



# Financial performance of PGNiG Group in 1H2013

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# Agenda

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Key events in 1H2013

Macroeconomic factors

Financial and operating performance in 1H2013

- Key financial data
- Business segments
- Operating expenses

Financial liquidity and debt

Investments

# 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)

## 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)

## Trade and Storage

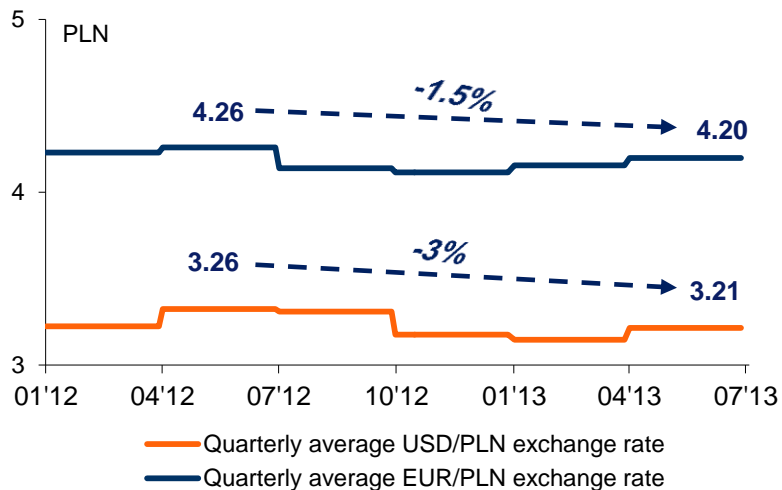
- Natural gas sales volume: +10% Y/Y
- Gas fuel tariff fails to cover the average cost of gas: margin on sales of high-methane gas (E) at -2% in 1H13 compared with -11% in 1H12
- First gas injected into the expanded Wierchowice underground storage facility (target storage capacity: 1.2 bcm)

## Environment

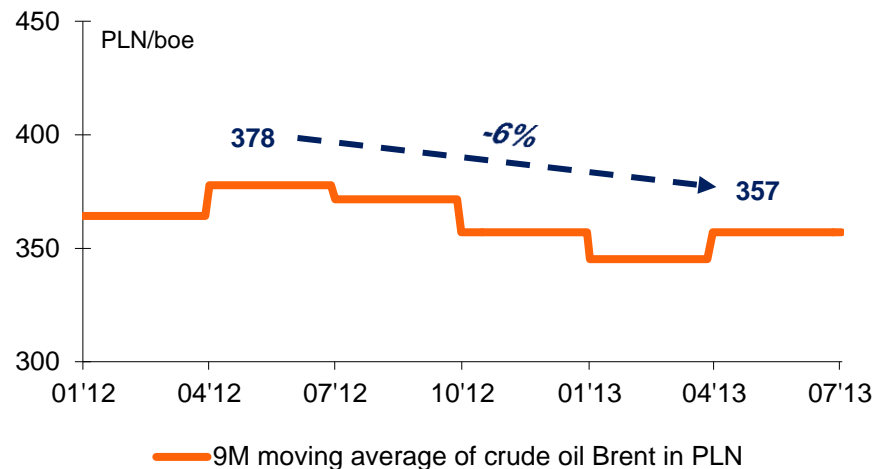
- Crude prices and exchange rates relatively stable
- Hydrocarbon tax: as of 2020
- Final form of the exchange trading obligation: 30% in 2013, 40% as of July 1st 2014, and up to 55% as of January 1st 2015

# Factors contributing to the financial result

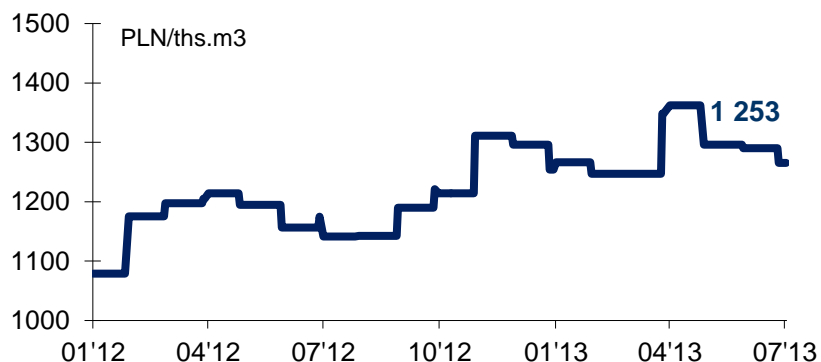
Average USD/PLN and EUR/PLN exchange rates



