011.

As at the dividend record date (July 20th 2013), the ten largest institutional investors in PGNiG, apart from the State Treasury, included Polish pension and investment funds. Its major foreign investors included sovereign wealth funds, pension funds and investment funds, mainly exchange-traded funds. The objective of exchange-traded funds is to automatically track their reference stock index, e.g. an index of the Polish market or an index of developing countries. PGNiG's institutional shareholder base comprises investors from 44 countries.

Shareholder structure in 2012–2013

Shareholder	Number of shares/ votes attached to the shares as at Dec 31 2012	Percentage of share capital/total vote at the GM as at Dec 31 2012	Number of shares/ votes attached to the shares as at Dec 31 2013	Percentage of share capital/total vote at the GM as at Dec 31 2013
State Treasury	4,271,810,954	72.4%	4,271,740,477	72.4%
Other shareholders	1,628,189,046	27.6%	1,628,259,523	27.6%
Total	5,900,000,000	100.00%	5,900,000,000	100.00%

Investor relations

Substantial holdings of PGNiG shares are included in the portfolios of open-end pension funds. As at the end of 2013, these long-term investors held almost 10% of PGNiG's equity, valued at just under PLN 3 bn. This means that the number of PGNiG shares held by these funds rose by 7%. The funds with the largest equity interests in PGNiG were those which manage the largest portfolios of future pensions, that is ING, Aviva and PZU Złota Jesień. The share of open-end pension funds in the PGNiG shareholder base has risen significantly from the IPO in 2005, when it accounted for 3.5% of the share capital (valued at PLN 711 m).

Investor relations is an increasingly prominent area of business activities. Its importance reflects the rapid growth of the Polish capital market evidenced by the growing value of assets held by investment funds as well as the rising number of publicly-traded companies, which now number more than 400 on the Warsaw Stock Exchange. There are almost 1.5 m investment accounts registered in Poland, including a dynamic group of retail investors who invest their capital through the Warsaw Stock Exchange. The importance of investor relations also follows from increasing legal and regulatory requirements imposed on companies by the legislator, and also by the market itself striving for self-regulation. One fact worth noting is the growing awareness on the part issuers themselves. Well-managed investor relations support their financial strategies and foster a good image, which goes to reinforce their competitive advantage.

In 2013, PGNiG released 207 reports, both periodic and current. The full set of reports required by stock exchange regulations and current information on the PGNiG Group is available at www.pgnig.pl, in the Investor Relations section. The section also contains an investor presentation, providing a valuable insight into and overview of the Group's position and operations. 2014 will see a revamp of our website to better suit investor needs.

PGNiG shares in the portfolios of open-end pension funds

No.	Fund	Value as at Dec 31 2013	Number of shares as at Dec 31 2013	Equity interest	Value as at Dec 31 2012	Number of shares as at Dec 31 2012	Equity interest	2013/2012 change
1	ING NATIONALE NEDERLANDEN OFE	592,480,000	114,277,117	1.94%	671,009,587	128,792,627	2.18%	–11%
2	AVIVA OFE	681,130,000	131,374,964	2.23%	593,151,534	113,848,663	1.93%	15%
3	OFE PZU ZŁOTA JESIEŃ	550,250,000	106,131,801	1.80%	530,368,190	101,798,117	1.73%	4%
4	AMPLICO OFE	236,780,000	45,669,746	0.77%	234,536,533	45,016,609	0.76%	1%
5	AXA OFE	211,990,000	40,888,513	0.69%	213,325,195	40,945,335	0.69%	0%
6	AEGON OFE	110,480,000	21,318,817	0.36%	100,016,193	19,196,966	0.33%	11%
7	NORDEA OFE	128,390,000	24,763,114	0.42%	102,827,332	19,736,532	0.33%	25%
8	ALLIANZ POLSKA OFE	104,710,000	20,195,933	0.34%	89,965,175	17,267,788	0.29%	17%
9	GENERALI OFE	113,500,000	21,892,422	0.37%	71,407,072	13,705,772	0.23%	60%
10	BANKOWY OFE	105,740,000	20,395,586	0.35%	77,013,465	14,781,855	0.25%	38%
11	OFE POCZTYLION	61,860,000	11,931,129	0.20%	41,785,242	8,020,200	0.14%	49%
12	PEKAO OFE	53,730,000	10,364,315	0.18%	38,752,027	7,438,009	0.13%	39%
13	OFE WARTA	36,340,000	7,009,847	0.12%	26,407,463	5,068,611	0.09%	38%
Total		**2,987,380,000**	**576,213,304**	**9.77%**	**2,808,921,718**	**539,140,445**	**9.14%**	**7%**

Source: Polish Press Agency (PAP).

Change in the number of PGNiG shares held in the portfolios of open-end pension funds between 2012 and 2013

Strategy for the PGNiG Group

The ultimate strategic objective pursued by PGNiG SA is to deliver growth in shareholder value. In pursuit of that objective, in mid-2011 the Company adopted the 'Updated Strategy for the PGNiG Group until 2015'. In implementing the strategy, it takes into account considerations related to the long-term development and liberalisation of the Polish gas market.

In December 2012, the Company adopted the 'Short-Term Value Creation Strategy for the PGNiG Group in 2012–2014'. This operational strategy is a set of coordinated activities geared towards achievement of the Group's primary strategic objective. The document, adopted in December, is consistent with the 'Updated Strategy for the PGNiG Group until 2015'.

PGNiG is one of Poland's major companies – in terms of revenue and earnings, it ranks among the largest and most profitable Polish businesses. It is also one of Poland's largest employers.

The Group's main strategic objectives form its vision to become, by 2015, a modern and efficiently managed organisation controlling almost the entire value chain in the gas sector, and holding assets in the fuel and power generation sectors. Attainment of these strategic objectives will depend on its activities in three areas:

- Exploration for and production of hydrocarbons both domestically and abroad to secure access to new oil and gas reserves;
- Diversification of the Group's revenue sources and product range;
- Management of the natural gas portfolio in Poland and abroad.

The 'Short-Term Value Creation Strategy for the PGNiG Group until 2014' is a comprehensive document describing a set of coordinated activities that are geared towards the delivery of 19 initiatives broken down into three business areas.

Initiatives in the Upstream area:

1. Appraisal and development of unconventional hydrocarbon reserves under held licences;
2. Cooperation with external partners in the area of hydrocarbon exploration and production;
3. Escalation of the conventional hydrocarbon exploration program in Poland;
4. Optimisation of upstream operations outside of Poland.

Initiatives in the Market area:

1. Enhancement of efficiency in the marketing and customer service areas;
2. Implementation of integrated product range;
3. Implementation of new marketing policy;
4. Active participation in and support of the gas market deregulation;
5. Development of the power generation segment;
6. Change in pricing rules for gas import contracts;
7. Change in the structure of imported gas sources;
8. Centralisation of the wholesale trading function at the PGNiG Group.

Initiatives in the Business Model area:

1. Optimisation of the HR management system at PGNiG;
2. Implementation of project/project portfolio management system;
3. Establishment of Shared Services Centre;
4. Restructuring of the PGNiG Group's core businesses;
5. Restructuring of the PGNiG Group's non-core businesses;
6. Restructuring of employment;
7. Optimisation of the storage segment at the PGNiG Group.

Thanks to the 'Short-Term Value Creation Strategy for the PGNiG Group until 2014', the Company was able to implement its ambitious investment plans, and at the same time reduce debt and generate surplus cash, which may be used to finance other investment projects.

Upstream area

Our achievements to date

In 2013, the PGNiG Group was involved in exploration and appraisal work either on its own or in cooperation with partners. In Poland, its exploration and appraisal work was focused in the Carpathian Mountains, Carpathian Foothills and Polish Lowlands. Drilling work in Poland was performed on 27 exploratory wells, including seven research and six appraisal boreholes. A total of 16 wells were tested, including seven drilled in previous years. The tests confirmed the presence of gas in nine wells – four exploratory and five appraisal wells. Seven wells did not flow hydrocarbons at commercial rates.

Two wells were tested in the search for unconventional deposits. Drilling work was performed on eight wells, with six reaching their target depths.

In 2013, in addition to projects undertaken independently, the PGNiG Group was working with other entities in the licence areas of PGNiG, FX Energy Poland Sp. z o.o., and San Leon Energy PLC (the company acquired shares in its former partner, Aurelian Oil & Gas PLC). Furthermore, the PGNiG Group partnered with other entities in carrying out exploratory work in Pakistan, Norway and Libya.

In 2013, PGNiG, Tauron Polska Energia SA, KGHM Polska Miedź SA, PGE Polska Grupa Energetyczna SA and Enea SA held terms of contract negotiations under the framework agreement of July 4th 2012 (concerning the exploration for and production of shale gas and oil within the Wejherowo licence area). The framework agreement expired on December 31st 2013 due to non-fulfilment of certain conditions defined therein.

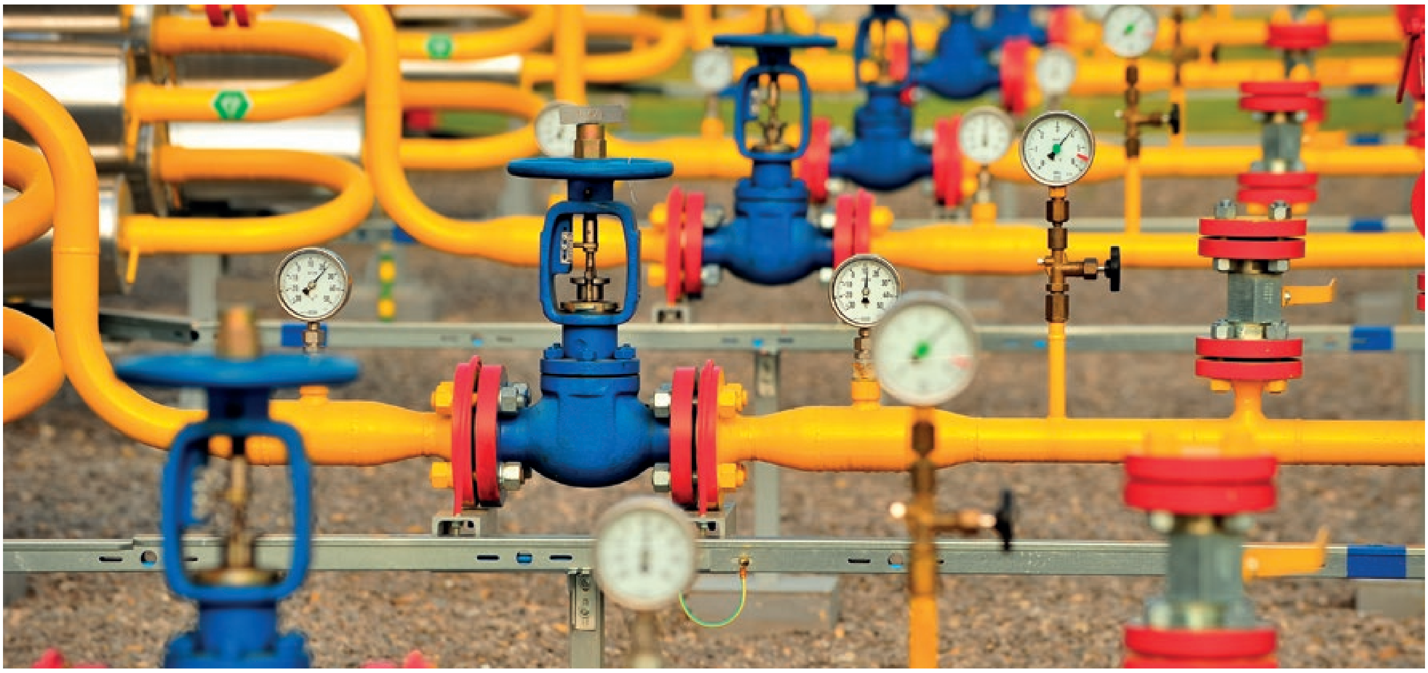
On August 14th 2013, PGNiG and LOTOS Petrobaltic SA signed an agreement for joint operation within the Kamień Pomorski licence area. The performance of the agreement will be possible upon fulfilment of certain conditions precedent, i.e. with positive tax rulings from the Ministry of Finance and approval of the sub-lease of the mining usufruct (mineral extraction rights) from the Ministry of Environment.

The PGNiG Group continued its exploration and appraisal work in Pakistan. In 2013, the construction of gas pipelines and temporary surface installations was completed and test production from the Rehman-1 and Hallel X-1 wells began. The gas produced is sold to the Pakistani transmission system. Also in 2013, preparatory work began for drilling of the Rizq-1 exploratory well, which is scheduled for completion in 2014.

On December 31st 2012, the Company and its partners launched the production of crude oil and natural gas from the Skarv and Idun fields (Skarv project) on the Norwegian Continental Shelf. The Company has been selling the extracted hydrocarbons since January 2013. In 2013, PGNiG Upstream International held interests in 13 exploration and production licences on the Norwegian Continental Shelf.

In 2013, the PGNiG Group completed preparatory work in Libya and commenced the first round of drilling, which consists of four exploration wells. Work on the first exploratory well was completed. The drilling and production tests on the second well ended in December 2013. Also in 2013, the PGNiG Group completed preparatory work on the third well, while second-stage 3D seismic surveys originally scheduled for 2013 were postponed for future years.

Last year, the PGNiG Group also conducted exploration work within Egypt's Bahariya licence area (Block 3), where two exploration wells were drilled, but were subsequently abandoned as they did not flow hydrocarbons at commercial rates. The Bahariya licence potential was re-evaluated using newly acquired geological data, which proved that further work was not economically viable. Therefore, a decision was made to terminate the licence and liquidate the Egypt branch.



Market area

Our achievements to date

Imports

PGNiG buys imported natural gas under: a long-term contracts (i.e. long-term contract with OOO Gazprom Export) and under short- and medium-term gas supply contracts with European suppliers.

Attempting to diversify the supplies of imported gas, the PGNiG Group increased the volumes of gas purchased under short-term contracts. The purchases were contracted chiefly by PGNiG Sales & Trading.

PGNiG Sales & Trading purchased natural gas on the German market, mainly in OTC transactions on the NCG (NetConnectGermany) and Gaspool virtual trading platforms. The company also purchased gas on the European Energy Exchange (EEX). In 2013, PGNiG and PGNiG Sales & Trading executed short-term agreements for the purchase of natural gas to be mainly supplied using the reverse flow service on the Yamal pipeline.

In late 2013, PGNiG and NAK Naftogaz Ukrainy signed an agreement to terminate the contract for the supply of natural gas of October 26th 2004. This was due to the fact that, on January 1st 2011, NAK Naftogaz Ukrainy had suspended gas deliveries via the Zosin cross-border point on the Polish-Ukrainian border.

Sales

PGNiG is the largest supplier of natural gas in Poland. Its share of the gas market is approximately 96%, the remaining 4% being held by suppliers from outside the PGNiG Group, who mostly purchase gas from PGNiG.

In 2013, the PGNiG Group sold 16.2 bn m^3 of natural gas, with 95% of that as sales from transmission and distribution systems, and the balance as direct sales from gas fields.

In 2013, PGNiG concluded contracts for gas fuel supply, both from the transmission system and from the distribution system, with 86.9 ths new customers.

PGNiG delivered natural gas to customers in Poland. The gas was purchased primarily by industrial customers (mainly in the chemical, oil refining, petrochemical and metallurgical sectors) and by households. Households made up the largest group of customers for natural gas (approximately 6.5 m), accounting for 97% of the entire customer base.

PGNiG began selling gas on the Polish Power Exchange, where it sold approximately 66 m m^3 of gas in 2013.

In November 2013, PGNiG became the first direct member of the gas market at the Polish Power Exchange. Previously the Company had executed trades at the exchange through commodity brokers. The Company also agreed to act as a market maker in the natural gas futures market, and to regularly place both sell and buy orders on this market. The key role of a market maker is to enhance the market's liquidity and transparency.

In 2013, the Wholesale Trading Division was established, with operations involving wholesale trade in natural gas, electricity, heat, property rights under certificates of electricity origin and CO2 emission allowances. In September 2013, PGNiG became a member of the London-based ICE Futures exchange, thanks to which it can now enter into transactions on Europe's largest platform for trading in carbon credit futures.

In July 2013, PGNiG merged with PGNiG Energia, as a result of which wholesale trading in electricity and related products was consolidated within the Wholesale Trading Division.

The Company continued a project consisting in LNG-based distribution of group E gas fuel to customers in Ełk and Olecko. This project is part of an initiative to switch Pisz, Ełk, Suwałki and Olecko to high-methane gas (PESO project), and involves the construction of an LNG regasification station and two-step pressure reduction, metering and odorising stations in Ełk and Olecko, and the switching of customers in those towns to high-methane gas. In 2013, the Company commenced construction of an LNG regasification station and pressure reduction and metering stations in Ełk and Olecko.

In 2013, PGNiG was engaged in wholesale trading in electricity and related products in Poland and Germany. In Poland, the Company traded on the OTC market under EFET (European Federation of Energy Traders) standard agreements and through brokers, and also on the Polish Power Exchange. In Germany, the Company was engaged in spot contract trading on the EPEX (European Power Exchange) Spot market, and in the inter-system Poland-Germany exchange (between the areas covered by PSE and 50 Hertz Transmission).

PGNiG Sales & Trading was engaged in electricity trading in Germany on the EPEX Spot, EEX Power Derivatives and OTC markets.

PGNiG expanded its offering by launching sales of electricity to business customers (tariff groups A, B and C). The Company also commenced its preparations for the launch of electricity sales to households (tariff group G).

In 2013, the PGNiG Group sold 7,231.6 GWh of electricity, 73% of which was to the Polish market.

Distribution

Polska Spółka Gazownictwa was appointed as the Distribution System Operator and the Natural Gas Liquefaction System Operator until December 31st 2030. The President of the Energy Regulatory Office also granted the company a licence to distribute gas fuel and a licence to liquefy natural gas and regasify LNG at LNG regasification plants until December 31st 2030.

In 2013, Polska Spółka Gazownictwa carried on 18 projects involving the construction, extension and modernisation of its distribution networks, for which, in previous years, the gas distribution companies had concluded agreements on EU co-financing under the Infrastructure and Environment Operational Programme.

In 2013, the Company also pursued projects financed directly with its own funds.

Storage

An amendment to Gas Fuel Storage Tariff No. 1/2012, approved by the President of the Energy Regulatory Office on December 17th 2012, has been in effect since January 1st 2013. This amendment covers charges for storage services, service quality, and settlement methods under short-term contracts. By virtue of a decision of April 30th 2013, the President of the Energy Regulatory Office extended the effective term of the Tariff until September 30th 2013. In July 2013, Operator Systemu Magazynowania Sp. z o.o. applied to the President of the Energy Regulatory Office for another extension of the term of the Tariff until March 31st 2014. The President of the Energy Regulatory Office granted the company's request in his decision of September 16th 2013.

The working storage capacity of the Mogilno cavern facility was reduced from 411.9 m m^3 to 407.9 m m^3 as a result of the process of convergence (tightening) of the salt rock mass. On April 11th 2013, the President of the Energy Regulatory Office amended the gas fuel storage licence granted to Operator Systemu Magazynowania to reflect the 4 m m^3 reduction in the Mogilno facility's working storage capacity.

As at December 31st 2013, the PGNiG Group made available a total of 1,817.5 m m^3 of working storage capacity for third party access and to OGP GAZSYSTEM. Of this volume, 1,796.0 m m^3 was made available under long-term agreements, while 21.5 m m^3 was covered by short-term agreements. 0.39 m m^3 is allocated for the Mogilno cavern facility's own needs.

Power generation

In 2013, as part of the Stalowa Wola CCGT project (a joint project between PGNiG, Tauron Polska Energia SA and Elektrownia Stalowa Wola SA), the PGNiG Group concluded financing agreements for the CCGT unit, and the construction work began. The work included construction of an electricity switching substation with a control room, and foundations for the unit's main installations. Foundations for the recovery boiler and gas turbine were laid, and work continued on foundations for the steam turbine. The support structure for the gas turbine building was completed and construction of the steam turbine building begun. Also, phase one of work on the San river dam system was completed.

Business Model area

Our achievements to date

Exploration and Production

In 2012, PGNiG consolidated its exploration and well services companies within the Group's Exploration and Production segment. PGNiG Poszukiwania SA (from February 2013, Exalo Drilling SA) was merged with PNiG Kraków, PNiG NAFTA, PNiG Jasło, PN Diament and ZRG Krosno.

In 2013, the number of production facilities was reduced following their merger. The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 22 sites, which includes 13 gas production facilities, six oil and gas production facilities and three oil production facilities. The Sanok Branch produces high-methane and nitrogen-rich natural gas and crude oil at 38 sites, including 20 gas production facilities, 12 oil and gas production facilities and six oil production facilities.

Power Generation

PGNiG merged with PGNiG Energia, whose main operations were in electricity trading.

Shares in Elektrociepłownia Stalowa Wola SA, previously held by PGNiG Energia, were transferred to PGNiG Termika, which is the PGNiG Group's current power generation competence centre.

Sales

PGNiG established the Wholesale Trading Division, which is to be the focus of all wholesale trading processes and will manage the Group's product mix, i.e. natural gas, crude oil, and electricity. This is to ensure that the Group maintains its competitive edge in the changing market environment.

Distribution

Until the end of June 2013, natural gas distribution had been the business of six gas distribution companies.

On July 1st 2013, as a part of the Distribution segment's consolidation, PGNiG SPV 4 Sp. z o.o. acquired all assets of those six companies, which were transformed into regional branches. The name of the company was then changed to Polska Spółka Gazownictwa Sp. z o.o.

This will allow the introduction of uniform standards and procedures across the Group, which will bring about improvements in distribution costs while further enhancing customer service.

Storage

As part of the Storage segment's reorganisation, the Mogilno Underground Gas Storage Cavern Facility and Wierzchowice Underground Gas Storage Facility were established as branches of PGNiG, while INVESTGAS was merged with Operator Systemu Magazynowania. The management and supervisory processes in the Storage segment were centralised in OSM, which will have the effect of a long-term improvement in efficiency.

Exploration and Production

2013 was a record-breaking year for the PGNiG Group in terms of crude oil and condensate production, with a growth of 124% on 2012, as a result of the production launch at the Lubiatów, Międzychód and Grotów (LMG) fields, as well as the field on the Norwegian Continental Shelf. Exploration work was carried out in Poland, and also abroad in Norway, Pakistan, Denmark, Egypt and Libya.

IN 2013 HAS BEEN DONE

969 km²

3D SEISMIC

535 km

2D SEISMIC

Key achievements:

- Launch of test production and sale of gas from the Rehman field in Pakistan;
- Bringing onstream, in late 2012/early 2013, of the fields in Lubiatów, Międzychód and Grotów (official launch of the LMG production facility took place in mid-2013) and the Skarv field on the Norwegian Continental Shelf.

The PGNiG Group's activities in the Exploration and Production segment include geophysical and geological surveys, drilling of wells and production of natural gas and crude oil. Currently, the PGNiG Group produces natural gas and crude oil from fields in Poland and Norway, and natural gas in Pakistan. The segment also utilises the capacities of the Bonikowo, Brzeźnica, Daszewo, Strachocina and Swarzów storage sites.

Financial performance in 2013

The Exploration and Production segment derives its revenue mainly from non-regulated sale of natural gas and crude oil, and also from geological and geophysical, drilling and well services.

In 2013, the Exploration and Production segment posted PLN 2,331 m in operating profit, up by PLN 977 m on 2012. This improvement was achieved on the back of completion of some major investment projects, including construction of the Lubiatów-Międzychód-Grotów (LMG) oil and gas production facility and launch of oil and gas production from the Skarv field on the Norwegian Continental Shelf. As a result, the volume of crude oil sales grew by 128%, or 621 ths tonnes, relative to 2012. The expansion of the segment's business resulted in a 32% increase in operating expenses, mainly due to higher amortisation and depreciation. The growth in expenses was also attributable to the recognition of an impairment loss on the Group's exploration assets in Libya of PLN 292 m and the recognition of a provision to meet outstanding licence obligations in the region in the amount of PLN 137 m, which followed analysis of the project's economics and uncertainty concerning the extension of the licence.

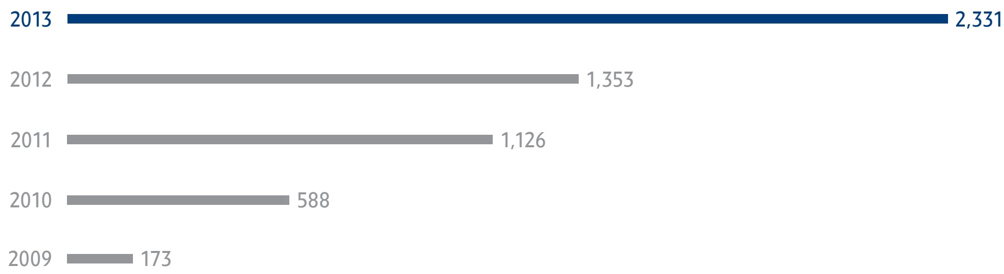
Geological and geophysical surveys, drilling and well services

Exploration for natural gas and crude oil is carried out both in Poland and abroad. The exploration work involves the analysis of historical data sets and geological data, seismic reflection surveys and drilling campaigns.

- Drilling services – were performed by PGNiG, and also PNiG Jasło, PNiG Kraków, PNiG Nafta, and, following the merger of the well service companies, by Exalo Drilling SA;
- Geological services – seismic acquisition, processing and interpretation of seismic data and well logging services were performed by Geofizyka Kraków and Geofizyka Toruń;
- Well services – specialist services supporting exploration and production work were provided by Poszukiwania Naftowe Diament, Zakład Robót Górniczych Krosno and, following the merger of the well service companies, also by Exalo Drilling SA.

As at the end of 2013, PGNiG held 85 licences for gas and oil exploration and appraisal covering a total area of 58,800 km^2, 227 licences for gas and oil production in Poland, nine licences for underground storage of gas (one discontinued, one granted), and three licences for storage of waste. One licence for salt deposit appraisal expired on September 16th 2013.

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



Natural gas from unconventional deposits

In 2013, the Ministry of Environment carried out licence amendment procedures for 38 licence areas (exploration and appraisal). PGNiG applied for relinquishment of the following licences: one licence for exploration, one for appraisal, and eight for exploration, appraisal and production of crude oil and natural gas. Additionally, four production licences were amended, three new licences granted, and one expired. 26 production licencing procedures were conducted in total, 11 of which were concluded (one concluded with the execution of an agreement establishing mineral extraction rights without a decision to grant the licence).

Work was carried out by the PGNiG Group on 27 wells in the Carpathian Mountains, Carpathian Foothills and Polish Lowlands. Out of 12 wells with known test results, seven were classified as positive and the remaining five as dry. Test results were also obtained in the reporting period from two wells, drilled in 2012 and tested in 2013. One of them was classified as positive and the other one as dry.

In 2013, geophysical survey work was conducted within PGNiG licence areas in the Carpathian Mountains, Carpathian Foothills and Polish Lowlands, as part of which 535.1 km of 2D seismic data and 969.0 km^2 of 3D seismic data were acquired.

There has been growing interest in shale gas in Poland, which, according to estimates, is buried at depths ranging from 3,000 m to 4,500 m, within a sidelong belt stretching from central Pomerania to the Lublin province, and within the forelands of the Sudeten Mountains. In recent years, the Ministry of Environment has awarded more than 100 licences for unconventional gas exploration to over 40 entities, including 15 licences to PGNiG.

