Polskie Górnictwo Naftowe i Gazownictwo SA

PGNiG Group Q4 and FY 2016 Results

March 8th 2017

PGNiG

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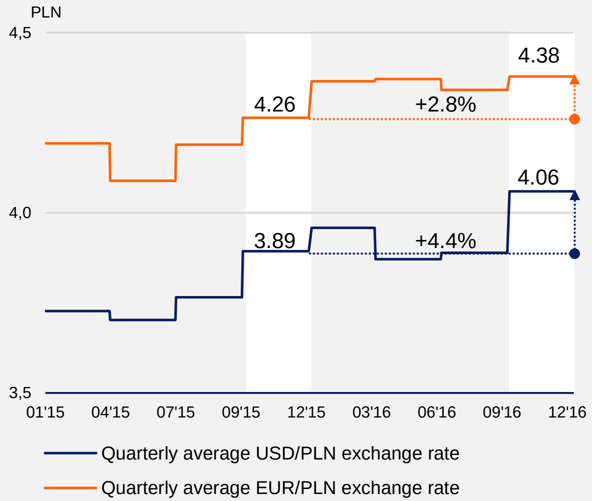
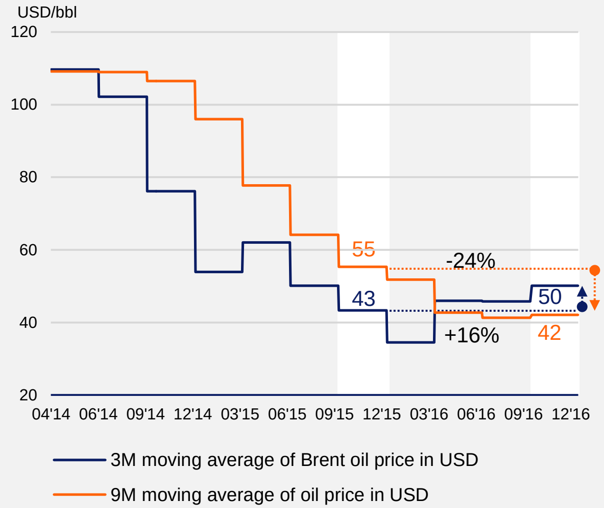
PGNiG

Performance drivers

Yoy appreciation of USD and EUR against PLN

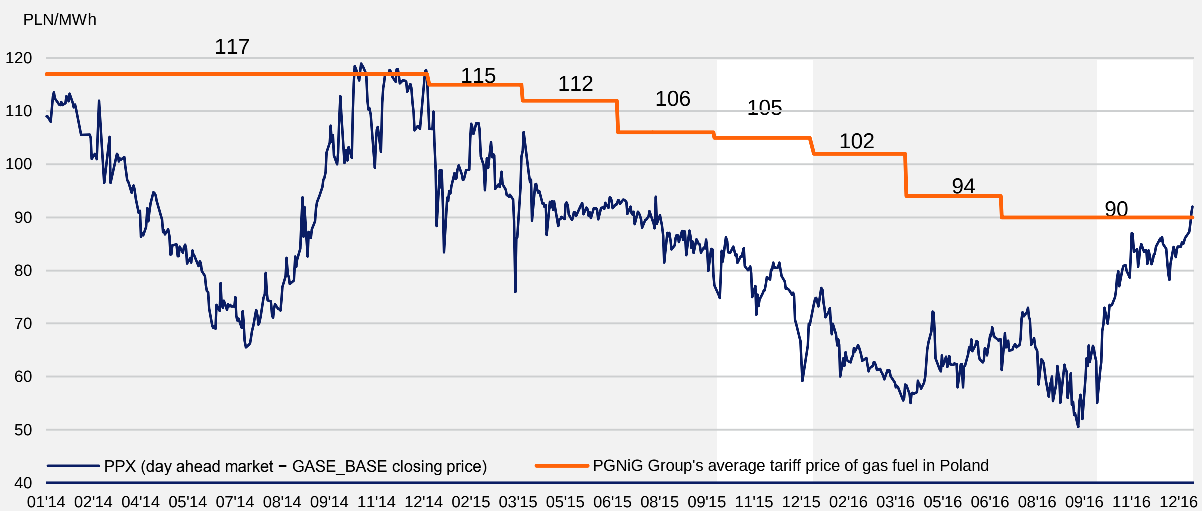


In Q4 2016, 9-month average of crude oil prices down 24% yoy



- Marked impact of recent periods' tariff reductions on gas selling prices
- Average regulated price down 14% yoy and flat qoq in Q4 2016

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, Monthly and weekly futures and spot contracts play a complementary role.

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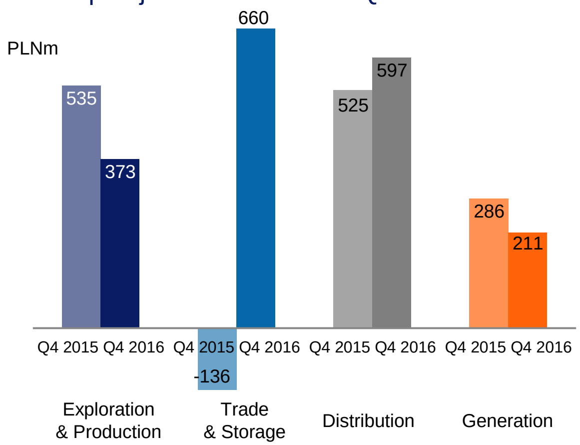
Financial highlights Q4 2016

[PLNm]	Q4 2015	Q4 2016	Δ%
Revenue	9,769	**10,146**	4%
Operating expenses (excl. D&A)	(8,998)	**(8,441)**	(6%)
EBITDA	771	**1,705**	x2
Adjusted EBITDA*	1,211	**1,828**	51%
Depreciation and amortisation	(717)	**(658)**	(8%)
EBIT	54	**1,047**	x19
Net finance income/(costs)	(71)	**(63)**	(11%)
Net profit	(21)	**721**	-

- Revenue from high-methane (E) gas sales down PLN 47m yoy (PLN 7.5bn in Q4 2016), with sales volume up 13%, to 6.9 bcm.
- Revenue from crude oil and condensate sales up PLN 84m in Q4 2016, with sales volumes up 3% yoy to 326 thousand tonnes, mainly on a close to 16% yoy rise in crude oil prices.
- Revenue from electricity sales up 21 % (PLN 101m) yoy, to PLN 576m in Q4 2016, with sales volume up 1.7 TWh, to 11.0 TWh.
- Revenue from heat sales up PLN 71m yoy, with sales volume up 23% or 2.8 PJ yoy.
- Revenue from sales of distribution services and geological/geophysical services up PLN 77m and PLN 50m yoy, respectively.
- Cost of gas sold down over 11%, or PLN 0.6bn yoy.

