Polskie Górnictwo Naftowe i Gazownictwo SA

Financial Performance of the PGNiG Group
Financial Year 2011

March 20th, 2012

Key events of 2011

Negative margin on gas sales

- High USD/PLN exchange rate and crude oil prices
- Tariff out of line with gas purchase costs in Q4

Strong performance of the Exploration and Production segment

- Production and prices of crude oil
- Stronger sales of exploration services

Intensified exploration in Poland

- Shale gas - the first positive well
- Slowdown abroad

Power generation – a multi-utility

- Acquisition of VHP assets
- Stalowa Wola CHP plant

Enhanced security of gas supplies

- Diversification of supplies (Moravia, Lasów; the Yamal pipeline – virtual reverse)
- Gas storage facilities – 1.8 billion cubic metres

PGNiG

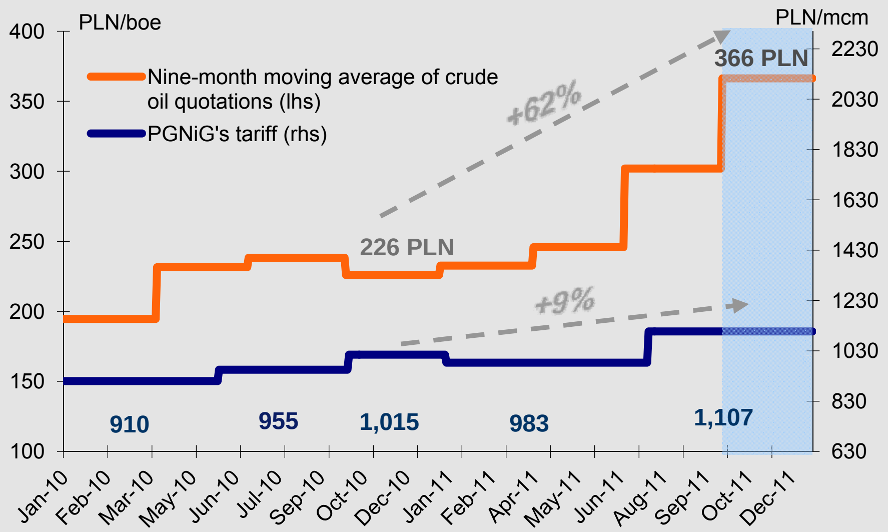
Financial highlights

PGNiG Group (PLN m)	2010	2011	*change*	Q4 2010	Q4 2011	*change*
Sales revenue	21 281	**23 005**	*8%*	6 638	**6 972**	*5%*
Operating expenses	(18 394)	**(21 318)**	*16%*	(5 293)	**(6 693)**	*26%*
EBITDA	4 411	**3 260**	*(26%)*	1 758	**684**	*(61%)*
EBIT	2 887	**1 685**	*(42%)*	1 345	**280**	*(79%)*
Result on financial activity	50	**(16)**	*(133%)*	7	**(65)**	*(1051%)*
Net result	2 457	**1 626**	*(34%)*	1 118	**302**	*(73%)*
Hi-methane gas sales margin	3%	**(3%)**	*6 pp*	2%	**(7%)**	*9 pp*

