PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

Financial performance of PGNiG Group in 2012

March 19th, 2013

Key events of 2012

Improved margin on gas sales

- Negative margin in six consecutive quarters: Trade & Storage segment's cumulative loss at PLN -2.2bn
- Agreement with Gazprom – strong margin recovery in Q4 and retroactive effect

Launch of short-term value creation strategy for PGNiG Group until 2014

- Higher production
- Market-oriented initiatives
- Optimisation of Group's structure and costs

Diversification of financing sources

- First eurobond issue – EUR 500m
- Largest corporate non-bank issue of notes on Catalyst – PLN 2.5bn

Power sector

- Integration of PGNiG Termika
- Stalowa Wola CHP project

Good performance of E&P segment

- Higher production of crude oil
- Launch of production from Skarv field
- High and stable prices of crude oil

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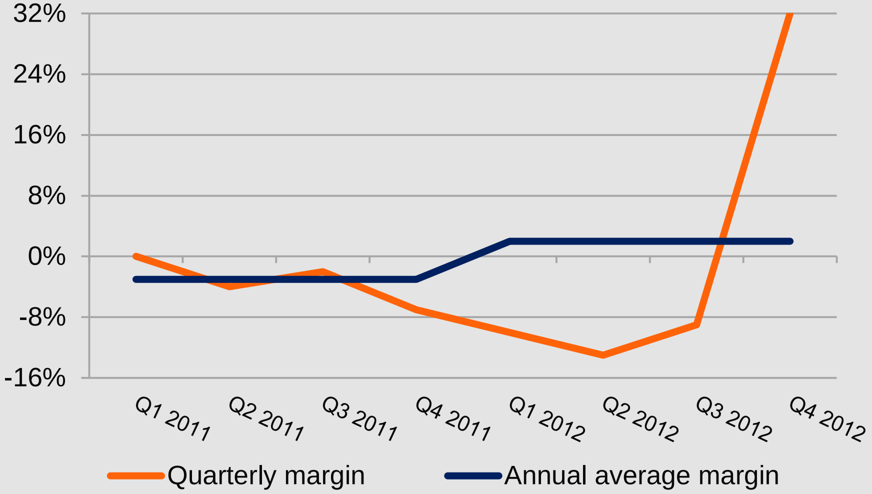
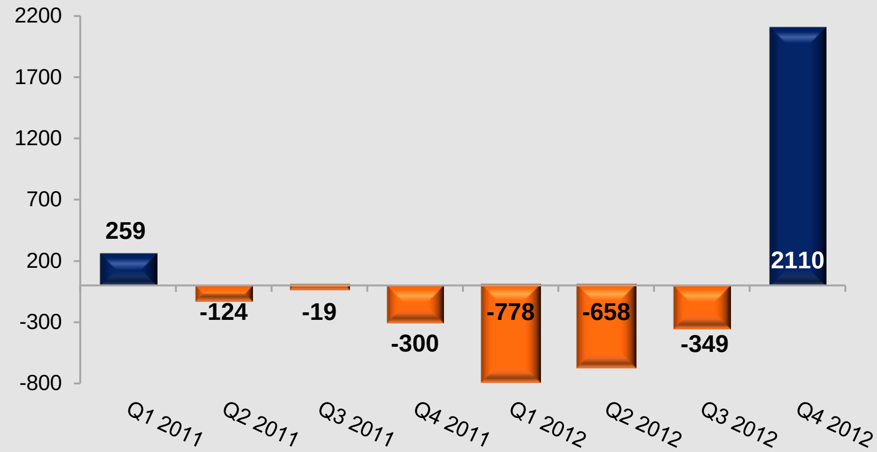
Results of the agreement with Gazprom

High-metan gas' margin evolution



Quarterly EBIT of Trade & Storage



- The effect of the new pricing formula under the Yamal contract, agreed upon in November, on 2012 EBITDA was estimated at **ca. PLN 3bn**, which reflects the retroactive effect of the new price terms on gas purchases in previous quarters and application of the new pricing formula in Q4 2012 settlements. These changes translated into an increase in margin on gas sales, **to 32% in Q4 2012 and to 2% for the entire 2012.**

- The performance of the Trade and Storage segment is primarily driven by the margin on sales of its key product – high-methane gas. In two previous years, prior to the renegotiation of the Yamal contract, quarterly **EBIT ranged from PLN -778m to PLN 259m**. The effect of the retroactive application of the new pricing terms was fully recognised in EBIT for Q4 2012.

