PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

Financial Performance of PGNiG Group
3rd quarter 2012

November 12th, 2012

Financial highlights

PGNiG Group (PLN m)	1-3Q 2011	1-3Q 2012	*change*	3Q 2011	3Q 2012	*change*
Sales revenue	16 031	**20 064**	*4 033*	4 508	**5 300**	*792*
Operating expenses	14 625	**(20 141)**	*(5 516)*	(4 175)	**(5 324)**	*(1 150)*
EBITDA	2 576	**1 430**	*(1 146)*	726	**478**	*(248)*
EBIT	1 406	**(77)**	*(1 483)*	333	**(25)**	*(358)*
Result on financial activity	48	**(98)**	*(146)*	(119)	**30**	*149*
Net result	1 324	**48**	*(1 276)*	319	**65**	*(255)*
Hi-methane gas sales margin	(1%)	**(11%)**	*(10 pp)*	(2%)	**(9%)**	*(7 pp)*

- **A PLN 4bn, or 25%, increase in the PGNiG Group's sales** revenue in the first nine months of 2012 was not reflected in its **operating result, which fell nearly PLN 1.5bn**, that is 105%, year on year.
- The decline was chiefly caused by a **43% increase in the cost of gas sold**, which stood at PLN 12.8bn, up PLN 3.8bn.
- Year to date, the **margin on high-methane gas sales dropped by 10 pp, to -11%.** In Q3 2012 alone, the margin was -9%, down 7 pp year on year. The negative margin on sales of the Group's key product directly translated into weaker performance of the Trade and Storage segment.
- In Q3 2012 alone, the PGNiG Group's sales revenue increased by nearly 800m, to PLN 5.3bn; during the period, operating expenses grew PLN 1.1bn, to PLN 5.3bn.
- The PGNiG Group's **operating loss came in at PLN -25m**, i.e. PLN 358m down year on year.
- The result on financing activities was a positive contribution to net profit earned in Q3 2012. A PLN 86m rise in interest expense was offset by foreign exchange gains of PLN 137m. The positive difference between EBIT and net profit was also attributable to a positive value of income tax of PLN 60m (primarily the asset relating to investment tax credit at PGNiG Norway).

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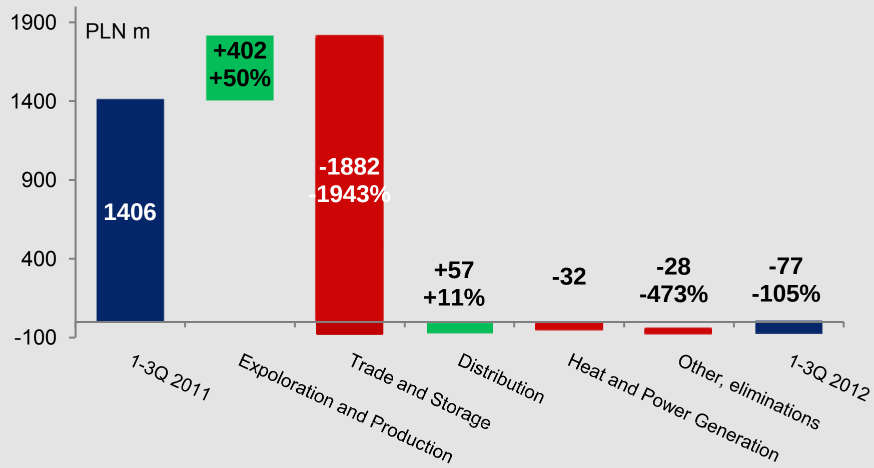
Segments – operating result 1-3Q 2012

