PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

PGNiG Group 2014 Results

March 5th 2015

Pillars of the PGNiG Group Strategy for 2014–2022

A Maintaining stable trading volumes (both in retail and wholesale)

1. Optimisation of natural gas portfolio management
2. Developing and implementing a new retail and wholesale model

B Maximising cash flows from infrastructure and generation areas

3. Maximising value from transmission infrastructure (gas and heat distribution)

NEW AREA OF DEVELOPMENT: ACQUISITION OF HEAT NETWORKS

4. Taking active part in creating energy market regulations

C Strengthening and transforming the exploration and production area

5. Maintaining domestic production at current levels (33 million boe)
6. Confirming the geological and economic potential of shale gas deposits in Poland
7. Expanding the upstream business outside of Poland (ca. 20 million boe)

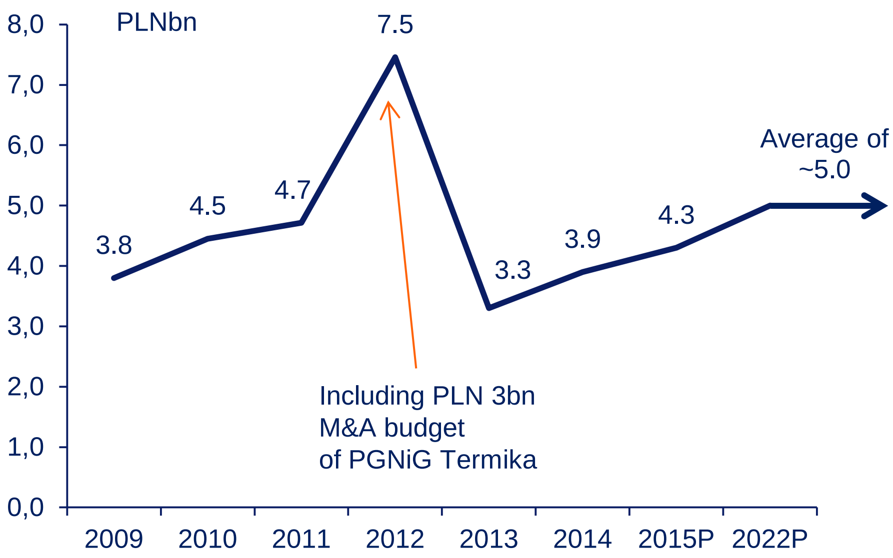
NEW AREA OF DEVELOPMENT: ACQUISITION OF FOREIGN ASSETS

D Laying foundations for growth along the value chain (PLN 700m–800m in savings)

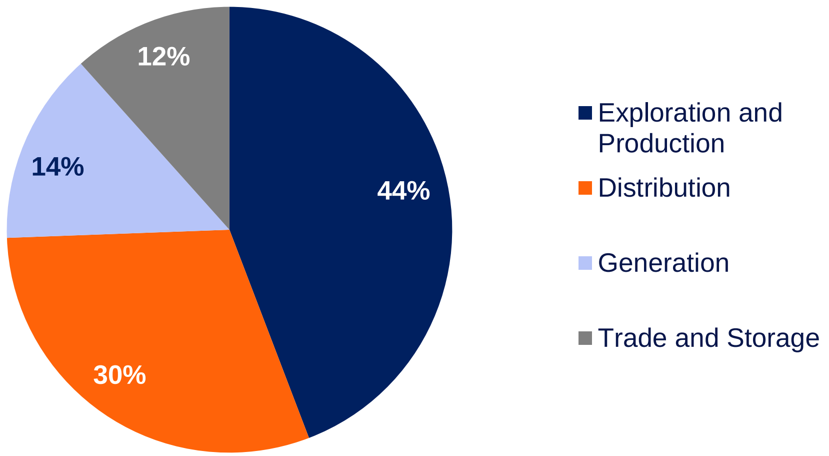
- **Stabilisation of EBITDA at ~PLN 7bn in 2022**
- **50% of consolidated net profit to be paid as dividend in 2015−2022** (provided that the financial situation is stable, financing sources for investment projects are secured and PGNiG SA receives dividends from subsidiaries for a given year)

Capital expenditure planned for 2014–2022: PLN 40bn–50bn

CAPEX planned for 2009–2022



CAPEX for 2015: PLN ~4.3bn



2014 full-year financial highlights

PGNiG

(PLNm)	2013	2014	Δ%
Revenue	32,044	**34,304**	7%
Operating expenses (excl. D&A)	(26,432)	**(27,959)**	6%
EBITDA	5,612	**6,345**	13%
Depreciation and amortisation	(2,463)	**(2,502)**	2%
EBIT	3,149	**3,843**	22%
Net finance income/(cost)	(396)	**(346)**	(13%)
Net profit	1,920	**2,822**	47%

- PLN 0.1bn drop in revenue driven by lower average crude oil prices in Q4 2014 despite higher sales volumes of crude oil and condensate (1.17 million tonnes vs 1.11 million tonnes in 2013)
- Natural gas sales volume up 15% yoy, to 18.6 bcm, with shifts in the sales structure (the effect of mild winter in 2014 and the exchange sale requirement). Revenue from gas sales up 9%, to PLN 27.1bn
- Yoy improvement in trade in electricity, with revenue at PLN 1.7bn (2013: PLN 1.4bn)

