DIRECTORS' REPORT ON THE OPERATIONS OF PGNiG S.A. IN 2014

Polskie Górnictwo Naftowe i Gazownictwo SA

Warsaw, February 19th 2015

Contents

Section I: Company's highlights

1. Incorporation

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna (PGNiG S.A.), with its registered office in Warsaw, ul. Marcina Kasprzaka 25, was incorporated through transformation of the state-owned enterprise Polskie Górnictwo Naftowe i Gazownictwo into a state-owned stock company. The Deed of Transformation, together with the Company's Articles of Association, were executed in the form of a notary deed (No. A 18871/96 in the Register of Notary Deeds) on October 21st 1996.

On October 30th 1996, the Company was entered in the commercial register as Polskie Górnictwo Naftowe i Gazownictwo S.A. of Warsaw, under No. RHB 48382. As of the date of entry in the commercial register, the Company became a legal entity. On November 14th 2001, it was entered in the register of entrepreneurs of the National Court Register under No. 0000059492.

Currently, the share capital of PGNiG S.A. amounts to PLN 5.9bn and is divided into 5,900,000,000 shares with a par value of PLN 1 per share.

The Company floated its shares on the Warsaw Stock Exchange on September 23rd 2005. PGNiG shares have been listed on the Warsaw Stock Exchange since October 20th 2005.

2. Business scope

PGNiG S.A. is the largest Polish company in the hydrocarbon exploration and production industry, and on the natural gas market. In 2014, PGNiG S.A. remained the leader of all areas of the Polish gas sector, including natural gas import, oil and gas exploration and production, gas fuel storage and sale of natural gas. On August 1st 2014, the Company's existing gas retail business was transferred to PGNiG Obrót Detaliczny Sp. z o.o., a subsidiary.

Pursuant to its Articles of Association, the Company's role is to perform activities aimed at ensuring energy security of Poland. These relate in particular to:

- ensuring continuity of gas supplies to consumers and maintaining the necessary stocks of gas,
- ensuring safe operation of gas networks,
- balancing the gas system, managing the operations and capacity of the power equipment connected to the common gas network,
- production of natural gas.

3. Organisational structure of PGNiG S.A.

On April 29th 2014, the Branch in Denmark was wound up. The decision was made in 2012 following relinquishment of the 1/05 licence as no commercial hydrocarbon flows were recorded.

On September 5th 2014, the Trading Divisions in Wrocław, Zabrze, Tarnów, Warsaw, Gdańsk and Poznań were wound up, following transfer of the Company's retail business to PGNiG Obrót Detaliczny Sp. z o.o.

PGNiG S.A. operates as a multiple-unit structure. As at December 31st 2014, the structure comprised the Head Office and 11 branches. The table below presents the business scope of PGNiG S.A.'s organisational units.

Business scope of PGNiG S.A.'s organisational units

Organisational unit	Business scope
Head Office in Warsaw	Corporate supervision of the Company branches Owner's supervision of the PGNiG Group
Geology and Hydrocarbon Production Branch in Warsaw	Exploration for crude oil and natural gas in Poland and abroad Supervision of Group companies engaged in hydrocarbon exploration and production
Sanok Branch	Production of natural gas and crude oil and operation of underground gas storage facilities Supply of natural gas to municipal and industrial customers
Zielona Góra Branch	Production of natural gas and crude oil and operation of underground gas storage facilities Supply of natural gas to municipal and industrial customers
Odolanów Branch	Processing of nitrogen-rich natural gas into high-methane gas
Operator Branch in Pakistan	Exploration for and production of hydrocarbons in licence areas in Pakistan
Egypt Branch	Exploration for and production of hydrocarbons in licence areas in Egypt
Mogilno Underground Gas Storage Cavern Facility Branch in Palędzie Dolne	Development and operation of the Mogilno Underground Gas Storage Cavern Facility
Wierzchowice Underground Gas Storage Facility Branch in Czarnogoździce	Development and operation of the Wierzchowice Underground Gas Storage Facility
Well Mining Rescue Station in Kraków	Provision of rescue services to the petroleum extraction industry
Wholesale Trading Division in Warsaw	Trade in natural gas, electricity and related products, crude oil and condensate Organisation and supervision of wholesale trade within the PGNiG Group
Central Measurement and Testing Laboratory in Warsaw	Provision of services ensuring the accuracy and reliability of measurements related to natural gas

As at December 31st 2014, PGNiG S.A. operated foreign representative offices in Moscow (Russia), Brussels (Belgium), Kiev (Ukraine) and Vysokoye (Belarus).

Pursuant to the Management Board's decision, the Wierzchowice Underground Gas Storage Facility Branch in Czarnogoździce was wound up and incorporated into the Zielona Góra Branch on December 31st 2014.

4. Changes in management policies

In 2014, the PGNiG Group took steps to reorganise its natural gas trading business, establishing PGNiG Obrót Detaliczny Sp. z o.o., which commenced operations on August 1st 2014. The company took over PGNiG S.A.'s existing gas retail business, while the gas wholesale business remained with the Wholesale Trading Division of PGNiG S.A. The change will enable PGNiG S.A. to meet the requirement whereby in 2015 it is obliged to sell 55% of its high-methane gas volumes fed into the transmission network on commodity exchanges.

The PGNiG Group also continued the reorganisation of its underground gas storage segment. In 2014, the Management Board of PGNiG S.A. abandoned its earlier concept for gas storage reorganisation and resolved to incorporate the Wierzchowice Underground Gas Storage Facility Branch in Czarnogoździce into the Zielona Góra Branch. After the reporting period, the Company designated Operator Sytemu Magazynowania Sp. z o.o. to operate, overhaul and maintain the Mogilno Underground Gas Storage Cavern Facility, and to direct the extraction facility operations, transfer of employees from the Mogilno Underground Gas Storage Cavern Facility Branch in Palędzie Dolne to OSM Sp. z o.o., and liquidation of the branch. The changes will come into effect in 2015.

5. Ownership interests in other related entities

PGNiG S.A. holds shares in companies involved in production, trade or services. As at December 31st 2014, PGNiG S.A. had 31 directly related entities, including:

- 21 subsidiaries, and
- 10 other related entities.

The table below presents related entities of PGNiG S.A. as at December 31st 2014.

PGNiG S.A.'s related entities

	Name	Share capital (PLN)	Value of shares held by PGNiG S.A. (PLN)	Ownership interest held by PGNiG S.A.	% of total vote held by PGNiG S.A.
	Subsidiaries				
1	Exalo Drilling S.A.	981,500,000	981,500,000	100.00%	100.00%
2	GEOFIZYKA Kraków S.A.	64,400,000	64,400,000	100.00%	100.00%
3	GEOFIZYKA Toruń S.A.	66,000,000	66,000,000	100.00%	100.00%
4	PGNiG Upstream International AS (NOK)[1)]	1,092,000,000	1,092,000,000	100.00%	100.00%
5	Polish Oil and Gas Company - Libya B.V. (EUR)[1)]	20,000	20,000	100.00%	100.00%
6	PGNiG Sales & Trading GmbH (EUR)[1)]	10,000,000	10,000,000	100.00%	100.00%
7	Operator Systemu Magazynowania Sp. z o.o.	15,290,000	15,290,000	100.00%	100.00%
8	Polska Spółka Gazownictwa Sp. z o.o.	10,454,206,550	10,454,206,550	100.00%	100.00%
9	Geovita S.A.	86,139,000	86,139,000	100.00%	100.00%
10	PGNiG Technologie S.A.	182,127,240	182,127,240	100.00%	100.00%
11	BUD-GAZ PPUH Sp. z o.o. w likwidacji (in liquidation)	51,760	51,760	100.00%	100.00%
12	Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji (in liquidation)	1,212,000	1,212,000	100.00%	100.00%
13	PGNiG TERMIKA S.A.	670,324,950	670,324,950	100.00%	100.00%
14	PGNiG Finance AB (SEK) [1)]	500,000	500,000	100.00%	100.00%
15	PGNiG Serwis Sp. z o.o.	9,995,000	9,995,000	100.00%	100.00%
16	PGNiG Obrót Detaliczny Sp. z o.o.	1,091,000,000	1,091,000,000	100.00%	100.00%
17	PGNiG SPV 5 Sp. z o.o.	250,000	250,000	100.00%	100.00%
18	PGNiG SPV 6 Sp. z o.o.	250,000	250,000	100.00%	100.00%
19	PGNiG SPV 7 Sp. z o.o.	250,000	250,000	100.00%	100.00%
20	B.S. i P.G. Gazoprojekt S.A.[2)]	4,000,000	900,000	22.50%	22.50%
21	NYSAGAZ Sp. z o.o.	9,881,000	6,549,000	66.28%	66.28%
	Other related entities	Share capital (PLN)	Value of shares held by PGNiG S.A. (PLN)	Ownership interest held by PGNiG S.A.	% of total voting rights held by PGNiG S.A.
22	System Gazociągów Tranzytowych EUROPOL GAZ S.A.	80,000,000	38,400,000	48.00%	48.00%
23	GAS-TRADING S.A.	2,975,000	1,291,350	43.41%	43.41%
24	InterTransGas GmbH w likwidacji (in liquidation) (EUR)[1)]	200,000	100,000	50.00%	50.00%
25	Dewon Z.S.A. (UAH)[1)]	11,146,800	4,055,206	36.38%	36.38%
26	Sahara Petroleum Technology llc w likwidacji (in liquidation) (OMR)[1)]	150,000	73,500	49.00%	49.00%
27	PFK GASKON S.A.	13,061,325	6,000,000	45.94%	45.94%
28	GAZOMONTAŻ S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation)	1,498,850	677,200	45.18%	45.18%
29	ZRUG Sp. z o.o. (Poznań)	3,781,800	1,515,000	40.06%	41.71%
30	ZWUG INTERGAZ Sp. z o.o.	4,700,000	1,800,000	38.30%	38.30%
31	ZRUG TORUŃ S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation)	5,150,000	1,300,000	25.24%	25.24%

[1)] In foreign currencies
[2)] PGNiG S.A. has the right to appoint the majority of the company's Supervisory Board members. Also, PGNiG S.A. holds a 52.50% indirect interest in the company through PGNiG Technologie S.A.

Other changes in ownership interests within the Group in 2014:

- On January 1st 2014, InterTransGas GmbH was placed in liquidation.

- On April 10th 2014, the District Court for Warszawa-Praga Północ declared GAZOMONTAŻ S.A. insolvent in voluntary arrangement.; by virtue of its decision of November 24th 2014, the court converted the insolvency procedure into bankruptcy by liquidation; PGNiG S.A.'s interest in the share capital of GAZOMONTAŻ S.A. is 45.18%.
- On August 18th 2014, following completion of the liquidation process, Biogazownia Ostrowiec Sp. z o.o. w likwidacji (in liquidation) was deleted from the commercial register; the company was a subsidiary of PGNiG S.A.
- On November 28th 2014, the liquidation of Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji (in liquidation) was completed; by the date of this report, the company had not been deleted from the National Court Register; PGNiG S.A. holds 100% of the company's share capital.

In 2014, the share capital of PGNiG Obrót Detaliczny Sp. z o.o. was increased by PLN 1,090,000,000, to PLN 1,091,000,000. All new shares were acquired by PGNiG S.A. and paid for with a non-cash contribution in the form of an organised part of business. The increase was registered with the National Court Register on September 9th 2014.

Equity investments outside the group of related entities

As at the end of 2014, the total par value of PGNiG S.A.'s equity interests held outside the group of related entities was PLN 21.3m. In 2014, PGNiG S.A. made no material equity investments outside the group of related entities.

6. Workforce

The table below presents employment at the PGNiG Group as at December 31st 2014, by segments. Employment at the PGNiG Head Office is presented in the Trade and Storage segment.

Workforce by segment (no. of staff)

	2014	2013
Exploration and Production	4,080	4,207
Trade and Storage	1,072	3,901
Other Activities	36	39
Total	5,188	8,147

Compared with December 31st 2013, the number of employees at PGNiG S.A. fell by 2,959 (36%). This substantial decrease in headcount was attributable in particular to the transfer of retail operations from PGNiG S.A. to PGNiG Obrót Detaliczny Sp. z o.o., as well as to the voluntary termination programme implemented in H1 2014. On August 1st 2014, 2,688 employees of PGNiG S.A. were transferred to PGNiG Obrót Detaliczny Sp. z o.o. In addition, 206 employees opted for voluntary termination.

On September 24th 2014, PGNiG S.A. terminated the 'Programme for Workforce Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3)', with effect from December 31st 2014. The programme was operated within the PGNiG Group from January 2009 and was to remain in effect until December 31st 2015, but its duration could be shortened if terminated by one of the parties. The programme was operated on a stand-by basis. It could be implemented in extraordinary circumstances and required all companies across the Group to follow a uniform procedure. During the programme's effective term (from January 1st 2009 until December 31st 2014) 505 former employees of the PGNiG Group received one-off redundancy payments from PGNiG S.A.'s Central Restructuring Fund capital reserve.

7. Sales and production

In 2014, PGNiG S.A. recorded revenue of PLN 23.7bn, 83% of which was derived from sales of natural gas.

Revenue (PLNm)

	2014	2013	2012
Natural gas, including:	19,729	23,416	23,548
- high-methane gas	18,404	21,978	22,154
- nitrogen-rich gas	1,325	1,438	1,394
Crude oil	1,789	2,058	1,263
Helium	120	184	161
Propane-butane	83	76	67
Electricity	1161	639	133
Other sales	856	737	514
Total	23,738	27,110	25,686

In 2014, PGNiG S.A. sold 13.9 bcm of natural gas, with 94% of that amount representing sales from the transmission and distribution systems and the balance – direct sales from gas fields.

Natural gas sales volume (mcm)

	2014	2013	2012
Trade and Storage	13,073	14,129	14,006
Exploration and Production	807	755	723
Total	13,880	14,884	14,729

PGNiG S.A. produced a total of 4.1 bcm of natural gas (measured as high-methane gas equivalent), of which 99% was produced from fields in Poland, and the balance – from fields in Pakistan.

Natural gas production volume (mcm)

	2014	2013	2012
Poland	4,027	4,211	4,317
Abroad	58	31	0
Total	4,085	4,242	4,317

Section II: Company's Governing Bodies

1. Management Board

Pursuant to PGNiG S.A.'s Articles of Association, its Management Board is composed of two to seven members. The number of Management Board members is determined by the Supervisory Board. Individual members or the entire Management Board are appointed for a joint three-year term of office.

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). The Regulation does not apply to Management Board members elected by employees.

As long as the State Treasury remains a shareholder of the Company and the Company's average annual headcount exceeds 500, the Supervisory Board appoints one person elected by the Company's employees to serve on the Management Board during its term. The Supervisory Board adopts the rules governing election and removal from office of the Management Board member representing the employees, and the rules of by-elections.

Each member of the Management Board may be removed from office or suspended from their duties by the Supervisory Board or the General Meeting.

As at January 1st 2014, the composition of the PGNiG Management Board was as follows:

- Mariusz Zawisza − President
- Jarosław Bauc – Vice-President, Finance
- Jerzy Kurella – Vice-President, Trade
- Andrzej Parafianowicz – Vice-President, Corporate Affairs
- Zbigniew Skrzypkiewicz – Vice-President, Exploration & Production.

On April 3rd 2014, the Supervisory Board of PGNiG S.A. appointed Waldemar Wójcik as member of the Management Board of PGNiG S.A. for a joint three-year term of office ending December 30th 2016. Waldemar Wójcik is a Management Board member elected by the PGNiG S.A. employees in the election held in January and February 2014.

On June 18th 2014, the Supervisory Board of PGNiG S.A. resolved to suspend Mr Andrzej Parafianowicz from his duties as Vice-President of the PGNiG Management Board for Corporate Affairs.

Mr Andrzej Parafianowicz tendered his resignation as Member of the Management Board of PGNiG S.A. on August 7th 2014.

Also on August 7th 2014, the Supervisory Board appointed Mr Waldemar Wójcik as Vice-President of the Management Board of PGNiG S.A.