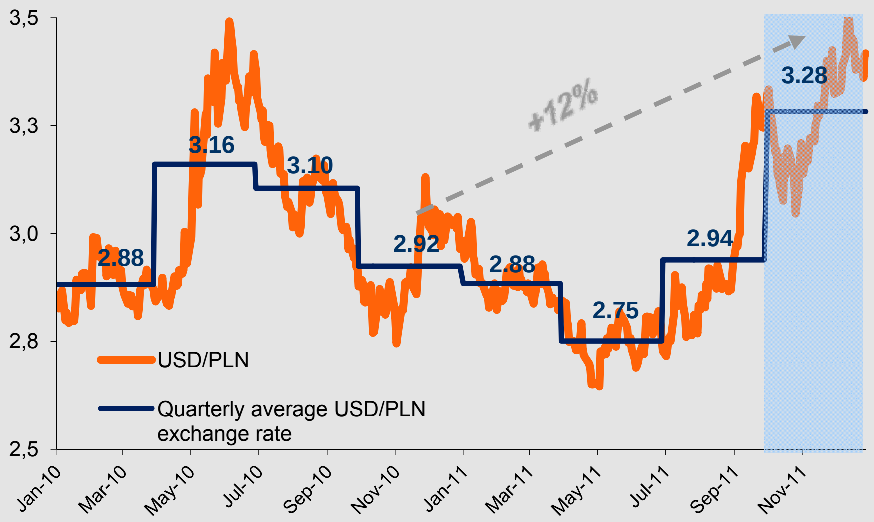
- Despite an 8% revenue increase in 2011, the Group's operating profit declined by 42% or PLN 1.2bn, following **a 6 pp** drop in the margin on high-methane gas sales.
- In 2011, the profitability of high-methane gas sales deteriorated primarily due to a **24%** increase in the unit purchase price of imported gas and protracting tariff procedures, as a result of which a new tariff reflecting market developments was not approved.
- The decline was partially offset by strong operating profit posted by the Exploration and Production segment, which accounted for two-thirds of the Group's EBIT.
- The strong decline of the operating result in Q4 was caused by the negative margin on high-methane gas sales, which came in at **-7%** due to **a 44%** rise of the unit purchase price of imported gas.
- Despite a 5% increase in revenue, EBIT declined by **79%**. The Trade and Storage segment's contribution to the Group's operating profit was negative at PLN **-689m**.
- Due to losses on gas sales, for the entire 2011, the PGNiG Group's net profit shrank by PLN **831m** year on year and in Q4 2011 alone – by PLN **816m** year on year.

Financial performance drivers

Crude oil quoted prices* vs tariff price of gas



USD/PLN exchange rate**



- Crude oil prices determine the purchase price of imported gas. The pricing formula is based on a nine-month average of petroleum product prices, which are almost perfectly correlated with crude prices.
- The prices of crude oil remain high, having stayed above USD 100 per barrel since February 2011. In Q4 2011, the value of the nine-month average reached 111.6 USD/boe, having grown by **44%** relative to Q4 2010.
- With crude oil prices rising by 21% in PLN from 3Q to 4Q 2011, the gas tariff remained at the level of **1 107 PLN/mcm**, unchanged since July.

- The price of imported gas, similarly to crude prices, is denominated chiefly in the US dollars, which determines the value of the largest item in the Group's expenses and a portion of revenue generated by the Exploration and Production segment.
- In Q4 2011, the average USD/PLN exchange rate was 3.28, up by almost **12%** on Q3 2011 (2.94), and by **12%** year on year.
- Thus, in PLN-terms the nine-month average price of petroleum products in Q4 2011 was **366 PLN/boe**, **up by 21%** in Q3 2011 and by **62%** year on year.

* European Dated Brent Forties Oseberg (BFO), source: Bloomberg.
** Source: National Bank of Poland (NBP).

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Segments – 2011

EBIT (PLN m)	2010	2011	*change*
Exploration and Production	588	1 126	*92%*
Trade and Storage	815	(184)	*(122%)*
Distribution	1 491	784	*(47%)*
Excluding reverse of impairment	*832*	*784*	*(6%)*
Eliminations, other	(8)	(41)	*(531%)*
TOTAL	2 887	1 685	*(42%)*

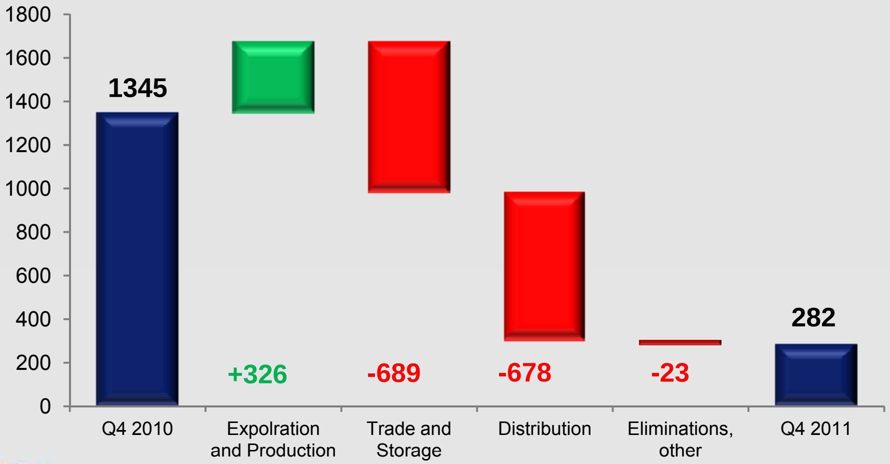
Segments influence on the operating result in 2010 and 2011 (PLN m)