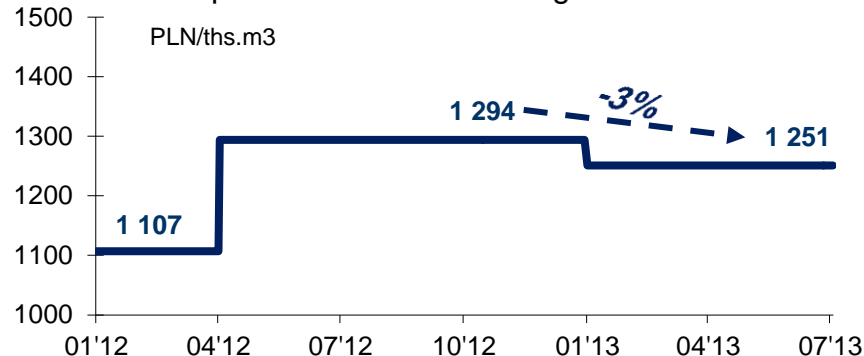
Crude oil prices



Natural gas prices – 1M NCG forward contract



Tariff price for PGNiG natural gas



## Key financial data

(m PLN)	1H2012	1H2013	Δ%	
Sales revenue	14 764	16 790	14%	<ul style="list-style-type: none"> <li>Crude oil sales volume up 102% year on year</li> <li>Gas sales volume up 10%</li> </ul>
Operating expenses (without D&A)	(13 738)	(13 454)	(2%)	<ul style="list-style-type: none"> <li>Lower cost of gas due to renegotiation of the Yamal Contract</li> <li>Lower costs of raw materials and consumables, decrease in foreign exchange losses charged to costs, and lesser effect of derivative instruments</li> </ul>
Ebitda	1 026	3 336	225%	
Depreciation and amortisation	(1 004)	(1 162)	16%	<ul style="list-style-type: none"> <li>Margin on Group E gas at -2%</li> </ul>
Ebit	22	2 174	x100	<ul style="list-style-type: none"> <li>Effect of commercial launch of the Skarv and LMG projects: PLN -145m</li> </ul>
Financial result	(127)	(233)	83%	<ul style="list-style-type: none"> <li>Y/Y increase in foreign exchange losses charged to costs, by PLN 159m</li> </ul>
Net profit	45	1 428	x31	

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

## 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%

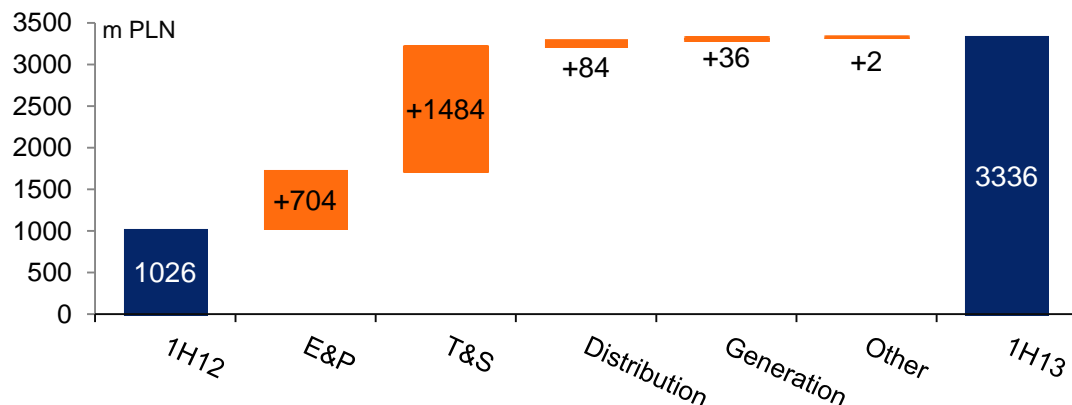
Crude oil and condensate revenue up PLN 508m, with the rise driven by the LMG and Skarv projects

