PGNiG



# Polish Oil and Gas Company

## Company Presentation

August, 2013

# Agenda

# PGNiG Group
# &
# Polish Gas Market

# PGNiG Capital Group

| Exploration and Production | Trade and Storage | Distribution | Heat and Power |
|---|---|---|---|
| **Leader gas and oil producer in Poland** | **Main gas importer to Poland and owner of gas storages** | **Robust domestic gas distribution business** | **Largest heat producer and seventh electricity producer in Poland** |
| ▪ Production volumes:<br>- natural gas: 4.3 bcm<br>- crude oil: 490 ths tonnes (3.6 mboe) | ▪ 11 bcm of imported natgas<br>▪ app. 2 bcm of storage capacity<br>▪ 6.7 m of end-customers | ▪ 120 ths km of distribution network;<br>▪ 9.9 bcm of distributed gas. | ▪ Heat volume 40.2 PJ<br>▪ Electricity volume 3.7 TWh |

| E&P | Heat & Power | Wholesale | Storage | Transmission | Distribution | Retail |
|---|---|---|---|---|---|---|
| **PGNiG<br>PGNiG Upstream International<br>POGC Libya<br>Exalo Drilling<br>PGNiG Technology** | **PGNiG Termika** | **PGNiG** | **Storage System Operator**<br><br>**Legal unbundling** | **OGP Gaz-System**<br><br>**100% State owned** | **One gas company in six regions**<br><br>**Legal unbundling** | **PGNiG (Poland)**<br><br>**PGNiG Sales & Trading (Germany)** |

Poland's no.1 integrated gas company

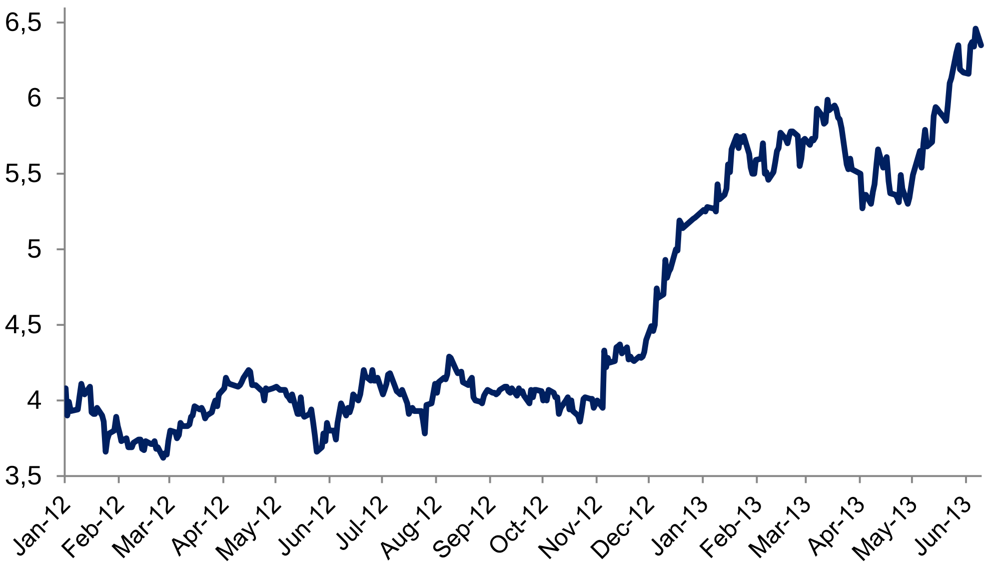
# PGNiG's Shareholders

Listed since Sep 2005

Market Capitalization of PLN 36 bn (USD 11.3 bn)*

Significant share in WIG 20 index ~5%

**Stock performance 2012 – 1H2013**



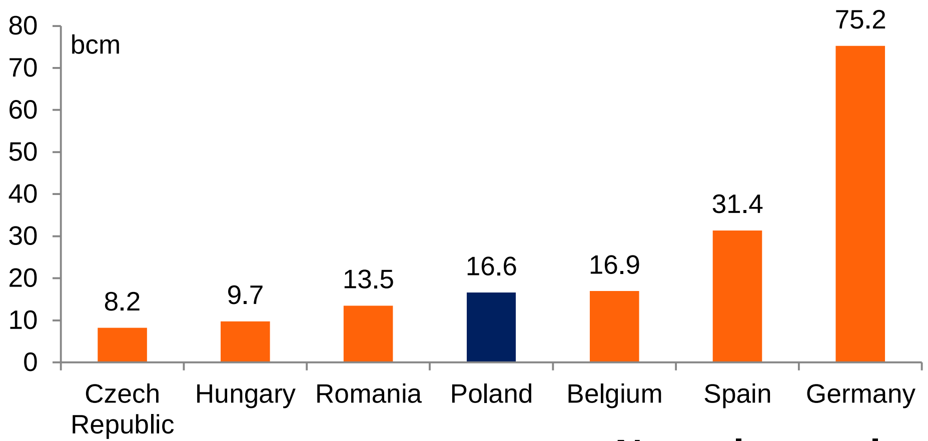

- **Shareholder Structure**
  - 72.4% – State Treasury
  - 27.6% – Free float
- Average daily turnover: **PLN 26 m** (USD 8 m)

The 3rd largest Polish company on the Warsaw Stock Exchange*

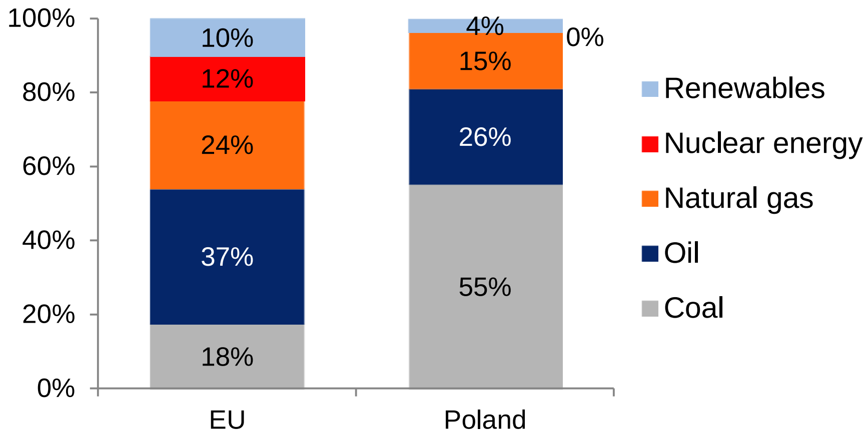
* In terms of market capitalization
** PGNiG = 6.09 PLN and USD/PLN = 3.17 as on June 17th, 2013

# Gas Market in Poland

## Natural gas consumption by country in 2012




## Primary energy consumption by fuel in 2012




## Natural gas sales by sector


Low consumption with the potential to grow



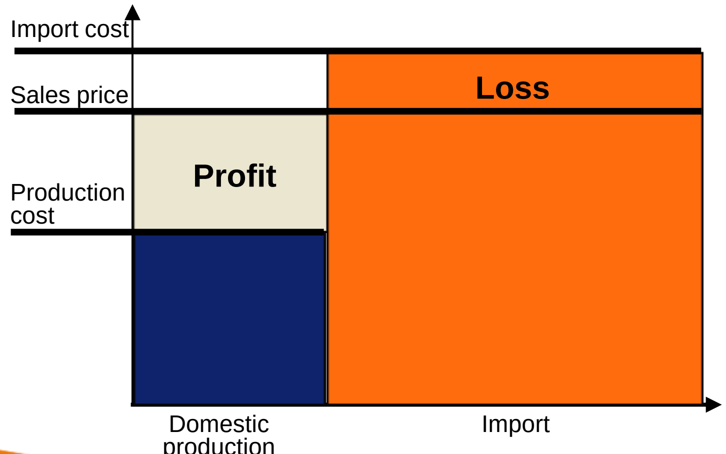
Source: BP Statistical Review 2012 and EuroGas Statistical Report 2012

# Tariff Model in Poland

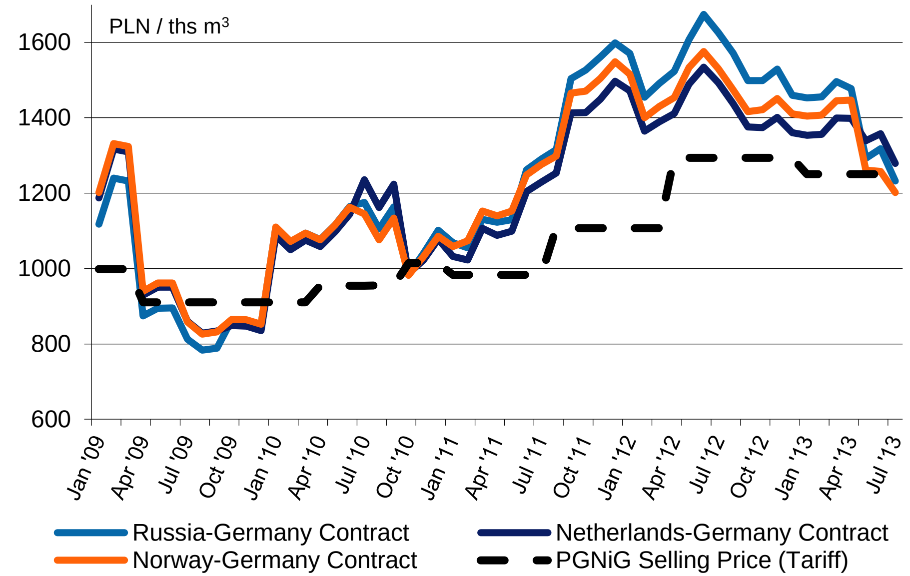
| Type of activity | Regulatory mechanism |
|---|---|
| Direct sales | None |
| Wholesale trade: high-methane gas | Cost of imports + cost of production (including return on capital invested in E&P) + operating costs + margin |
| Storage | Cost + return on capital (11% WACC x PLN 2.7 bn RAB**) |
| Distribution | Cost + return on capital (9.6% WACC x PLN 11 bn RAB) - cost gap |

**Gas tariff set on blended cost of gas:**

**Less costly domestic production supports imports**




**Monthly average gas prices in European import contracts and PGNiG tariff price in Jan 2009 – Jul 2013***




- PGNiG's wholesale tariffs are regulated by Energy Regulatory Office at the level of weighted average cost of gas import and cost of domestic production.
- According to Polish law the Company is allowed to apply for tariff revision whenever purchase price of gaseous fuel changes by 5% compared to price taken to calculate effective tariff.