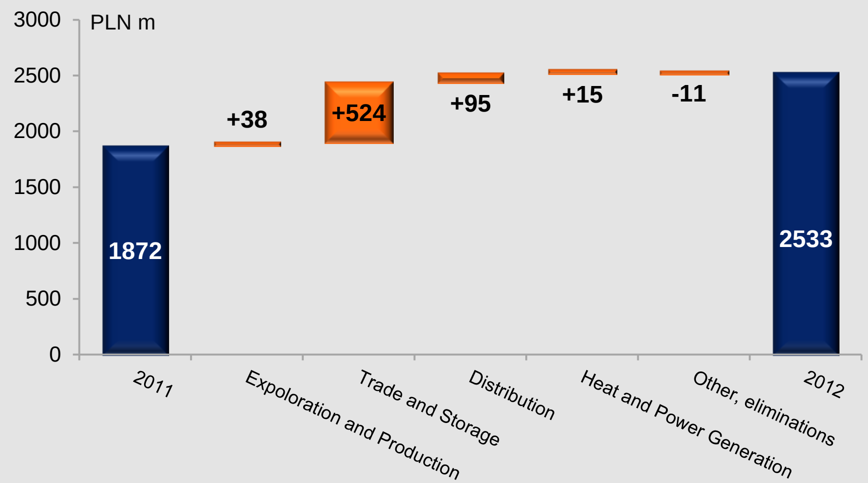
Financial highlights

PGNiG Group (PLN m)	2011	2012	change	Q4 2011	Q4 2012	change
Sales revenue	23 004	28 730	5 726	6 973	8 666	1 693
Operating expenses	(21 132)	(26 197)	(5 065)	(6 507)	(6 057)	450
EBITDA	3 446	4 602	1 156	870	3 171	2 301
EBIT	1 872	2 533	661	466	2 609	2 143
Result on financial activity	(17)	(164)	(147)	(65)	(65)	0
Net result	1 755	2 234	479	431	2 186	1 755
Hi-methane gas sales margin	(3%)	2%	5 pp	(7%)	32%	39 pp

- In 2012, the Group's **revenue was up** PLN 5.7bn, or **25%,** mostly on the back of price increases and higher sales volumes of crude oil and natural gas.
- Higher revenue, lower costs of gas purchases and cost discipline all contributed to the Group improving its operating profit **by 35%, to PLN 2.53bn.**
- **The 18% increase in cost of gas sold**, to PLN 15.7bn, was passed through onto gas selling prices. As a result, in 2012 the margin on sales of high-methane gas was 2%, up 5 pp year on year. In Q4 2012 alone, the margin was 32%.
- In Q4 2012, **the Group's revenue was PLN 8.7bn**, up 24%. At the same time, **operating expenses declined**, chiefly on the back of the renegotiated long-term gas supply contracts. The expenses were also down following a one-off recognition of the retroactive effect of the renegotiated price terms of the Gazprom contract.
- In Q4 2012, the Group **earned PLN 2.6bn in operating profit** and nearly PLN 2.2bn in net profit, five times the figure reported for Q4 2011.
- PGNiG SA's separate net profit for 2012 was **PLN 1.9bn,** relative to PLN 1.7bn in 2011.

Segments – operating result 2012

Operating result (PLN m)	2011	2012	Q4 2011*	Q4 2012
Exploration and Production	1 315	1 353	328	142
Trade and Storage	(199)	325	(300)	2 110
Distribution	783	878	289	328
Heat and Power Generation	-	15	-	47
Excluding amortised intangible assets	-	*225*	-	*106*
Other, eliminations	(27)	(38)	(37)	(18)
TOTAL	1 872	2 533	280	2 609