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%

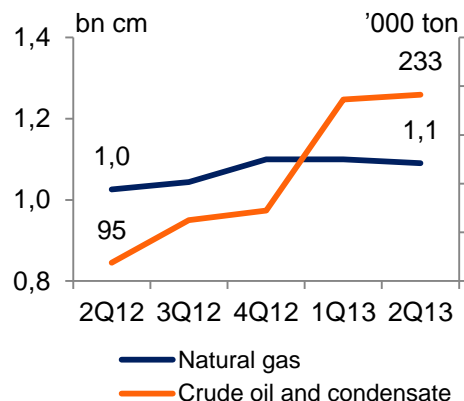
- Crude sales volume up +102% (+227,000 tonnes) year on year
- Crude price in Poland down 5%
- Sales of upstream exploration services down 6%
- Inter-segment sales of gas from the Skarv field to PGNiG Sales & Trading on the rise

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

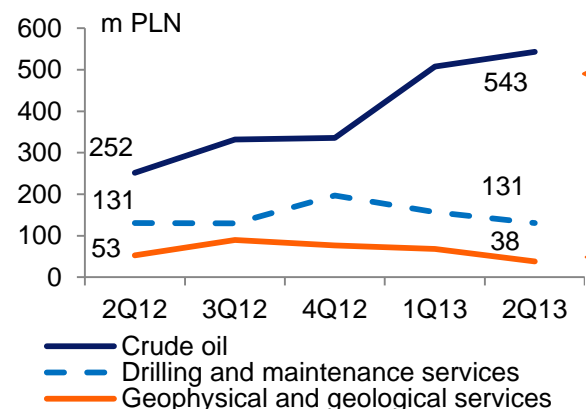
- Step-up of crude production by 238,000 to 462,000 tonnes in 1H13
- Crude oil revenue up by PLN 508m in 1H13

- Natural gas production remains stable at 1.1 bcm

**Production volume**



**Revenue**



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

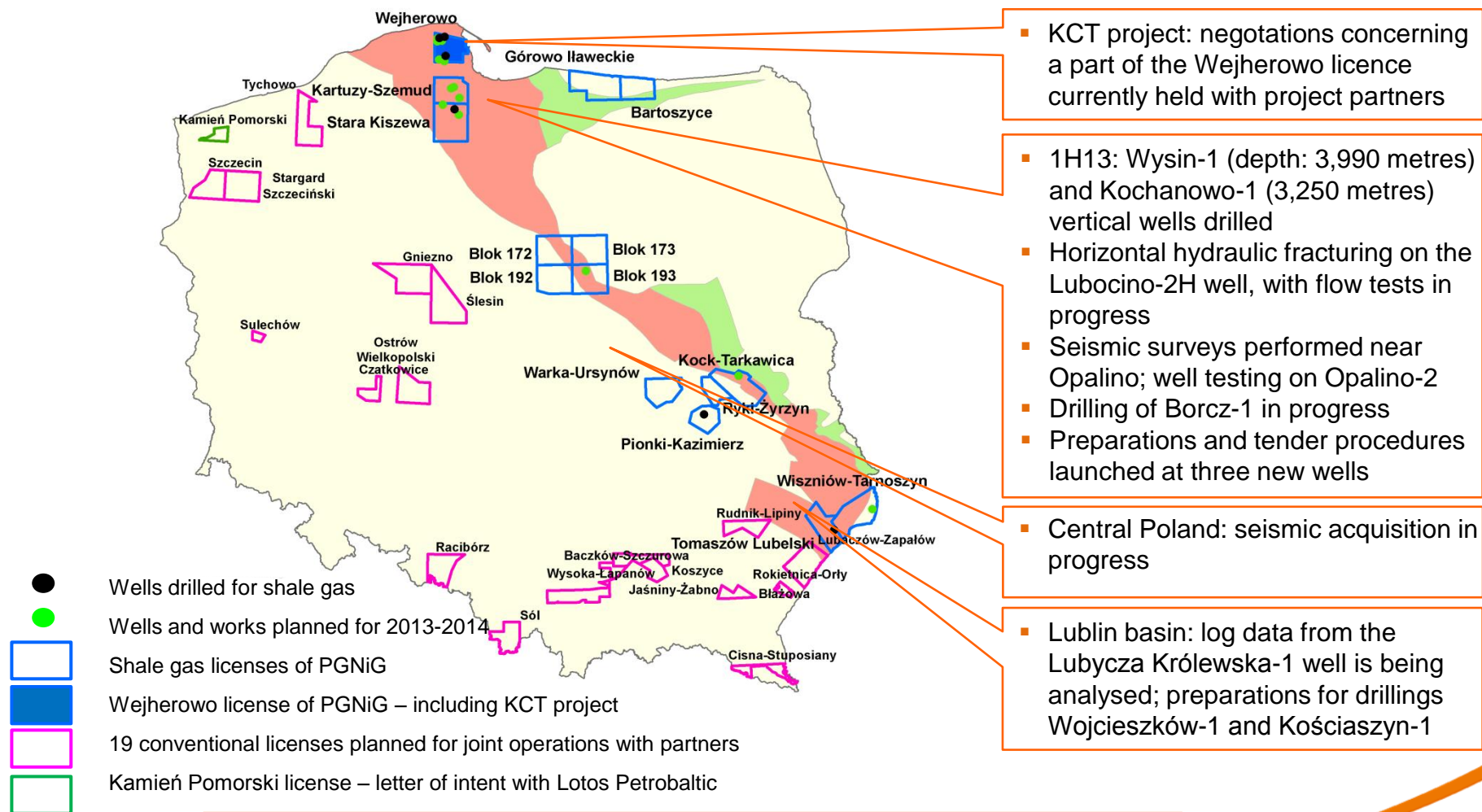
- Data room for 19 licences created: nearly 20 companies interested
- 9 wells drilled in 1H13, including 2 in Egypt
- Production testing in the Rehman field in Pakistan (up to 100 mcm in 2 years)
- Norway – four exploration licences awarded (adding up to a total of 14 licences)