- Cost of gas up PLN 1.2bn (7%) yoy, to PLN 18.8bn, due to a 15% increase in gas sales volume (exchange sale requirement) and lower unit costs

- Interest expense down PLN 58m yoy on lower debt and interest rates

47% yoy improvement in net profit driven by higher margin on high-methane gas sales and strong operating performance of the Distribution segment

- Separate net profit of PGNiG SA in 2014: PLN 1.9bn vs PLN 1.7bn in 2013

Business segments – EBITDA in 2014

(PLNm)	2013	2014	Δ%	Contribution to Group's result
Exploration and Production	3,381	**3,143**	(7%)	**50%**
Trade and Storage	170	**764**	350%	**12%**
Distribution	1,595	**2,002**	25%	**31%**
Generation	502	**463**	(8%)	**7%**
Other, eliminations	(36)	**(28)**	(25%)	**-**
Total	5,612	**6,345**	13%	**100%**

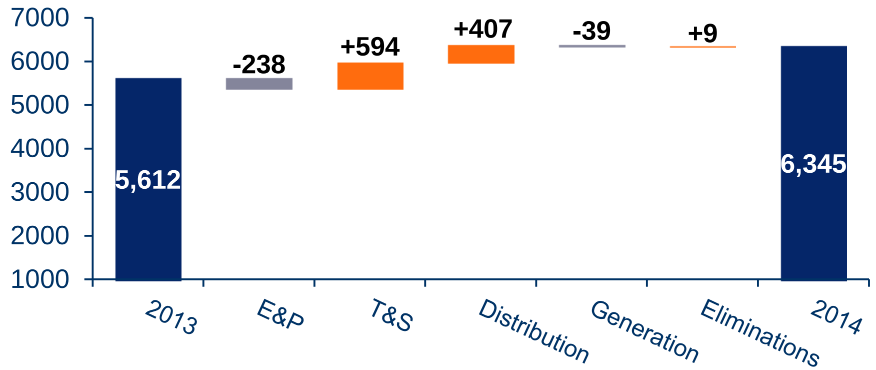
- Slight drop in revenue from sales of crude oil (PLN 0.1bn) offset by a comparable increase in revenue from natural gas sales
- Impact of impairment losses up by PLN -166m yoy

- Lower unit gas purchase costs

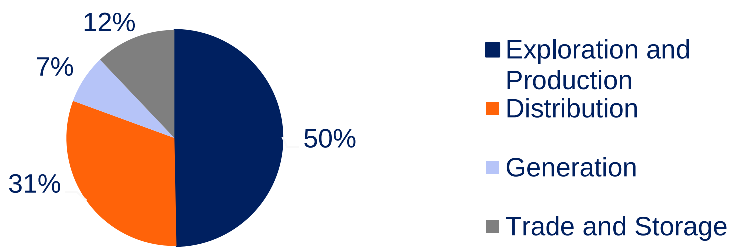
- Actuarial provisions increased to PLN -141m in 2013
- PLN 123m yoy decrease in balancing costs

- Impact of average air temperatures on heat and electricity sales volumes and lower electricity prices