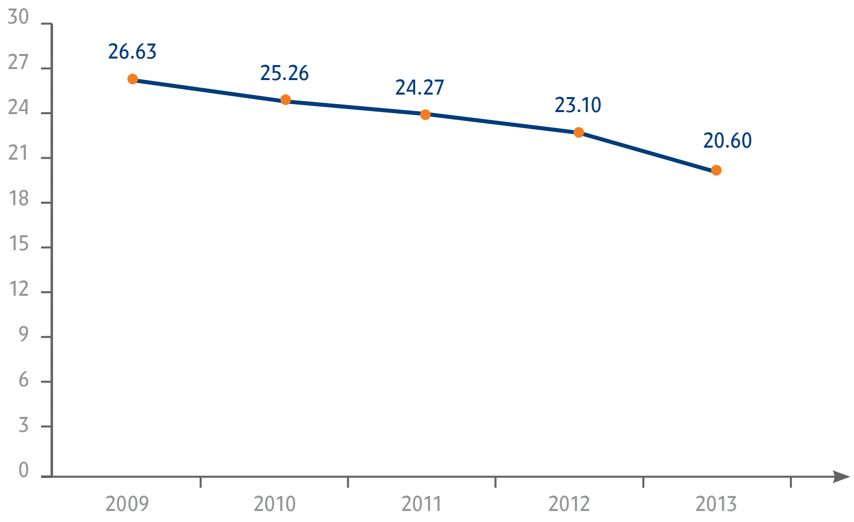
In 2011, the Lubocino-1 borehole was drilled. Preliminary fracturing and test results from that well indicated the presence of shale gas in Pomerania. In 2012, Silurian formation fracturing was performed in the same well. Also in 2012, the Lubocino 2-H horizontal well was drilled, where hydraulic fracturing of Ordovician formations started in December 2012 and continued into 2013. Another well, the Lubycza Królewska-1, was drilled in the Tomaszów Lubelski licence area in 2012, as the first well exploring for shale gas within PGNiG's licence areas in the southern part of the Lublin province.

Also in 2012, the Opalino-2 well was drilled in the Wejherowo licence area in pursuit of two exploration goals: to find shale gas in lower Palaeozoic (Silurian and Ordovician) strata and to find conventional gas in upper Cambrian Sandstone. The well encountered gas in Cambrian Sandstone and has also been used to collect material to assess the shale gas potential of the overlying Silurian and Ordovician rocks.

Shale gas and oil exploration efforts continued in the Pomeranian licence areas in 2013 with the drilling of subsequent wells: Opalino-3, Lubocino-3H, Borcz-1, Wysin-1, and the commencement of drilling of the Opalino-4 well. 3D seismic acquisition planning and execution also continued (Opalino-Lubocino, Kochanowo-Tępcz-Częstkowo, Hopowo-Borcz, Wysin).

In the Lublin province licences, the Wojcieszków-1 and Kościaszyn-1 wells commenced drilling in 2013. Comprehensive geological studies were conducted for the Warmia region licences, based on which an exploration campaign will be planned for the coming years. 2D seismic acquisition commenced over the licence areas in Central Poland. In addition to projects carried out on its own, on July 4th 2012 PGNiG signed a framework agreement on the exploration for and production of shale gas and oil within the Wejherowo licence area with four other Polish companies: Tauron Polska Energia SA, KGHM Polska Miedź SA, PGE Polska Grupa Energetyczna SA and Enea SA. Pursuant to the agreement, the joint operations were to focus mainly around the villages of Kochanowo, Częstkowo and Tępcz, on the part of PGNiG's Wejherowo licence area where preliminary surveys and analyses confirmed the presence of unconventional gas. The joint effort was to cover about 160 km^2 in the Wejherowo licence area. Expenditure on the Kochanowo-Częstkowo-Tępcz (KCT) project was estimated at up to PLN 1.7 bn, and PGNiG was to be the licence operator throughout the exploration and appraisal phase. The cooperation with the power companies and KGHM SA was discontinued towards the end of 2013, but PGNiG is continuing the work previously covered by the KTC project on its own.

Reserves to production (R/P) ratio for Poland in 2009 – 2013



Resources/reserves

Poland's resources and reserves are evaluated by the Mineral Resources Commission, and the evaluation is approved by the Ministry of Environment. As at the end of 2013, the combined reserves of natural gas and crude oil (recoverable reserves) amounted to 688 m boe, including 548 m boe (85 bn m^3) of gas and 140 m boe (19.2 m tonnes) of oil and condensate. In 2013, the total reserves to production ratio (R/P) stood at 20.6.

Production

In 2013, there was a substantial increase in the PGNiG Group's hydrocarbon production relative to previous years. The rise in natural gas output, up to 4.6 bn m^3, followed from the launch of production from the Norwegian Continental Shelf. Also, the Group's crude oil production went up strongly, by around 124%, chiefly on the launch of the Lubiatów, Międzychód and Grotów (LMG) fields, as well as the field on the Norwegian Continental Shelf.

In 2013, the aggregate production of natural gas and crude oil with condensate from Polish deposits was 33.10 m boe, of which gas accounted for 82%, and oil with condensate for 18% of the total output. The production volumes were, respectively, 4.21 bn m^3 of natural gas – 27.83 m boe (converted into high-methane gas with calorific value 39.5 MJ/cm), and 815.42 ths tonnes of crude oil with condensate (5.95 m boe). The Group's domestic hydrocarbon production, concentrated in north-western and south-eastern Poland, is carried out by two PGNiG Branches in Zielona Góra and Sanok.

PGNiG produces two types of gas with different calorific values – high-methane gas and nitrogen-rich gas – at 60 production sites located throughout Poland. In 2013, the Sanok Branch produced high-methane and nitrogen-rich gas and crude oil from 38 production sites – 20 gas production facilities and 18 oil and gas production facilities. The Zielona Góra Branch produces crude oil and nitrogen-rich gas from 22 production sites – 13 gas production facilities and nine oil and gas production facilities. A portion of nitrogen-rich gas is further processed at the nitrogen rejection units in Odolanów and Grodzisk Wielkopolski. Once nitrogen is removed, natural gas is pumped into the high-methane gas system. In 2013, the process of conversion of nitrogen-rich gas into high-methane gas yielded 1.2 bn m^3 of the product. The process also yields byproducts, including liquefied natural gas (LNG), liquid and gaseous helium and liquid nitrogen.

With a view to maintaining the current levels of hydrocarbon production or limiting its natural decline, in 2013 major well workovers were performed on a total of 22 wells (four of which were carried over from 2012), whose technical condition made further production impossible. Commercial flows were obtained from 21 wells, and one well was worked over for UGS purposes. In 2013, various treatments were carried out on a total of 68 wells to maintain or improve the recovery rates of producing wells or to restore downhole equipment to a working condition. Treatments were also performed on wells supporting underground gas storage and on injectors.

Crude oil production is concentrated in western Poland, on the three largest of the currently producing fields – BMB (Barnówko-Mostno-Buszewo), Lubiatów and Grotów, which in 2013 accounted for 87% of Poland's total oil production (676.7 ths tonnes). In 2013, the volume of crude oil and condensate production from Polish fields totalled 815.4 ths tonnes, which represented a year-on-year increase of 323.8 ths tonnes (65%), up from 491.6 ths tonnes.

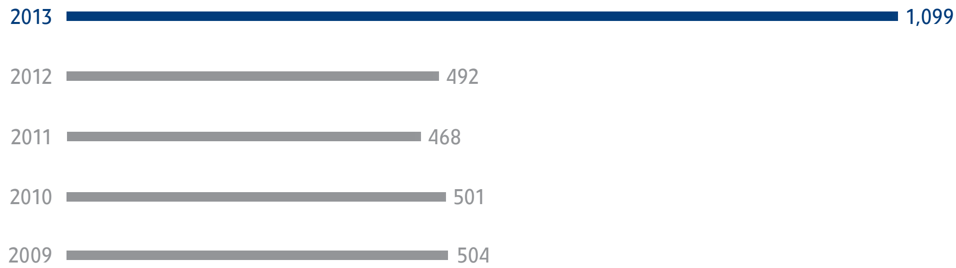
One of the key projects undertaken in Poland in the last few years to increase crude oil production was the development of the Lubiatów-Międzychód-Grotów (LMG) field in the vicinity of Gorzów Wielkopolski, where production started in late 2012/early 2013 (the LMG facility was officially launched in mid-2013). The project involved PGNiG's construction of the LMG Central Facility, which is the hub for collecting, distributing and conditioning of reservoir fluids, as well as the construction of a shipping terminal for crude oil collection and dispatch in the locality of Wierzbno. The crude oil is transported by rail tankers and injected into the Druzhba pipeline, through which it flows to Germany. Additionally, any surplus gas produced is transmitted via the pipeline running from the production site to the nitrogen rejection unit in Grodzisk Wielkopolski.

Outside of Poland, PGNiG also produces hydrocarbons in Norway and Pakistan.

The PGNiG Group's foreign expansion began in 2007 with the acquisition of an interest in the Skarv/Snadd/Idun exploration and production licence on the Norwegian Continental Shelf. Production from the field was launched in December 2012. The production volume in 2013 was approximately 340 m m³ of gas and approximately 283 ths tonnes of oil with other fractions. Natural gas will be transported to mainland Europe, whereas crude oil will be sold straight 'from the wellhead'.

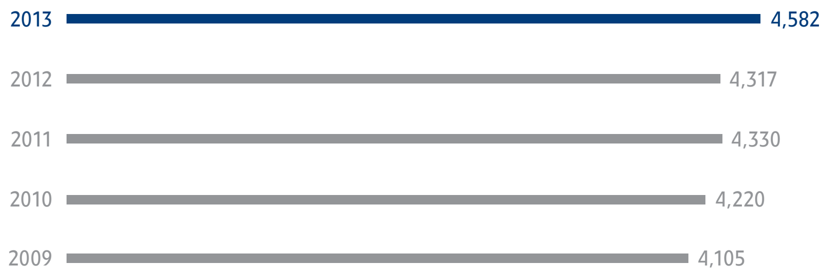
In 2013, PGNiG commenced (test) production from the Rehman field in Pakistan. As at the end of 2013, 31.1 m m³ of gas was obtained from the test production (converted into high-methane gas with calorific value of 39.5 mJ/m³). Test production from the Rehman field at a level of 50 m m³ (converted into high-methane gas) is scheduled to continue in 2014. The gas produced in the test is sold to the Pakistani transmission system.

PGNiG Group production of crude oil and condensate (ths tonnes)*



* Including condensate and test production

PGNiG Group production of natural gas (m m³)*



* Measured as high-methane gas equivalent

Sales

Natural gas is sold by PGNiG's Exploration and Production segment directly from the fields (outside the transmission system), from which it is supplied to specific customers via dedicated pipelines, while crude oil is shipped by sea tankers.

Direct sales of the PGNiG Group in 2013 amounted to a total of 748.6 m m³ of gas (including 717.8 m m³ on the domestic market and 30.8 m m³ in Pakistan). Direct sales from the fields are made both in the case of high-methane and nitrogen-rich gas – in 2013, 72.1 m m³ of high-methane gas and 676.5 m m³ of nitrogen-rich gas (measured as high-methane gas equivalent) were sold in this way.

Direct sales of natural gas are transacted on the free market, with delivery terms (including pricing) agreed with customers on a case-by-case basis, depending on the characteristics of a given project.

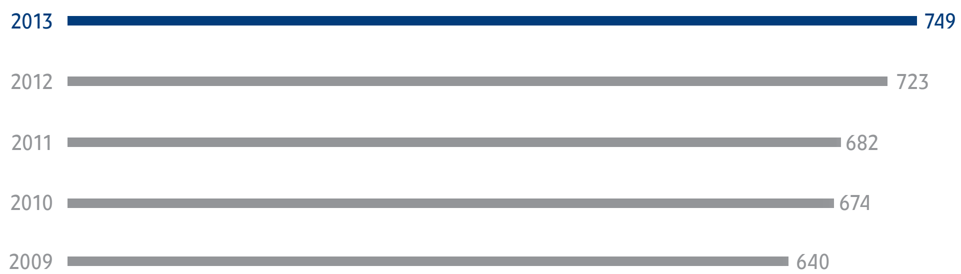
The key group of customers buying natural gas directly from the fields are industrial users (Elektrociepłownia Zielona Góra SA, PGE Górnictwo i Energetyka Konwencjonalna SA, Zakłady Azotowe w Tarnowie-Mościcach SA, Arctic Paper Kostrzyn SA, and others), who accounted for 80% of the sales volume in 2013. This form of purchase is preferred by customers located in close proximity to gas production sites. Sales of natural gas directly from the fields enable commercially viable development of gas reserves with quality deviating from network standards and attract customers in whose case gas deliveries from the transmission system are not feasible for technical or economic reasons.

In 2013, direct sales of gas accounted for approximately 5% of PGNiG's total sales and amounted to 754.6 m m³, up by 4.3% on 2012. Direct sales from the fields are made both in the case of high-methane and nitrogen-rich gas – in 2013, 72.2 m m³ of high-methane gas and 682.4 m m³ of nitrogen-rich gas (measured as high-methane gas equivalent) were sold in this way.

PGNiG sells crude oil on free market terms, pricing it with reference to crude prices quoted on international markets. In 2013, crude oil was sold through the following channels:

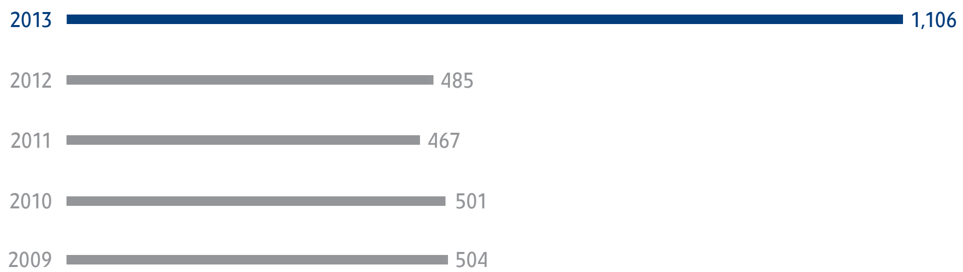
- via pipelines to foreign customers;
- via overland transport (road and rail tankers) – to domestic customers.

PGNiG Group sales of gas directly from the fields (m m³)*



* Measured as high-methane gas equivalent.

PGNiG Group sales of crude oil with condensate (ths tonnes)



In 2013, 49.7% of the total volume of crude sold was transported to German refineries through the PERN Druzhba pipeline.

Apart from non-tariff sales of gas directly from the fields and crude oil sales, PGNiG's portfolio comprises a number of other products such as helium, nitrogen, sulfur, condensate and propane/butane mix.

The launch of the Lubiatów-Międzychód-Grotów (LMG) project brought an increase of around 360 ths tonnes in PGNiG's 2013 crude oil production.

This increase in crude oil production was the reason for extension of existing sale contracts or the signing of new ones. In 2013, PGNiG continued its pipeline supplies to TOTSA TOTAL, including crude oil from the new facility in Lubiatów. The relevant contract extension annex was signed in November 2013. Also in November 2013, PGNiG commenced oil supplies to BP Europa SE through Przedsiębiorstwo Eksploatacji Rurociągów Naftowych Przyjaźń SA. This new contract with BP will run to the end of 2014. In December 2013, an agreement was executed with Grupa LOTOS SA for the purchase of PGNiG-produced crude oil.
The crude oil will be supplied to the Grupa LOTOS refinery in Gdańsk starting January 1st 2015. The contract covers supplies from 2015 to 2019, but may be extended for an indefinite period. The crude oil will be collected by rail from PGNiG's railway terminals located at the PGNiG Zielona Góra Branch. The rail transport will be handled by LOTOS Kolej.

In 2013, PGNiG Upstream International AS commenced crude oil sales from the Skarv field on the Norwegian Continental Shelf. The crude oil is sold directly from the platform to Shell International Trading and Shipping Company Ltd and shipped by the customer by means of a shuttle tanker fleet.

Following the launch of production from the Lubiatów, Międzychód and Grotów (LMG) fields and the field on the Norwegian Continental Shelf, sales of crude oil were up 128% in 2013.

Capex projects

Capital expenditure incurred in the Exploration and Production segment in 2013 amounted to PLN 1.45 bn.

In Poland it was incurred primarily on geophysical surveys and drilling work, as part of which 28 wells were drilled, and the drilling of five more commenced, to continue into 2014. Outside Poland, the PGNiG Group was active in its licence areas in Pakistan, Libya, Egypt and Norway.

The key undertaking in Poland was the LMG project, the goal of which was to develop and bring onstream the Lubiatów, Międzychód and Grotów oil and gas fields. The LMG project involves:

- construction of the LMG Central Facility to serve as a hub for collection, distribution and treatment of reservoir fluids;
- construction of the Dispatch Terminal in Wierzbno (a sub-project completed in previous years);
- construction of a gas pipeline to the Grodzisk nitrogen rejection unit to enable the transmission of surplus gas from the LMG production facility to the nitrogen rejection unit.

In 2013, the LMG Central Facility was placed in service and construction of the high-pressure gas pipeline from the Wierzbno terminal to the Paproć gas production facility was completed. With this, all stages of the project were finally complete.

The key overseas work was the Skarv project, managed by PGNiG Upstream International. The project involves development and production work on the Norwegian Continental Shelf, using a floating production, storage and offloading (FPSO) vessel. In 2013, work was ongoing to finalise the last stage of development of the Skarv field. It mainly involved the continuation of the drilling campaign and technical acceptance of the floating production, storage and offloading (FPSO) vessel. Production from the Skarv field was launched in late 2012/early 2013.

Other investment projects involved the development of proved gas reserves or ones in production, maintenance and restoration of hydrocarbon recovery rates and the operation of the upstream area. Key 2013 projects included:

- upgrade and extension of existing gas production facilities;
- commencement of the processing line upgrade at the Zielin oil and gas production facility and development of the Różańsko field;
- completion of well development in the Wola Różaniecka field;
- development of the Lisewo gas field;
- drilling work and development of a well in the Radlin field;
- drilling work and development of a well in the Daszewo field;
- completion of drilling work and commencement of the Księżpol 19 well development.

Foreign licences

Egypt

Licence: Bahariya (discontinued)
Interest holders: PGNiG (100%)
In Egypt, PGNiG conducted exploration work in the Bahariya licence area (Block 3) under a licence agreement executed with the government of Egypt on May 17th 2009. The Company held a 100% interest in the licence.

In 2013, two exploration wells were drilled, but the wells were abandoned as they did not flow hydrocarbons at commercial rates. The Bahariya licence's potential was re-evaluated based on newly acquired geological data, which proved that further work was not economically viable. The licence was discontinued and the Egypt Branch was closed.

Pakistan

Licence: Kirthar
Interest holders: PGNiG (70%)
Pakistan Petroleum Limited (30%)
PGNiG conducts exploration work in Pakistan on the basis of an agreement for hydrocarbon exploration and production in the Kirthar licence area, executed between PGNiG and the government of Pakistan on May 18th 2005. Work in the Kirthar block is conducted jointly with Pakistan Petroleum Ltd, with production and expenses shared proportionately to the parties' interests in the licence: PGNiG (operator) – 70%, Pakistan Petroleum Ltd – 30%.

On July 6th 2012, the Pakistani licencing authority (Directorate General of Petroleum Concessions) classified the Rehman field as a deposit of unconventional tight gas. As a consequence, the interest holders can raise its prices by 50% relative to prices of gas produced from conventional reserves. In 2012, PGNiG decided to move on to the second exploration stage on the Kirthar licence, as part of which a new exploration well is to be drilled by July 2014. In 2013, the construction of pipelines and provisional surface installations was completed and test production from the Rehman-1 and Hallel X-1 wells began. The gas produced is sold to the Pakistani transmission system. Preparations were also underway for the drilling of the Rizq-1 well, scheduled for 2014.

Libya

Licence: block No. 113
Interest holders: PGNiG (100%)
In February 2008, Polish Oil and Gas Company – Libya BV signed an Exploration and Production Sharing Agreement (EPSA) with National Oil Corporation of Libya, authorising the company to carry out exploration work on Exploration and Production Licence No. 113 with an area of 5.5 ths km². The licence is located within the Murzuq crude oil basin, in western Libya.

Following the outbreak of civil war in Libya, a decision to evacuate all foreign personnel from the country was made in February 2011. In agreement with National Oil Corporation, the performance of

PGNiG's licences outside Europe

PGNiG's licences inside Europe

the EPSA was suspended by force majeure. In the second half of 2012, the force majeure event was declared to be ceased and exploration work was then resumed.

In 2013, the company completed preparatory work and commenced the first round of drilling, which is to consist of four exploration wells. The first exploratory well yielded a natural gas discovery, which was recognised by the company's Libyan partner, National Oil Corporation. The drilling and production tests on the second well ended in December 2013. Also in 2013, the company completed preparatory work on the third well, while the second-stage 3D seismic surveys, originally scheduled for 2013, were postponed for future years.

Following analysis of the economics of the project, with consideration given to the expected hydrocarbon volumes from the Libyan licence and unstable political situation in the country, the PGNiG Management Board made a decision to recognise impairment losses, as at December 31st 2013, on all shares and contributions to the POGC – Libya BV share capital, and to recognise a provision for all outstanding licence liabilities of the Murzuq project in Libya.

Any decision to continue the work will depend on the results of further geological surveys and economic analysis as well as political developments in Libya itself.

Norway

Licences: PL159, PL212, PL212B, PL262 – SKARV PROJECT
Interest holders: PGNiG UI 11.9%
BP Norge 23.8% (operator)
Statoil 36.2%
E.ON Ruhrgas Norge 28.1%

In late 2012, PGNiG Upstream International AS, in cooperation with its partners, launched oil and gas production from the Skarv deposits. Thus, PGNiG became the first Polish company to produce significant volumes of oil and gas under an international project. The project was also PGNiG's first offshore production venture.

The Skarv field is located in the Norwegian Sea, approximately 210 km west off the coast of Norway, where the sea depth ranges between 350 m and 450 m. The field was discovered in 1998, and its recoverable reserves (as at December 31st 2013) are estimated at: 44.5 bn m^3 of gas, 13.6 m m^3 of crude oil with condensate, and 5.4 m tonnes of NGL. PGNiG UI holds rights to 11.9% of the reserves.

Until October 2013, the field was in the ramp-up phase, with cleaning, testing and bringing onstream of individual wells. Following this phase, the field is being operated through a total of 16 wells.

The Skarv project licence area (in the shallow-lying Cretaceous sequence) also holds two large gas and condensate discoveries, Snadd South and Snadd Outer. It is very likely that Snadd South, North and Outer constitute a single stratigraphic trap stretching across more than 60 km. If this assumption is valid, it will be the longest hydrocarbon accumulation discovered on the Norwegian Shelf.

Hydrocarbon production from the Skarv project is carried out using the state-of-the-art FPSO (floating production, storage and offloading vessel), anchored near the field. The FPSO, built in South Korea, is the world's largest vessel of this kind, able to operate in rough weather conditions. The vessel's hull is 295 m long and 51 m wide, and its capacity is 140 ths m^3 (880 ths barrels).

Licence: PL212E
Interest holders: BP Norge AS 30% (operator)
Statoil Petroleum AS 30%
E.ON E&P Norge AS 25%
PGNiG UI 15%

The licence was acquired by PGNiG UI in 2007 with the Skarv project.

A well drilled in the licence area in 2012 discovered the Snadd Outer natural gas and condensate deposit in the Lysing Cretaceous formation. According to initial estimates, its in-place resources amount to 3.7 bn m^3 of gas and 0.23 bn m^3 of condensate.

There are plans for evaluating its reserves together with those of Snadd South and Snadd North within the Skarv project, and to prepare a development plan (geological documentation, Plan of Development and Operations).

Licence: PL558
Interest holders: PGNiG UI 30%
E.ON Ruhrgas Norge 30% (operator)
Det norske oljeselskap 20%
Petoro 20%

The licence, awarded in the APA 2009 licencing round in early 2010, is located in the immediate vicinity of the Skarv field. The vicinity of the Skarv FPSO platform will ensure profitable gas and oil exports if hydrocarbons are discovered in the licence area.

Work carried out since the licence award includes reprocessing and interpretation of the existing 3D seismic profiles and additional geological studies, confirming the prospectivity of the area. The area covered by the licence has considerable exploration potential, with likely oil and gas presence. In early 2012, the interest holders decided to proceed with an exploratory well using the Borgland Dolphin platform. The work is scheduled to commence in mid-May 2014.

Licence: PL646
Interest holders: PGNiG UI 20%
Wintershall Norge 40% (operator)
Lundin Norway 20%
Norwegian Energy Company Noreco 20%

At the beginning of 2012, PGNiG UI acquired interests in the PL646 licence in the Norwegian Sea. The licence area is adjacent to the Skarv field, which is in line with the company's strategy.

Work carried out since the licence award includes purchase and interpretation of 3D seismic profiles and additional geological studies, confirming the prospectivity of the area. On the basis of this work, a decision was made to postpone the drill-or-drop decision until February 2015. If the decision to proceed is made, the well should be drilled within two years.

Licence: PL648S
Interest holders: PGNiG UI 50% (operator)
OMV Norge 50%

The PL648S licence is of special importance to PGNiG as the first licence ever under which the Company will perform the responsible role of operator on the Norwegian Continental Shelf. Having been granted the operator status is an important step for the PGNiG Group. It is the first operatorship of an offshore exploration project, which emphasises PGNiG Norway's role as the Group's competence centre for offshore operations.

The licence area is adjacent to the Skarv field and has huge exploratory potential, with a likely natural gas discovery. New 3D seismic, acquired over the licence area in 2012, is currently being processed. The partners will also carry out geological and geophysical analysis to assess the prospectivity of the area.

The drill-or-drop decision has been postponed until the third quarter of 2014. If the decision to go forward is made, the well should be drilled within two years.

Licence: PL702
Interest holders: OMV Norge 60% (operator)
PGNiG UI 40%

The licence was acquired in the 22nd licencing round in June 2013. It is located within the Vøring basin, where the sea depth exceeds 1,000 m. The licence area is expected to hold a large gas accumulation in Sandy Cretaceous sediments.

A 3D seismic profile was acquired over the area in 2013 and is now used for geological and geophysical studies.

Final evaluation of the licence's potential, including specification of the exploration risks, will be made in the first quarter of 2015 before the drill-or-drop decision, scheduled for the second quarter of 2015.

Licence: PL703
Interest holders: OMV Norge 60% (operator)
PGNiG UI 40%

The licence was acquired in the 22nd licencing round in June 2013. It is located within the Vøring basin, where the sea depth exceeds 1,000 m. As in the case of the PL702 licence, the area is expected to hold a large gas accumulation in Sandy Cretaceous sediments.

A 3D seismic profile was acquired over the area in 2013 and is now used for geological and geophysical studies.

Final evaluation of the licence's potential, including specification of the exploration risks, will be made in the first quarter of 2015 before the drill-or-drop decision, scheduled for the second quarter of 2015.

Licence: PL707
Interest holders: Edison 50% (operator)
PGNiG UI 30%
North Energy 10%
Lime Petroleum 10%

The licence was acquired in the 22nd licencing round in June 2013. It is located in the Barents Sea, where the sea depth is around 400 m. The licence area is expected to hold gas and oil in Carboniferous, Permian and Triassic formations.