- EBITDA more than doubled on higher volumes of core products sold by the PGNiG Group

- Segments' contribution to Group adjusted EBITDA* in Q4 2016



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* EBITDA adjusted for impairment losses on non-current assets

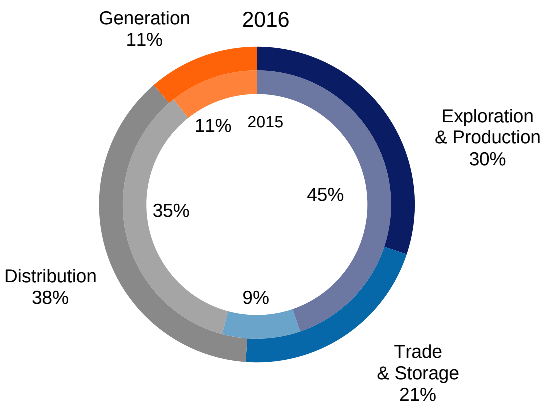
Financial highlights FY 2016

[PLNm]	2015	2016	Δ%
Revenue	36,464	**33,196**	(9%)
Operating expenses (excl. D&A)	(30,384)	**(27,222)**	(10%)
EBITDA	6,080	**5,974**	(2%)
Adjusted EBITDA*	6,670	**6,810**	2%
Depreciation and amortisation	(2,790)	**(2,614)**	(6%)
EBIT	3,290	**3,360**	2%
Net finance income/(costs)	(225)	**(76)**	(66%)
Net profit	2,136	**2,349**	10%

- Revenue from high-methane (E) gas sales down PLN 3.7bn yoy (PLN 24.8bn in 2016), with sales volumes up 6% yoy, to almost 23 bcm.
- Revenue from crude oil and condensate sales down PLN 338m in 2016, with sales volumes down 3% yoy, to 1,347 thousand tonnes.
- Cost of gas sold down 17%, or PLN 3.7bn year on year.
- Depreciation/amortisation expense in Norway down PLN 166m on lower sales volumes (units-of-production method) and on re-evaluation of Skarv reserves.
- Major impact of impairment losses on non-current assets recognised in 2016 and 2015, of PLN -836m and PLN -590m, respectively. Adjusted EBITDA up 2% yoy.
- PLN 55m net foreign exchange gains on the USD-denominated reserve based loan in 2016 vs PLN 80m net foreign exchange losses in 2015.
- Equity method accounting for interest in PGG had an effect of reducing net profit by PLN -53m.
- LNG regasification costs up PLN -176m yoy, oil and gas production charges in Poland increased by PLN 84m yoy.

- Major impact of falling commodity prices on full-year operating performance

- Segments' contribution to Group adjusted EBITDA* in 2016

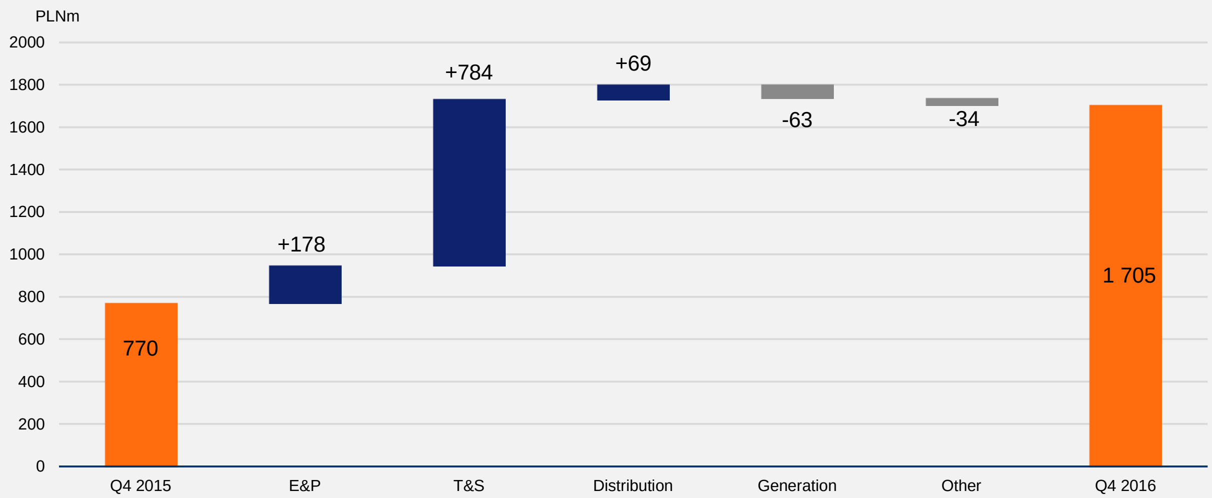


* EBITDA adjusted for impairment losses on non-current assets

Business segments – Q4 2016 EBITDA

[PLNm]	Q4 2015	Q4 2016	adj. Q4 2015*	adj. Q4 2016*
Exploration and Production	117	**295**	535	**373**
Trade and Storage	-135	**649**	-136	**660**
Distribution	525	**594**	525	**597**
Generation	262	**199****	286	**211**
Other, eliminations	2	**-32**	1	**-14**
Total	771	**1,705**	1,211	**1,828**

- PGNiG Group's Q4 2016 EBITDA up yoy



* EBITDA adjusted for impairment losses on non-current assets / ** Reversal of PLN 73m gain from the bargain purchase of SEJ in Q4 2016. Final settlement of SEJ acquisition shows goodwill at the level of PLN 4m.

Exploration and Production

- Revenue from sales of oil and condensate up PLN 84m or 22% yoy.
- Effect of the PLN -108m impairment losses in Q4 2016 vs PLN -420m in Q4 2015.
- PLN -237m dry wells and seismic projects written off in Q4 2016 vs. PLN -82m in Q4 2015.

Trade and Storage

- Lower unit gas purchase costs and positive operating margin on E gas (5% in Q4 2016 vs. -1% in Q4 2015).
- Partial reversal of gas inventory write-downs in Q4 2016 (positive effect of PLN +32m) vs. additional write-down on gas inventories of PLN -219m recognised in Q4 2015.

Distribution

- Volume up 20% yoy in Q4 2016.
- Net cost of system balancing at PLN -193m in Q4 2016, compared with PLN -130m the year before.

Generation

- Heat and electricity sales volumes up.
- PLN 30m EBITDA from PEC's and SEJ's assets.