- The Trade and Storage segment posted the steepest decline in productivity; the segment's operating profit was down by **PLN 1bn** year on year. This adverse change was a result of the deteriorating profitability of high-methane gas sales, caused mainly by a **24%** rise in the unit purchase price of imported gas.
- The operating profit of the Exploration and Production segment **grew by PLN 542m** year on year, on significantly improved profitability of crude oil sales. The segment's EBIT advanced also on higher revenue from sales of geophysical/geological, drilling and maintenance services, driven by the intensified exploration for shale gas in Poland.
- The Distribution segment's operating result declined by PLN 700m year on year, mainly due to a PLN 659m reversal of a portion of impairment losses on assets in Q4 2010. Excluding the effect of this one-off, the segment's result was down by PLN 48m, i.e. 6%, on the back of a **5.6%** decline in the volume of distributed gas caused by higher average air temperatures in 2011.

Segments – Q4 2011

EBIT (PLN m)	Q4 2010	Q4 2011	change
Exploration and Production	2	328	17911%
Trade and Storage	389	(300)	(177%)
Distribution	967	289	(70%)
Excluding reverse of impairment	*308*	*289*	*(6%)*
Eliminations, other	(14)	(37)	(166%)
TOTAL	1 345	280	(79%)

Segments influence on the operating result in Q4 2010 and Q4 2011 (PLN m)



- Thanks to a 32% (PLN 79m) increase in revenue on crude sales driven by the rising crude prices (by 62% on average), combined with a two-fold increase in revenue on exploration services (by PLN 161m), the Exploration and Production segment posted a **PLN 326m rise** of the operating result.
- The operating result of the Trade and Storage segment declined as costs of gas sold grew by **24%** (PLN 869m) quarter on quarter, which was not reflected in the gas tariff.
- Higher purchase price of gas is a result of the higher nine-month average of petroleum product prices which determine the purchase price of imported gas.
- In Q4 2011, the Distribution segment's EBIT fell by 70%. However, the decline was mainly attributable to the reversal of a portion of impairment losses on assets in the amount of PLN 659 million in the fourth quarter of 2010. Excluding this one-off item, the segment's result fell by **6%, i.e. PLN 19 million** year on year. The slight drop results from a **11.5%** decline in the volume of distributed gas in the period under review.

Financial indebtedness

Use of debt under the financing programmes as at December 31st, 2011

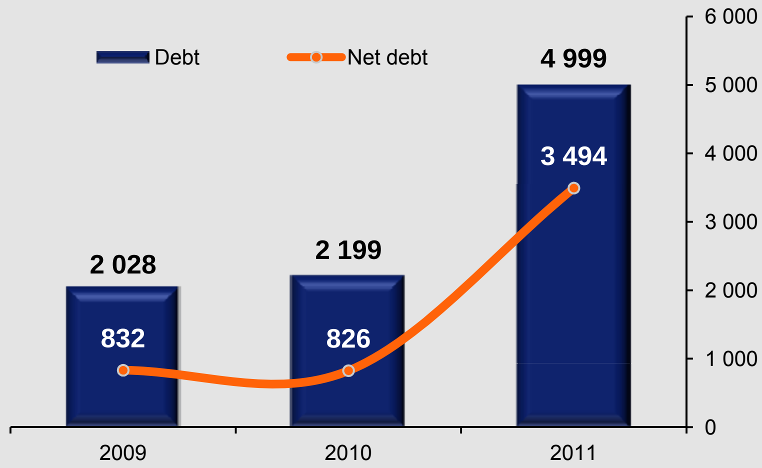
- The value of the domestic notes programme increased from **PLN 3bn to PLN 7bn**; maturity extended until July 31st 2015

- Reserve Based Loan (PGNiG Norway) – up to **USD 400m**

New five-year Eurobond programme of EUR 1.2bn, with maturities of up to 10 years

- Programme not guaranteed
- On February 10th 2012 the first issue of EUR 500m with **4%** coupon