On December 29th 2014, the Supervisory Board removed Mr Jerzy Kurella from the PGNiG Management Board and from his position as Vice-President for Trade.

As at December 31st 2014, the composition of the PGNiG Management Board was as follows:

- Mariusz Zawisza − President
- Jarosław Bauc – Vice-President, Finance
- Zbigniew Skrzypkiewicz – Vice-President, Exploration & Production
- Waldemar Wójcik – Vice-President.

Until the date of this report, there were no changes in the composition of the PGNiG Management Board.

Division of responsibilities among the Management Board members

Based on a resolution of the Supervisory Board of PGNiG S.A. on the division of powers among members of the Management Board of PGNiG S.A., dated December 29th 2014:

- The President directs the Management Board’s activities and coordinates the work of all its members in all areas of the PGNiG Group’s business; the President also supervises and coordinates the Company’s operations with respect to delivery of the PGNiG Group’s strategic objectives, comprehensive legal services, management of human resources, protection of classified information, defence issues, control and audit, planning and implementation of the Company’s trading policies, tariff policies, sales of natural gas, electricity and other products, cooperation with external partners with respect to imports of liquefied natural gas to Poland; moreover, the President’s duties include exercise of the owner’s supervision within the PGNiG Group and oversight of the operations of the Wholesale Trading Division and of PGNiG S.A.’s foreign representative offices in Moscow and Brussels.

- The Vice-President of the Management Board for Finance supervises and coordinates the Company’s operations in the areas of investment policy planning and control and investor relations; moreover, the duties of Vice-President of the Management Board, Finance, include supervision of economic matters, accounting, business controlling, financial management, taxes, planning, and IT systems development and operation at PGNiG S.A.

- The Vice-President of the Management Board for Exploration and Production supervises and coordinates the Company’s activities related to its policies, objectives and programmes with respect to hydrocarbon exploration and production in Poland and abroad, procurement strategies within the Company and the Group, safety and operation of the production systems and underground storage facilities, innovation and development projects involving PGNiG S.A.; moreover, the duties of Vice-President of the Management Board, Exploration and Production, include supervision over the operations of the Geology and Hydrocarbon Production Branch, the PGNiG S.A. branches in Odolanów, Sanok and Zielona Góra, the Well Mining Rescue Station in Kraków, the Mogilno Underground Gas Storage Cavern Facility and the Wierzchowice Underground Gas Storage Facility, as well foreign branches.

- The Vice-President of the Management Board elected by employees supervises and coordinates the Company’s operations in the areas of administrative management of the Company’s property (excluding network assets, extraction assets and underground gas storage facilities), occupational health and safety, cooperation with the transmission, distribution and storage system operators, collaboration with the trade unions, the Employee Council and other employee organisations within the Company and the PGNiG Group; he also supervises the operations of the Central Measurement and Testing Laboratory in Warsaw and of the PGNiG S.A. foreign representative offices in Kiev and Vysokoye.

<u>Contracts with Management Board members</u>

In 2014, the Company executed managerial contracts and non-competition agreements with Mariusz Zawisza, President of the Management Board, and with Vice-Presidents Jarosław Bauc, Jerzy Kurella, Andrzej Parafianowicz, Zbigniew Skrzypkiewicz and Waldemar Wójcik.

2. Supervisory Board

Pursuant to the Articles of Association of PGNiG S.A., the Supervisory Board is composed of five to nine members, appointed by the General Meeting for a three-year joint term of office.

As long as the Polish State Treasury holds an equity interest in the Company, the State Treasury, represented by the minister competent for treasury matters, acting in consultation with the minister competent for economic matters, has the right to appoint and remove one member of the Supervisory Board.

In accordance with the Articles of Association, the General Meeting appoints one independent member of the Supervisory Board. The independent Supervisory Board member is elected in separate voting.

Written nominations of candidates for the position of an independent Supervisory Board member may be submitted to the Chairman of the General Meeting by the shareholders present at the General Meeting whose agenda includes the election of such a Supervisory Board member. Any such written proposal should be submitted along with a written representation by a given candidate to the effect that the candidate agrees to stand for the election and meets the criteria for an independent member of the Supervisory Board. If no candidates for the position are proposed by the shareholders, such candidates are nominated by the Supervisory Board.

If the Supervisory Board is composed of up to six members, two members are appointed from among candidates elected by the Company's employees. If the Supervisory Board is composed of seven to nine members, three members are appointed from among candidates elected by the Company's employees.

As at January 1st 2014, the composition of the PGNiG Supervisory Board was as follows:

- Wojciech Chmielewski – Chairperson
- Marcin Moryń – Deputy Chairperson
- Mieczysław Kawecki – Secretary
- Agnieszka Chmielarz – Member
- Józef Głowacki – Member
- Janusz Pilitowski – Member
- Ewa Sibrecht-Ośka – Member
- Jolanta Siergiej – Member.

On March 26th 2014, the Extraordinary General Meeting of PGNiG S.A. appointed Mr Andrzej Janiak as member of the Company's Supervisory Board. Mr Andrzej Janiak meets the independence criteria defined in the Company's Articles of Association.

In connection with the expiry of the Supervisory Board's term of office, on May 15th 2014 the Annual General Meeting of PGNiG S.A. removed all members of the Supervisory Board and appointed, for a joint three-year term of office commenced on May 15th 2014, the Supervisory Board composed of: Wojciech Chmielewski, Sławomir Borowiec, Andrzej Janiak (independent member), Bogusław

Nadolnik, Janusz Pilitowski, Agnieszka Trzaskalska, Ryszard Wąsowicz, Agnieszka Woś and Magdalena Zegarska.

Janusz Pilitowski represents the State Treasury and was appointed in consultation with the Minister of Economy. Sławomir Borowiec, Ryszard Wąsowicz and Magdalena Zegarska are Supervisory Board members elected by the PGNiG S.A. employees in the election held in January and February 2014.

On May 20th 2014, at its first meeting, the Supervisory Board constituted itself with Wojciech Chmielewski as Chairperson, Agnieszka Woś as Deputy Chairperson and Magdalena Zegarska as Secretary.

On July 30th 2014, Agnieszka Trzaskalska tendered her resignation as Member of the Supervisory Board of PGNiG S.A.

On November 6th 2014, Bogusław Nadolnik tendered his resignation as Member of the Supervisory Board of PGNiG S.A.

As at December 31st 2014, the Supervisory Board of PGNiG S.A. was composed of seven persons, including:

- Wojciech Chmielewski – Chairperson
- Agnieszka Woś – Deputy Chairperson
- Magdalena Zegarska – Secretary
- Sławomir Borowiec – Member
- Andrzej Janiak – Member
- Janusz Pilitowski – Member
- Ryszard Wąsowicz – Member.

Until the date of this report, there were no changes in the composition of the PGNiG Supervisory Board.

Remuneration of management and supervisory personnel

For information on the remuneration paid to management and supervisory personnel, see the full-year separate financial statements for the year ended December 31st 2014 (Note 37.4).

Section III: Shareholding structure

As at December 31st 2013, the share capital of PGNiG S.A. amounted to PLN 5,900,000,000 and was divided into 5,900,000,000 shares with a par value of PLN 1 per share. The Polish State Treasury was the only shareholder with a large direct holding of PGNiG shares. The shares of all series, that is Series A, A1 and B, were ordinary bearer shares and each share conferred the right to one vote at the General Meeting. The shareholding structure of PGNiG S.A. as at December 31st 2014 is presented in the table below.

Shareholding structure

Shareholder	Number of shares as at Dec 31 2014	Percentage of share capital held as at Dec 31 2014	Number of voting rights conferred by shares held	Percentage of total voting rights at GM as at Dec 31 2014
State Treasury	4,271,717,836	72.4%	4,271,717,836	72.4%
Open-end pension funds	651,437,632	11.0%	651,437,632	11.0%
Other shareholders	976,844,532	16.6%	976,844,532	16.6%
Total	5,900,000,000	100.0%	5,900,000,000	100.0%

<u>PGNiG shares and shares in PGNiG S.A.'s related entities held by management and supervisory personnel</u>

The table below presents PGNiG shares held by the management and supervisory personnel as at December 31st 2014.

PGNiG shares held by the management and supervisory personnel

Name	Position	Number of shares	Par value of shares (PLN)
Waldemar Wójcik	Member of the Management Board	19.500	19.500
Ryszard Wąsowicz	Member of the Supervisory Board	19.500	19.500

<u>Agreements which may give rise to future changes in the interests held by the existing shareholders or bondholders</u>

As at the date of this report, PGNiG S.A. was not aware of any agreements which could lead to future changes in the equity interests held in the Company by its existing shareholders.

<u>Performance of the PGNiG stock</u>

PGNiG shares have been listed at the Warsaw Stock Exchange since September 23rd 2005. As at December 31st 2014, the Company was included in the following indices listed at the WSE:

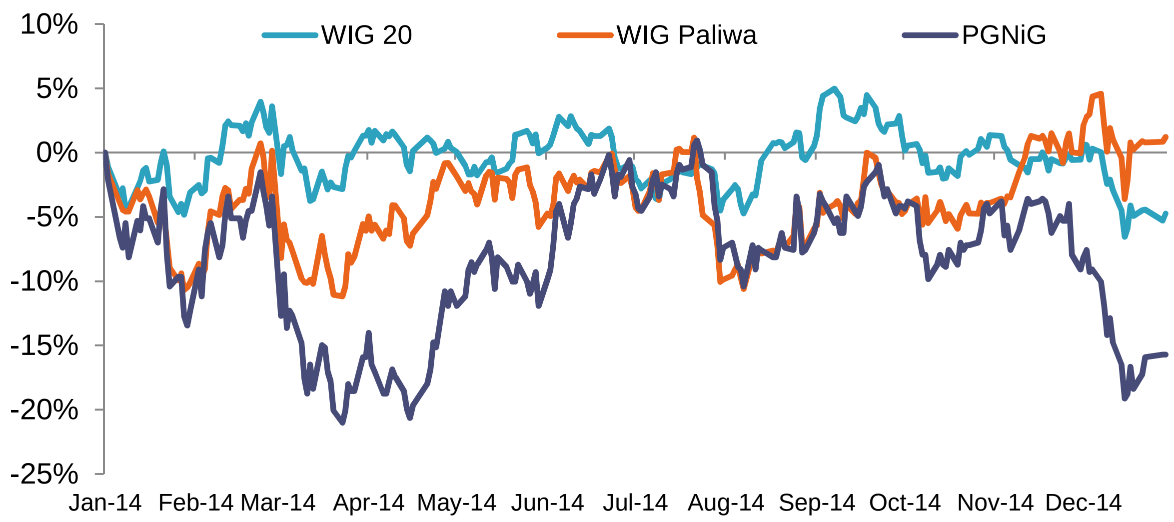
- WIG – all-cap index
- WIG20 – blue-chip index of the 20 largest and most liquid companies
- WIG-Paliwa – index of the fuel sector companies
- WIG-div – total return index (taking into account dividends and pre-emptive rights)

- WIG-Poland – index of Polish companies
- Respect Index – index of socially responsible companies.

The rate of return on the PGNiG stock in 2014 was -13.6%. Investors who acquired PGNiG shares at their issue price achieved a cumulative rate of return of 47% (excluding dividends).

The following figure presents the relative performance of the PGNiG stock against the WIG 20 and WIG-Paliwa indices. The table presents the values of the WSE indices and the PGNiG share price in 2014.

PGNiG share price vs. the WIG 20 and WIG Paliwa indices



Performance of WSE indices and PGNiG stock

Index	Value/price as at Dec 30 2013	2014 high	2014 low	Value/price as at Dec 30 2014	PGNiG's weight in the index as at Jan 8 2015
WIG (points)	51,284	55,637	49,521	51,416	2.52%
WIG20 (points)	2,401	2,551	2,271	2,316	3.80%
WIG-Paliwa (points)	3,215	3,493	2,967	3,381	28.50%
Respect Index (points)	2,559	2,933	2,450	2,674	7.34%
PGNiG S.A. (PLN)	5.15	5.33	4.17	4.45	-

Source: gpwinfostrefa.pl

Section IV: Regulatory environment

PGNiG S.A.'s activities are regulated by the following laws:
- Polish Energy Law of April 10th 1997 (consolidated text in Dz. U. of 2012, item 1059) with secondary legislation, to the extent it governs gas fuel trading, distribution and storage, as well as foreign trade in natural gas.
- Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market, dated February 16th 2007 (consolidated text in Dz. U. of 2012, item 1190) with secondary legislation, to the extent it governs gas fuel storage and foreign trade in natural gas.
- Polish Geological and Mining Law of June 9th 2011 (Dz. U. of 2011, No. 163, item 981, as amended), to the extent it governs production and sale of gas.

On July 25th 2014, a new Act on Special Hydrocarbon Tax was passed by the Sejm (lower house of the Polish Parliament). The Act introduces a special hydrocarbon tax to the Polish tax regime and adds oil and gas to the list of items subject to tax on production of certain minerals. The Act sets the rates of the new taxes at:
- special hydrocarbon tax – 0-25% of profit from upstream operations, depending on the ratio of revenue to eligible expenditure incurred by the company;
- tax on production of certain minerals – 3% (in the case of gas produced from conventional deposits), 1% (in the case of gas produced from unconventional deposits), 6% (in the case of oil produced from conventional deposits), and 3% (in the case of oil produced from unconventional deposits).

The Act will come into force on January 1st 2016. The obligation to pay the special hydrocarbon tax will apply to revenue earned as of January 1st 2020, and the obligation to pay the tax on production of certain minerals, in the case of oil and gas, will arise as of January 1st 2020

1. Polish Energy Law

The activities of PGNiG S.A. are heavily regulated, and require licences granted by the President of the Energy Regulatory Office (URE). For instance, such licence is needed to trade in gas fuels and electricity.

The amended Polish Energy Law of 2013 introduced the requirement to sell a specific portion of high-methane gas volumes fed into the transmission network in a given year on commodity exchanges. In 2014, the requirement covered 40% of total volumes. Given insufficient demand for gas offered by PGNiG S.A. on the exchange market, it was necessary to amend the Law so as to eliminate the structural obstacles to meeting the exchange sale requirement. On June 26th 2014, a new Act Amending the Energy Law was passed, introducing the so called general succession of agreements. Following the Act's entry into force, on August 1st 2014 PGNiG Obrót Detaliczny Sp. z o.o. commenced its operations, taking over a part of PGNiG S.A.'s portfolio of retail customers (who in 2013, under agreements with PGNiG S.A., received no more than 25 mcm of gas fuel from the transmission or distribution network at all points).

On April 30th 2014, a new Act Amending the Energy Law and Certain Other Acts came into force. The Act reinstated the mechanism of support for electricity produced by co-generation for 2014-2018. Under the Act, energy utilities selling electricity to end users are obliged to purchase and redeem a certain number of certificates of origin for electricity produced by co-generation. The reinstated mechanism, which supports gas-fired co-generation, creates an opportunity for PGNiG S.A. to increase the volume of gas sold in this segment. In addition, the possibility of generating additional revenue from sale of certificates of origin will have a positive effect on the financial performance of PGNiG TERMIKA S.A.

1.1. Licences

As at December 31st 2014, PGNiG S.A. held the following licences granted by the President of the Polish Energy Regulatory Office (URE) under the Energy Law:

- one licence to trade in gas fuels
- one licence to trade in natural gas with foreign partners
- one licence to trade in liquid fuels
- one licence to produce electricity
- one licence to trade in electricity.

1.2. Changes in gas fuel tariffs

In 2014, the bulk of high-methane and nitrogen-rich natural gas sold by PGNiG S.A. was subject to statutory price control. Only trade in high-methane natural gas on the Polish Power Exchange was exempt from the obligation to submit tariffs for approval.

In 2014, PGNiG Gas Fuel Supply Tariff No. 6/2014, approved by decision of the President of the Energy Regulatory Office dated December 17th 2013, was in effect.