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2017 outlook

Segment performance supported by higher oil and gas prices

- Rising oil and gas prices expected by the market and stronger US dollar
- Forecasted oil and condensate production volumes in the PGNiG Group at the level of 1,316 ths. tonnes in 2017
- Gina Krog - production launch scheduled for April 2017 (Norway)
- development and tie-in of new wells, and expansion of two facilities, in Dębno and Grodzisk (Poland)

Progressing gas market deregulation

- Since October 2017, tariffs are applied solely to gas sold to households
- Roll-out of dual fuel products
- Booking the capacity in planned Norway – Danmark – Poland connection
- Possible increase in gas procurement costs under long-term contracts due to rising oil prices
- Year-round LNG deliveries from Qatargas under long-term contract
- Final resoluiton on arbitration proceedings against Gazprom in Q3 2017
- LNG trading activities by London office

Stable performance of the Distribution segment

- Increasing the volume of distributed gas through development projects and new connections
- Local gas network roll-out in north-eastern Poland using the LNG technology
- Continued efforts to socialise the costs of terminal
- Higher capital expenditure (planned capex of PLN 1.7bn in 2017)
- Working to develop a long-term regulatory model

Improved profitability of the Generation segment

- Heat and electricity production volumes up following consolidation of acquired assets
- Potentially higher prices of fuels for heat and power generation
- Commencement of the construction of a CCGT unit and a peak-load boiler house at the Żerań CHP Plant

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Calendar

May 10th	August 11th	November 8th
Q1 results	H1 results	Q3 results

More information

Investor Relations website
www.ri.pgnig.pl

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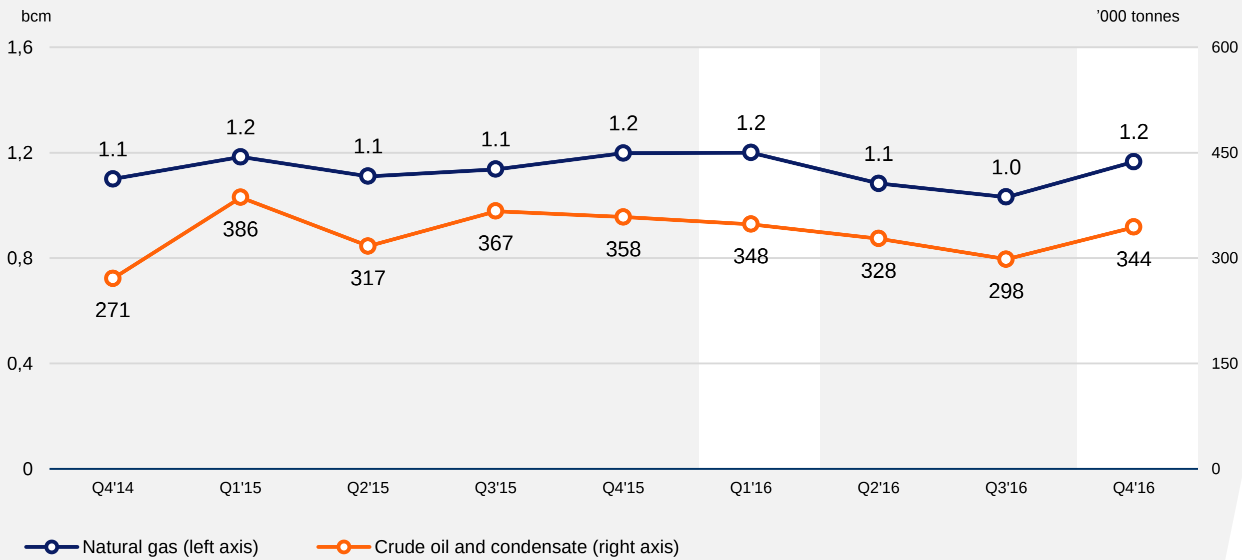
Appendices

- Segment performance
  - Exploration and Production
  - Trade and Storage
  - Distribution
  - Generation

Segments – Exploration and Production

[PLNm]	Q4 2015	Q4 2016	Δ%
Revenue	1,143	**1,196**	5%
Operating expenses (excl. D&A)	(1,026)	**(901)**	(12%)
EBITDA	117	**295**	x2.5
Adjusted EBITDA*	535	**373**	(30%)
Depreciation and amortisation	(294)	**(255)**	(13%)
EBIT	(177)	**40**	-

› Oil production down and natural gas production stable yoy in Q4 2016



* EBITDA adjusted for impairment losses on non-current assets

› Significant positive impact of oil prices

Commentary:

- Revenue from sales of crude oil and condensate up PLN 84m yoy, with oil prices in PLN up by close to 21% and sales volumes up 3%, to 326 thousand tonnes.
- PLN 48m yoy fall in revenue from gas sales posted by the segment, with an almost 13% rise in the volume of gas sold directly from the fields.
- Oil and gas production charges in Poland increased by PLN 38m yoy (PLN 51m in Q4 2016).
- PN 78m in impairment losses on non-current asset recognised in Q4 2016 (including PLN 123m on exploration assets), compared with PLN 419m in Q4 2015.
- Dry wells and seismic surveys written off: PLN -237m in Q4 2016 and PLN -82m in Q4 2015.

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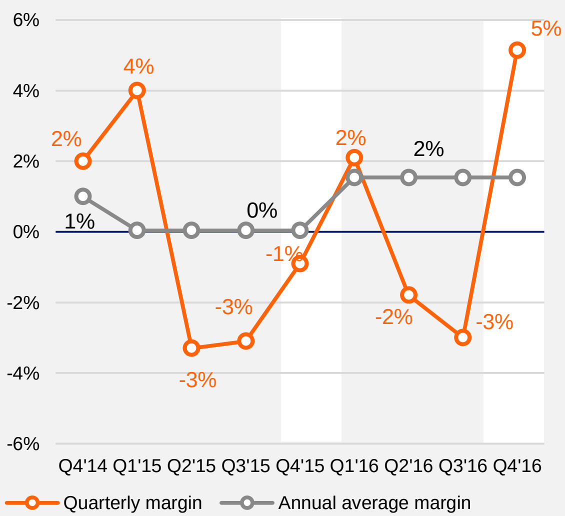
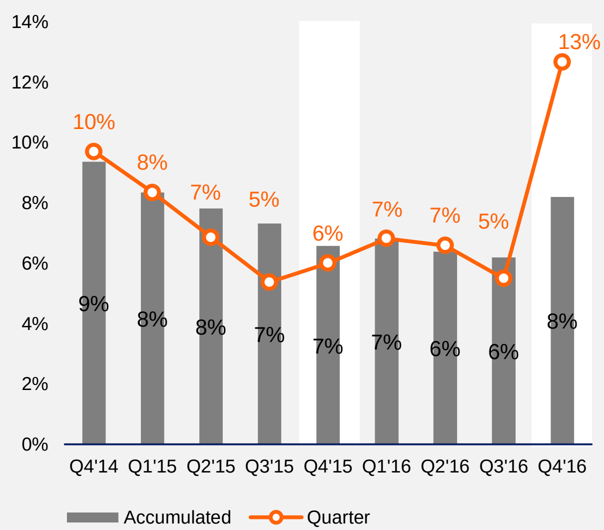
Segments – Trade and Storage (1/2)

[PLNm]	Q4 2015	Q4 2016	∆%
Revenue	8,622	**8,571**	(1%)
Operating expenses (excl. D&A)	(8,757)	**(7,922)**	(10%)
EBITDA	(135)	**649**	-
Depreciation and amortisation	(116)	**(63)**	(45%)
EBIT	(251)	**586**	-