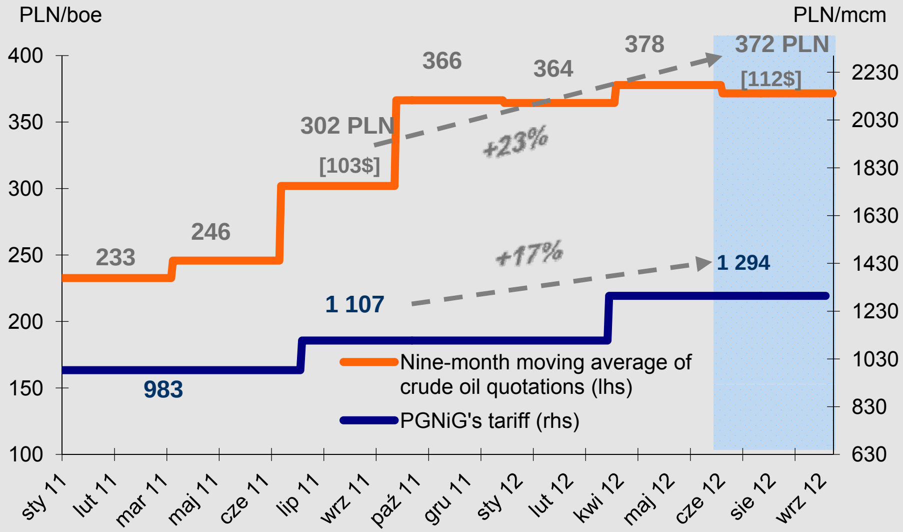
Operating result (PLN m)	1-3Q 2011	1-3Q 2012	3Q 2011	3Q 2012
Exploration and Production	809	1 211	356	441
Trade and Storage	97	(1 785)	(27)	(349)
Distribution	494	551	(8)	(16)
Heat and Power Generation	-	(32)	-	(86)
Excluding amortisation charge on CO_2	-	*119*	-	*(47)*
Other, eliminations	6	(22)	12	(15)
TOTAL	1 406	(77)	333	(25)



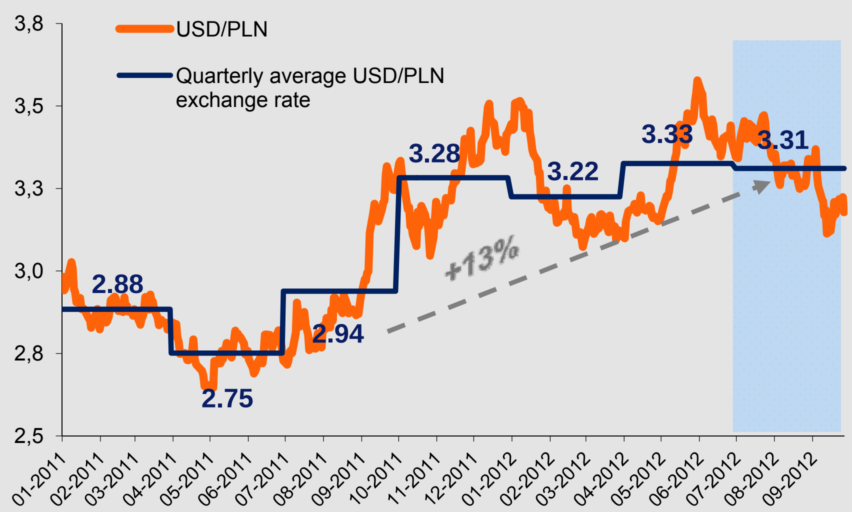
- The Exploration and Production segment's **operating result grew by 50%** in the first nine months of 2012, and **by 24% in Q3 2012 alone**, thanks to higher crude prices and a tight rein on contracted services and employee benefits.
- The PGNiG Group's performance was mainly affected by **losses incurred by the Trade and Storage segment**, which in Q3 stood at PLN -349m and in the year to date at nearly **PLN -1.8bn**. The losses were mainly attributable to the negative margin on sales of the Group's key product, high-methane gas; the **margin was -9% in Q3 and -11% in Q1-Q3** cumulatively. The margins were in the negative territory because the gas fuel tariff failed to reflect the increase in the cost of imported gas purchases.
- In the first three quarters of the year, the **Distribution segment's operating result came in at PLN 551m**, up 11% year on year, thanks to larger volumes of distributed gas, adding PLN 100m to revenue, and successful efforts to limit the growth in expenses to PLN 50m.
- In the first nine months of 2012, the Generation segment recorded an **operating loss of PLN -32m**, chiefly attributable to its performance in Q3, when the loss amounted to PLN 86m. These results account for the effect of amortisation of CO2 emission allowances at PGNiG Termika. Otherwise, the **Generation segment's EBIT would have come in at PLN 119m** in Q1-Q3 and at PLN -47m in Q3 alone.