A 3D seismic profile was acquired over the area in 2013 and is now used for geological and geophysical studies.

The drill-or-drop decision is expected in the second quarter of 2015.

Licence: PL711
Interest holders: Repsol 40% (operator)
PGNiG UI 20%
OMV 20%
Idemitsu 20%

The licence was acquired in the 22nd licencing round in June 2013. It is located in the western part of the Barents Sea basin, where the sea depth is around 400 m. The licence area is expected to hold a large gas accumulation in Tertiary formations.

A 3D seismic profile was acquired over the area in 2013 and is now used for geological and geophysical studies.

The drill-or-drop decision is expected in the second quarter of 2015.

Licence: PL756
Interest holders: PGNiG UI 50% (operator)
Rocksource 25%
Idemitsu 25%

The PL756 licence is the second offshore licence under which PGNiG UI has the operator status. It was acquired in the APA2013 round in January 2014. It is located a few dozen kilometres south of the Skarv field, where the sea depth is around 400 m. The licence area is expected to hold gas and oil in the Jurassic and Cretaceous formations.

Geological data compilation is currently underway, to be followed by detailed geological and geophysical studies required before the drill-or-drop decision is made. The decision is expected in the first quarter of 2016.

Trade and Storage

The 2013 gas sales reached 16.2 bn m^3, with the Trade and Storage segment sales accounting for 95.5% (15.47 bn m^3) of that figure. Gas sales by PST constituted nearly 1.4 bn m^3. In 2013, the segment also sold 4,714 GWh of electricity, 60% of which was to the Polish market.

IN 2013, THE VOLUME OF PGNIG'S IMPORTS TO POLAND REACHED APPROXIMATELY

10 850 m m^3

OF HIGH-METHANE GAS

Key events:

- Execution, on March 20th 2013, of an annex to Contract No. 2102-14/RZ-1/25/96 with OAO Gazprom/OOO Gazprom Export of September 25th 1996 for the sale of natural gas to the Republic of Poland. Under the annex, the parties agreed to increase the maximum daily offtake of gas at the Vysokoye cross-border point to 15 m m^3 (GOST), with annual contracted volumes remaining unchanged. The annex provided that the option to offtake the increased volume of natural gas would be applicable over five consecutive days from the moment when the parties agreed to begin the offtake of such increased volume.
- Execution, on October 25th 2013, of a Framework Agreement for the sale/purchase of natural gas with DTEK Trading Sp. z o.o. of Ukraine. Under the Framework Agreement, the parties executed three contracts for gas supply, under which DTEK Trading purchased 83,896,193 m^3 (according to Polish Standards – PN) of natural gas from PGNiG.
- Execution, on November 6th 2013, of an agreement terminating the Natural Gas Supply Agreement of October 26th 2004 between PGNiG and the National Joint-Stock Company Naftogaz Ukrainy of Kiev, Ukraine ('Naftogaz Ukrainy'). During the consultation process, the parties agreed to take steps to terminate the Agreement, which was to be effective until 2020. The decision to terminate the Agreement will not preclude any future cooperation with the Ukrainian partner on newly agreed terms. Termination of the Agreement of October 26th 2004 between Naftogaz Ukrainy and PGNiG will have no impact on the Polish economy. PGNiG customers in the Hrubieszów area will be receiving natural gas from the Polish transmission system through the Lubaczów-Krasnystaw gas pipeline.

Financial performance in 2013

The Trade and Storage segment's operating result was down PLN 340 m year on year, to PLN -8 m. The deterioration of its performance was driven by a lower margin on high-methane gas sales in 2013. The negative margin of -2% was due to the fact that the tariff price was insufficient to cover the cost of gas sold.

The Trade and Storage segment's revenue grew by PLN 1,945 m (8%) relative to 2012, largely driven by gas and electricity sales in Germany. The year-on-year increase in the cost of gas sold was attributable to reduced gas purchase costs in 2012, resulting from the recognition in the Q4 figures of the financial effect of the annex to the Yamal contract, which changed the pricing terms of gas supplies.

Conditions prevailing in the currency markets were also a significant factor behind the PGNiG Group's financial performance. The US dollar, the main currency used in settlements of gas imports, suffered a depreciation relative to 2012. Given that currency appreciation or depreciation is a key macroeconomic factor in the Company's financial performance, PGNiG has adopted a hedging policy to mitigate this risk.

Changes in Gas Fuel Prices for customers receiving gas from the transmission network in E, Ls and Lw tariff groups

	Tariff No. 5/2012 (effective Mar 31–Dec 31 2012)	Amendment to Tariff No. 5/2012 (effective Jan 1–Dec 31 2013)	Tariff No. 6/2014 (effective Jan 1–Jul 31 2014)
	PLN/m³	PLN/m³	gr (PLN 0.01)/m³
E-1A			128.98
E-1B	1.2945	1.2516	127.18
E-1C			126.56
E-2A			128.86
E-2B	1.2942	1.2513	127.07
E-2C			126.48
Ls-1	0.8687	0.8399	86.55
Ls-2	0.8685	0.8397	86.47
Lw-1	1.0190	0.9851	101.52
Lw-2	1.0188	0.9849	101.43

Tariff policy

Gas fuel trading is regulated by the President of the Energy Regulatory Office (URE). The Office's regulatory powers include the right to approve gas fuel tariffs, including gas fuel prices and fee rates covered by the tariffs, and ensure their compliance with the Polish Energy Law. To that end, they analyse and review costs which energy companies consider relevant for the calculation of tariff prices and fee rates, and exercise overall supervision over such companies. The level of tariff prices and fees also has a decisive impact on the Company's financial performance. The tariff calculation methodology defines prices and fee rates based on forecast costs and gas sales targets, taking into account the costs of gas supply from all possible sources – both imported and domestically produced gas.

PGNiG supplies gas fuel to customers connected to the transmission network and those connected to the distribution grid, under comprehensive contracts settled based on a tariff specifying:

- prices and subscription fees applicable to settlements with customers receiving gas fuel from the transmission grid;
- prices and subscription fees applicable to settlements with customers receiving gas fuel from distribution networks;
- manner of determining price reductions in the event of a failure to maintain gas fuel quality parameters or quality standards in customer service.

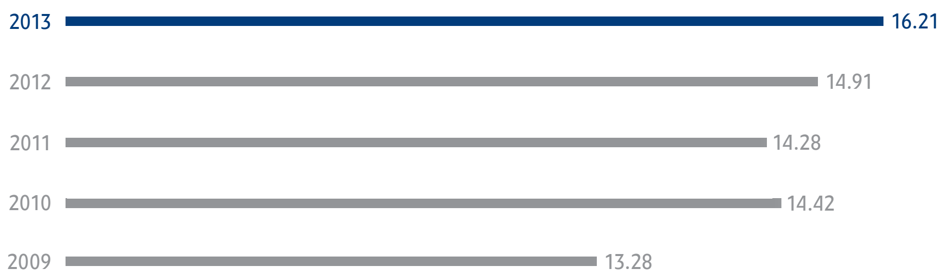
In the period from March 2012 to December 2013, the following Gas Fuel Tariffs were in place:

- Gas Fuel Supply Tariff No. 5/2012, approved by decision of the President of the Energy Regulatory Office No. DTA-4212-53(29)/2012/652/V/AG, dated March 16th 2012 (effective from March 31st 2012 to December 31st 2012);
- Amendment to Gas Fuel Supply Tariff No. 5/2012, approved by decision of the President of the Energy Regulatory Office No. DTA-4212-48(9)/2012/652/V/AG, dated December 17th 2012 (effective from January 1st 2013 to September 30th 2013);
- Amendment to Gas Fuel Supply Tariff No. 5/2012, approved by decision of the President of the Energy Regulatory Office No. DTA-4212-5(21)/2013/652/V/AG, dated January 25th 2013;
- Amendment to Gas Fuel Supply Tariff No. 5/2012, approved by decision of the President of the Energy Regulatory Office No. DRG-4212-17(9)/2013/652/V/KS, dated September 16th 2013 (extension of tariff term, no change in tariff price);
- Amendment to Gas Fuel Supply Tariff No. 5/2012, approved by decision of the President of the Energy Regulatory Office No. DRG-4212-17(15)/2013/652/V/KS, dated October 17th 2013 (no tariff price changes);
- Amendment to Gas Fuel Supply Tariff No. 5/2012, approved by decision of the President of the Energy Regulatory Office No. DRG-4212-17(18)/2013/652/V/KS, dated October 25th 2013 (no tariff price changes).

In addition, the President of the Energy Regulatory Office, by decision No. DRG-4212-15(18)/2013/652/VI/AG, dated December 17th 2013, approved Gas Fuel Supply Tariff No. 6/2014. The new tariff is effective from January 1st 2014 to July 31st 2014.

The table shows gas fuel prices based on the decisions listed above.

Sales of natural gas by PGNiG Group in 2009-2013 (bn m³)*



* Measured as high-methane gas equivalent.

Exchange market

The Act Amending the Energy Law and Certain Other Acts (the so-called 'Mini Three Pack') of July 26th 2013 took effect on September 11th 2013, introducing the obligation to sell gas through the Polish Power Exchange. This repealed the requirement for brokerage houses to act as intermediaries in gas trading on the commodity exchange.

On November 1st 2013, PGNiG became the first direct member of the gas market at the Polish Power Exchange. The Company also agreed to act as a PPE Gas Market Maker, committing to regularly place buy and sell orders on the gas futures market. The market maker's key role is to enhance the market's liquidity and transparency.

Sales

Sales of natural gas

PGNiG is the largest Polish seller of high-methane and nitrogen-rich natural gas fed into the transmission and distribution networks. Gas trading is regulated by the Polish Energy Law, with prices established based on tariffs approved by the President of the Energy Regulatory Office. In 2013, PGNiG Group sold 16.2 bn m³ of natural gas outside the Group, including 15.47 bn m³ (95.5%) sold by the Trade and Storage segment.

Sales of natural gas in Poland are based on the following two systems:

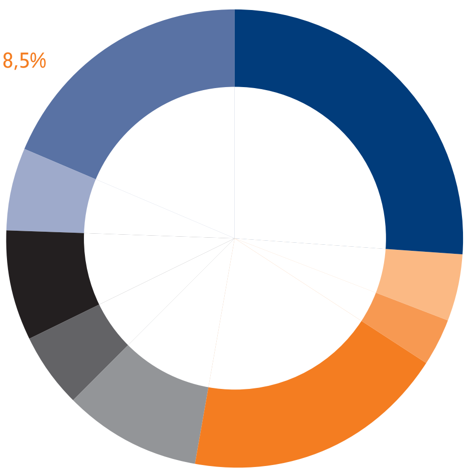
- the high-methane gas network used for imported gas, gas produced from fields in southern Poland, and gas fed into the network by nitrogen rejection units, produced from fields in western Poland;
- the nitrogen-rich gas transmission network used to route gas from fields located in the Polish Lowlands to nitrogen rejection units and to customers.

Major customers of the PGNiG Trade and Storage segment in 2013, in terms of gas sales volume, were industrial customers (most notably from the chemical, refinery and petrochemical, and steel industries) and households (the largest group of natural gas customers, accounting for ca. 97% of the total PGNiG customer base). Their share in the total volume of sales through the Trade and Storage segment was approximately 27.8%.

PGNiG Sales & Trading sold natural gas to end users, mainly on the German market. Its customer base in Germany included households, small and medium-sized enterprises, institutional buyers, industrial buyers and gas trading companies. In Poland, the company sold gas to industrial buyers on DAF (delivery at frontier) terms.

In 2013, PGNiG Sales & Trading sold nearly 1.4 bn m³ of natural gas outside the Group.

Structure of the PGNiG Group's sales of natural gas to industrial customers through the Trade and Storage segment in 2013



Sales of electricity

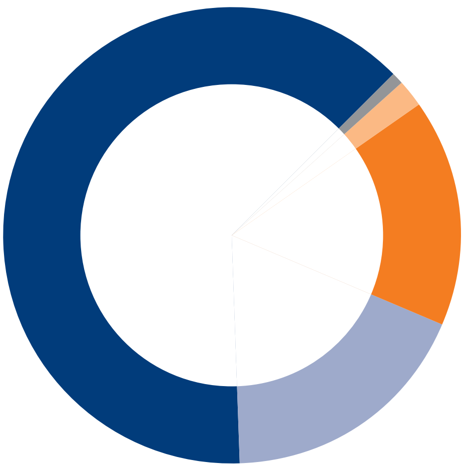
In the third quarter of 2012, PGNiG launched sales of electricity to business customers, and in the first quarter of 2013 there was the launch of electricity sales to households.

In 2013, PGNiG was engaged in wholesale trading in electricity and related products in Poland and Germany. In Poland, the Company traded on the OTC market under EFET (European Federation of Energy Traders) standard agreements and through brokers, and also at the Polish Power Exchange. In Germany, the Company engaged in spot-contract trading on the EPEX (European Power Exchange) Spot market, and in the inter-system Poland-Germany exchange (between the areas covered by PSE and 50 Hertz Transmission).

PGNiG sells electricity with a fixed price guarantee (for periods up to 2016) and offers full balancing of customers' electricity requirements. In October 2013, the promotional campaign 'Energia w dwupaku' ('Energy double-play') was launched, one part of which offers to subsidise customers' electricity bills. This offer is targeted primarily at small and medium-sized companies which already buy gas from, or want to sign gas supply contracts with, PGNiG.

In 2013, the Trade and Storage segment of the PGNiG Group sold 4,714 GWh of electricity, of which 60% was sold on the Polish market. The chart below shows the structure of PGNiG electricity sales by customer groups.

Structure of electricity sales by PGNiG in 2013



Exchange 63%

Foreign customers 1%

End customers 2%

Balancing market 16%

Trading companies 18%

PGNiG Sales & Trading GmbH engaged in electricity trading in Germany on the EPEX Spot, EEX Power Derivatives and OTC markets. Its customers included mainly small and medium-sized companies, and also households.

Imports

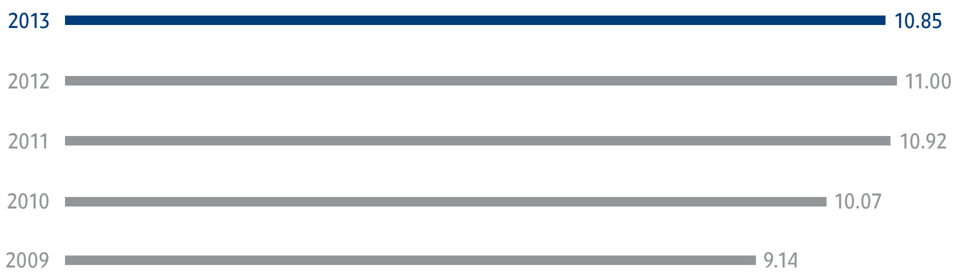
PGNiG is Poland's largest natural gas importer. Gas is imported primarily from countries east of Poland, and also from Germany and the Czech Republic. With the existing gas infrastructure in place, it is possible to import natural gas from the following directions:

- East – through cross-border connections in Drozdovitse and Zosin (on the Polish-Ukrainian border), Kondratki, Vysokoye and Teterovka (on the Polish-Belarusian border);
- West – through the cross-border connection in Lasów and using the virtual reverse flow service on the Yamal pipeline;
- South – through the cross-border connection in Branice or, alternatively, in Głuchołazy, and a newly built interconnector pipeline in the Cieszyn area connecting the gas systems of Poland and the Czech Republic.

In 2013, the volume of PGNiG's imports to Poland reached approximately 10,850.03 m m^3 of high-methane gas, including:

- 8,733.31 m m^3 (80.49%) – from OOO Gazprom Export;
- 353.58 m m^3 (3.26%) – from Verbundnetz Gas AG (VNG);
- 552.64 m m^3 (5.09%) – from Vitol SA;
- 1,210.26 m m^3 (11.16%) – from PGNiG Sales & Trading;
- 0.24 m m^3 (0.00%) – from Severomoravska plynarenska.

Imports of natural gas to Poland in 2009–2013 (bn m³)



In 2013, PGNiG continued to use the virtual reverse flow on the Yamal gas pipeline.

It submitted a request to OGP Gaz-System SA for the virtual reverse flow service on the Yamal gas pipeline in the period from January 2012 to December 2015. Following allocation of the available capacity of the Polish section of the Yamal pipeline to the long-term reverse flow service, OGP Gaz-System SA and PGNiG entered into an agreement on the provision of the reverse flow service on an interruptible basis. The contracted capacities are used to transport natural gas purchased on the German market (VTP Gaspool), which is relatively less expensive than gas purchased under the Yamal contract.

Following the completion in 2011 of the upgrade work on the existing (two-way) connection on the Polish-German border in Lasów, its throughput capacity was expanded. As a result, the annual capacity for importing natural gas from Germany has increased by approximately 0.5 bn m³, to a total of approximately 1.5 bn m³. The increased throughput capacity at the Lasów point became available in January 2012.

The system connections (the Lasów terminal and the connection with the Czech Republic, near Cieszyn, commissioned in 2011) play a very important role in ensuring Poland's energy security, and may also be used for potential emergency supplies. Further, the connections support free trade flows between EU countries, fostering greater economic integration of member states.

In addition, Polskie LNG SA (a wholly-owned subsidiary of OGP Gaz-System SA) is constructing an LNG terminal in Świnoujście. In the initial phase (to 2014), the terminal's capacity will amount to 5 bn m³ of gas. The contracted annual supplies of 1 m tonnes of liquefied natural gas (approximately 1.34 bn m³) are due to commence towards the end of 2014.

Capex projects

The 2013 Capex of the Trade and Storage segment amounted to PLN 472 m. Key projects focused on the construction and extension of underground gas storage facilities, and included:

- completion of the above-ground section of the Wierzchowice Underground Gas Storage Facility (UGS) and launch of the gas injection and withdrawal cycle, and technical acceptance of the facility;
- completion of the above-ground section and leaching installation together with pipeline for brine discharge, completion of the leaching process of two of the first five caverns at the Kosakowo Underground Gas Storage Cavern Facility (UGSC), and launch of the trial operation of the facility to determine its technical parameters and operating profile;
- continued leaching work at the Mogilno Underground Gas Storage Cavern Facility (caverns Z-15, Z-16, and Z-17) and hydrostatic test of the Z-13 cavern;
- extension of the Husów Underground Gas Storage Facility up to 500 m m³ of storage capacity.

Furthermore, the construction of the above-ground section and leaching installation with pipeline for brine discharge, and leaching process of two of the first five caverns, was completed at the Kosakowo Underground Gas Storage Cavern Facility in 2013. Trial operation of the facility was also launched to determine its technical parameters and operating profile. In December 2013, final acceptance of the facility (consisting of two caverns with an approximate capacity of 61 m m³) took place. The expenditure incurred in 2013 was close to PLN 139 m, and the project was EU co-financed.

Storage facilities

PGNiG owns nine underground gas storage facilities, located in two different types of geological structures – salt caverns (underground gas storage cavern facilities) or depleted gas and oil reservoirs. Seven of them are used for high-methane gas storage (Wierzchowice UGS, Husów UGS, Mogilno UGSC, Strachocina UGS, Swarzów UGS and Brzeźnica UGS, and two caverns are also undergoing testing for natural gas injection at the Kosakowo UGSC), while the other two are nitrogen-rich gas storage facilities (Daszewo UGS and Bonikowo UGS).

Mogilno Underground Gas Storage Cavern Facility – a high-methane gas storage site with a working capacity of 407.89 m m^3, located in the county of Mogilno (Bydgoszcz province), municipalities of Mogilno and Rogowo. The facility is located in salt caverns, allowing high injection and withdrawal capacities. Mogilno is currently being extended to a target storage capacity of 800 m m^3.

Husów Underground Gas Storage Facility – a high-methane gas storage site with a working capacity of 350 m m^3. It is located in the county of Łańcut (Rzeszów province), municipalities of Łańcut and Markowa. The facility's working capacity is currently being extended to 500 m m^3.

Wierzchowice Underground Gas Storage Facility – a high-methane gas storage site. It is located in a partially depleted nitrogen-rich gas reservoir, in the county of Milicz (Wrocław province), municipalities of Milicz and Krośnice. With a working capacity of 1,200 m m^3, it is the largest underground gas storage facility in Poland.

Strachocina Underground Gas Storage Facility – a high-methane gas storage site with a working capacity of 360 m m^3. It is located in the county of Sanok (Rzeszów province), municipalities of Sanok and Brzozów.

Brzeźnica Underground Gas Storage Facility – a high-methane gas storage site with a working capacity of 65 m m^3. The facility is located in the county of Dębica (Rzeszów province), municipality of Dębica. Its working capacity is currently being extended to 100 m m^3.

Swarzów Underground Gas Storage Facility – a high-methane gas storage site with a working capacity of 90 m m^3. It is located in the county of Dąbrowa Tarnowska (Kraków province), municipalities of Dąbrowa Tarnowska and Olesno. Swarzów is one of the oldest gas storage facilities in Poland.

Bonikowo Underground Gas Storage Facility – a storage site for Lw nitrogen-rich gas with a working capacity of 200 m m^3. The role of the Bonikowo facility, commissioned in 2010, is to help optimise the production of Lw nitrogen-rich gas in western Poland, which is why it is not a storage facility within the meaning of the Polish Energy Law.

Daszewo Underground Gas Storage Facility – a storage site for Ls nitrogen-rich gas with a working capacity of 30 m m^3, located in a partially depleted crude oil and nitrogen-rich gas reservoir. As Daszewo is used to optimise production, it is not classified as a storage facility within the meaning of the Polish Energy Law.

Another storage facility in salt caverns is under construction:

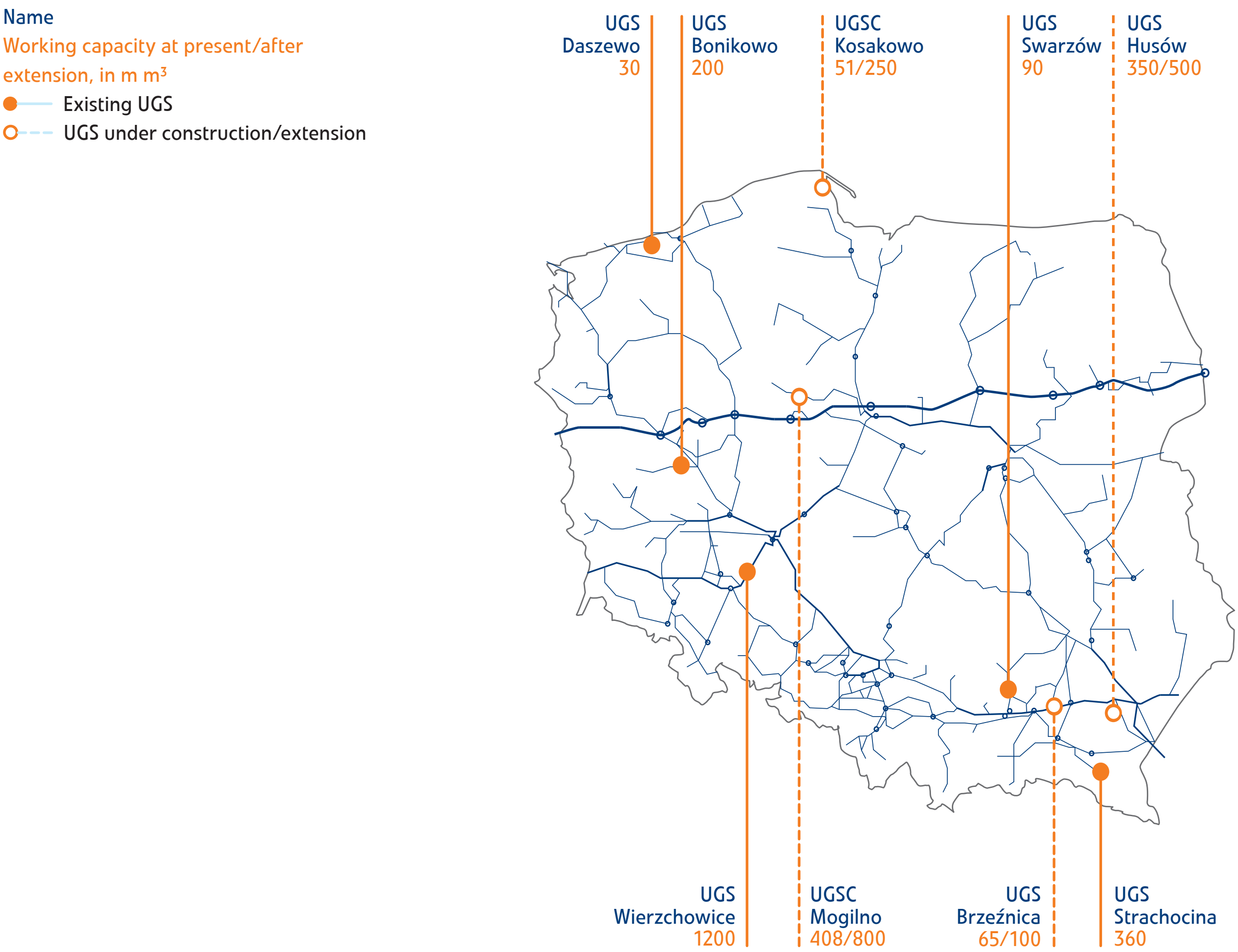
Kosakowo Underground Gas Storage Cavern Facility – a high-methane gas storage site in the vicinity of the Gdańsk-Gdynia-Sopot metropolitan area. In December 2013, the first two caverns of the facility, having a total working capacity of 51.2 m m^3, underwent final acceptance and the capacity will be made available in the storage year of 2014/2015. The facility's target working capacity is 250 m m^3. Completion of the Kosakowo UGSC project is scheduled for 2021.

Short-term peak fluctuations in demand for natural gas are balanced with supplies from the Mogilno Underground Gas Storage Cavern Facility, where gas is stored in worked-out salt caverns. The Kosakowo UGSC is to serve a similar function.

The capacities of the Wierzchowice UGS, Husów UGS, Strachocina UGS, Swarzów UGS and Brzeźnica UGS facilities are used to balance changes in summer and winter seasonal demands for natural gas, fulfil the obligations of take-or-pay import contracts, ensure the continuity and security of natural gas supplies, and fulfil the obligations of agreements for the delivery of natural gas to customer premises.

The capacities of the Wierzchowice UGS, Husów UGS, Mogilno UGSC and Strachocina UGS facilities are also used by the Group to fulfil the obligation (for companies trading in gaseous fuels with foreign customers) to maintain mandatory stocks of natural gas, imposed by the Polish Act on Stocks of Crude Oil, Petroleum Products and Natural Gas as well as the Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market, dated February 16th 2007.

Location of underground gas storage facilities



In order to fulfil the legal obligation concerning storage system operator separation, PGNiG established a special purpose company, Operator Systemu Magazynowania Sp. z o.o. (OSM), whose core business objects include storage system operator duties for the facilities owned by PGNiG. The company makes available the storage capacities in such a way as to meet market demand for gas storage, while optimising storage facility operation.

In accordance with its licence for gas fuel storage, OSM provides its services at the Brzeźnica UGS, Husów UGS, Mogilno UGSC, Wierzchowice UGS, Strachocina UGS and Swarzów UGS facilities.