On June 13th 2014, the President of the Energy Regulatory Office approved a change to PGNiG Gas Fuel Supply Tariff No. 6/2014 and extended its effective term until December 31st 2014. The amendment was designed to harmonise the tariff with the Minister of Economy’s Regulation dated June 28th 2013, under which, starting from August 1st 2014, settlements with customers would be based on energy units, while earlier they had been based on units of volume. The new settlement rules did not significantly affect the amounts of payments for gas fuel supplies. The prices of gas fuels were recalculated from amounts expressed per cubic metre into amounts expressed per 1 kWh, with use of the calorific value assumed to determine prices per unit of volume. Changes in payments, if any, may result from differences between calorific values at different places of the gas network or rounding recalculation results (which should not exceed +/-1%).

The following tables present the average rates (gas fuel prices, subscription fees and network charges) applicable in 2014 in settlements with customers purchasing gas fuels, by fuel type and place of delivery (PLN/cubic metre), and the change in their amounts relative to the previous tariff. The amounts do not include excise duty introduced on November 1st 2013.

Area covered by Polska Spółka Gazownictwa Sp. z o.o. Wrocław Branch

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
W-1.1	2.4969	2.6150	4.7%
W-2.1	1.9816	2.0512	3.5%
W-3.1	1.8029	1.9005	5.4%
W-4	1.6693	1.7912	7.3%
W-5 - W-7C	1.7071	1.7001	-0.4%
W-8A - W-10C	1.4651	1.4653	0.0%

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
S-1	1.7900	1.8950	5.9%
S-2	1.4044	1.5152	7.9%
S-3	1.3013	1.4098	8.3%
S-4	1.1801	1.3035	10.5%
S-5 - S-7B	1.2338	1.2468	1.1%
S-8 - S-9	1.1225	1.1394	1.5%

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
Z-1	1.4156	1.5102	6.7%
Z-2	1.2888	1.3774	6.9%
Z-3	1.1623	1.2508	7.6%
Z-4	1.0841	1.1759	8.5%
Z-5 - Z-7B	1.1793	1.1772	-0.2%

Area covered by Polska Spółka Gazownictwa Sp. z o.o. Zabrze Branch

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
W-1.1	2.4726	2.6051	5.4%
W-2.1	2.0440	2.1095	3.2%
W-3.1	1.7660	1.8807	6.5%
W-4	1.6909	1.8102	7.1%
W-5 - W-7C	1.7314	1.7379	0.4%
W-8A - W-11C	1.4681	1.4696	0.1%

Area covered by Polska Spółka Gazownictwa Sp. z o.o. Tarnów Branch

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
W-1.1	2.3594	2.4663	4.5%
W-2.1	1.9590	2.0228	3.3%
W-3.1	1.7288	1.8246	5.5%
W-4	1.6843	1.7779	5.6%
W-5 - W-7BC	1.7355	1.7524	1.0%
W-8A - W-10C	1.4310	1.4423	0.8%

Area covered by Polska Spółka Gazownictwa Sp. z o.o. Warsaw Branch

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
W-1.1	2.7039	2.7874	3.1%
W-2.1	1.8693	1.9397	3.8%
W-3.1	1.6877	1.7924	6.2%
W-4	1.6755	1.7673	5.5%
W-5 - W-7C	1.7086	1.7275	1.1%
W-8A - W-10C	1.3669	1.3700	0.2%

Area covered by Polska Spółka Gazownictwa Sp. z o.o. Gdańsk Branch

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
W-1.1	2.5658	2.6739	4.2%
W-2.1	2.0058	2.0806	3.7%
W-3.1	1.8006	1.9066	5.9%
W-4	1.7451	1.8457	5.8%
W-5 - W-7C	1.7606	1.7742	0.8%
W-8A - W-10C	1.4601	1.4500	-0.7%

Area covered by Polska Spółka Gazownictwa Sp. z o.o. Poznań Branch

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
W-1.1	2.5856	2.6962	4.3%
W-2.1	1.9143	1.9939	4.2%
W-3.1	1.7881	1.8870	5.5%
W-4	1.7032	1.8098	6.3%
W-5 - W-7C	1.6715	1.6640	-0.5%
W-8A - W-10C	1.4140	1.4110	-0.2%

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
S-1	1.8046	1.9231	6.6%
S-2	1.3774	1.5069	9.4%
S-3	1.2602	1.3967	10.8%
S-4	1.1889	1.3290	11.8%
S-5 - S-7B	1.2365	1.2772	3.3%

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
Z-1	1.6422	1.7424	6.1%
Z-2	1.2408	1.3500	8.8%
Z-3	1.1208	1.2362	10.3%
Z-4	1.0570	1.1753	11.2%
Z-5 - Z-7B	1.1157	1.1464	2.8%

Customers connected to the transmission grid of OGP GAZ-SYSTEM S.A.

	Amendment to Tariff No. 5/2012	Tariff No. 6/2014	Change (%)
	1	2	2/1
E-1A - E-2C	1.3302	1.3141	-1.2%
Lw-1 - Lw-2	1.0196	1.0283	0.8%
Ls-1 - Ls-2	0.8537	0.8794	3.0%

On December 17th 2014, the President of the Energy Regulatory Office approved PGNiG Gas Fuel Supply Tariff No. 7/2015, applicable from January 1st 2014 to April 30th 2015. The tariff provided for a new, more flexible classification of natural gas customers into tariff groups (e.g. depending on contracted gas volumes, connection points and unbalanced consumption rates). The average price (the price of gas fuel and the subscription fee) of high-methane and nitrogen-rich (Lw) gas was reduced by ca. 4% and 1.4%, respectively. The PGNiG Tariff is applicable to businesses purchasing fuels for resale and end users with annual gas consumption exceeding 25 mcm.

<u>Exemption from the obligation to submit wholesale gas trading tariffs for approval</u>

On February 19th 2013, the President of the Energy Regulatory Office announced an exemption of energy utilities holding gas fuel trading licences from the obligation to submit wholesale gas trading tariffs for approval. However, energy utilities must individually apply to the President of the Energy Regulatory Office for the exemption. PGNiG S.A. submitted such application to the President of the Energy Regulatory Office, and, as at the date of this report, the proceedings were still pending.

Furthermore, in 2013 PGNiG S.A. applied to the President of the Energy Regulatory Office to be exempted from the obligation to submit for approval tariffs for high-methane natural gas (E) traded at a virtual gas trading point (*OTC* market). As at the date of this 2014 report, the proceedings were still pending.

2. Act on Stocks of Crude Oil, Petroleum Products and Natural Gas

The Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market regulates matters related to ensuring the national fuel security, and sets the rules for building up, maintaining, and financing stocks of natural gas by those energy companies whose business involves international trade in natural gas or which import gas for their own needs. With respect to the business activity of PGNiG S.A., the Act:

- specifies the volume of mandatory stocks, which since October 1st 2012 is equivalent to 30 days' average daily imports of gas (for the period from April 1st of the previous year to March 31st of the current year, calculated based on the figures contained in the Company's statistical reports);
- provides that the return on capital employed in the storage business should be at least 6%;
- stipulates that the cost related to maintaining, releasing and restocking the mandatory stocks represents a justified operating cost within the meaning of Art. 3.21 of the Polish Energy Law;
- introduces the possibility of storing mandatory stocks in another EFTA or EU member state, upon fulfilment of certain conditions set forth in the Act;
- introduces the possibility of exempting an energy company whose business involves international trade in natural gas or an entity which imports natural gas from the obligation to build and maintain mandatory stocks, if the number of their customers does not exceed 100 thousand and the natural gas volume imported in a calendar year does not exceed 100 mcm·

3. Polish Geological and Mining Law

The Polish Geological and Mining Law of June 9th 2011 regulates:

- geological work;
- extraction of minerals from deposits;
- storage of waste matter in rock mass, including in worked-out caverns;
- protection of mineral deposits, underground waters and other components of the environment in connection with geological works and extraction of minerals.

Furthermore, under the Act, a tender procedure was introduced to award licences for exploration or appraisal of hydrocarbons and for production of hydrocarbons, superseding the previous tender procedure for establishment of mineral extraction rights. The provisions of the Geological and Mining Law also govern business activities in the area of tankless storage of substances in rock mass, including in worked-out caverns.

Business activities involving exploration for and appraisal of mineral deposits, extraction of minerals from deposits, tankless storage of substances and storage of waste matter in rock mass, including in worked-out caverns, require licences.

Geological and mining activities are subject to supervision by competent geological and mining supervision authorities. The Geological and Mining Law provides for criminal sanctions for a failure to comply with its regulations, and specifies the upper and lower limits of royalty fees.

On July 11th 2014, a new Act Amending the Geological and Mining Law was passed, introducing a number of material changes to the regulatory environment of the exploration and production segment. The Act has introduced an integrated permit (covering hydrocarbon exploration, appraisal and production) and obligatory qualification procedures, allowed consortia to apply for licences and significantly increased royalty rates (while maintaining the previous royalty regime for marginal deposits).

In 2014, the Ministry of Environment granted PGNiG S.A. eight licences for exploration and appraisal of crude oil and natural gas deposits, while one licence was not extended. In addition, the Company relinquished 14 licences prior to their expiration. The Company was also granted six licences for production of crude oil and natural gas, while six other licences were allowed to expire.

As at December 31st 2014, PGNiG S.A. held the following licences, granted pursuant to the Geological and Mining Law:

- 77 licences for exploration and appraisal of crude oil and natural gas deposits
- 227 licences for production of crude oil and natural gas from deposits
- 9 licences for storage of gas in underground facilities (underground gas storage facilities)
- 3 licences for storage of waste.

4. Regulatory risks

<u>Polish Energy Law</u>

The Act Amending the Energy Law and Certain Other Acts (the so-called "Small Three Pack") of September 11th 2013 has introduced a requirement to sell gas on the exchange market. The requirement to sell gas on the exchange market, which now applies to the Company, is aimed to deregulate the Polish gas market and boost competition. The mechanism improves the market's transparency and allows market participants to purchase products on equal terms. On the other hand, it may cause PGNiG to gradually lose its market share. However, the actual rate at which PGNiG S.A.'s market share might shrink will depend on the number and size of new players entering the gas market and the price differentials between the PGNiG tariff price and prices quoted by other market participants.

Meeting the requirement to sell gas on the exchange market

In terms of supply, PGNiG S.A. is fully prepared to meet its statutory obligation to sell gas through the exchange market. In 2014, the Company was required to sell 40% of its total sales volume through the exchange market. Starting from January 1st 2015, this requirement will cover 55% of the total gas sold. If an energy utility fails to meet the requirement to sell gas through the exchange market, the President of the Energy Regulatory Office may impose on it a fine of up to 15% of its full-year revenue generated from the licensed activity in the previous fiscal year. Given the insufficient demand for gas on the exchange market before the effective date of the Act Amending the Energy Law of June 26th 2014 (which introduced the general succession of agreements), the Company was unable to meet its statutory exchange sale obligation in 2014. In order to ensure the meeting of this requirement, a new company, PGNiG Obrót Detaliczny Sp. z o.o., commenced its operations in August 2014, consisting in buying natural gas at the Polish Power Exchange, and then selling it to retail customers. Since the effective date of the Act introducing the general succession of agreements, the volume of gas sold through the exchange has increased substantially. This will allow the Company to meet its statutory obligation in the coming years. However, the President of the Energy Regulatory Office may impose fines on the Company for failing to meet this obligation in 2013 and 2014.

Tariff calculation

Dependence of PGNiG S.A.'s revenue on tariffs approved by the President of the Energy Regulatory Office is one of the key factors affecting its regulated business. Tariffs are crucial to the Company's ability to generate revenue that would cover its reasonable costs and deliver a return on the capital employed. Currently, a significant portion of that revenue depends on the selling prices of gas fuel, which − except to the extent that the gas is sold through the Polish Power Exchange − are regulated prices. The tariff determination rules are defined in the regulations issued under the Energy Law, including primarily the Tariff Regulation. The tariff determination methodology is based on planned volumes. Inaccurate estimates of customer demand for gas (affecting the accuracy of projected purchase and supply volumes), changes in imported gas prices which cannot be accurately projected, as well as unpredictable exchange rate fluctuations (ultimately affecting the cost of gas imports) may have an adverse effect on the financial performance of PGNiG S.A.

Act on Stocks of Crude Oil, Petroleum Products and Natural Gas

Meeting the statutory requirements related to mandatory stocks exposes PGNiG S.A. to balancing and technology risks, and threatens the performance of its contractual obligations.

The balancing risk is related to the Company's inability to meet peak demand for natural gas in autumn and winter months. During longer spells of low temperatures, it may happen that – despite maximum gas supplies under long-term contracts and from underground gas storage facilities (remaining at the disposal of PGNiG S.A.) – the demand for gas will exceed the volumes which the Company is able provide. This risk may arise even assuming the maximum use of import capacities. To note, given the legally required technical parameters necessary to deliver mandatory gas stocks to the system, a significant portion of the stocks had to be placed at 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 facility's storage capacity and deliverability. As gas from mandatory stocks may be withdrawn only upon the Minister of Economy's consent and only after gas supply limits have been introduced for users, the Company may fail to ensure continuity of gas supplies to consumers. Notwithstanding the above, withdrawal of gas from stocks may lead to a situation where users face gas supply limits despite high volumes of gas held in storage.

The technology risk follows from the fact that the need to maintain mandatory stocks has a negative impact on the operating parameters of underground storage facilities. In a longer run, if gas is not drawn from water-drive storage facilities (such as the Husów Underground Gas Storage Facility), gas will migrate to the reservoir section with poorer porosity and permeability, which will lead to a decrease in gas withdrawal capacity. This could make gas withdrawal more difficult at the end of the withdrawal process, and will reduce withdrawal capacity in the next cycle. In order to restore the operating parameters of the facility, it may be necessary to inject more gas to increase buffer volumes, which will in turn entail additional costs.

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 the summer. Mandatory stocks for the 2014/2015 season remain high. Consequently, PGNiG may not be able to meet its contractual obligation concerning the summer minimum offtake under the Yamal contract because of high volumes of gas in storage at the beginning of summer, attributable to mandatory stocks.

Geological and Mining Law

In July 2014, legislative work was completed on a fundamental change in the regulatory regime for the exploration and production segment, comprising two bills: the draft Act Amending the Geological and Mining Law and Certain Other Acts, and the draft Act on the Special Hydrocarbon Tax. They provide for increasing the fiscal burden on production of minerals and for a change to the existing licensing system. The introduction of the special hydrocarbon tax as of 2020 will considerably impair PGNiG S.A.'s capabilities to make new investments, while the new licensing system (under which the open door procedure will not apply) may significantly slow down the administrative processes, ultimately leading to a decline in the number of hydrocarbon exploration and appraisal licences issued in Poland.

Section V: Exploration and Production

The segment's business focuses on extracting hydrocarbons from deposits and preparing products for sale. The segment comprises the entire process of oil and gas exploration and production, from geological analyses, to geophysical surveys and drilling work, to field development and hydrocarbon production. The work is conducted by the segment on its own or jointly with partners, under joint operations agreements. It relies on storage capacities available at the Daszewo and Bonikowo Underground Gas Storage Facilities.

1. Exploration

Exploration in Poland

In 2014, PGNiG S.A. was involved in crude oil and natural gas exploration and appraisal projects in the Carpathian Mountains, Carpathian Foothills and Polish Lowlands, both on its own and jointly with partners. Drilling work in areas covered by licences awarded to PGNiG S.A was performed on 24 wells, including 15 exploration wells, 6 research wells and 3 appraisal wells. Out of the 24 boreholes, ten were drilled in search for unconventional hydrocarbons.

In 2014, six wells were drilled with positive results, including one exploration borehole in Pomerania (drilled in the past), two exploration boreholes in the Greater Poland region, and three appraisal boreholes in the Carpathian Foothills (including one in search of unconventional deposits). Fourteen wells (five of which had been drilled in previous years) failed to yield a commercial flow of hydrocarbons and were abandoned,

As at December 31st 2014 (i.e. as at the reporting date – although, in accordance with the Geological and Mining Law, the final calculation of reserves is made in March), the Company's recoverable reserves were:

- 81.6 bcm of natural gas measured as high-methane equivalent,
- 18.5m tonnes of crude oil with condensate.