* Source: European Gas Markets
** RAB = regulatory asset base

# PGNiG Segments

# E&P Summary

- PGNiG is a leader producer of gas and crude oil in Poland
- Strong resource potential in Poland
  - proved gas reserves 563 mboe (89 bcm)
  - proved oil reserves 154 mboe (21 m tonnes)
- RRR and R/P ratios – average for years 2008-2012:
  - RRR = 0.6
  - R/P = 25.3
- Oil & gas concessions: 86 exploration/appraisal and 225 for mining

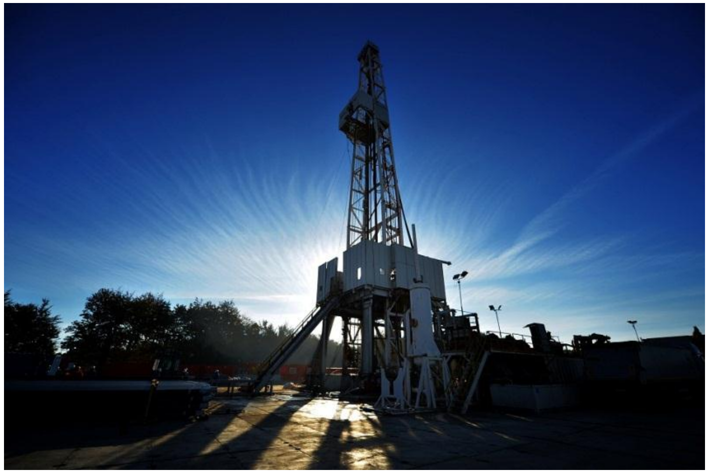
- Initial estimates put estimated shale gas resources at 1.5 – 5 trillion cm. Polish Geological Institute points to max. 1.9 trillion cm.
- PGNiG owns 15 standalone exploration licences with perspectives for shale gas, out of app. 100 granted in Poland
- At least 6 licences with perspectives for tight gas
- Acreage of shale gas concessions – 12 ths sq km
- 13 shale gas drillings to be spuded in 2013

**Natural gas production (bcm)**

| | | | |
|---|---|---|---|
| | 4.3 | 4.3 | 4.8 |
| Year | 2011 | 2012 | 2013 |

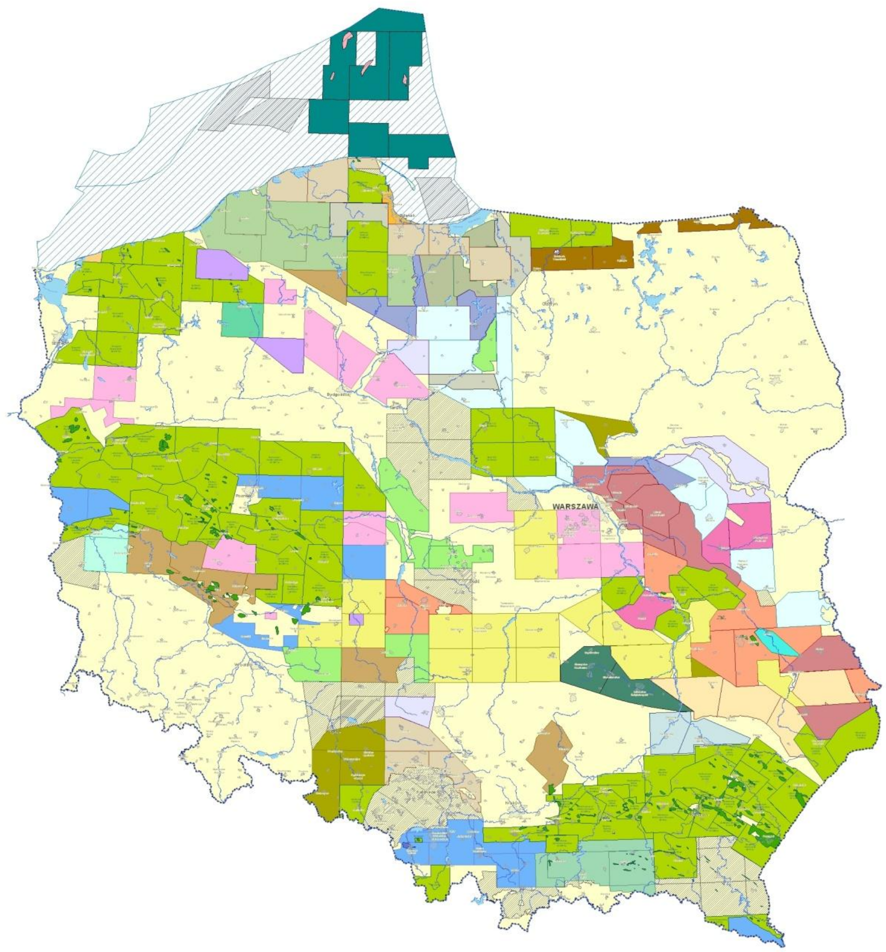
**Crude oil production (m tonnes)**

| | | | |
|---|---|---|---|
| | 0.5 | 0.5 | 1.1 |
| Year | 2011 | 2012 | 2013 |



PGNiG

# Exploration Concessions for Hydrocarbons in Poland




- PGNiG SA
- Aurelian Oil and Gas
- CalEnergy Resources Poland Sp. z o.o.
- Canadian Int Oil
- Celtique Energie Poland Sp. z o.o.
- Chevron Polska Energy Resources Sp. z o.o.
- Cuadrilla Polska Sp. z o.o.
- Milejów LLP Sp. z o.o.
- DPV Service Sp. z o.o.
- ExxonMobil Exploration and Production Poland Sp. z o.o.
- Eco Energy Sp. z o.o.
- Eni Polska Sp. z o.o.
- FX Energy Poland Sp. z o.o.
- GAS PLUS Int'l Sp. z o.o.
- Lane Energy Poland Sp. z o.o.
- Liesa En., Vabush En., San Leon Gora Energy Res. (San Leon Ene
- LOTOS Petrobaltic SA
- Mac Oil Sp. z o.o.
- Marathon Oil Poland Sp. z o.o.
- Maryani Inv., Joyce Inv., Helland Inv. (Realm Energy)
- Orlen Upstream Sp. z o.o.
- PL Energia SA
- RWE Dea AG SA
- Saponis, Indiana Inv. (BNK Petrol
- Sierra Bravo Sp. z o.o.
- Silurian Sp. z o.o.
- Strzelecki Energia Sp. z o.o.
- Talisman Energy
- Wisent Oil & Gas

# Unconventional Gas in Poland

## Status

- 7 wells drilled (6 vertical, 1 horizontal) so far
- Plan 2013: 13 wells to be spuded (2 already drilled)

## Tax Law Draft

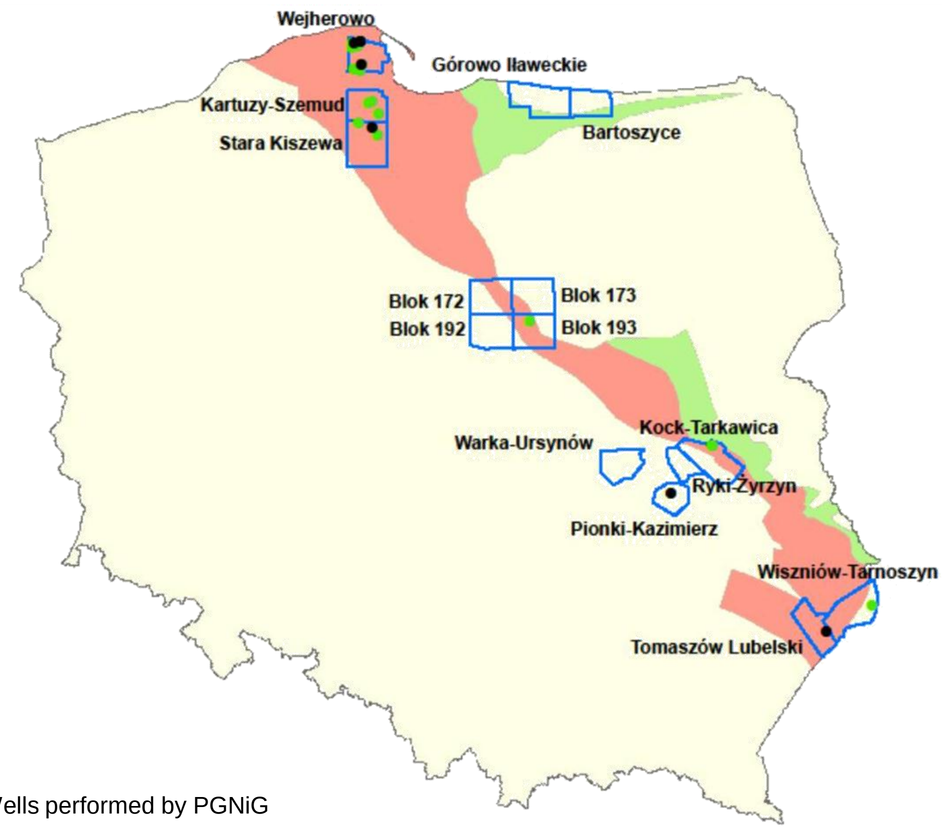
- Government take ~40% according to MinFin, suspended until 2020
- Taxation system will comprise several elements: extraction fees, tax on extraction of certain minerals, a special hydrocarbons tax, a corporate income tax and real estate tax.

## Opportunities

- Potentially high natural gas resources;
- PGNiG could become independent from external gas supplies;
- Development of the PGNiG Group, incl. drilling companies

## Risks

- Different geological setup than in the US (incl. reservoir depth)
- Unrecognized geology;
- Urbanization of the area;
- Restrictive regulations on environmental protection, a large number of environmentally protected areas and objects.




- ● Wells performed by PGNiG
- ● Works planned by PGNiG in 2013-2014
- PGNiG's shale gas concessions
- Areas at prospectivity for shale gas within the Lower Paleosoic shale formations
- Areas at prospectivity for shale oil within the Lower Paleosoic shale formations

# Latest important projects: Skarv and LMG

## Skarv project (Norway)

| | |
|---|---|
| Cost of the licences | USD 360 m |
| CAPEX (PGNiG only) | ~USD 800 m |
| Reserves of the licence (2P) | 69 mboe |
| Water depth | 350-450 meter |
| Start of production | Dec 2012 |
| Production planned | until 2029 |

## Production forecast

- Estimated annual production for PGNiG in 2013 will reach:
  - 0.3 bcm (2.1 mboe) of natural gas;
  - 0.4 m tonnes (2.5 mboe) of crude oil and NGL.

