



PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

**PGNiG Group results
for H1 and Q2 2016**

August 12th 2016

Agenda

The background of the slide is a photograph of an industrial drilling rig. The rig is a tall, complex structure of metal beams and platforms, silhouetted against a bright, low sun that creates a lens flare effect. The sky is a deep blue, and the ground in the foreground is dark with some shadows cast by the rig.

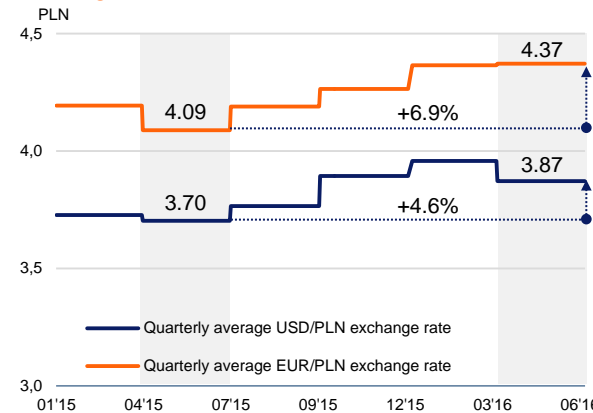
- > 1. Performance drivers
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- > 3. Financial highlights H1 2016
- > 4. PGNiG Group EBITDA by segment
- > 5. Segment performance
 - > Exploration and Production
 - > Trade and Storage
 - > Distribution
 - > Generation
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Performance drivers

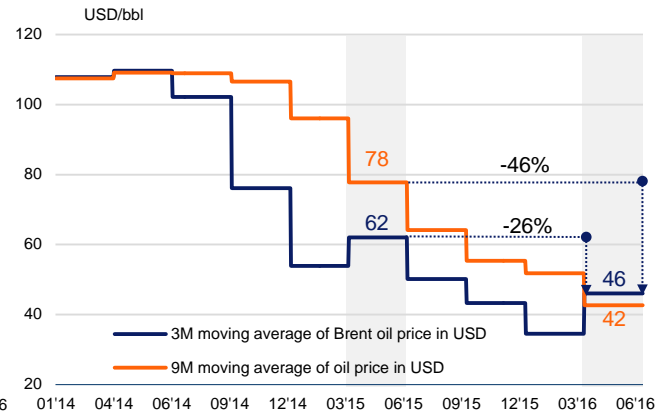


Marked impact of recent periods' tariff reductions on gas selling prices; average regulated price down 16% yoy and 8% qoq in Q2 2016

Yoy appreciation of USD and EUR against PLN



In Q2 2016, 9-month average of crude oil prices down 46% yoy and down 18% qoq



Average tariff price of gas fuel in Poland and gas price on the PPE



Comments:

- Price in the chart is calculated on the combined tariff-price sales of PGNiG SA and PGNiG OD to customers in Poland. It excludes transactions on the Polish Power Exchange, discounts, and gas sold directly from the fields.
- The largest volumes of gas were traded on the PPE and other gas exchanges under contracts with maturities of a quarter, season (summer/winter) and gas year, with the spot market playing a complementary role in gas trading.

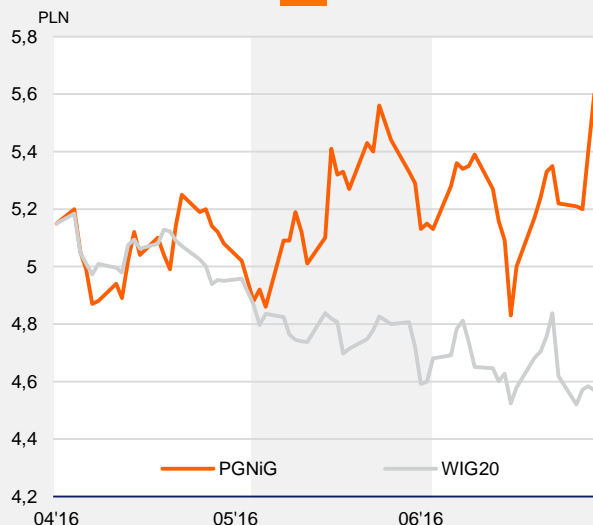
Financial highlights Q2 2016



Solid year-on-year operating performance materially affected by one-off events

| [PLNm] | Q2 2015 | Q2 2016 | Δ% |
|--------------------------------|---------|----------------|-------|
| Revenue | 7,895 | 6,369 | (19%) |
| Operating expenses (excl. D&A) | (6,225) | (5,632) | (10%) |
| EBITDA | 1,670 | 738 | (56%) |
| Depreciation and amortisation | (723) | (665) | (8%) |
| EBIT | 947 | 73 | (92%) |
| Net finance income/(costs) | 14 | (68) | |
| Net profit | 621 | (115) | |

Performance of the PGNiG stock in Q2 2016



- Revenue from high-methane (E) gas sales down PLN 1.4bn yoy (PLN 4.6bn in Q2 2016), with sales volume down 2% yoy, to 4.4 bcm.
- Revenue from crude oil and condensate sales down PLN 192m in Q2 2016, with sales volumes down 36 thousand tonnes relative to Q2 2015, to 336 thousand tonnes, mainly on a close to 26% yoy drop in crude oil prices.
- Cost of gas sold down by almost 30%, or PLN 1.3bn yoy.
- Depreciation/amortisation charges in Norway down PLN 71m yoy on re-evaluation of Skarv reserves at the end of 2015.
- Net impairment losses, dry wells and seismics written off at PLN -714m in Q2 2016, compared with PLN -333m in Q2 2015 (change: PLN -381m).
- Interest expense up PLN 43m yoy (from PLN 22m to PLN 65m), mainly on remeasurement of notes at amortised cost.
- The impact on the net profit of the valuation of equity-accounted interest in PGG amounted PLN -41m.

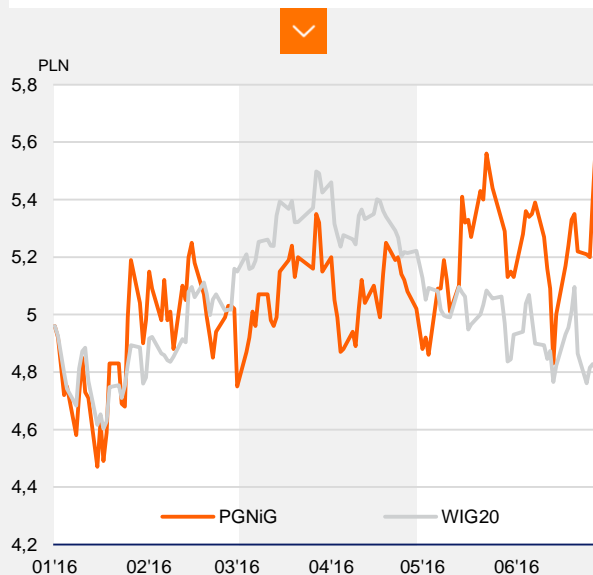
Financial highlights H1 2016



Major impact of falling commodity prices on operating performance

| [PLNm] | H1 2015 | H1 2016 | Δ% |
|--------------------------------|----------|-----------------|-------|
| Revenue | 20,390 | 17,349 | (15%) |
| Operating expenses (excl. D&A) | (16,394) | (14,218) | (13%) |
| EBITDA | 3,996 | 3,131 | (22%) |
| Depreciation and amortisation | (1,387) | (1,337) | (4%) |
| EBIT | 2,609 | 1,794 | (31%) |
| Net finance income/(costs) | (58) | (20) | (66%) |
| Net profit | 1,865 | 1,271 | (32%) |

