



# **Short-term Value Creation Strategy for the PGNiG Group until 2014**

December 19th 2012

# Objectives of the short-term value creation strategy for the PGNiG Group

## Maximising the potential of the PGNiG Group's upstream segment

- ▶ The upstream segment is currently prioritised in the PGNiG Group's investment and development activities. In particular, PGNiG puts enormous emphasis on development in the area of exploration for and production of unconventional hydrocarbons.
- ▶ In this area, a number of initiatives are planned, to be implemented both by the PGNiG Group independently and in cooperation with external (domestic and foreign) partners.

## Preparing the PGNiG Group for the deregulation of the natural gas market

- ▶ Currently, the PGNiG Group enjoys the leading position on the natural gas market in Poland. However, in view of the planned deregulation, competition is likely to emerge on the market in the near future, posing a threat to the Group's position.
- ▶ It is PGNiG's intention to take steps designed to adapt the PGNiG Group to the expected developments on the gas market (e.g., enhancing brand recognition, improving customer service, building demand for natural gas in the power sector or enhancing product offering).

## Increasing the value of the PGNiG Group

## Optimising the portfolio of gas supplies

- ▶ Terms and conditions of gas import (including gas prices) have a decisive effect on tariff prices for end users. High tariff prices adversely affect the competitiveness of natural gas as an energy carrier and hinders the market growth.
- ▶ PGNiG sees it its priority to permanently restructure the gas supply portfolio by amending price formulae under the existing contracts, turning the contracts into more flexible arrangements or identifying new competitive gas suppliers.

## Restructuring the business model of the PGNiG Group

- ▶ The PGNiG Group's current business model is not optimised, which prevents the Group from unlocking its full value growth potential.
- ▶ The extensive organisational structure, decentralised model of support functions and the high headcount adversely affect the Group's process and cost efficiency.
- ▶ Implementation of restructuring initiatives (such as consolidation of the core business, unlocking capital tied-up in non-core activities and function centralisation) is of key importance.

# Implemented initiatives

## Reorganisation of the PGNiG Group

In June 2012, the reorganisation of PGNiG S.A. commenced. To the date, the process has been carried out at the Head Office and Branches. The changes consisted in simplifying the organisational structure by closing offices at individual departments, reducing a large number of managerial positions, merging divisions with similar competencies, and closing positions with similar responsibilities. In the process, the number of employees in managerial positions was reduced by 298 (from 677 prior to the reduction).

The Geology and Operation Branch was established to operate as a competence centre for PGNiG's projects in the areas of geology, drilling and operation of hydrocarbon fields.

## Voluntary redundancy scheme

In August 2012, PGNiG SA announced the voluntary redundancy scheme. During its effective term, from September 10th to October 31st 2012, around 1,000 employees, representing 11% of PGNiG's workforce, declared their intention to participate in the Scheme.

## Shared Services Centre

In June 2012, PGNiG Serwis Sp. z o.o. was established. This marked the first step on the path to establishing the Shared Services Centre (SSC) which is to be responsible for finance, accounting, HR and payroll functions, as well as for IT services across the Group. On January 1st 2013, the Centre will commence to operate at full functionality, providing services to PGNiG Termika (Elektrociepłownie Warszawskie). SSC's organizational process has been initiated for PGNiG branches and Gas Distribution Companies.

## Integration of the Power Segment

The process of merging PGNiG Energia S.A. into PGNiG S.A. has commenced, as has the process of full integration of the Group's power competencies in PGNiG Termika S.A.

## Change in the Group's structure

Preparations have started for initial public offerings of PGNiG Poszukiwania and PGNiG Technologie, as well as for the disposal of Geovita, ITG and Nysa Gaz. These processes will enable the Group to reorganise its operations and structure in such a way that in a near future PGNiG will remain the sole owner of only 20% of the companies currently comprising the Group.

## Amendment to the terms of the gas supply contract

A recently executed annex to the Yamal Contract changed the pricing terms of gas supplies to Poland.

