Financial performance of PGNiG Group in 1Q2013

Jacek Murawski, CFO

14th May 2013

Agenda

Key events in 1Q2013

Macroeconomic factors

Financial and operating performance in 1Q2013

- Key financial data
- Business segments
- Operating expenses

Financial liquidity and debt

Investments

Key achievements of 1Q2013

Exploration and Production

- Launch of production in Norway: 25 ths tonnes of crude oil (170 thousand boe)
- Launch of production from the LMG field: 68 ths tonnes of crude oil (512 ths boe)
- Shale gas: drilling work on the new licence area Stara Kiszewa (Wysin-1), works on other wells in progress

Trade and Storage

- New, lower PGNiG tariff as of January 1st 2013
- Natural gas sales volume: +7% Y/Y
- Margin on sales of high-methane gas type E: -3% in 1Q13 vs -10% in 1Q12
- Wierzchowice Underground Gas Storage: positive result of the injection and withdrawal test

Finance

- Revenue +15% Y/Y
- EBITDA +147% Y/Y
- Net debt/EBITDA < 1
- Stalowa Wola CHP plant: financing of PLN 1.13bn acquired

Environment

- Lower average air temperature in March vs 1Q12 - high spot prices of gas in March 2012: up to PLN 1,900/thousand cubic metres (gas deficit on the market)
- Stable currency exchange rates and crude oil prices
- Material changes in the regulatory framework

PGNiG

Strategy – transformation of the PGNiG Group

Exploration and Production

- Exalo Drilling SA – consolidation in progress
- Upstream International – review of the international exploration is under way
- Review of conventional exploration licences in Poland
- Projects under the Blue Gas programme

Trade and Storage

- Consolidation of storage operations within OSM – in progress
- Unbundling of the Wholesale Trading Division – in progress (planned for completion in 3Q13)

Distribution

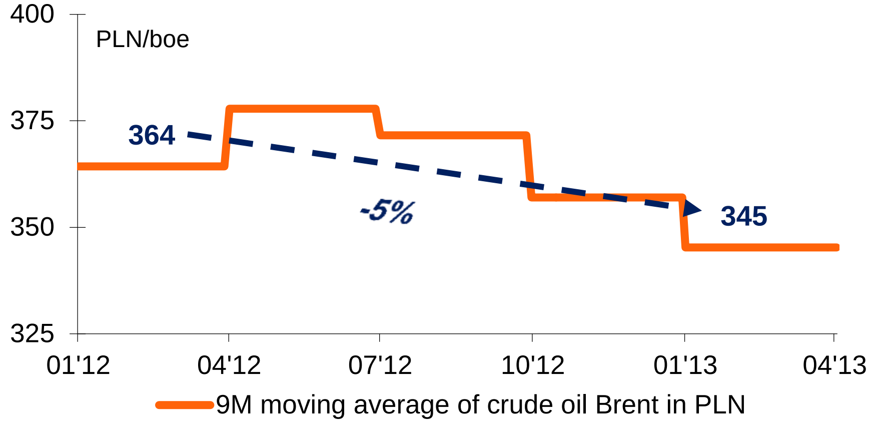
- Consolidation of the six distribution companies – in progress (planned for completion in 2Q13)
- Appointment of the management board of a new distribution company

Generation and Other

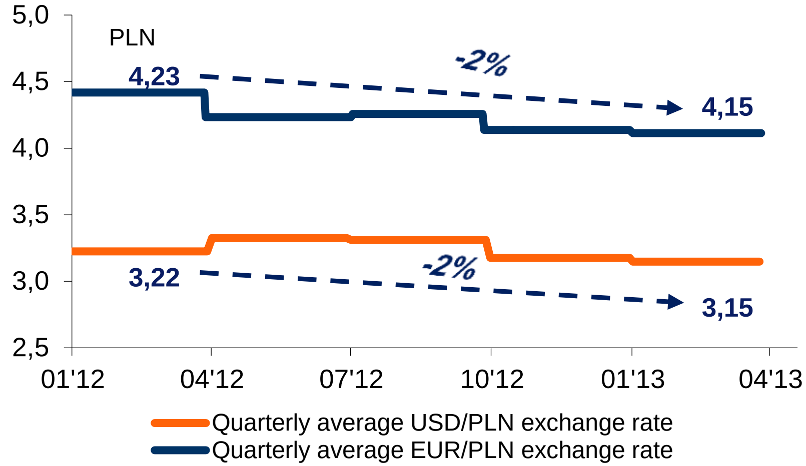
- Consolidation of the power generation business within PGNiG Termika – in progress
- Generation segment EBITDA: +30% on 1Q12
- PGNiG Technologie: restructuring in progress