## PGNiG's Share in Skarv field: 11,92%

Partners:

| | |
|---|---|
| BP Norge A/S (operator) | 23,8% |
| E.ON Ruhrgas Norge A/S | 28,1% |
| Statoil Petroleum A/S | 36,2% |

## LMG project (Western Poland):

| | |
|---|---|
| CAPEX | PLN 2 bn |
| Reserves of the licence | 52 mboe (7.3 m tonnes) of crude oil<br>46 mboe (7.3 bcm) of gas |
| Start of production | Mar 2013 |
| Production planned | until 2040 |

## Production forecast

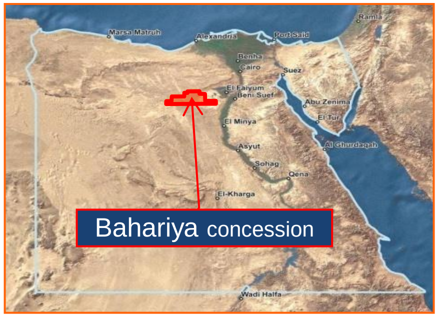
- In first 3-4 years, annually:
  - 0.3 m tonnes (2.1 mboe) of crude oil
  - 0.1 bcm (0.6 mboe) of natgas

## LMG project details

- 100% PGNiG owned;
- 14 production wells, incl. 10 for crude oil

# International E&P

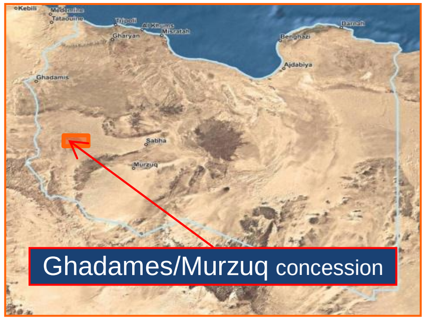
## Egypt




| | |
|---|---|
| agreement | May 2009 |
| shares | PGNiG SA 100% |
| area | 4,414 $km^2$ |
| location | Western Desert oil province |
| obligations | 1,350 $km^2$ of 2D seismic studies, 2 wells |
| estimated reserves | 22 m tonnes of crude oil |

First two drillings accomplished in H1 2013; under analysis

## Libya




| | |
|---|---|
| agreement | Feb 2008 |
| shares | PGNiG SA - 100% |
| area | 5,494 $km^2$ |
| location | Awbari province, Murzuq Basin |
| obligations | 3,000 $km^2$ of 2D, 1,500 $km^2$ of 3D, 8 wells |
| estimated reserves | 146 bcm of nat gas; 15 m tonnes of condensate |

First drilling performed

## Pakistan


| | |
|---|---|
| agreement | May 2005 |
| shares | PGNiG SA 70%<br>Pakistan Petroleum 30% |
| area | 956 $km^2$ |
| location | Province Sindh, Folded belt Kirthar |
| obligations | 1 well, 100 km 2D (fulfilled) |
| estimated reserves | app. 11.6 bcm of nat gas |

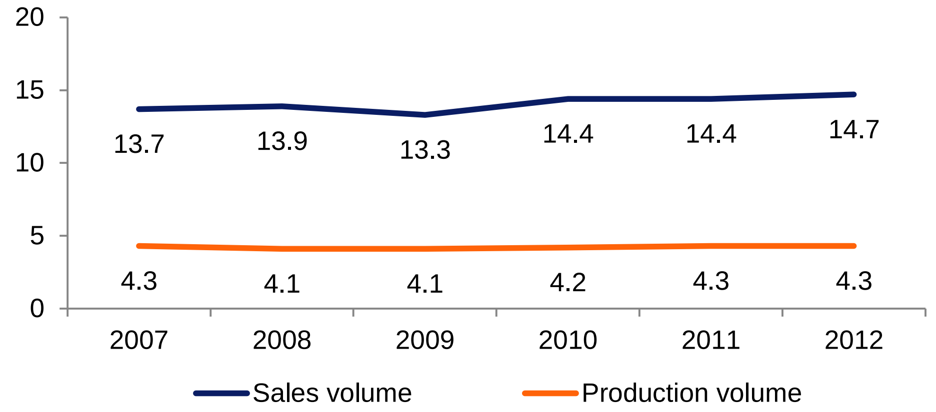
Test production started in June 2013

Assets under evaluation due to geopolitical constrains

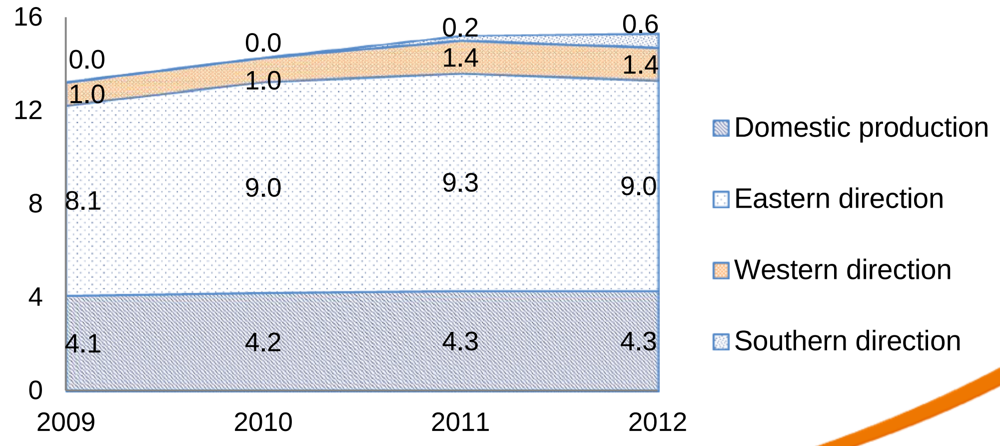
# Trade and Storage

- Trade and Storage segment comprises:
  - sales of natural gas both imported and domestic to retail and wholesale markets
  - storage of gas.
- Market growth: CAGR +4% in 2007-2012
- App. 30% of Polish demand is met by domestic production – the rest is covered by imports.
- Contract for natural gas deliveries with Gazprom („Yamal contract"):
  - Until 2022
  - 10 bcm annually
  - 85% Take-or-Pay
  - Change in price formula in 4Q2012 from 100% oil link to oil/spot mix.
- For launch of the LNG terminal in 2H2014 PGNiG secured 1.3 bcm of natural gas annually from Qatargas until 2034
- Additional 300 million cm were sold in 2012 by PGNiG Sales & Trading to customers outside of Poland

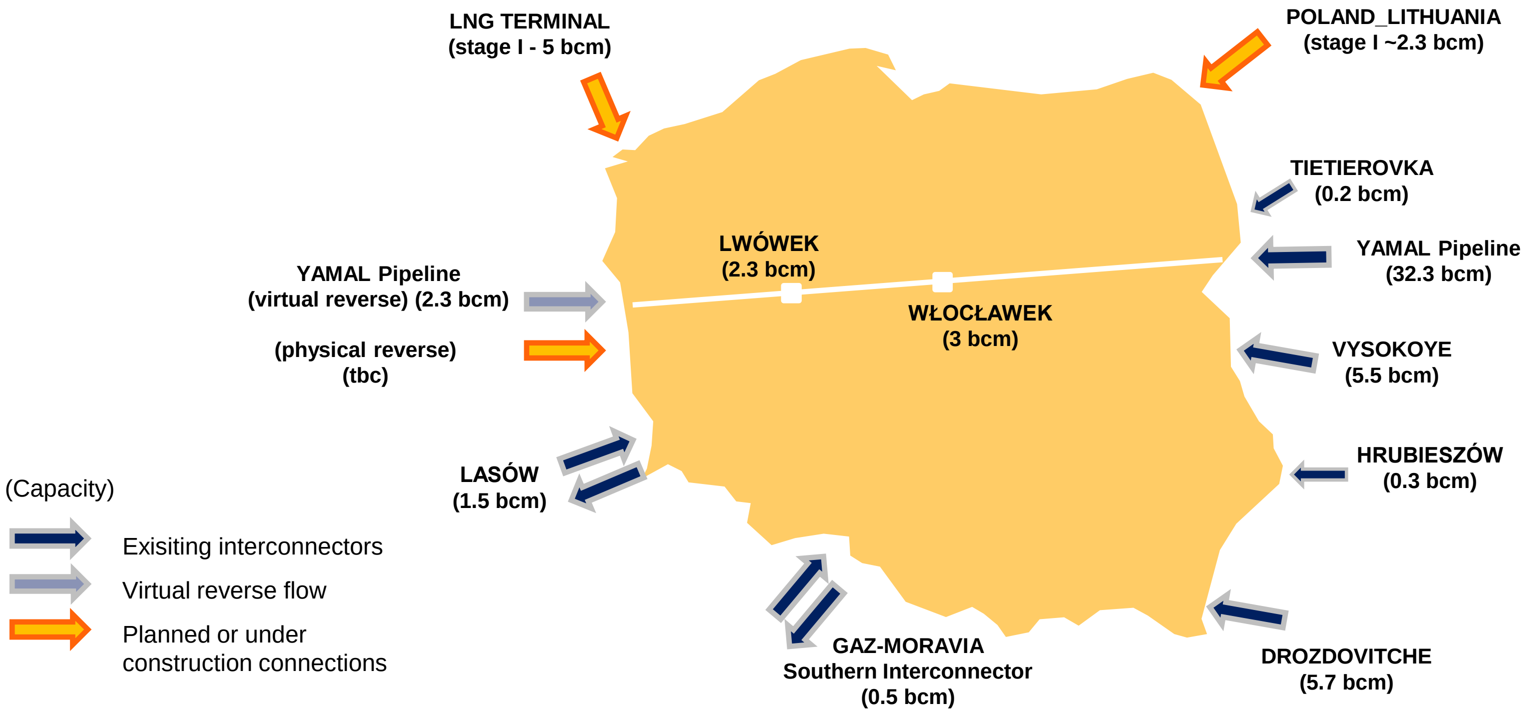
**Natural gas – sales volume in Poland (bcm)**




**Sources of gas supply (bcm)**



# Gas Transport Routes




## Assumptions for diversification:

- To increase the level of security of supplies
- To avoid gas disruptions in gas supplies
- To decrease the dependency on one supply direction (59% from eastern direction in 2012)
- To enable higher import gas volumes (current entry points are overbooked and market is growing)
- To balance the sources of gas supply.