EBITDA growth by segment in 2014 vs 2013



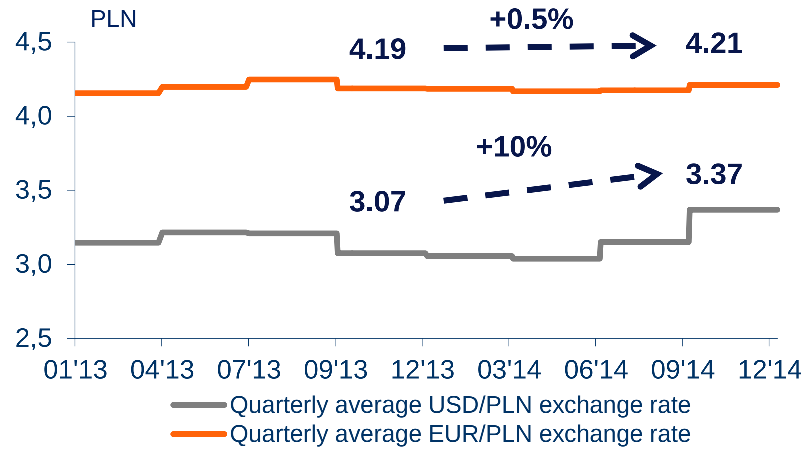
Segments' contribution to Group EBITDA



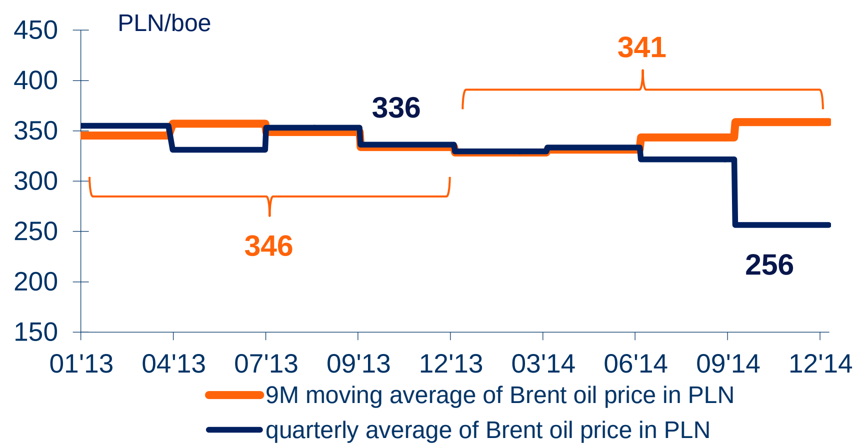
Strong improvement in EBITDA

Factors contributing to financial performance

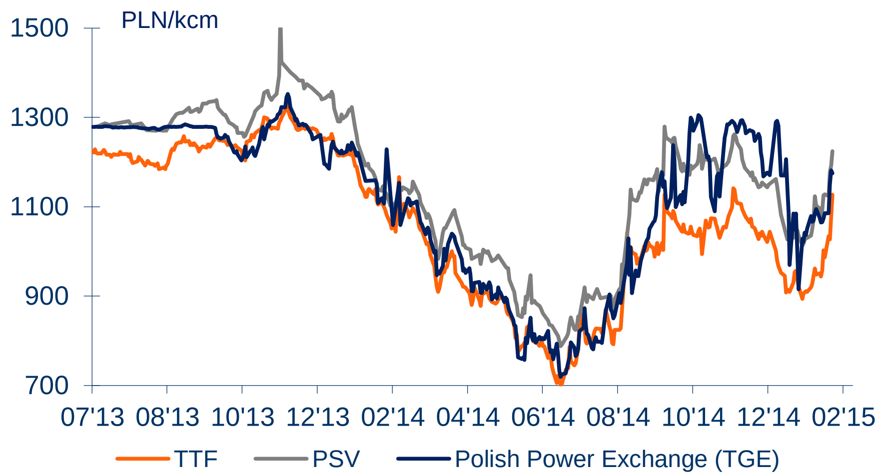
Stronger USD and stable EUR against PLN yoy



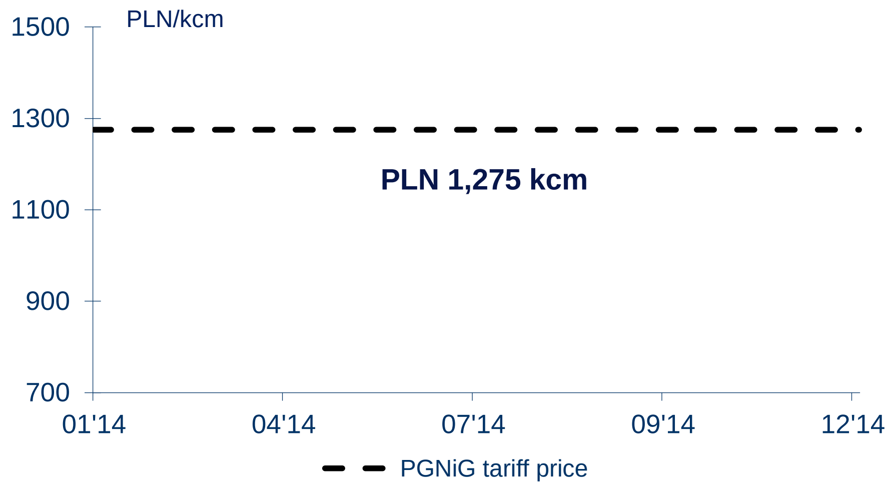
Nine-month average crude oil price in PLN flat yoy in 2014 due to lower crude prices and stronger USD



Converging gas prices on the Polish Power Exchange and the European markets (divergent transmission costs, liquidity and number of players)



PGNiG 2014 tariff price for key customers



Segments – Exploration and Production

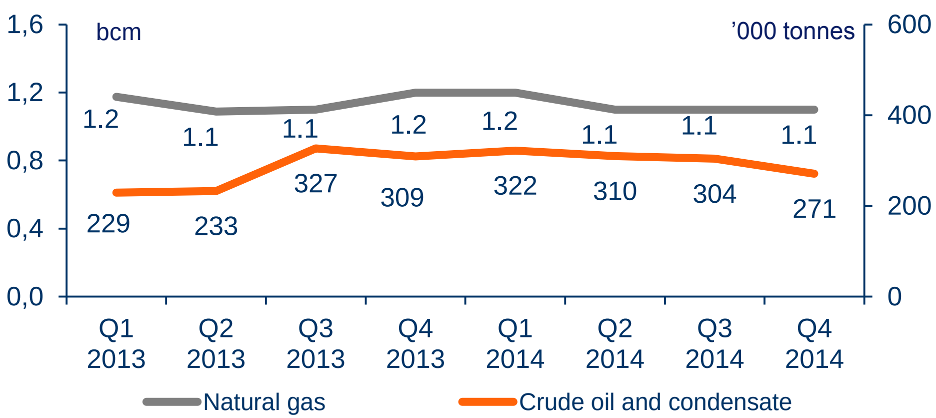
(PLNm)	2013	2014	Δ%
Revenue	6,185	**6,071**	(2%)
Operating expenses (excl. D&A)	(2,803)	**(2,928)**	4%
EBITDA	3,381	**3,143**	(7%)
Depreciation and amortisation	(1,050)	**(1,137)**	8%
EBIT	2,331	**2,006**	(14%)