Between January 1st and December 31st 2013, OSM made available, under long-term contracts, 380 m m³ of working capacity released following the expiry of earlier contracts, including:

- on an interruptible basis – total of 115 m m³ of working capacity, including:
  - 5 m m³ of working capacity at the Strachocina UGS;
  - 60 m m³ of working capacity at the Wierzchowice UGS;
  - 50 m m³ of working capacity at the Husów UGS;
- on a continuous basis – total of 265 m m³ of working capacity, including:
  - 115 m m³ of working capacity at the Wierzchowice UGS;
  - 100 m m³ of working capacity at the Husów UGS;
  - 50 m m³ of working capacity at the Mogilno UGSC.

A working storage capacity of 21.5 m m³ at the Mogilno UGSC was made available under the short-term interruptible-basis service.

Under the contractual constraints management procedure, covering the storage capacity contracted in 2012, a total of 41.5 m m³ of working capacity was made available at the Mogilno UGSC under long-term continuous-basis contracts.

The entire working capacity offered in the reporting period was allocated.

Working capacities of underground gas storage facilities in 2013 (m m³)

High-methane gas	Working capacity [m m³] 2013	Working capacity [m m³] Target capacity	Year extension/ construction completed
Brzeźnica	65	100	2015
Husów	350	500	2014
Kosakowo*	51.2	250	2021
Mogilno	407.9	800	2027
Strachocina*	360	360	-
Swarzów	90	90	-
Wierzchowice*	1,200	1,200	-
Nitrogen-rich gas			
Bonikowo	200	200	-
Daszewo	30	30	-

* Tests are underway to determine UGS parameters and operating profiles for the new storage capacities.

As at December 31st 2013, OSM had storage facilities with a total capacity of 1,817.9 m m³, of which 1,796 m m³ was allocated under long-term contracts.

Working storage capacities made available in the storage year of 2012/2013

High-methane gas	(m m³)
Brzeźnica Underground Gas Storage Facility	65.0
Husów Underground Gas Storage Facility	350.0
Mogilno Underground Gas Storage Cavern Facility	407.9(1)
Strachocina Underground Gas Storage Facility	330.0
Swarzów Underground Gas Storage Facility	90.0
Wierzchowice Underground Gas Storage Facility	575.0
Total	**1,817.9(2)**

1) The amount includes the working capacity made available to OGP Gaz-System SA and working capacities made available on a short-term basis.
2) The new working capacities of the Kosakowo UGSC, Strachocina UGS and Wierzchowice UGS, increased in 2013, are to be made available in the storage year of 2014/2015.

EU programmes

On May 16th 2013, an agreement was signed between PGNiG and the Oil and Gas Institute of Kraków on the co-funding of the Husów UGS extension project. Under the agreement, the maximum contribution to the project is PLN **38,204,250.00**, and the expenses eligibility period is from **April 12th 2012 to May 31st 2015**.

On September 16th 2013, Annex No. 1 to the agreement on the co-funding of the ‘LNG-based conversion of Ełk and Olecko from propane-butane to E-gas’ was executed. Pursuant to the Annex, the maximum contribution to the project is PLN **5,537,680.75**, and the expenses eligibility period is **from September 1st 2012 to October 31st 2014**.

Apart from the above projects, PGNiG proceeded with the following EU-funded projects in 2013:
- Wierzchowice UGS extension;
- Kosakowo UGSC construction.

VOLUME OF GAS (MEASURED AS HIGH-METHANE GAS EQUIVALENT) TRANSMITTED VIA THE DISTRIBUTION SYSTEM IN 2013 YEAR

10,1 bn m^3

Distribution

Through Polska Spółka Gazownictwa Sp. z o.o., natural gas is supplied to households as well as to SME customers. In 2013, the volume of gas supplied through the gas distribution network was 10.3 bn m³. The reliability and stability of supplies through this network are attested to by the growing number of connections, the extending length of the network including connections, and the increasing number of consumers to whom gas fuel is distributed.

Key events

- On July 1st 2013, the merger of six gas distribution companies was registered. The companies:
  - Dolnośląska Spółka Gazownictwa Sp. z o.o. of Wrocław;
  - Górnośląska Spółka Gazownictwa Sp. z o.o. of Zabrze;
  - Mazowiecka Spółka Gazownictwa Sp. z o.o. of Warsaw;
  - Karpacka Spółka Gazownictwa Sp. z o.o. of Tarnów;
  - Pomorska Spółka Gazownictwa Sp. z o.o. of Gdańsk;
  - Wielkopolska Spółka Gazownictwa Sp. z o.o. of Poznań

  were merged through the acquisition of all their assets by PGNiG SPV 4 Sp. z o.o. (currently Polska Spółka Gazownictwa Sp. z o.o.) and their transformation into the company's regional branches.
- Polska Spółka Gazownictwa Sp. z o.o. was appointed the Distribution System Operator and the Natural Gas Liquefaction System Operator until December 31st 2030.
- The volume of gas distributed in 2013 was 10.1 bn m^3, up almost 0.2 bn m^3 on 2012.
- The consolidated Distribution System Operator has in place standardised:
  - Tariff No.1 for Gas Fuel Distribution Services and LNG Regasification Services (approved by the President of the Energy Regulatory Office (URE) on December 17th 2013);
  - Distribution Grid Code (approved by the President of the Energy Regulatory Office on December 23rd 2013);
  - Inter-Operator Transmission Agreement.

The segment's core business consists in the distribution of high-methane and nitrogen-rich gas, and small amounts of propane-butane and coke-oven gas, over the distribution network. Polska Spółka Gazownictwa Sp. z o.o. supplies natural gas to households, industrial customers and wholesalers, and connects new customers to both existing and newly constructed network sections. In addition, the segment is responsible for the operation, maintenance, and extension of the distribution network.

The President of the Energy Regulatory Office also granted the company a licence to distribute gas fuel and a licence to liquefy natural gas and regasify liquefied natural gas at LNG facilities until December 31st 2030. Polska Spółka Gazownictwa Sp. z o.o. was appointed the Distribution System Operator and the Natural Gas Liquefaction System Operator until December 31st 2030.

Financial performance in 2013

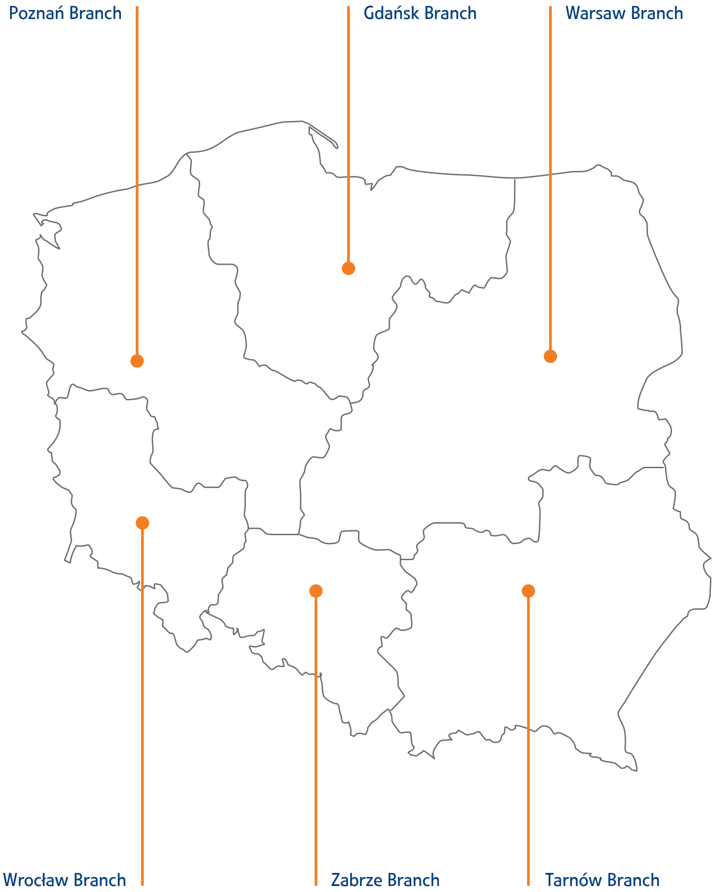
The Distribution segment's revenue is derived from distribution of gas fuel via the network. Its distribution tariffs are subject to approval by the President of the Energy Regulatory Office. Revenue of the distribution company is subject to seasonal fluctuations throughout a year. Transport of gas fuel volumes via the distribution network is at its peak in winter (Q1 and Q4 of each year).

Net profit at the end of 2013 was PLN 556 m.

In 2013, revenue increased by PLN 668 m compared with the year before. The increase resulted from the implementation of a new tariff incorporating costs of gas fuel transmission as well as higher volumes of distributed gas.

In 2013, cash flows from operating activities were PLN 347 m higher than in 2012.

Branches of Polska Spółka Gazownictwa Sp. z o.o.



Tariff policy

Gas distribution is a licenced activity. This means that the company must gain the President of the Energy Regulatory Office's approval of its charge rates for gas fuel distribution.

On December 17th 2013, the President of the Energy Regulatory Office approved Tariff No.1 for Gas Fuel Distribution Services and LNG Regasification Services, standardised for the Distribution System Operator and effective from January 1st to July 31st 2014. The tariff is uniform for the whole company, but the charge rates for distribution and regasification services vary by areas covered by its individual branches.

On December 23rd 2013, the President of the Energy Regulatory Office approved the submitted Distribution Grid Code, which provides standardised regulations for distribution of various types of gas fuel transported by the company. The document became effective as of January 1st 2014, replacing the existing regulations for the six gas distribution companies.

Pursuant to a decision of August 26th 2013 (amended on October 14th 2013), the President of the Energy Regulatory Office approved the Compliance Programme – for ensuring non-discriminatory treatment of distribution system users.

Gas fuel distribution

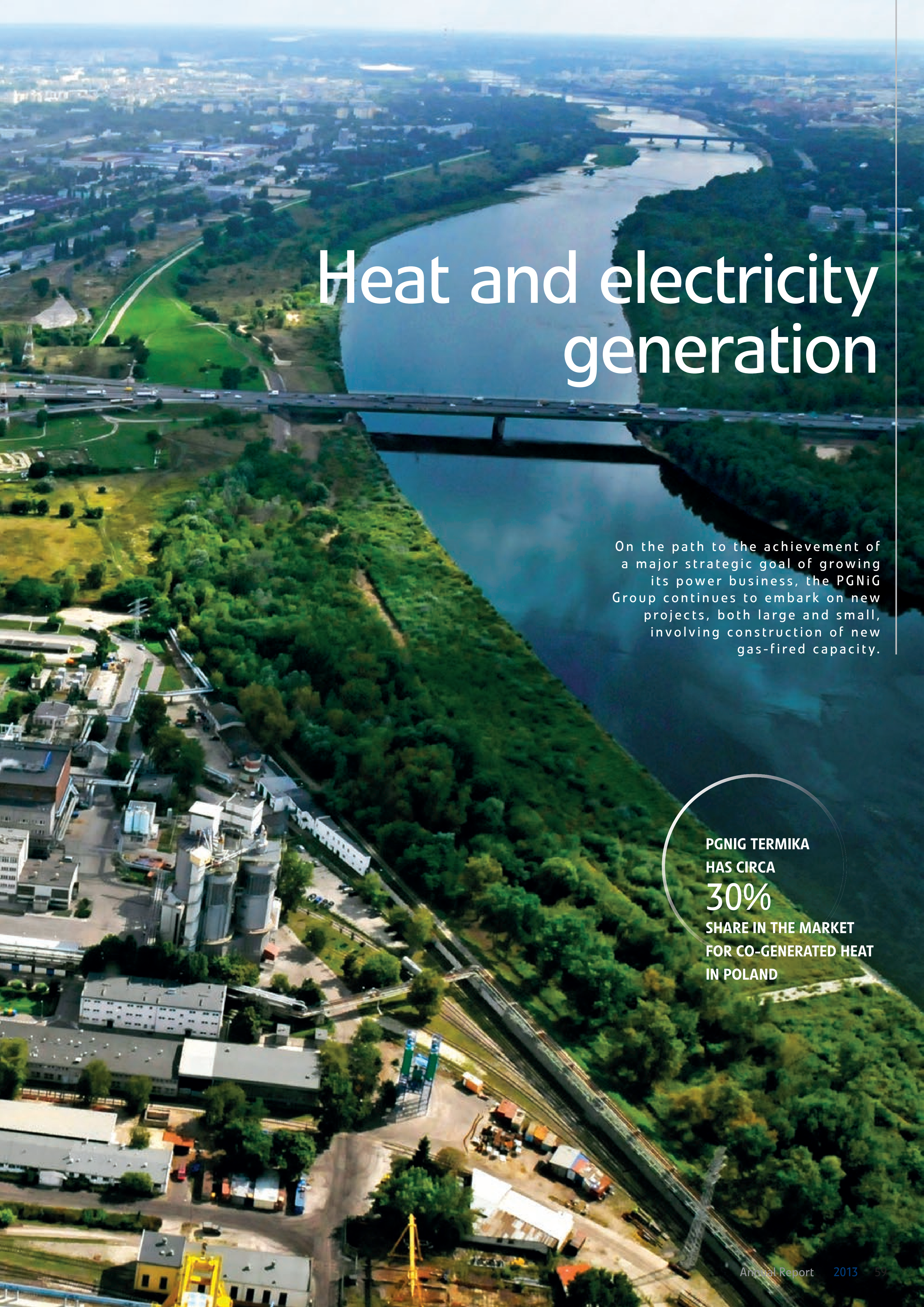
In 2013, the operator distributed 10.1 bn m^3 of natural gas (measured as high-methane gas equivalent) via the system. The amount exceeds the level recorded the year before (9.9 bn m^3) by 0.2 bn m^3, or 2%. At the end of 2013, the length of the distribution network with connections was 170.9 ths km. In 2013, the company's market share in terms of distributed gas volume was 97%, while the number of customers reached 6.77 m.

Capex projects

In 2013, total Capex ran to PLN 1.14 bn. The focus areas of Capex, which accounted for the largest share of the funds spent, were:

- projects to enhance gas fuel sales through network extension and construction of new connections, which in total amounted to PLN 761.4 m;
- projects to upgrade the gas network. In 2013, the amount allocated to these investments was PLN 229.3 m;
- purchase of new measurement devices (gas meters). In 2013, the amount allocated for this purpose was PLN 141.5 m.

Almost half of the company's total Capex budget was allocated to extending the gas network and connecting new customers. Funds allocated to the gas network upgrade were the second most important item of the budget. Taking into account the above expenditure and costs incurred on the purchase of gas meters, over 89% of the Capex budget was allocated to network projects.



Heat and electricity generation

On the path to the achievement of a major strategic goal of growing its power business, the PGNiG Group continues to embark on new projects, both large and small, involving construction of new gas-fired capacity.

PGNIG TERMIKA HAS CIRCA

30%

SHARE IN THE MARKET FOR CO-GENERATED HEAT IN POLAND

The Group generates and sells electricity and heat through its Generation segment, whose activities are conducted by PGNiG TERMIKA, a company also serving as the Group's competence centre for heat and electricity generation and for implementation of heat and power projects.

PGNiG TERMIKA SA

With a total installed heat and power generation capacity of respectively 4.8 GWt and 1.0 GWe, PGNiG TERMIKA earns revenue chiefly from sales of heat, electricity, system services, and certificates of electricity origin. Its annual average heat and power sales amount to 40.2 PJ and 3.8 TWh, respectively, and satisfy 70% of the heat demand in the Warsaw metropolitan market. The Group also has an approximately 3% share in the domestic power generation market and an approximately 30% share in the market for co-generated heat.

The CCGT project implemented jointly with the Tauron Group in Stalowa Wola (PGNiG holds 50% of the 450 MW capacity) and a range of new projects to build gas-fired capacity will facilitate the implementation of the Group's strategy in the power segment. Investments in power generation perfectly match the PGNiG Group's mission, which is to develop and increase Company value in line with the principles of sustainable development and with due consideration for the natural environment.

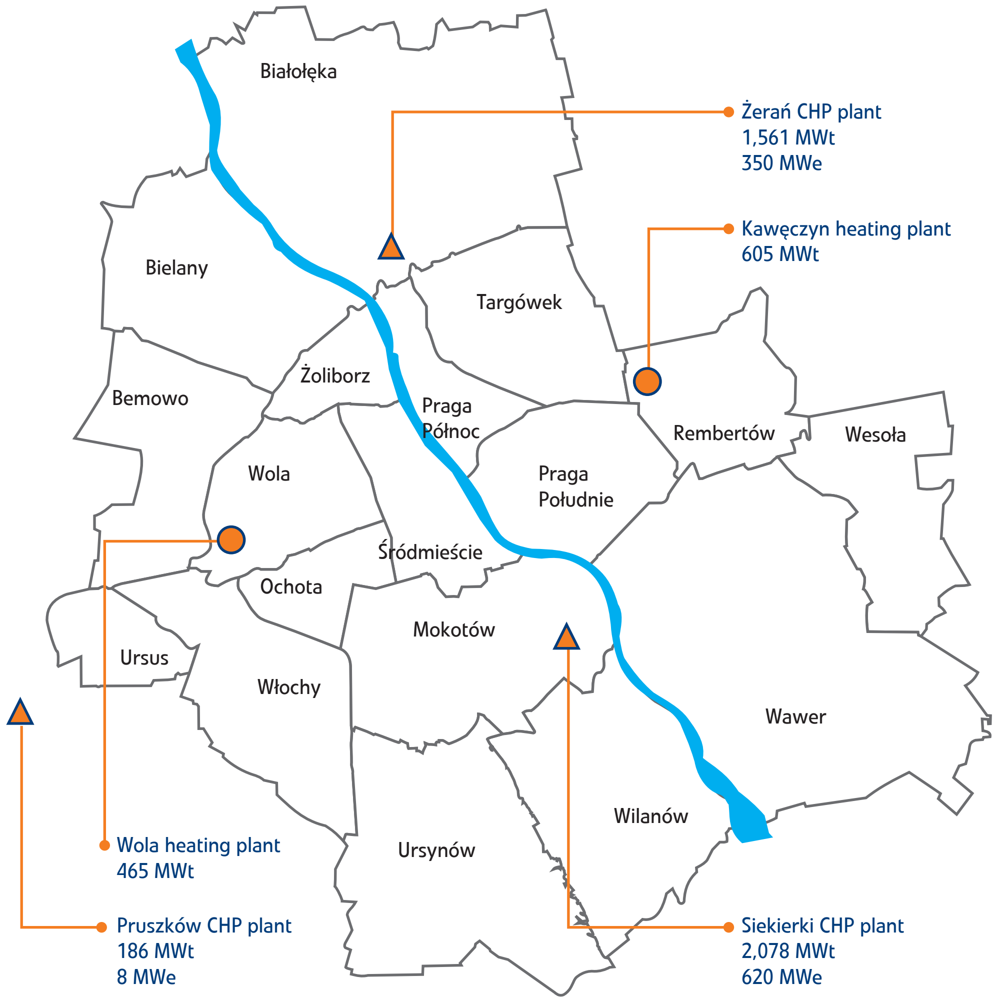
Key events:

- On October 11th 2013, an agreement was signed with the contractor for conversion of the generation unit of OP-230 boiler No. 1 into a biomass-fuelled one, along with construction of biomass unloading, storage and feeder systems at the Siekierki CHP plant.
- On October 30th 2013, PGNiG TERMIKA acquired 50% of the shares in Elektrociepłownia Stalowa Wola SA.

Financial performance in 2013:

The Generation segment's revenue from sale of heat and electricity reached PLN 2,063 m, having increased by PLN 106 m relative to 2012. Thanks to a 1% reduction in operating expenses, the segment's operating profit came in at PLN 144 m, up by PLN 129 m year on year. The segment's strong performance was attributable to a 9% increase in the tariff rates of heat as of July 2013 combined with a reduced cost of fuels for heat and electricity generation, thanks to a reduction in biomass co-burning and other factors, as well as lower amortisation costs of the CO_2 emission allowances identified at the time of the acquisition of PGNiG TERMIKA.

Location of PGNiG TERMIKA's plants in Warsaw



Capex projects

In 2013, the Generation segment incurred capital expenditure of PLN 257 m, chiefly on projects related to environmental, development and fuel diversification programmes. In 2013, the construction of an SCR system for four unit boilers at the Siekierki CHP plant was completed.

To pursue the Group's strategy of continued development of the power segment, in 2013 PGNiG TERMIKA was looking for different scale co-generation opportunities across Poland. Several promising projects were identified and the company established relationships with a number of manufacturers from the chemical and food industries interested in gas-fired co-generation and power outsourcing, and with municipal power companies seeking to build co-generation units supplying heat to the municipal network. At present, the parties are reviewing the technical and economic feasibility of the projects and negotiating the terms of prospective business cooperation.

As part of its growth strategy, PGNiG TERMIKA executed contracts for the production and supply of biomass from energy willow plantations and planted willow trees over an area of 386 ha. In doing this, the company expects to secure continuing supplies of agricultural biomass for the PGNiG TERMIKA biomass combustion units.

CCGT unit at Żerań CHP plant

Following its completion, the CCGT project will contribute to the modernisation of the Żerań CHP plant in Warsaw. The worn out coal-fired boilers will be retired, and the new unit with an installed capacity of ca. 450 MWe will allow the plant to increase power output by 50%. Technical parameters of the unit will meet the requirements of the Industrial Emissions Directive (IED) and the BAT (Best Available Techniques). The project will also contribute to power security in the Warsaw metropolitan area and to further air quality improvement.

In 2013, an agreement was signed to connect the Żerań CHP plant to the OGP GAZ SYSTEM SA's transmission network. In the same period, plans to disassemble, move or modernise certain units were created. Efforts are underway to secure permits for the construction of a cooling water discharge pipeline and modernisation of the cooling water system and gas infrastructure, and the tendering procedure for the unit's construction plan is in progress. In 2013, grid connection conditions have been obtained from PSE Operator SA. Work is currently underway to prepare the necessary documentation and obtain relevant permits for the construction of a high-pressure gas pipeline. The company is also drafting tender documentation for the unit's construction. The unit is expected to be put into operation in 2018.

Conversion of the OP-230 K1 boiler and construction of a biomass storage unit

On October 11th 2013, an agreement was signed with Andritz Energy & Environment GmbH (consortium leader) for conversion of the generation unit of OP-230 boiler No. 1 into a biomass-fuelled one, along with construction of biomass unloading, storage and feeder systems at the Siekierki CHP plant. Following completion of the project, the unit's capacity will be raised to 185 t/h, with a thermal input of 146.6 MWt. In this way, PGNiG TERMIKA will diversify its fuel mix and ensure that the unit's operation accommodates the heat demand in the Warsaw metropolitan area. The conversion of the coal-fired boiler into a biomass-fuelled one will eliminate the need to install an FGD and deNox unit to comply with the Industrial Emissions Directive. The company plans to complete the project in the third quarter of 2015.

New Pruszków CHP plant

In 2013, a decision was made to modify the Pruszków CHP plant to increase its co-generation capacity based on gas engines, and to reduce its coal consumption by reconstructing the water boilers and modifying them to meet future, more stringent environmental requirements. In the same year, a gas network connection agreement with Polska Spółka Gazownictwa was signed to secure gas supplies and a request was submitted to PGE Dystrybucja to specify the grid connection conditions for reception of the plant's electricity output. In December 2013, a tendering procedure for conversion of the water boilers was announced. Preparation is already underway of the tender documentation for construction of the co-generation system, and the whole project is scheduled for completion in 2016.

CCGT unit in Stalowa Wola

On October 30th 2013, PGNiG TERMIKA acquired 50% of the shares in Elektrociepłownia Stalowa Wola SA from PGNiG.

The project for the construction and future operation of a 449.16 MW gas-fired CHP plant is being carried out jointly by the PGNiG Group and the TAURON Group, each holding a 50% interest. The CHP plant will produce heat in the form of hot water for the city's residents and process steam for nearby industrial facilities. It will be the largest unit of its kind in Poland. According to the agreement between the project partners, revenue from sale of electricity will be shared pro rata to their interests in the Stalowa Wola CHP plant. It is estimated that the Stalowa Wola unit will generate approximately 3,500 GWh of electricity per year, while burning approximately 600 m m^3 of gas. At the same time, it will produce low carbon dioxide, SOx and NOx emissions, in line with the EU's energy and climate policy.

In 2013, as part of the Stalowa Wola CCGT project, financing agreements for the CCGT unit were concluded and the construction work began. The work included the construction of an electricity switching substation with control room, and foundations for the unit's main installations. Foundations for the recovery boiler and gas turbine were laid, and work on foundations for the steam turbine is in the final phase. The support structure for the gas turbine building was completed and construction of the steam turbine building commenced. Also, phase one of work on the San river dam system was completed. The project is due for completion at the end of 2014 or beginning of 2015. The CHP plant will be placed in commercial operation at the end of the second quarter of 2015.

Corporate governance

The PGNiG Group pays close attention to the observance of corporate governance standards. The Group is honest and fair to its shareholders, treats them all on equal terms and makes every effort to establish and maintain the best possible relations between its investors and governing bodies.

General Meeting

The General Meeting is PGNiG's supreme governing body, through which shareholders exercise their corporate rights, including the examination and approval of the Directors' Report, and adoption of decisions on the amount, form and payment date of the dividend. The General Meeting grants its vote of approval to members of the other governing bodies of PGNiG, appoints members of the Supervisory Board and makes decisions concerning the Company's assets.

Supervisory Board

The Supervisory Board exercises continuous supervision over all areas of the Company's activities, in accordance with the Rules of Procedure for the Supervisory Board. It is composed of five to nine members (including one independent member) appointed by the General Meeting of PGNiG for a joint three-year term. The State Treasury is entitled to appoint and remove one member of the Supervisory Board, as long as it remains a shareholder of PGNiG. On a Supervisory Board composed of up to six members, two of them are elected by PGNiG employees. Where the Supervisory Board comprises seven to nine members, there are three members elected in this way.

Management Board

The Management Board is an executive body managing the affairs of PGNiG and representing it in all matters in and out of court. The Management Board is composed of between two to seven members, with the number defined by the Supervisory Board. Members of the Management Board are appointed for a joint three-year term. 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 applicable laws or provisions of the Articles of Association. The Management Board operates in accordance with applicable laws and regulations, including in particular the Commercial Companies Code, as well as the provisions of the Company's Articles of Association and the Rules of Procedure for the Management Board.

Audit Committee

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

The powers and the manner of operation of the Company's governing bodies are described in detail in the Articles of Association and the Rules of Procedure for the General Meeting, the Supervisory Board (including the Rules of Procedure for the Audit Committee) and the Management Board. The documents are available at www.pgnig.pl in the Corporate Governance section.

Best practices

The Management Board of PGNiG is strongly committed to compliance with corporate governance standards. Since its stock-exchange debut in 2005, the Company has followed the relevant recommendations of the Warsaw Stock Exchange, as set out in the Code of Best Practice for WSE Listed Companies. Reports on PGNiG's compliance with the principles of corporate governance are published online at www.pgnig.pl in the Corporate Governance section.

Special control rights

In accordance with the Articles of Association, as long as the State Treasury holds an equity interest in the Company, the State Treasury, represented by the minister concerned with matters pertaining to the State Treasury, acting in consultation with the minister competent for economic affairs, has the right to appoint and remove one member of the Supervisory Board.

Additionally, pursuant to the Articles of Association, the State Treasury (as a shareholder) approves in writing: (i) any amendments to material provisions of existing trade agreements for import of natural gas to Poland and the execution of such agreements, and (ii) the implementation of any strategic investment projects by the Company or its 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.