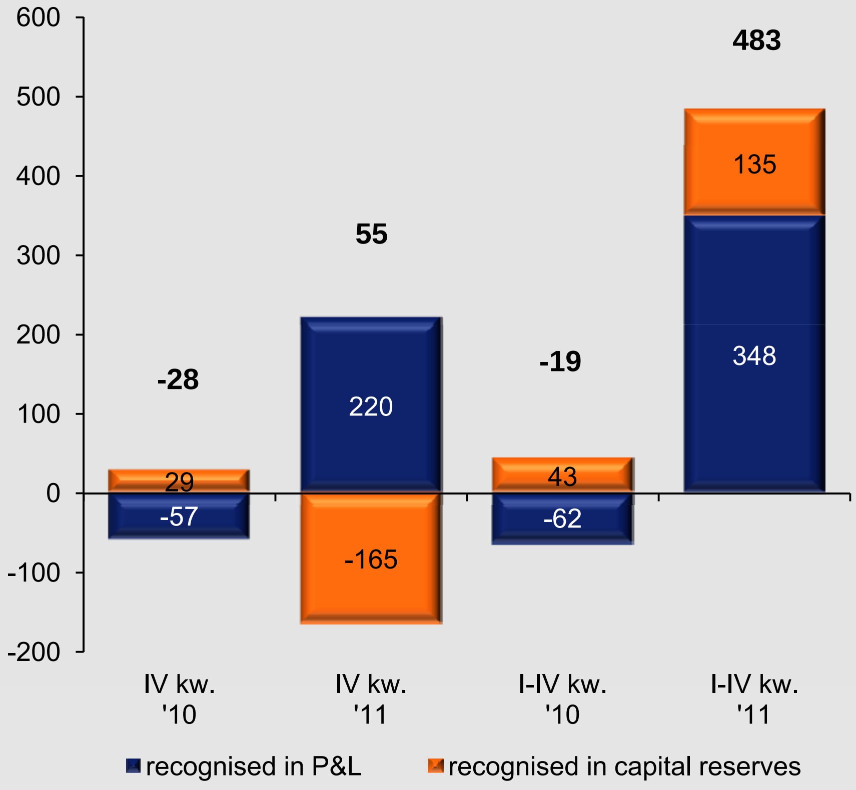
PGNiG Group debt (PLN m)



- The debt rose by **PLN 2.8bn, to PLN 4.99bn** year on year due to the higher demand for external financing in connection with the implementation of the Group's strategy.
- Additional funds were raised mainly through new domestic notes issues (additional **PLN 2.2bn**), while PGNiG Norway increased the use of the RBL facility by **PLN 385m**.

Market risk hedging policy

Result on foreign exchange differences and derivative instruments in FY 2011 and Q4 2011 (PLN m)