### 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



7 wells accomplished since 2010; 2013 plan - 13 wells

## Segments – Trade and Storage (1)

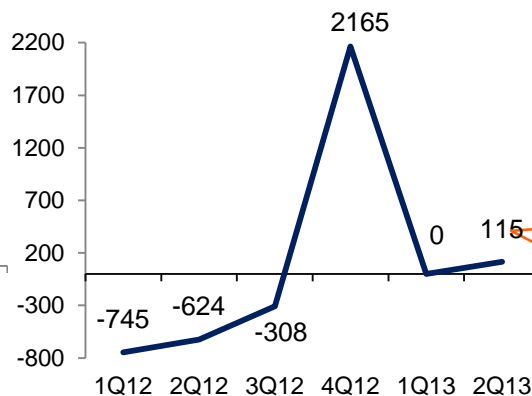
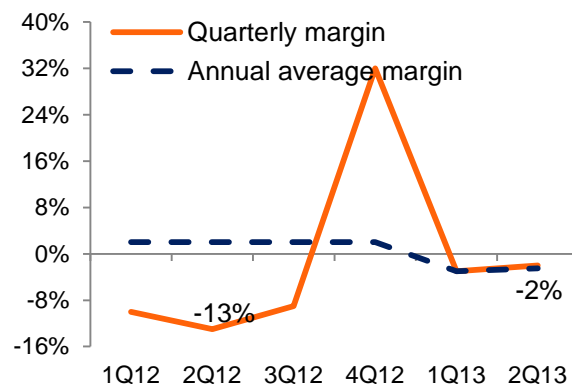
(m PLN)	1H2012	1H2013	Δ%
Revenue	12 299	13 826	12%
Operating expenses (without D&A)	(13 668)	(13 711)	0%
EBITDA	(1 369)	115	108%
Depreciation and amortisation	(66)	(87)	32%
EBIT	(1 435)	28	102%

- 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-methane gas (E)

Quarterly EBITDA (m PLN)

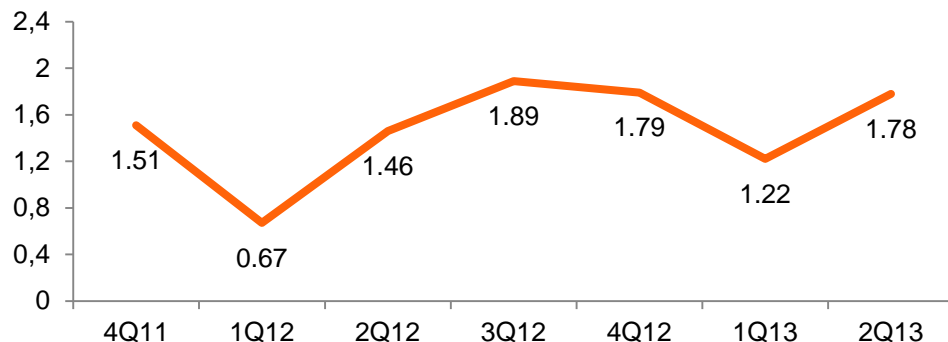


- Negative margin on sales of Group E gas narrowed to -2% in 1H13 from -11% in 1H12
- Segment's EBITDA at PLN 115m