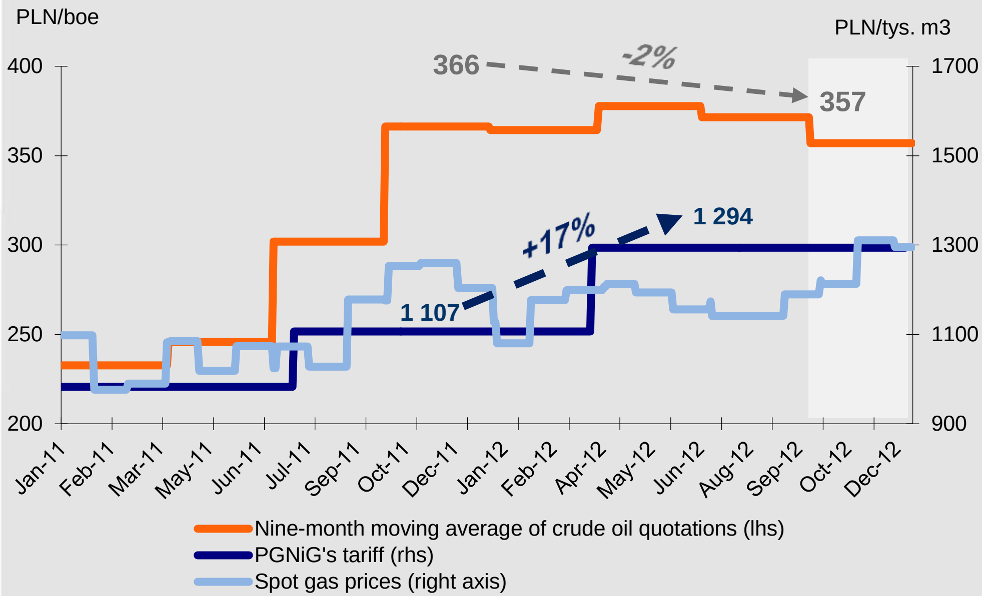


- The **operating result** of the Exploration and Production segment **was up 3%** in 2012 on higher output and prices of crude oil. In Q4 2012 alone, EBIT fell by 57% following recognition of provisions and impairment losses of PLN 387m (up PLN 356m on Q4 2011), mainly on extraction assets.
- The largest contributor to the PGNiG Group's operating profit was the **strong increase reported by the Trade and Storage segment (up PLN 524m)** following renegotiation of the Gazprom contract. The segment's exceptionally high operating profit posted in Q4 2012 was a result of one-off recognition of the retroactive effect of the contract renegotiations.
- The 2012 operating profit of the Distribution segment **grew by 12%** year on year, **to PLN 878m**. This significant improvement was achieved thanks to a 5% increase in the volume of distributed gas (caused by new connections and low temperature in the first quarter), as well as an average 1.7% increase in distribution tariffs in July 2011, and cost discipline.
- The Generation segment earned **PLN 15m** in operating profit in 2012, of which PLN 47m was generated in Q4 2012 alone. These results account for the effect of amortised intangible assets recognised upon acquisition of PGNiG Termika, including carbon allowances; excluding this effect, the segment's EBIT in 2012 would stand at **PLN 225m**.

* Quarterly data for 2011 were not transformed to changes in accounting policy.

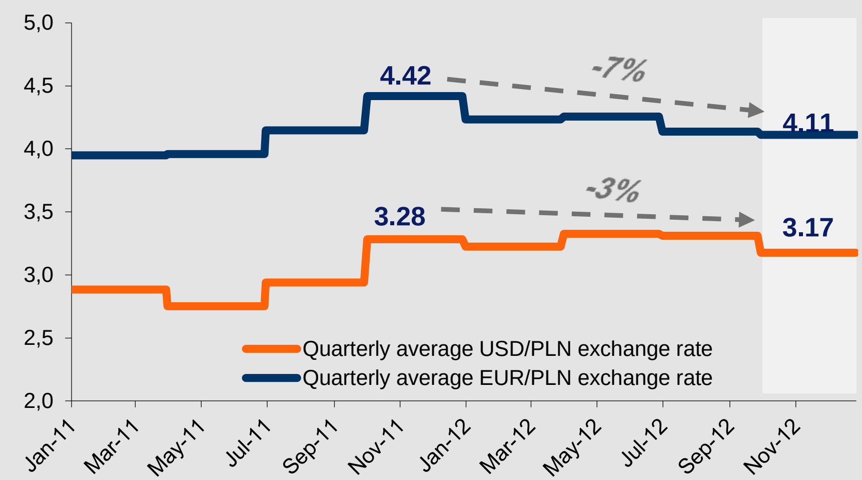
Financial performance drivers

Crude oil* and gas quoted prices vs. tariff price



- Crude prices determine the cost of imported gas. As of October 2012, the pricing formula for gas imports under the Yamal contract is based on the following two elements:
  - Nine-month average of oil product prices, which are almost perfectly correlated with crude prices;
  - Natural gas prices on the liquid West European market.
- The prices of crude oil in dollar terms remained high. In Q4 2012, the nine-month average was over 112 USD/boe, up 1% on Q4 2011. In złoty terms, the price fell **2%.**