› Positive operating margin on E gas



› Positive margin on E gas fuel



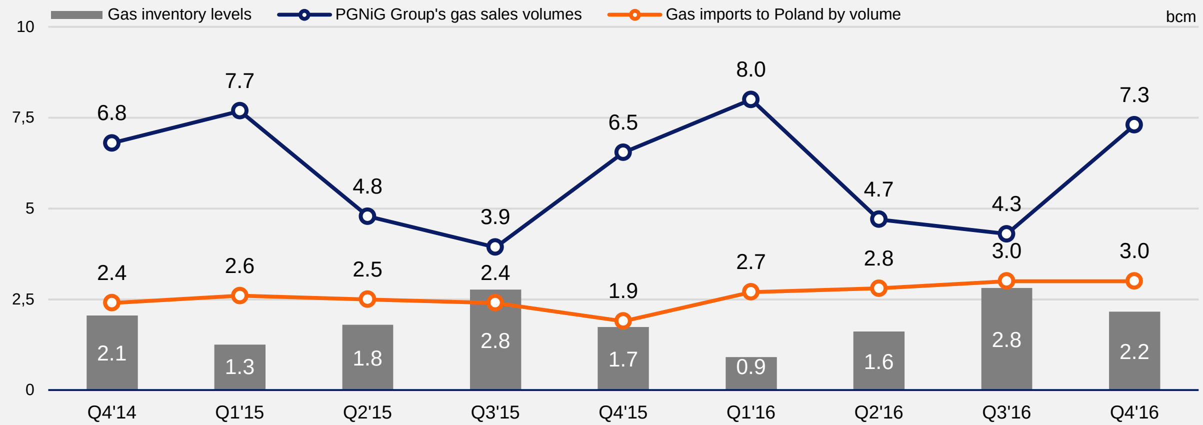
› Margin on E gas fuel at 13%, with operating margin on the product at 5% in Q4 2016

Commentary:

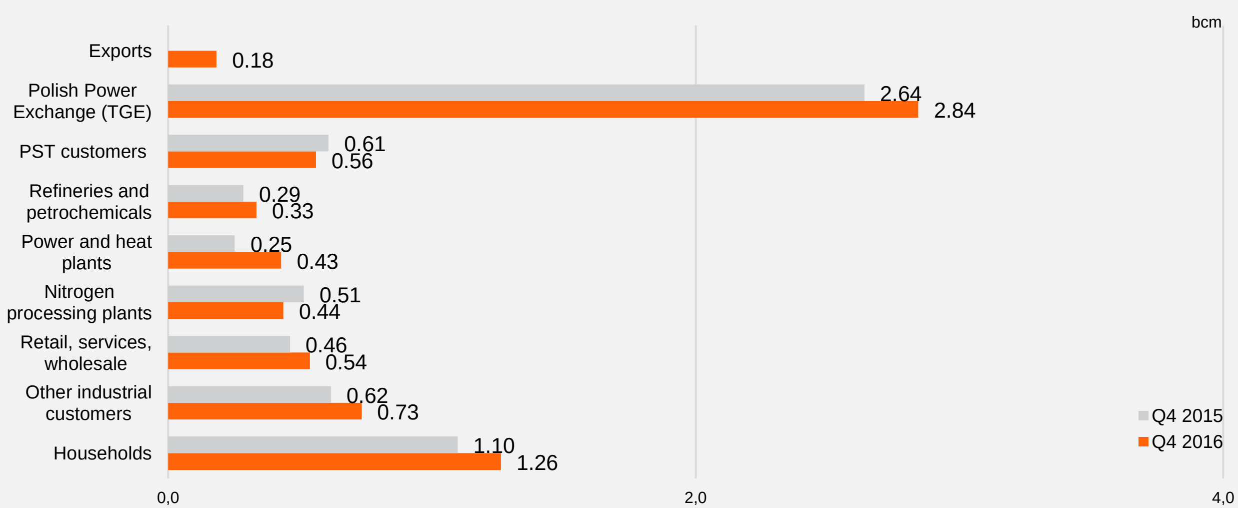
- Revenue from gas sales in Trade & Storage slightly down PLN 46m in Q4 2016, to PLN 7.8bn, - decrease in selling prices (tariff price reductions and policy targeting the largest customers) reduced by higher sales volume.
- PST's contribution to overall gas sales revenue: PLN 487m relative to PLN 544m in Q4 2015.
- Contribution of the segment's electricity sales to revenue totalling PLN 575m in Q4 2016, compared with PLN 501m the year before.
- PLN 32m in reversals of gas inventory write-downs in Q4 2016 (market valuation of gas at the LNG terminal). PLN -219m gas inventory write-down recognised in Q4 2015.
- Comparable year-on-year effect of transactions hedging the risk related to gas purchases (PLN -147m in Q4 2016 vs. PLN -133m in Q4 2015).
- Increase in depreciation/amortisation charge following recognition of accumulated depreciation on the Wierzchowice underground storage facility in Q4 2015 of PLN -72m.

Segments – Trade and Storage (2/2)

› PGNiG Group gas sales volumes up 0.8 bcm yoy in Q4 2016, of which 0.3 bcm is the increase in gas volumes sold by PGNiG SA on the Polish Power Exchange



› PGNiG Group* – gas sales volumes by customer group



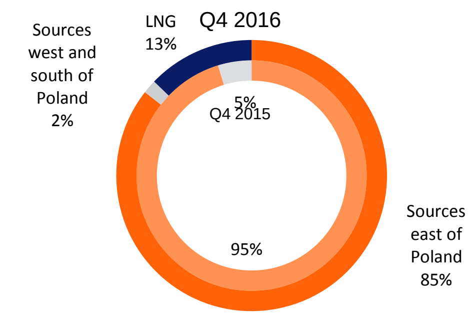
* PGNiG SA, PGNiG Obrót Detaliczny, PST

› LNG cargoes received at the Świnoujście terminal on a monthly basis in Q4 2016

Commentary:

› More gas purchased by households due to lower yoy average temperatures (3.5ºC in Q4 2016 vs. 5.4ºC in Q4 2015).
› More gas sold to other industrial customers (in various industries) as an effect of the policy to win back lost customers by PGNiG OD.
› Gas exports in Q4 2016: 0.18 bcm.
› LNG terminal stocks as at December 31st 2016: 100 mcm.