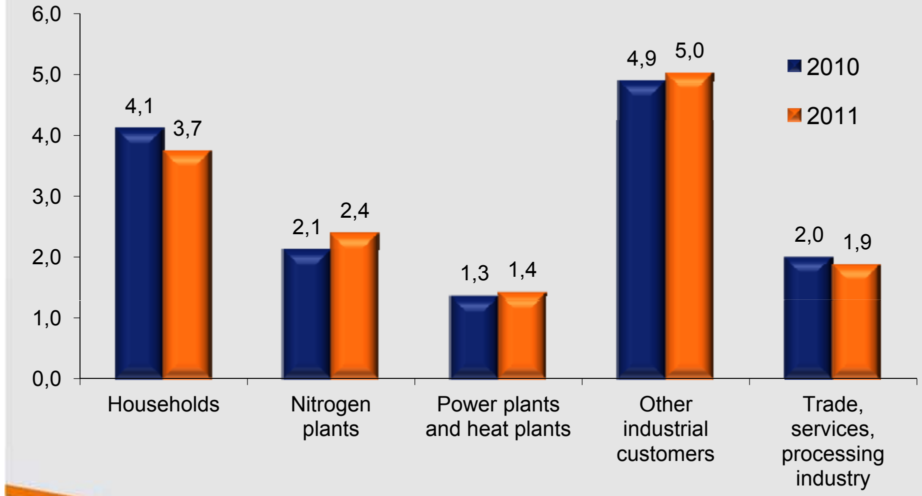


- In 2011, the PGNiG Group recorded a positive result on derivative transactions (both realised and unrealised) and exchange differences of PLN **483m**, of which PLN 525m was the net gain on derivative transactions related to operating activities (mainly gas purchases). To compare, in 2010 the Group reported a net loss on hedging transactions, of PLN -19m.
- In Q4 2011 alone, the result on derivative transactions was positive at PLN **55m** (PLN -28m in Q4 2010).
- Hedging transactions executed by the Group:
  - purchase of a European call option
  - zero-cost collar option strategies (risk reversal)
  - forward contracts
  - cross-currency basis swap
  - cross-currency interest rate swap
  - risk reversal zero-cost collar option strategies (Asian options)
  - purchase of Asian commodity call options
  - commodity swap.

Natural gas

PGNiG Group*	2010	2011	change	Q4 2010	Q4 2011	change
Production volume (million m³)	4 220	4 329	2,6%	1 150	1 134	(1%)
Import volume (million m³)	10 066	10 915	8,4%	2 845	2 862	1%
Sales volume (million m3)	14 417	14 381	(0,2%)	4 397	4 215	(4%)
Distribution volume (million m3)	9 281	8 759	(5,6%)	2 963	2 624	(11,4%)
Gas sales revenue (PLN m)	19 075	20 231	6%	6 030	6 154	2%
High-methane gas (E)	17 888	19 014	6%	5 649	5 786	2%
Nitrogen-rich gas (Ls, Lw)	1 187	1 217	2%	382	368	(4%)

Customers' share in gas sales volume (bn m^3)



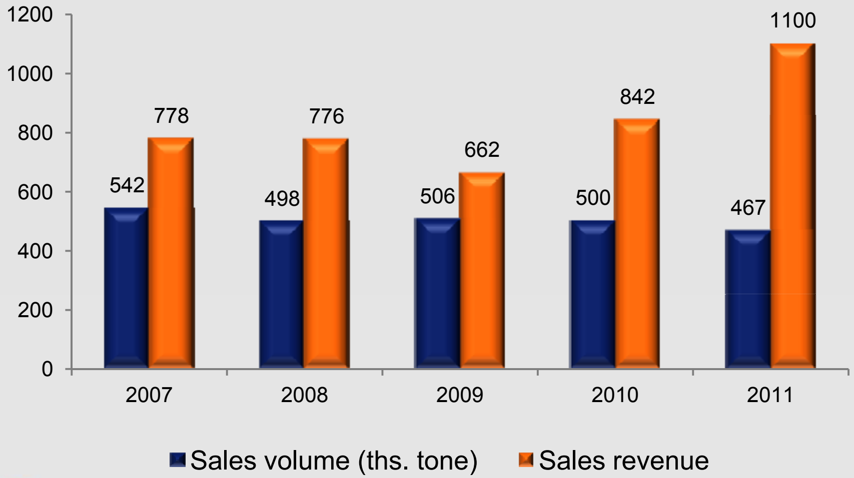
- **Higher gas output** was a result of steady increase in production, following from the implementation of the PGNiG Group's Strategy.
- The significant growth in gas imports enabled the Group to fill storage facilities to capacity prior to the winter season (**1.8bn cubic metres**). As at the end of December 2011, the underground storage facilities contained over **1.5bn** cubic metres of gas.
- Lower gas consumption by retail customers due to higher air temperatures was offset by increased demand from **industrial customers**, mainly nitrogen plants.
- The higher revenue from gas sales was attributable to the **9%** tariff increase in June 2011, which, however, did not offset the high gas purchase costs.

* Measured ad as high-methane gas equivalent (E).

Crude oil

PGNiG Group*	2010	2011	change	Q4 2010	Q4 2011	change
Production volume (ths. t)	501	468	(7%)	135	123	(9%)
Sales volume (ths. t)	501	467	(7%)	137	124	(9%)
Sales revenue (PLN m)	842	1 100	31%	245	325	33%
Oil unit price (PLN/t)	1 681	2 357	40%	1 791	2 617	46%
Average price of Brent Dated oil for the period (USD/bbl)	80	111	40%	87	109	26%