# Development of Underground Gas Storage Facilities

## 2011-2012

- Extension of UGS Strachocina (from 150 to 330 mcm) – accomplished.


## 2013-2014

- I phase of extension of UGS Wierzchowice (from 0.58 to 1.2 bcm).
- I and II phase of construction of CUGS Kosakowo (50 - 100 mcm);
- I phase of extension of CUGS Mogilno (from 378 to 535 mcm);
- Extension of UGS Husów (from 350 to 500 mcm).

## 2020

- II phase of extension of UGS Wierzchowice (from 1.2 to 2 bcm);
- III phase of extension of CUGS Kosakowo (from 100 to 250 mcm) (scheduled completion of the project: 2021);
- II phase of extension of CUGS Mogilno (from 535 to 800 mcm) (scheduled completion of the project: 2023);
- Extension of UGS Brzeźnica (from 65 to 100 mcm).

## Strategic gas reserves

- from 1st Oct. 2010 until 30th Sep. 2012: **20 days** of daily average import (approx. 530 mcm);
- from 1st Oct. 2012 onward: **30 days** of daily average import.

## Basic data

| | |
|---|---|
| No. of storage facilities in 2015 | 9 |
| Current working capacity | ca. 2 bcm |
| 2015 target working capacity | ca. 3 bcm |
| Current storage capacity meets domestic demand for* | 50 days |

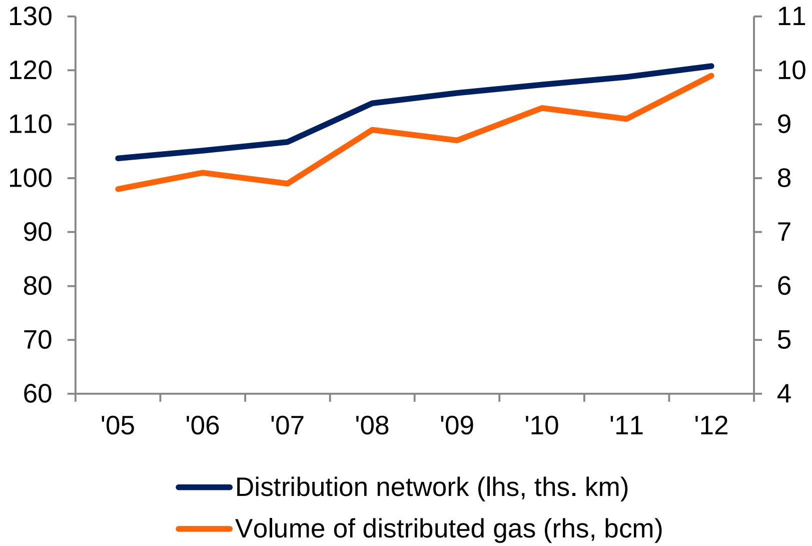


* Based on natural gas demand level in Poland in 2011 (14.7 bcm).

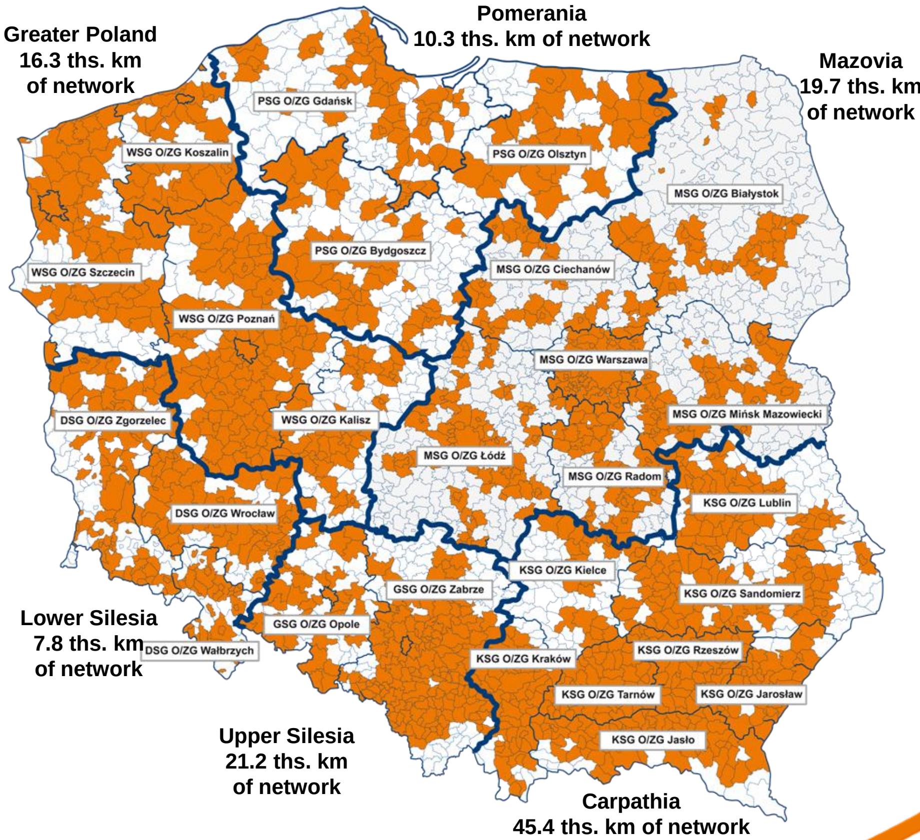
# Distribution

- Gas Distibution Company supplies natural gas to households, industrial and wholesale customers, and is responsible for operation, maintenance and development of gas pipelines.
- In 2012 six Regional Gas Companies distributed 9.9 bcm of natural gas to 6.7 m customers through 120 ths km of distribution network.
- Mid 2013 six Regional Gas Companies were consolidated into one.

## Stable network's growth and increase of distributed volumes (+3.5% CAGR 2005-2012)




## Downstream activities – Regions



# Heat and Power Generation

## PGNiG Termika (2012)

- January 11th 2012 – acquisition of 99.8% stake of Vattenfall Heat Poland S.A. from Vattenfall AB for PLN 3 bn in cash (PLN 3.5 bn EV)
- The biggest heat producer and 7th biggest in power generation in Poland.
- Over 23% of the total heat capacities installed in Poland and covering approx. 75% of the total heat demand in Warsaw as well as 98% of the heat delivered to the network of SPEC.
- Heat tariffs benchmarking scheme creates significant upside for profitability. Currently PGNiG Termika sells heat at lowest prices in Poland.
- 400 $MW_e$ gas-fired block is planned in Warsaw at Zeran plant of PGNiG Termika (2018).

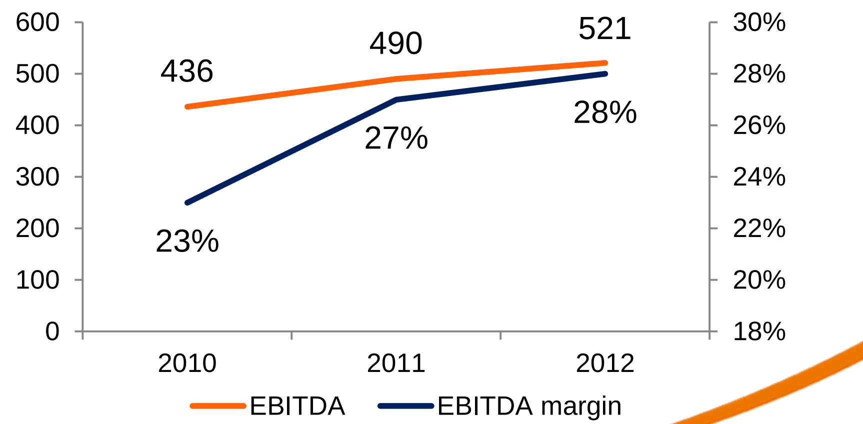
## CHP Stalowa Wola (2015)

- 50/50 JV PGNiG & Tauron Polska Energia
  - Total capex PLN 1.6 bn (incl. 50% PGNiG)
  - PGNiG to supply 0.5 bcm of gas for 14 years
  - Agreement for Sale of Electricity, signed for 14 years (estimated value PLN 6.8 bn)
- Total power output: 400 $MW_e$ and 240 $MW_t$ (50% for PGNiG Group).

## PGNiG Termika's operating data

| | |
|---|---|
| Installed heat power | 4 782 MWt |
| Installed electric power | 1 015 MWe |
| Heat sales in 2012 | 40.2 PJ |
| Electricity sales in 2012 | 3.7 TWh |

## Growing EBITDA and margin of PGNiG Termika*






* 2010-2011 according to Polish accounting standards; 2012 data before intercompany eliminations.

Strategy,

Capex,

Debt

# Objectives of the strategy

## 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.

## 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.

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

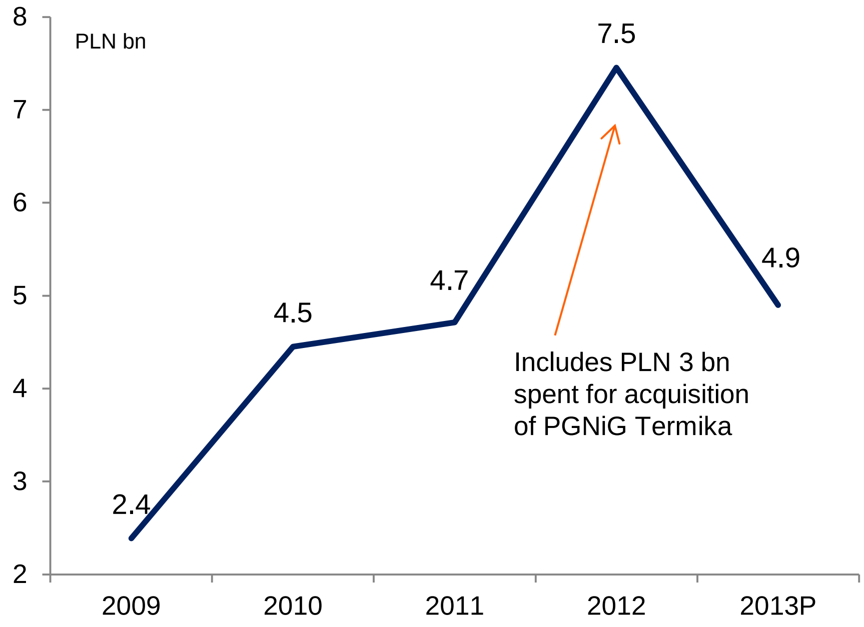
- Currently, the PGNiG Group enjoys the leading position on the natural gas market in Poland. However, in view of the planned deregulation, competition is likely to emerge on the market in the near future, posing a threat to the Group's position.
- It is PGNiG's intention to take steps designed to adapt 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).