Financial performance drivers

Crude oil quoted prices* vs. tariff price



USD/PLN exchange rate**



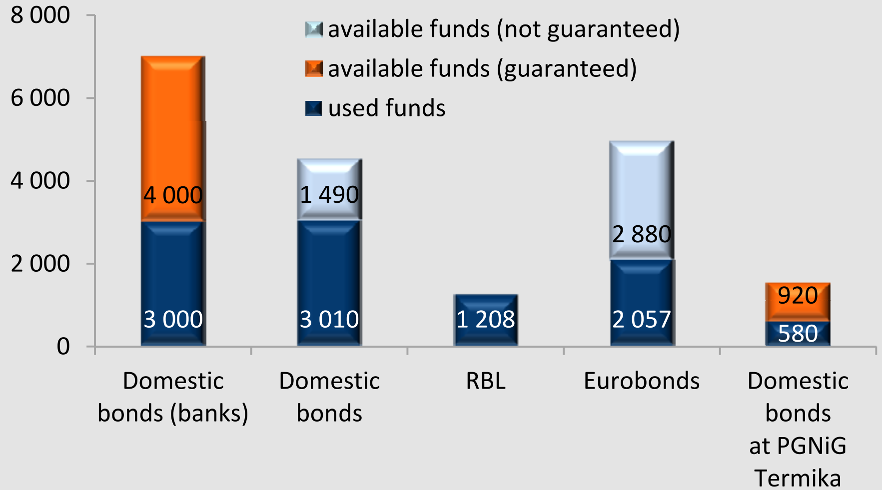
- Crude prices determine the cost of imported gas. The pricing formula for gas imports is based on the nine-month average of petroleum product prices, which are almost perfectly correlated with crude prices.
- The prices of crude oil remained high. In Q3 2012, the nine-month average was **112 USD/boe, up 9%** on Q3 2011.
- In złoty terms, the nine-month average crude oil price grew **23%, to 372 PLN/boe**. It was not fully reflected in the gas tariff, which in the same period **increased by 17%, up to 1,294 PLN /'000 cubic meters**.

- 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 Q3 2012, the **average USD/PLN exchange rate was 3.31**, flat on Q2 2012 (3.33) and **up 13%** on Q3 2011 (2.94). In Q3 2012 alone, the average USD/PLN exchange rate remained within the band of 3.22 to 3.33, which means that the rate was more stable than in 2011, when it ranged from 2.75 to 3.28.

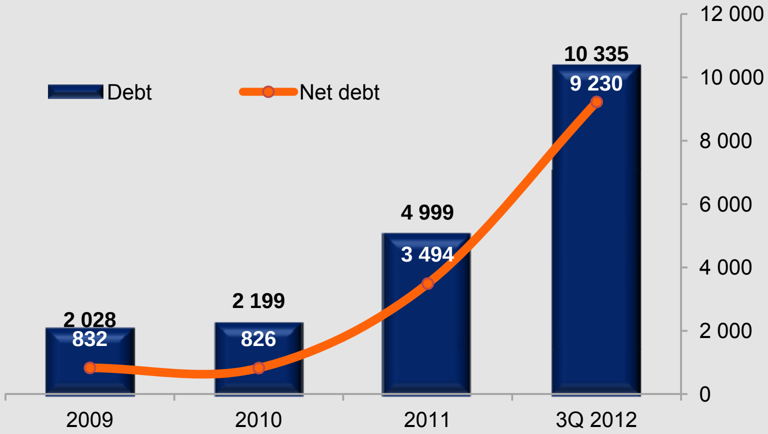
* European Dated Brent Forties Oseberg (BFO), source : Bloomberg.
** Source: National Bank of Poland (NBP).