Factors contributing to the financial result

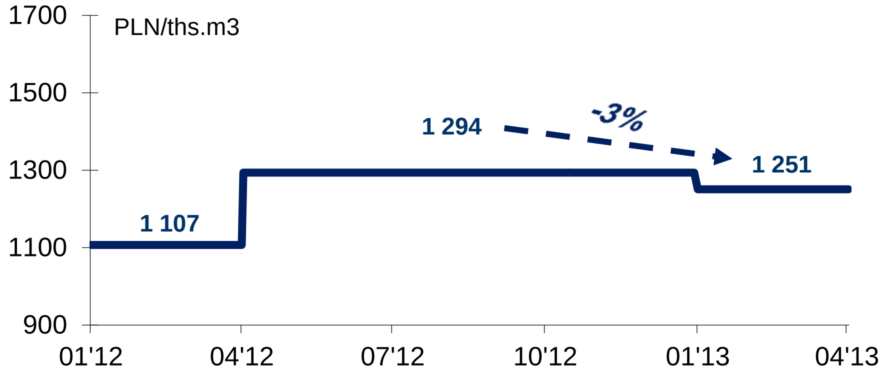
Crude oil prices



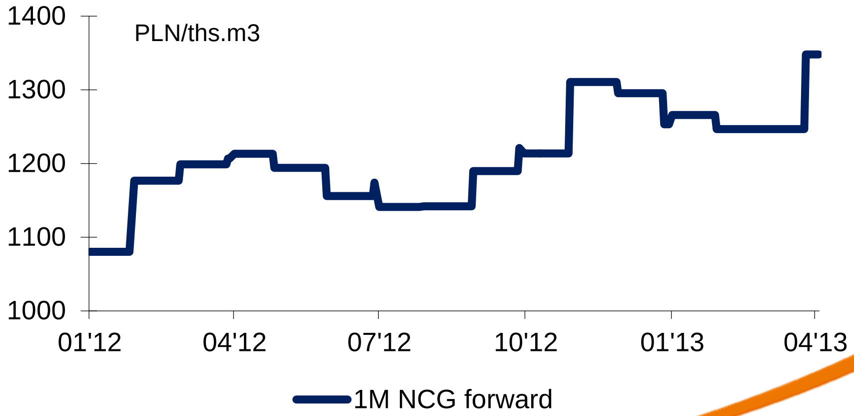
Average USD/PLN and EUR/PLN exchange rates



Tariff price for PGNiG natural gas



Natural gas prices – 1M NCG forward contract



Key financial data

(m PLN)	1Q2012	1Q2013	Δ%
Sales revenue	8 947	10 255	15%
Operating expenses (without D&A)	(8 148)	(8 279)	2%
Ebitda	799	1 976	147%
Depreciation and amortisation	(455)	(549)	21%
Ebit	344	1 427	315%
Financial result	29	(147)	(607%)
Net profit	333	1 074	214%

- Crude oil sales volume up 63% Y/Y
- Gas sales volume up 7%
- Margin on Group E gas at -3%

- Lower increase in cost of gas due to renegotiation of the Yamal Contract
- Operating expenses under control
- Foreign exchange gains/losses and derivatives at PLN +178m Y/Y

- Effect of production launch on the Skarv project at PLN -30m
- PLN -32m amortisation of CO2 emission allowances at PGNiG Termika