## Restructuring the business model of the PGNiG Group

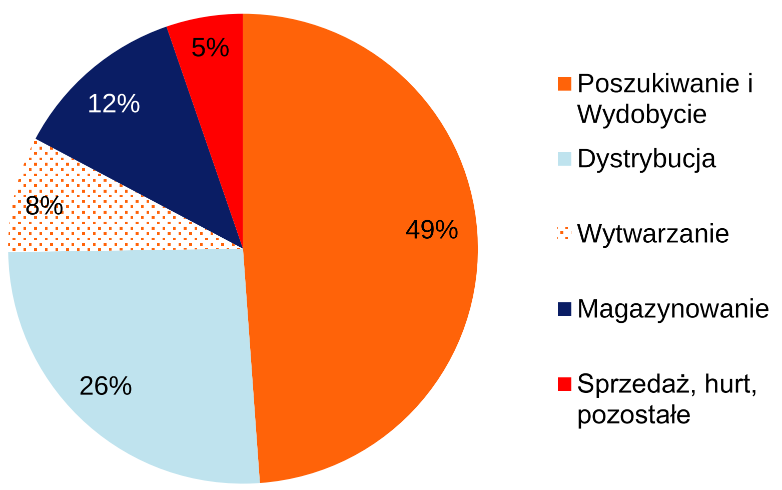
- The PGNiG Group's current business model is not optimised, which prevents the Group from unlocking its full value growth potential.
- The extensive organisational structure, decentralised model of support functions and the high headcount adversely affect the Group's process and cost efficiency.
- Implementation 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.

# Total capital expenditure in 2009-2013

## Annual CAPEX 2009 – 2013 (plan)



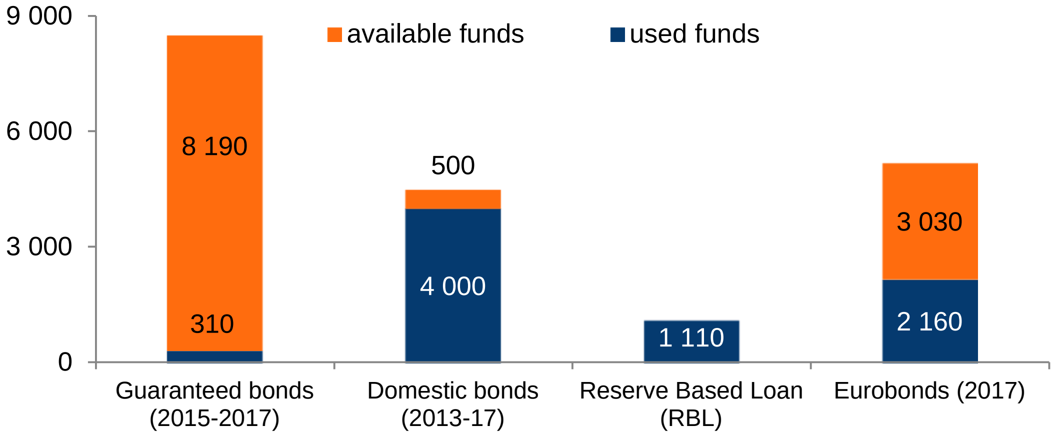

## CAPEX split for 2013 - ∑ PLN ~ 4.9 bn




App. CAPEX planned for the years 2011-2015 ~ PLN 27 bn

# Indebtedness

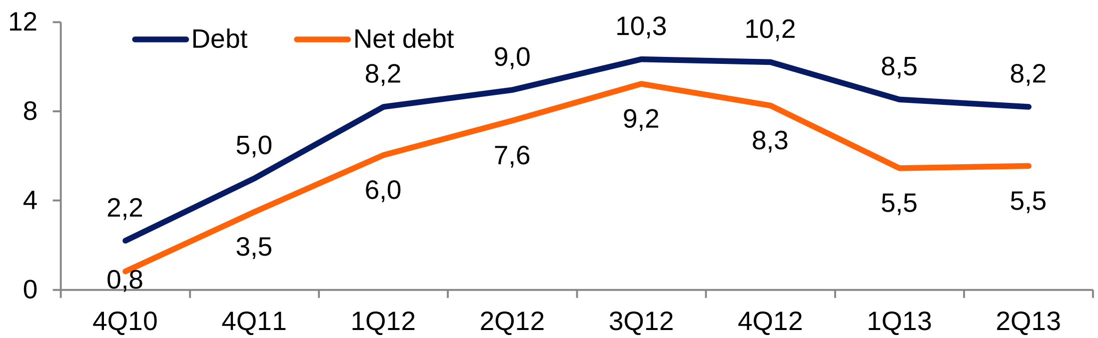
## Financing sources as at June 30th 2013 (m PLN)



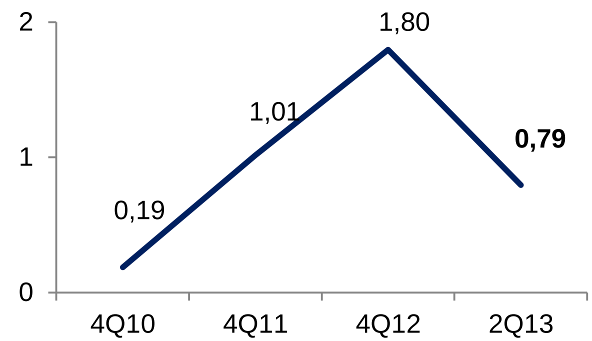

- Safe level of debt
- Optimisation of financing sources
- Available financing programmes for PLN 11.7bn, including guaranteed PLN 8.2bn

- Net debt/EBITDA < 1

## Debt (billion PLN)




## Net debt / EBITDA




**Stable financial position as springboard for further investments**

# Additional Information

- **PGNiG SA (Polish Oil & Gas Company)**

  M. Kasprzaka 25 St.
  01-224 Warsaw, Poland
  www.pgnig.pl

- **Investor Relations**

  www.ri.pgnig.pl


Aleksandra Dobosiewicz
Financial Analyst
Desk: +48 22 589 46 71
Mobile: +48 665 004 847
Fax: +48 22 589 46 02
E-mail: aleksandra.dobosiewicz@pgnig.pl

Adam Kucza
Financial Analyst
Desk: +48 22 691 82 56
Mobile: +48 723 981 353
Fax: +48 22 589 46 02
E-mail: adam.kucza@pgnig.pl


- **Disclaimer**

All opinions, assessments and forecasts contained in this presentation (Presentation) are prepared by Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG) on the basis of publicly available information. The information contained in the Presentation may be changed without prior notice, may be incomplete or shortened and may not contain all relevant information regarding the proposed transaction. The information contained in this Presentation shall not constitute an investment offer, an investment recommendation or an offer to provide any service. The Presentation includes also information and statements that are related to the future and not past events. Any such forward looking statements are based on assumptions and expectations of PGNiG, but due to their future and uncertain character they bear the risk that the actual future facts or events may differ significantly from such forward looking statements included in the Presentation. The Presentation should not be relied upon when making any decisions or taking any actions. For more information concerning PGNiG please refer to its current and periodic reports. PGNiG shall not be liable for the accuracy, completeness or the use of the information provided in the Presentation and does not undertake to update it. The information contained in this Presentation does not constitute legal advice or other professional advice.

# Appendix
# – Financial Results
# of 1H2013

# Key achievements of 1H2013

## Exploration and Production

- Production in Norway: 80,000 tonnes of crude oil (584,000 boe) of which 55,000 tonnes produced in 2Q13 alone
- Full-scale production from the LMG field: 150,000 tonnes (1.1 million boe) of which 81,000 tonnes produced in 2Q13 alone
- Plans for 2013: spudding 34 wells, including 13 shale gas exploration wells
- 1H13: 11 wells drilled, including 2 for shale gas (Wysin-1, Kochanowo-1)

## Trade and Storage

- Natural gas sales volume: +10% Y/Y
- Gas fuel tariff fails to cover the average cost of gas: margin on sales of high-methane gas (E) at -2% in 1H13 compared with -11% in 1H12
- First gas injected into the expanded Wierzchowice underground storage facility (target storage capacity: 1.2 bcm)