Financial indebtness

Use of debt under the financing programmes as at September 30th 2012 (PLN m)



PGNiG Group's debt (PLN m)



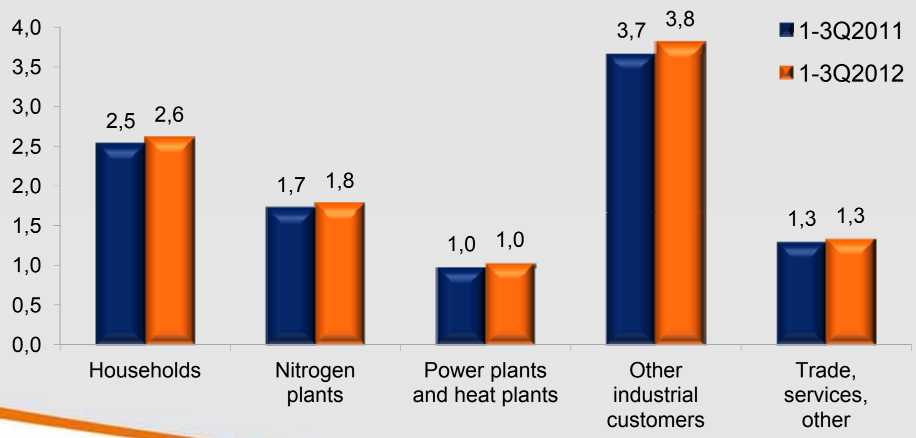
- Value of the domestic notes issuance programme underwritten by banks – **PLN 7bn**; the notes' maturity is July 31st 2015.
- Five-year domestic notes issuance programme of **up to PLN 4.5bn**, not underwritten, with maturities of up to 10 years. The first, PLN 2.5bn tranche was placed with investors in June 2012. Another tranche of short-term notes (maturing in up to one year) of PLN 510m was issued in September 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 Euronotes** with maturities of up to 10 years. The first issue of EUR 500m notes, with a **4% coupon**, was placed in February 2012.
- The PLN 5bn **increase in debt from the end of 2011, to PLN 10.3bn**, was due to the higher requirement for external financing to cover gas trading expenses and acquisition of PGNiG Termika.
- Reserve Based Loan (PGNiG Norway) – **USD 380m****.

* According to National Bank's of Poland exchange rates as of June 29th, 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*	1-3Q 2011	1-3Q 2012	change	3Q 2011	3Q 2012	change
Production volume (million m³)	3 195	3 208	0%	1 069	1 044	(2%)
Import volume (million m³)	8 053	7 895	(2%)	2 177	2 133	(2%)
Sales volume (million m³)	10 080	10 507	4%	2 531	2 531	0%
Including sales to customers outside of Poland	-	86	-	-	17	-
Distribution volume (million m³)	6 670	6 847	3%	1 451	1 510	4%
Gas sales revenue (PLN m)	14 077	16 513	17%	3 779	4 262	13%
High-methane gas (E)	13 228	15 547	18%	3 557	4 012	13%
Nitrogen-rich gas (Ls, Lw)	849	966	14%	221	250	13%

Customers' share in gas sales volume (bcm)