- PLN -128m foreign exchange gains/losses and derivatives
- PLN -27m increase in interest expense

- PLN -176m income tax Y/Y

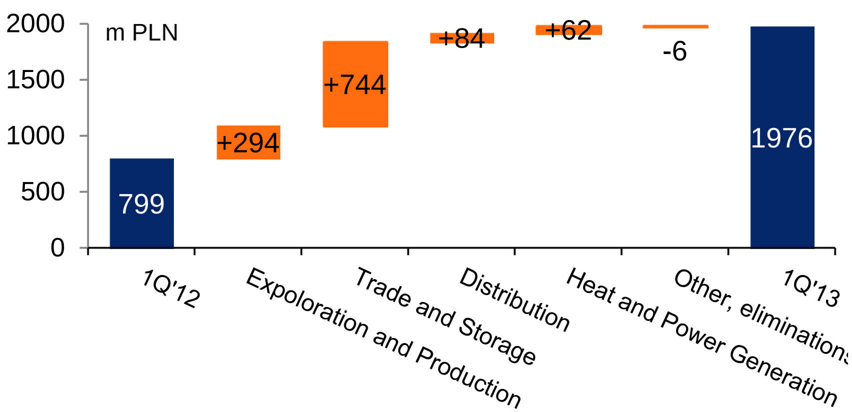
Production from LMG & Skarv and the effect of negotiations with Gazprom; Costs under control

Business segments – EBITDA in 1Q2013

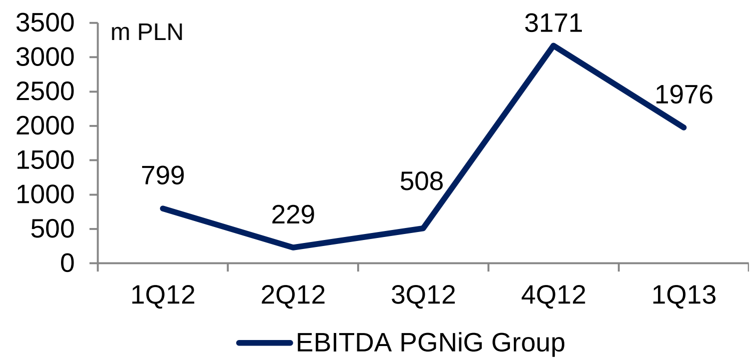
(m PLN)	1Q2012	1Q2013	Δ%
Exploration and Production	618	912	47%
Trade and Storage	(745)	(1)	-
Distribution	731	815	11%
Heat and Power Generation	196	257	32%
Other, eliminations	(1)	(7)	-
Total	799	1 976	147%

- Revenue (mainly from sale of oil and gas) higher by 25% Y/Y and operating expenses under control: +3%
- Renegotiation of the Yamal Contract
- Distribution volume up 8% Y/Y
- Revenue from sale of heat up PLN 54m

Segments contribution to EBITDA 1Q12 vs 1Q13



Quarterly EBITDA



EBITDA 1.5 times higher year on year

Segments – Exploration and Production

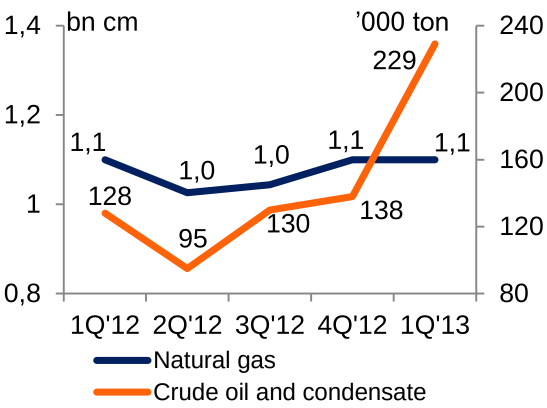
(m PLN)	1Q2012	1Q2013	Δ%
Revenue	1 105	1 384	25%
Operating expenses (without D&A)	(487)	(472)	(3%)
EBITDA	618	912	47%
Depreciation and amortisation	(145)	(189)	30%
EBIT	473	723	53%