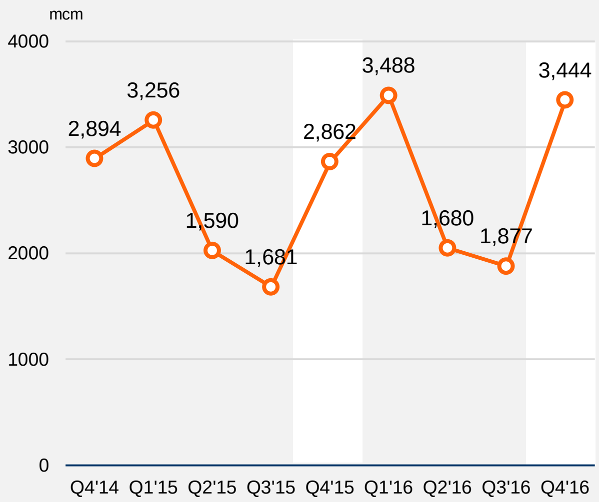
› Poland's gas imports structure in Q4 2016



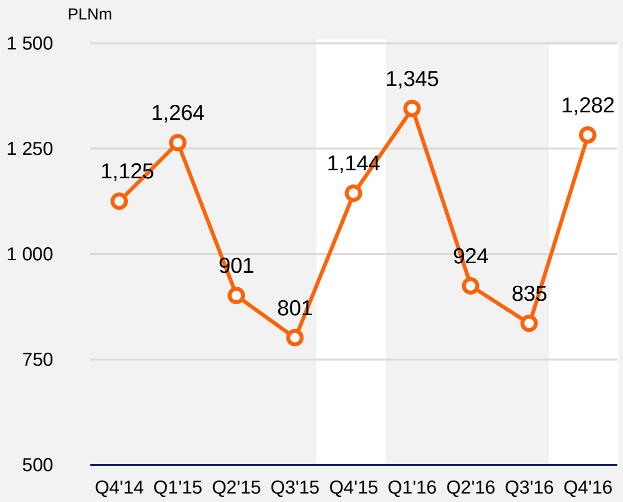
Segments – Distribution

[PLNm]	Q4 2015	Q4 2016	∆%
Revenue	1,161	**1,416**	22%
Operating expenses (excl. D&A)	(636)	**(822)**	29%
EBITDA	525	**594**	13%
Depreciation and amortisation	(227)	**(237)**	4%
EBIT	298	**357**	20%

Gas distribution volume



Revenue from distribution services



Segment performance buoyed by higher gas distribution volumes

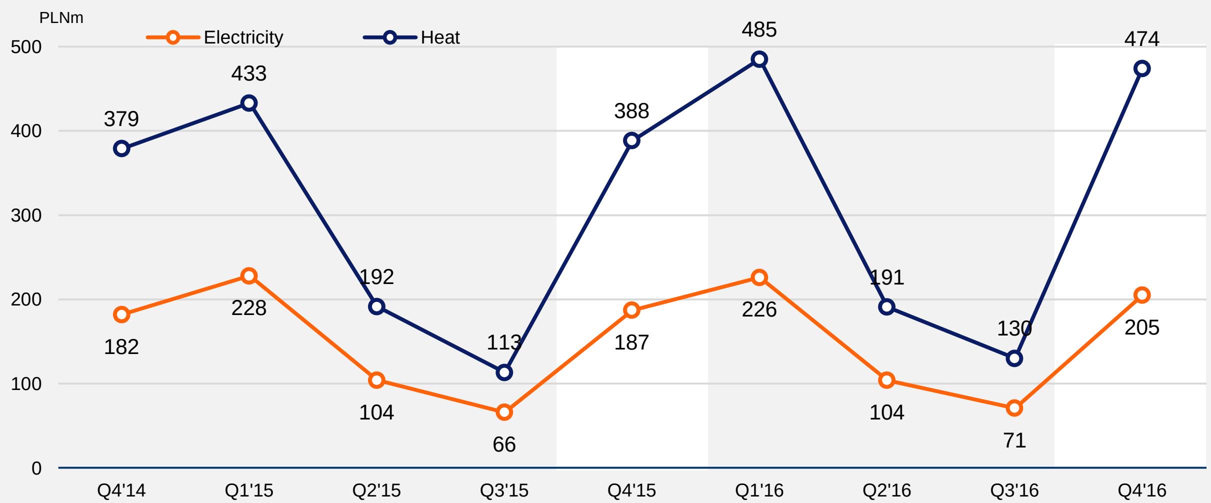
Commentary:

- Volume of distributed gas up 20% yoy, to 3.4 bcm (new connections and lower temperature).
- Revenue from distribution services up PLN 138m (12%) yoy.
- Net income/cost of system balancing lower yoy, at PLN -193m in Q4 2016, compared with PLN -130m in Q4 2015. The effect on performance is in line with assumptions underlying the temperature-based sales forecasting method.
- Increase in revenue and cost attributable to reclassification of the Powiśle Park building from assets held for sale to finance leases. Impact on result PLN +26m.

Segments – Generation

[PLNm]	Q4 2015	Q4 2016	Δ%
Revenue	617	**756**	23%
Operating expenses (excl. D&A)	(355)	**(557)**	57%
EBITDA	262	**199**	(24%)
Depreciation and amortisation	(77)	**(101)**	31%
EBIT	185	**98**	(47%)

- Segment's revenue from sales of heat and electricity (from own generation sources)



- ## Inclusion of SEJ and PEC in consolidated financial statements with an impact on segment performance

Commentary:

- Revenue from sales of heat up 18% yoy, to PLN 460m, on a 23% increase in volumes, with heat tariffs unchanged.
- Revenue from sales of electricity from own sources up PLN 18m yoy, to PLN 205m, attributable to higher sales volumes.
- Cost of coal down 6% yoy to PLN -232m in Q4 2016, and shift in the fuel mix – towards biomass.
- Reversal of PLN 73m gain from the bargain purchase of SEJ in Q4 2016. **Final settlement of SEJ acquisition shows goodwill at the level of PLN 4m.**

Q4 2016 sales volumes:

- Sales of heat: 15.5 PJ, up 23% yoy. Electricity (own generation): 1.2 TWh, up 6% yoy.

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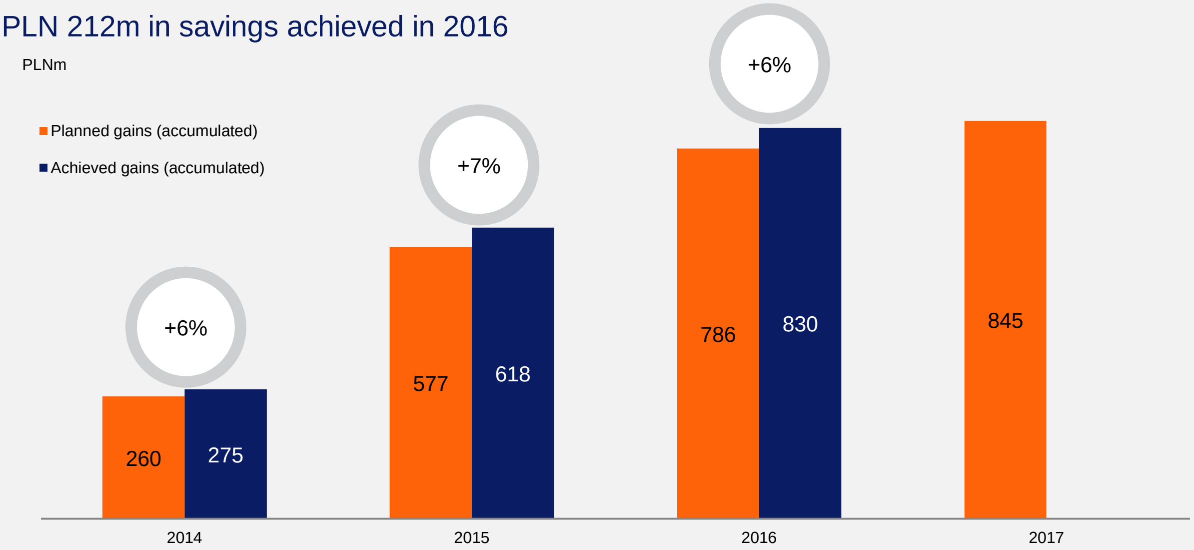
Efficiency Improvement Programme – almost PLN 850m in savings by 2017