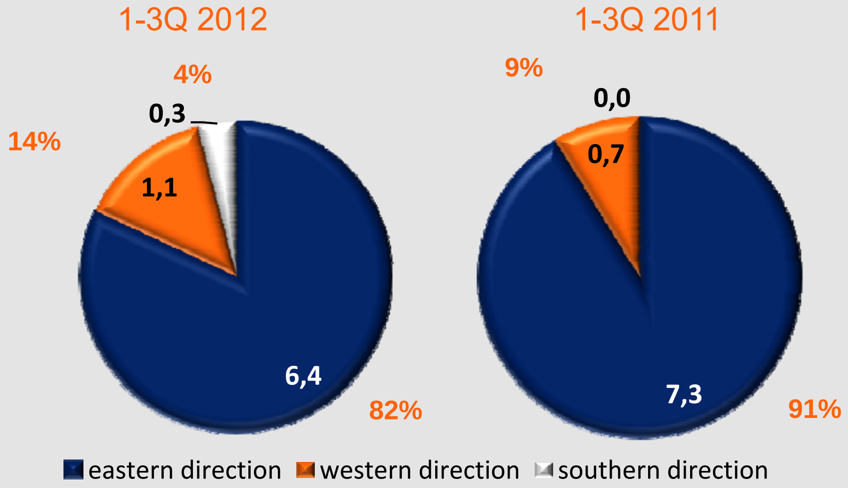


- The **gas sales volume in Q3 2012** stayed level with Q3 2011. The **cumulative increase of 4%** is a result of higher gas sales in Q1 2012.
- Year to date, all customer groups purchased more gas volumes than in 2001, with **increase rates from 3 to 5%**. The demand in Q2 and Q3 2012 was similar to the demand in 2011; the increase was driven by low air temperatures in Q1 2012.
- The increase in revenue from gas sales was driven by growing volumes of sold gas and the higher gas sales tariff, which, however, did not offset gas purchase costs.

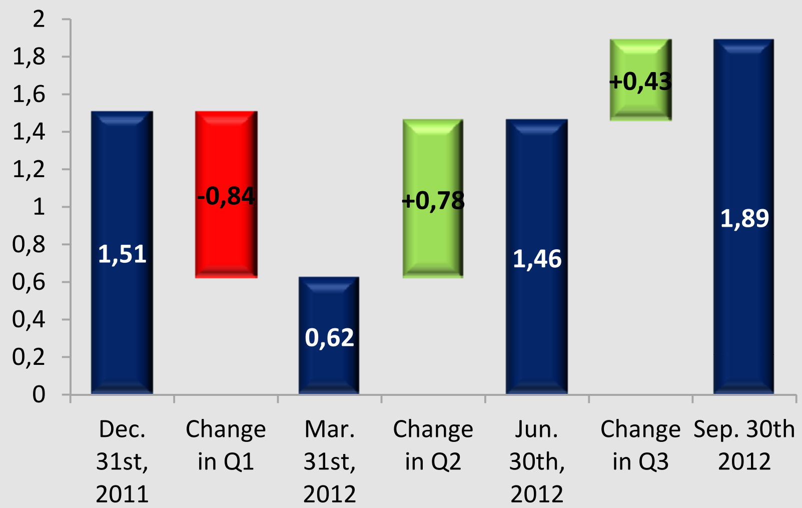
* Measured as high-methane gas equivalent (E).

Natural gas(II)

Gas imports (bln m³)



Gas in storage (bln m³)



- Thanks to the use of the expanded interconnector in Lasów, the virtual reverse flow service at the Yamal pipeline, and the Moravia interconnector, the share of gas imported from markets west and south of Poland **rose to 18% (1.4bn m³).** To compare, in the first three quarters of 2011 the volume of gas imported from those markets was **700m m³**, i.e. almost 700m m³ less. Despite the efforts, the average cost of gas acquisition was higher than the achievable tariff price. Consequently, in Q3 2012 the Company had to recognise an additional impairment loss of PLN 60m on gas inventories.