- Crude oil sales volume up 63% (+80 thousand tonnes)
- 3% decline in crude oil selling price
- PLN 28m increase in drilling services and PLN 40m decrease in geophysical services

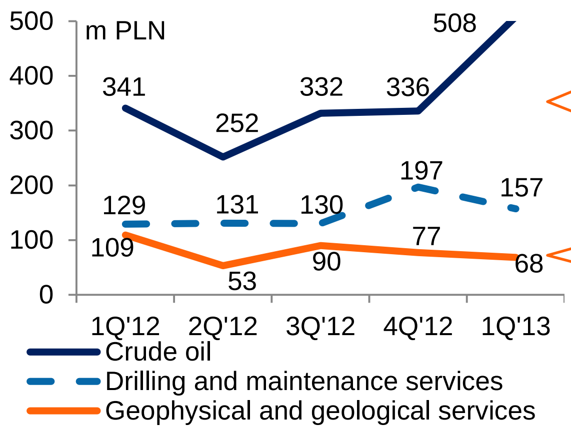
- Employee benefits cost down by PLN 17m

- Property, plant and equipment up by PLN 2bn

Production volume



Revenue



- Crude oil production up by 101 thousand tonnes
- Crude oil revenue up by PLN 167m

- Gas production volume maintained at 1,1 bn cm

Production: +101 thousand tonnes, sales: 80 thousand tonnes of oil

Segments – Exploration and Production (2)

Overview:

- 80 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
- Upstream International – Norway, Pakistan, Egypt, Libya

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

- Preparation of tenders and 'data room' for 19 licenses
- Seven wells drilled in 2013 until now
- Plan 2013: 22 wells in Poland, 4 wells abroad (Egypt, Lybia)

Unconventional projects

- 6 wells drilled in 2013 until now (Wysin-1, Opalino-2, Lubocino-2H, Lubocino-1, Lubycza Kr.-1, Markowola-1) – ongoing tests and analysis
- Plan for 2013: to start drilling 13 wells (2 wells in 2Q13).

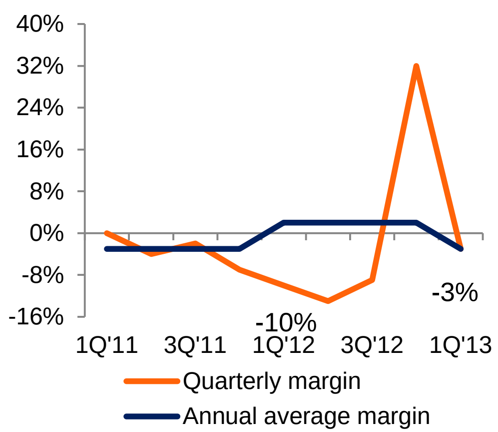
Segments – Trade and Storage (1)

(m PLN)	1Q2012	1Q2013	Δ%
Revenue	7 435	8 578	15%
Operating expenses (without D&A)	(8 180)	(8 579)	5%
EBITDA	(745)	(1)	-
Depreciation and amortisation	(33)	(44)	33%
EBIT	(778)	(45)	(94%)

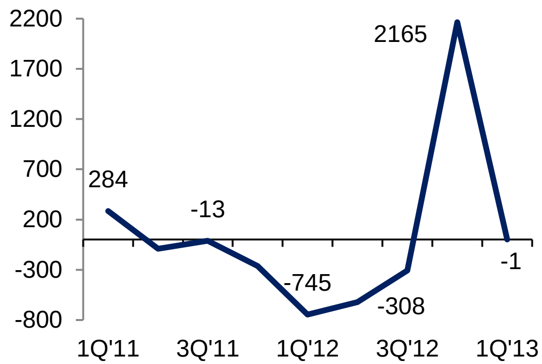
- Gas sales volume up 7% to 5.38 bln m^3
- Tariff up 8% on average
- PGNiG Sales & Trading (PST) contribution: PLN +587m in 1Q13 vs PLN +55m in 1Q12