Performance of the PGNiG stock in H1 2016



- Revenue from high-methane (E) gas sales down PLN 3.2bn yoy (PLN 13.2bn in H1 2016), with stable sales volumes yoy, at close to 12 bcm.
- Revenue from crude oil and condensate sales down PLN 313m in H1 2016, with stable sales volumes yoy, at 734 thousand tonnes.
- Cost of gas sold down 20%, or PLN 2.5bn yoy.
- Net impairment losses, dry wells and seismics written off at PLN -554m in H1 2016, compared with PLN -296m in H1 2015 (change: PLN -258m).
- PLN 52m net foreign exchange gains on the USD-denominated reserve based loan in H1 2016 vs PLN -20m net foreign exchange losses in H1 2015.
- The impact on the net profit of the valuation of equity-accounted interest in PGG amounted PLN -41m.

Business segments – EBITDA H1 2016



Exploration and Production

- Revenue from sales of oil and condensate down PLN 312m or 28% yoy.
- Effect of the PLN -680m impairment losses in H1 2016 vs PLN -165m H1 2015.

Trade and Storage

- Lower unit gas purchase costs and lower market and tariff prices.
- Partial reversal of gas inventory write-downs in H1 2016 (positive effect of PLN +216m).

Distribution

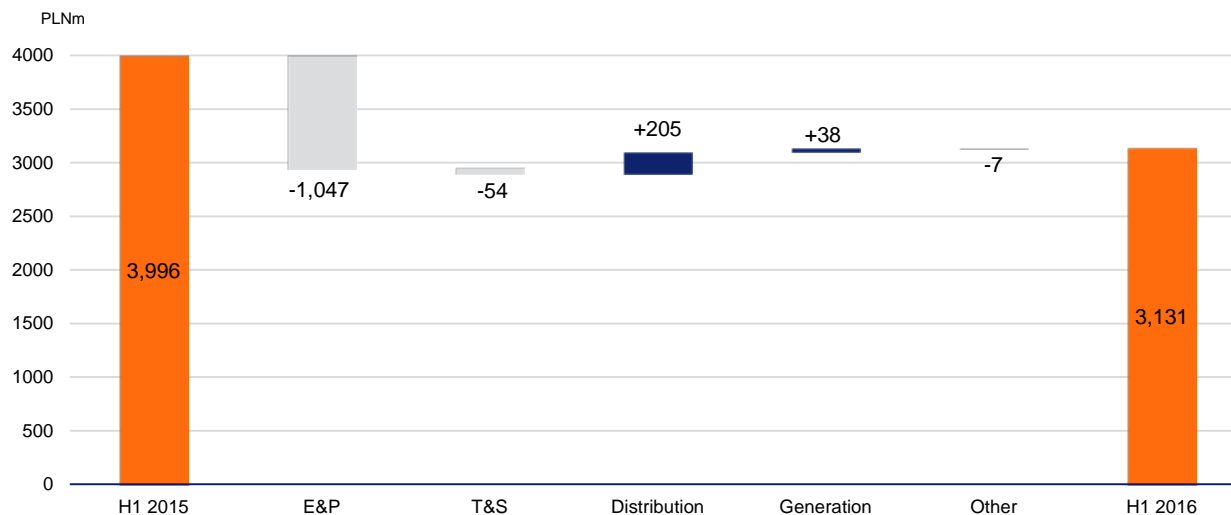
- Volume up by 5% in H1 2016 yoy.
- Improved cost efficiency driven by the Efficiency Improvement Programme.

Generation

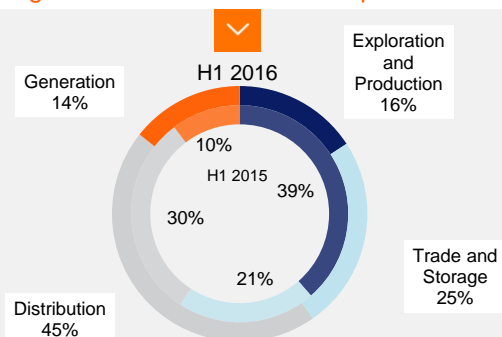
- Heat sales volumes up, with fuel costs down.

| [PLNm] | H1 2015 | H1 2016 | Δ% | Contribution to Group's result |
|----------------------------|--------------|--------------|--------------|--------------------------------|
| Exploration and Production | 1,542 | 495 | (68%) | 16% |
| Trade and Storage | 824 | 770 | (7%) | 25% |
| Distribution | 1,218 | 1,423 | 17% | 45% |
| Generation | 412 | 450 | 9% | 14% |
| Other, eliminations | - | (7) | | |
| Total | 3,996 | 3,131 | (22%) | |

▼ PGNiG Group's H1 2016 EBITDA down yoy



Segments' contribution to Group EBITDA



Segments – Exploration and Production



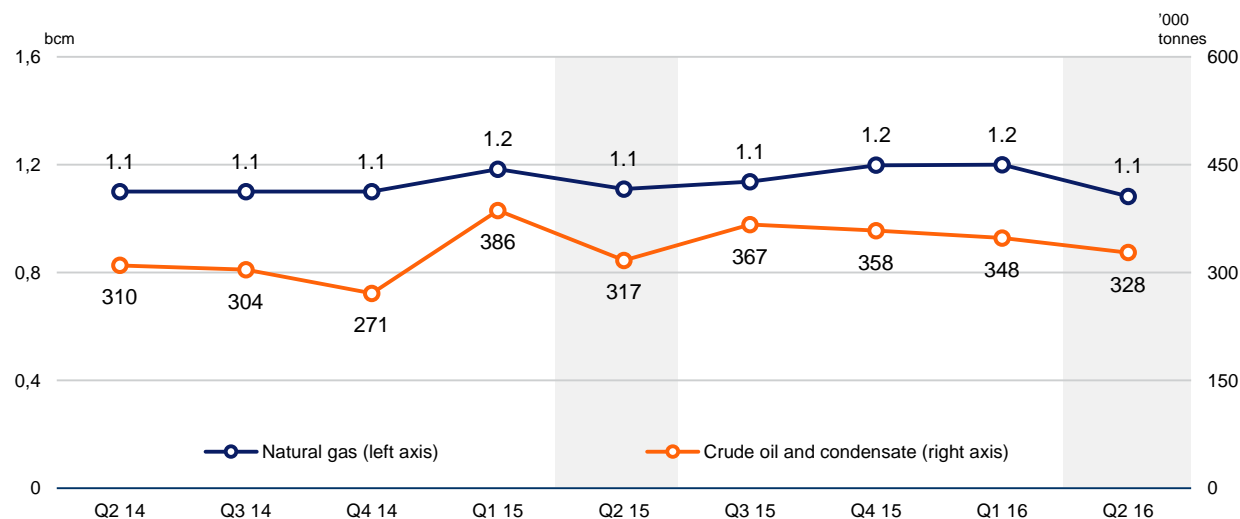
Recognition of impairment losses and adverse impact of low oil prices, aggravated by lower sales volumes