- Slight drop in revenue from sales of crude oil (PLN 0,1bn) offset by a comparable increase in revenue from natural gas sales. Lower sales of helium (down PLN 63m yoy) and exploration services (down PLN 69m)

- Net impairment losses of PLN -707m in 2014 (of which PLN -343m recognised in H1 2014) vs PLN -541m in 2013
- Dry wells and seismic surveys written off: PLN -330m in 2014 vs PLN -198m a year earlier

- PLN 89m higher depreciation and amortisation expense on Norwegian assets (depreciated using units-of-production method)

YTD basis: stable natural gas and crude oil production



- Annual crude oil and condensate output at 1.21 million tonnes, almost 30 thousand tonnes above the forecast; production volumes down in Q4 2014 due to planned and unplanned downtimes on the Norwegian offshore platform; 2015 production planned at 1.27 million tonnes
- Group's annual natural gas production target of 4.5 bcn met in 2014; in 2015, the Group expects to achieve the same production volume

Strong operating performance constrained by non-recurring items

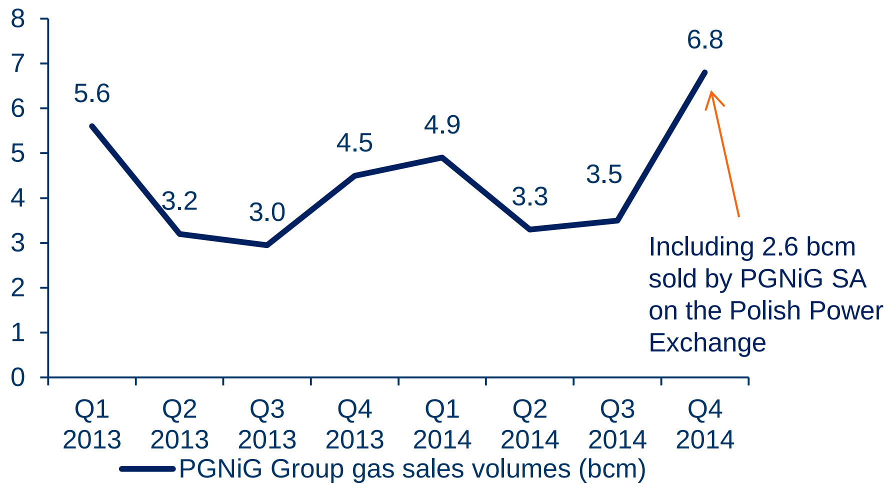
Segments – Trade and Storage (1)

(PLNm)	2013	2014	Δ%
Revenue	25,659	**28,825**	12%
Operating expenses (excl. D&A)	(25,490)	**(28,061)**	10%
EBITDA	170	**764**	350%
Depreciation and amortisation	(177)	**(181)**	2%
EBIT	(8)	**583**	-

- T&S gas sales volume up from 15.5 bcm to 17.8 bcm on a YTD basis, with shifts in the sales structure and prices (exchange sale requirement); revenue from gas sales up PLN 2.2bn (from PLN 24.5bn in 2013 to PLN 26.7bn in 2014)
- PST's contribution to gas sales revenue: PLN 1.8bn in 2014 vs PLN 1.7bn in 2013
- PLN 1.9bn in revenue from electricity sales in 2014 vs PLN 1.4bn in 2013 (T&S)

- Effect of hedging transactions and FX differences on the segment's performance at PLN -470m in 2014 vs PLN -262m in 2013