Programme objectives:

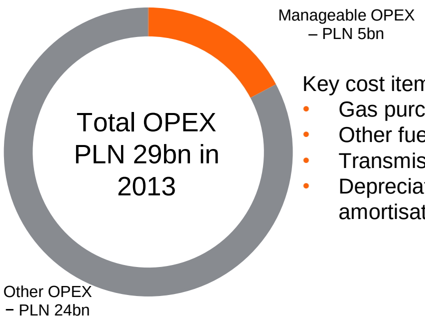
- To set efficiency improvement targets for the individual segments and entities within the PGNiG Group and to define related benefits to quality improvement.
- To define the scope of action and to assign specific tasks to individual business segments based on identified areas for improvement.
- To implement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

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

- PLN 212m in savings achieved in 2016



- Operating expenses covered by the EIP



Key cost items (excluding PPE):
- Gas purchase costs
- Other fuel purchase costs
- Transmission service costs
- Depreciation and amortisation

Lower cost of gas sold in Q4 2016

[PLNm]	Q4 2015	Q4 2016	Δ%
Fuels for heat and power generation	(226)	**(259)**	14%
Other raw materials and consumables used	(406)	**(504)**	24%
Employee benefits expense	(908)	**(778)**	(14%)
Transmission services	(362)	**(332)**	(8%)
Cost of dry wells and seismic surveys written-off	(82)	**(237)**	x3
Other services	(371)	**(487)**	32%
Net other income/(expenses)	(868)	**(738)**	(15%)
Change in impairment losses	*(632)*	***(136)***	(78%)
- write-down on inventories	*(223)*	***3***	-
- impairment losses on non-current assets	*(441)*	***(123)***	*(72%)*
Taxes and charges	*(82)*	***(132)***	*61%*
Work performed by the entity and capitalised	312	**342**	10%
Depreciation and amortisation	(717)	**(658)**	(8%)
Operating expenses net of cost of gas sold	(3 625)	**(3 652)**	1%
Cost of gas sold	(6 090)	**(5 447)**	(11%)
Total operating expenses	(9 715)	**(9 099)**	(6%)

› Higher regasification costs and production charges offset by lower gas procurement costs.

Commentary:

- Cost of energy for trading up PLN 100m (PLN 347m in Q4 2016), led by increased trading volumes.
- Labour costs fell as a result of headcount reductions, mainly in the upstream segment (headcount down 1,200 yoy).
- Two dry wells (PLN 91m) and seven seismic projects (PLN 146m) written off in Q4 2016 vs. four dry wells (PLN 15m) and seismic projects (PLN 67m) in Q4 2015.
- Cost of other services increased by LNG regasification costs of -85 million złoty.
- PLN +32m reversal of write-downs on gas inventories in Q4 2016 (net write-downs at the end of Q4 2016 at PLN 31m). Q4 2015 performance affected by a PLN -219m gas inventory write-down.
- Oil and gas production charges in Poland increased by PLN 38m yoy (PLN 51m in Q4 2016).
- Reversal of PLN 73m gain from the bargain purchase of SEJ in Q4 2016. Final settlement of SEJ acquisition shows goodwill at the level of PLN 4m.
- Cost of gas sold down on lower unit purchase cost of gas.

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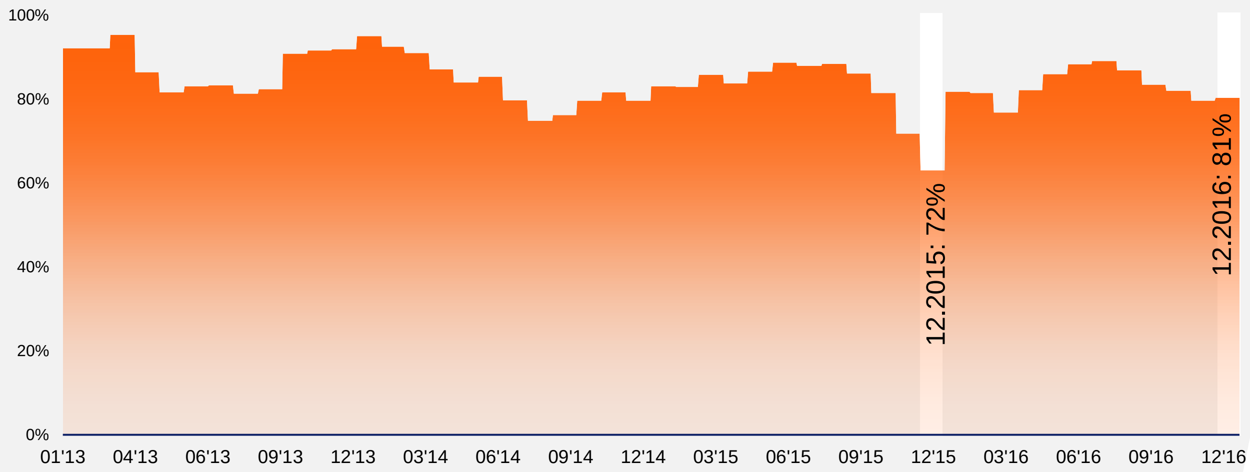
Changes on the Polish gas market

Gas sales volume (mcm)	2014	2015	**2016**
Total PGNiG Group	18.6	23.0	**24.3**
PGNiG SA (without Pakistan)	13.8	13.2	**14.5**
including PGNiG SA through PPE	*3.7*	*8.1*	***9.0***
PGNiG Obrót Detaliczny	3.0	7.5	**7.3**