| [PLNm] | Q2 2015 | Q2 2016 | Δ% |
|--------------------------------|---------|----------------|-------|
| Revenue | 1,316 | 1,093 | (17%) |
| Operating expenses (excl. D&A) | (652) | (1,217) | 87% |
| EBITDA | 664 | (124) | |
| Depreciation and amortisation | (378) | (289) | (24%) |
| EBIT | 286 | (413) | |

Commentary:

- Revenue from sales of crude oil and condensate down PLN 192m yoy, with oil prices in PLN down by nearly 23% and sales volumes down 10%, to 336 thousand tonnes.
- Impairment losses on assets and dry wells and seismics written off at PLN 749m in Q2 2016 vs PLN 365m the year before.
- Employee benefit expenses up PLN 54m yoy, with one contributing factor being recognition of provisions for employee benefits.
- Depreciation/amortisation in Norway down PLN 71m yoy on re-evaluation of Skarv reserves at the end of 2015.

Gas output stable and crude output up yoy in Q2 2016



Segments – Trade and Storage (1/2)



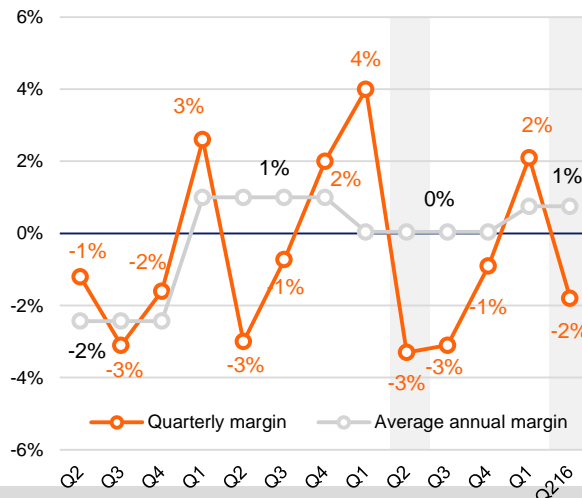
7% margin on E gas fuel, with operating margin on the product of -2% in Q2 2016

Commentary:

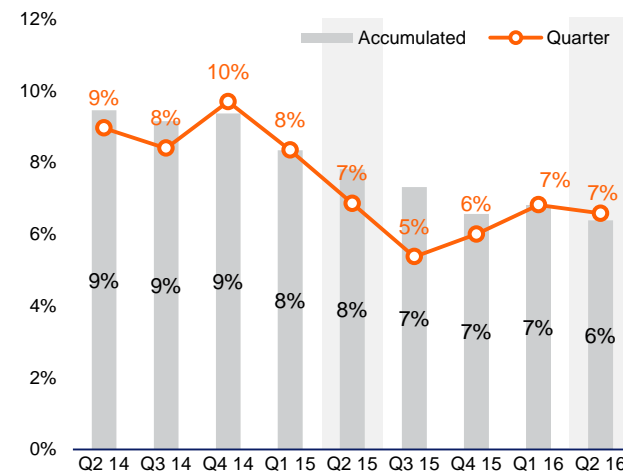
- Revenue from gas sales in Trade & Storage down from PLN 6.2bn to PLN 4.8bn on lower selling prices (tariff price reductions and active discount policy targeting the largest customers).
- PLN +51m in partial reversal of gas inventory write-downs in Q2 2016 (net write-downs at the end of Q2 2016 at PLN 37m). Q2 2015 performance affected by a PLN +25m gas inventory write-down.
- PST's contribution to overall gas sales revenue: PLN 410m relative to PLN 490m Q2 2015.
- Contribution of the segment's electricity sales to revenue totalling PLN 457m in Q2 2016, compared with PLN 357m the year before.
- The effect of transactions hedging the risk related to gas purchases, entered into in 2014–2015, with higher market prices, was PLN -218m in Q2 2016 relative to PLN -78m in Q2 2015.

| [PLNm] | Q2 2015 | Q2 2016 | Δ% |
|--------------------------------|---------|----------------|-------|
| Revenue | 6,634 | 5,264 | (21%) |
| Operating expenses (excl. D&A) | (6,429) | (5,154) | (20%) |
| EBITDA | 205 | 110 | (46%) |
| Depreciation and amortisation | (43) | (64) | 49% |
| EBIT | 163 | 47 | (71%) |

▼ Negative operating margin on E gas



▼ Positive margin on E gas fuel



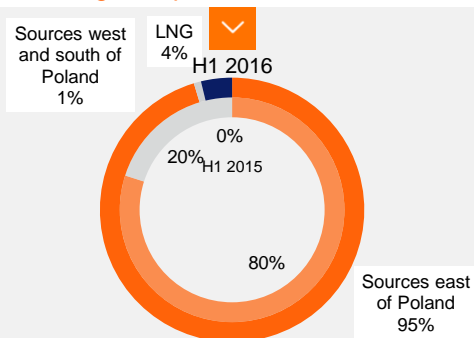
Segments – Trade and Storage (2/2)

First LNG deliveries to the Świnoujście terminal in June 2016

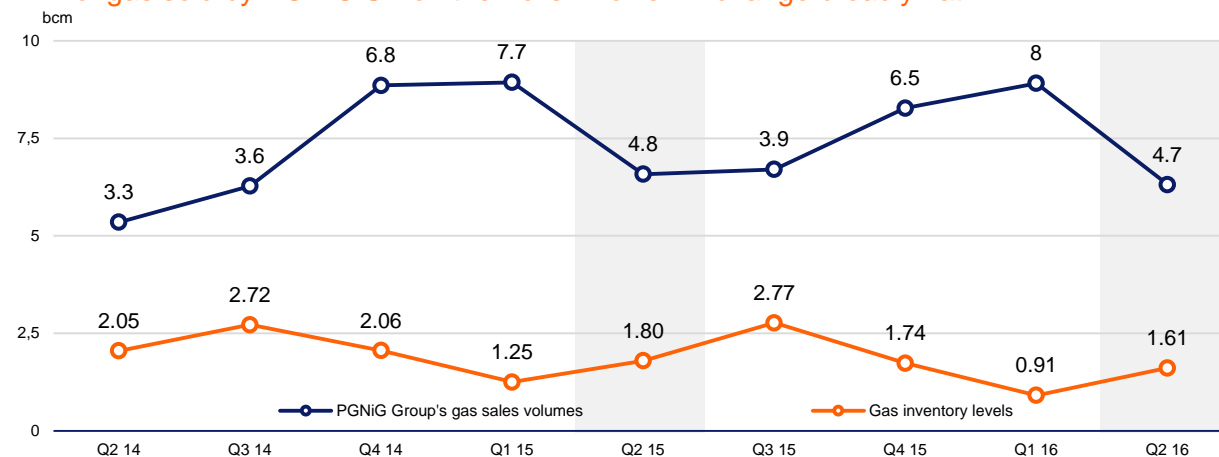
Commentary:

- Gas sales to PST customers up nearly 21% yoy.
- Bigger yoy gas purchases by customers from the nitrogen plants and refineries and petrochemical segments.
- Supplies to other industrial customers (various sectors) and commercial customers down as a result of customers changing suppliers.
- Gas inventory levels on July 31st 2016: 2.08 bcm

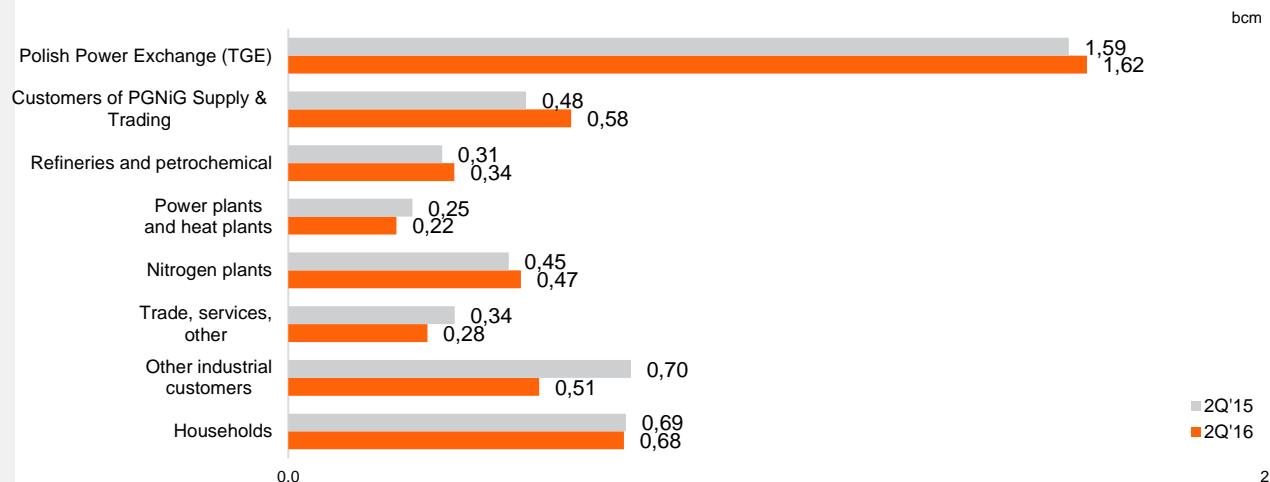
Poland's gas imports structure in H1 2016



PGNiG Group gas sales volumes down 0.1 bcm yoy in Q2 2016, with volumes of gas sold by PGNiG SA on the Polish Power Exchange broadly flat



PGNiG Group* – gas sales volumes by customer group



Segments – Distribution

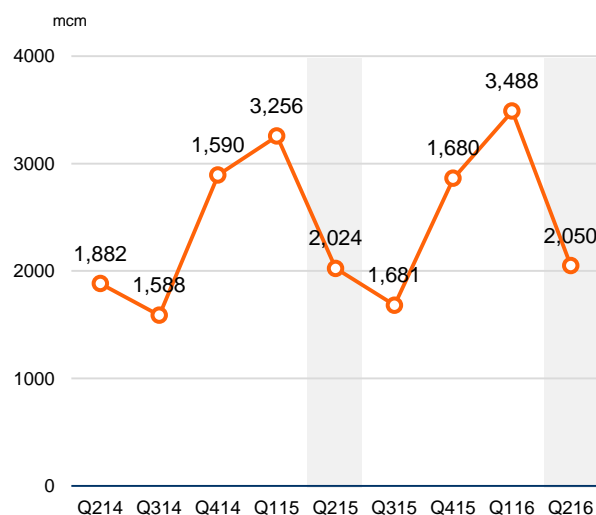
Similar year-on-year performance reported by the segment, with stable distribution volumes

| [PLNm] | Q2 2015 | Q2 2016 | Δ% |
|--------------------------------|---------|--------------|------|
| Revenue | 1,078 | 1,065 | (1%) |
| Operating expenses (excl. D&A) | (381) | (400) | 5% |
| EBITDA | 697 | 665 | (5%) |
| Depreciation and amortisation | (220) | (230) | 5% |
| EBIT | 477 | 435 | (9%) |

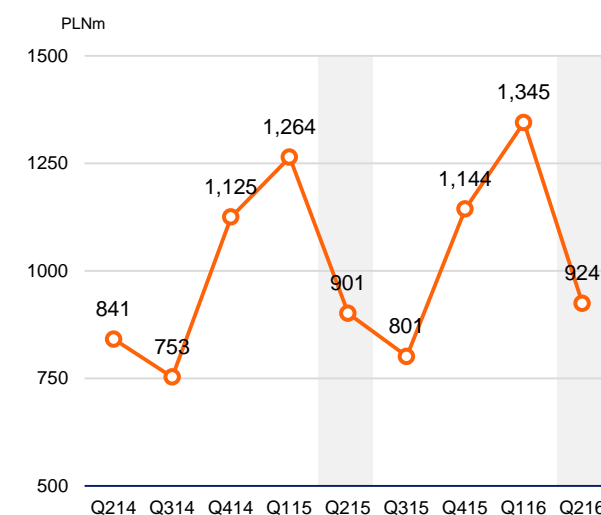
Commentary:

- Volume of distributed gas up 1% yoy, to 2.05 bcm (new connections).
- Revenue from distribution services up PLN 23m (+3%) yoy.
- Net income from system balancing lower yoy, at PLN +156m in Q2 2016, compared with PLN +172m in Q2 2015. The effect on performance is in line with assumptions underlying the temperature-based sales forecasting method.
- In Q2 2015, PLN 39m in reversal of the provision for extra-contractual use of land.