Exploration abroad

In Egypt, PGNiG S.A. conducted exploration work in the Bahariya licence area (Block 3) under an Exploration and Production Sharing Agreement (EPSA) executed with the government of Egypt of May 17th 2009. The Company held a 100% interest in the licence. As results of the exploration campaign were negative, a decision was made to terminate the licence and liquidate the Egypt branch. In 2014, final settlements with Egyptian General Petroleum Corporation (EGPC) were made.

2. Joint operations

In 2014, PGNiG S.A. conducted joint operations with other entities in licence areas awarded to PGNiG S.A., FX Energy Poland Sp. z o.o., and San Leon Energy PLC. Furthermore, PGNiG S.A. collaborated with other entities in carrying out exploration work in Pakistan.

2.1. Joint operations in Poland

On March 31st 2014, PGNiG S.A. entered into a collaboration agreement with Chevron Polska Energy Resources Sp. z o.o. covering the first stage of an unconventional hydrocarbon exploration project. The agreement envisages joint evaluation of unconventional gas resources in four exploration licence areas in south-eastern Poland, including the Zwierzyniec and Grabowiec licences held by Chevron Polska Energy Resources Sp. z o.o., and the Tomaszów Lubelski and Wiszniów–Tarnoszyn licences held by PGNiG S.A. PGNiG S.A. (operator) and Chevron Polska Energy Resources Sp. z o.o. each hold a 50% interest in the licences. In 2014, a vertical exploratory well Majdan Sopocki-1 was drilled and seismic surveys were carried out. Thus the scope of work provided for in the agreement was achieved.

On December 31st 2014, PGNiG S.A. and LOTOS Petrobaltic S.A. signed an agreement for joint operations within the Górowo Iławieckie licence area. PGNiG S.A. (operator) holds a 51% interest in the licence, and LOTOS Petrobaltic S.A. – a 49% interest.

Under the licences awarded to PGNiG S.A., work continued in the following areas:

- "Płotki" – under the agreement for joint operations dated May 12th 2000; licence interests: PGNiG S.A. (operator) – 51%, FX Energy Poland Sp. z o.o. – 49%;
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under the operating agreement dated October 26th 2005; licence interests: PGNiG S.A. (operator) – 51%, FX Energy Poland Sp. z o.o. – 24.5%, Calenergy Resources Poland Sp. z o.o. – 24.5%;
- "Poznań" – under the agreement for joint operations dated June 1st 2004; licence interests: PGNiG S.A. (operator) – 51%, FX Energy Poland Sp. z o.o. – 49%;
- "Bieszczady" – under the agreement for joint operations dated June 1st 2007; licence interests: PGNiG S.A. (operator) – 51%, Eurogas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%;
- "Sieraków" – under the agreement for joint operations dated June 22nd 2009; licence interests: PGNiG S.A. (operator) – 51%, Orlen Upstream Sp. z o.o. – 49%.
- "Kamień Pomorski" – under the agreement of August 14th 2013 (which came into effect in H2 2014); licence interests: PGNiG S.A. (operator) – 51%, LOTOS Petrobaltic S.A. – 49%.

Within the "Poznań" licence area, the Komorze gas field and the Lisewo-2K well in the Lisewo field were brought on stream. A new natural gas deposit was encountered by the Karmin-1 borehole. Three exploratory wells were abandoned due to low gas flows. The Sieraków-3 well within the "Sieraków" area was also abandoned because hydrocarbon production had been unprofitable.

Under licences held by FX Energy Poland Sp. z o.o. work was conducted in the "Warszawa-Południe" area (block 254 and block 255), on the basis of the joint operations agreement dated May 26th 2011. The licence interests are as follows: FX Energy Poland Sp. z o.o. (operator) – 51%, and PGNiG S.A. – 49%. In 2014, FX Energy Poland Sp. z o.o. filed an application with the Ministry of Environment declaring its relinquishment of the oil and gas exploration and appraisal licences in block 254. However, the company was granted a new oil and gas exploration and appraisal licence in block 255.

Under licences awarded to San Leon Energy PLC, work was conducted in the following areas:

- "Karpaty Zachodnie" − under the agreement for joint operations dated December 17th 2009, concluded with Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (a subsidiary of San Leon Energy PLC); licence interests: Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (operator) – 60%, PGNiG S.A. – 40%;
- "Karpaty Wschodnie" − under the agreement for joint operations dated December 17th 2009, concluded with Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (a subsidiary of San Leon Energy

PLC); licence interests: Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (operator) – 80%, PGNiG S.A. – 20%.

On October 23rd 2014, upon application from San Leon Energy PLV, the licences were extinguished, and the agreement for joint operations within the "Karpaty Wschodnie" area was automatically terminated. Two exploration wells were drilled within the "Karpaty Zachodnie" licence area and subsequently abandoned, as they failed to flow natural gas at commercial rates.

2.2. Joint operations abroad

Pakistan

PGNiG S.A. conducts exploration work in Pakistan under an agreement for hydrocarbon exploration and production in the Kirthar licence area executed between PGNiG S.A. 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 in proportion to the parties' interests in the licence: PGNiG S.A. (operator) – 70%, PPL – 30%. In 2014, PGNiG S.A. began preparations to drill appraisal boreholes Rehman-2 and Rehman-3 (scheduled for completion in 2015 and 2016). PGNiG S.A. had to declare a force majeure event and suspend work on the Rizq-1 exploratory well on two occasions due to armed attacks in the region. Work on Rizq-1 was resumed in late December 2014. Production from the Rehman-1 and Hallel X-1 wells continued uninterrupted, and the extracted gas was supplied to the Pakistani transmission system.

3. Production

In 2014, PGNiG S.A. was engaged in hydrocarbon production in Poland and in Pakistan. Natural gas and crude oil in Poland is extracted by two branches of PGNiG S.A.: the Zielona Góra Branch and the Sanok Branch. The Zielona Góra Branch produces crude oil and nitrogen-rich natural gas at 22 sites, including 13 gas production facilities, 6 oil and gas production facilities and 3 oil production facilities. The Sanok Branch produces high-methane and nitrogen-rich natural gas and crude oil at 37 sites, including 20 gas production facilities, 11 oil and gas production facilities and 6 oil production facilities.

In 2014, PGNiG S.A. produced a total of 4,085 mcm of natural gas (high-methane gas equivalent), of which 4,027 mcm was produced from fields in Poland, and 58 mcm from fields abroad. Production of crude oil and other fractions reached 789 thousand tonnes of crude oil equivalent. Natural gas and crude oil production volumes are presented in the table below.

Natural gas production volume

		2014		2013
		GWh	mcm*	mcm*
1.	Natural gas, including:	44,891	4,085	4,242
a.	high-methane gas, including:	15,983	1,457	1,551
	- Zielona Góra Branch			
	- Sanok Branch	15,983	1,457	1,551
b.	nitrogen-rich gas, including:	28,908	2,628	2,692
	- Zielona Góra Branch	27,393	2,490	2,574
	- Sanok Branch	879	80	87
	- Pakistan Branch	636	58	31

* Measured as high-methane gas equivalent.

Crude oil production volume

	Unit of measure	2014	2013
Crude oil, including:	’000 tonnes	789	815
- Zielona Góra Branch	’000 tonnes	742	766
- Sanok Branch	’000 tonnes	47	49

In 2014, in the Sanok Branch area two wells on the already producing fields, four wells within exploratory licence areas and four new fields: Łapanów, Pogwizdów, Mołodycz and Wola Rokietnicka, were brought on stream. The total addition to production capacity is approximately 10.3 thousand cubic metres of gas per hour (high-methane gas equivalent).

In the Zielona Góra Branch area, two wells were brought on stream on the already producing fields: one well on the Radlin field and one well on the Lisewo field (in partnership with FX Energy Poland Sp. z o.o.), with a total production capacity of 3.9 thousand cubic metres per hour (high-methane gas equivalent). The Komorze field, with a production capacity of 1.0 thousand cubic metres per hour (high-methane gas equivalent), was also brought on stream in partnership with FX Energy Poland Sp. z o.o. Additionally, in 2014, one oil well was brought on stream on the new Ołobok field, with a production capacity of 15 tonnes per day.

<u>Underground gas storage facilities</u>

In 2014, the Exploration and Production segment used the working capacities of the Daszewo and Bonikowo nitrogen-rich gas storage facilities. Storage capacities used to meet the needs of the Production segment are not storage facilities within the meaning of the Polish Energy Law.

The table below presents the working capacities of the underground storage facilities used by the Exploration and Production segment as at December 31st 2014.

Working capacities of the underground storage facilities used by the Exploration and Production segment

Nitrogen-rich gas	2014 GWh*	2014 (mcm)	2013 (mcm)
Daszewo (Ls)	250	30	30
Bonikowo (Lw)	1,667	200	200

*Converted to gas with a calorific value of 30 MJ/m^3

4. Sales of key products

The key products sold by the Trade and Storage segment are crude oil, high-methane gas and nitrogen-rich gas. Other products, obtained in the process of crude refining, include crude condensate, sulfur and propane-butane. Some of the produced nitrogen-rich gas is further treated into high-methane gas at the Odolanów and Grodzisk Wielkopolski nitrogen rejection units. Apart from high-methane gas, the cryogenic processing of nitrogen-rich gas yields such products as liquefied natural gas (LNG), gaseous and liquid helium and liquid nitrogen.

In 2014, the Exploration and Production Segment's sales of natural gas totalled 807 mcm, of which 750 mcm was sold in Poland, and 57 mcm was sold in Pakistan. In addition, the segment sold 780 thousand tonnes of crude oil, including other fractions. The table below presents volumes of natural gas sold directly from fields.

Sales of natural gas

	2014		2013
	GWh	mcm*	mcm*
Natural gas, including:	8,953	807	755
- high-methane gas	769	69	72
- nitrogen-rich gas*	8,184	738	683

*Measured as high-methane gas equivalent.

In Poland, the largest amounts of natural gas were sold to industrial customers, accounting for about 79% of the total sales volume. PGNiG S.A. sold crude oil to Rafineria Trzebinia S.A., Rafineria Nafty Jedlicze S.A., TOTSA TOTAL OIL TRADING S.A. and BP Europe SE. In November 2014, PGNiG S.A. and Rafineria Trzebinia S.A. signed an annex to their agreement. Under the annex, the cost of rail transport was transferred to the buyer. Since January 2015, Rafineria Trzebinia S.A. has been responsible for crude oil transport from PGNiG S.A.'s railway terminals to relevant destinations, covering all related costs.

5. Planned activities

Exploration in Poland

In 2015, PGNiG S.A. will carry out exploratory geophysical work and drilling in Poland on a number of prospects in the Carpathian Mountains, Carpathian Foothills and the Polish Lowlands. The work will be conducted by PGNiG S. A. on its own or jointly with partners.

The Company also intends to pursue projects focused on exploring new potential opportunities, where little appraisal has so far been made. In Pomerania, three horizontal wells will be drilled and fracked. PGNiG also plans to drill two exploratory wells into Carboniferous formations, which are a new direction of its hydrocarbon exploration.

Exploration abroad

In Pakistan, in order to verify the potential of the structure located to the north of the Kirthar discovery, PGNiG S.A. will continue drilling the Rizq-1 well and perform further work on the Rehman-2 and Rehman-3 wells.

Hydrocarbon production

PGNiG S.A. is implementing an investment programme to maintain, in a long-term perspective, its natural gas production capacity. As part of the programme, PGNiG S.A. plans to develop new deposits and wells, modernise and expand the existing gas production facilities, build new underground gas storage facilities and expand the existing ones.

Plans for 2015 provide for an annual natural gas production volume of approximately 4.1 bcm of high-methane gas equivalent with a calorific value of 39.5 MJ/cm. The Company will produce natural gas from fields located in Poland and Pakistan. Within the Sanok Branch area, plans for 2015 include launch of production from two wells on the Przemyśl producing field, as well as launch of production from the new Załęże field. Within the Zielona Góra Branch area, it is planned that in 2015 the production will be launched from new wells on the Daszewo, Zaniemyśl and Wilków fields.

In 2015, PGNiG S.A. plans to produce 0.76 million tonnes of crude oil.

6. Risks related to exploration and production

Resource discoveries and estimates

The main risk inherent in exploration activities is the risk of failure to discover resources, i.e. exploration risk. This means that not all the identified potential deposit sites 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 the acquired information concerning the geological factors and the characteristics of the deposit site. Irrespective of the methods applied, data on the volume and quality of commercial reserves of crude oil and natural gas is always an estimate. Actual production, income and expenses relating to a given deposit may significantly differ from the 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 lasts from 10 to 40 years. Formation characteristics determined at the stage of preparing the relevant documentation are reviewed after production starts. Each downgrade of the size of reserves or production quantities may lead to a lower revenue and adversely affect PGNiG S.A.'s financial performance.

Exploration for unconventional deposits of gas

The risk associated with exploration for unconventional deposits of gas in Poland relates to the lack of confirmed presence of *shale gas* and *tight gas*. Furthermore, even if existence of in-place petroleum is confirmed, its production may prove uneconomic due to insufficient gas recovery rates and high investment expenditure necessary to drill wells and construct production facilities. Another material factor is connected with difficult access to unconventional gas plays given the environmental regulations and the necessity to obtain the landowners' consent for access to the area.

Delayed work

Under the applicable Polish legal regulations, obtaining a licence for exploration for and appraisal of crude oil and natural gas deposits lasts from one to one and a half years. On foreign markets, such procedures may take even two years from the time that the winning bid is awarded in a licensing tender for until the relevant contract is ratified. Prior to the commencement of field work, the Company is also required to make a number of arrangements, including obtaining formal and legal permits and approvals for entering the area, meeting environmental protection-related requirements and, in some cases, requirements related to protection of archaeological sites, and abiding by the regulations governing tenders held to select a contractor, which delays 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 the risk of delays in the start of exploration work.

Formal and legal hurdles beyond PGNiG S.A.'s control include:
- local governments' failure to approve local zoning plans or amendments to those already approved;
- obstacles in having investment projects incorporated into the local zoning plans;
- need to obtain and comply with administrative or other formal and legal decisions, including environmental decisions or building permits;
- amendments to the current investment project;
- obstacles in obtaining permission from land owners to enter the site.

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

Cost of exploration

Exploratory work is capital intensive, given the prices of energy carriers and materials. Cost of exploratory work is especially sensitive to steel prices, which are passed onto prices of casing pipes and lifting casing used in drilling. An increase in prices of energy and materials translates into an increase in the cost of exploratory work. Moreover, profitability of foreign exploration projects depends to a significant extent on the prices of oil derivative products and on exchange rates. To reduce drilling costs, PGNiG S.A. introduced the *daily rate* system into its drilling contractors selection procedure in 2011.

Competition

Both on the Polish market and abroad there is a risk of competition from other companies in the area of acquisition of licences for exploration for and appraisal of hydrocarbon deposits. Certain competitors of PGNiG S.A., especially those active globally, enjoy strong market positions and have greater financial resources than those available to PGNiG S.A. Thus, it is probable that such companies would submit their bids in tender procedures and be able to acquire promising licences, offering better terms than PGNiG S.A. could offer given its financial and human resources. This competitive advantage is particularly important on the international market.

Political and economic situation in the regions where PGNiG S.A. operates

In some countries where the Company conducts exploration activities there is a number or risks, which may lead to a limitation, suspension or even discontinuation of the exploration and production activities. These risks include armed conflicts, terrorist attacks, social or political unrest, internal conflicts and civil disturbance.