# Value creation initiatives planned for 2012-2014 (1/4)

Upstream	1	Appraisal and development of unconventional hydrocarbon reserves under licences held	<ul style="list-style-type: none"> <li>▶ Stream 1 – Implementation of exploration and production programme on the Wejherowo licence</li> <li>▶ Stream 2 – Implementation of exploration and appraisal programmes in other locations</li> </ul>
	2	Cooperation with external partners in the area of hydrocarbon exploration and production	<ul style="list-style-type: none"> <li>▶ Stream 1 – Start of cooperation with domestic partners on the Wejherowo licence</li> <li>▶ Stream 2 – Implementation of other joint ventures involving unconventional resources</li> </ul>
	3	Intensification of conventional hydrocarbon exploration in Poland	<ul style="list-style-type: none"> <li>▶ Stream 1 – Implementation of exploration and production programmes on the licences held</li> <li>▶ Stream 2 – Implementation of tools to optimise investment decision-making and control the Group's upstream operations</li> </ul>
	4	Optimisation of upstream operations outside Poland	<ul style="list-style-type: none"> <li>▶ Stream 1 – Consolidation of the Group's foreign upstream operations</li> <li>▶ Stream 2 – Launch of hydrocarbons production in Norway</li> <li>▶ Stream 3 – Drilling exploration wells in Libya and Egypt</li> <li>▶ Stream 4 – Continuation of exploration work in Pakistan</li> <li>▶ Stream 5 – Discontinuation of upstream operations in Denmark</li> </ul>
Market	5	Enhancing efficiency in the marketing and customer service areas	<ul style="list-style-type: none"> <li>▶ Stream 1 – Optimisation of organisation and processes in the marketing and customer service area</li> <li>▶ Stream 2 – Optimisation of business customer marketing and service model</li> <li>▶ Stream 3 – Optimisation of retail customer marketing and service channels</li> <li>▶ Stream 4 – Restructuring/optimisation of the BOK (Customer Service Office)/ POK (Customer Service Point) network</li> <li>▶ Stream 5 – Optimisation of IT system in the customer service area</li> <li>▶ Stream 6 – Promoting customer-centred attitudes among the Group's employees</li> </ul>

## Value creation initiatives planned for 2012-2014 (2/4)

Market	6	Implementation of integrated product offering	<ul style="list-style-type: none"> <li>▶ Stream 1 – Implementation of customer segmentation</li> <li>▶ Stream 2 – Introduction of electricity offering</li> <li>▶ Stream 3 – Launch of new gas and gas-related products and services</li> </ul>
	7	Implementation of new marketing policy	<ul style="list-style-type: none"> <li>▶ Stream 1 – Change in the corporate brand and trade mark architecture</li> <li>▶ Stream 2 – Optimisation of the marketing communications and PR policy</li> <li>▶ Stream 3 – Optimisation of marketing structures and processes</li> </ul>
	8	Active participation in and support of the gas market deregulation programme	<ul style="list-style-type: none"> <li>▶ Stream 1 – Development of conceptual scope of market maker's responsibilities</li> <li>▶ Stream 2 – Launch of exchange trading</li> <li>▶ Stream 3 – Efforts to promote deregulation of gas prices for business customers</li> <li>▶ Stream 4 – Efforts to promote deregulation of gas prices for retail customers</li> </ul>
	9	Development of the power segment	<ul style="list-style-type: none"> <li>▶ Stream 1 – Construction of CCGT unit at the Żerań CHP</li> <li>▶ Stream 2 – Reconstruction of boilers at the Siekierki CHP with fuel change from coal to into biomass</li> <li>▶ Stream 3 – Construction of CCGT unit at the Stalowa Wola CHP</li> <li>▶ Stream 4 – Construction of gas-fired CHP with a selected partner</li> <li>▶ Stream 5 – Participation in development of district and industrial heating systems</li> </ul>
	10	Change in pricing rules for gas import contracts	<ul style="list-style-type: none"> <li>▶ Stream 1 – Renegotiation of the pricing formula under the gas import contract with Gazprom (accomplished)</li> <li>▶ Stream 2 – Renegotiation of the pricing formula under other contracts</li> </ul>