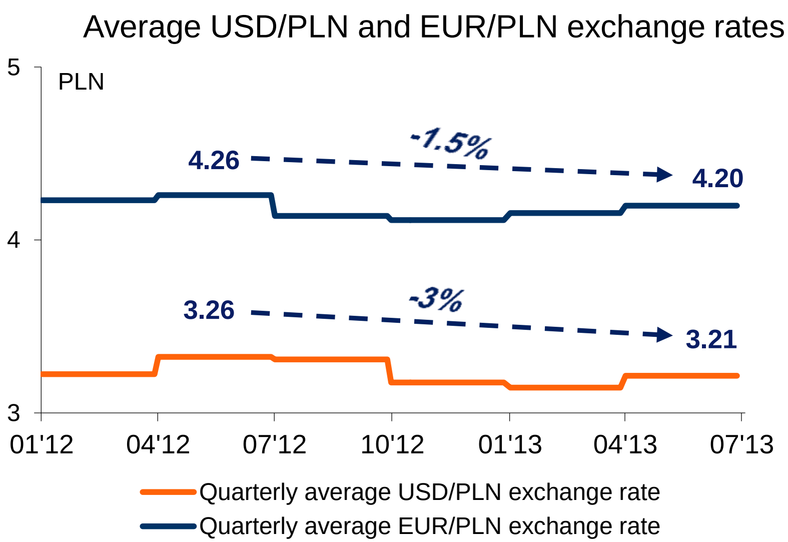
## Finance

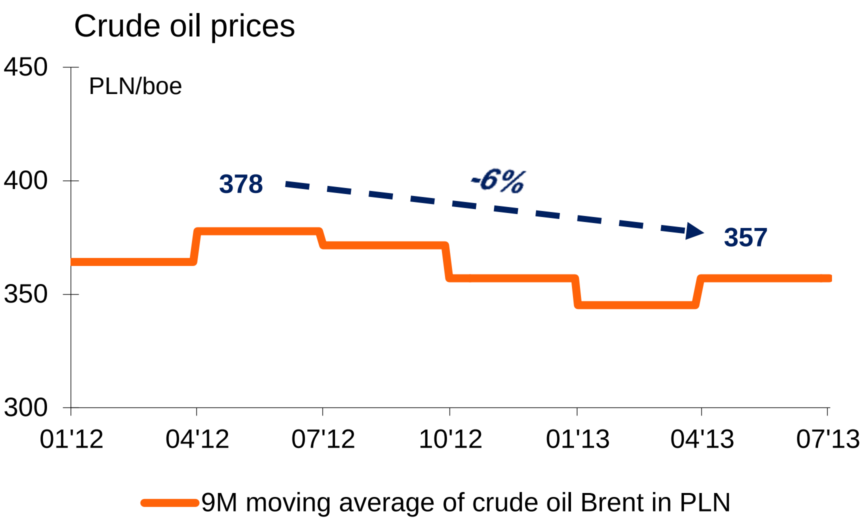
- Revenue: +14% Y/Y
- 3x EBITDA increase Y/Y
- Net debt/EBITDA < 1
- Dividend set at PLN 767m (dividend record date: July 20th 2013, dividend payment date: October 3rd 2013)

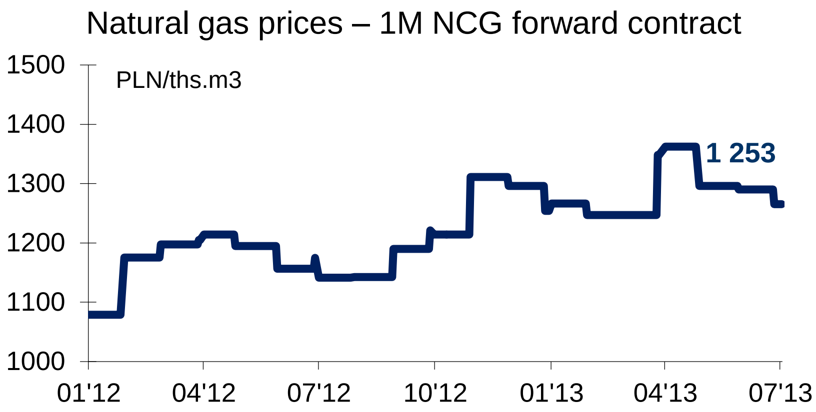
## Environment

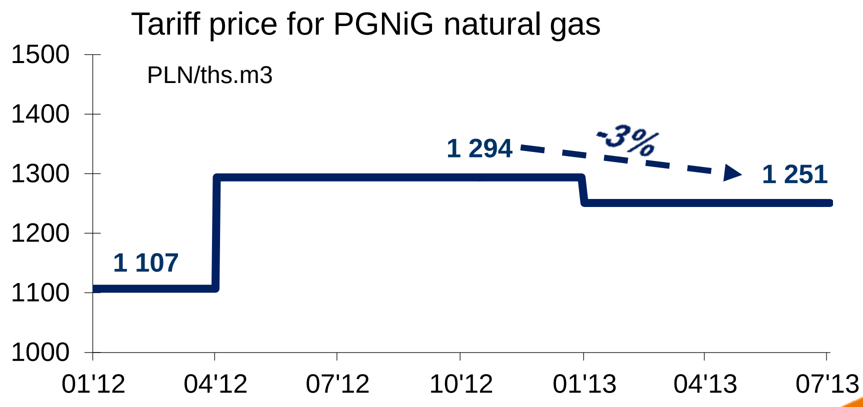
- Crude prices and exchange rates relatively stable
- Hydrocarbon tax: as of 2020
- Final form of the exchange trading obligation: 30% in 2013, 40% as of July 1st 2014, and up to 55% as of January 1st 2015

# Factors contributing to the financial result



# Key financial data

| (m PLN) | 1H2012 | 1H2013 | Δ% |
|---|---|---|---|
| Sales revenue | 14 764 | 16 790 | 14% |
| Operating expenses (without D&A) | (13 738) | (13 454) | (2%) |
| Ebitda | 1 026 | 3 336 | 225% |
| Depreciation and amortisation | (1 004) | (1 162) | 16% |
| Ebit | 22 | 2 174 | x100 |
| Financial result | (127) | (233) | 83% |
| Net profit | 45 | 1 428 | x31 |

- Crude oil sales volume up 102% year on year
- Gas sales volume up 10%

- Lower cost of gas due to renegotiation of the Yamal Contract
- Lower costs of raw materials and consumables, decrease in foreign exchange losses charged to costs, and lesser effect of derivative instruments

- Margin on Group E gas at -2%

- Effect of commercial launch of the Skarv and LMG projects: PLN -145m

- Y/Y increase in foreign exchange losses charged to costs, by PLN 159m

Marked improvement in performance, driven by a two-fold rise in crude sales

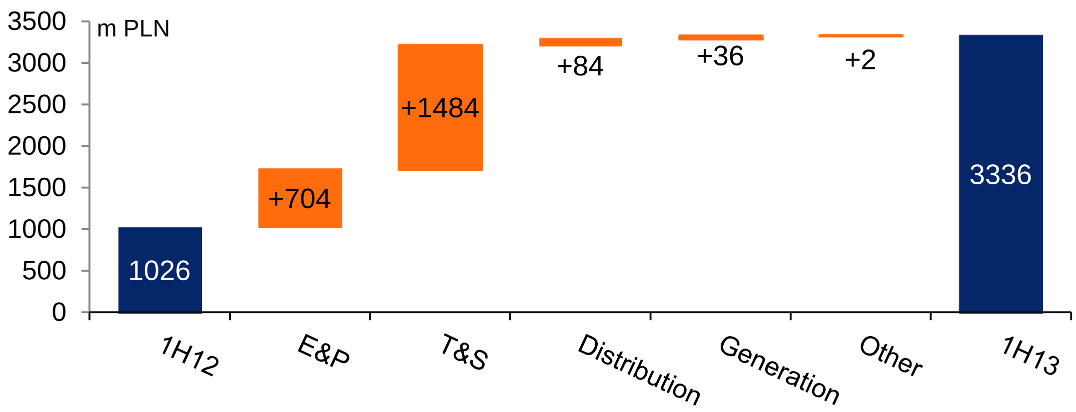
PGNiG

# Business segments – EBITDA in 1H2013

| (m PLN) | 1H2012 | 1H2013 | Δ% |
|---|---|---|---|
| Exploration and Production | 1 137 | 1 841 | 62% |
| Trade and Storage | (1 369) | 115 | 108% |
| Distribution | 974 | 1 058 | 9% |
| Heat and Power Generation | 283 | 319 | 13% |
| Other, eliminations | 1 | 3 | 200% |
| Total | 1 026 | 3 336 | 225% |

- Crude oil and condensate revenue up PLN 508m, with the rise driven by the LMG and Skarv projects
- Effect of renegotiation of the Yamal Contract
- Y/Y increase in the volume of distributed gas, up by 8% 1H13
- Heat tariff raised by over 10% as of July 1st 2012 (as of July 1st 2013: a 9% rise)

**Segments contribution to EBITDA 1H12 vs 1H13**




Commercial viability of the upstream projects confirmed

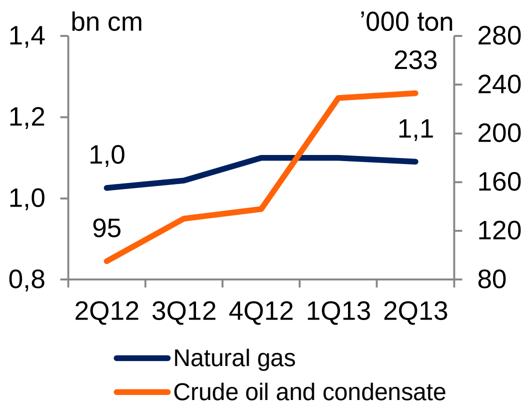
# Segments – Exploration and Production (1)

| (m PLN) | 1H2012 | 1H2013 | Δ% |
|---|---|---|---|
| Revenue | 2 047 | 2 762 | 35% |
| Operating expenses (without D&A) | (910) | (921) | 1% |
| EBITDA | 1 137 | 1 841 | 62% |
| Depreciation and amortisation | (295) | (466) | 58% |
| EBIT | 841 | 1 375 | 63% |

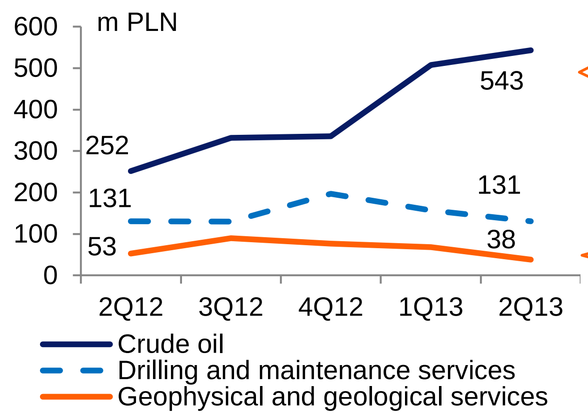
- Crude sales volume up +102% (+227,000 tonnes) year on year
- Crude price in Poland down 5%
- Sales of upstream exploration services down 6%
- Inter-segment sales of gas from the Skarv field to PGNiG Sales & Trading on the rise

- Effect of launch of the Skarv and LMG projects: PLN -145m (in 2Q13 alone -35m of LMG and -78m of Skarv)

**Production volume**




**Revenue**




- Step-up of crude production by 238,000 to 462,000 tonnes in 1H13
- Crude oil revenue up by PLN 508m in 1H13

- Natural gas production remains stable at 1.1 bcm

Oil production: +238,000 tonnes, sales: +227,000 tonnes

# Segments – Exploration and Production (2)

Overview:

- 79 licences for exploration and appraisal of conventional reserves only
- 15 licences for exploration and appraisal of conventional and unconventional reserves
- 225 licences for production from conventional reserves

Strategic goals 2015:

- RR ratio maintained at 1.1
- Increase the production capacities based on unconventional hydrocarbon reserves
- Build competencies in the area of production of unconventional hydrocarbons
- Consolidate and optimise foreign operations

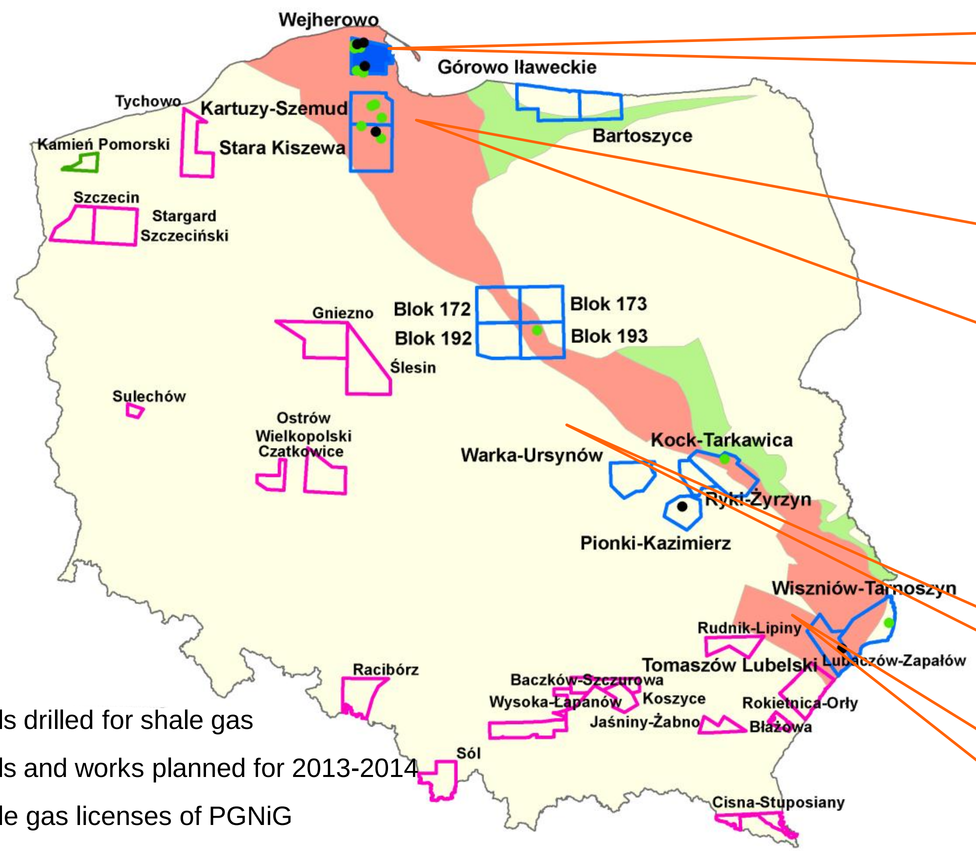
Conventional projects

- Data room for 19 licences created: nearly 20 companies interested
- 9 wells drilled in 1H13, including 2 in Egypt
- Production testing in the Rehman field in Pakistan (up to 100 mcm in 2 years)
- Norway – four exploration licences awarded (adding up to a total of 14 licences)

Unconventional projects

- Plan for 2013: to start drilling 13 wells
- 7 wells drilled to date since the launch of the shale gas exploration programme, including:
  - 6 wells currently subject to analyses and testing (Kochanowo-1, Wysin-1, Opalino-2, Lubocino-2H, Lubocino-1, Lubycza Królewska-1)
  - one dry well (Markowola-1)

# Segments – Exploration and Production (3) – shale gas




- Wells drilled for shale gas
- Wells and works planned for 2013-2014
- Shale gas licenses of PGNiG
- Wejherowo license of PGNiG – including KCT project
- 19 conventional licenses planned for joint operations with partners
- Kamień Pomorski license – letter of intent with Lotos Petrobaltic

- KCT project: negotations concerning a part of the Wejherowo licence currently held with project partners

- 1H13: Wysin-1 (depth: 3,990 metres) and Kochanowo-1 (3,250 metres) vertical wells drilled
- Horizontal hydraulic fracturing on the Lubocino-2H well, with flow tests in progress
- Seismic surveys performed near Opalino; well testing on Opalino-2
- Drilling of Borcz-1 in progress
- Preparations and tender procedures launched at three new wells

- Central Poland: seismic acquisition in progress

- Lublin basin: log data from the Lubycza Królewska-1 well is being analysed; preparations for drillings Wojcieszków-1 and Kościaszyn-1

7 wells acomplished since 2010; 2013 plan - 13 wells

PGNiG

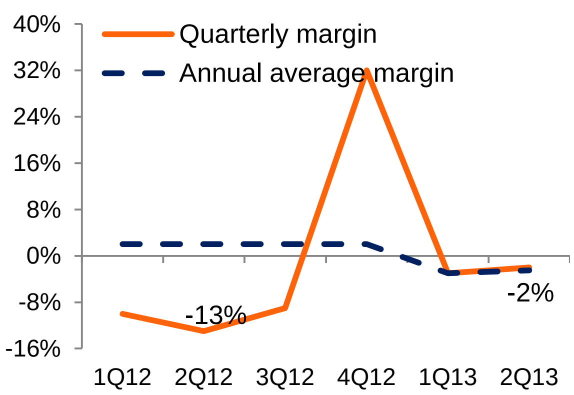
# Segments – Trade and Storage (1)

| (m PLN) | 1H2012 | 1H2013 | Δ% |
|---|---|---|---|
| Revenue | 12 299 | 13 826 | 12% |
| Operating expenses (without D&A) | (13 668) | (13 711) | 0% |
| EBITDA | (1 369) | 115 | 108% |
| Depreciation and amortisation | (66) | (87) | 32% |
| EBIT | (1 435) | 28 | 102% |

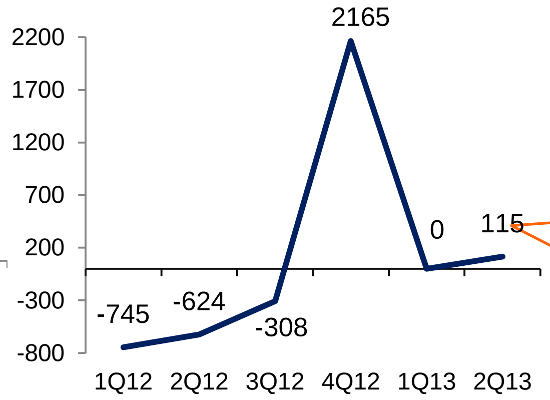
- Natural gas sales volume up 10% Y/Y, to 8.77 bcm
- PST's contribution: PLN 934m in gas sales revenue, compared with PLN 89m in 1H12
- Average tariff price still fails to cover the cost of gas
- Revenue from sales of electricity up PLN 307m

- Cost of gas sold -1% Y/Y
- Negative effect of foreign exchange differences and net loss on derivative instruments shrank by PLN 265m

**Margin on high-metane gas (E)**




**Quarterly EBITDA (m PLN)**

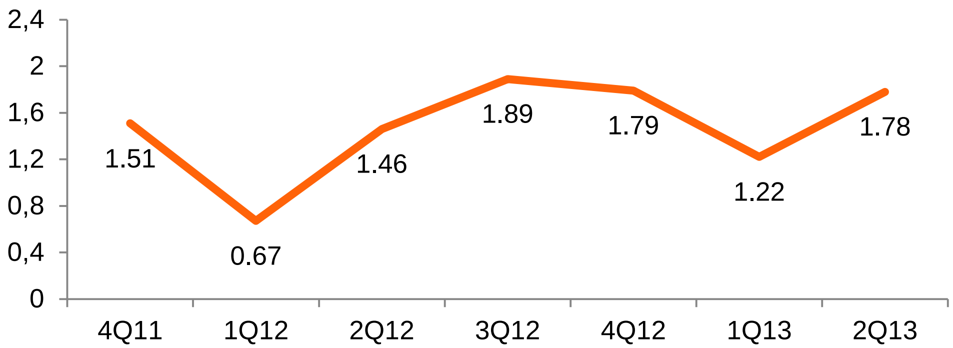



- Negative margin on sales of Group E gas narrowed to -2% in 1H13 from -11% in 1H12
- Segment's EBITDA at PLN 115m

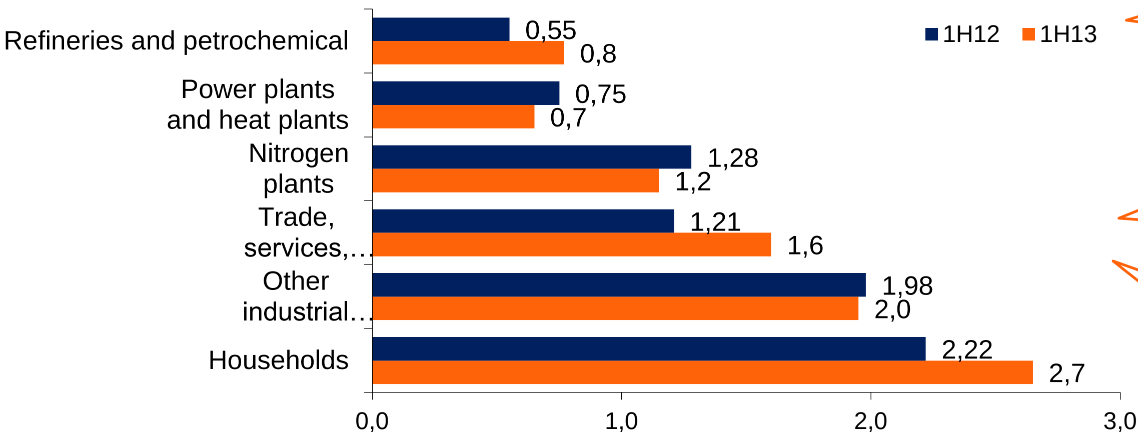
Growing gas sales volumes, with reduced negative margin

# Segments – Trade and Storage (2)

**Gas inventory levels at storage facilities (bcm)**




**Gas sales volumes by customer group (bcm)**




- Record-high gas storage inventory at the end of 1H13: 1.78 bcm
- Up to 2.4 bcm of storage capacity available in 2013 (including 1.2 bcm at the Wierzchowice UGS)