In 2014 in Pakistan, a group of armed members of the Rind tribe blocked access to the Rizq-1 well, preventing any drilling work. For this reason, PGNiG S.A. suspended its operations in the area and declared a force majeure event. After the situation stabilised, the drilling was resumed in October 2014. However, on the night of November 12th and November 13th, the area came under a gun fire attack that lasted for about half an hour. Following the incident, agreements were signed with local residents for the provision of security services. Also, consultations were held with well service companies (mainly Exalo Drilling S.A.) and the commanders of Rangers units, as a result of which the area was placed under increased security. Despite these measures, work on the Rizq-1 well was disrupted on two more occasions. Consequently, PGNiG S.A. again suspended the well operations and declared force majeure on November 28th 2014, evacuating its staff from the area on November 30th. Work on Rizq-1 was resumed on December 25th 2014.

In certain countries, operations of exploration companies may be hindered by a lack of adequate infrastructure, which may be an obstacle in transporting equipment, personnel and materials to the sites. Also, frequent changes to national legislation may lead to suspending or limiting the scope of exploration.

Unforeseen events

Hydrocarbon deposits developed by PGNiG S.A. are usually located 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 population), natural environment and production equipment.

Safety, environmental protection and health regulations

Ensuring compliance with environmental laws in Poland and abroad may significantly increase PGNiG S.A.'s operating expenses. Currently, PGNiG S.A. incurs significant capital expenditure and costs on ensuring compliance of its operations with ever more complex and stringent regulations concerning safety and health at work, as well as environmental protection. The act of May 18th 2005 amending the Natural Environment Protection Law and certain other acts (Dz.U. No. 113, item 954 of June 27th 2005) rendered the regulations governing the execution of projects which might affect Natura 2000 sites more stringent and enhanced the environmental protection-related requirements with regard to entering the areas of the occurrence of protected plant species and habitats of protected animals.

Section VI: Trade and Storage

The principal activity of the segment is trade in natural gas. Gas sold by the segment sells is mainly imported, but also domestically produced. Sale of natural gas through the distribution and transmission network is regulated by the Polish Energy Law, and gas prices are determined based on tariffs approved by the President of the Energy Regulatory Office (except for the natural gas sold at the Polish Power Exchange). The segment also trades in electricity, certificates of origin for electricity, and CO_2 emission allowances. The segment operates seven underground gas storage facilities (Brzeźnica, Husów, Mogilno, Strachocina, Swarzów, Wierzchowice and Kosakowo).

On August 1st 2014, PGNiG Obrót Detaliczny Sp. z o.o. commenced its operations, taking over a part of PGNiG S.A.'s retail customer portfolio by way of universal succession.

1. Purchases of natural gas

In 2014, PGNiG S.A. purchased gas from abroad and, to a limited extent, from domestic suppliers. PGNiG S.A. bought natural gas mainly under the agreements and contracts listed below, i.e. the long-term contract with OOO Gazprom Export and short- and medium-term gas supply contracts with European suppliers:

- Contract with OOO Gazprom Export for sale of natural gas to the Republic of Poland, dated September 25th 1996, effective until December 31st 2022;
- Individual transactions for natural gas supplies, including with the use of reverse flow on the Yamal Pipeline, with PGNiG Sales & Trading GmbH;
- Agreement with VNG-Verbundnetz Gas AG for sale of Lasów natural gas, dated August 17th 2006, effective until October 1st 2016;
- Individual Agreement with Vitol S.A. for sale of natural gas, dated May 13th 2011, effective until October 1st 2014.

The table below presents the structure of natural gas purchases from suppliers, measured as high-methane gas equivalent.

Structure of natural gas purchases

	2014			2013	
	GWh	mcm	%	mcm	%
Foreign suppliers:	108,711	9,700	96%	10,850	97%
- Gazprom Export	90,733	8,097	83%	8,733	80%
- Other foreign suppliers	17,978	1,603	17%	2,117	20%
Domestic suppliers:	4,082	368	4%	390	3%
- Power exchange	409	37	10%	0	0%
- Other domestic suppliers	3,673	331	90%	390	100%
Total	112,793	10,068	100%	11,240	100%

New contracts

On December 9th 2014, PGNiG S.A. and Qatar Liquefied Gas Company Limited (3) executed a supplementary agreement to the contract for sale of liquefied natural gas (LNG) of June 29th 2009. The supplementary agreement alters the terms on which the contract is to be performed throughout 2015. The gas volumes originally intended for PGNiG S.A. in 2015 will be transferred by Qatar Liquefied Gas Company Limited (3) to other markets. PGNiG will cover the potential difference between the LNG price specified in the contract and the market price obtained by Qatar Liquefied Gas Company Limited (3).Should the price be lower than PGNiG finds satisfactory, any unsold LNG supplies will be shifted to subsequent years of the contract. The supplementary agreement also specifies the terms on which PGNiG S.A. and Qatar Liquefied Gas Company Limited (3) will agree LNG supplies in 2015, once the Świnoujście terminal achieves full operational functionality. The agreement eliminates the risk of PGNiG S.A. having to pay for uncollected LNG in 2015 under the *take or pay* clause.

On November 1st 2014, PGNiG S.A. requested OOO Gazprom Eksport to renegotiate the price of natural gas supplied by OOO Gazprom Eksport under the contract for sale of natural gas to Poland, dated September 25th 1996, with a view to reducing the price.

2. Sales of natural gas

The key products sold by the Trade and Storage segment are high-methane gas and nitrogen-rich gas. PGNiG S.A. sold gas on the Polish market.

In 2014, gas sales of the Trade and Storage segment totalled 13,073 mcm and were ca. 7% lower than in 2013, chiefly on the back of higher average air temperatures in 2014 and growing activity of other players on the gas market, which was in the process of deregulation. The table below presents sales of natural gas in the Trade and Storage segment.

Sales of natural gas

	2014		2013
	GWh	mcm	mcm
Natural gas, including:	145,713	13,073	14,129
- high-methane gas	139,850	12,543	13,603
- nitrogen-rich gas*	5,863	530	526

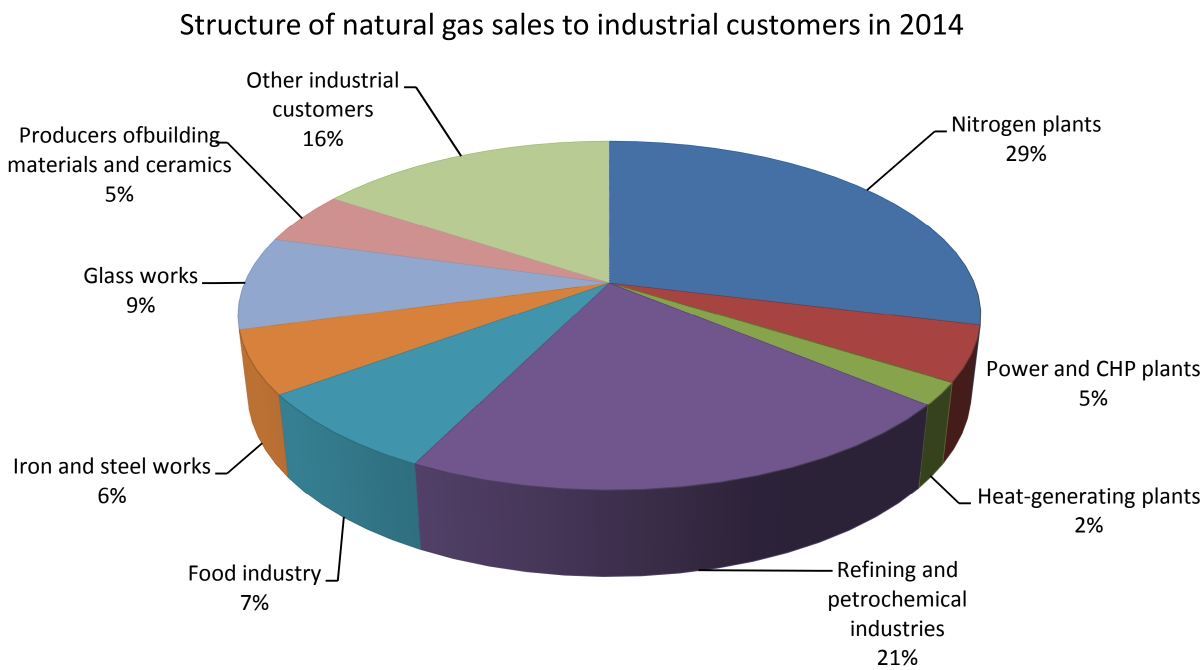
*Measured as high-methane gas equivalent.

Since August 1st 2014, supplies of natural gas to 6.8m PGNiG S.A.'s customers have been provided by PGNiG Obrót Detaliczny Sp. z o.o. PGNiG S.A. continues to supply gas to 114 customers from the industrial, wholesale and commercial groups. In 2014, gas was purchased in largest amounts by industrial customers (mainly in the chemical, oil refining, petrochemical and metallurgical sectors). The table below presents the structure of sales of natural gas by customer groups.

Gas sales by customer groups

	2014		2013
	GWh	mcm	mcm
Industrial customers	66,582	5,972	8,127
Commercial customers	9,214	825	1,702
Households	23,852	2,132	3,919
Wholesale customers	4,331	403	231
Exports	-	-	84
Exchange	41,734	3,741	66
Total	145,713	13,073	14,129

*Measured as high-methane gas equivalent.



New contracts

On January 30th 2014, PGNiG S.A. and KGHM Polska Miedź S.A. signed an annex to the comprehensive gas fuel supply contract of July 30th 2010 for the period until June 30th 2033. Under the annex, the annual volume of gas supplies was reduced from 266 mcm to 41.5 mcm. The change follows from a decision by KGHM to reduce the output of co-generated electricity and heat due to changes in the co-generation support mechanisms and low prices of electricity. The estimated value of the annexed contract is approximately PLN 830m. The parties may restore the original supply volume in the future. The parties also signed annexes to three other contracts for gas fuel supplies to KGHM, i.e. the contracts of September 25th 2001, January 4th 1999, and October 1st 1998. The annexes changed only the duration of the contracts, from indefinite term to the period until June 30th 2033. The estimated aggregate value of the three contracts over their entire term is approximately PLN 2.8bn.

3. Electricity

In 2014, PGNiG S.A. 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).

In 2014, PGNiG S.A. purchased electricity from PGNiG TERMIKA S.A., on the Polish Power Exchange and on the OTC market (under standardised EFET contracts) In 2014, electricity sales totalled 7,282 GWh, up 96% year on year, chiefly on the back of increased trading on the Polish Power Exchange and higher sales to trading companies under EFET contracts. The table below presents sales of electricity by customer group.

Sales of electricity (GWh)

	2014	%	2013	%
End user	260	4%	98	3%
Trading companies	2,869	39%	1,399	38%
Balancing market	425	6%	455	12%
Exchange	3,728	51%	1,767	48%
Total	7,282	100%	3,719	100%

4. Storage

The Trade and Storage segment uses for its own needs the working capacities of the Wierzchowice, Husów, Strachocina, Swarzów and Brzeźnica underground gas storage facilities, as well as the Mogilno and Kosakowo underground gas storage cavern facilities. A part of the working capacity of the Mogilno facility, which was made available to OGP GAZ-SYSTEM S.A., is not a storage facility within the meaning of the Polish Energy Law.
Short-term peak fluctuations in demand for natural gas may be balanced by the supplies from the Mogilno and Kosakowo facilities, where gas is stored in worked-out caverns. The capacities of the Wierzchowice, Husów, Strachocina, Swarzów and Brzeźnica facilities are used to minimise the effect of changes in demand for natural gas in the summer and winter seasons, to meet the obligations under the take-or-pay import contracts, to ensure the continuity and security of natural gas supplies, and to meet the obligations under contracts for gas deliveries to customers' premises.

The capacities of the Wierzchowice, Husów, Mogilno and Strachocina facilities are also used by PGNiG S.A. to meet its obligation to maintain mandatory stocks, imposed by the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market, dated February 16th 2007.

By way of a decision of May 16th 2014, the President of the Energy Regulatory Office expanded Operator Systemu Magazynowania Sp. z o.o.'s licence to reflect the increased working capacities of Wierzchowice (up from 575 mcm to 1,200 mcm) and Strachocina (up from 330 mcm to 360 mcm) facilities, and to include the Kosakowo cavern facility (51.2 mcm). The table below presents the working capacities of underground storage facilities as at December 31st 2013 and December 31st 2014.

Working capacities of the Trade and Storage segment's storage facilities

	2014 GWh*	2014 (mcm)	2013 (mcm)
Brzeźnica underground gas storage facility	713	65.0	65.0
Husów underground gas storage facility	3,840	350.0	350.0
Mogilno Underground Gas Storage Cavern Facility	4,476	407.9	407.9
Kosakowo underground gas storage cavern facility	562	51.2	0.0
Strachocina underground gas storage facility	3,950	360.0	330.0
Swarzów underground gas storage facility	988	90.0	90.0
Wierzchowice underground gas storage facility	13,167	1,200.0	575.0
Total	27,696	2,524.1	1,817.9

*Converted to gas with a calorific value of 39.5 MJ/m^3

5. Planned activities

Purchases of natural gas

In 2015, PGNiG S.A. will continue to purchase imported gas under the long-term contract with OOO Gazprom Export and under short- and medium-term gas supply contracts with European suppliers. With a view to optimising the costs of gas procurement, the Company will purchase natural gas on the German market, under short-term contracts. The gas will be delivered using the virtual reverse flow service on the Yamal gas pipeline. In 2015, the Company expects to receive the first supplies of LNG under the contract with Qatar Liquefied Gas Company Limited (3). The actual date when supplies to customers are launched depends on the Świnoujście regasification terminal achieving full operational functionality.

Co-generation support mechanism

On April 30th 2014, the Act Amending the Energy Law and Certain Other Acts came into force and reinstated the co-generation support mechanism. Under the Act, energy utilities selling electricity to end users are obliged to purchase and redeem certain number of certificates of origin for electricity produced by co-generation. The reinstated mechanism, which supports CHP plants, creates an opportunity for PGNiG S.A. to increase the volume of gas sold in this segment.

Storage

In 2015, PGNiG S.A. will continue work on extending the Mogilno cavern facility and will commence to extend the Brzeźnica facility. The Company will also continue the construction (begun in 2007) of the Kosakowo underground gas storage cavern for high-methane gas.

6. Risks related to trade and storage

Deregulation of natural gas prices

The pending deregulation of the Polish gas market is bound to trigger major changes, in the market itself and in the related legal framework. In 2012, a natural gas market was launched on the Polish Power Exchange. Under a decision of the President of the Energy Regulatory Office, gas trading on the exchange is exempt from the tariff obligation. Furthermore, it is expected that prices of gas for end users will be gradually liberalised. The first customer group in respect of which the tariff requirement will be disapplied includes customers who purchased more than 25 mcm of natural gas in the previous calendar year.

As regards gas trading on the Polish Power Exchange, there is a risk that revenues from sale of natural gas will be lower than the cost of its purchase, as a result of the growing disparity between market prices of gas and of petroleum products, which still influence the prices in long-term import contracts.

Competition

Regardless of the gas price liberalisation, in 2014 PGNiG S.A.’s customers increasingly often used alternative natural gas suppliers. This trend was particularly prevalent among major industrial customers. The situation was caused mainly by the prices of natural gas on western markets, which were lower than prices in PGNiG S.A.’s tariff. The rate at which this trend continues indicates that failure to deregulate prices for this customer group strengthens the risk that the volumes of gas sold by PGNiG S.A. will decrease.

In addition, in August 2014 PGNiG Obrót Detaliczny Sp. z o.o. took over PGNiG S.A.’s retail customer portfolio. Thus, the company has become the largest retail supplier of natural gas, while PGNiG S.A. has maintained its leading position on the wholesale market.

Take-or-pay gas delivery contracts

PGNiG S.A. is a party to three long-term take-or-pay contracts for gas fuel deliveries to Poland. The most important of these are the contracts with OOO Gazprom Export and Qatar Liquefied Gas Company Limited (3). Assuming that PGNiG S.A.’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. In the event of loss of market share by PGNiG S.A., there is a risk that the Company would be forced to look for new ways to utilise the surplus gas volumes in its portfolio. Otherwise, the Company might have to pay for the gas it has not collected (under the take or pay clauses) or sell its excess volumes at negative margins.