Irrespective of the State Treasury's share in the Company's share capital, the State Treasury also has the right to demand that the General Meeting be convened and that particular matters be placed on the agenda.

Voting rights restrictions

On December 31st 2012, the amendments to the Articles of Association of PGNiG, introduced under a resolution of the Company's Extraordinary General Meeting dated December 6th 2012, were entered in the Company Register. Under the amended Articles of Association, the voting rights of Company shareholders are limited so that at the General Meeting no shareholder can exercise more than 10% of the total vote at the Company as at the date of the General Meeting, with the proviso that such restriction of voting rights is deemed non-existent for the purpose of determining the obligations of buyers of major holdings of shares.

The voting rights restrictions do not apply to shareholders who, as at the date of the General Meeting's resolution imposing the restrictions, are holders of shares conferring more than 10% of the total vote at the Company, and shareholders acting together with shareholders holding shares conferring more than 10% of the total vote, pursuant to agreements on voting in concert.

For the purpose of restricting the voting rights, votes of shareholders bound by a parent-subsidiary relationship will be aggregated and if the aggregated number of votes exceeds 10% of the total vote at the Company, it will be subject to reduction.

Rules governing amendments to the Company's Articles of Association

Pursuant to the Commercial Companies Code and the Company's Articles of Association, amendments to the Articles of Association are introduced by virtue of resolutions passed by the General Meeting with the required majority of votes, whereupon they must be entered in the Company Register. Any amendment to the Articles of Association must be submitted by the Management Board to the Court of Registration within three months from the date on which the General Meeting passed the resolution introducing the amendment. The consolidated text of the Articles of Association is drawn up by the Management Board and then approved by the Supervisory Board.

Rules governing appointment and removal of Management Board members

Pursuant to the Articles of Association, individual members of the Management Board or the entire Management Board are appointed and removed by the Supervisory Board. A member of the Management Board is appointed following a qualification procedure carried out pursuant to the Regulation of the Polish Council of Ministers of March 18th 2003 concerning qualification procedures for members of management boards of certain commercial-law companies (Dz.U. No. 55, item 476, as amended). This procedure does not apply in the case of the Management Board members elected by employees.

As long as the State Treasury remains a shareholder of the Company and the Company's annual average headcount exceeds 500, the Supervisory Board appoints to the Management Board one person elected by the employees, to serve for the Management Board's term of office. A person is considered to be a Management Board candidate elected by the employees if, during the election, 50% of valid votes plus one were cast in favour of that person, with the reservation that the election results are binding on the Supervisory Board if at least 50% of the Company's employees participated in the election.

Management Board members are appointed for a joint term of three years. A member of the Management Board may resign from his/her position by delivering a representation to that effect to the Supervisory Board, with a copy to the State Treasury (represented by the minister competent for matters pertaining to the State Treasury). To be valid, the resignation must be submitted in written form, or otherwise will be ineffective towards the Company.

The Management Board member elected by the employees may also be removed upon a written request submitted by at least 15% of the Company's employees. The vote is ordered by the Supervisory Board, and its results are binding on the Supervisory Board if at least 50% of the Company's employees participate in the vote and the percentage of votes cast in favour of the removal is not lower than the majority required for the election of a member of the Management Board by the employees.

Information for shareholders pertaining to General Meetings

A shareholder or shareholders representing at least one-twentieth of the share capital may request that certain matters be placed on the agenda of the General Meeting. Any such request should be sent to the Company in the Polish language, in writing, or in electronic form to the following email address: wz@pgnig.pl. The request should contain grounds or a draft resolution concerning the proposed agenda item and should be submitted to the Company's Management Board not later than 21 days before the scheduled date of the General Meeting. The shareholder or shareholders should prove their entitlement to exercise this right by presenting relevant documents in written form.

Any shareholder or shareholders representing at least one-twentieth of the Company's share capital may, before the date of the General Meeting, submit to the Company draft resolutions concerning items which have been or are to be placed on the General Meeting's agenda, in writing or in electronic form to the email address: wz@pgnig.pl. Any such draft resolutions should be in the Polish language, in the form of a Word file. The shareholders should prove their entitlement to exercise this right by presenting relevant documents in written form.

During the General Meeting, each shareholder may submit draft resolutions with respect to items placed on the agenda. Such draft resolutions should be in the Polish language.

Shareholders may participate in the General Meeting in person or by proxy. Pursuant to Art. 4121.2 of the Commercial Companies Code, a power of proxy for participation in a General Meeting of a public company and exercise of the voting right must be granted in writing. Powers of proxy should be granted in writing or in electronic form. The power of proxy should be in the Polish language and may be sent to the Company prior to the General Meeting in electronic form as a PDF file (scanned document) to the email address: wz@pgnig.pl. While at the General Meeting, all shareholders and proxies should carry a valid identity document.

Given that the Company does not provide for the possibility of participating in the General Meeting by electronic means (including taking the floor at the General Meeting using means of electronic communication) or exercising voting rights by postal ballot or by electronic means, no ballot forms for voting through a proxy will be published.

Representatives of legal persons should have on them the original or a copy (certified by a notary public) of an excerpt from the relevant register (issued within the last three months), and if their right to represent the legal person does not follow from the relevant register entry – they should have on them a written power of proxy (the original or a copy certified by a notary public) along with the original or a copy (certified by a notary public) of the excerpt from the relevant register which must be valid as at the date of granting the power of proxy.

The General Meeting may be attended only by persons who are Company shareholders on the record date, i.e. 16 days prior to the General Meeting.

Persons entitled to participate in the General Meeting may obtain the full text of documents to be submitted to the General Meeting, along with draft resolutions and comments of the Management and Supervisory Boards, from the Company's registered office. Such persons may obtain copies of the Directors' Report on the Company's operations and of the Company's financial statements, as well as a copy of the Supervisory Board's report and the auditor's opinion, no later than 15 days prior to the General Meeting, while copies of recommendations and proposals concerning the other items of the agenda will begin to be distributed a week before the General Meeting.

Pursuant to Art. 407.1 of the Commercial Companies Code, the list of shareholders entitled to participate in the General Meeting is made available for inspection at the Company's registered office in Warsaw, ul. Marcina Kasprzaka 25, for three weekdays prior to the date of the General Meeting.

Information concerning the General Meeting will be available on the Company's website at: www.pgnig.pl in the section General Meeting – Information for shareholders.

Risks

Regulatory environment

In 2013, work was still underway on a set of three bills to regulate the energy sector: the Gas Law, the Energy Law and the Law on Renewable Energy Sources (the so-called 'Big Energy Three-Pack'). On September 11th 2013, the Act Amending the Energy Law and certain other acts (the so-called 'Mini Energy Three-Pack') came into force. The amendment introduced changes to the regulatory regime governing the natural gas market, reflecting the need to bring Polish legislation in line with the provisions of the European Union's Third Energy Package, and the need to deregulate the gas market particularly through the exchange sale obligation.

The requirement to sell gas through the exchange market, which has been imposed on the Company, is aimed to deregulate the Polish gas market, boosting competition. The mechanism improves the market's transparency and allows market participants to purchase the product on equal terms. On the other hand, it may mean a steady loss of PGNiG's market share. However, the actual rate of PGNiG's market share decline will depend on the number and size of new players entering the gas market, and the price differentials between the OTC and exchange markets. While PGNiG is prepared to fulfil this statutory obligation in terms of supply, the low demand for gas on the exchange market may prevent it from actually meeting its statutory obligation in terms of sales. This is why the Group has taken steps to boost demand on the Polish Power Exchange.

Furthermore, the amendments to the Polish Energy Law mean that an end user may now terminate a gas fuel supply agreement without penalty or payment of any compensation other than that stipulated in the agreement. Given the costs of purchasing gas (including the cost of transmitting it to Poland and other transaction costs) and the security of supply, customers will seek to optimise their purchase portfolios by acquiring gas in or outside of the exchange market.

The Energy Efficiency Act came into force in August 2011, implementing Directive 2006/32/EC of the European Parliament and of the Council of April 5th 2006 on energy end-use efficiency and energy services. The Energy Efficiency Act establishes a national target for economical use of energy which stipulates that the minimum level of end-use energy savings by 2016 should be 9% of annual national energy consumption. Since January 1st 2013, PGNiG, as a trading company, has been obliged to purchase energy efficiency certificates or else pay the buy-out price. This obligation will drive up the cost of regulated activities and, consequently, inflate gas prices for customers.

In 2013, legislative work was underway on a fundamental change in the regulatory regime for the exploration and production segment, comprising two bills: the draft act to amend the Geological and Mining Law and certain other acts, and the draft Act on the Special Hydrocarbon Tax. There is also work in progress to amend the Act on the Tax on Production of Certain Minerals and other acts besides it. The draft acts provide for an increase in the fiscal burden on the production of minerals and for a change to the existing licensing system. In future, these amendments will adversely affect PGNiG's profitability.

Tariff calculation

PGNiG's ability to cover the costs of its core operating activities depends on the prices and rates approved by the President of the Energy Regulatory Office. In approving tariffs for a given period, the President of the Energy Regulatory Office considers other factors external to and beyond the control of the PGNiG Group. Moreover, the President of the Office does not always accept the assumptions adopted by PGNiG on the major factors influencing its costs and profit targets which take into account business risks. Lower tariff prices and charges may adversely affect PGNiG's profitability. Profitability may also be impacted by the effective terms of tariffs, which are often extended by the President of the Energy Regulatory Office, and by protracted tariff approval proceedings.

Purchase prices of imported gas

Prices of imported gas are denominated in USD or EUR and are based on indexation formulae reflecting the prices of petroleum products and/or gas on the liquid market of Western Europe. Accordingly, changes in foreign exchange rates or prices of petroleum products and gas materially affect the cost of imported gas. Any accurate forecast of natural gas price developments carries a high risk of error. Approved prices can be legally adjusted during a tariff term. However, there is a risk that an increase in the price of imported gas may not be fully passed on to customers or that changes in gas sale prices may lag behind changes in gas import prices.

Take-or-pay import contracts

PGNiG is a party to four long-term take-or-pay contracts for gas fuel deliveries to Poland, of which the most important are contracts with Gazprom Eksport and Qatargas Operating Company Ltd. Assuming that PGNiG's customer portfolio remains unchanged, the volume of gas imports specified in the take-or-pay contracts will limit its purchases of spot gas, currently the most attractively priced. If PGNiG loses its market share, there is a risk that the Company will need to seek new opportunities to sell or utilise surplus gas to avoid payment of penalties for the uncollected quantities under the take-or-pay contracts, or to sell the surplus with a negative margin. There is also a risk that if Polskie LNG SA fails to put the LNG Terminal in operation by December 31st 2014, PGNiG will incur penalties for uncollected quantities of liquefied natural gas, as stipulated in the take-or-pay contract with Qatargas Operating Company Ltd. Another risk is that, under the existing contract terms and market conditions, the tariffs approved by the President of the Energy Regulatory Office will not cover PGNiG's weighted average cost of gas acquisition.

Obligation to diversify imported gas supplies

The maximum share of total gas importable from one country in a given year is determined in the Council of Ministers' Regulation of October 24th 2000 on the minimum level of diversification of foreign sources of gas supplies. In 2012, the President of the Energy Regulatory Office instigated administrative proceedings to impose a fine on PGNiG for its failure to comply with the obligation to diversify supplies of imported gas in 2010 and 2011 – on May 11th and December 5th, respectively. Similar administrative proceedings were instituted by the President of the Energy Regulatory Office concerning PGNiG's failure to comply with the obligation to diversify supplies of imported gas in 2007, 2008 and 2009. The 2009, 2010 and 2011 proceedings were suspended ex officio until the conclusion of the 2007 and 2008 proceedings, held before the Court of Competition and Consumer Protection.

In 2011 PGNiG submitted an inquiry to the Constitutional Court concerning compliance of the Council of Ministers' Regulation of October 24th 2000 on the minimum level of diversification of foreign sources of gas supplies with the Polish Constitution.

If the Regulation is not amended, the President of the Energy Regulatory Office may continue imposing fines on the Company for failing to comply with the diversification requirement until gas starts to be supplied from other sources (e.g. through the LNG terminal).

Resource discoveries and estimates

The main risk inherent in exploration activities is the risk of failure to discover resources, i.e. the exploration risk. This means that not all identified leads and prospects actually have deposits of hydrocarbons which can qualify as an accumulation.

The reserves estimates and production projections may be erroneous due to imperfections inherent in the equipment and technology, which affect the quality of acquired information concerning the geological factors and reservoir characteristics. Irrespective of the methods applied, data on the volume and quality of commercial reserves of crude oil and natural gas are always estimates. Actual production, income and expenses relating to a given deposit may significantly differ from such estimates. The weight of this risk is further increased by the fact that in the full business cycle the period from the commencement of exploration to the launch of production from a developed field takes six to eight years, while the production phase lasts from 10 to 40 years. Formation characteristics defined at the stage of reserves determination are reviewed after production starts. Each downward revision of the size of reserves or estimated production quantities may lead to lower-than-expected revenue and adversely affect the PGNiG Group's financial performance.

A risk associated with exploration for unconventional gas in Poland relates to the lack of proved reserves of shale gas and tight gas. Even if the existence of in-place petroleum is confirmed, its production may prove uneconomic due to poor gas recovery and high investment expenditure necessary for well drilling and construction of production infrastructure. Another material factor is that access to unconventional gas plays may sometimes be difficult given the environmental regulations and the necessity to obtain the landowners' consent for access.

Competition in exploration

Both on the Polish market and abroad there is a risk of competition from other companies in the acquisition of licences for exploration and appraisal of hydrocarbon deposits. Certain competitors of the PGNiG Group, especially global majors, enjoy strong market positions. They are likely to bid for and be able to acquire highly prospective licences.

Delays in upstream projects

Under the applicable Polish legal regulations, the process of obtaining a licence for exploration and appraisal of crude oil and natural gas deposits lasts from one to one and a half years. On foreign markets, such procedures may even take up to two years from the time that the winning bid is awarded until the relevant contract is ratified. Prior to the commencement of field work, the Company is also required to make a number of arrangements, for instance to obtain legal permits and approvals for entering the area, and to meet the environmental protection requirements and, in some cases, requirements related to the protection of archaeological sites. It is also required to hold tenders to select a contractor. All this delays the execution of an agreement with a contractor by another few months. Frequently, the waiting time for customs clearance of imported equipment is very long. These factors create a risk of delay in the start of exploration work.

Cost of exploration

Exploratory work is very capital intensive, given the prices of energy and materials. The cost of exploratory work is especially sensitive to steel prices, which are passed onto the prices of casing and production tubing used in well completion. An increase in the prices of energy and materials drives up the cost of exploratory work. Moreover, the profitability of foreign exploration projects depends to a significant extent on the prices of oil derivative products and on currency exchange rates. To reduce the cost of drilling operations, in 2011 PGNiG introduced a daily rate system into its drilling contractors selection procedure.

Hydrocarbon deposits developed by PGNiG are often at great depths, which involves extremely high pressures and, in many cases, the presence of hydrogen sulfide. Consequently, the risk of hydrocarbon blowout or leakage is very high, which in turn may pose a threat to people (workers and local populations), the natural environment and production equipment.

The need to ensure compliance with environmental laws in Poland and abroad may significantly increase the PGNiG Group's operating expenses. Currently, the PGNiG Group incurs significant expenditure to meet the applicable health, safety and environmental protection regulations.

Political and economic situation

The PGNiG Group's exploration sites are located in countries threatened by armed conflicts, social or political unrest, and terrorist activity.

In February 2011, PGNiG evacuated all the non-Libyan employees of POGC – Libya BV following a force majeure event. The company's operations were resumed in the second half of 2012. A similar situation took place in January 2014, when all Polish staff of PGNiG working on the Murzuq 113 licence were evacuated back to Poland. The site was sealed and secured by Libyan government forces and was left to be overseen by local subcontractors.

In certain countries, the lack of adequate infrastructure may be an obstacle in transporting equipment, personnel and materials to the sites. Problems may also arise in providing supplies and appropriate health care. These factors may lead to limitation, suspension or discontinuation of the Company's exploration and production activities.

Competition in gas sale

PGNiG is the largest supplier of natural gas in Poland. However, the upcoming gas market deregulation is bound to trigger major changes in the market itself and the related legal framework. In 2012, a natural gas market was launched on the Polish Power Exchange. Under a decision issued by the President of the Energy Regulatory Office, trade in natural gas carried out by PGNiG on the exchange market is exempt from the tariff obligation. In 2012, PGNiG also started work on the liberalisation of gas prices for customers. This will be a phased process, with gas prices for large industrial customers to be liberalised first.

As a result of the expected changes, the Company's share in total sales of natural gas sales may fall, to the benefit of both existing players and new entrants.

Increase in the volume of mandatory stocks

Pursuant to the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, mandatory reserves must be maintained at a volume of 30 days' average annual imports, and must be kept in storage facilities which can ensure their delivery in full to the gas system within a 40-day period. Meeting these statutory requirements exposes PGNiG to financial and technological risks, and endangers the fulfilment of its contractual obligations.

Given the technical specifications required by law for delivery of mandatory gas stocks to the system, a significant portion of these stocks had to be placed in the Mogilno underground gas storage cavern, which is a peak-demand storage facility. As a result, the mandatory stocks significantly limit the commercial use of the site's storage capacity and deliverability. As mandatory gas stocks may be withdrawn only with the consent of the Minister of Economy and only after gas supply limits have been introduced, the Company may fail to ensure the continuity of gas supplies to end users.

Another consequence of maintaining mandatory stocks is that the storage capacities remain partially filled after the winter season is over, which reduces the injection capacities in summer. Injection of gas into storage during the summer season, when demand for gas is low, enables the Company to meet the summer minimum volume to be imported under the Yamal contract, as it increases total demand for natural gas. Consequently, PGNiG may not be able to meet its contractual obligations concerning offtake of imported gas if the gas volumes in storage are high at the beginning of summer.

Competition in gas distribution

Liberalisation of the gas market is contributing to intensified competition faced by the PGNiG Group's distribution segment. Other companies distributing natural gas are progressively expanding their gas networks and attracting new customers. Additionally, new players have emerged, offering LNG distribution services. The barriers to market entry are definitely lower here, as LNG distribution involves significantly lower capital expenditure and does not require a connection to the gas system or adequate reserve capacity to be maintained in the transmission and distribution networks.

Another issue which affects our gas distribution company's competitive position is the tariff policy of the Energy Regulatory Office, which makes it difficult to operate a flexible pricing policy for some groups of customers. With the lack of flexible pricing, the competitors' offers may prove an attractive alternative for existing customers of the PGNiG Group's distribution segment.

Sources of gas supply for the distribution system

Polska Spółka Gazownictwa Sp. z o.o.'s distribution network is connected to the transmission system operated by OGP GAZ-SYSTEM SA, which is its main source of gas supplies. The transmission system's limited capacity in terms of the volume and pressure of supplied gas hinders or prevents further development of the gas grid within the company's key areas of operation.

Transmission easement

More and more frequently, the PGNiG Group is facing excessive financial claims raised by owners of land where the gas network was developed in the past. Transmission easement serves as a basis for determining the extent to which a transmission company can use third-party property, for which relevant consideration is due to the owner. The owners' claims give rise to additional, frequently considerable costs, and thus may adversely affect the financial performance of the PGNiG Group's distribution segment.

Electricity generation

The expiry of support mechanisms for gas- and coal-fired cogeneration is a material risk affecting the electricity and heat generation industry. There is also no transparent, long-term policy in place to support investments in renewable energy sources and cogeneration. These factors fundamentally affect PGNiG TERMIKA's development decisions and create a significant risk of deterioration of the company financial standing.

Moreover, at current price levels, the expiry of the support system for electricity and heat produced in high efficiency cogeneration, based on the so-called yellow certificates, makes generation of heat and electricity from natural gas unprofitable, which results in lower demand for gas from some CHP plants.

Furthermore, in order to meet more stringent gas and dust emission standards to be implemented in 2016, producers have to modernise their power and CHP plants and may be forced to shut down a number of generating units (a total of some 4,000 to 6,000 MWe by 2020) where it is not economically viable to install expensive flue gas treatment systems. In order to meet the more stringent emission standards, PGNiG TERMIKA has gradually been modernising its generation assets.

Maintaining share in the municipal heat market

As the Warsaw municipal waste incineration plant is expanded, the quantity of heat supplied to the city's municipal network will increase. As a result, PGNiG Termika's share in total heat supplies to the municipal network covering the Warsaw area will fall from the current 98% to 95% in 2019.

Joint marketing efforts with Dalkia Warszawa SA and connection of further areas of western Warsaw to the municipal heating network should significantly mitigate a potential future decline in the volume of energy produced at PGNiG Termika's generation plants. With a view to maintaining its share in the municipal heat market, the company also offers 'green' heat generated in biomass-fired units, continues to sell energy at competitive prices, and takes advantage of the TPA rule to gain access to new end users.

Employees

Employees are the Group's most valuable asset – it is thanks to their experience that we remain the market leader. Their commitment drives our growth, enhances the quality of our services, and gives us new areas of business expertise.

IN 2013, THE PGNIG GROUP'S HEADCOUNT STOOD AT

30 930

The largest employer

The PGNiG Group is one of the largest employers in Poland. It employs individuals with extensive experience and high qualifications, but is also the first choice employer for many young people. This kind of human capital is our most valuable asset, as it is through our employees that we can provide our customers with the highest quality service, achieve international success and pursue a broad range of investment programmes.

In 2013, the PGNiG Group's headcount stood at 30,930. This represents a slight fall of 1,108 in employment levels from the Group's 2012 headcount of 32,038.

Development

Investment in human resources furthers PGNiG's plans, but also supports the personal ambitions of every employee. As the PGNiG Group's subsidiaries are engaged in a wide range of business activities, it is up to each of them to determine the type and extent of their staff training.

A key role in the process of human resources development is played by the training management system. Our employees are given opportunities to improve their professional qualifications through a range of training programmes, postgraduate studies, trade conferences, seminars and symposia, and also through occupational training and self-education (e-learning).

Depending on their respective responsibilities and individual needs, employees can participate in a variety of training courses in all aspects of modern business, including risk management, legal environment analysis and customer service. Training courses which focus on soft skills, such as communication, teamwork, team management and task management, are also an important part of the process.

Courses are also conducted to enable acquisition and development of employees' practical skills, and progression of their skills in project and human resources management. In 2013, PGNiG employees were involved in two such initiatives – the Managers Academy and the Project Management Academy.

- The Managers Academy was addressed to all managers working at the Company. Its main objective was to encourage PGNiG's senior staff (heads, deputy heads and deputy directors) to use human resources management tools consciously and efficiently. At the same time, the programme sought to explore the role of modern leadership and further develop participants' skills in this area. 650 managers took part in the initiative.
- The Project Management Academy was initially designed to provide general project management training to a limited group of PGNiG employees. In 2013 alone, some 200 persons took part in the programme, whose main objective was to raise project management awareness amongst PGNiG employees.

Development of our Exploration and Production activities will require PGNiG employees to possess skills in conducting discussions and negotiations and also in establishing long-term relations with local authorities and communities. The training we give our employees is designed to prepare them for such roles.

It is extensive and furthers the development and enhancement of their professional qualifications, with subsequent benefit to the Group from higher productivity levels. Human resources development translates into higher value of the PGNiG Group, which is viewed positively by investors and customers. In turn, it also makes us a more desirable employer to potential newcomers.

The PGNiG Group takes utmost care to fulfil its obligations towards employees and their families. These obligations, related chiefly to social welfare and healthcare, include:

- Organisation and co-financing of holidays for employees and their children, both in Poland and abroad;
- Financial assistance and material support for families experiencing economic hardship and health problems;
- Repayable housing assistance;
- Organisation and co-financing of a wide variety of recreation activities (sports, leisure and cultural activities);
- Subsidies of private healthcare services for employees and their family members.

Work placements and internships

PGNiG also runs an internship programme open to all those participating in the annual 'Win an Internship' contest and the 'Energy Academy' project. In 2012, the Group launched a training programme for students from technical universities interested in the oil and gas industry. It involves a number of initiatives, including work placements in exploration and production. While being an attractive way to gain professional experience and new skills and to learn more about working in the industry, the internships offered by PGNiG are also a chance to gain employment with the PGNiG Group. Companies of the PGNiG Group also provide apprenticeships to students and graduates from across Poland.

Headcount as at the end of 2013, by segment (persons)

	2013	2012	2011	2010
PGNiG Head Office	606	617	838	840
Exploration and Production	10,754	10,990	12,054	11,592
Trade and Storage	3,464	3,780	3,841	3,809
Distribution	13,050	13,255	13,865	13,881
Generation	1,066	1,069	-	-
Other Activities	1,990	2,327	2,185	2,296
Total	**30,930**	**32,038**	**32,783**	**32,418**

Recruitment

PGNiG gives preference to internal recruitment, which allows us to make full use of our employees' potential, and also motivate them to work more productively and develop their individual skills. External recruitment is carried out only when specialist expertise not available in-house is needed.

Recruitment is split into the following stages:

1. Applicant selection – at this stage, the recruitment specialists review submitted job applications to ensure they comply with the requirements of the listed job vacancy.
2. Assessment testing – candidates with suitable professional profiles are then invited to take an assessment test, whose nature depends on the skills required for a given position. Typical tests include:
   - competency check;
   - on the job assessment tasks;
   - language assessment;
   - analytical thinking and logical reasoning;
   - problem-solving.
3. Job interview – candidates who perform well in the testing phase are invited for interview. The interviewers typically question candidates on professional contexts where they have previously used the relevant skills and expertise. This stage is also used to appraise the candidate's soft skills required in the job. Our competency and behaviour tests are a very useful tool in the assessment process. The interview is also a chance to get to know the candidate, and gives the interviewee the chance to ask questions or clarify doubts related to the future position.
4. Interview with a manager – candidates who reach this stage attend interview with the manager of the team offering the vacancy. Following this, a final decision is made on one of the candidates.
5. Recruitment closing – all candidates getting to the second and further stages of the recruitment process receive feedback on their performance.

Internal communications

Team spirit and cooperation between PGNiG Group employees are essential elements in the productivity and quality of their work. The everyday work of the Group's employees is supported by both conventional and electronic means of communication. As part of our communications initiatives, employees receive a daily online newsletter highlighting the most important developments in the PGNiG Group, as well as *MaGAZyn*, an internal bulletin also devoted to key Group developments. We have also implemented a system based on 'communicators' – individuals responsible for disseminating information to employees across the Group.

Our Intranet site, PGNiG Info, is always up-to-date on Company matters and is an essential source of data and services for personnel using the PGNiG network. Through our Corporate Intranet, employees can communicate with each other on different authorisation levels and access important information on their work. PGNiG's Intranet also features Lotus sametime – an instant messaging service for rapid exchange of information. Sametime means users can communicate with each other in real time across the whole network. It is a tool for use in group meetings, conference calls and collaborative projects in teams working together around the Company. The Intranet also has its own search engine speeding access to information and providing a search facility on corporate website documents and data, and on the Web as a whole. Most interestingly, employees can, according to need and preference, use dedicated online tools to access their branch portals or the Lotus email, view the Company calendar and access the sametime platform. There is also a bulletin board which can be used, for example, for items employees wish to buy, sell or exchange. The system of internal communications within the Group, including the Intranet, is undergoing constant upgrades.