Growing gas sales volumes, with reduced negative margin

## Segments – Trade and Storage (2)

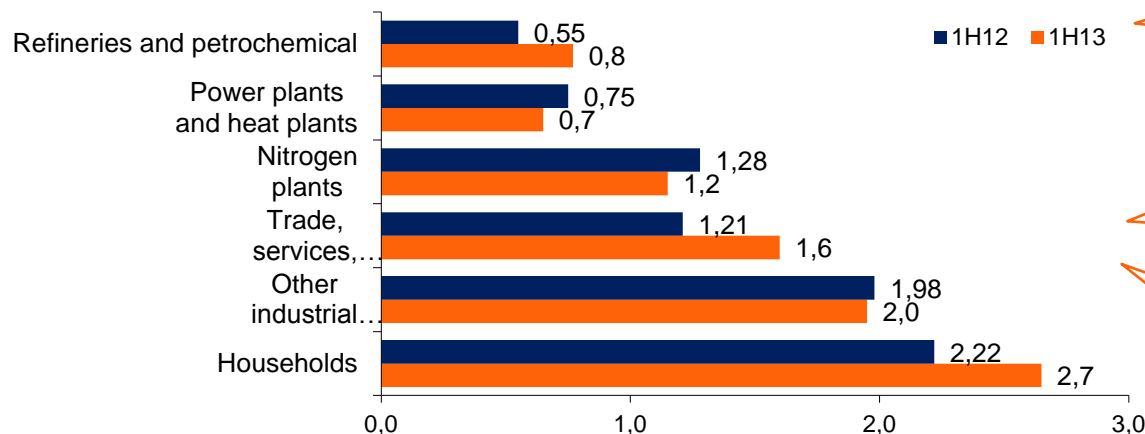
**Gas inventory levels at storage facilities (bcm)**



- 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 Wierchowice 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

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



- 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

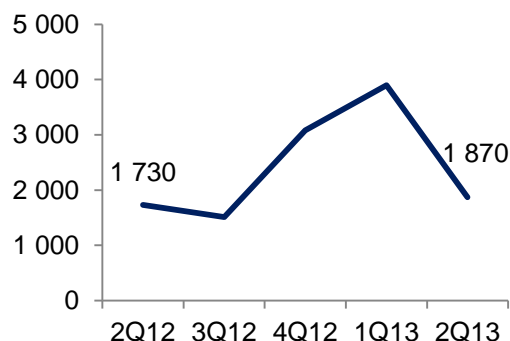
## Segments – Distribution

(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%

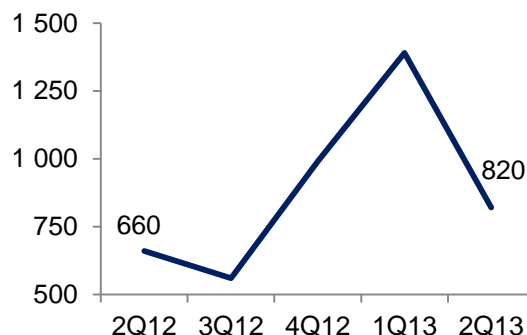
Revenue increase following amendments to the Distribution and Transmission Grid Codes (IRiESD & IRiESP; neutral to operating profit/loss)

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%

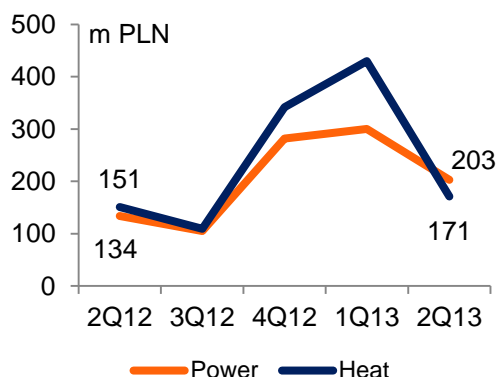
- A 10% rise in the heat tariff as of July 2012
- Increase in heat sales revenue, up by PLN 20m in 2Q13 and by PLN 74m in 1H13
- Fall in revenue from certificates of origin, down by PLN 106m