On December 9th 2014, PGNiG S.A. and Qatar Liquefied Gas Company Limited (3) executed a supplementary agreement to the contract for sale of liquefied natural gas (LNG) of June 29th 2009. The agreement eliminates the risk of PGNiG S.A. having to pay for uncollected LNG in 2015 under the take or pay clause.

Another risk is that with the existing contract terms and market conditions, the tariffs approved by the President of the Energy Regulatory Office will not cover PGNiG S.A.’s weighted average cost of gas purchase.

Disruptions to gas supplies from countries east of Poland

In the period from September to December 2014, quantities of natural gas supplied by OOO Gazprom Export were lower than those ordered by PGNiG S.A. To meet customer demand for gas and to continue gas injection into underground storage, the Company imported the missing volumes from the west (through Mallnow, Lasów) and the south (Cieszyn). Moreover, in late October the Company started withdrawing gas from underground storage as part of the commercially available capacities. Given the continuing political instability in Ukraine, there is a risk of further limitations in gas supplies.

Obligation to diversify imported gas supplies

The Council of Ministers’ Regulation of October 24th 2000 on the minimum level of diversification of foreign sources of gas supplies prescribes the maximum share of gas imported from a single country in total gas imports in a given year. In 2015−2018, the share may not exceed 59%.

In previous years, the President of the Energy Regulatory Office instigated administrative proceedings to impose a fine on PGNiG S.A. for its failure to comply with the diversification requirement in 2007, 2008, 2009, 2010 and 2011. In a letter of April 28th 2014, the President of the Energy Regulatory Office notified PGNiG S.A. of administrative proceedings being instigated to impose a fine on PGNiG S.A. for its failure to comply with the obligation to diversify supplies of imported gas in 2012.

As long as the Regulation is not amended, the President of the Energy Regulatory Office will be able to impose 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). For failing to comply with the obligation to diversify supplies of imported gas in 2007−2008, the President of the Energy Regulatory Office imposed a fine of PLN 2,000,000 on the Company. The Polish Court of Competition and Consumer Protection reduced the penalty to PLN 1,500,500. Having examined PGNiG S.A.’s appeal, on January 14th 2015, the Warsaw Court of Appeals issued a decision reducing the fine further, to PLN 500,000. On January 30th 2015, the Company paid the fine. Following receipt of the written statement of reasons from the Court of Appeals, PGNiG S.A. will consider lodging an appeal in cassation.

Section VII: Other Activities

PGNiG S.A.'s organisational unit classified in the Other Activities segment is the Central Measurement and Testing Laboratory Branch. The Branch provides services ensuring accurate and reliable measurements of natural gas quality and volume. It also performs calibration, attestation, compliance verification, and testing of measurement devices and systems used in the natural gas industry, including testing of new measurement and analysis apparatus. The Laboratory also offers occupational training and advisory services, issues opinions, prepares expert reports, as well as validates and supervises field quality-testing laboratories.

In 2014, the Laboratory's main areas of activity included:

- Metrological inspections of measurement systems on the Yamal-Europe transit gas pipeline (Polish section),
- Metrological inspections of measurement systems at industrial customers' metering stations (28 facilities, including first-time inspection of an LNG regasification station),
- Checking and evaluation of natural gas measurement systems for the purposes of assessment of CO_2 emissions by large industrial emitters,
- Measurement oversight of process analyser systems for the evaluation of gas quality in transmission and distribution networks, at production sites and in storage facilities,
- Validations and measurement supervision of the field laboratories controlling the quality of natural gases,
- Testing the feasibility of using ultrasound gas meters, including clamp-on meters (stage II),
- Optimisation testing of equipment for measuring gas temperatures inside pipelines,
- Development of analytic procedures, technical consultancy, mainly for LNG quality control and measurements (as part of preparatory work for acceptance of the LNG terminal in Świnoujście),
- Development of a methodology for and analysis of LNG shipped by road tankers.

In 2014, the Laboratory also continued to work in a consortium building a laboratory for high-pressure gas meter calibration − a project carried out by OGP GAZ-SYSTEM S.A. As a consortium member, the Laboratory is responsible for the preparation of documentation for the laboratory's quality management system. Also in 2014, the Laboratory extended the range of occupational training to include LNG measurement and analytics, and received an authorisation to conduct examinations and award professional licences. The Laboratory mainly rendered its services to PGNiG Group entities, including Polska Spółka Gazownictwa Sp. z o.o., EUROPOL GAZ S.A. and OGP GAZ-SYSTEM S.A.

Planned activities

The Laboratory intends to continue the organisation and provision of industry training programmes that it launched in 2013. These involve training programmes in power engineering, construction and operation of gas networks, as well as verification of gas network construction, safety-at-work, fire-fighting, LNG measurement and analytics, and environmental protection qualifications (as part of measurements of natural gas quality and volume and sample collection). In addition, in the first half of 2015 the Laboratory intends to complete the performance optimisation testing of systems for measuring gas temperatures in pipelines. It wants to maintain its position as the leading research laboratory and attestation centre, carrying out metrological inspections of measurement systems and devices used in the natural gas industry. The Laboratory also intends to remain the key laboratory in the area of quality assessment of natural gases of all types and forms, including LNG, CNG and biogas; evaluation of measurement and process analyser systems used to estimate CO_2 emissions and other types of emissions; settlement of gas fuels in units of energy; and measurement supervision of field laboratories.

Section VIII: Investments

In 2014, capital expenditure incurred by PGNiG S.A. on property, plant and equipment and intangible assets was PLN 1,176m, having gone down by ca. 26% year on year. The table below presents PGNiG S.A.'s expenditure in the individual segments.

Capital expenditure (PLNm)

	2014	2013
Exploration and Production	846	1,020
Trade and Storage	330	465
Other Activities	0	0
Total	1,176	1,485

Below are described the key capex projects implemented by PGNiG S.A. in 2014.

Exploration and Production

The expenditure of PGNiG S.A. on exploration work amounted to PLN 451m. It included chiefly the cost of geophysical surveys, six wells drilled with positive results, and wells on which work is still under way.

The segment's other investment projects involved the development of documented gas reserves (including already producing fields), projects executed to sustain or restore hydrocarbon production rates, and projects for the operation of the hydrocarbon production area. The key investment projects included:

- Completion of development of the Lisewo and Komorze gas fields,
- Completion of development of a well in the Radlin field,
- Completion of development of the Maćkowice-3K well,
- Completion of drilling work and commencement of development of a well in the Daszewo field,
- Drilling work and development of wells in the Brońsko field,
- Drilling work and development of wells in the Przemyśl field,
- Development of the Księżpol 19 well.

Trade and Storage

The capex of the Trade and Storage segment amounted to PLN 330m. Major investment projects in 2014 included construction and extension of underground gas storage facilities, including:

- Wierzchowice underground gas storage facility − removal of defects in the power section (the turboexpander),
- Kosakowo underground gas storage cavern facility − in December 2014, following final acceptance, two caverns (K-2 and K-3) started to be filled with gas. Moreover, construction of the K-5 cavern was continued and 5 more holes were drilled for construction of new caverns,
- Mogilno underground gas storage cavern facility − the Z-15 cavern started to be filled with gas; gas also started to be pumped into the Z-17 cavern, while construction of the Z-16 cavern was continued,
- Husów underground gas storage facility − extension of the storage facility to bring its capacity up to 500 mcm was completed in December 2014 − the facility started to be filled with gas; total expenditure on the project amounted to PLN 64m.

On April 2nd 2014, PGNiG S.A. terminated its contract with the consortium contracted to carry out construction work at the Wierzchowice underground gas storage facility, comprising PBG S.A. w upadłości układowej (in company voluntary arrangement), Tecnimont S.p.A., Société Française d'Etudes et de Réalisation Equipements Gazier SOFREGAZ, Plynostav Pardubice Holding A.S. and Plynostav – Regulace Plynu A.S. in organisational bankruptcy. The grounds for the termination were improper performance of the project in conflict with the contract, as well as a delay in execution of work exceeding 30 business days, which continued unrectified even though the consortium had been given an extended deadline to remove the default. The work related to the power section (the turboexpander) of the Wierzchowice underground gas storage facility will be completed by PGNiG Technologie S.A.

In 2014, PGNiG S.A. completed a project consisting in LNG-based distribution of gas fuel to customers in Ełk and Olecko. This project was a part of an initiative to switch Pisz, Ełk, Suwałki and Olecko to high-methane gas (PESO project), and involved construction of an LNG regasification station and two-step pressure reduction, metering and odorising stations in Ełk and Olecko, and switching customers in those towns to high-methane gas. Total expenditure on the project amounted to PLN 11.9m.

Section IX: Environmental protection

Well and extraction pit abandonment

Pursuant to the Polish Geological and Mining Law, PGNiG S.A. is required to properly abandon worked-out extraction pits, eliminate the danger and repair any damage caused by mineral extraction, and restore the land to its original condition. Plugging of wells and pits prevents leakage of crude oil and natural gas to the surface and into water courses. Furthermore, if gas wells remain unplugged, there is a risk that escaping gas could accumulate, posing a fire hazard. In 2014, plug and abandonment operations were performed on a total of 45 wells and 34 extraction pits.

Carbon emissions trading scheme

In 2014, the Zielona Góra Branch and the Odolanów Branch, the Mogilno Underground Gas Storage Cavern Facility, the LMG crude oil and natural gas production facility, Wierzchowice Underground Gas Storage Cavern Facility, and Kosakowo Underground Gas Storage Cavern Facility were covered by the carbon dioxide emissions trading scheme (ETS). In 2014, CO_2 emissions from these installations reached 146,589 Mg. In 2014, PGNiG S.A. reviewed annual reports on its carbon dioxide emissions for 2013. Carbon emissions from the installations covered by the EU ETS scheme in 2013 totalled 84,961 Mg. After reconciling its CO_2 emissions with emission rights held, and after redeeming the allowances allocated for 2013, a deficit of 23,836 Mg CO_2 free emission units was identified. The deficit was covered with reserves accumulated in the accounts of PGNiG's installations (unused free allocations from previous years) and with allowances purchased on the Intercontinental Exchange Futures Europe. In the current trading period (2013-2020), the free allocation of CO_2 emission allowances covers only a part of the actual emissions. The free allocations will decrease gradually, reaching zero in 2027.

Land reclamation and non-productive asset surveying

Pursuant to the Environmental Protection Law, PGNiG S.A. conducts diagnostic tests, surveys and land reclamation work in areas polluted in the course of past activities, with a view to restoring them to the condition required under the environmental quality standards. In 2014, work was completed on a real property located in Warsaw using an *in-situ* bioremediation method. Through the application of a biopreparation made on the Company's instruction from indigenous microorganisms, within two years the soil was cleaned up to a standard typical of service/industrial areas. The Company also monitored the soil-water environment of the reclaimed landfill site and a property in Zabrze.

REACH and CLP

In 2014, PGNiG S.A. was supervising the compliance by its subcontractors using chemical substances for well treatments with the regulations of the European Parliament and of the Council of the European Union on safe use of chemicals (*REACH*) and on the classification, labelling and packaging of substances and mixtures (*CLP*). The Company also drew up contractual provisions, to be included in its hydraulic fracturing, mud and cementing service agreements, concerning the use of chemical substances and mixtures, which would facilitate the control of related hazards and ensure compliance with all requirements imposed by Polish and EU laws. At the request of the Polish Exploration and Production Industry Organization, the Company also compiled a list of all substances and mixtures it had used for fracturing operations.

Section X: Other information

<u>Distribution of the 2013 profit</u>

On May 15th 2014, the Annual General Meeting of PGNiG S.A. passed a resolution on the distribution of the 2013 net profit of PLN 1,688.6m. The profit was distributed as follows:
- PLN 797.0m was allocated to the Company's statutory reserve funds,
- PLN 885.0m was allocated for dividend payments (dividend per share of PLN 0.15),
- PLN 6.6m was allocated to cover accumulated losses taken over by PGNiG S.A. on merger with PGNiG Energia S.A.

The Annual General Meeting of PGNiG S.A. set August 14th 2014 as the dividend record date and September 4th 2014 as the dividend payment date.

<u>Discharge granted to Management Board and Supervisory Board members in respect of their duties</u>

On May 15th 2014, the Annual General Meeting of PGNiG S.A. approved the financial statements and the Directors' Report on the operations of PGNiG S.A., as well as the consolidated financial statements and the Directors' Report on the operations of the PGNiG Group, and granted discharge to members of the Management and Supervisory Boards of PGNiG S.A. in respect of their duties in the financial year 2013.

<u>PGNiG tax group agreement</u>

The PGNiG tax group, set up for the purpose of accounting for corporate income tax, was registered on February 24th 2014, and commenced operations on April 1st 2014. The PGNiG tax group comprises the following companies: PGNiG S.A., PGNiG Obrót Detaliczny Sp. z o.o., Polska Spółka Gazownictwa Sp. z o.o., PGNiG TERMIKA SA, Operator Systemu Magazynowania Sp. z o.o., PGNiG SPV 5 Sp. z o.o., PGNiG SPV 6 Sp. z o.o., and PGNiG SPV 7 Sp. z o.o. The PGNiG tax group agreement covers three consecutive tax years, i.e.:
- April 1st–December 31st 2014
- January 1st–December 31st 2015
- January 1st–December 31st 2016

The other PGNiG Group companies are separate CIT taxpayers.

<u>Proceedings before the President of the Polish Office of Competition and Consumer Protection (UOKiK)</u>

On December 28th 2010, the President of the Polish Office of Competition and Consumer Protection ("UOKiK") instigated, ex officio, anti-trust proceedings concerning alleged abuse by PGNiG S.A. of its dominant position on the domestic natural gas wholesale market, which consisted in inhibiting sale of gas against the interests of other business players or consumers and in impeding the development of market conditions necessary for the emergence or development of competition by refusing to sell gas fuel under a comprehensive supply contract to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw. In its decision of July 5th 2012, the President of UOKiK found these practices to be anti-competitive, concluded that PGNiG S.A. had discontinued those practices as of November 30th 2010, and imposed on the Company a fine of PLN 60,016,474.40. On July 24th 2012, PGNiG S.A. filed an appeal against the decision of the President of the UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw. In the judgement of May 12th 2014, the Regional Court of Warsaw dismissed PGNiG's appeal. On June 4th 2014, PGNiG S.A. appealed against the decision to the Warsaw Court of Appeals. As at the date of this report, the Warsaw Court of Appeals had not notified PGNiG S.A. of a hearing date.

On February 22nd 2013, the President of UOKiK instigated anti-trust proceedings concerning alleged employment by PGNiG S.A. of practices infringing collective consumer interests. The President of UOKiK accused PGNiG S.A. of using provisions classified as abusive clauses in contract forms based on which comprehensive gas fuel supply contracts are concluded. PGNiG S.A. voluntarily agreed to revise the above contract forms with respect to the questioned clauses. By virtue of a decision of June 28th 2013, the President of the UOKiK resolved not to impose a fine on PGNiG S.A. and obligated the Company to fulfil its commitment. On July 29th 2014, PGNiG S.A. notified the President of the UOKiK that it had fully complied with the obligation imposed on it by virtue of the above decision.

On April 3rd 2013, the President of UOKiK instigated anti-trust proceedings concerning alleged abuse by PGNiG S.A. of its dominant position on the domestic wholesale and retail natural gas market, which consisted in impeding the development of market conditions necessary for the emergence or development of competition by:

- limiting the ability of business customers to reduce ordered volumes of gas fuel and contractual capacity,
- limiting the ability of business customers to resell gas fuel,
- requiring that business customers define the maximum volume of gas fuel purchased for resale in the contract,
- refusing to grant wholesale customers the right to a partial change of supplier.