Code of Ethics and appointment of the Ethics Officer

The values we have recognised as fundamental to the development of the Code of Ethics for PGNiG Employees include credibility, accountability, partnership and quality. These values, now integral to our Code, have always been important to our personnel as they form an integral part of the miners' ethos, which has shaped our tradition and continues to be a valued part of PGNiG's activities. Accordingly, the Ethics Programme Management System was an important step in the creation of a sustainable and competitive business, ensuring market success as well as personal development and satisfaction of employees.

The appointment of an Ethics Officer and implementation of the Ethics Programme Management System at PGNiG were provided for in its Strategy of Sustainable Development and Responsible Business. Internal consultations were held with PGNiG management staff on the details of the Code of Ethics, and there were also external consultations with academics, NGOs and public authorities. Their input was taken into account in preparation of the final version of the Code. A dedicated 24/7 'ethics hotline' was launched for PGNiG employees to ask questions or report concerns on the rules of ethical conduct, and a direct email address was also made available for this purpose. The result of our efforts was the approved PGNiG Code of Ethics and PGNiG Ethics Programme Management System, the appointment of a PGNiG Ethics Officer at the Head Office, and the appointment of an Ethics Committee consisting of department heads directly involved in ethics issues (HR Management, the Sustainable Development and Responsible Business Officer, etc.). The Code of Ethics and Ethics Programme Management System were then disseminated to the PGNiG Group as a whole.

Employment restructuring

Since January 2009, the Group has operated the 'Programme for Workforce Streamlining and Redundancy Payments to PGNiG Group Employees for 2009–2011 (Stage 3)'. The Programme will expire on December 31st 2015, unless one of the Parties (PGNiG or the employees) terminates it prior to that date. Its operation is based on the 'stand-by' principle, meaning that it may be implemented in extraordinary circumstances and requires all companies to follow a uniform procedure across the Group.

The redundancy payments under the Programme are financed from PGNiG's Central Restructuring Fund capital reserve or other funds established by PGNiG Group companies.

In 2013, the Programme was implemented at three companies of the PGNiG Group, namely:

- PGNiG Technologie SA – for 138 employees,
- Geofizyka Kraków SA – for 46 employees,
- Exalo Drilling SA – for 22 employees.

In total, the Programme covered 206 employees. The one-off redundancy payments to employees made redundant at those companies were financed from PGNiG's Central Restructuring Fund.

Sports and recreation activities

For the last ten years, the SportGas Oil and Gas Association for Sport and Tourism has been actively involved in initiatives to promote sports and physical activity. Comprising a growing number of disciplines (including tennis, football, badminton, shooting, volleyball, bridge, basketball, angling, squash, skiing and running), the Association organises professional games and tournaments, as well as special show events. What is more, the Association is open not only to PGNiG Group employees, but also other workers in the energy sector.

In 2013, over 300 SportGas members were able to develop skills and interests through a number of initiatives promoting a healthy lifestyle and fair play, including competitive business leagues, cross-industry/cross-country tournaments and holiday training camps abroad. For more information, see www.sportgas.pl.

Performance assessment

In 2011 we launched the PGNiG Performance Assessment System, which was developed as part of a broader initiative, the 'Implementation of the New Group Management Model', under the 'PGNiG Group's Value Based Management (VBM) Programme for 2009-2015'. In 2012, the Performance Assessment System was modified to bring it more into line with the dynamic situation in the current marketplace. Revisions were made both to the principles of assessment and the software supporting the assessment process, to more effectively support management in achieving their strategic objectives. Assessment of every Company employee is conducted on a quarterly basis, based on a set of standardised criteria across all Branches. In the process, particular emphasis is placed on targets assigned to individual employees, which are also linked to the strategic objectives of the organisation. During the assessment process, the manager and employee discuss these goals and expectations, and identify areas to work on with the support of a supervisor. This allows employees to discuss the needs and challenges associated with their positions, and is a source of feedback on both their achievements and potential issues in their professional development. Key features of the system implemented at PGNiG are clarity and transparency of its criteria, simplicity and universality, and the cyclical nature of the assessment process.

In 2013, the Performance Assessment System was again revised. The frequency of assessment was modified and the requirement to assign tasks to additional employees was lifted. At present, the assessment takes place twice a year.

PGNiG's Performance Assessment System complements its Management By Objectives (MBO) programme, designed for top management. A comprehensive assessment of how the organisation's strategic objectives are implemented is also the basis of how employees involved in this process are assessed and remunerated. The System is designed to reinforce a sense of responsibility for the PGNiG Group's performance among its employees.

Workplace Safety

An employer who conscientiously invests in occupational health and safety knows that by doing so it not only prevents accidents, work-related diseases and major industrial incidents, but also enhances the company image with positive impact on its success.

An employer has a duty to protect the life and health of its employees using the latest in science and technology, in areas such as ergonomics, sociology, psychology, occupational health and general good practice.

The issue of occupational health and safety is a humanitarian as well as an economic one. In the course of their work, employees are exposed to risks arising not only from the work itself, but also from the environment in which they operate. Consequently, better working conditions create the feeling among employees that their work is less arduous, making the working day a more productive one.

Most important, however, is to determine the seriousness of threats to health and safety in the workplace and whether they are being adequately dealt with. For this purpose, we have the tool of workplace risk assessment. On the basis of the assessment, both protective and preventive measures are taken ranging from collective and personal protection, modernisation of plant and equipment, renovation and modernisation of premises, to specialist training, staff health check-ups, implementation of occupational health and safety management systems, to development of instructions and procedures, all for the purpose of elimination or mitigation of risks.

In economic terms, OHS solutions implemented following a risk assessment have a positive effect on diverse elements, such as productivity, output, insurance premiums and workplace accident costs.

Furthermore, OHS activities are not only subject to basic internal regulations, but also to specific laws such as the Geological and Mining Law, the Construction Law and also the Act on Mine Rescue Operations, as well as legislation on fire safety, environmental protection and more besides. Knowledge of these can ensure the best possible working conditions and their continuous improvement.

All these laws and regulations are reflected in the OHS policy work carried out at the PGNiG Group by both the Management Board and individual employees.

In addition, to meet the highest international standards in winning new contracts and business partners and improving Company ties with foreign entities, in December 2011 the Management Board of PGNiG implemented, through the adoption of its Health, safety and Environment (HSE) Policy, the HSE Operator System. The system safeguards the health of workers, ensures safe working conditions, and helps protect the environment. Although there is no legal obligation to implement the HSE System, PGNiG has done so voluntarily beyond its obligations and duties. It is of utmost importance to PGNiG to ensure the highest safety levels for employees, local communities and the environment, through safe operation and minimisation of risk at every step. The HSE system we have implemented is based on best practices of the petroleum industry, following guidelines laid down by the OGP (International Association of Oil & Gas Producers) and the E&P Forum (Exploration & Production Forum). The main objective of our new HSE Operator System is to build a culture of safety and awareness amongst our employees.

Environmental protection

As environmental impact is inherent in the PGNiG Group companies' operations, their efforts are focused on managing work processes in an effective, efficient and environmentally friendly manner.


IN 2013, THE COMPANY CARRIED OUT RECLAMATION
WORK ON PROPERTIES WITH A TOTAL AREA OF
665 m^2

Environmental impact

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

All companies of the PGNiG Group seek to minimise the negative impact of their operations. To that end, they follow the applicable Polish and EU laws, as well as internal standards and regulations. The implementation and certification of environmental management systems at most of the PGNiG branches and Group companies has delivered a number of notable environmental benefits. Our efforts are, in the first place, geared towards limiting our negative environmental impact and monitoring the processes on an ongoing basis. These rules are followed by the Group companies not only in their operations in Poland, but also in their exploration work abroad. Environment-oriented projects are undertaken across all areas of the PGNiG Group's business – from hydrocarbon production to distribution to storage.

In addition, PGNiG strives to educate its employees in environmental protection, by organising training courses and conferences at which key issues related to environmental protection are discussed. Such courses and conferences are also aimed at defining a common range of tasks to be implemented in the future, primarily those relating to the CSR Strategy goals for the Group.

Well abandonment

Pursuant to the Polish Geological and Mining Law, PGNiG is required to properly plug and abandon depleted wells and extraction pits, eliminate the danger, remedy any damage caused by mineral extraction, and restore the land to its original condition.

The plugging of wells and pits prevents leakage of crude oil and natural gas to the surface and to water courses. Furthermore, if gas wells remain unplugged, there is a risk that escaping gas could accumulate, posing a fire hazard. In 2013, a total of 25 wells and 18 extraction pits were abandoned.

Land reclamation and evaluation of non-producing assets

Pursuant to the Environmental Protection Law, PGNiG conducts evaluation and land reclamation work in areas which have become polluted in the course of its earlier operations (including those related to traditional gas production), with a view to restoring them to condition prescribed by environmental quality standards.

In 2013, the Company carried out reclamation work on properties with a total area of 665 m² in Kargowa, Radków and Łabiszyn, and commenced reclamation work on a property in Warsaw.
The land reclamation work involves decommissioning of tar tanks and removal of local soil contamination (most often found near the tanks) through their extraction and neutralisation by operators contracted by the Company.

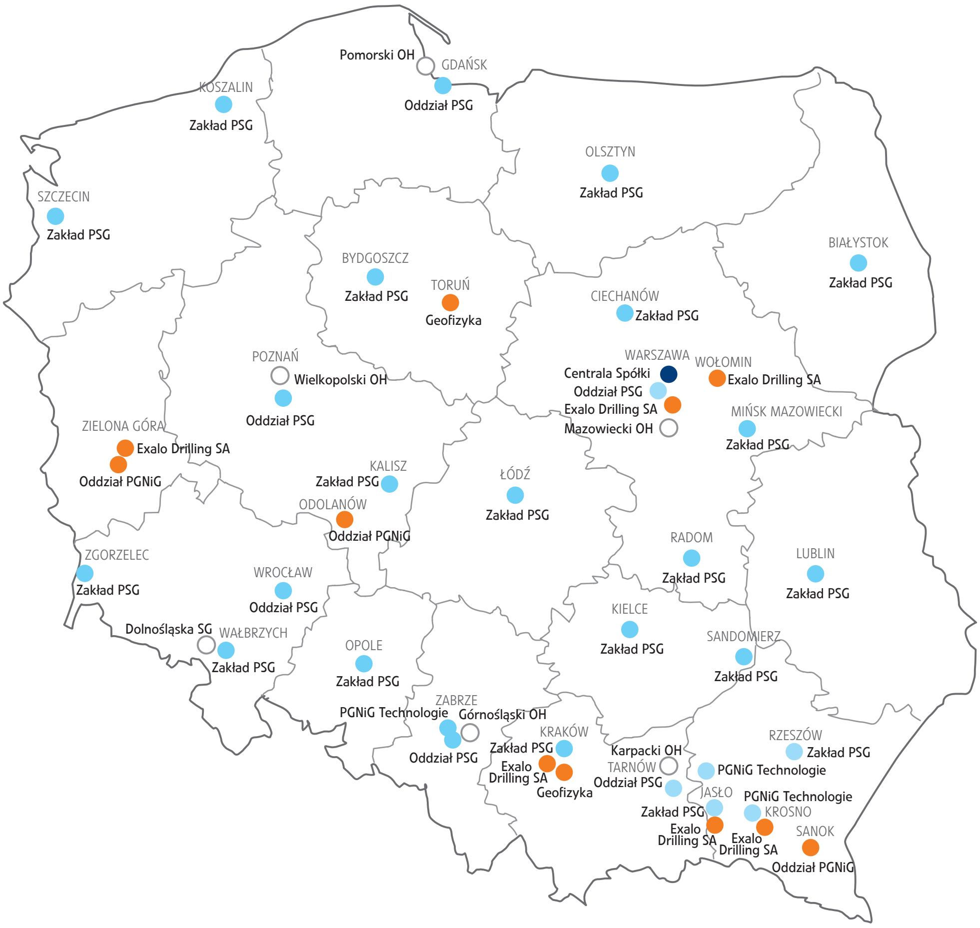
In 2013, work was performed to analyse the soil environment of a property in Działdowo.

PGNiG also monitored the soil-water environment of the reclaimed landfill site in Zabrze-Biskupice, and a property in Zabrze.

Carbon emissions trading scheme

In 2013, CO_2 emissions from our facilities covered by the CO_2 emissions trading scheme (EU ETS) reached 6,082,799 Mg. In this trading period, installations covered by the scheme included PGNiG TERMIKA SA (the Siekierki, Żerań and Pruszków CHP plants and the Kawęczyn and Wola heating plants), the Zielona Góra Branch and the Odolanów Branch, the Mogilno Underground Gas Storage Cavern Facility and the LMG oil and gas production facility.

Environmental Management Systems in the PGNiG Group



PGNiG Group entities where has been implemented:

- ZSZ ISO 14001 and HSE
- ZSZ ISO and HSE
- ZSZ ISO
- PGNiG Group entities where no system has been implemented

Use of chemicals under EU requirements

In 2013, in accordance with the regulations of the European Parliament and of the Council (EC) on safe use of chemicals (REACH) and on the classification, labelling and packaging of substances and mixtures (CLP), PGNiG supervised compliance with these regulations by its subcontractors using chemical substances for well treatments.

The Company also drew up contractual provisions, to be included in its hydraulic fracturing agreements, concerning the use of chemical substances and mixtures to facilitate the control of related hazards and ensure compliance with all requirements imposed by Polish and EU laws.

Environmental Management System

The Environmental Management System operates on the basis of significant environmental aspects, which directly affect other elements of the system – environmental policy, tasks and objectives, monitoring and measurement, as well as operational control.

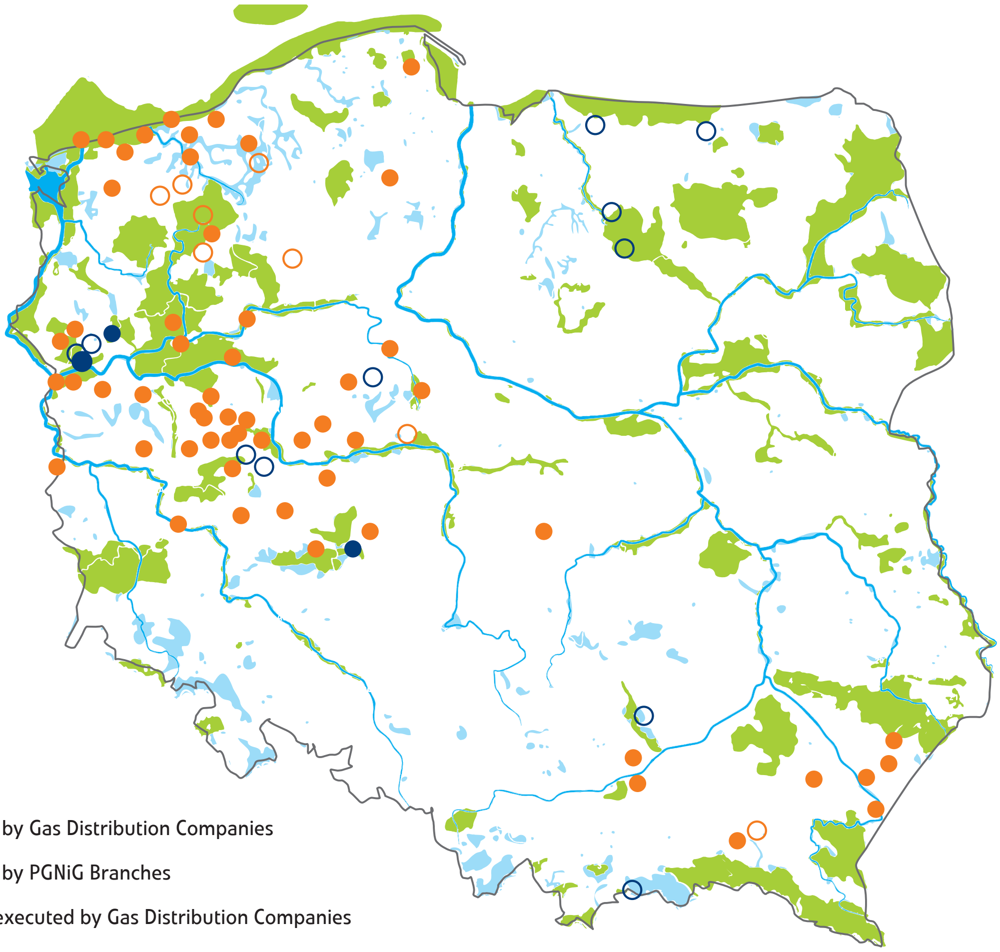
Most PGNiG companies have implemented, certificated and maintain the PN-EN ISO 14001-based Environmental Management System (EMS), which is frequently integrated with other systems, such as quality assurance, OHS and information security management systems. The remaining companies have begun preparations to implement a system-based management model.

In 2013, PGNiG completed the first stage of the implementation of an Environmental Management System at its trading divisions. As part of the work, an environmental review was performed.

CO_2 emissions [Mg] in 2013

Facility name	National Allocation Plan No.	Emission allowances [Mg]	Actual emissions in 2013 [Mg]	Remaining amount [Mg]
Mogilno Underground Gas Storage Cavern Facility	PL-898-08	8,532	5,354	3,179
PGNiG Odolanów Branch	PL-562-05	8,589	11,607	-3,018
PGNiG Odolanów Branch	PL-950-08	21,760	25,885	-4,125
LMG Oil and Gas Production Facility	PL-1070-13	0	14,381	-14,381
PGNiG Zielona Góra Branch, Dębno Oil and Gas Production Facility	PL-563-05	22,244	27,734	-5,490
Total		**61,125**	**84,961**	**-23,836**

Investment projects of the PGNiG Group in protected areas



- Natura 2000 sites
- Linear investment projects executed by Gas Distribution Companies
- Linear investment projects executed by PGNiG Branches
- Single-location investment projects executed by Gas Distribution Companies
- Single-location investment projects executed by PGNiG Branches

Natura 2000

When selecting a site for a project, we take into consideration the presence of any protected areas, Natura 2000 sites or other areas of high environmental value, which, on one hand, require special procedures during the execution phase or compensatory measures, and, on the other hand, may constrain our plans.

When undertaking an investment project, companies of the PGNiG Group act in compliance with relevant regulations and strive to minimise the project's impact on the environment and on protected species and habitats within Natura 2000 sites. If it is required under applicable regulations or by the authority qualified to issue a decision on environmental conditions, before the commencement of a project, a report on the assessment of its impact on the environment and the Natura 2000 site is prepared.

Thanks to advanced technological solutions and mitigation measures, we can execute projects within Natura 2000 sites or in their vicinity without any adverse impact on the species and habitats protected there.

Biomass supplies

In an effort to fulfil the requirements of Directive 2009/28/EC on the promotion of the use of energy from renewable sources and use of biomass other than forest biomass, that is biomass from plantations and energy plant crops at commercial power plants (Regulation of the Minister of Economy dated October 18th 2012), PGNiG TERMIKA SA procures fuel under long-term contracts for the supply of biomass from energy willow plantations. Currently, the company procures biomass from plantations with a total area of ca. 386 ha. Thanks to the use of biomass as a fuel, in 2013 CO_2 emissions were reduced by 104,834 Mg.

The PGNiG Group

Structure of the Group

As at the end of 2013, the PGNiG Group comprised PGNiG (the parent) and 30 production and service companies, including:

- 22 direct subsidiaries, and
- 8 indirect subsidiaries.

Changes in the Group structure

- On January 2nd 2013, the Extraordinary General Meeting of BUD-GAZ PPUH Sp. z o.o. resolved to wind up the company and place it in liquidation.
- On February 1st 2013, a merger of PGNiG Poszukiwania SA (now Exalo Drilling SA) with PNiG Kraków SA, PNiG NAFTA SA, PNiG Jasło SA, PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o. was effected and registered with the National Court Register. PGNiG Poszukiwania SA's name was changed to Exalo Drilling SA, and the change was registered with the National Court Register on February 6th 2013.
- On May 23rd 2013, an amendment to the Articles of Association of PGNiG Norway AS, involving a change of the company name to PGNiG Upstream International AS, was registered with the National Court Register.
- On April 15th 2013, INVESTGAS SA acquired 307 shares in Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o., following which INVESTGAS SA's interest in the company's share capital increased from 85% to 85.51%.
- On May 14th 2013, the General Meeting of Biogazownia Ostrowiec Sp. z o.o. resolved to wind up the company and place it in liquidation.
- On July 1st 2013, a merger was effected pursuant to Art. 492.1.1 of the Commercial Companies Code between PGNiG SPV 4 Sp. z o.o. (the acquiring company) and six gas distribution companies (target companies), i.e. Mazowiecka Spółka Gazownictwa Sp. z o.o., Wielkopolska Spółka Gazownictwa Sp. z o.o., Karpacka Spółka Gazownictwa Sp. z o.o., Pomorska Spółka Gazownictwa Sp. z o.o., Dolnośląska Spółka Gazownictwa Sp. z o.o. and Górnośląska Spółka Gazownictwa Sp. z o.o. As a result, the share capital of PGNiG SPV 4 Sp. z o.o. increased by PLN 10,453,211,550, to PLN 10,454,206,550. The merger and the share capital increase were registered with the National Court Register on July 1st 2013. PGNiG SPV 4 Sp. z o.o.'s name was changed to Polska Spółka Gazownictwa Sp. z o.o., and the change was registered with the National Court Register on September 12th 2013.

Consolidated Companies of the PGNiG Group

PGNiG SA

Exploration and Production

- Exalo Drilling Group 100%
  - Oil Tech International F.Z.E. 100%
  - Poltava Services LLC 99%
- Geofizyka Kraków SA 100%
- Geofizyka Toruń SA 100%
- PGNiG Upstream International AS 100%
- POGC Libya B.V. 100%

Trade and Storage

- Operator Systemu Magazynowania Sp. z o.o. 100%
- PGNiG Sales&Trading Group 100%
  - XOOL GmbH 100%
- PGNiG Finance AB 100%

Distribution

- Polska Spółka Gazownictwa Group 100%
  - Powiśle Park Sp. z o.o. 100%
  - „GAZ" Sp. z o.o. 80%

Generation

- PGNiG Termika SA 99.99%

Other Activities

- Geovita SA 100%
- PGNiG Technologie SA 100%
- PGNiG Serwis Sp. z o.o. 100%
- BSiPG „Gazoprojekt" SA* 75%

* PGNiG has the right to appoint the majority of the company's Supervisory Board members. PGNiG holds a direct 22.50% interest in the share capital of BSiPG Gazoprojekt SA and a 52.50% indirect interest through PGNiG Technologie SA.

- On July 1st 2013, a merger was effected pursuant to Art. 492.1.1 of the Commercial Companies Code between Operator Systemu Magazynowania Sp. z o.o. (the acquiring company) and INVESTGAS SA (the target company). As a result, the share capital of Operator Systemu Magazynowania Sp. z o.o. was increased by PLN 10,290,000, to PLN 15,290,000. The merger and the share capital increase were registered with the National Court Register on July 1st 2013.
- On July 23rd 2013, a merger was effected pursuant to Art. 492.1.1 of the Commercial Companies Code between PGNiG (the acquiring company) and PGNiG Energia SA (the target company), without increasing the acquiring company's share capital. The merger was registered with the National Court Register on July 23rd 2013.
- On August 22nd 2013, the Extraordinary General Meeting of Polskie Elektrownie Gazowe Sp. z o.o. resolved to wind up the company and place it in liquidation.
- On October 31st 2013, a new company under the name of PGNiG Obrót Detaliczny Sp. z o.o. was established. The company's share capital is PLN 1,000,000 and comprises 10,000 shares with a par value PLN 100 per share. PGNiG holds a 100% equity interest in PGNiG Obrót Detaliczny Sp. z o.o. The new company was registered with the National Court Register on December 3rd 2013.
- On November 21st 2013, a new company under the name of PGNiG SPV 5 Sp. z o.o. was established. PGNiG holds a 100% interest in PGNiG SPV 5 Sp. z o.o.'s share capital (PLN 250,000; 2,500 shares with a par value of PLN 100 per share). The new company was registered with the National Court Register on December 13th 2013.
- On November 21st 2013, a new company under the name of PGNiG SPV 6 Sp. z o.o. was established. PGNiG holds a 100% interest in PGNiG SPV 6 Sp. z o.o.'s share capital (PLN 250,000; 2,500 shares with a par value of PLN 100 per share). The company was registered with the National Court Register on December 11th 2013.
- On November 21st 2013, a new company under the name of PGNiG SPV 7 Sp. z o.o. was established. PGNiG holds a 100% interest in PGNiG SPV 7 Sp. z o.o.'s share capital (PLN 250,000; 2,500 shares with a par value of PLN 100 per share). The company was registered with the National Court Register on December 9th 2013.

Material changes in the PGNiG Group structure in Q1 2014

On January 20th 2014, GEOFIZYKA Toruń SA reported that its subsidiary, PT Geofizyka Toruń Indonezja LLC w likwidacji (in liquidation) was deleted from the business register after the company liquidation process had been completed.

Exploration and Production

Geofizyka Kraków

Geofizyka Kraków SA offers geophysical services (2D/3D vibroseis and dynamite data acquisition), microseismic surveys, well logging data processing and interpretation, measurements, special well interventions, interpretations, perforating and downhole seismic surveys.

In 2013, Geofizyka Kraków SA generated revenue of PLN 153 m, 76% of which was derived from services to customers in Poland, mainly PGNiG Group companies. The company performed 2D and 3D seismic services, seismic data processing and interpretation, and well logging. Geofizyka Kraków SA also provided 2D seismic services to Orlen Upstream Sp. z o.o. and Linc Energy Poland Sp. z o.o., and carried out microseismic surveys for the AGH University of Science and Technology in Kraków. On foreign markets, the company provided 2D and 3D seismic services exclusively to third-party customers such as OMV Exploration & Production GmbH in Austria, Hillerod Varme A/S in Denmark, VP Georgia LLC in Georgia, PROROGO s.r.o. in Slovakia, MOL Oman Ltd in Oman, and performed microseismic surveys for CGG Veritas Services SA of France. Sales of services to third-party customers outside Poland accounted for 24% of the Company's total revenue.

In 2014 in Poland, Geofizyka Kraków will provide 2D and 3D seismic services, seismic data processing and interpretation, and well logging for PGNiG Group companies and other domestic customers. As part of its foreign operations, the company will continue seismic acquisition for MOL Oman Ltd in Oman, and seismic data processing for customers such as The Earth and Marine Research Administration and CDP Consulting in France.

	2013	Unit of measure
Revenue	153	PLN m
Net profit/(loss)	-9	PLN m
Equity	78	PLN m
Total assets	218	PLN m
Workforce as at December 31st	766	persons

Geofizyka Toruń

Geofizyka Toruń SA provides a wide range of integrated geophysical services supporting exploration for conventional and unconventional oil and gas, including acquisition, processing and interpretation of seismic data, and also well logging and data interpretation. The company also offers comprehensive geological, hydrogeological and environmental protection services, such as geophysical surveys and geological drilling work.

In 2013, Geofizyka Toruń generated revenue of PLN 339 m. Services to customers outside the PGNiG Group accounted for 58% of total revenue.

On foreign markets, the company provided services to third-party customers. These included acquisition of 2D and 3D seismic data in India, Germany, and Hungary for companies such as Oil India Limited, CEP Central European Petroleum GmbH, GDF Suez E & P Deutschland GmbH, and MOL Hungarian Oil and Gas Public Limited Company.