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

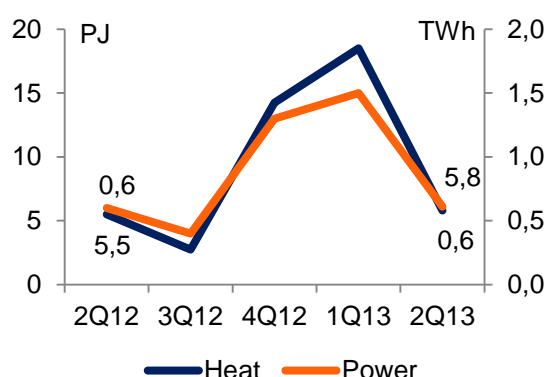
- Amortisation charge on assets recognised on acquisition of PGNiG Termika, mainly CO<sub>2</sub> certificates (1H12: PLN -112m, 1H13: PLN -34m)

- 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%)	<ul style="list-style-type: none"> <li>Lower cost of gas thanks to changes in the Yamal Contract formula and the stable exchange rates and crude prices</li> </ul>
Other raw materials and consumables used	(382)	(324)	(15%)	<ul style="list-style-type: none"> <li>Lower consumption across segments</li> </ul>
Fuel for heat and power generation	(563)	(534)	(5%)	
Employee benefits	(1 357)	(1 418)	4%	<ul style="list-style-type: none"> <li>Lower consumption and cost of biomass</li> </ul>
OGP GAZ-SYSTEM transmission services	(752)	(742)	(1%)	
Cost of written-off dry wells	(61)	(81)	33%	<ul style="list-style-type: none"> <li>Bonus payments in the Distribution segment (PLN -51m, in 2012 paid in 3Q)</li> </ul>
Other contracted services	(674)	(690)	2%	
Other operating expenses net	(694)	(471)	(32%)	<ul style="list-style-type: none"> <li>7 dry wells in 1H13 vs 2 in 1H12</li> </ul>
<ul style="list-style-type: none"> <li>exchange differences and derivatives</li> </ul>	(269)	(22)	(92%)	
<ul style="list-style-type: none"> <li>taxes and surcharges</li> </ul>	(425)	(430)	1%	
Cost of services for own needs	433	424	(2%)	
<b>Operating expenses (without D&amp;A)</b>	<b>(13 738)</b>	<b>(13 454)</b>	<b>(2%)</b>	<ul style="list-style-type: none"> <li>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)</li> </ul>
Depreciation and amortisation	(1 004)	(1 162)	16%	
<b>Total Operating expenses</b>	<b>(14 742)</b>	<b>(14 616)</b>	<b>(1%)</b>	

Operating expenses under control

# Cash flows

(m PLN)	1H2012	1H2013	Δ%
<b>Cash flows from operating activities</b>	<b>1 251</b>	<b>4 554</b>	<b>264%</b>
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
<i>Change in receivables</i>	1 256	2 194	75%
<i>Change in obligations</i>	(326)	(422)	29%
<i>Change in inventories</i>	(279)	106	(138%)
<i>Change in other assets</i>	(228)	(218)	(4%)
<b>Net cash flows from operating activities</b>	<b>(4 360)</b>	<b>(1 559)</b>	<b>(64%)</b>
Sale / purchase of assets	(4 706)	(1 568)	(67%)
<b>Free cash flow</b>	<b>(3 109)</b>	<b>2 995</b>	<b>(196%)</b>
Dividend	-	-	-