In the course of the proceedings, PGNiG S.A. voluntarily agreed to revise certain provisions in contracts with its non-household customers. By virtue of a decision of December 31st 2013, the President of UOKiK resolved not to impose a fine on the Company and obliged the Company to fulfil its commitment. PGNiG S.A. complied with the obligations imposed by the decision of the President of UOKiK within the prescribed time limits. On August 1st 2014, PGNiG Obrót Detaliczny Sp. z o.o. took over the gas retail business from PGNiG S.A. and consequently assumed all rights and obligations under the decisions issued by the President of UOKiK on the basis of the Act on Competition and Consumer Protection to the extent they related to agreements to which PGNiG Obrót Detaliczny Sp. z o.o. became a party. PGNiG Obrót Detaliczny Sp. z o.o. is in the course of performing the obligation (to the extent corresponding to its scope of business) imposed under the decision of the President of UOKiK dated December 31st 2013.

On October 17th 2014, the President of UOKiK commenced administrative proceedings to impose a fine under Art. 107 of the Act on Competition and Consumer Protection of February 16th 2007 (consolidated text in Dz.U. of 2015, item 184) on PGNiG S.A. and PGNiG Obrót Detaliczny Sp. z o.o. on suspicion of a delay in compliance with Section I).4) of the conclusion of the President of UOKiK's decision of December 31st 2013. On the same date, PGNiG S.A. and PGNiG Obrót Detaliczny Sp. z o.o. were requested to provide explanation within 21 days. In their response, PGNiG S.A. and PGNiG Obrót Detaliczny Sp. z o.o. presented grounds for their actions and their position whereunder such actions comply with Section I).4) of the conclusion of the President of UOKiK's decision of December 31st 2013. By the date of this report, the President of UOKiK had not issued any final ruling on the case.

<u>Collective dispute with the employer</u>

On October 21st 2014, an agreement was executed ending the collective dispute between the trade unions active at PGNiG S.A. and the Management Board of PGNiG S.A. The collective dispute was initiated on July 9th 2014 after the Company's Management Board decided not to grant the demands put forward by the PGNiG trade unions, which concerned setting the remuneration growth rate for 2014 at 5.59% per year, increasing the value of vouchers to PLN 2,000 per year, and revoking the termination of Agreements on Annual Bonus of March 27th 2013 and June 24th 2013. In the agreement that was reached, the parties decided, among other things, to waive the remuneration growth in 2014, limit the value of vouchers distributed to employees in 2014 to PLN 1,500 and recognise the termination of Agreements on Annual Bonus of March 27th 2013 and June 24th 2013 as effective.

Proceedings with a value in excess of 10% of the Company's equity

In 2014, neither PGNiG S.A. nor its subsidiaries were engaged in any proceedings before a court, arbitration tribunal or administrative authority concerning liabilities or claims whose value (whether in any single case or in two or more cases jointly) would represent at least 10% of the Company's equity.

Section XI: Financial performance

1. Financial performance in 2014

The financial statements of PGNiG S.A. for 2014 are audited by PKF Consult Sp. z o.o. The agreement with the auditor was signed on February 5th 2013, for three years (2013−2015). Detailed information on the auditor’s fees has been provided in the separate financial statements of PGNiG S.A. for the year ended December 31st 2014 (Note 37.5).

1.1. Key financial and business data

The separate financial statements of PGNiG S.A. for the year ended December 31st 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union as at December 31st 2014. The accounting policies applied in preparing the financial statements are presented in the separate financial statements of PGNiG S.A. for the year ended December 31st 2014 (Note 2).

In 2014, PGNiG S.A. posted a net profit of PLN 1,895m, up by PLN 207m year on year.

Summary information on PGNiG S.A.’s financial standing in 2014 relative to 2013 is presented below in the financial statements prepared in accordance with the International Financial Reporting Standards, which comprise:

- statement of financial position,
- statement of profit or loss,
- statement of cash flows,
- selected financial ratios.

Separate statement of financial position (PLNm)

ASSETS	Dec 31 2014	Dec 31 2013	Jan 1 2013
Total non-current assets	27,387	26,946	27,770
Property, plant and equipment	13,520	13,775	14,094
Investment property	1	1	2
Intangible assets	254	282	204
Shares	8,611	7,796	7,246
Other financial assets	4,403	4,668	5,780
Deferred tax assets	469	380	397
Other non-current assets	129	44	47
Total current assets	7,969	8,478	8,875
Inventories	2,506	2,707	2,427
Trade and other receivables	1,307	3,368	4,684
Current tax assets	-	-	24
Other assets	20	18	18
Current financial assets	1,805	327	501
Derivative financial instrument assets	388	307	105
Cash and cash equivalents	1,942	1,683	1,043
Non-current assets held for sale	1	68	73
Total assets	35,356	35,424	36,645

Separate statement of financial position (PLNm) – contd.

EQUITY AND LIABILITIES	Dec 31 2014	Dec 31 2013	Jan 1 2013
Total equity	23,780	22,969	21,962
Share capital	5,900	5,900	5,900
Share premium	1,740	1,740	1,740
Accumulated other comprehensive income	(185)	14	(66)
Retained earnings	16,325	15,315	14,388
Total non-current liabilities	7,385	7,023	7,287
Borrowings and other debt instruments	4,498	4,432	4,390
Employee benefit obligations	134	154	89
Provisions	1,414	1,156	1,576
Deferred revenue	690	621	559
Deferred tax liabilities	580	609	632
Other non-current liabilities	69	51	41
Total current liabilities	4,191	5,432	7,396
Trade and other payables	2,414	2,888	2,774
Borrowings and other debt instruments	656	1,691	3,879
Derivative financial instrument liabilities	423	123	393
Current tax liabilities	181	175	-
Employee benefit obligations	43	117	191
Provisions	472	434	154
Deferred revenue	2	4	5
Total liabilities	11,576	12,455	14,683
Total equity and liabilities	35,356	35,424	36,645

Separate statement of profit or loss (PLNm)

	2014	2013
Revenue	23,738	27,110
Total operating expenses	(22,105)	(24,977)
Raw materials and consumables used	(15,101)	(16,985)
Employee benefits expense	(750)	(970)
Depreciation and amortisation	(722)	(731)
Services	(4,156)	(5,665)
Work performed by the entity and capitalised	10	11
Other income and expenses	(1,386)	(637)
Operating profit	1,633	2,133
Finance income	966	1,020
Finance costs	(377)	(1,040)
Profit before tax	2,222	2,113
Income tax	(327)	(425)
Net profit	1,895	1,688

Separate statement of cash flows (PLNm)

	2014	2013
Net cash generated by operating activities	3,982	4,319
Net cash (used in)/generated by investing activities	(1,845)	(413)
Net cash used in/(generated by) financing activities	(2,149)	(3,264)
Net increase/(decrease) in cash and cash equivalents	-12	642
Effects of exchange rate changes on the balance of cash held in foreign currencies	1	(2)
Cash from/used in cash pooling activities	268	-
Cash and cash equivalents at beginning of the period	1,685	1,043
Cash and cash equivalents at end of the period	1,673	1,685
including restricted cash	451	476

Financial ratios

Profitability

	2014	2013
EBIT (PLNm) operating profit	1,633	2,133
EBITDA (PLNm) operating profit + depreciation/amortisation	2,355	2,864
ROE net profit to equity at end of the period	8.0%	7.3%
NET MARGIN net profit to revenue	8.0%	6.2%
ROA net profit to assets at end of the period	5.4%	4.8%

Liquidity

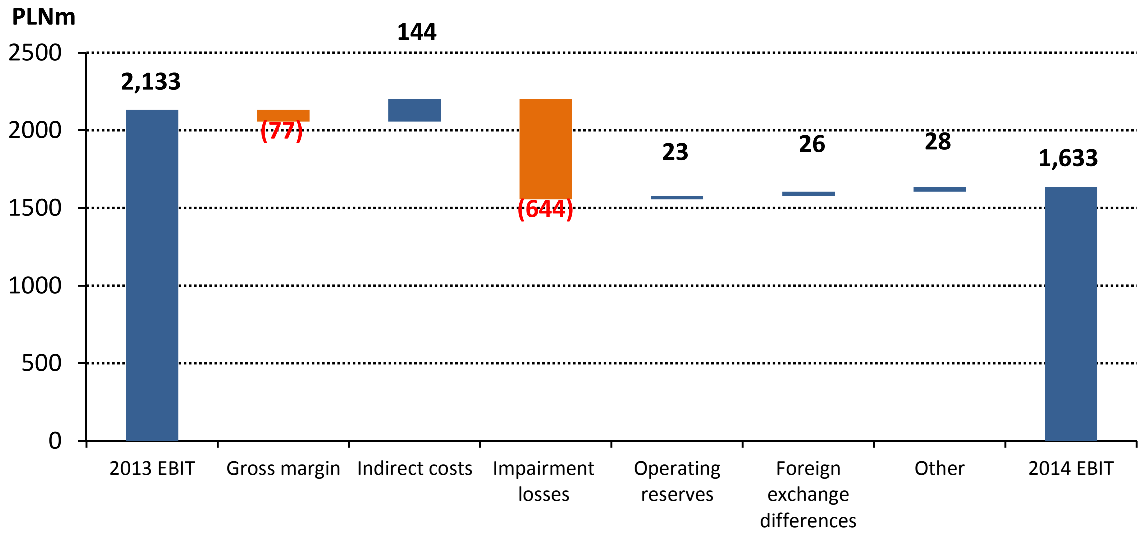
	Dec 31 2014	Dec 31 2013
CURRENT RATIO current assets to current liabilities (net of employee benefit obligations, provisions and deferred income)	2.2	1.7
QUICK RATIO current assets less inventories to current liabilities (net of employee benefit obligations, provisions and deferred income)	1.5	1.2

Debt

	Dec 31 2014	Dec 31 2013
DEBT RATIO total liabilities to total equity and liabilities	32.7%	35.2%
DEBT/EQUITY RATIO total liabilities to equity	48.7%	54.2%

1.2. Financial standing

Year on year, PGNiG S.A.'s operating profit (EBIT) fell by PLN 500m. The chart below shows changes in EBIT in 2013−2014.



Gross margin (the difference between revenue and direct cost) on sales of products and services was down PLN 77m, chiefly due to lower average selling prices of high-methane gas, crude oil and helium. The drop in average selling prices of high-methane gas was caused mainly by the transfer of the retail business from PGNiG S.A. to PGNiG Obrót Detaliczny Sp. z o.o. in H2 2014 and, consequently, a higher volume of trading executed on the Polish Power Exchange. At the same time, lower prices of gas at the *TTF* (*Title Transfer Facility*) and of crude oil (Brent) brought down the unit gas costs, but not enough to offset the lower selling prices. The average gas selling prices fell despite the introduction of new PGNiG S.A. Gas Fuel Supply Tariff No. 6/2014, effective from January 2014. The Tariff takes into account the new model of the Polish gas market, but it had a significant effect on the result on high-methane gas sales only in the first half of 2014. The selling prices of crude oil and helium followed the market prices of petroleum products. The progressing decline of Brent crude prices (especially in the last quarter of 2014) had a negative effect on revenue from sales of crude oil. The weakening of the Polish złoty offset, to some degree, the impact of that process on foreign-currency revenue. The margin on sales of other products remained stable year on year.

Indirect costs were down PLN 144m, which resulted mainly from the transfer of the retail business from PGNiG S.A. to PGNiG Obrót Detaliczny Sp. z o.o. in H2 2014.

The decrease in operating profit (EBIT) was driven by recognition of impairment losses and write-downs of PLN 644m on:

- property, plant and equipment associated with hydrocarbon production,
- tangible exploration and evaluation assets under construction,
- high-methane gas inventories (due to the loss of calorific value of gas at the Wierzchowice underground gas storage facility, and market valuation of high-methane gas inventories based on forecast selling prices).

Despite the impairment losses, the upstream business continued to secure the stability of the Company's financial position.

Year on year, net finance income was up PLN 609m, which was driven by a PLN 185m increase in dividends from subsidiaries, a PLN 244m drop in foreign exchange losses, and a PLN 368m decrease in impairment losses recognised on financial assets.

The Company's financial position was reflected in its key financial ratios. Return on equity (ROE) grew from 7.3% to 8%. Return on assets (ROA) was 5.4%, against 4.8% in 2013, and net margin increased from 6.2% to 8%.

Statement of financial position

As at December 31st 2014, total assets recognised in the separate statement of financial position were PLN 35,356m, down PLN 68m on the end of December 2013.

Assets

Property, plant and equipment, of PLN 13,520m as at the end of December 2014, down PLN 255m (2%) relative to December 31st 2013, was the largest item of the Company’s assets. The decrease in property, plant and equipment was driven mainly by the recognition of impairment losses on production and exploration assets.

Shares are another major item of assets. As at December 31st 2014, they totalled PLN 8,611m, up PLN 815m (10%) on the end of 2013. The increase followed mainly from the spin-off of PGNiG Obrót Detaliczny Sp. z o.o. from PGNiG S.A. and the acquisition of shares in PGNiG Obrót Detaliczny Sp. z o.o. with a value corresponding to that of the transferred assets.

Other financial assets stood at PLN 4,403m, down PLN 265m (6%) on December 31st 2013. The decline was attributable to the reclassification of the current portion of loans to current financial assets.

As at December 31st 2014, current assets stood at PLN 7,969m, down PLN 509m (6%) relative to December 31st 2013.

Relative to December 31st 2013, there was a decrease in inventories of PLN 201m (7%). The inventories disclosed in the statement of financial position comprise mainly gas stored in underground storage facilities. The volume of gas stored was down by 37 mcm relative to the end of 2013. At the same time, write-downs were up PLN 69m.

Trade and other receivables fell by PLN 2,061m (61%) relative to the end of 2013, which resulted from the transfer of the retail business from PGNiG S.A. to PGNiG Obrót Detaliczny Sp. z o.o.

Current financial assets stood at PLN 1,805m, up PLN 1,478m on December 31st 2013. The increase was attributable to reclassifications from non-current loans, new loans advanced to PGNiG Group companies, and the acquisition of notes issued by PGNiG Obrót Detaliczny Sp. z o.o.

As at December 31st 2014, cash and cash equivalents stood at PLN 1,942m, up PLN 259m (15%) relative to the end of 2013, providing the Company with a very strong liquidity position.

The value and structure of current assets held by the Company guaranteed its ability to settle all liabilities in a timely manner. The current ratio was 2.2 compared with 1.7 as at the end of December 2013, while the quick ratio rose from 1.2 to 1.5.

Equity and liabilities

Equity is the primary source of financing of the Company’s assets. Relative to December 31st 2013, the Company’s equity rose by PLN 811m (4%). The increase was primarily driven by the 2014 net profit, reduced by dividends for 2013 paid out in an amount of PLN 885m.

As at December 31st 2014, non-current liabilities were PLN 7,385m, up PLN 362m (5%) on the end of December 2013. The increase was due to a change in provisions for production well decommissioning costs.

Current liabilities were down significantly, by PLN 1,241m (23%) on the end of 2013, which was mainly driven by the redemption of short-term notes and, as was the case with assets, the spin-off of the retail business from PGNiG S.A.

The Company's debt was reduced, which had a positive effect on the ratios of equity to liabilities. Debt to equity fell from 54.2% to 48.7%, while the debt ratio (total liabilities to total equity and liabilities) decreased from 35.2% to 32.7%.

Feasibility of investment plans

In 2015, PGNiG S.A. intends to maintain a high level of expenditure on investments, in particular on oil and gas exploration projects in Poland and abroad (including unconventional deposits) and storage infrastructure. PGNiG S.A. intends to finance investments both with its own funds and debt, e.g. raised through the issuance of notes and bonds, including Eurobonds.

Transactions concluded on non-arm's length terms

In 2014, PGNiG S.A. and its subsidiaries did not enter into any material related-party transactions on non-arm's length terms.

Explanation of differences between the actual results and forecasts for 2014

No financial forecasts for 2014 were published by PGNiG S.A.

2. Financial management

In 2014, PGNiG S.A. added another option to its sources of borrowed funds by launching a new domestic note programme. In 2014, PGNiG S.A. was able to issue notes under the following programmes:
- the note programme of June 10th 2010 (as amended by annexes of 2011 and 2014),
- the note programme of May 22nd 2012,
- the note programme of October 2nd 2014,
- the note programme of December 1st 2010 (as amended by annexes of 2011 and 2014), addressed to PGNiG Group companies.