USD/PLN and EUR/PLN exchange rates**

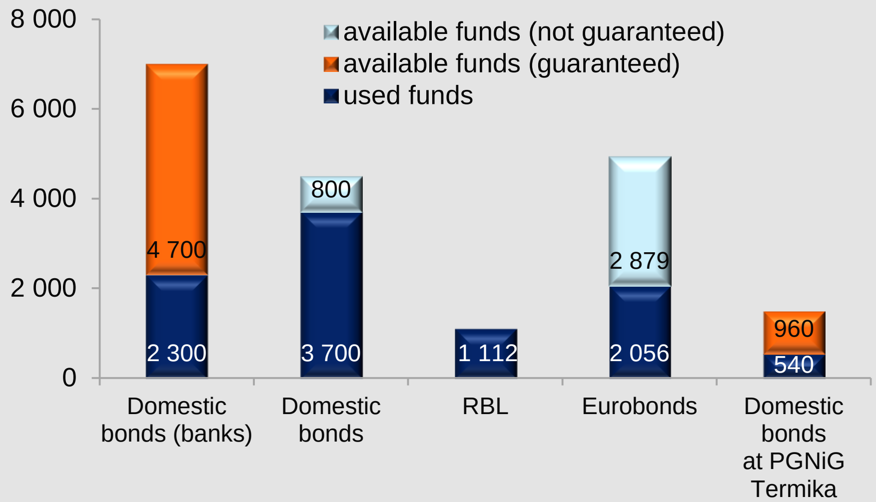


- The purchase price of imported gas depends on the USD and EUR exchange rates; at the same time, crude prices are denominated in the US dollar. Hence, the exchange rates of these currencies determine the value of the largest item in the PGNiG Group’s expenses and a large portion of revenue earned by the Exploration and Production segment.
- The Q4 2012 gas fuel tariff was **1,294 PLN/ths. cm** and was similar to the prices of gas contracts on the NetConnect Germany market. Since January 2013, the tariff for industrial customers has been **1,251 PLN/ths. cm.**

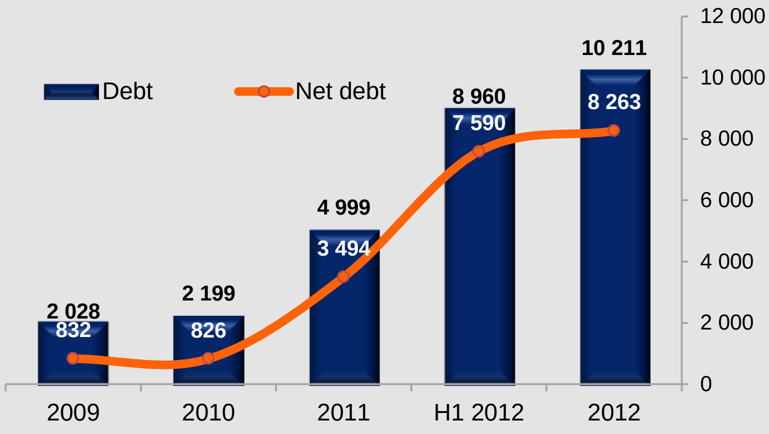
* European Dated Brent Forties Oseberg (BFO), source : Bloomberg.
** Source: National Bank of Poland (NBP).

Financial indebtness

Use of debt under the financing programmes as at December 31st 2012 (PLN m)



PGNiG Group's debt (PLN m)



- Value of the domestic notes issuance programme until 2015 underwritten by banks – **PLN 7bn**; the notes' maturity is up to 12 months.
- Five-year domestic notes issuance programme of up to **PLN 4.5bn**, not underwritten, with maturities of up to ten years. The first issue of PLN 2.5bn was placed in June 2012. Another PLN 1.2bn worth of short-term notes (maturing in up to one year) was issued in September and December 2012.
- PGNiG Termika's five-year notes issuance programme of up to **PLN 1.5bn** underwritten by banks.
- Five-year programme of **EUR 1.2bn** eurobonds with maturities of up to 10 years. The first issue of EUR 500m notes, with a **4%** coupon, was placed in February 2012.
- The over **PLN 5bn** increase in debt from the end of 2011, to **PLN 10.2bn**, was due to the higher need for external financing to cover gas trading expenses and acquisition of PGNiG Termika.
- Reserve-Based Loan (PGNiG Norway) – **USD 360m****