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

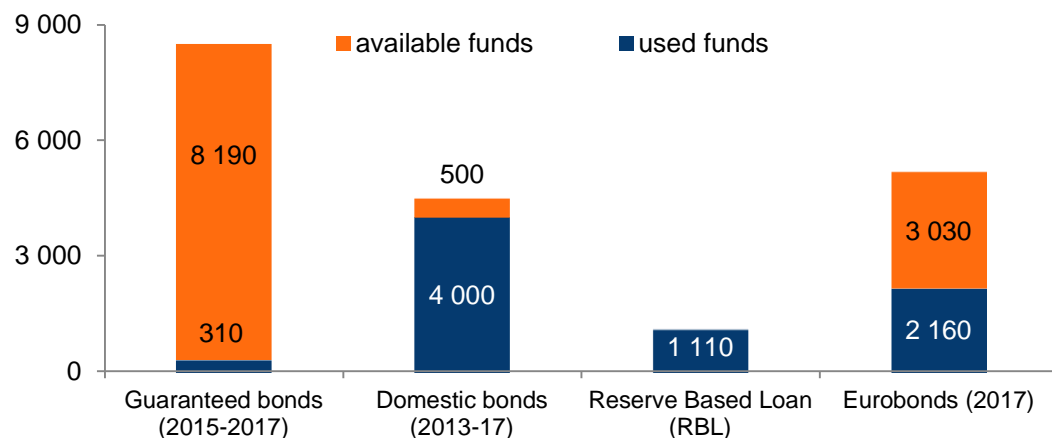
▪ 1H12: accounts for the PLN 362m increase in inventories following acquisition of PGNiG Termika

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

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

# Indebtedness

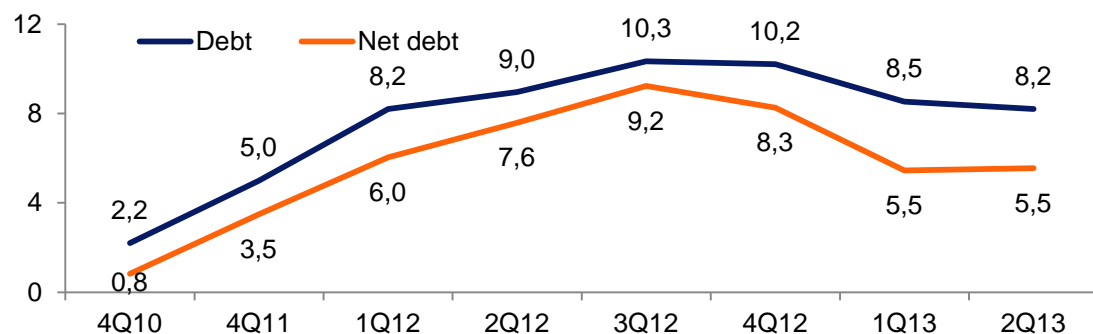
Financing sources as at June 30th 2013 (m PLN)



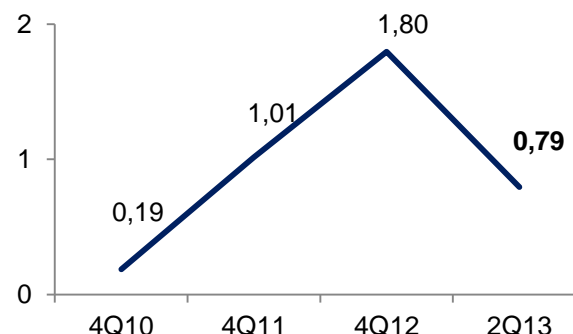
- Safe level of debt
- Optimisation of financing sources
- Available financing programmes for PLN 11.7bn, including guaranteed PLN 8.2bn

Net debt/EBITDA < 1

Debt (billion PLN)



Net debt / EBITDA



Stable financial position as springboard for further investments



# 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)

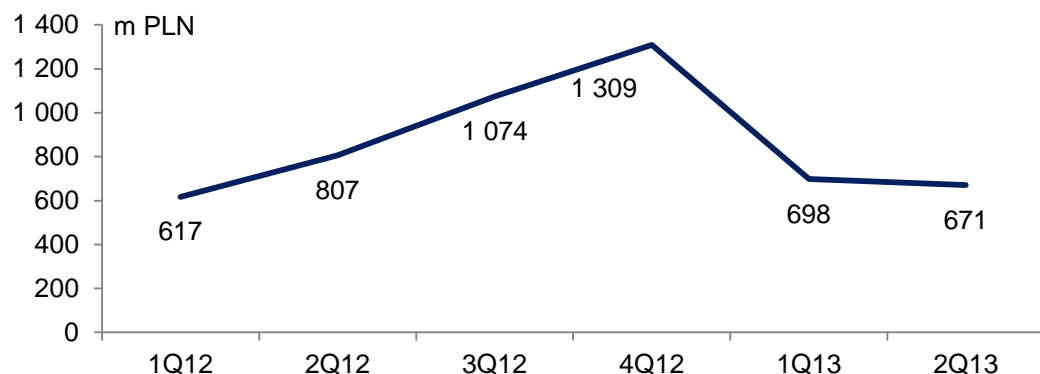
Upgrade and development investments in the distribution network