- After the withdrawal of significant volumes of gas in Q1 2012, during next two quarters, which were warm, the Company pumped **1.2bn m³ of gas into storage** facilities. The largest gas quantities **(almost 800m m³)** were filled into storage facilities in Q2 2012. In Q3 2012 alone, 430m m³ of gas were filled into storage facilities. Thus the volume of stored gas reached **nearly 1.9bn m³.**
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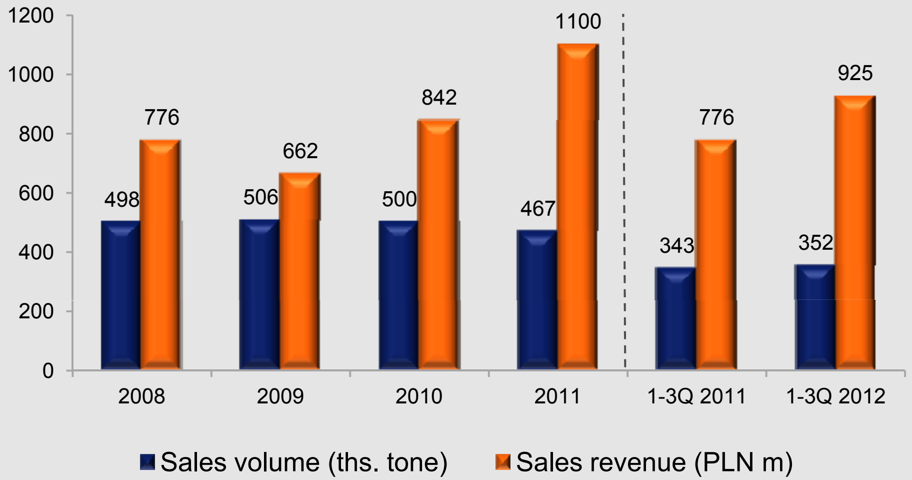
Crude oil

PGNiG Group*	1-3Q 2011	1-3Q 2012	*change*	3Q 2011	3Q 2012	*change*
Production volume (ths. t)	344	**353**	*3%*	127	**130**	*2%*
Sales volume (ths. t)	343	**352**	*3%*	124	**129**	*4%*
Sales revenue (PLN m)	776	**925**	*19%*	302	**332**	*10%*
Oil unit price (PLN/t)	2 261	**2 627**	*16%*	2 431	**2 567**	*6%*
Average price of Brent Dated oil for the period (USD/bbl)	112	**112**	*0%*	113	**110**	*(3%)*

Oil sales volume and revenues*



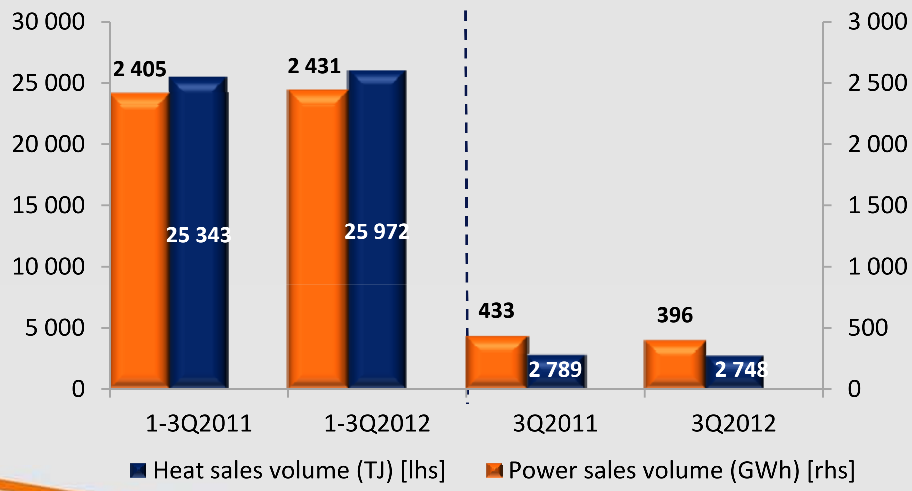
- In May and June 2011, production of crude oil at the Dębno facility was reduced due to the limited ability to receive gas by one of CHPs. In the corresponding months of 2012, production proceeded as planned, hence the positive year-on-year change in the output.
- On a cumulative basis, the increase in revenue from sales of crude oil was primarily attributable to the higher USD/PLN exchange rate, which **pushed the PLN price of crude up by 16%**. Compared with 2011, the average price of crude in dollar terms remained level over the first nine months of 2012, while in Q3 alone it fell 3%.
- Crude oil production from in 2012 is forecast to reach **480 thousand tonnes**, and in 2013 – taking into account the Skarv project – **750 thousand tonnes**.