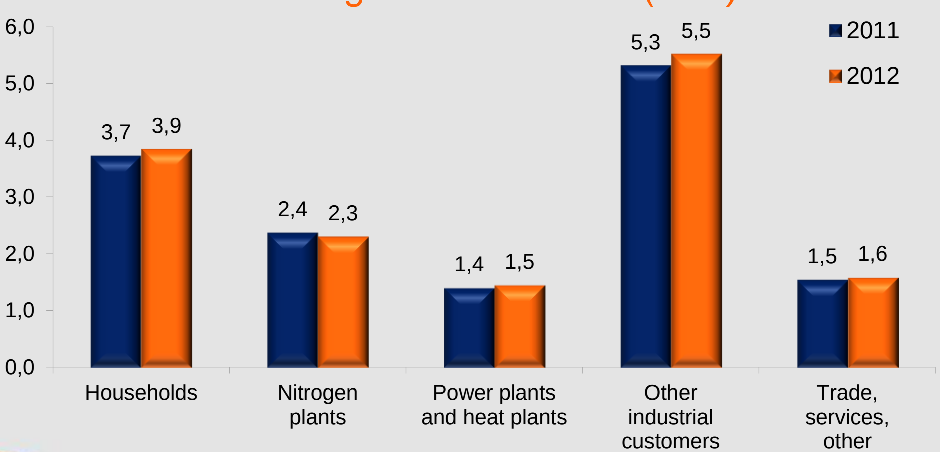
* According to National Bank's of Poland exchange rates as of December 28th, 2012 for EUR (eurobonds) and USD (Reserve Based Loan).

** As of Q2 2012, the Reserve Based Loan is being repaid as per the agreed repayment schedule.

Natural gas (I)

PGNiG Group*	2011	2012	change	Q4 2011	Q4 2012	change
Production volume (million m^3)	4 329	**4 317**	*0%*	1 134	**1 109**	*(2%)*
Import volume (million m^3)	10 915	**11 000**	*1%*	2 862	**3 105**	*8%*
Sales volume (million m^3)	14 277	**14 912**	*4%*	4 197	**4 406**	*5%*
Including sales to customers outside of Poland	-	**292**	-	-	**206**	-
Distribution volume (million m^3)	9 452	**9 924**	*5%*	2 782	**3 076**	*11%*
Gas sales revenue (PLN m)	20 231	**23 697**	*17%*	6 154	**7 187**	*17%*
High-methane gas (E)	19 014	**22 309**	*17%*	5 786	**6 763**	*17%*
Nitrogen-rich gas (Ls, Lw)	1 217	**1 389**	*14%*	368	**423**	*15%*

Customers' share in gas sales volume (bcm)

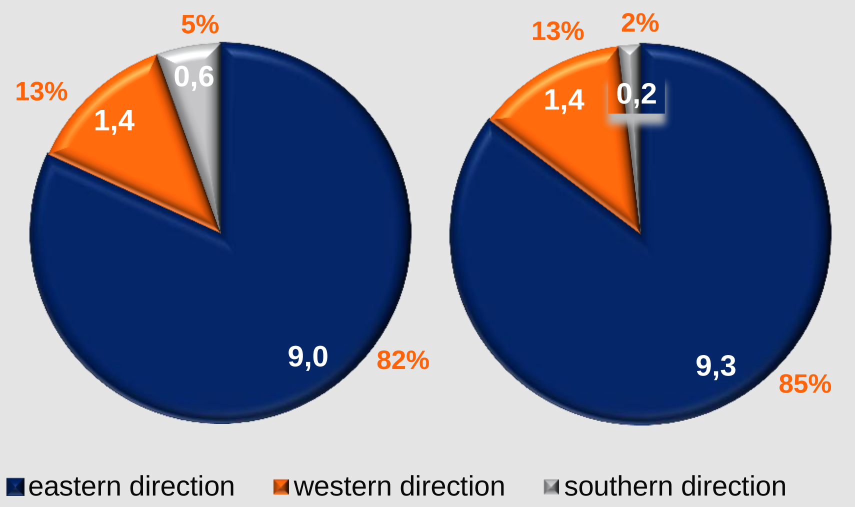


- In 2012, the gas sales volume went **up 4%, by over 600mcm.** The increase was driven by higher sales in Q1 2012 caused by cold weather, a growing customer base outside of Poland (served by PGNiG Sales & Trading) and the acquisition of new clients.
- The above-average increase in the volume of gas distributed in Q4 2012 was attributable to new connections, including LOTOS Group and customers purchasing coke gas.
- The increase in revenue from gas sales was driven by **growing volumes of sold gas and the higher gas tariff in effect as of March 2012.**