On the domestic market, the company carried out geophysical work for PGNiG Group companies, as well as FX Energy Poland Sp. z o.o., Orlen Upstream Sp. z o.o., and Chevron Polska Energy Resources Sp. z o.o. The services provided to the PGNiG Group included acquisition, processing and interpretation of seismic data, and well logging.

In 2014, Geofizyka Toruń will continue to work on the acquisition, processing and interpretation of 2D and 3D seismic data and well logging, including data interpretation. On the domestic market, the company carries out geophysical work for third parties, including FX Energy Poland Sp. z o.o., Orlen Upstream Sp. z o.o., Chevron Polska Energy Resources Sp. z o.o., and for PGNiG. On foreign markets, the company will continue data acquisition projects in Germany and Hungary. In addition, the Company also expects to execute a new project involving seismic acquisition work in Tunisia.

	2013	Unit of measure
Revenue	339	PLN m
Net profit/(loss)	21	PLN m
Equity	204	PLN m
Total assets	280	PLN m
Workforce as at December 31st	1,732	persons

Exalo Drilling Group

The Exalo Drilling Group comprises Exalo Drilling SA and its subsidiaries: Oil Tech International-F.Z.E. and Poltava Services LLC.

Exalo Drilling SA was established as a special purpose vehicle under the name of PGNiG Poszukiwania SA, which was subsequently merged with five upstream companies of the PGNiG Group. At present, it is a leading provider of onshore drilling and oilfield services in Central and Eastern Europe.

In 2013, the company was engaged in drilling exploration, appraisal, research, production and ventilation boreholes, as well as the performance of specialist well services and geophysical services, mainly for third-party customers.

Exploration, appraisal and research wells were drilled in search for hydrocarbons, copper, and geothermal waters. Drilling services were rendered in Poland and abroad for both the PGNiG Group and for third-party customers. On the domestic market, Exalo Drilling worked for PGNiG, FX Energy Poland Sp. z o.o., Orlen Upstream Sp. z o.o., Chevron Polska Energy Resources Sp. z o.o., Wisent Oil & Gas Sp. z o.o., KGHM Polska Miedź SA, Zielona Góra Copper Sp. z o.o., Mozów Copper Sp. z o.o., and PEC Geotermia Podhalańska SA.

On foreign markets, drilling was conducted in exploration for conventional hydrocarbons for third-party customers in Georgia, Egypt, Ukraine and Lithuania, and for the PGNiG Group in Libya and Egypt. Further, the company executed contracts for production well drilling operations, which were primarily performed abroad and for third-party customers – mainly in Africa (Uganda, Ethiopia, Egypt), Asia (Kazakhstan, Georgia, Pakistan), and Europe (Ukraine).

Exalo Drilling also performed specialist well services consisting of reservoir measurements, application of enhanced recovery techniques, mud, cementing and datawell services, major remedial treatments, workovers and well abandonment services. The PGNiG Group was the company’s main customer for well services. In Poland, the main third-party customer was PEC Geotermia Podhalańska SA, for which cementing services were performed. Services provided abroad included application of enhanced recovery techniques (Russia), as well as remedial treatments and well interventions (the Czech Republic).

	2013	Unit of measure
Revenue	1,107	PLN m
Net profit/(loss)	-11	PLN m
Equity	532	PLN m
Total assets	1,330	PLN m
Workforce as at December 31st	3,952	persons

PGNiG Upstream International

PGNiG Upstream International AS (formerly PGNiG Norway AS) was established for the purpose of the Norwegian Continental Shelf project, the aim of which is to provide access to new recoverable reserves of oil and gas outside Poland. The principal business objective of PGNiG Upstream International is the exploration for and production of crude oil and natural gas on the Norwegian Continental Shelf. The company has been pre-qualified by the Norwegian authorities as an operator.

On the Norwegian Continental Shelf, PGNiG Upstream International and its partners are implementing the Skarv/Snadd/Idun development project. PGNiG Upstream International holds a 12% interest in the licence. Other interest holders are British Petroleum Norge AS (operator, 24%), Statoil Petroleum AS (36%), and E.ON Ruhrgas Norge AS (28%).

On December 31st 2012, the Company and its partners launched the production of crude oil and natural gas from the Skarv and Idun fields (Skarv project) on the Norwegian Continental Shelf. Between January and October 2013, the field underwent start-up works, including well cleanout and testing, as well as bringing individual wells onstream. Following this phase, the field is being operated through a total of 16 wells. Hydrocarbons are produced using a new floating production, storage and offloading vessel (FPSO), which is moored in the vicinity of the field.

Moreover, in 2013 the company continued work on the development of the Snadd field and other exploration licence areas. Evaluation of the prospectivity of the PL599, PL600, PL646, and PL648S licences was also carried out.

	2013	Unit of measure
Revenue	1,124	PLN m
Net profit/(loss)	-25	PLN m
Equity	306	PLN m
Total assets	4,252	PLN m
Workforce as at December 31st	28	persons

POGC – Libya

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

In 2013, the company completed preparatory work and commenced the first round of drilling, which involved the drilling of four exploration wells. The first exploratory well yielded a natural gas discovery, which was recognised by the company's Libyan partner, National Oil Corporation. The drilling and production tests on the second well ended in December 2013. Also in 2013, the company completed preparatory work on the third well, while second-stage 3D seismic surveys originally scheduled for 2013 were postponed for future years.

Based on an analysis of the project's economics, and in particular:

- reassessment of the estimates of hydrocarbon resources of the Libyan licence;
- assessment of future capital expenditure on, and operating costs of, continued exploration work;
- changes in the project schedule;
- effects of the political situation in Libya and uncertainty concerning the extension of the licence, due to expire in September 2014;

as at December 31st 2013 PGNiG decided to recognise a one-off impairment loss on its interest and contributions to equity in POGC – Libya, and a provision for the outstanding licence obligations under the Murzuq project in Libya.

	2013	Unit of measure
Revenue	0	PLN m
Net profit/(loss)	-9	PLN m
Equity	353	PLN m
Total assets	376	PLN m
Workforce as at December 31st	69	persons

Trade and Storage

Operator Systemu Magazynowania

Operator Systemu Magazynowania Sp. z o.o. (OSM) was established on November 16th 2010 to ensure compliance with the requirements of Directive 2009/73/EC with respect to the legal separation of gas fuel storage functions from other types of business conducted by vertically integrated gas utilities. In May 2012, at the request of PGNiG, the President of the Energy Regulatory Office appointed OSM as Storage System Operator for gas fuels. The company was also granted a licence authorising it to store gas fuels in storage facilities, valid from June 1st 2012 through May 31st 2022.

In order to ensure equal treatment of customers, the storage services are provided based on the Rules of Provision of Storage Services and the Gas Fuel Storage Tariff.

In July 2013, OSM merged with INVESTIGAS. The reasoning behind the storage business reorganisation is to consolidate the Group's storage assets and technical and management capabilities within OSM Sp. z o.o., which will improve the operational efficiency of the Trade and Storage segment.

	2013	Unit of measure
Revenue	754	PLN m
Net profit/(loss)	16	PLN m
Equity	75	PLN m
Total assets	133	PLN m
Workforce as at December 31st	116	persons

PGNiG Sales & Trading Group

The PGNiG Sales & Trading Group comprises PGNiG Sales & Trading GmbH and its subsidiary XOOL GmbH. PGNiG Sales & Trading was established to trade on the international gas and electricity markets.

PGNiG Sales & Trading GmbH sold natural gas to end users, mainly on the German market. Its customers in Germany included households, small and medium-sized companies, institutional buyers, industrial buyers and gas trading companies. In Poland, the company sold gas to industrial buyers on DAF (delivery at frontier) terms.

PGNiG Sales & Trading GmbH also engaged in electricity trading in Germany on the EPEX Spot, EEX Power Derivatives and OTC markets. It also sold electricity to end users on the German market, including mainly small and medium-sized companies, as well as households.

	2013	Unit of measure
Revenue	3,693	PLN m
Net profit/(loss)	-3	PLN m
Equity	36	PLN m
Total assets	524	PLN m
Workforce as at December 31st	50	persons

Distribution

Polska Spółka Gazownictwa (PSG)

Until June 30th 2013, natural gas distribution was the business of the six gas distribution companies. On July 1st 2013, as a part of the Distribution segment consolidation process, PGNiG SPV 4 Sp. z o.o. acquired all assets of the six gas distribution companies, which were transformed into regional branches. The name of the company was then changed to Polska Spółka Gazownictwa Sp. z o.o.

PSG was appointed the Distribution System Operator and Natural Gas Liquefaction System Operator until December 31st 2030. The President of the Energy Regulatory Office also granted the company a licence to distribute gas fuel and a licence to liquefy natural gas and regasify LNG at LNG regasification plants until December 31st 2030.

In 2013, PSG continued with 18 projects involving the construction, extension and modernisation of its distribution networks, for which, in previous years, the gas distribution companies had concluded agreements on EU co-financing under the Infrastructure and Environment Operational Programme, and also pursued projects financed directly with its own funds.

The total volume of gas transmitted by PSG in the distribution network in 2013 was 9.8 bn m^3. The company provides services to approximately 6.8 m customers and in 2013 connected 70.6 ths new customers to the network.

In the coming years, Polska Spółka Gazownictwa Sp. z o.o. will focus on maintaining its market position and further increasing the volumes of transmitted gas by implementing the following measures:

- Expanding its gas infrastructure to enable the connection of new customers;
- Ensuring adequate transmission capacity and securing sources of gas supply for the gas distribution system;
- Upgrading high-, medium- and low-pressure networks;
- Deploying new LNG-based gas distribution systems;
- Improving the quality of customer service;
- Using EU funds to finance the extension of distribution systems.

	2013	Unit of measure
Revenue	4,250	PLN m
Net profit/(loss)	557	PLN m
Equity	11,001	PLN m
Total assets	14,402	PLN m
Length of network, excluding connections	122,691.0	km
Workforce as at December 31st	13,050	persons

Generation Segment

PGNiG Termika

PGNiG Termika SA is involved in the generation, distribution and sale of heat and electricity. The company also serves as the PGNiG Group's competence centre for heat and electricity generation and implementation of heat and power projects. Its main revenue sources are sales of heat, electricity, system services, and certificates of origin for energy. With the installed capacity of its generating assets at 4.8 GW of achieved thermal power and 1 GW of achieved electrical power, the company satisfies approximately 70% of the heat demand on the Warsaw metropolitan market. PGNiG Termika is also a producer and supplier of heat and the owner of heat sources and heat networks in Pruszków, Komorów and Piastów.

In 2013, PGNiG Termika generated revenue of PLN 2,062 m, chiefly from sales of electricity and heat to customers outside the PGNiG Group. Sales of heat and electricity accounted for 52% and 44% of the company's total revenue, respectively.

In 2013, PGNiG Termika sold 40,174.6 TJ of heat, mainly to Dalkia Warszawa SA (formerly Stołeczne Przedsiębiorstwo Energetyki Cieplnej SA), which purchased 97.3% of the heat generated by the company. In 2013, Dalkia Warszawa SA contracted 3.6 GW of PGNiG TERMIKA's heat generation capacity. The balance of heat produced was sold to local customers, mainly in Pruszków and the surrounding areas.

In 2013, PGNiG Termika sold 3,772.2 GWh of electricity. The company's key customers in 2013 were PGNiG and Alpiq Energy SE, whose aggregate share in the electricity sales volume was 99%. The company also sold electricity to smaller customers.

In 2013, PGNiG Termika sold property rights attached to certificates of origin for electricity produced by co-generation (red certificates), and generated from renewable sources (green certificates) on spot markets or under forward contracts. Certificates of origin for electricity were sold chiefly to PGNiG, RWE Polska, Obrót Axpo Trading, and TAURON Polska Energia SA, as well as on the Polish Power Exchange.

In 2014, PGNiG Termika will be looking to develop its heating distribution system, both in partnership with Dalkia Warszawa SA and on its own, by entering into heat sale contracts directly with end users on a third-party-access (TPA) basis.

In 2014, following the expiry of the contracts with Alpiq Energy SE, PGNiG will become the key customer for electricity generated at PGNiG Termika. PGNiG's share in the PGNiG Termika electricity sales volume will be approximately 99%.

	2013	Unit of measure
Revenue	2,062	PLN m
Net profit/(loss)	17	PLN m
Equity	1,601	PLN m
Total assets	4,144	PLN m
Workforce as at December 31st	1,066	persons

Other activities

PGNiG Technologie

PGNiG Technologie SA delivers specialist construction and assembly services, including the construction of transmission and distribution pipelines, field development, construction of crude oil and natural gas production facilities, and construction and expansion of underground gas storage facilities. The company's range of services also includes the manufacture of field equipment and rig components, as well as the manufacture and repair of equipment for the coal mining industry.

In 2013, PGNiG Technologie posted revenue of PLN 352 m, of which 37% was revenue derived from sales to PGNiG Group companies. The Company provided construction and assembly services to OGP GAZ-System SA and PGNiG, involving construction of high-pressure gas pipelines, redevelopment of natural gas storage facilities, and development of natural gas and crude oil deposits. The key customer for the company's services was OGP GAZ-System SA, accounting for 44% of its total revenue.

For PGNiG Group companies, PGNiG Technologie SA also manufactured drilling equipment, including surface pressure equipment, heads, casing heads and spare parts for production equipment. As part of projects for third-party customers, the company constructed high- and medium-pressure gas pipelines, manufactured equipment and spare parts for drilling rigs and drillships, and performed repairs of coal mining equipment.

In 2014 and subsequent years, the company intends to focus on the further development of its current operating segments.

Poland will continue to be the company's largest market for construction and assembly work, but in the near future PGNiG Technologie will be looking for a partner in neighbouring markets, to more actively and successfully secure new contracts and realise the market opportunities related to planned investments in natural gas storage facilities (Ukraine, Belarus, Lithuania, Latvia, Czech Republic) and pipelines in Central and Eastern Europe (Czech Republic, Slovakia, Hungary, Croatia and Lithuania).

Production of equipment for the oil and gas industry will continue to be the manufacturing segment's core business. The company plans to expand the production capacities to increase current output, and to launch the production of new equipment, while also substantially improving process efficiency. Furthermore, PGNiG Technologie intends to diversify its product mix with services related to gas pipeline and power grid maintenance.

The company's key projects executed in 2014 will include the construction of 175.2 km of DN700 high-pressure gas pipeline from Rembelszczyzna to Gustorzyn, 58 km of the Szczecin-Gdańsk gas pipeline (Phase I – section from Płoty to Karlino), and construction of the Jeleniów II Gas Compressor Station for OGP Gaz-System SA.

The company intends to maintain its market position in the manufacturing of drilling equipment, including surface equipment for conventional and unconventional deposits, drilling platforms, and equipment for oil and gas production facilities.

	2013	Unit of measure
Revenue	352	PLN m
Net profit/(loss)	-21	PLN m
Equity	141	PLN m
Total assets	346	PLN m
Workforce as at December 31st	1,334	persons

Gazoprojekt

Biuro Studiów i Projektów Gazownictwa Gazoprojekt SA offers comprehensive design services for gas production, storage, transmission and distribution projects, and for gas system stations and switching stations. The company's shareholders are PGNiG Technologie and PGNiG, holding 52.5% and 22.5% of its share capital, respectively, while 25% of the Gazoprojekt shares are held by company employees.

In 2013, Gazoprojekt reported revenue of PLN 61 m, with services performed for PGNiG Group companies accounting for nearly 55% of the figure. As part of the services, the company acted as general contractor for gas pipeline construction projects, and prepared preliminary and project design documentation for such facilities.

In 2014, the company plans to execute its current contracts, the largest of which include the continuation of work on design documentation for the Zdzieszowice – Wrocław pipeline construction project, for the Gdańsk oil terminal, and for other projects involving construction of gas pipelines and service lines. In the area of general contractor services, the company will continue to work on the construction of the Rembelszczyzna-Gustorzyn gas pipeline and the Sękocin Nowy metering station, as well as on the repair of the Białołęka gas pipeline crossing under the Wisła.

	2013	Unit of measure
Revenue	61	PLN m
Net profit/(loss)	0	PLN m
Equity	35	PLN m
Total assets	61	PLN m
Workforce as at December 31st	219	persons

Geovita

Geovita SA offers accommodation and catering services in Poland, through 11 of its own facilities and three hotels under its management. The company's facilities form a network of recreational, training and spa centres. They are located either on the coast, in mountain areas or in the central part of Poland. The company offers its services to Polish and foreign customers.

In 2013, Geovita recorded revenue of PLN 40 m. The services were mainly provided to third-party customers, with revenue from this customer group accounting for 86% of the total revenue figure.

In 2013, the Management Board launched a process to sell Geovita.

	2013	Unit of measure
Revenue	40	PLN m
Net profit/(loss)	-11	PLN m
Equity	68	PLN m
Total assets	87	PLN m
Workforce as at December 31st	328	persons

Consolidated Financial Statements for the Year 2013

Complete financial statement has been published at www.pgnig.pl.

Opinion of the Independent Auditor

To the Shareholders and Supervisory Board of
Polskie Górnictwo Naftowe i Gazownictwo S.A.

We have audited the accompanying consolidated financial statements of Capital Group PGNiG, seated in Warsaw at M. Kasprzaka 24 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility

Management of the Parent Entity is responsible for preparation and fair presentation of these consolidated financial statements in accordance with in accordance with International Financial Reporting Standards, as adopted by European Union the requirements for issuers of securities admitted to trading on an official stock-exchange listing market and other applicable regulations and preparation of the Report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, No. 330 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the Report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and in matters not regulated by the national standards on auditing, when determining the detailed methodology for the planning and performing the audit and if in doubt - International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and the accounting records from which they are derived are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of PGNiG Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2013 and its financial performance and its cash flows for the year then, in accordance with International Accounting Standards, International Financial Reporting Standards as adopted by the European Union and related interpretations issued in form of regulation of European Commission and to the extent not regulated by those standards – in accordance the Accounting Act and related bylaws, the requirements for issuers of securities admitted to trading on an official stock-exchange listing market, are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act, we also report that the Report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the consolidated financial statements.

Signed on the Polish original

Mariusz Kuciński
Certified Auditor No. 9802
Key Certified Auditor On behalf of PKF Consult Sp. z o.o. registration number 477
6/1B Orzycka Street
02-695 Warsaw

Warsaw, 19 February 2014

Report supplementing the auditor's opinion on the consolidated financial statements of Capital Group PGNiG seated in Warsaw for the financial year ended 31 December 2013

1. General

1.1. General information about the Group

1.1.1. Name of the Group

Capital Group PGNiG

1.1.2. Registered office of the Parent Company of the Group

M. Kasprzaka 25 Street, Warsaw

1.1.3. Registration of the Parent Company in the National Court Register

Registration court: District Court in Warsaw, XII Commercial Department of the National Court Register

Date: 14.11.2001

Registration number: KRS 59492

REGON: 012216736

NIP: 525-000-80-28

1.1.4. Share capital structure of the Parent Company

At 31.12.2013 the share capital of the Parent Company in amount of 5,900,000,000.00 was divided as follows:

Name of the Shareholder	Number of shares	Voiting rights (%)	Nominal value	Percentage of shares
State Treasury	4 271 740 477	72,4%	4 271 740,5	72,4%
Others< 5 %	1 628 259 523	27,6%	1 628 259,5	27,6%
	5 900 000 000	**100,0%**	**5 900 000,0**	**100,0%**

The share capital is consistent with the National Court Register.

1.1.5. Information about companies comprising the Group

1.1.5.1. Companies included in the consolidated financial statements

As at 31 December 2013 the following companies were consolidated by the Group:

Parent Company:
- Polskie Górnictwo Naftowe i Gazownictwo S.A.

Subsidiaries consolidated on the full consolidation basis:
- Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A.,
- Exalo Drilling S.A.,
- GEOFIZYKA Kraków S.A.,
- GEOFIZYKA Toruń S.A.,
- Geovita S.A.,
- Operator Systemu Magazynowania Sp. z o.o.,
- PGNiG Serwis Sp. z o.o.,
- PGNiG Technologie S.A.,
- PGNiG Termika S.A.,
- Polska Spółka Gazownictwa Sp. z o.o.,
- PGNiG Finance AB,
- PGNiG Sales&Trading GmbH,
- PGNiG Upstream International AS,
- Polish Oil And Gas Company – Libya B.V

Indirect subsidiaries included in the consolidation:
- Gaz Sp. z o.o. (subsidiary of Polska Spółka Gazownictwa Sp. z o.o.);
- Powiśle Park Sp. z o.o. (subsidiary of Polska Spółka Gazownictwa Sp. z o.o.);
- Oil Tech International F.Z.E. (subsidiary of Exalo Drilling S.A.);
- Poltava Services LLC (subsidiary of Exalo Drilling S.A.);
- XOOL GmbH, (subsidiary of PGNiG Sales&Trading GmbH).

Joint ventures and associates valued with equity method:
- GAS – TRADING S.A.
- SGT EUROPOL GAZ S.A.

1.1.5.2. Entities excluded from consolidation

As at 31 December 2013 the following subsidiaries of the Group were not consolidated:
- Direct subsidiaries:
  - PGNiG Obrót Detaliczny Sp. z o.o.,
  - PGNiG SPV 5 Sp. z o.o.,
  - PGNiG SPV 6 Sp. z o.o.,
  - PGNiG SPV 7 Sp. z o.o.,
  - BUD-GAZ P.P.U.H. Sp. z o.o. in liquidation,
  - Polskie Elektrownie Gazowe Sp. z o.o.,
  - NYSAGAZ Sp. z o.o.,
  - Biogazownia Ostrowiec Sp. z o.o. in liquidation,
- Indirect subsidiaries:
  - CHEMKOP Sp. z o.o. Kraków
  - Zakład Gospodarki Mieszkaniowej Sp. z o.o.,
  - PT Geofizyka Toruń Indonezja LLC in liquidation.

Subsidiaries listed above, whose financial statements are immaterial for reliable and fair presentation of financial position and financial performance of the Group, have been excluded from consolidation.

1.1.6. Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

At 31 December 2013, the Management Board of the Company was comprised of the following members:
- Mariusz Zawisza – Chairman of the Management Board;
- Jarosław Bauc – Vice-Chairman of the Management Board;
- Jerzy Kurella – Vice-Chairman of the Management Board;
- Andrzej Parafianowicz – Vice-Chairman of the Management Board;
- Zbigniew Skrzypkiewicz – Vice-Chairman of the Management Board.

Changes in the Management Board during the reporting period to the date of this opinion are described in the notes to the consolidated financial statements, see Note 1.7.

1.2. Auditor information

1.2.1. Key certified auditor information

Name and surname: Mariusz Kuciński

Registration number: 9802

1.2.2. Authorized auditor information

Name: PKF Consult Sp. z o.o.
Address: ul. Orzycka 6 lok. 1B, 02-695 Warsaw
Registration number: KRS 0000034774
Registration court: District Court for the Capital City Warsaw in Warsaw, XIII Commercial Department of the National Court Register
Share capital: PLN 128,050.00
NIP number: 521-05-27-710
PKF Consult Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 477.

The consolidated financial statements have been audited in accordance with the contract dated 05.02.2013, concluded on the basis of the resolution of the Supervisory Board dated 23 January 2013 on the appointment of the auditor.

We audited the consolidated financial statements in the Parent's head office during the period from 07.01.2014 to 19.02.2014.

Key certified auditor and PKF Consult Sp. z o.o. fulfill independence requirements as described in Art. 56 points 3 and 4 of the Act on certified auditors and their government, audit firms and public oversight dated 7 May 2009 (Official Journal No. 77, item 649).

1.3. Prior period consolidated financial statements

The consolidated financial statements as at and for the year ended 31 December 2012 were audited by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and received an unqualified opinion.

The consolidated financial statements were approved at the Shareholders' Meeting of PGNiG S.A. on 22.05.2013.

The consolidated financial statements were submitted to the Registry Court on 04.06.2013.

1.4. Audit scope and responsibilities

This report was prepared for the Shareholders and Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. seated in Warsaw at M. Kasprzaka 25 and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The Parent Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of the General Meeting dated 15.12.2006.

We conducted the audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and in matters not regulated by the national standards on auditing, when determining the detailed methodology for the planning and performing the audit and if in doubt – International Standards on Auditing.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements for issuers of securities admitted to trading on an official stock-exchange listing market and with other applicable regulations and preparation of the Report on the Company's activities.

Our responsibility is to express an opinion and to prepare a supplementing report on the consolidated financial statements based on our audit.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of PKF Consult Sp. z o.o.