PGNiG Group gas sales up 2.3 bcm yoy in 2014

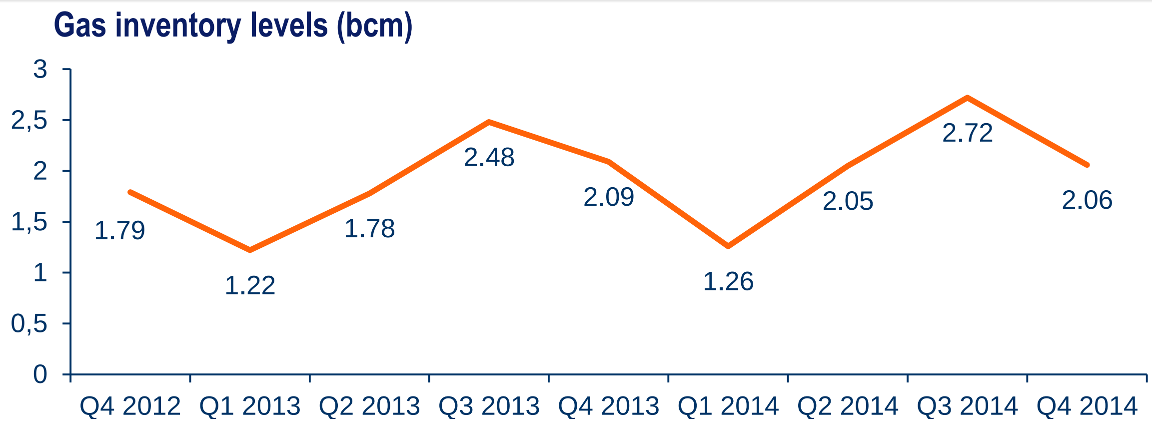


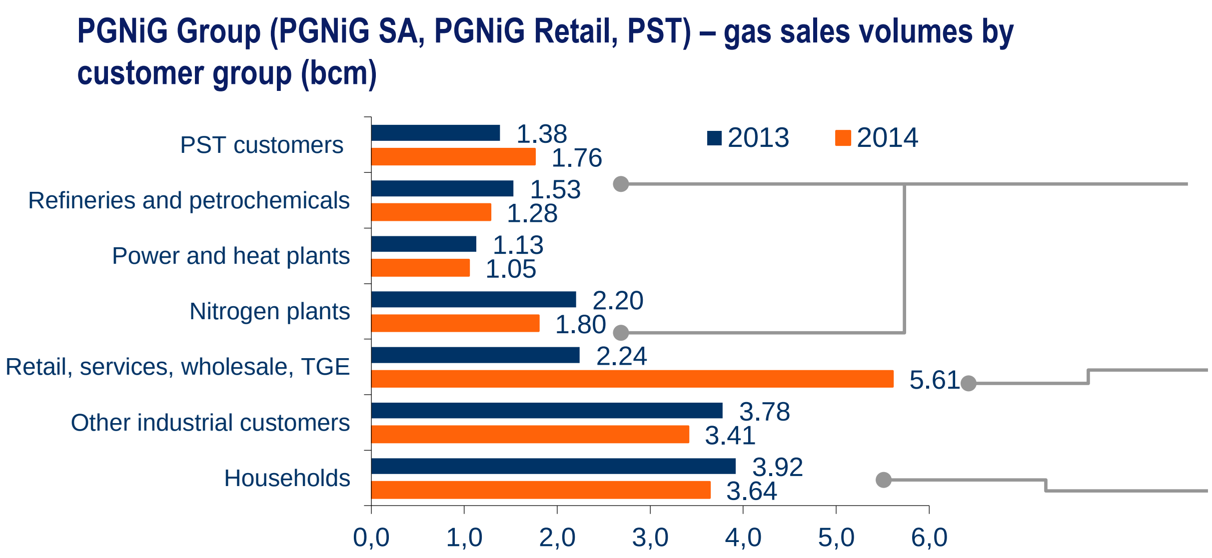
Group E gas margin at PGNiG SA and PGNiG Obrót Detaliczny (PGNiG Retail)

Lower cost of gas procurement paired with higher yoy EBITDA

Segments – Trade and Storage (2)

PGNiG





- From August 1st 2014, supplies of natural gas to approximately 6.7m PGNiG SA's customers were handled by PGNiG Retail under a gas tariff taken over from PGNiG SA, which remained in force until the end of 2014
- PGNiG SA's gas imports stood at 9.7 bcm in 2014 and were down 1.15 bcm, with a 0.6 bcm decline in imports from countries east of Poland, partly attributable to reduced supplies; lower total imports were mainly due to mild winter and diversification of supply sources by PGNiG SA's key customers
- Markedly lower sales to nitrogen plants and refineries under bilateral contracts in 2014 (down 0.4 bcm and 0.25 bcm yoy respectively), presumably due to attractive prices on the Polish Power Exchange and Western European markets
- 3.74 bcm of gas sold through the Polish Power Exchange (with physical delivery) in 2014, including 2.6 bcm in Q4 2014
- Significant impact of warmer winter on gas consumption by households and CHP plants

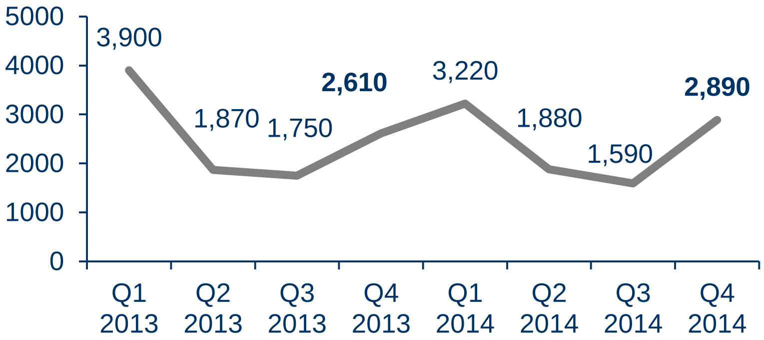
Sales volumes affected by average air temperatures and gas market developments