Oil sales volume and revenues*



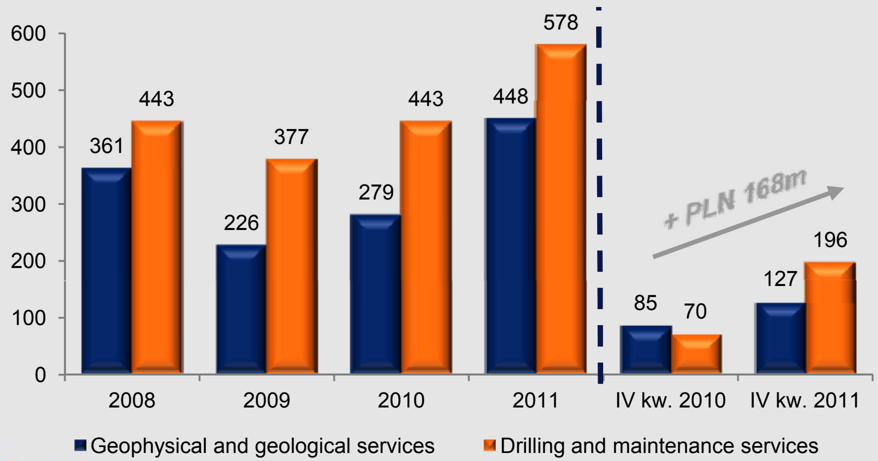
- Year-on-year lower crude output in 2011 has been caused mainly by the absence of new connections and a natural decrease in the production from the existing fields. Crude oil production and sales in 2011 slightly exceeded the output target volume of **460 thousand tonnes**.
- In mid-2012, PGNiG plans to launch production from new wells on the largest existing crude deposit Barnówko-Mostno-Buszewo, while crude production from the LMG field is to start in April 2013. Crude production forecast for 2012 – **660 thousand tonnes** (Poland + Norway).
- The strong growth of crude prices led to a significant increase in revenue from crude sales. In 2011, the price of crude oil **rose on average by 40%** year on year, whereas revenue – by 31%.

* For crude and condensate (together with tests from production).

Other sales

Sales revenue PGNiG Group (PLN m)	2010	2011	change	Q4 2010	Q4 2011	change
Helium	44	58	31%	12	15	28%
Propane-butane gas (LPG)	50	60	20%	14	20	36%
LNG	30	38	25%	10	13	38%
Exploration services, herein:	721	1 027	42%	162	323	99%
Geophysical and geological services	279	448	61%	85	127	50%
Drilling and maintenance services	443	578	31%	77	196	153%

Revenues from exploration services (PLN m)



- The growth of revenue from sales of exploration services (geological, geophysical, drilling and maintenance) followed from a strong demand for these services, especially in Poland where it has been bolstered by the **growing interest in shale gas exploration**.
- In 2011, revenue from sales of helium went up by **31%** year on year on the back of an 8% increase in helium production, coupled with an increase in its unit selling price, which is correlated with the prices of petroleum products.
- In 2011, a 14% rise in LNG output, combined with higher prices, drove the revenue up by 25%. Similarly, the value of LPG sales grew by 20%.

Operating expenses

PGNiG Group (PLN m)	2010	2011	*change*	Q4 2010	Q4 2011	*change*
Total operating expenses	**(18 394)**	**(21 318)**	***16%***	**(5 293)**	**(6 692)**	***26%***
Cost of gas sold	(11 005)	(13 353)	*21%*	(3 575)	(4 444)	*24%*
Other raw materials and consumables used	(670)	(706)	*5%*	(230)	(205)	*(11%)*
Employee benefits	(2 647)	(2 809)	*6%*	(788)	(807)	*2%*
Depreciation and amortisation	(1 525)	(1 574)	*3%*	(414)	(404)	*(2%)*
OGP GAZ-SYSTEM transmission services	(1 531)	(1 463)	*(4%)*	(421)	(368)	*(13%)*
Cost of written-off dry wells	(162)	(276)	*70%*	(50)	(99)	*100%*
Other contracted services	(1 455)	(1 502)	*4%*	(466)	(459)	*(2%)*
Other operating expenses net	(442)	(636)	*44%*	219	(190)	*(185%)*
Cost of products and services for own needs	1 043	1 001	*(4%)*	432	284	*(34)*

- The largest item of operating expenses was the cost of gas sold. In 2011 and in Q4 alone, operating expenses went up by **21% and 24%** year on year, respectively, mainly as a result of higher volumes of imported gas (up by **8.4% and 1%** respectively) and the higher nine-month average price of petroleum products expressed in the złoty (by **29% and 62%** respectively).