- Gas imports up year on year in Q1 (by 460 mcm) and down year on year in Q2 (by 280 mcm)
- Gas imports from east of Poland up by 490 mcm in 1H13

- Refineries and petrochemicals: effect of contract with Grupa LOTOS

- 721 mcm of gas sold by PST in Germany, including 400 mcm to the Trade and Services group

- Over 18 mcm of gas sold and delivered through gas exchange in Warsaw in 2Q13 (1H13: 25 mcm)

High storage inventories

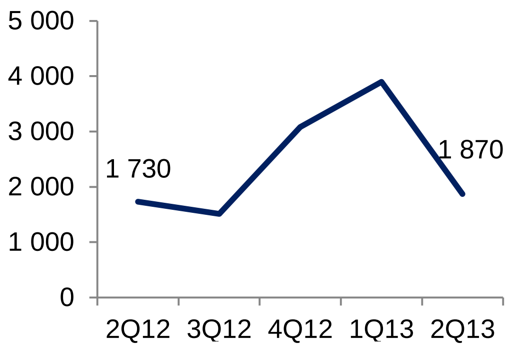
PGNiG

# Segments – Distribution

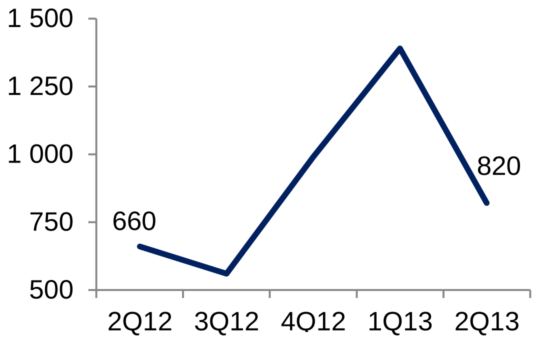
| (m PLN) | 1H2012 | 1H2013 | Δ% |
|---|---|---|---|
| Revenue | 1 929 | 2 306 | 20% |
| Operating expenses (without D&A) | (955) | (1 248) | 31% |
| EBITDA | 974 | 1 058 | 9% |
| Depreciation and amortisation | (405) | (422) | 4% |
| EBIT | 569 | 636 | 11% |

- Revenue increase following amendments to the Distribution and Transmission Grid Codes (IRiESD & IRiESP; neutral to operating profit/loss)
- Y/Y rise in the cost of transmission services by PLN 311m: corresponds to the increase in revenue

**Distribution volume (mcm)**




**Revenue from distribution services (m PLN)**




- Y/Y increase in revenue from distribution services, up by 24% in 2Q13 and by 19% in 1H13 to PLN 2.2 billion
- Y/Y increase in the volume of distributed gas, up by 8% in 2Q13 and by 8% overall in 1H13

Steady & consistent improvement in performance

# Segments – Generation

| (m PLN) | 1H2012 | 1H2013 | Δ% |
|---|---|---|---|
| Revenue | 1 114 | 1 128 | 1% |
| Operating expenses (without D&A) | (831) | (809) | -3% |
| EBITDA | 283 | 319 | 13% |
| Depreciation and amortisation | (230) | (176) | -23% |
| EBIT | 53 | 143 | 177% |

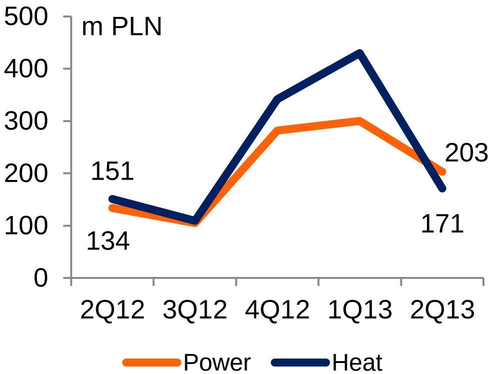
- A 10% rise in the heat tariff as of July 2012
- Increase in heat sales revenue, up by PLN 20m in 2Q13 and by PLN 74m in 1H13
- Fall in revenue from certificates of origin, down by PLN 106m

- Lower consumption of biomass and resultant drop in the cost of biomass (down PLN 35m)

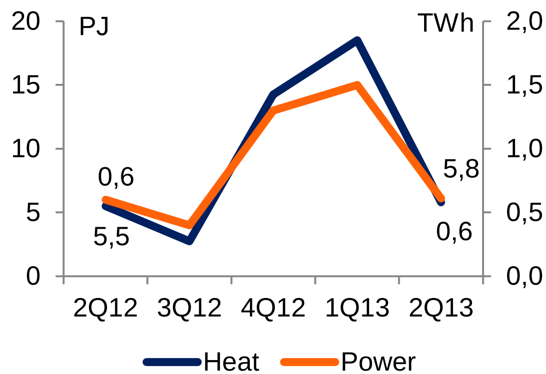
- Amortisation charge on assets recognised on acquisition of PGNiG Termika, mainly $CO_2$ certificates (1H12: PLN -112m, 1H13: PLN -34m)

- Increase in electricity sales revenue driven by higher production volume in 1H13 (up 103 GWh) and a steady rise in revenue from electricity trading

**Revenue from sale of heat and electricity**




**Sales volume of heat and electricity**




**Sound performance despite falling energy prices**

# Operating expenses

| (m PLN) | 1H2012 | 1H2013 | Δ% |
|---|---|---|---|
| Cost of gas sold | (9 688) | (9 618) | (1%) |
| Other raw materials and consumables used | (382) | (324) | (15%) |
| Fuel for heat and power generation | (563) | (534) | (5%) |
| Employee benefits | (1 357) | (1 418) | 4% |
| OGP GAZ-SYSTEM transmission services | (752) | (742) | (1%) |
| Cost of written-off dry wells | (61) | (81) | 33% |
| Other contracted services | (674) | (690) | 2% |
| Other operating expenses net | (694) | (471) | (32%) |
| ▪ *exchange differences and derivatives* | (269) | (22) | (92%) |
| ▪ *taxes and surcharges* | (425) | (430) | 1% |
| Cost of services for own needs | 433 | 424 | (2%) |
| **Operating expenses (without D&A)** | **(13 738)** | **(13 454)** | **(2%)** |
| Depreciation and amortisation | (1 004) | (1 162) | 16% |
| **Total Operating expenses** | **(14 742)** | **(14 616)** | **(1%)** |

- Lower cost of gas thanks to changes in the Yamal Contract formula and the stable exchange rates and crude prices
- Lower consumption across segments
- Lower consumption and cost of biomass
- Bonus payments in the Distribution segment (PLN -51m, in 2012 paid in 3Q)
- 7 dry wells in 1H13 vs 2 in 1H12
- Effect of the LMG project amounting to PLN -35m (depreciated since 2Q13) and effect of the Skarv project amounting to PLN -110m (including PLN -78m in 2Q13)

Operating expenses under control

# Cash flows

| (m PLN) | 1H2012 | 1H2013 | Δ% |
|---|---|---|---|
| **Cash flows from operating activities** | **1 251** | **4 554** | **264%** |
| Net profit | 45 | 1 428 | x32 |
| Depreciation and amortisation | 1 004 | 1 162 | 16% |
| Current tax expense | (63) | 471 | (x9) |
| Change in working capital | 423 | 1 660 | x4 |
| *Change in receivables* | 1 256 | 2 194 | 75% |
| *Change in obligations* | (326) | (422) | 29% |
| *Change in inventories* | (279) | 106 | (138%) |
| *Change in other assets* | (228) | (218) | (4%) |
| **Net cash flows from operating activities** | **(4 360)** | **(1 559)** | **(64%)** |
| Sale / purchase of assets | (4 706) | (1 568) | (67%) |
| **Free cash flow** | **(3 109)** | **2 995** | **(196%)** |
| Dividend | - | - | - |

- High amounts due on 31.12.2012 related to receivables of the retroactive effect from Gazprom – fully paid in 1Q13

- 1H12: accounts for the PLN 362m increase in inventories following acquisition of PGNiG Termika

- Payment for assets PGNiG Termika in 1Q12: PLN 3 billion

Free cash flows sufficient to finance investments and distribute dividend for 2012

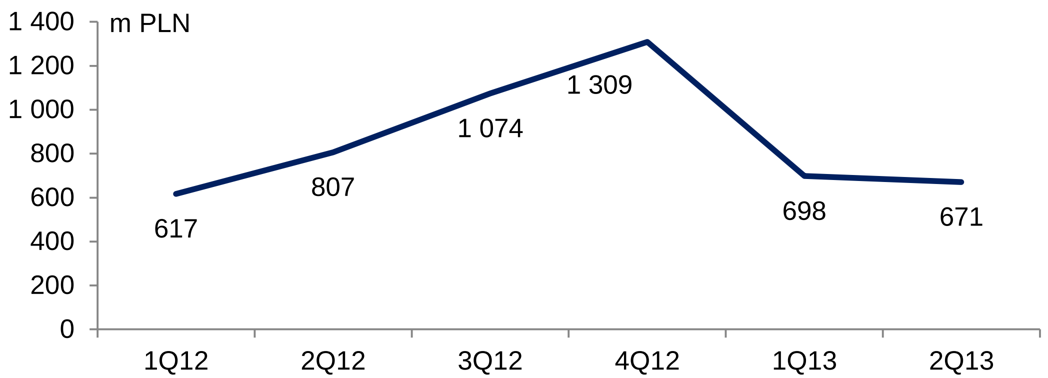
PGNiG

# Capital expenditure by business segments

| (m PLN) | 1H2012 | 1H2013 | Δ% |
|---|---|---|---|
| Total | 1 424 | 1 316 | -8% |
| Exploration and Production | 777 | 715 | -8% |
| Trade and Storage | 90 | 117 | 30% |
| Distribution | 428 | 432 | 1% |
| Generation | 118 | 42 | -65% |
| Other | 11 | 9 | -15% |

- 1H13 reduced by the cost of dry wells (PLN 81m)
- Planned expansion of underground storage facilities (Wierzchowice, Kosakowo, Mogilno)
- Upgrade and development investments in the distribution network
- 1Q12: construction of FGD and deNox units
- Plan for Q3 2013: to launch project involving conversion of boiler K1 (at the Siekierki CHP) to biomass
- Stalowa Wola CHP – a joint venture with the TAURON Group; work on the weir, demolition activities, and foundation laying currently in progress

**Quarterly Capex of PGNiG Group**




Capex at PLN 1.3bn in 1H13

PGNiG