Segments – Distribution

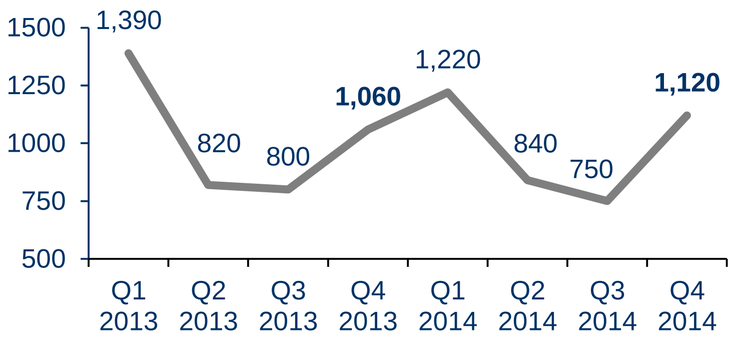
(PLNm)	2013	2014	Δ%
Revenue	4,250	**4,283**	1%
Operating expenses (excl. D&A)	(2,655)	**(2,281)**	(14%)
EBITDA	1,596	**2,002**	25%
Depreciation and amortisation	(857)	**(864)**	1%
EBIT	739	**1,138**	54%

- Gas distribution volume down 5% yoy in 2014 (average air temperature higher by nearly 1ºC), to 9.6 bcm; PLN 3.9bn in revenue from distribution services in 2014 vs PLN 4.1bn in 2013
- Net cost of system balancing at PLN -49m in 2014, compared with PLN -172m in 2013
- Provision for length-of-service awards and retirement severance increased by PLN -141m in Q4 2013 (recalculation of actuarial values)
- PLN -71m yoy decrease in provision for annual bonuses from profit

Gas distribution volume (mcm)



Revenue from distribution services (PLNm)



Solid operating performance delivered by the segment despite lower volumes yoy

Segments – Generation

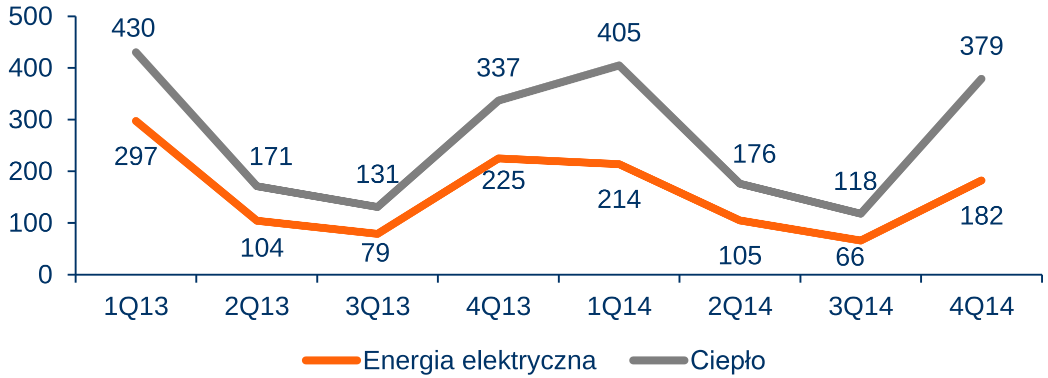
(PLNm)	2013	2014	Δ%
Revenue	2,062	**1,943**	(6%)
Operating expenses (excl. D&A)	(1,560)	**(1,480)**	(5%)
EBITDA	502	**463**	(8%)
Depreciation and amortisation	(358)	**(301)**	(16%)
EBIT	144	**162**	13%

- Stable revenue from sales of heat: PLN 1.1bn, with volumes down almost 9% and a higher heat tariff effective from August 1st 2014
- Revenue from sales of electricity down 13% to PLN 0.8bn, with 6% lower sales volumes and lower average selling prices

- Cost of fuels for electricity and heat generation down PLN 148m, to PLN 760m, driven by lower coal prices and smaller production volumes

- Value of redeemed CO2 emission allowances lower in 2014 than in 2013 (free allowances for 2013 were allocated only in Q1 2014)

PGNiG Termika's revenue from sales of heat and electricity (from own generation sources; PLNm)



Sales volumes at PGNiG Termika (own generation sources):

- Heat sales at 36.6 PJ, down -9% yoy (mainly as a result of mild winter in Q1 2014)
- Sales of electricity down -6%, to 3.56 TWh

Weaker segment results due to warmer air temperatures

Operating expenses – 2014

(PLNm)	2013	2014	Δ%
Cost of gas sold	17,568	**18,750**	7%
Electricity for trading	670	**1,093**	63%
Other raw materials and consumables used	727	**626**	(14%)
Fuels for heat and power generation	908	**760**	(16%)
Employee benefits expense	3,214	**2,827**	(12%)
Transmission services	1,114	**1,076**	(3%)
Cost of dry wells written-off	132	**282**	114%
Other services	1,562	**1,485**	(5%)
Net other income/(expenses)	1,520	**2,040**	34%
▪ *change in impairment losses and write-downs*	*491*	***863***	*76%*
▪ *Increase/(decrease) in provisions*	*211*	***319***	*51%*
Work performed by the entity and capitalised	983	**980**	0%
Operating expenses (excl. D&A)	26,432	**27,959**	6%
Depreciation and amortisation	2 463	**2,502**	2%
Total operating expenses	28,895	**30,461**	5%