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

Heat and power – PGNiG Termika

	1-3Q 2011 VHP	1-3Q 2012 PGNiG Termika	*change*	3Q 2011 VHP	3Q 2012 PGNiG Termika	*change*
Heat sales volume (TJ)	25 343	**25 972**	*2%*	2 789	**2 748**	*(1%)*
Heat sales revenue (PLN m)	588	**636**	*8%*	101	**109**	*8%*
Power sales volume (GWh)	2 405	**2 431**	*1%*	433	**396**	*(9%)*
Power sales revenue* (PLN m)	688	**673**	*(2%)*	112	**105**	*(6%)*
Including certificates of origin for electricity	194	**151**	*(22%)*	5	**19**	*280%*

Heat and electricity sales volumes



- The third quarter is generally the low season for PGNiG Termika. Moreover, in September the Żerań CHP plant was shut down for 18 days due to a fire. The cost of repairing the fire damage was estimated at approximately PLN 12m.
- Revenue from sales of heat rose on a year-to-date basis following the **tariff increase** in July 2011 and **larger volumes of heat sales in Q1 2012**, driven by low temperatures and higher availability of the Siekierki CHP plant compared with Q1 2011.
- On a cumulative basis, revenue on electricity sales was stable, with a drop in revenue from sale of certificates of origin. The marked decline in electricity sales volume in Q3 was attributable to the temporary shut-down of the Żerań CHP plant.

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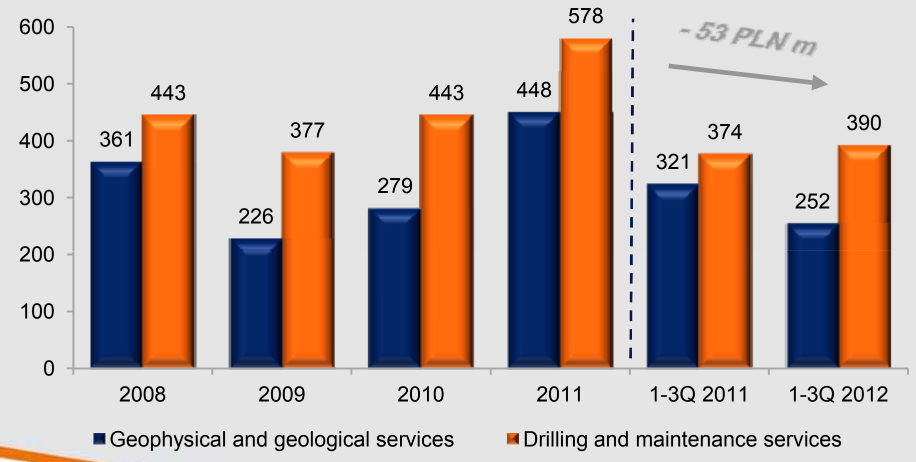
* Including certificates of origin for electricity

Other sales

Sales revenue PGNiG Group (PLN m)	1-3Q 2011	1-3Q 2012	change	3Q 2011	3Q 2012	change
Helium	42	108	*157%*	16	42	*165%*
Porpane-butane gas (LPG)	40	47	*16%*	16	16	*0%*
LNG	25	38	*53%*	10	14	*46%*
Exploration services, herein:	695	642	*(8%)*	242	220	*(9%)*
Geophysical and geological services	321	252	*(21%)*	112	90	*(20%)*
Drilling and maintenance services	374	390	*4%*	130	130	*0%*

Revenues from exploration services (PLNm)



- The lower revenue from geophysical and geological service is a consequence of **limited demand for the services in Poland**. Sale of drilling and maintenance services was at a stable level. Year or year, revenue from exploration services fell by PLN 53m, or 8%.
- **Sales of helium rose year on year by 157%**, chiefly on the back of higher helium prices and more efficient sales policy.
- LNG production and sales volumes saw a strong rise: respectively **by 46% in Q3 alone and 53% (YTD)**.