› PGNiG's share in gas imports to Poland*



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

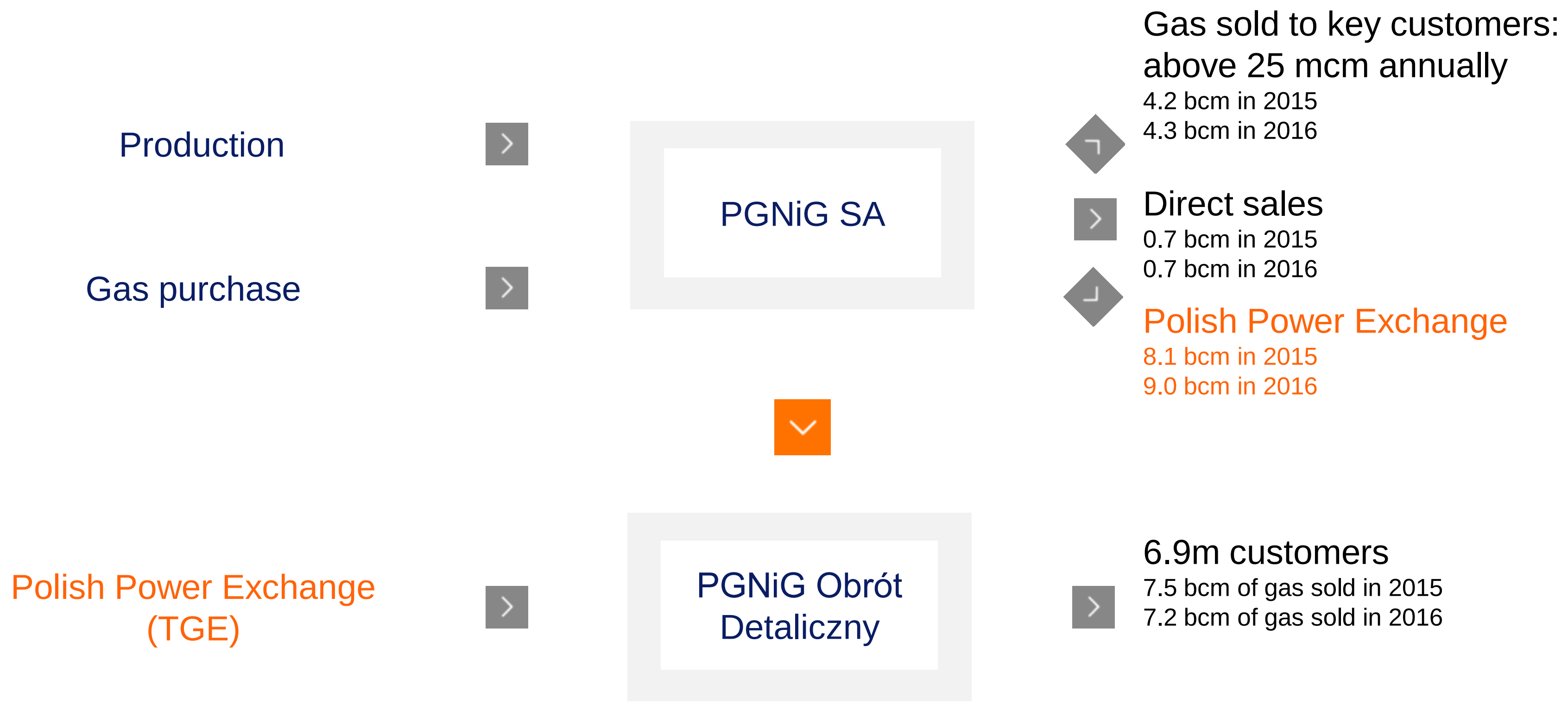
Commentary:

- 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.
- Nitrogen-rich gas presented in the table as Group E gas equivalent.

* 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 The increase of PGNiG's share in imports observed in Q1 2016 caused mainly by reduced exports to Ukraine.
- 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 in Poland

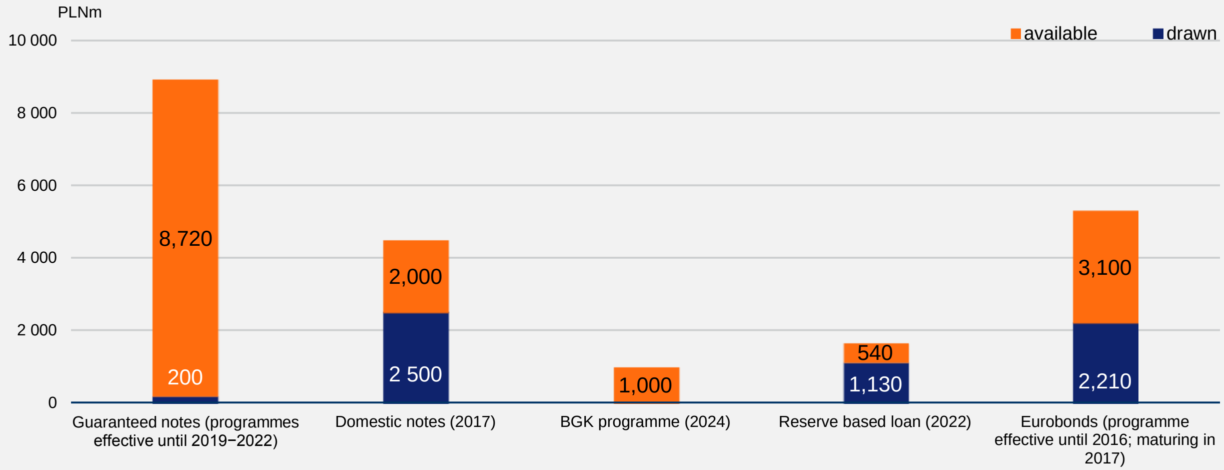


Sales made on PPE by PGNiG SA and purchases made on PPE by PGNiG Obrót Detaliczny, which commenced operations on August 1st 2014, are not subject to elimination from the consolidated financial statements, and are disclosed under the Trade and Storage segment.

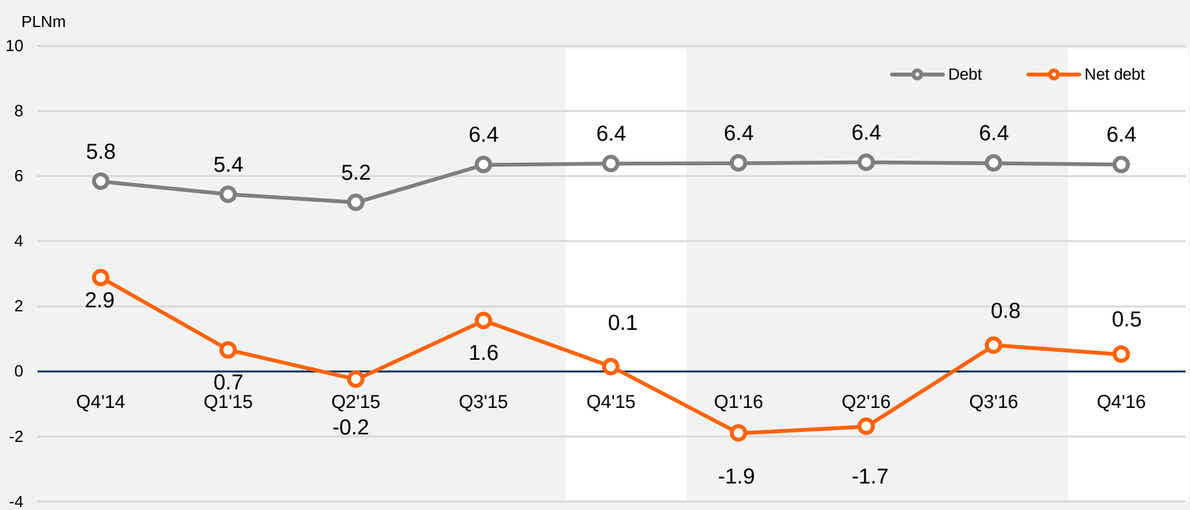
Measured as high-methane gas equivalent (without intragroup eliminations).