Gas distribution volume



Revenue from distribution services



Segments – Generation

Weaker operating performance reported by the segment

Commentary:

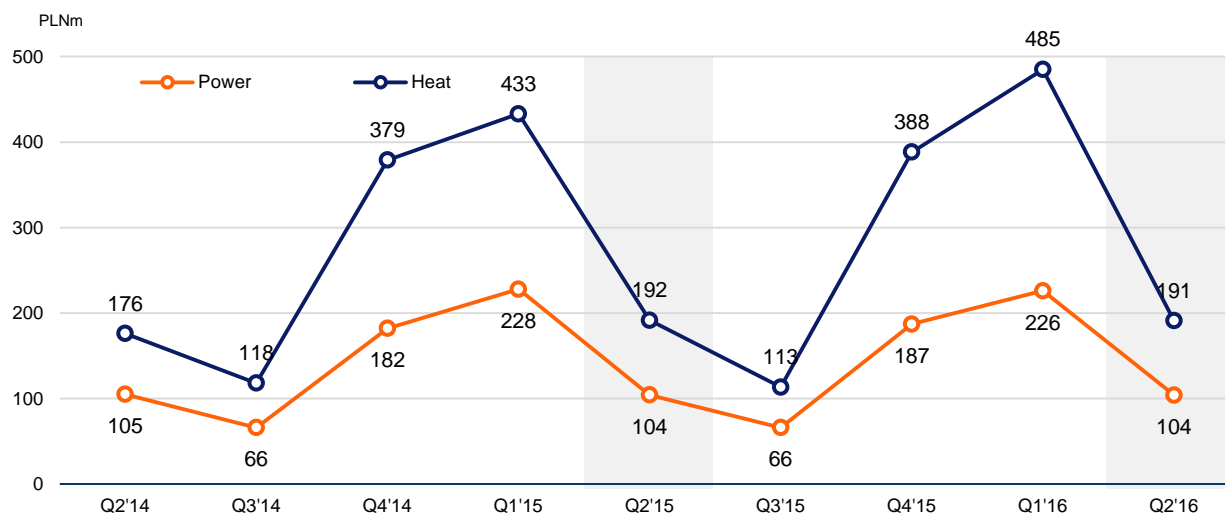
- Beginning of consolidation of PEC Jastrzębie.
- Stable revenue from sales of heat: PLN 191m, with volumes down 9% and a higher heat tariff effective from August 2015.
- Higher revenue from sales of purchased electricity; up by PLN 30m yoy, to PLN 60m, attributable to higher sales volumes. Revenue from sales of generated electricity remained stable yoy at PLN 104m.
- Cost of coal down 17% yoy to PLN -92m in Q2 2016, and change in the fuel mix – biomass.
- Employee benefit expenses up PLN 16m yoy, with one contributing factor being workforce increase following the acquisition of PEC Jastrzębie.

Sales volumes in Q2 2016 (generation):

- Sales of heat at 5.3 PJ, down 9% yoy.
- Electricity (produced): 0.6 TWh, down 13% yoy.

| [PLNm] | Q2 2015 | Q2 2016 | Δ% |
|--------------------------------|---------|--------------|-------|
| Revenue | 343 | 381 | 11% |
| Operating expenses (excl. D&A) | (241) | (293) | 22% |
| EBITDA | 102 | 88 | (14%) |
| Depreciation and amortisation | (78) | (80) | 3% |
| EBIT | 24 | 8 | (67%) |

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



Marked decrease in the cost of gas sold in Q2 2016



Material effect of one-off events offset by a decrease in the cost of gas sold

Commentary:

- Higher cost of labour related to the consolidation of PEC Jastrzębie and recognition of provisions for future employee benefits.
- Two dry wells written off in Q2 2016 vs six wells in Q2 2015.
- In Q2 2016, the effect of an impairment loss on non-current assets of PLN 725m (Q2 2015: PLN 195m).
- PLN +51m in partial reversal of gas inventory write-downs in Q2 2016 (net write-downs at the end of Q2 2016 at PLN 37m). Q2 2015 performance affected by a PLN +25m gas inventory write-down.
- Changes in reserves of PLN +141m in Q2 2015 (release of reserves for decommissioning of wells) and PLN -28m in Q2 2016.
- Cost of gas sold down on lower unit purchase cost of gas.

| [PLNm] | Q2 2015 | Q2 2016 | Δ% |
|---|---------|----------------|--------|
| Fuels for heat and power generation | (120) | (105) | (13%) |
| Other raw materials and consumables used | (347) | (389) | 12% |
| Employee benefits expense | (583) | (639) | 10% |
| Transmission services | (276) | (271) | (2%) |
| Cost of dry wells and seismic surveys written-off | (175) | (36) | (79%) |
| Other services | (303) | (313) | 3% |
| Net other income/(expenses) | (229) | (913) | x4 |
| <i>Change in impairment losses</i> | (160) | (678) | x4 |
| <i>Change in reserves</i> | 141 | (28) | (120%) |
| Work performed by the entity and capitalised | 229 | 161 | (30%) |
| Depreciation and amortisation expense | (723) | (665) | (8%) |
| Operating expenses net of cost of gas sold | (2,528) | (3,170) | 25% |
| Cost of gas sold | (4,420) | (3,126) | (29%) |
| Total operating expenses | (6,948) | (6,296) | (9%) |

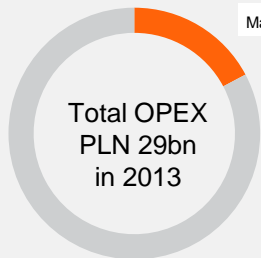
Efficiency Improvement Programme – almost PLN 1bn in savings by 2017

The Programme aims to permanently reduce the manageable cost base across core PGNiG Group segments

Programme objectives:

- To set efficiency improvement targets for the individual segments and entities within the PGNiG Group and to define related benefits to quality improvement.
- To define the scope of action and to assign specific tasks to individual business segments based on identified areas for improvement.
- To implement initiatives designed to improve the PGNiG Group's operating efficiency by the end of 2017.

Operating expenses covered by the EIP



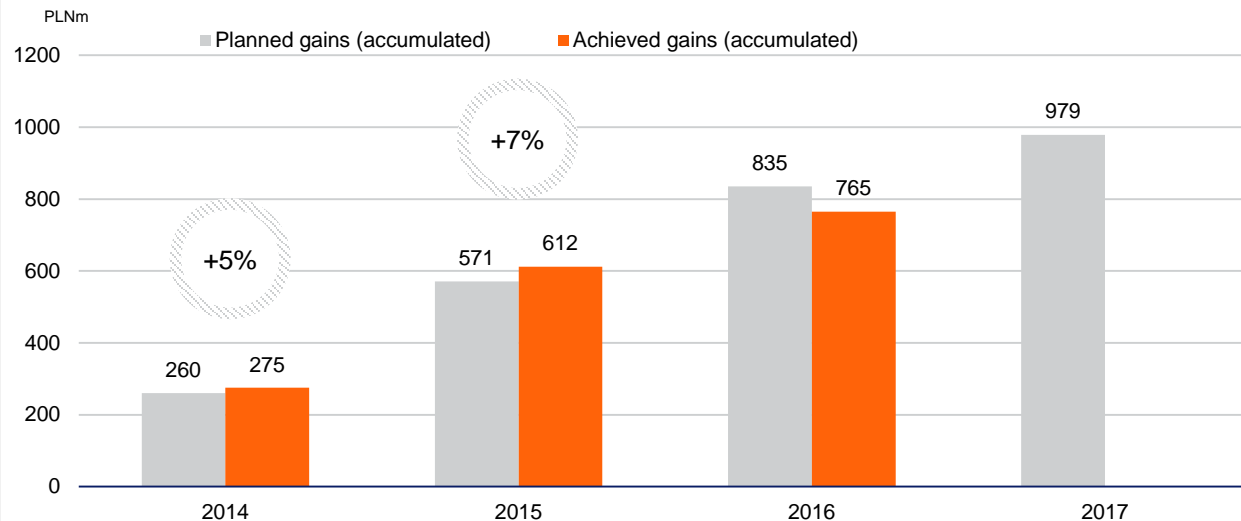
Manageable OPEX 5

Key cost items (excluding PPE):