Operating expenses

PGNiG Group (PLN m)	1-3Q 2011	1-3Q 2012	change	3Q 2011	3Q 2012	change
Total operating expenses	**14 625**	**20 141**	***49%***	**4 175**	**5 324**	**28%**
Cost of gas sold	8 909	12 760	*43%*	2 347	3 073	31%
Other raw materials and consumables used	501	561	*12%*	173	179	4%
Fuel for heat and power generation	-	662	-	-	99	-
Employee benefits	2 002	2 018	*1%*	622	652	5%
Depreciation and amortisation	777	1 507	*29%*	393	503	28%
OGP GAZ-SYSTEM transmission services	1 094	1 075	*(2%)*	330	323	(2%)
Cost of written-off dry wells	176	62	*(65%)*	37	1	(97%)
Other contracted services	1 044	1 056	*1%*	380	382	0%
Other operating expenses net	447	1 001	*124%*	129	311	141%
Cost of products and services for own needs	(717)	(561)	*(22%)*	(235)	(198)	(16%)

- The largest item of operating expenses was the cost of gas sold. In the first nine months of 2012, the **cost rose by PLN 3.8bn, or 43%.**
- The Company managed to partly contain the growth by increasing the **volumes of gas sourced from countries west and south of Poland by 700m m^3**.
- Costs of employee benefits in Q1-Q3 2012 grew slower than inflation despite the consolidation of PGNiG Termika in 2012 (PLN 99.5m).
- Net other operating expenses grew over the first three quarters as a result of foreign exchange losses (change from +PLN 191m to -PLN 182m) and an increase in taxes and charges, the largest item of the expenses, particularly licence fees and royalties (by PLN 100m, to - PLN 511m). This item also includes an impairment loss on gas inventories **(an increase of PLN 60m in Q3 2012, from PLN 125m).**
- Expenses in the first nine months of 2012 reflect the consolidation of **PGNiG Termika**, with the strongest growth seen in fuels for the production of heat and electricity, as well as depreciation / amortisation.

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Summary

NEGATIVE MARGIN ON GAS SALES FOR THE SIXTH CONSECUTIVE QUARTER

Higher crude prices and appreciation of the US dollar against the złoty observed since mid 2011 **inflated the cost of gas by 43%.** The increase of the gas fuel tariff by 17% on average since March 31st 2012 has not been sufficient to cover the cost of gas purchases in Q2 and Q3 2012. This resulted in **a negative margin of -9%** on high-methane gas sales in Q3 2012 (-11% YTD) and a **PLN 60m increase in impairment losses** on high methane gas inventories in Q3 2012. The cumulative loss reported by the Trade and Storage segment for the last six quarters has reached **PLN 2.2bn**.

ANNEX TO THE YAMAL CONTRACT

On November 5th 2012, an annex to the Yamal contract with Gazprom was executed, changing the pricing terms of gas supplies to Poland. The changes will apply retroactively. Their effect on the PGNiG Group's operating result, including the impact on current year, is estimated at **2.5 to 3 billion zloty**, and will be recognised in **its entirety in Q4 2012**.

GOOD PERFORMANCE OF THE E&P SEGMENT

In Q1-Q3 2012, the Exploration and Production segment **generated an operating profit of PLN 1.2bn**, more than in the entire 2011, when the profit was PLN 1.1bn. This was possible thanks to increased revenue from crude oil sales, on the back of higher prices of crude oil, and to lower operating expenses, which were attributable to such factors as a smaller number of dry wells.

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Thank you for your attention