- Sales volume up 2.4 bcm yoy, to 18.6 bcm, with lower gas purchase prices
- Electricity trading volume up at PGNiG SA and PST
- Lower coal consumption and unit coal prices (including transport charges)
- Provision for length-of-service awards and retirement severance increased by PLN -251m in 2013 (2014: PLN -27m), and provisions for annual bonuses were down PLN 82m yoy
- 16 dry wells written off in 2014 (including one on the Norwegian Continental Shelf) compared with 10 dry wells in 2013; dry wells in Q4 2014: PLN 125m
- PLN -720m impairment losses on non-current assets recognised in 2014 (including PLN -428m on production assets and PLN -238m on exploration assets) vs PLN -552m in 2013
- Provision for white certificates increased by PLN 86m to PLN -219m in 2014; provision for well decommissioning increased to PLN -39m

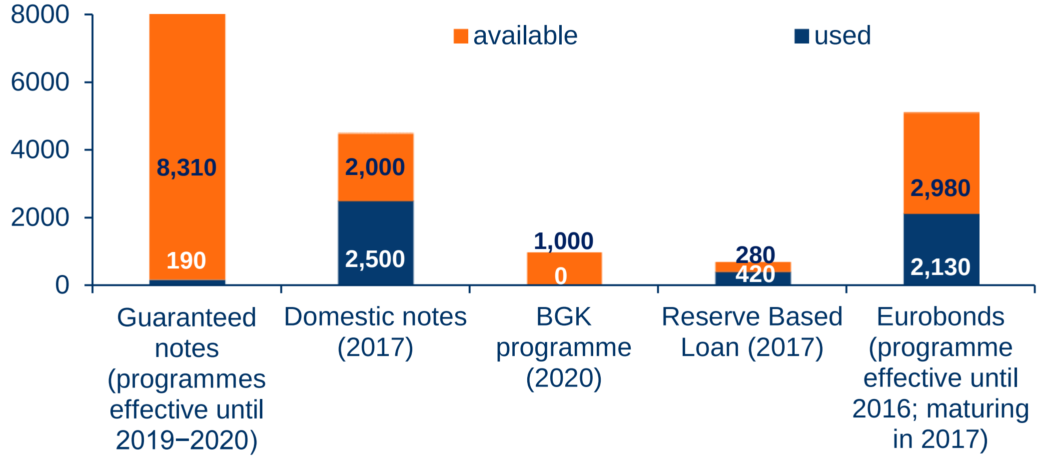
Effect of non-cash items*:

PLN -1.5bn in 2014 vs PLN -0.9bn in 2013

* Change in impairment losses and provisions under other expenses and costs of dry wells and seismic surveys written off

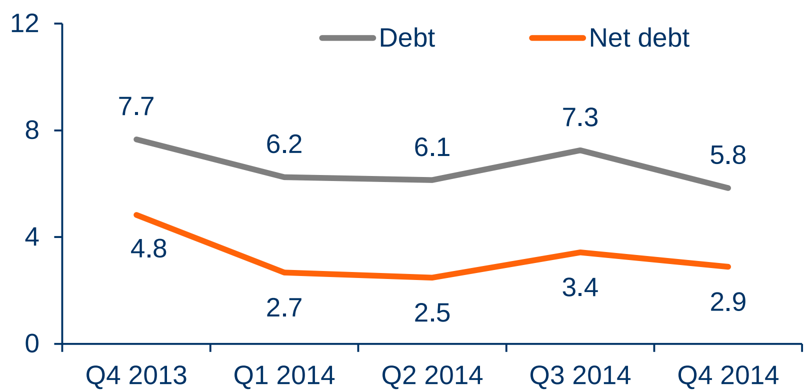
Debt and sources of financing

Financing sources as at December 31st 2014 (PLNm)

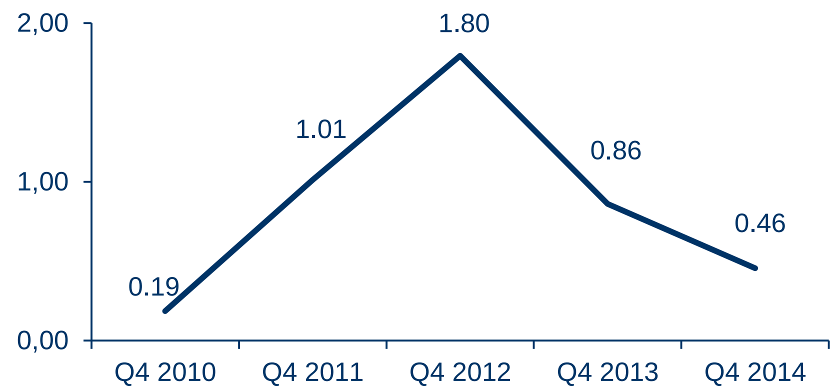


- Low debt level is a good starting point for investments under the 2014–2022 Strategy
- Available financing programmes for PLN 14.6bn, including PLN 9.6bn underwritten
- Net debt / EBITDA in 2014: 0.46