- In 2011, costs of transmission services rendered by Gaz-System declined on lower charges for exceeding the contracted capacity relative to 2010 (PLN 67m compared with PLN 144m).
- The quarter-on-quarter change in other net operating expenses is primarily attributable to the reversal of impairment losses in the Distribution segment in Q4 2010.

Summary

LOSS IN TRADE AND STORAGE SEGMENT

The rise in crude oil prices and appreciation of the US dollar against the złoty in 2011 had an adverse effect on the cost of gas purchased by the Company, which translated into the **negative margin** on gas sales and a **PLN 1bn** decline in operating result of the Trade and Storage segment. At the same time, demand for gas continued high, at the level seen in 2010, i.e. **14.4bn** cubic metres.

In Q1 2012, the value of the nine-month average price of crude has reached **113 USD/boe** and the USD/PLN exchange rate has stayed above **PLN 3.2**. Unless the trends are reflected in the gas tariff, the sales margins will deteriorate further.

EXPLORATION SERVICES SALES GROWTH

Intensification of hydrocarbons exploration in Poland has contributed to a significant growth of interest in geophysical, geological, drilling and maintenance services from external clients. Revenues from sales of these services in 2011 increased by **42%** y-o-y.

RECORD REVENUES FROM CRUDE OIL

Owing to the achievement of crude oil production targets and the rise of crude prices on international markets, revenue from crude sales was up by 31% and reached a record high of PLN **1.1bn**.

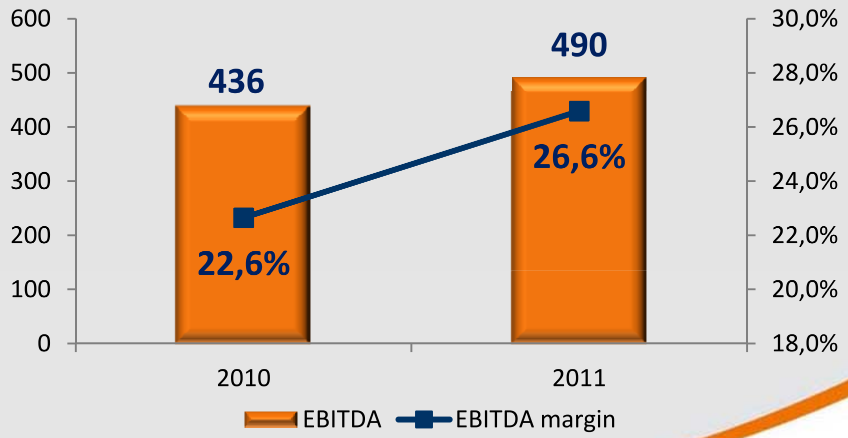
PGNiG acquired 99,8% in Vattenfall Heat Poland

- On January 11th 2012, PGNiG SPV 1 and Vattenfall AB executed an agreement for purchase of **99.8%** shares in Vattenfall Heat Poland S.A., whose name was changed to **PGNiG Termika S.A.** The company will be consolidated by the PGNiG Group as of Q1 2012.
- The indexed acquisition price of the shares as at the date of the SPA is **PLN 3.0 bn**, which corresponds to the enterprise value of approx. PLN 3.5 bn.
- VHP's heat generation assets represent over 23% of the total heat capacities installed in Poland and covers approx. **75%** of the total heat demand in Warsaw as well as **98%** of the heat delivered to the network of SPEC.
- New heat tariffs benchmarking scheme create significant upside for the Company's profitability.
- PGNiG Termika heat price is one of the lowest in Poland making the Warsaw heat market least interesting for any competitor considering the development of new heat sources.
- PGNiG Termika controls attractive locations with high potential to develop new gas-fired units and, in the long term, allowing for sizeable replacement of hard coal with gas in the fuel mix (about 1 bcm per annum).

VHP's operating data (2011)

Installed heat power	4 782 MWt
Installed electric power	963 MWe
Heat sales	38,7 PJ
Electricity sales	3,7 TWh

EBITDA and EBITDA margin in 2010/2011



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Thank You