# Value creation initiatives planned for 2012-2014 (3/4)

Market	11	Change in the structure of imported gas sources	<ul style="list-style-type: none"> <li>▶ Stream 1 – Initiatives to remove legal and administrative barriers in decision-making processes relating to gas imports</li> <li>▶ Stream 2 – Change in the structure of imported gas sources towards increased share of gas purchased under short- and medium-term contracts</li> <li>▶ Stream 3 – Possible utilisation of idle capacity at the LNG terminal</li> </ul>
	12	Centralisation of the wholesale trading function at the PGNiG Group	<ul style="list-style-type: none"> <li>▶ Stream 1 – Development of a detailed business concept for the Wholesale Gas Trading Division (OOH) and establishment of OOH</li> <li>▶ Stream 2 – Transfer of the wholesale gas trading function from the Gas Trading Divisions at PGNiG Energia, PGNiG Termika and PGNiG Sales &amp; Trading to the OOH</li> <li>▶ Stream 3 – Designing of a risk management model for the wholesale gas trading business</li> <li>▶ Stream 4 – Adding missing capabilities in the wholesale gas trading area</li> </ul>
Business model	13	Optimisation of the HR management system at PGNiG S.A.	<ul style="list-style-type: none"> <li>▶ Stream 1 – Streamlining and standardisation of HR rules and procedures</li> <li>▶ Stream 2 – Development of a comprehensive remuneration policy (job roles and grading, optimisation of the remuneration system)</li> <li>▶ Stream 3 – Implementation of a uniform IT system to support HR processes at PGNiG S.A.</li> <li>▶ Stream 4 – Improvement of the corporate culture (including PGNiG's reputation as an employer)</li> </ul>
	14	Implementation of a project / project portfolio management system	<ul style="list-style-type: none"> <li>▶ Stream 1 – Development of a concept for and establishment of the Project Management Office</li> <li>▶ Stream 2 – Development of a uniform project management policy/rules at the PGNiG Group</li> <li>▶ Stream 3 – Development and implementation of tools to support project management/coordination</li> <li>▶ Stream 4 – Training/certification of employees in project management basics</li> </ul>

# Value creation initiatives planned for 2012-2014 (4/4)

## Business model

15	Establishing Shared Services Centre	<ul style="list-style-type: none"> <li>▶ Stream 1 – Development of a target operating model for the Shared Services Centre within the PGNiG Group</li> <li>▶ Stream 2 – Implementation of the Shared Services Centre – transfer of supporting functions (financial and accounting, payroll, IT; II phase – procurement) from the respective Group companies participating in the process of building the Shared Services Centre</li> </ul>
16	Restructuring of the PGNiG Group's core businesses	<ul style="list-style-type: none"> <li>▶ Stream 1 – Consolidation of the power generation business within PGNiG Termika</li> <li>▶ Stream 2 – Restructuring of Hydrocarbon Production Branches</li> <li>▶ Stream 3 – Merger of Gas Distribution Companies into a single entity</li> </ul>
17	Restructuring of the PGNiG Group's non-core businesses	<ul style="list-style-type: none"> <li>▶ Stream 1 – Merger of drilling and service subsidiaries into a single entity (PGNiG Poszukiwania) and partial sale of shares in PGNiG Poszukiwania through IPO</li> <li>▶ Stream 2 – Sale of Geovita Sp. z o.o.</li> <li>▶ Stream 3 – Sale of shares in PGNiG Technologie through IPO</li> <li>▶ Stream 4 – Sale of shares in other non-strategic subsidiaries</li> </ul>
18	Employment restructuring	<ul style="list-style-type: none"> <li>▶ Stream 1 – Determination of the optimum headcount for the PGNiG Group</li> <li>▶ Stream 2 – Definition of objectives for and implementation of voluntary redundancy scheme</li> <li>▶ Stream 3 – Implementation of further employment restructuring programmes</li> </ul>
19	Optimisation of the storage segment at the PGNiG Group	<ul style="list-style-type: none"> <li>▶ Stream 1 – Consolidation of the gas storage operations</li> <li>▶ Stream 2 – Consolidation of storage assets</li> </ul>

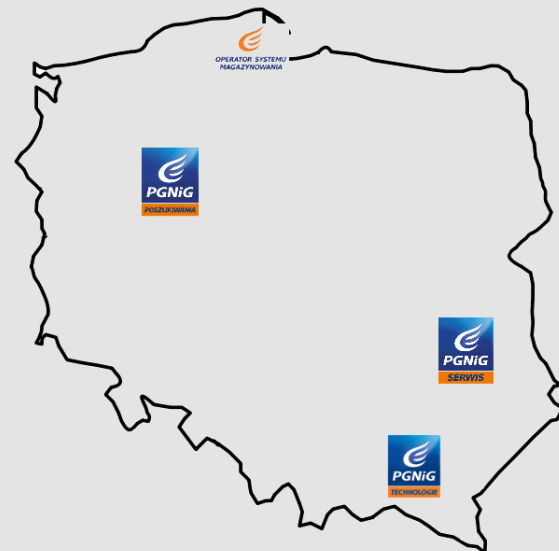
## Expected financial impact

The implementation of Short Term Value Creation Strategy of PGNiG Group will enable to realize ambitious investment program, repay existing debts and **generate excess cash (amounting to ca 15 bln PLN until 2020), which could be spend on additional investments.**



## New scheme of support subsidiaries in regions

- ▶ PGNiG Technologie - Krosno
- ▶ PGNiG Poszukiwania - Piła
- ▶ PGNiG Serwis - Lublin
- ▶ Storage System Operator - Kosakowo





**Thank you**