Debt (PLNbn)



Net debt / EBITDA



Strong financial position

Exploration and Production: operating data

Capital expenditure incurred in 2014: **PLN 1.96bn**, including **PLN 164m** on shale gas projects

Exploration in Poland – **24 wells**, including:
- 15 exploration wells
- 6 research boreholes
- 3 appraisal wells

Including **10 wells** drilled in search for unconventional hydrocarbons

Recoverable reserves (Dec 31 2014)

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

Production volumes

	2013	2014	2015P
Natural gas (**bcm**)	4.6	**4.5**	4.5
including Norway	0.3	**0.4**	0.4
Crude oil (**million tonnes**)	1.1	**1.2**	1.3
including Norway	0.3	**0.4**	0.5

Exploration and Production investments in 2015 – forecast

Segment's capex: PLN **1.9bn**, including:
- PLN 0.8bn - drilling operations
- PLN 0.3bn - well development, upgrade and extension of production facilities
- PLN 0.4bn - development of the Gina Krog field (PUI)
- PLN 0.1bn - Exalo Drilling investment projects

Completion of **38 wells** in Poland, including 15 production wells

Appendix

Gas trading and retail sales after August 1st 2014

Production → PGNiG SA

Gas purchase → PGNiG SA

PGNiG SA → **Gas sold to key customers: above 25 mcm annually** (4.6 bcm in 2014)

PGNiG SA → **Direct sales** (0.93 bcm in 2014)

PGNiG SA → **Polish Power Exchange** (3.74 bcm in 2014)

Polish Power Exchange (TGE) → PGNiG Retail

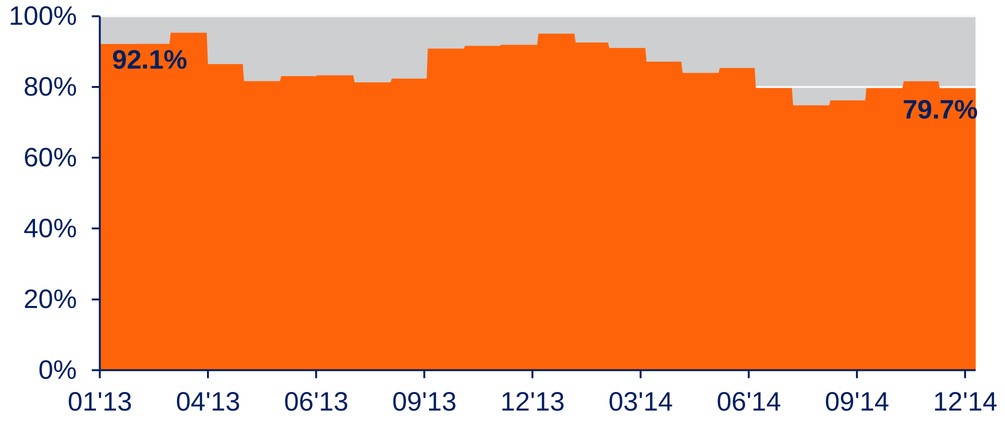
PGNiG Retail → **6.7m customers** (7.7 bcm of gas consumed in 2014, including over 3.2 bcm supplied by PGNiG Retail between August and December)

Sales made on the Polish Power Exchange by PGNiG SA and purchases made on the Polish Power Exchange by PGNiG Obrót Detaliczny (Retail), which commenced operations on August 1st 2014, are not subject to elimination from the consolidated financial statements, and are disclosed under the Trade and Storage segment.
The volume in high-methane gas equivalent, without intra-group eliminations.

Gas sales volumes and changes on the gas market

Gas sales volume (cubic meters)	Q4 2013	Q4 2014	Δ%
PGNiG Group	4,467	**6,797**	52%
PGNiG SA	4,102	**3,907**	(5%)
including PGNiG SA through the TGE	38	**2,576**	-
PGNiG Retail	0	**2,388**	-
PGNiG Sales & Trading	356	**488**	37%

PGNiG's monthly average share in gas imports to Poland*



- Since August 1st 2014, PGNiG Group's gas sales volumes have included both PGNiG SA's sales through the exchange and PGNiG Retail's sales to end customers and on the exchange.
- PGNiG Retail's sales include nitrogen-rich gas, presented in the table as Group E gas equivalent.
- From January 2013 to December 2014, PGNiG's share in gas imports to Poland fell by 12 pp to 79.7%.
  The figure does not reflect the Company's market share and is attributable to growing activity of other players on the gas market undergoing deregulation, including end users. This in turn was caused by low gas prices recorded in Q3 2014 on Western markets, which are not regulated.
- The data in the chart is based on information on gas volumes transmitted through interconnectors, published by OGP Gaz-System, and illustrates PGNiG SA's share in gas flows into Poland (excluding transit volumes carried via the Yamal pipeline, but including gas imported to Poland by other entities for further export).

Gas market deregulation is affecting

PGNiG's market shares and sales structure

*PGNiG SA's share in gas flowing into Poland through OGP Gaz-System's entry points (excluding transit volumes via the Yamal pipeline and including volumes for export)