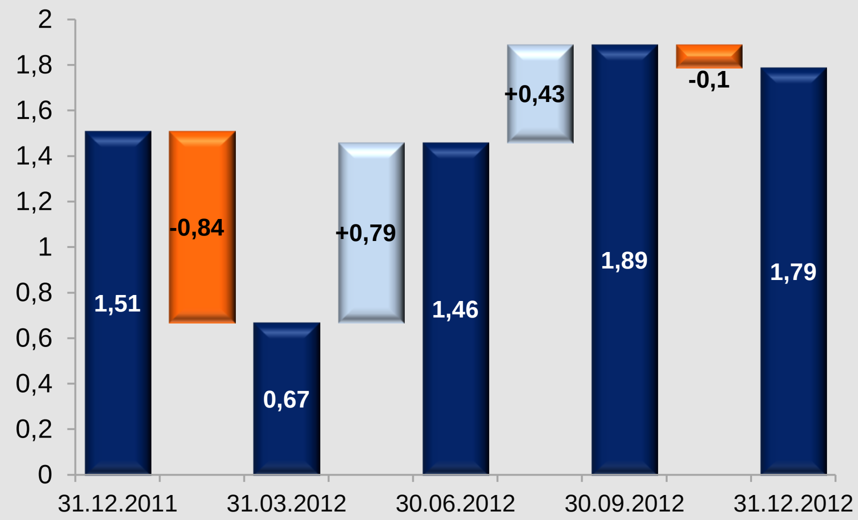
* Measured as high-methane gas equivalent (E).

Natural gas (II)

Gas imports (billion m³)



Gas in storage* (billion m³)



- Thanks to the use of the extended interconnector in Lasów, the virtual reverse flow service on the Yamal pipeline, and the Moravia interconnector, the volume of gas imported from the West and South rose to nearly **2bcm**. To compare, in 2011 the volume of gas acquired this way was **1.6bcm**, i.e. almost **400mcm** less.

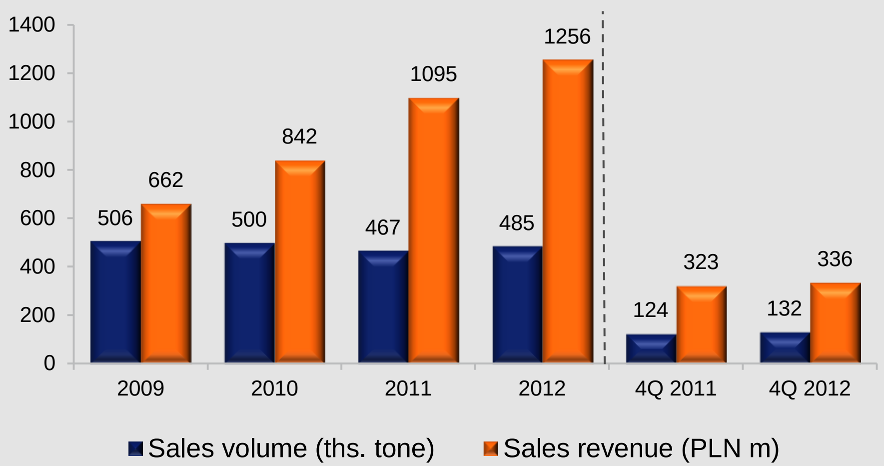
- After the withdrawal of significant volumes of gas in Q1 2012, during the two subsequent quarters the Company injected **1.2bcm** of gas into storage facilities. The largest gas quantities (almost **800mcm**) were injected in Q2 2012.Given that in Q4 2012, on a net basis, **100mcm** was drawn from the facilities, the volume of high-methane gas in storage as at year end was **1.79bcm**.