- Gas purchase costs
- Other fuel purchase costs
- Transmission service costs
- Depreciation and amortisation expense

Other OPEX 24

PLN 153m in savings generated in H1 2016



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Release dates for periodic reports



Q3 2016 report

Close period:
October 27th–November 9th 2016

More information



Investor Relations website
www.ri.pgnig.pl





Appendices:

> Changes on the Polish gas market

> Gas trading and retail sales

> Production and sales volumes

> Debt and sources of funding

> Statement of financial position, cash flow, financial ratios and headcount

Changes on the Polish gas market



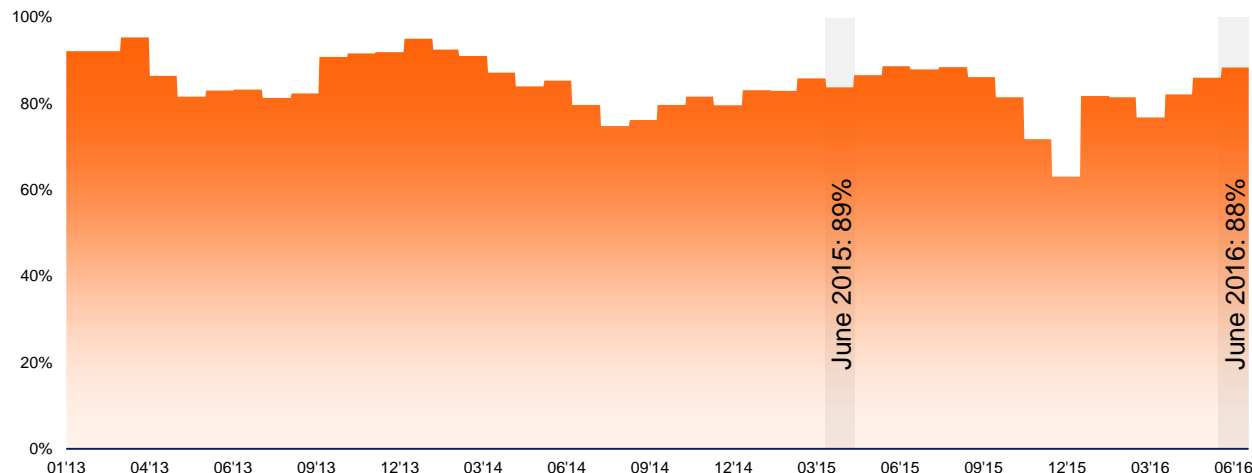
Gas market deregulation is affecting PGNiG's share in imports and sales structure

Commentary:

- Since August 1st 2014, the PGNiG Group's gas sales volumes have included both PGNiG SA's sales through the exchange and PGNiG OD's sales to end customers and on the exchange.
- PGNiG OD's sales include nitrogen-rich gas, presented in the table as Group E gas equivalent.

| Gas sales volume (mcm) | Q2 2015 | Q2 2016 | Δ% |
|---------------------------------------|---------|--------------|-------|
| Total PGNiG Group | 4,803 | 4,738 | (1%) |
| PGNiG SA | 2,893 | 2,897 | - |
| <i>including PGNiG SA through PPE</i> | 1,551 | 1,577 | 2% |
| PGNiG Obrót Detaliczny | 1,492 | 1,329 | (11%) |

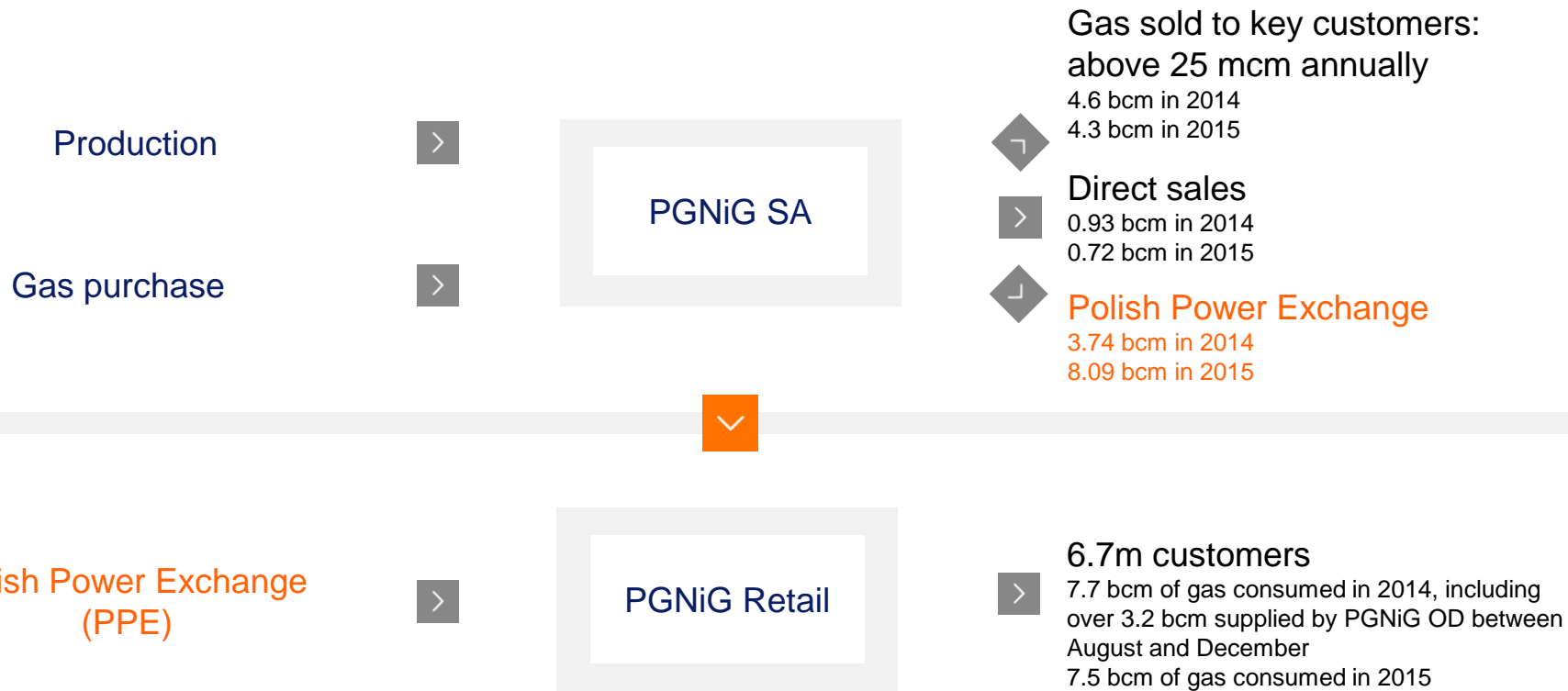
PGNiG's share in gas imports to Poland*



* Notes:

- The chart presents 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), monthly data.
- Data in the chart do not show PGNiG SA's share in the Polish gas market. They have been sourced from reports published by OGP Gaz-System on the volumes of gas flowing through interconnectors.

