

PGNiG – trying to be one step further

By Aleksandra Mierzyńska and Krzysztof Parkoła

Polish Oil and Gas Company (Polskie Górnictwo Naftowe i Gazownictwo - PGNiG) is the leader of the Polish natural gas market, as well as the only vertically integrated gas company in Poland. Formation of the PGNiG Group has enabled coordination of the upstream and downstream operations – from exploration and production to storage, trade and distribution of gaseous fuels.

PGNiG as a state-owned company was established in 1982 and then in 1996 transformed into a State Treasury stock company. Its Capital Group includes 57 specialized companies dealing with specific activities, such as gas distribution and sale, crude oil and natural gas exploration, geophysical and geological research, drilling services, etc. PGNiG business focuses on exploration and production of natural gas and crude oil, followed by gas sales to both industrial customers and around 6.5 million individual customers. The company produces oil and gas from domestic sources, but it also imports gas from Russia, Ukraine, Germany and from countries of Central Asia. Moreover, gas storage is an important part of PGNiG activities. The company owns six underground gas storage facilities of a working capacity at the level of 1.66 bcm, which represents 13.5% of the annual gas consumption by PGNiG customers.

The company owes its competitive edge on the gas market (which is now in the process of deregulation), chiefly to the natural gas and crude oil production. The core business of the PGNiG Group includes trade and distribution of natural gas. Following the separation of its gas trading business from the operation of the gas distribution network – completed in 2007 – the entire trading business has been taken over by PGNiG, while distribution is now handled by six Regional Gas Companies belonging to the PGNiG Group.

Given its revenue and profit streams, the company ranks among the largest and most profitable enterprises in Poland. In 2007, it posted PLN 16.7 billion in revenue and PLN 916 million in net profit. With the headcount of approximately 30 thousand, PGNiG is also counted among Poland's largest employers.

Sustainable value growth and minimization of the operating risk are a key strategic objective for PGNiG. It requires from the company continuous business development on the Polish and international markets as well as securing energy environment for Poland. Therefore, strategic priorities of PGNiG include:

- Extending the value chain, to include all activities from exploration and production to sales to customer service;
- Securing uninterrupted supplies of natural gas to our customers;
- Creation of diversified and stable portfolio of natural gas sources;
- Development of trading activity;
- Development of R&D activity.

The PGNiG Group launched projects designed to diversify supply sources in order to become independent from natural gas supplies originating from a particular direction or a particular supplier. Our strategy is focused primarily on

balancing natural gas supplies from the eastern direction with an increased volume of natural gas imports from the north and a concurrent increase in domestic gas production. As to achieve this goal, in 2007 PGNiG acquired a 12% interest in the license covering the Skarv, Snadd and Idun fields on the Norwegian Continental Shelf. The company's aim due to the annual production from the NCS fields is 0.5 bcm of natural gas and 0.4 million tones of crude oil. PGNiG also made another important step on the way to secure natural gas supply from Scandinavia to Poland by acquiring 15% in Skanled Consortium, which is developing the Skanled gas pipeline from Karsto in Norway to Sweden and Denmark.

In terms of domestic production, PGNiG plans to increase natural gas production from current 4.2 bcm annually to 4.6 bcm in 2009. Crude oil production will almost double in 2013 and reach 900 thousand tones (in 2007 it was 528 thousand tones). The key project for the crude oil production increase is development of LMG (Lubiatow-Miedzzychod-Grotow) field in Poland. Resources of the this field are estimated at 7.25 million tones (53 mboe) of crude oil and 5.5 bcm (35 mboe) of natural gas.

PGNiG owns all domestic storage facilities connected to the gas distribution system. However, the current storage capacities allow the Group to store only natural gas reserves that can be used in case of short disruptions of supplies or to balance seasonal demand peaks. In order to fully meet the demand during abnormal peaks the company plans to expand working capacity of underground gas storage facilities to 2.8 bcm by 2012. Three from existing six underground gas storage facilities will be extended and also three new ones will be build in central and northern Poland.

The Group conducts exploration and prospecting work both in Poland and abroad in countries such as Pakistan, Libya, Egypt or Denmark. PGNiG work in that area involves mainly exploration of geological structures for natural gas and crude oil deposits. The exploration and prospecting for deposits comprise a study of historical data, geological analyses, as well as geophysical and drilling research. The work is conducted by PGNiG and its exploration, geophysical and geological service subsidiaries.

In its future actions, the PGNiG Group would like to concentrate even more on exploration activities – the Company considers to buy gas deposits in Pakistan, Libya or Norway. However domestic market will remain a priority for PGNiG.

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