Debt and sources of funding

Financing sources (as at December 31st 2016)



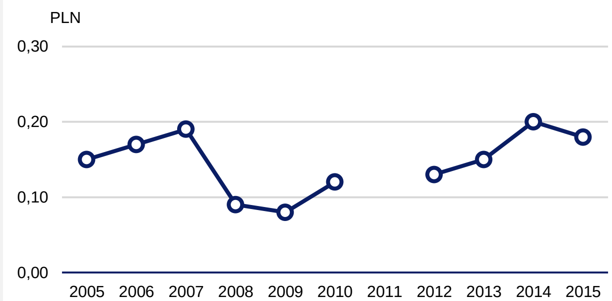
Debt as at end of quarter



Commentary:

- On February 13th 2017, PGNiG made a timely repayment of a loan from PGNiG Finance AB of EUR 500m along with interest. On February 14th 2017, PGNiG Finance AB redeemed its Eurobonds with a nominal value of EUR 500m, and paid due interest.

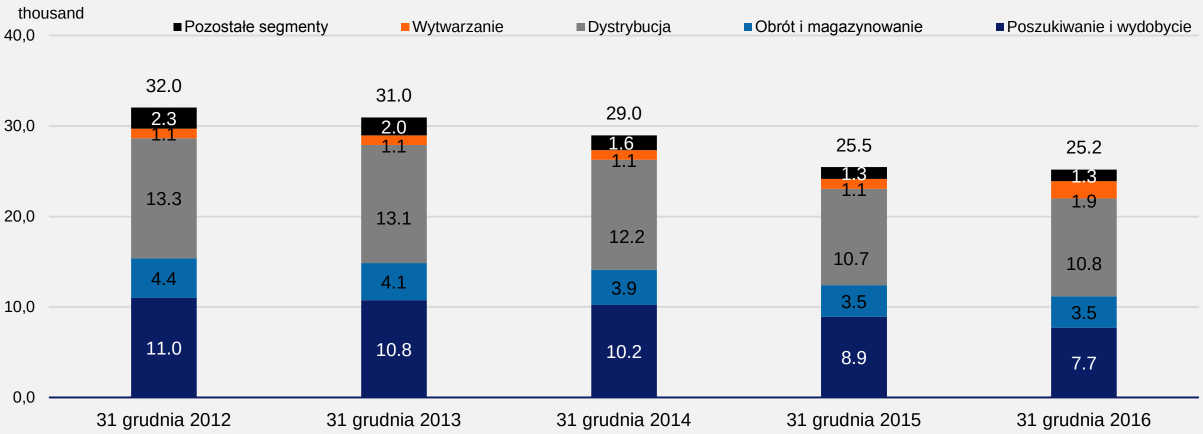
Dividend per share



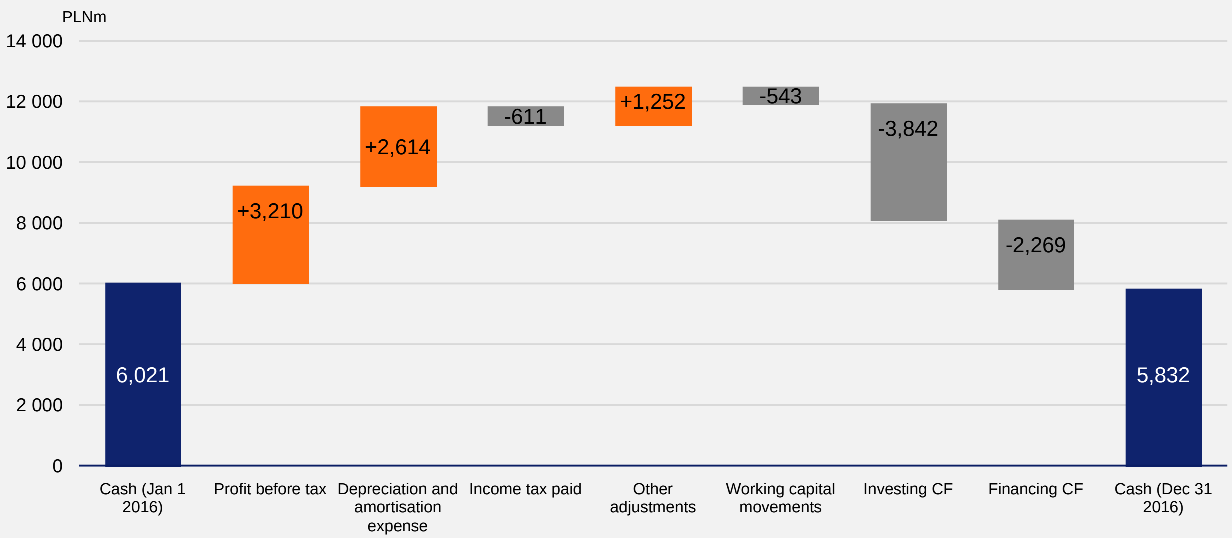
- Up to 50% of consolidated net income payment in 2015-2022 as dividend taking into account current financial standing of the PGNiG Group and its investment plans. PGNiG will recognise net profits of its subsidiaries in the consolidated accounts net of any dividend paid by the subsidiaries, so achieving the planned level of dividend payments may be postponed by one year.

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

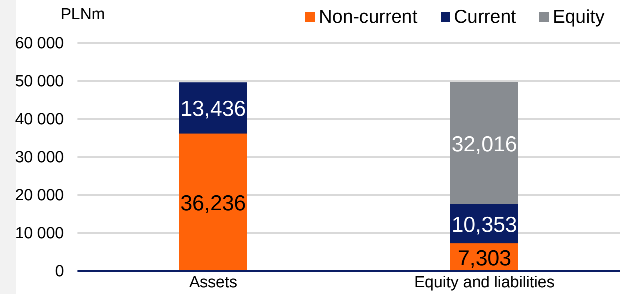
Headcount (at year end)



Consolidated cash flows (Jan 1−Dec 31 2016)



Group's statement of financial position (as at December 31st 2016)



Profitability and liquidity ratios