On August 8th 2014, an annex was signed to the note programme agreement of June 10th 2010 (as amended by two annexes of 2011). Under the new annex, the agreement with Nordea Bank Polska S.A. was terminated and the note programme agreement was extended from July 31st 2015 to July 31st 2020, i.e. until the final redemption date. Under the programme, PGNiG S.A. may issue discount notes and coupon-bearing notes with maturities ranging from one month to one year, for up to PLN 7bn. The total nominal value of notes issued in 2014 was PLN 1.9bn. As at December 31st 2014, no outstanding debt was recognised by PGNiG S.A. under the programme.

Under the note programme of May 22nd 2012, PGNiG S.A. may issue (for private placement) fixed or floating rate notes with maturities of up to 10 years, for up to PLN 4.5bn. In 2014, the Company did not issue any notes under the programme. As at December 31st 2014, the debt outstanding under notes issued in previous years amounted to PLN 2.5bn.

On October 2nd 2014, PGNiG S.A. signed a note programme agreement for up to PLN 1bn with Bank Gospodarstwa Krajowego. Under the programme, expiring on September 30th 2024, PGNiG S.A. may issue discount notes with maturities ranging from one year to four years. In accordance with the agreement, the issue proceeds may only be used to finance investing activities related to, among other things, maintenance of production capacity, diversification of gas supply sources, oil and gas exploration, development of the power sector and ongoing projects involving the construction of underground gas storage infrastructure. In 2014, PGNiG S.A. did not issue any notes under the programme.

PGNiG S.A. used the issue proceeds to finance its capital expenditure projects involving exploration for conventional and unconventional oil and gas deposits, field development, construction and extension of underground gas storage facilities and the distribution network, including new connections. The issue proceeds were also used to finance power projects and PGNiG S.A.'s operating activities.

Furthermore, pursuant to the agreement of December 1st 2010 (as amended by annexes of 2011 and 2014), in 2014 the Company continued to issue short-term discount notes to PGNiG Group companies. Under an annex of May 6th 2014, the agreement term was extended until May 6th 2019 and the maximum amount of notes was increased from PLN 1bn to PLN 3bn. For PGNiG S.A., the maximum amount of notes in issue remained at PLN 1bn, with the balance allocated to other Group companies. The note programme is designed to enable the flow of cash from the companies with excess liquidity, thus optimising the liquidity management within the Group. In 2014, PGNiG S.A. and PGNiG Obrót Detaliczny Sp. z o.o. issued notes with total nominal values of PLN 3.3bn and PLN 1.0bn, respectively. As at December 31st 2014, PGNiG S.A.'s and PGNiG Obrót Detaliczny Sp. z o.o.'s outstanding debt under the notes in issue was PLN 475m and PLN 1.0bn, respectively.

Assessment of financial resources management

The funds available to PGNiG S.A. ensure timely financing of all current and planned expenditure related to the core business and investing activities. The liquidity risk is mitigated by bond/note issue programmes under agreements with banks executed in 2014 and in previous years. The Company also has a liquidity reserve in the form of overdraft facilities (PLN 370m in total), which serve to smooth out daily liquidity fluctuations.

On September 30th 2014, Moody's Investors Service downgraded the credit rating of PGNiG S.A. from Baa2 to Baa3 with a stable outlook. According to Moody's, the downgrade mainly reflected the Company's changing risk profile in light of the increasing role of its exploration and production business, as well as challenges stemming from the evolution of the Polish gas market given the Company's take-or-pay contracts. The agency noted that the rating outlook was stable, supported by the Company's sound financial and liquidity position. Concurrently, the agency downgraded the provisional rating of the medium-term bond programme of PGNiG Finance AB from Baa2 to Baa3.

2.1. Short-term investments

The financial investments made by PGNiG S.A. in 2014 were short-term, with maturities of up to three months. The Company invested in financial instruments carrying the lowest possible credit risk, such as the State Treasury's debt securities and deposits with investment grade commercial banks. Such placements were consistent with PGNiG S.A.'s financial investment policy adopted by the Company's governing bodies, and with the Issue Prospectus. In addition, under the extended intra-Group note issuance programme, PGNiG S.A. may acquire notes issued by other Group companies. As at December 31st 2014, PGNiG S.A. held notes of PGNiG Obrót Detaliczny Sp. z o.o. with a total nominal value of PLN 1.0bn.

2.2. Borrowings

Credit facility agreements executed in 2014

In 2014, PGNiG S.A. entered into overdraft facility agreements for a total amount of PLN 370m. The table below presents detailed information on the credit facility agreements executed by the Company in 2014.

PGNiG S.A.'s credit facility agreements

Bank	Facility amount (PLNm)	Interest rate	Type	Maturity date
Bank Pekao S.A.	200	1M WIBOR + 0.00%	working capital facility	July 16th 2017
Bank Handlowy w Warszawie S.A.	40	1M WIBOR + 0.30%	working capital facility	December 31st 2015
mBank S.A.	40	1M WIBOR + 0.30%	working capital facility	September 4th 2015
Societe Generale S.A. Polish Branch	40	1M WIBOR + 0.30%	working capital facility	August 31st 2015
ING Bank Śląski S.A.	40	1M WIBOR + 0.40%	working capital facility	December 4th 2015
Bank Pekao S.A.	10	1M WIBOR + 0.45%	working capital facility	July 22nd 2014

Credit facility agreements terminated in 2014

In 2014, PGNiG S.A. did not terminate any credit facility agreements.

Loans advanced in 2014

In 2014, PGNiG S.A. executed loan agreements with related entities only, for an aggregate amount of NOK 900m and PLN 447m. The loans advanced by PGNiG S.A. were used to finance the acquisition of interests in four fields located on the Norwegian Continental Shelf (in NOK), as well as day-to-day operations, including mainly settlements of gas purchases, repayment of past due liabilities and costs of restructuring. The table below presents detailed information on the loans advanced by PGNiG S.A.

Loans advanced by PGNiG S.A.

Company	Loan amount (m)	Currency	Interest rate	Type	Maturity date
PGNiG Upstream International AS	900	NOK	3M NIBOR + 2.25%	investment loan	December 31st 2015
PGNiG Obrót Detaliczny Sp. z o.o.	400	PLN	1M WIBOR + 1.80%	working capital loan	July 25th 2016
PGNiG Technologie S.A.	47	PLN	1M WIBOR + 2.20%	working capital loan	January 31st 2018

Loan agreements received and terminated in 2014

In 2014, PGNiG S.A. did not contract or terminate any loans.

2.3. Guarantees and sureties

The amount of guarantees and sureties provided by PGNiG S.A. in 2014 was PLN 263m. This amount included:

- surety for a loan contracted by PGNiG Sales&Trading GmBH of PLN 149m,
- surety under a guarantee limit agreement provided to PGNiG S.A.'s related entity – Elektrociepłownia Stalowa Wola S.A., of PLN 63m,
- performance bond provided as security for gas supplies by PGNiG Sales&Trading GmBH, totalling PLN 51m.

The amount of guarantees and sureties received by PGNiG S.A. in 2014 was PLN 23m. This amount included 22 guarantees, including 10 performance bonds for a total amount of PLN 12m and 12 bid bonds for a total amount of PLN 11m.

2.4. Financial risk management

The main objective of PGNiG S.A.'s financial risk management policy is to limit the volatility of cash flows related to the Company's operations to levels which are acceptable in the short- and mid-term perspective and to build the company value in the long term. In the regular course of business in 2014, PGNiG S.A. was exposed to a number of financial risks, and in particular to market risk (including commodity price, interest rate and currency risks) as well as liquidity and credit risks.

Market risk

PGNiG S.A. manages market risk through identification, measurement, monitoring and mitigation of key sources of risk, i.e. the adverse effect of changes in commodity prices, exchange rates and interest rates on the Company's financial performance.

The key risks to which the Company is exposed include the risk of commodity price and exchange rate fluctuations, which affect the Company's gas purchases. The Company also executed transactions related to electricity prices, property rights and carbon emission allowances.

In 2014, PGNiG S.A. used the following financial instruments to manage the gas price risk:

- Purchase of Asian commodity call options settled as European options
- Commodity option structures (consisting in a combination of two commodity options)
- Commodity swaps.

In 2014, the Company used the following financial instruments to mitigate the currency risk:

- *Forward contracts*
- Forward contracts settled based on the difference to the average price in a period

- *FX swaps*
- *Purchase of European currency call options*
- Purchase of Asian currency call options

PGNiG S.A. also used *CCIRS* transactions (to mitigate the FX and interest rate risks) to hedge the Eurobonds in issue and the loan advanced to PGNiG Upstream International AS, as well as *IRS* transactions to hedge against changes in the fair value of the loan advanced to PGNiG TERMIKA S.A.

PGNiG S.A. used cash flow hedge accounting with respect to transactions hedging payments for gas and transactions hedging gas prices, as well as and fair-value hedge accounting with respect to selected loans bearing interest at fixed rates. The application of cash flow hedge accounting allows the Company to charge the effective portion of the hedge to revaluation capital reserve, which results in the matching of the effect of valuation of hedging instruments on profit or loss and the result on the hedged item. This approach allows to eliminate profit or loss volatility attributable to valuation of derivative instruments and makes it possible to offset its effect in the statement of profit or loss in the same reporting period. In consequence, the economic and accounting effects of the hedge are reflected in the same period.

Credit risk

PGNiG S.A.’s credit risk is related to the likelihood of failure by the counterparties or other entities to meet their obligations to the Company. In 2014, the Company managed credit risk by investing its free cash in instruments carrying the lowest possible credit risk (bank deposits and treasury bonds), entering into framework agreements with its trading partners (precisely defining the rights and obligations of the parties), and diversifying the group of its trading partners. PGNiG S.A. also worked with leading commercial banks. The key criteria for the selection of counterparties to whom the Company entrusted a portion of its assets included their financial standing as confirmed by rating agencies, and their respective market shares.

Risk of cash-flow disruptions

The measures taken by PGNiG S.A. to mitigate the risk of disruptions in its day-to-day operating cash flows included diversification of electronic banking systems used, ongoing monitoring of credit/debit transactions in bank accounts, collecting information on cash flows within the Company and the Group, consolidating bank accounts and entering into overdraft facility agreements. PGNiG S.A. mitigated cash flow volatility related to payments under gas purchase contracts by entering into FX risk hedges (European and Asian currency call options, FX swaps, average rate forwards) and gas price hedges (Asian commodity call options, option strategies, commodity swaps).

Liquidity risk

In order to mitigate liquidity risk, PGNiG S.A. has a liquidity reserve in the form of overdraft facilities (for a total amount of PLN 370m). PGNiG S.A. also prepared cash flow projections for the Company and the Group, estimated the condition and value of assets available for sale, maintained highly liquid financial assets and maintained communication with rating agencies.

3. Projected future financial standing

PGNiG S.A.'s financial performance will depend on oil, natural gas and petroleum product prices, the situation on currency markets, deregulation of the Polish gas market, as well as the price of natural gas on the regulated market and commodity exchanges.

The market prices of crude oil, petroleum products and gas are an important factor determining PGNiG S.A.'s financial position. They directly affect the cost of gas purchased by the Company under foreign contracts and the selling prices of gas and crude oil on the domestic market. Natural *hedging* in the form of sales of crude oil has a positive effect on the Company's financial position when there is an upward trend in hydrocarbon prices. After crude prices fell to almost USD 40 per barrel in early 2015, US companies began to curb their oil output. At the same time, *OPEC* (*Organization of the Petroleum Exporting Countries*) announced that they did not plan to increase oil supply from their reserves. Considering these factors, crude oil prices are expected to rise later in 2015. Therefore, ultimately, EBIT will be largely driven by remeasurement of the production assets. Growing crude oil prices would allow the Company to reverse some of the impairment losses recognised as at the end of 2014.

A significant factor behind the Company's financial performance are conditions prevailing on the currency markets. The state budget for 2015 assumes the average annual PLN/EUR and PLN/USD exchange rates at 3.98 and 2.92, respectively. But considering the prevailing market conditions, the Polish złoty may be weaker against the US dollar and the euro. The decision of the Swiss National Bank to remove its currency ceiling of CHF 1.2 per euro wreaked havoc on the financial markets and caused the Polish złoty to weaken not only against the Swiss franc, but also against the euro and the US dollar. A potential strengthening of the Polish złoty, as expected by market analysts, to the levels seen in November 2014 will depend on a number of factors. The development of the Ukrainian conflict, decisions of the European Central Bank and other central banks of European countries, as well as the position of the Polish Monetary Policy Council, will all determine the value of the Polish currency. Since PGNiG S.A.'s financial performance is strongly correlated with the PLN/USD exchange rate, the Company will continue its hedging policy to optimise the exchange rate's effect on the cost of gas imports.

The Company's financial performance is also heavily affected by the deregulation of the Polish gas market with the resulting diversification of supplies by PGNiG's key customers, which may force the Company to export its surplus gas at prices which fail to cover the actual cost of procurement under long-term contracts. This is why it was so important for PGNiG S.A. to execute a supplementary agreement to the contract for sale of liquefied natural gas (LNG) with Qatar Liquefied Gas Company Limited (3) in December 2014. Under the supplementary agreement, Qatar's company may sell its entire annual LNG volume on foreign markets, which protects PGNiG S.A. against the risk of having to pay for uncollected LNG under the take-or-pay clause, allowing the Company to minimise the potentially resulting losses in 2015.

Other drivers of the Company's performance are the rates and charges provided for in the gas fuel tariffs. Their effect on the Company's financial standing was significantly limited after PGNiG Obrót Detaliczny Sp. z o.o. commenced its operations on August 1st 2014. PGNiG Obrót Detaliczny Sp. z o.o. took over the gas retail business previously run by PGNiG S.A. This reorganisation will enable PGNiG S.A. to meet the requirement, effective as of 2015, to sell 55% of its high-methane gas volumes fed into the transmission network on commodity exchanges. Following the organisational changes at the Company, from 2015 approximately 60% of gas will be sold on the Polish Power Exchange. PGNiG Obrót Detaliczny Sp. z o.o will be the key buyer. The unit selling price of high-methane gas on the exchange will depend on the number of sellers. An increase in the number of gas sellers may lead to a drop in the unit selling price of high-methane gas on the exchange, which will affect the Company's financial performance.

Since January 1st 2013, PGNiG S.A., as a trading company, has been obliged to purchase energy efficiency certificates (white certificates) in the amount set in the Energy Efficiency Act or else to pay a buy-out price. This obligation has inflated gas sale costs. Amendments to be introduced under the Energy Efficiency Act in 2015 will limit the ability to reduce the basis for calculation of the financial liability under the system in place, which will be another source of cost increase at PGNiG S.A.

The Company’s future performance will also be influenced by the legislation on special hydrocarbon tax, which will impose a new tax on crude oil and natural gas production as of January 1st 2020. This means further fiscal burdens for the Exploration and Production segment, which will have an adverse effect on its financial performance.

In 2015, PGNiG S.A. intends to maintain a high level of capital expenditure. Investments in hydrocarbon exploration and production will consume most of the Company’s capital expenditure. PGNiG S.A. will spend over PLN 0.8bn on the drilling of research, appraisal, exploration and production wells, and more than PLN 0.3bn on wellsite development and on extension and modernisation of oil and gas production facilities. In the Trade and Storage segment, the Company’s key investment projects will be to continue the extension of underground gas storage facilities (mainly the cavern facilities in Mogilno and Kosakowo). The total target capacity of all its storage facilities is to reach 3.16 bcm by the end of 2015.

Members of the Management Board

President of the Management Board	Mariusz Zawisza	....
Vice-President of the Management Board	Jarosław Bauc	....
Vice-President of the Management Board	Zbigniew Skrzypkiewicz	....
Vice-President of the Management Board	Waldemar Wójcik	....