Gas trading and retail sales after August 1st 2014



Sales made on PPE by PGNiG SA and purchases made on PPE by PGNiG 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.

Measured as high-methane gas equivalent (without intragroup eliminations).

Production and sales volumes



| NATURAL GAS PRODUCTION, PGNiG Group (mcm) | Q2 2016 | Q1 2016 | FY 2015 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 | FY 2014 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| HIGH-METHANE GAS (E) | 487 | 509 | 2,031 | 508 | 515 | 507 | 501 | 1,876 | 440 | 475 | 482 | 479 |
| <i>including in Poland</i> | 349 | 359 | 1,458 | 369 | 359 | 362 | 367 | 1,457 | 368 | 361 | 362 | 367 |
| <i>including in Norway</i> | 138 | 150 | 573 | 138 | 156 | 145 | 134 | 419 | 73 | 114 | 120 | 112 |
| NITROGEN-RICH GAS (Ls/Lw as E equiv.) | 596 | 670 | 2,599 | 691 | 622 | 602 | 684 | 2,627 | 692 | 582 | 650 | 704 |
| <i>including in Poland</i> | 584 | 657 | 2,547 | 677 | 610 | 589 | 671 | 2,569 | 677 | 567 | 636 | 690 |
| <i>including in Pakistan</i> | 13 | 13 | 52 | 13 | 12 | 13 | 13 | 58 | 14 | 15 | 15 | 14 |
| TOTAL (measured as E equivalent) | 1,083 | 1,179 | 4,629 | 1,198 | 1,137 | 1,109 | 1,185 | 4,503 | 1,132 | 1,057 | 1,132 | 1,182 |
| Total production in kboe/d | 77 | 84 | 81 | 84 | 80 | 79 | 83 | 80 | 79 | 74 | 80 | 85 |

NATURAL GAS SALES, PGNiG Group (mcm)

| | | | | | | | | | | | | |
|---|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| HIGH-METHANE GAS (E) | 4,439 | 7,572 | 21,665 | 6,151 | 3,674 | 4,521 | 7,320 | 17,358 | 6,470 | 3,284 | 3,078 | 4,526 |
| <i>including PST sales outside PGNiG Group</i> | 571 | 764 | 2,271 | 608 | 639 | 502 | 522 | 1,760 | 488 | 363 | 444 | 465 |
| NITROGEN-RICH GAS (Ls/Lw as E equiv.) | 299 | 413 | 1,335 | 390 | 262 | 282 | 401 | 1,252 | 334 | 272 | 271 | 375 |
| TOTAL (measured as E equivalent) | 4,738 | 7,986 | 23,000 | 6,541 | 3,936 | 4,803 | 7,721 | 18,609 | 6,804 | 3,556 | 3,349 | 4,900 |
| <i>including sales directly from the fields</i> | 189 | 218 | 764 | 201 | 176 | 175 | 212 | 800 | 205 | 177 | 180 | 238 |

GAS IMPORTS by PGNiG SA (mcm)

| | | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total | 2,837 | 2,704 | 9,330 | 1,863 | 2,398 | 2,495 | 2,574 | 9,700 | 2,423 | 2,143 | 2,594 | 2,541 |
| <i>including: sources east of Poland</i> | 2,623 | 2,657 | 8,155 | 1,774 | 2,329 | 2,219 | 1,833 | 8,097 | 1,751 | 1,805 | 2,515 | 2,026 |

CRUDE OIL, PGNiG Group (thousand tonnes)

| | | | | | | | | | | | | |
|--|-----|-----|-------|-----|-----|-----|-----|-------|-----|-----|-----|-----|
| Production of crude oil and condensate | 328 | 348 | 1,428 | 358 | 367 | 317 | 386 | 1,207 | 271 | 304 | 310 | 322 |
| <i>including in Poland</i> | 176 | 203 | 765 | 207 | 204 | 147 | 207 | 789 | 214 | 188 | 184 | 203 |
| <i>including in Norway</i> | 152 | 145 | 664 | 151 | 163 | 170 | 180 | 418 | 57 | 116 | 126 | 119 |
| Total production in kbbl/d | 26 | 28 | 29 | 29 | 29 | 26 | 31 | 24 | 22 | 24 | 25 | 26 |
| Sales of crude oil and condensate | 336 | 398 | 1,391 | 315 | 356 | 372 | 348 | 1,169 | 249 | 262 | 373 | 287 |
| <i>including in Poland</i> | 172 | 205 | 772 | 211 | 196 | 148 | 217 | 780 | 213 | 181 | 185 | 201 |
| <i>including in Norway</i> | 164 | 193 | 619 | 104 | 160 | 224 | 131 | 389 | 36 | 81 | 188 | 85 |

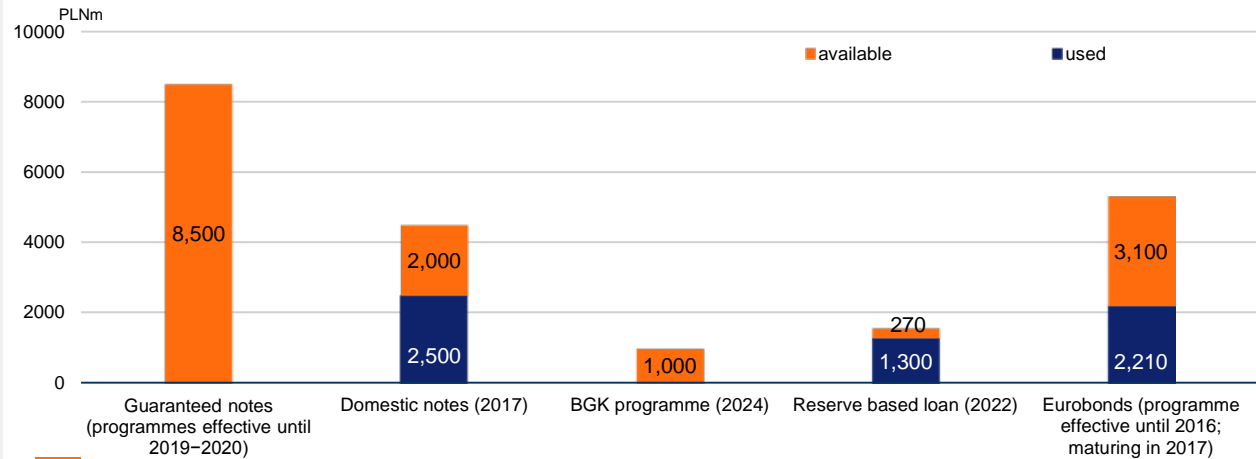
PGNiG TERMIKA

| | | | | | | | | | | | | |
|---|-------|--------|--------|--------|-------|-------|--------|--------|--------|-------|-------|--------|
| Production of heat, net (sales) (TJ) | 5,309 | 16,152 | 36,209 | 12,643 | 2,701 | 5,810 | 15,055 | 36,617 | 12,980 | 2,867 | 5,336 | 15,434 |
| Production of electricity, net, secondary generation (for sale) (GWh) | 590 | 1,390 | 3,487 | 1,136 | 328 | 674 | 1,349 | 3,555 | 1,132 | 386 | 648 | 1,390 |