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



## Production and sales volumes

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
<b>Natural gas</b>										
Production volume (m m <sup>3</sup> )	<b>1 087</b>	1 175	1 109	1 044	<b>1 026</b>	1 138	1 135	1 069	<b>996</b>	1 131
Sales volume (m m <sup>3</sup> )	<b>3 210</b>	5 564	4 406	2 531	<b>2 931</b>	5 045	4 198	2 531	<b>2 795</b>	4 753
<b>Oil and NGLs</b>										
Production volume ('000 tonnes)	<b>233,1</b>	228,7	138,5	129,7	<b>95,7</b>	127,7	123,5	126,7	<b>84,4</b>	133,0
Sales volume ('000 tonnes)	<b>242,9</b>	206,6	132,4	129,3	<b>96,0</b>	126,9	124,1	124,0	<b>89,5</b>	129,2
<b>Power</b>										
Net generation II level (for sale, GWh)	<b>613,0</b>	1 525,7	1 287,9	395,7	<b>632,7</b>	1 403,0	1 279,7	432,8	<b>572,3</b>	1 400,3
<b>Heat</b>										
Net generation (sales, TJ)	<b>5 765,6</b>	18 511,4	14 242,0	2 747,7	<b>5 503,2</b>	17 721,0	13 317,2	2 789,3	<b>5 199,7</b>	17 354,0

## Business segments – EBITDA in 2Q2013

(m PLN)	2Q2012	2Q2013	Δ%
Exploration and Production	518	929	79%
Trade and Storage	(623)	116	(119%)
Distribution	242	243	0%
Heat and Power Generation	88	62	(30%)
Other, eliminations	3	10	233%
Total	228	1360	x6

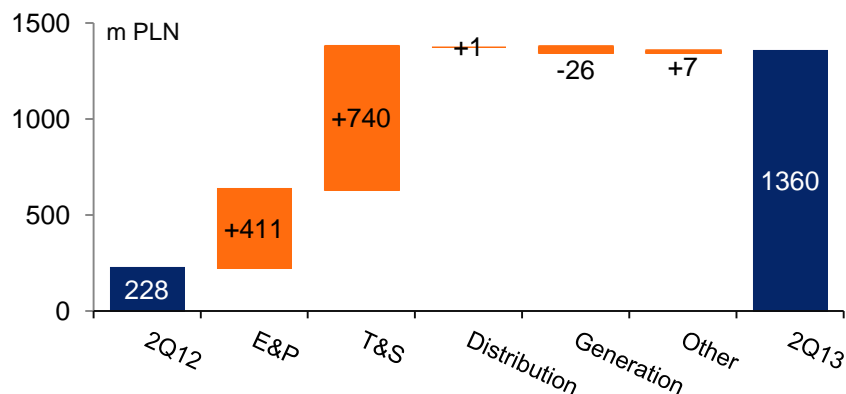
Crude oil revenue up PLN 322m Y/Y, with the rise driven by the LMG and Skarv projects

Lower cost of gas sold (-19% Y/Y)

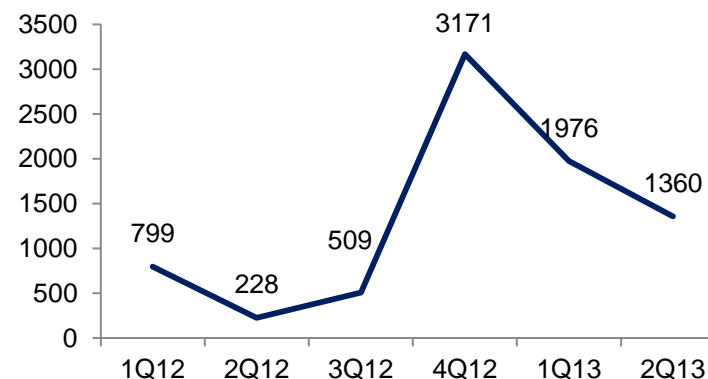
Distribution volume up 8% Y/Y

Lower volumes and selling prices of green and red certificates

Segments contribution to EBITDA 2Q12 vs 2Q13



Quarterly EBITDA



E&P and Trade: positive contribution for another consecutive quarter