* High-metan gas owned by PGNiG SA, including mandatory stock and without gas owned by OGP Gaz System

Crude oil

PGNiG Group*	2011	2012	change	Q4 2011	Q4 2012	change
Production volume (ths. t)	468	492	5%	123	138	12%
Sales volume (ths. t)	467	485	4%	124	132	7%
Sales revenue (PLN m)	1 095	1 256	15%	323	336	4%
Oil unit price (PLN/t)	2 357	2 606	11%	2 617	2 548	(3%)
Average price of Brent Dated oil for the period (USD/bbl)	112	112	0%	109	110	1%

Oil sales volume and revenues*



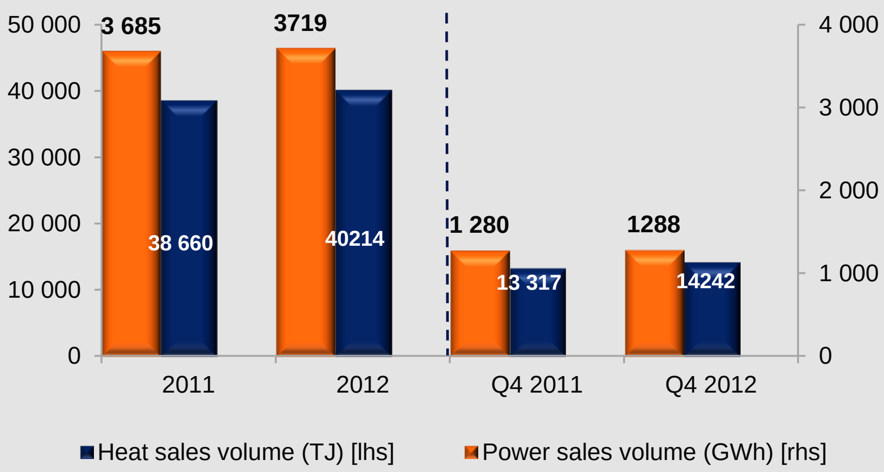
- The increase in production and sales volumes was driven by the hook-up of wells at the BMB facility and achievement of production targets at the Dębno facility, where crude oil production in the comparable period (May and June 2011) was down due to the limited ability to receive gas by one of CHPs.
- Revenue from crude sales rose cumulatively on the back of growing sales volumes and the higher average annualised USD exchange rate, paired with stable prices of Brent crude.
- Crude oil production in 2012 was **492 thousand tonnes** and exceeded the annual forecast by **12 thousand tonnes**. The target production for 2013 is **1,120 thousand tonnes**, including the Skarv project.

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

Heat and power – PGNiG Termika

	2011 VHP	2012 PGNiG Termika	*change*	Q4 2011 VHP	Q4 2012 PGNiG Termika	*change*
Heat sales volume (TJ)	38 660	**40 214**	*4%*	13 317	**14 242**	*7%*
Heat sales revenue (PLN m)	879	**978**	*11%*	292	**342**	*17%*
Power sales volume (GWh)	3 685	**3 719**	*1%*	1 280	**1 288**	*1%*
Power sales revenue (PLN m)	747	**804**	*8%*	252	**282**	*12%*

Heat and electricity sales volumes

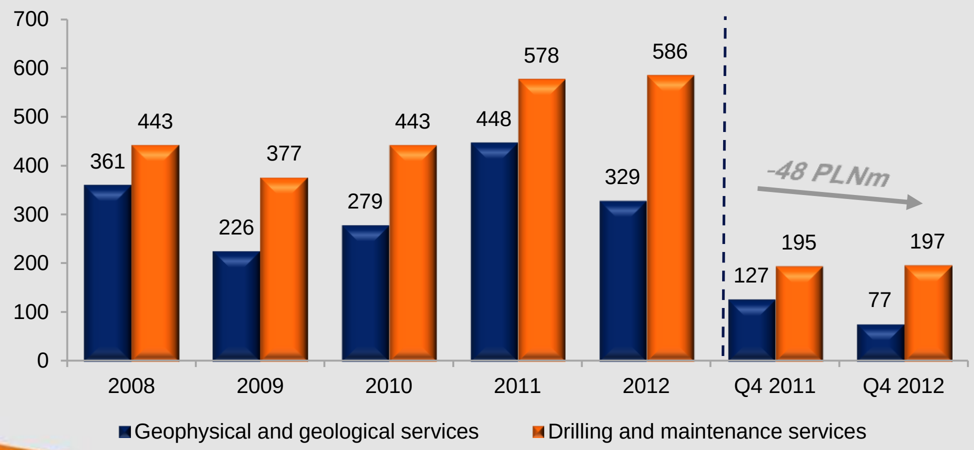


- Heat and electricity sales volumes rose mainly on the back of **lower temperatures in Q1 and Q2 2012.**
- In H2, PGNiG Termika's performance was strongly affected by the **increase in the heat tariff, effective as of July 2012.**
- Prices of fuel, both coal and biomass, increased relative to 2011.
- In September, the Żerań CHP was shut down for 18 days due to a fire. During the downtime, the Siekierki CHP compensated for the capacity taken off-line.
- Contracts covering over 90% of 2013 electricity sales were executed in mid-2012 at prices above the current market levels.