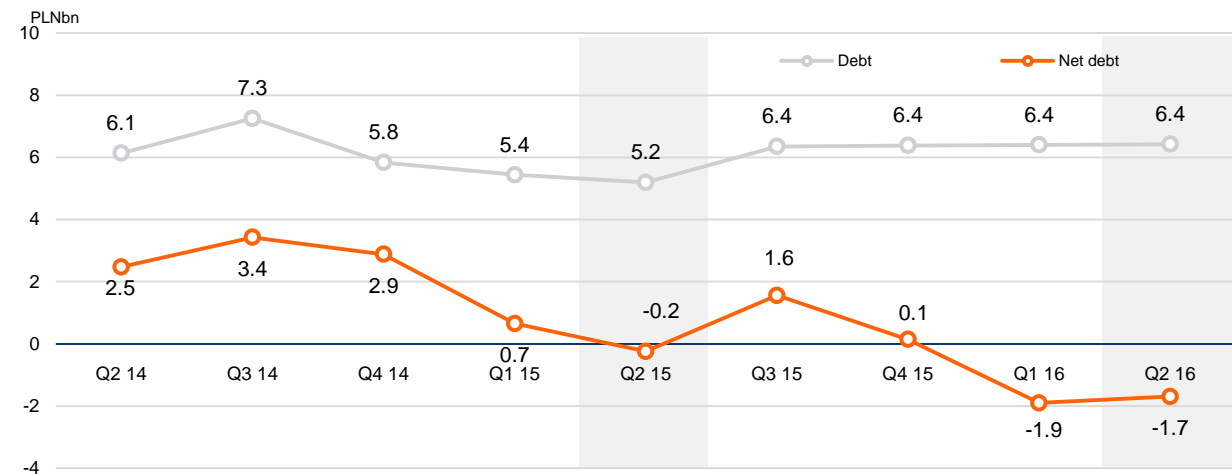
Debt and sources of funding

Strong financial position

Sources of funding (as at June 30th 2016)



Debt as at end of quarter



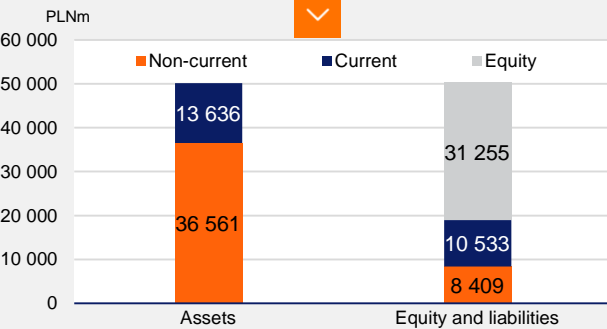
Commentary:

- Available financing programmes for PLN 14.9bn, including PLN 9.8bn underwritten.
- In August 2015, PGNiG Upstream International signed a new reserve based loan agreement, with loan amount raised to USD 400m. This increased the scale of self-financing of PUI and the financing capacity of the PGNiG Group. The loan is a seven-year revolving facility with a grace period of 30 months.

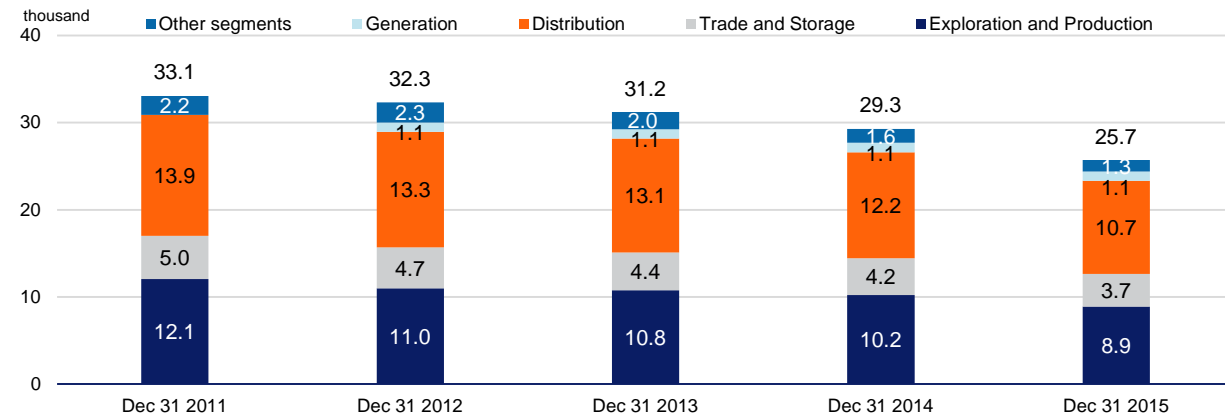
Statement of financial position, statement of cash flows, financial ratios and headcount



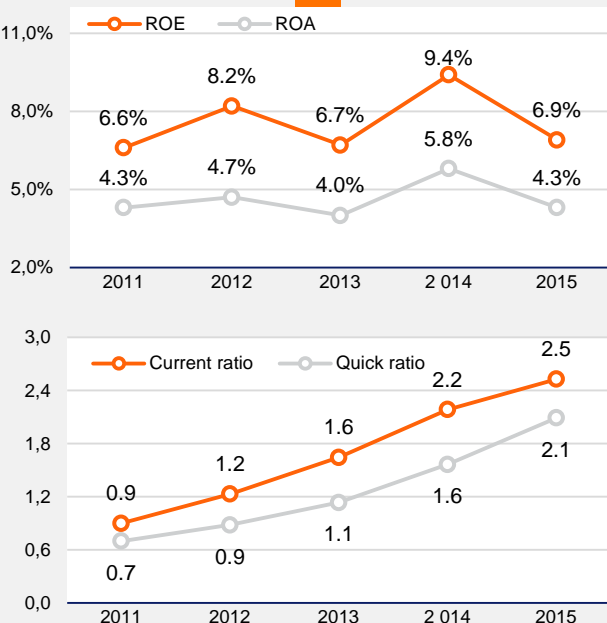
Group's statement of financial position (as at June 30th 2016)



Headcount (at year end)



Profitability and liquidity ratios



Consolidated cash flows (Jan 1st-Jun 30th 2016)