1.5. Information on audits of the financial statements of the consolidated companies

The audited consolidated financial statements of the Group consists of the separate financial statements of the Parent Company and subsidiaries as at 31 December 2013, which were audited and given an opinion:

Entity's name	Authorised audytor	Type of auditor's opinion	Method of consolidation
BSiPG Gazoprojekt S.A.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
GK Exalo Drilling S.A.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
GEOFIZYKA Kraków S.A.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
GEOFIZYKA Toruń S.A.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
Geovita S.A.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
Operator Systemu Magazynowania Sp. z o.o.	PKF Consult Sp. z o.o.	No opinion (*)	Full
PGNiG Serwis Sp. z o.o.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
PGNiG Technologie S.A.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
PGNiG Termika S.A.	PKF Consult Sp. z o.o.	Unqualified opinion	Full
GK Polska Spółka Gazownictwa Sp. z o.o.	PKF Consult Sp. z o.o.	Unqualified opinion (**)	Full
PGNiG Finance AB	Deloitte AB	Unqualified opinion	Full
GK PGNiG Sales&Trading GmbH	PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprufungesellschaft	Unqualified opinion	Full
PGNiG Upstream International AS	Deloitte AS	Unqualified opinion	Full
Polish Oil And Gas Company – Libya B.V.	Deloitte Accountants B.V.	No opinion (***)	Full
GAS – TRADING S.A.	MS Rewident	No opinion	Equity method
SGT EUROPOL GAZ S.A		No opinion	Equity method

(*) the financial data of subsidiaries were audited and confirmed for the consolidation purposes.
(**) an unqualified audit opinion was issued on the stand-alone financial statement of Polska Spółka Gazownictwa Sp. z o.o. and the unqualified review report was issued on the consolidation package of the Group Polska Spółka Gazownictwa.
(***) assets of Polish Oil And Gas Company – Libya B.V. , expect from cash, are written down

2. Financial analysis of the Company

2.1. Consolidated statement of financial position

ASSETS	2013-12-31 mln PLN	% of total	2012-12-31 mln PLN	% of total	the change in % (BZ - BO)/BO)
NON-CURRENT ASSETS					
Tangible fixed assets	33 033	70,07%	33 784	70,49%	-2,22%
Investment property	9	0,02%	11	0,02%	-18,18%
Intangible assets	1 164	2,47%	1 146	2,39%	1,57%
Investments in associates measured using the equity method	727	1,54%	771	1,61%	-5,71%
Financial assets available for sale	51	0,11%	48	0,10%	6,25%
Other financial assets	191	0,41%	124	0,26%	54,03%
Deferred tax assets	993	2,11%	1 136	2,37%	-12,59%
Other non-current assets	71	0,15%	76	0,16%	-6,58%
	36 239	**76,87%**	**37 096**	**77,40%**	**-2,31%**
CURRENT ASSETS					
Inventories	3 378	7,17%	3 064	6,39%	10,25%
Trade and other	4 086	8,67%	5 374	11,21%	-23,97%
Receivables related to current income tax	48	0,10%	150	0,31%	-68,00%
Other receivables	171	0,36%	84	0,18%	103,57%
Assets related to derivative financial instrument	307	0,65%	105	0,22%	192,38%
Cash and cash equivalents	2 827	6,00%	1 948	4,06%	45,12%
Assets classifies as held for sale	88	0,19%	108	0,23%	-18,52%
	10 905	**23,13%**	**10 833**	**22,60%**	**0,66%**
TOTAL ASSETS	**47 144**	**100,00%**	**47 929**	**100,00%**	**-1,64%**

EQUITY AND LIABILITIES	2013-12-31 mln PLN	% of total	2012-12-31 mln PLN	% of total	the change in % (BZ–BO)/BO
EQUITY					
Share capital	5 900	12,51%	5 900	12,31%	0,00%
Reserve capital from the sale of shares above the nominal price	1 740	3,69%	1 740	3,63%	0,00%
Accumulated other comprehensive income	–49	–0,10%	–152	–0,32%	–67,76%
Retained earnings	20 856	44,24%	19 705	41,11%	5,84%
Equity attributable to equity holders of the parent	28 447	60,34%	27 193	56,74%	4,61%
Equity attributable to non-controlling interests	6	0,01%	4	0,01%	50,00%
	28 453	**60,35%**	**27 197**	**56,74%**	**4,62%**
LONG-TERM LIABILITIES					
Credits and loans	5 385	11,42%	5 509	11,49%	–2,25%
Liabilities for employee benefits	502	1,06%	381	0,79%	31,76%
Provisions	1 405	2,98%	1 792	3,74%	–21,60%
Deferred income	1 533	3,25%	1 448	3,02%	5,87%
Deferred tax liability	1 970	4,18%	1 936	4,04%	1,76%
Other long-term liabilities	58	0,12%	53	0,11%	9,43%
	10 853	**23,02%**	**11 119**	**23,20%**	**–2,39%**
SHORT-TERM LIABILITIES					
Trade and other liabilities	4 033	8,55%	3 667	7,65%	9,98%
Credits and loans	2 276	4,83%	4 702	9,81%	–51,60%
Liabilities related to derivative financial instruments	124	0,26%	393	0,82%	–68,45%
Liabilities related to current income tax	184	0,39%	24	0,05%	666,67%
Liabilities for employee benefits	375	0,80%	356	0,74%	5,34%
Provisions	645	1,37%	350	0,73%	84,29%
Deferred income	186	0,39%	101	0,21%	84,16%
Liabilities related to assets held for sale	15	0,03%	20	0,04%	–25,00%
	7 838	**16,63%**	**9 613**	**20,06%**	**–18,46%**
TOTAL EQUITY AND LIABILITIES	**47 144**	**100,00%**	**47 929**	**100,00%**	**–1,64%**

2.2. Consolidated statement of comprehensive income

	2013 mln PLN	% of total sales	2012 mln PLN	% of total sales	the change (BO–BZ)/BO
Net revenues from the sale	**32,120**	**100.00%**	**28,730**	**100.00%**	**11.80%**
Merchandise and raw materials	–19,512	–60.75%	–17,603	–61.27%	10.84%
Employee benefits	–3,214	–10.01%	–3,047	–10.61%	5.48%
Amortization	–2,463	–7.67%	–2,069	–7.20%	19.04%
Other services	–3,245	–10.10%	–3,060	–10.65%	6.05%
Cost of products and services for own needs	983	3.06%	1,006	3.50%	–2.29%
Other operating revenues and expenses	–1,520	–4.73%	–1,417	–4.93%	7.27%
Cost of finished products, merchandise and raw materials sold	**–28,971**	**–90.20%**	**–26,190**	**–91.16%**	**10.62%**
Operating profit/(loss)	**3,149**	**9.80%**	**2,540**	**8.84%**	**23.98%**
Financial income	69	0.21%	216	0.75%	–68.06%
Financial costs	–465	–1.45%	–380	–1.32%	22.37%
Share of profit of investments accounted for under the equity method	–44	–0.14%	173	0.60%	–125.43%
Profit/(loss) before taxation	**2,709**	**8.43%**	**2,549**	**8.87%**	**6.28%**
Corporate income tax	–789	–2.46%	–309	–1.08%	155.34%
Net profit/(loss)	**1,920**	**5.98%**	**2,240**	**7.80%**	**–14.29%**

	2013 mln PLN	% of total sales	2012 mln PLN	% of total sales	the change (BO–BZ)/BO
Net profit/(loss)	**1,920**	**5.98%**	**2,240**	**7.80%**	**–14.29%**
Foreign currency translation differences for foreign operations	–53	–0.17%	–2	–0.01%	2,550.00%
Application of hedge accounting	72	0.22%	–250	–0.87%	–128.80%
Deferred tax related to hedge accounting	–14	–0.04%	48	0.17%	–129.17%
Other comprehensive income, which will be a reclassified to profit or loss upon fulfillment of certain requirements	**5**	**0.02%**	**–204**	**–0.71%**	**–102.45%**
Actuarial gains (losses)	117	0.36%	14	0.05%	735.71%
Deferred tax	–19	–0.06%	–3	–0.01%	533.33%
Other comprehensive income that will not be reclassified to profit or loss	**98**	**0.31%**	**11**	**0.04%**	**790.91%**
Other comprehensive income net	**103**	**0.32%**	**–193**	**–0.67%**	**–153.37%**
Total comprehensive income	**2,023**	**6.30%**	**2,047**	**7.12%**	**–1.17%**

2.3. Selected financial ratios

	2013	2012	2011
1.Return on sales	6.0%	7.8%	7.6%
(result on sale / net revenues)×100%			
2.Return on equity	6.7%	8.2%	7.0%
(net result / avarege equity)×100%			
3.Debtors' days	41	60	46
(average trade receivables (net)×365 days) / net revenues			
4.Debt ratio	39.6%	43.3%	35.0%
(liabilities and provisions for liabilities / total equity and liabilities)×100%			
5.Current ratio	1.4	1.1	0.9
(current assets / current liabilities)			

3. Detailed report

3.1. Accounting principles, method of consolidation, correctness of documentation for consolidation

The method of calculating goodwill arising on consolidation is described in the introduction to the consolidated financial statements.

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company, to the extent required by Art. 10 of the Accounting Act.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared completely and correctly, in accordance with the requirements of the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2009, No 169, item 1327).

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. The accounting principles were presented in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company, for the consolidation purposes.

3.2. Introduction and supplementary information and explanations to the consolidated financial statements

All information included in the introduction and the supplementary information and explanations to the consolidated financial statements is, in all material respects, presented correctly and completely. The introduction and supplementary information and explanations should be read in conjunction with the consolidated financial statements.

3.3. Report on the Group's activities

The Report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the consolidated financial statements.

3.4. Consolidation of equity and calculation of minority interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements, in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Company. Only equity of the subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Minority interests in subsidiaries included in the consolidated financial statements were determined based on the minority shareholders' share in the subsidiaries' equity as at the balance sheet date.

3.5. Consolidation eliminations

Intercompany balances within the Group, sales between entities and other intercompany operating revenues and expenses, financial revenues and expenses, unrealized profits which were capitalized, dividends and results of sales of all or part of shares in subsidiaries were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Polskie Górnictwo Naftowe i Gazownictwo S.A. and agreed with information received from the subsidiaries.

3.6. Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2013, we have issued an unqualified opinion.

Signed on the Polish original

Mariusz Kuciński
Certified Auditor No. 9802
Key Certified Auditor On behalf of PKF Consult Sp. z o.o. registration number 477
6/1B Orzycka Street
02-695 Warsaw

Warsaw, 19 February 2014

Consolidated Financial Highlights

for the year ended December 31st 2013

	PLN m		EUR m	
	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Revenue	32,120	28,730	7,628	6,884
Operating profit/(loss)	3,149	2,540	748	609
Profit/(loss) before tax	2,709	2,549	643	611
Net profit/(loss) attributable to owners of the parent	1,918	2,242	455	537
Net profit/(loss)	1,920	2,240	456	537
Comprehensive income attributable to owners of the parent	2,021	2,049	480	491
Total comprehensive income	2,023	2,047	480	490
Net cash flows from operating activities	7,813	2,552	1,855	611
Net cash flows from investing activities	(3,060)	(6,149)	(727)	(1,473)
Net cash flows from financing activities	(3,874)	4,040	(920)	968
Change in cash	879	443	209	106
Earnings/(loss) and diluted earnings/(loss) per share attributable to owners of the parent (in PLN and EUR, respectively)	0.33	0.38	0.08	0.09

	PLN m		EUR m	
	Dec 31 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Total assets	47,144	47,929	11,368	11,724
Total liabilities	18,691	20,732	4,507	5,071
Total non-current liabilities	10,853	11,119	2,617	2,720
Total current liabilities	7,838	9,613	1,890	2,351
Total equity	28,453	27,197	6,861	6,653
Share capital	5,900	5,900	1,423	1,443
Weighted average number of shares (m)	5,900	5,900	5,900	5,900
Book value per share and diluted book value per share (in PLN and EUR, respectively)	4.82	4.61	1.16	1.13
Dividend per share declared or paid (in PLN and EUR, respectively)	0.13	–	0.03	–

Items of the income statement, statement of comprehensive income and statement of cash flows were translated at the EUR/PLN rate of exchange computed as the arithmetic mean of mid rates quoted by the National Bank of Poland (NBP) for the last day of each calendar month in the given reporting period. Items of the statement of financial position were translated at the mid EUR/PLN rate of exchange quoted by the NBP for the end of the given period.

Mid PLN/EUR exchange rates quoted by the NBP

	Dec 31 2013	Dec 31 2012
Average exchange rate for the period	4.2110	4.1736
Exchange rate at end of the period	4.1472	4.0882

Consolidated Income Statement

for the year ended December 31st 2013

(PLN m)	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
	audited	restated
Revenue	**32,120**	**28,730**
Raw materials and consumables used	(19,512)	(17,603)
Employee benefits expense	(3,214)	(3,047)
Depreciation and amortisation expense	(2,463)	(2,069)
Services	(3,245)	(3,060)
Work performed by the entity and capitalised	983	1,006
Other income and expenses	(1,520)	(1,417)
Total operating expenses	**(28,971)**	**(26,190)**
Operating profit/(loss)	**3,149**	**2,540**
Finance income	69	216
Finance costs	(465)	(380)
Share in net profit/(loss) of equity-accounted entities	(44)	173
Profit/(loss) before tax	**2,709**	**2,549**
Income tax	(789)	(309)
Net profit/(loss)	**1,920**	**2,240**
Attributable to:		
Owners of the parent	1,918	2,242
Non-controlling interests	2	(2)
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (PLN)	**0.33**	**0.38**

Consolidated Statement of Comprehensive Income

for the year ended December 31st 2013

(PLN m)	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
	audited	restated
Net profit/(loss)	**1,920**	**2,240**
Other comprehensive income that will be reclassified to profit or loss once specific conditions are met, relating to:	**5**	**(204)**
Exchange differences on translating foreign operations	(53)	(2)
Hedge accounting	72	(250)
Deferred tax	(14)	48
Other comprehensive income that will not be reclassified to profit or loss, relating to:	**98**	**11**
Actuarial gains/(losses) on employee benefits	117	14
Deferred tax	(19)	(3)
Other comprehensive income, net	**103**	**(193)**
Total comprehensive income	**2,023**	**2,047**
Attributable to:		
Owners of the parent	2,021	2,049
Non-controlling interests	2	(2)

Consolidated Statement of Financial Position

As at Dec 31 2013

(PLN m)	Dec 31 2013	Dec 31 2012	Jan 1 2012
ASSETS	audited	restated	restated
Non-current assets			
Property, plant and equipment	33,033	33,784	29,319
Investment property	9	11	7
Intangible assets	1,164	1,146	343
Investments in equity-accounted associates	727	771	598
Financial assets available for sale	51	48	56
Other financial assets	191	124	10
Deferred tax assets	993	1,136	936
Other non-current assets	71	76	48
Total non-current assets	**36,239**	**37,096**	**31,317**
Current assets			
Inventories	3,378	3,064	2,082
Trade and other receivables	4,086	5,374	3,378
Current tax assets	48	150	164
Other assets	171	84	78
Financial assets available for sale	-	-	22
Derivative financial instrument assets	307	105	285
Cash and cash equivalents	2,827	1,948	1,505
Assets held for sale	88	108	9
Total current assets	**10,905**	**10,833**	**7,523**
Total assets	**47,144**	**47,929**	**38,840**

(PLN m)	Dec 31 2013	Dec 31 2012	Jan 1 2012
LIABILITIES AND EQUITY	audited	restated	restated
Equity			
Share capital	5,900	5,900	5,900
Share premium	1,740	1,740	1,740
Accumulated other comprehensive income	(49)	(152)	41
Retained earnings/(deficit)	20,856	19,705	17,463
Equity attributable to owners of the parent	**28,447**	**27,193**	**25,144**
Equity attributable to non-controlling interests	6	4	7
Total equity	**28,453**	**27,197**	**25,151**
Non-current liabilities			
Borrowings and other debt instruments	5,385	5,509	1,382
Employee benefit obligations	502	381	351
Provisions	1,405	1,792	1,358
Deferred income	1,533	1,448	1,160
Deferred tax liabilities	1,970	1,936	1,572
Other non-current liabilities	58	53	20
Total non-current liabilities	**10,853**	**11,119**	**5,843**
Current liabilities			
Trade and other payables	4,033	3,667	3,236
Borrowings and other debt instruments	2,276	4,702	3,617
Derivative financial instrument liabilities	124	393	417
Current tax liabilities	184	24	58
Employee benefit obligations	375	356	238
Provisions	645	350	185
Deferred income	186	101	95
Liabilities associated with assets held for sale	15	20	-
Total current liabilities	**7,838**	**9,613**	**7,846**
Total liabilities	**18,691**	**20,732**	**13,689**
Total liabilities and equity	**47,144**	**47,929**	**38,840**

Consolidated Statement of Cash Flows

for the year ended December 31st 2013

(PLN m)	Jan 1–Dec 31 2013 audited	Jan 1–Dec 31 2012 restated
Cash flows from operating activities		
Net profit/(loss)	1,920	2,240
Adjustments:		
Share in net profit/(loss) of equity-accounted entities	44	(173)
Depreciation and amortisation expense	2,463	2,069
Net foreign exchange gains/(losses)	169	(142)
Net interest and dividend	207	234
Gain/(loss) on investing activities	568	138
Current tax expense	789	309
Other items, net	430	470
Income tax expense	(495)	(591)
Net cash flows from operating activities before change in working capital	**6,095**	**4,554**
Change in working capital:		
Change in receivables	1,310	(1,734)
Change in inventories	(321)	(620)
Change in employee benefit obligations	140	52
Change in provisions	299	140
Change in current liabilities	394	248
Change in other assets	(89)	(22)
Change in deferred income	(15)	(66)
Net cash flows from operating activities	**7,813**	**2,552**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment and intangible assets	130	208
Proceeds from disposal of shares in non-consolidated entities	1	5
Proceeds from disposal of short-term securities	-	21
Purchase of property, plant and equipment and intangible assets	(3,290)	(3,788)
Purchase of shares in non-consolidated entities	(2)	-
Interest received	1	3
Dividends received	3	4
Purchase of shares in PGNiG TERMIKA SA	-	(3,021)
Other items, net	97	419
Net cash flows from investing activities	**(3,060)**	**(6,149)**
Cash flows from financing activities		
Increase in borrowings	763	193
Proceeds from issue of debt securities	1,475	8,649
Repayment of borrowings	(700)	(972)
Repayment of debt securities	(4,322)	(3,354)
Payment of finance lease liabilities	(57)	(44)
Cash inflow from derivative financial instruments	83	-
Cash outflow on derivative financial instruments	(116)	(111)
Dividend paid	(767)	(1)
Interest paid	(208)	(317)
Other items, net	(25)	(3)
Net cash flows from financing activities	**(3,874)**	**4,040**
Net change in cash	**879**	**443**
Exchange differences on cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the period	**1,947**	**1,504**
Cash and cash equivalents at end of the period	**2,826**	**1,947**

Consolidated Statement of Changes in Equity

for the year ended December 31st 2013

(PLN m)	Equity (attributable to owners of the parent)							Equity (attributable to non--controlling interests)	Total equity
	Share capital	Share premium	Accumulated other comprehensive income, including:			Retained earnings/ (deficit)	Total		
			exchange differences on translating foreign operations	hedge accounting	actuarial gains/(losses) on employee benefits				
As at Jan 1 2013 (restated)	**5,900**	**1,740**	**(31)**	**(59)**	**(62)**	**19,705**	**27,193**	**4**	**27,197**
Payment of dividend to owners	-	-	-	-	-	(767)	(767)	-	**(767)**
Total comprehensive income	**-**	**-**	**(53)**	**58**	**98**	**1,918**	**2,021**	**2**	**2,023**
Net profit/(loss) for 2013	-	-	-	-	-	1,918	1,918	2	**1,920**
Other comprehensive income, net, for 2013	-	-	(53)	58	98	-	103	-	**103**
As at Dec 31 2013 (audited)	**5,900**	**1,740**	**(84)**	**(1)**	**36**	**20,856**	**28,447**	**6**	**28,453**
As at Jan 1 2012 (restated)	**5,900**	**1,740**	**(29)**	**143**	**(73)**	**17,463**	**25,144**	**7**	**25,151**
Payment of dividend to owners	-	-	-	-	-	-	-	(1)	**(1)**
Total comprehensive income	**-**	**-**	**(2)**	**(202)**	**11**	**2,242**	**2,049**	**(2)**	**2,047**
Net profit/(loss) for 2012	-	-	-	-	-	2,242	2,242	(2)	**2,240**
Other comprehensive income, net, for 2012	-	-	(2)	(202)	11	-	(193)	-	**(193)**
As at Dec 31 2012 (restated)	**5,900**	**1,740**	**(31)**	**(59)**	**(62)**	**19,705**	**27,193**	**4**	**27,197**

Operating Segments

The tables below present revenue, costs and profits/(losses), as well as assets, equity and liabilities of the Group's reporting segments for the years ended December 31st 2013 and December 31st 2012.

Year ended December 31st 2013	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Income statement							
Sales to third-party customers	4,656	25,341	165	1,658	300	-	32,120
Inter-segment sales	1,605	318	4,085	405	124	(6,537)	-
Segment's total revenue	6,261	25,659	4,250	2,063	424	(6,537)	32,120
Depreciation and amortisation expense	(1,050)	(177)	(857)	(359)	(20)	-	(2,463)
Other costs	(2,880)	(25,490)	(2,654)	(1,560)	(469)	6,545	(26,508)
Segment's total costs	(3,930)	(25,667)	(3,511)	(1,919)	(489)	6,545	(28,971)
Segment's operating profit/(loss)	**2,331**	**(8)**	**739**	**144**	**(65)**	**8**	**3,149**
Net finance costs							(396)
Share in net profit/(loss) of equity-accounted entities		(44)					(44)
Profit/(loss) before tax							**2,709**
Income tax							(789)
Net profit/(loss)							**1,920**
Statement of financial position							
Segment's assets	15,364	17,344	14,067	4,124	411	(6,244)	45,066
Investments in equity-accounted entities		727					727
Unallocated assets							358
Deferred tax assets							993
Total assets							**47,144**
Total equity							**28,453**
Segment's liabilities	4,954	4,634	2,879	1,943	187	(5,847)	8,750
Unallocated liabilities							7,971
Deferred tax liabilities							1,970
Total liabilities and equity							**47,144**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(1,630)	(341)	(1,110)	(203)	(13)	7	(3,290)
Impairment losses on assets	(1,642)	(1,479)	(115)	(34)	(20)	-	(3,290)
Impairment losses on unallocated assets							(45)

Year ended December 31st 2012 (PLN m)	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Income statement							
Sales to third-party customers	3,121	23,354	153	1,893	209	-	28,730
Inter-segment sales	1,204	360	3,430	64	237	(5,295)	-
Segment's total revenue	4,325	23,714	3,583	1,957	446	(5,295)	28,730
Depreciation and amortisation expense	(613)	(163)	(819)	(456)	(18)	-	(2,069)
Other costs	(2,358)	(23,219)	(1,884)	(1,486)	(456)	5,282	(24,121)
Segment's total costs	(2,971)	(23,382)	(2,703)	(1,942)	(474)	5,282	(26,190)
Segment's operating profit/(loss)	**1,354**	**332**	**880**	**15**	**(28)**	**(13)**	**2,540**
Net finance costs							(164)
Share in net profit/(loss) of equity-accounted entities		173					173
Profit/(loss) before tax							**2,549**
Income tax							(309)
Net profit/(loss)							**2,240**
Statement of financial position							
Segment's assets	16,580	18,711	13,089	4,345	413	(7,269)	45,869
Investments in equity-accounted entities		771					771
Unallocated assets							153
Deferred tax assets							1,136
Total assets							**47,929**
Total equity							27,197
Segment's liabilities	5,840	3,970	2,279	2,870	129	(6,934)	8,154
Unallocated liabilities							10,642
Deferred tax liabilities							1,936
Total liabilities and equity							**47,929**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(1,676)	(720)	(1,141)	(196)	(28)	(27)	(3,788)
Impairment losses on assets	(1,132)	(1,686)	(97)	(33)	(9)	1	(2,956)
Impairment losses on unallocated assets							(41)

Contact

PGNiG Head Office
ul. M. Kasprzaka 25
01-224 Warsaw, Poland
tel. +48 22 589 45 55
tel. +48 22 691 79 00
fax +48 22 691 82 73
www.pgnig.pl

Communication Department
tel. +4822 691 45 92
fax +48 22 691 81 46
e-mail: pr@pgnig.pl

Marketing Department
tel. +4822 691 79 55
fax +4822 691 81 03
e-mail: dy@pgnig.pl

Ethics Officer
tel. +48 22 691 82 05
fax +48 22 691 81 03
e-mail: boleslaw.rok@pgnig.pl

Press Team
tel. +48 22 691 79 30
fax +48 22 691 83 07
e-mail: rzecznik@pgnig.pl
www.bp.pgnig.pl

Investor Relations and Reporting Division
tel. +48 22 691 82 56, +48 22 589 46 71
fax +48 22 589 46 02
e-mail: ri@pgnig.pl
www.ri.pgnig.pl

Central Measurement and Research Lab in Warsaw
ul. M. Kasprzaka 25 B
01-224 Warsaw, Poland
tel. +48 22 691 87 53
fax +48 22 691 87 59
e-mail: clpb@pgnig.pl
www.clpb.pgnig.pl

Branch in Sanok
ul. H. Sienkiewicza 12
38-500 Sanok, Poland
tel. +48 13 465 21 11
fax +48 13 463 55 55
e-mail: Sanok@pgnig.pl
www.sanok.pgnig.pl

Branch in Odolanów
ul. Krotoszyńska 148
63-430 Odolanów, Poland
tel. +48 62 736 44 41
fax +48 62 736 59 89
e-mail: odolanow@pgnig.pl
www.odolanow.pgnig.pl

Branch in Zielona Góra
ul. Bohaterów Westerplatte 15
65-034 Zielona Góra, Poland
tel. +48 68 329 14 00
fax +48 68 329 13 37
e-mail: zielonagora@pgnig.pl
www.zielonagora.pgnig.pl

Well Mining Rescue Station in Kraków
ul. Sołtysowska 25A
31-589 Kraków, Poland
tel. +48 12 644 51 54
tel. +48 12 695 188 498
fax +48 12 680 26 75
e-mail: rsgo@pgnig.pl
www.rsgo.pgnig.pl

Geology and Hydrocarbon Production Branch in Warsaw
ul. M. Kasprzaka 25A
01-224 Warsaw, Poland
tel. +48 22 589 45 75
fax +48 22 589 43 78

CUGS Mogilno Branch in Palędzie Dolne
88-314 Palędzie Dolne, Poland
tel. +48 22 860 05 75
fax +48 22 860 05 33

Wholesale Trade Branch in Warsaw
ul. M. Kasprzaka 25A
01-224 Warsaw, Poland
tel. 22 691 79 56
fax 22 691 84 52

UGS Wierzchowice Branch in Czarnogoździce
Czarnogoździce 28
56-320 Krośnice, Poland
address for correspondence:
ul. Bohaterów Westerplatte 15
65-034 Zielona Góra, Poland
tel. +48 68 329 14 05
fax +48 68 329 13 69
e-mail: pmgw.sekretariat@zgora.pgnig.pl

Lower Silesian Gas Trading Division in Wrocław
Dolnośląski Oddział Handlowy we Wrocławiu
ul. Gazowa 3
50-513 Wrocław, Poland
tel. +48 71 364 94 05
fax +48 71 364 94 06
e-mail: sekretariat.doh@pgnig.pl

Upper Silesian Gas Trading Division in Zabrze
Górnośląski Oddział Handlowy w Zabrzu
ul. Mikulczycka 5
41-800 Zabrze, Poland
tel. +48 32 373 50 05
fax +48 32 373 53 02
e-mail: sekretariat.zabrze@pgnig.pl

Carpathian Gas Trading Division in Tarnów
Karpacki Oddział Handlowy w Tarnowie
ul. Wita Stwosza 7
33-100 Tarnów, Poland
tel. +48 14 632 38 00
fax +48 14 632 38 11
e-mail: sekretariat.koh@pgnig.pl

Mazovian Gas Trading Division in Warsaw
Mazowiecki Oddział Handlowy w Warszawie
Al. Jerozolimskie 146 B
02-305 Warsaw, Poland
tel. +48 22 325 14 22
fax +48 22 325 14 66
e-mail: sekretariat.warszawa@pgnig.pl

Pomeranian Gas Trading Division in Gdańsk
Pomorski Oddział Handlowy w Gdańsku
ul. Wałowa 41/43
80-858 Gdańsk, Poland
tel. +48 58 323 03 02
fax +48 58 323 03 01
e-mail: sekretariat.gdansk@pgnig.pl

Greater Poland Gas Trading Division in Poznań
Wielkopolski Oddział Handlowy w Poznaniu
ul. Grobla 15
61-859 Poznań, Poland
tel. +48 61 885 42 00
fax +48 61 885 43 00
e-mail: sekretariat.poznan@pgnig.pl

Representative Office in Brussels
Rond Point Schuman 6
1040 Brussels, Belgium
tel. +32 2 234 79 80
fax +32 2 234 79 12
e-mail: brussels@pgnig.pl

Representative Office in Belarus
225081 Brzesk District
Region Kamieniec
Gas Measurement Station
tel./fax +375 163 171 368

Representative Office of PGNiG in Kiev
St. Sz. Rustaweli 31 b, m. 16
вул. Ш. Руставелі 31 – б, кв. № 16
01 333 Kiev/м. Київ, Ukraine/Україна
tel./fax +380 44 284 34 01
e-mail: kiev@pgnig.pl

Representative Office in Moscow
St. Wawilowa House No. 79, Sector 1, Office No. 5
ул. Вавилова д. 79, кор. 1, офис № 5
117335 Moscow/Москва, Russia/Россия
tel. +7 495 775 38 56
fax +7 495 775 38 57
e-mail: moscow@pgnig.pl

Operating Branch in Pakistan
House No 2, Street 40, Sektor F-6/1
Islamabad 44000, Pakistan
tel. +92 51 265 45 91
fax +92 51 265 45 94

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Polish Oil & Gas Company (PGNiG SA)
25 M. Kasprzaka St., 01-224 Warsaw, Poland
tel. +48 22 589 45 55, fax +48 22 691 82 73
www.pgnig.pl