Other sales

Sales revenue PGNiG Group (PLN m)	2011	2012	change	Q4 2011	Q4 2012	change
Helium	58	**161**	*180%*	16	**53**	*232%*
Porpane-butane gas (LPG)	60	**66**	*10%*	20	**19**	*(1%)*
LNG	38	**54**	*43%*	13	**16**	*24%*
Exploration services, herein:	1 026	**915**	*(11%)*	322	**274**	*(15%)*
Geophysical and geological services	448	**329**	*(27%)*	127	**77**	*(39%)*
Drilling and maintenance services	578	**586**	*1%*	195	**197**	*1%*

Revenues from exploration services (PLNm)



- The lower revenue from geophysical and geological service is a consequence of **shrinking demand for the services in Poland, accompanied by higher sales abroad**. Both cumulatively and in Q4 alone, sales of drilling and servicing services were stable, having increased 1% year on year.
- In 2012, sales of helium were up **180%** year on year, chiefly on the back of higher helium prices and a more efficient sales policy.
- Volumes of LNG and LPG sales increased by **12%** and **17%**, respectively.

Operating expenses

PGNiG Group (PLN m)	2011	2012	*change*	Q4 2011*	Q4 2012	*change*
Total operating expenses	**21 132**	**26 198**	*24%*	**6 507**	**6 057**	(7%)
Cost of gas sold	13 353	15 714	*18%*	4 444	2 953	(34%)
Other raw materials and consumables used	706	749	*6%*	205	188	(9%)
Fuel for heat and power generation	-	984		-	322	
Employee benefits	2 850	3 054	*7%*	845	1 044	23%
Depreciation and amortisation	1 574	2 069	*31%*	404	562	39%
OGP GAZ-SYSTEM transmission services	1 463	1 454	*(1%)*	369	379	3%
Cost of written-off dry wells	276	127	*(54%)*	100	66	(34%)
Other contracted services	1 443	1 479	*2%*	399	422	6%
Other operating expenses net	596	1 573	*164%*	152	566	272%
Cost of products and services for own needs	(1 129)	(1 006)	*(11%)*	(412)	(445)	8%

- The largest item of operating expenses was the cost of gas sold. In 2012, the cost increased PLN **2.4bn, or 18%.** The increase would have been higher but for the renegotiated terms of the Yamal contract.
- Since 2012, costs of dry wells comprise also costs of exploration and appraisal assets written off.
- Operating expenses in 2012 **also reflect the consolidation of PGNiG Termika**, with the strongest growth seen in fuels for production of heat and electricity, as well as depreciation/amortisation expenses.
- In 2012, **other expenses** increased mainly on the back of foreign exchange losses (PLN -498m); change in impairment losses (PLN -154m), caused chiefly by higher write-offs on extraction assets; change in provisions (PLN -165m), including the provisions recognised in Q2 for a potential penalty imposed by the Competition and Consumer Protection Office and the consolidation of PGNiG Termika (PLN -60m).

* Quarterly data for 2011 were not transformed to changes in accounting policy.

Summary

MARGIN ON GAS SALES

In Q4 2012 the margin on sales of high-methane gas was **32%**, while in the entire year it was **2%**, i.e. highest since Q4 2010. **The negotiated changes in the terms of the Yamal contract significantly reduced gas acquisition costs in 2012.**

Despite 3.3% decrease of the tariff for industrial customers, the decreased cost of gas purchase should help **improve the profitability** of the Trade and Storage segment **in a long run**.

LAUNCH OF OIL & GAS PRODUCTION IN NORWAY

At the end of 2012, production of crude oil and gas from the Skarv field on the Norwegian Continental Shelf commenced. In 2007, the PGNiG Group acquired ca. 12% interest in the field, which has been developed since then. **At USD 1.2bn, it is one of Poland's largest investment projects abroad.** Production forecast for 2013 is 320m cubic metres of natural gas and ca. 350 thousand tonnes of crude oil.

SHORT-TERM VALUE CREATION STRATEGY 2012 - 2014

The Strategy announced in December 2012 will be the **main driver of the Group's value growth in the near future**. Following the launch of production in Norway and renegotiation of the Yamal contract, the next important steps include optimisation of the Group's structure, development of unconventional reserves and intensified production from conventional sources, and active participation in the natural gas market deregulation and market-oriented changes in PGNiG's corporate culture.

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