- Cost of gas sold up 7%
- Impairment of gas inventories: PLN -36m
- Impairment of receivables: PLN +59m PLN (court judgment in Gazotech case)

Margin on high-metane gas (E)



Quarterly EBITDA (m PLN)

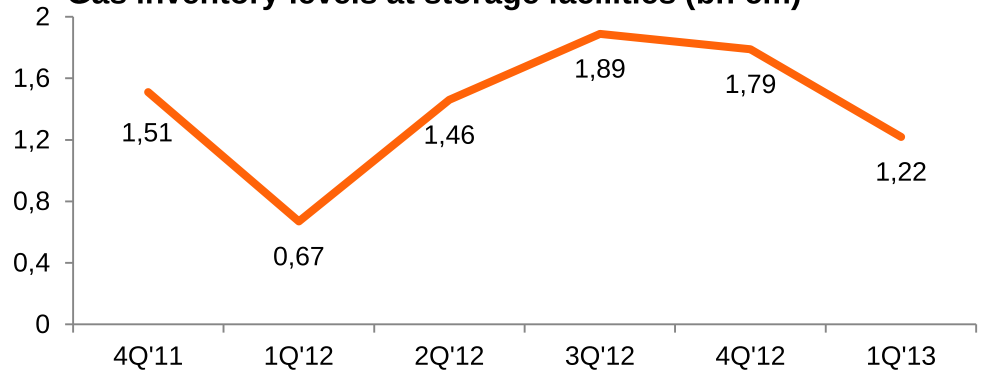


- Negative margin on sales of high-metane gas
- EBITDA at zero level

Growing gas sales volume (+7%) and revenue (+13%)

Segments – Trade and Storage (2)

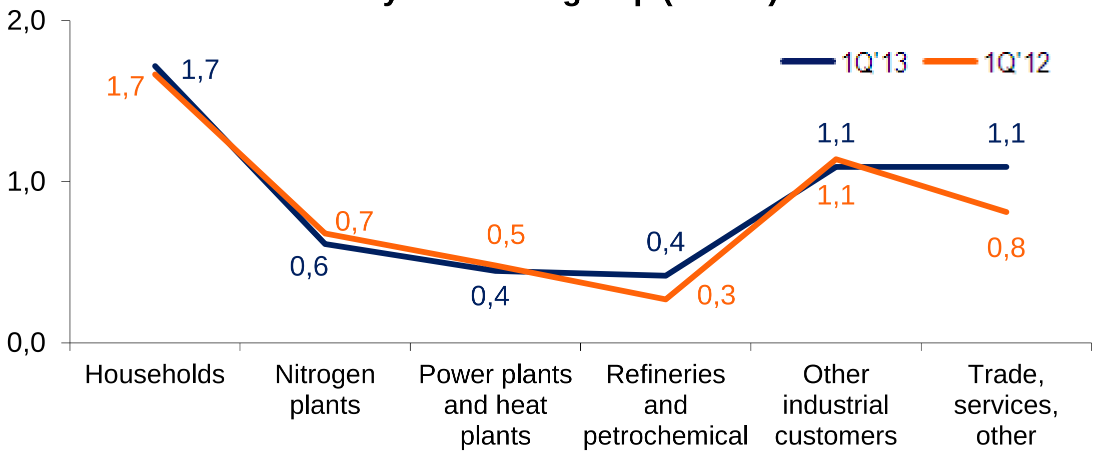
Gas inventory levels at storage facilities (bn cm)



- High-metane gas inventory levels at storage facilities after winter season: 1.2bn cubic metres (necessity to maintain mandatory reserves and no consent to their use)

- 1Q13: Gas imports of 3.5bn cubic metres (including 2.8bn from countries east of Poland) vs 3.0bn cubic metres (2.1bn cubic metres) in 1Q12

Gas sales volumes by customer group (bn cm)



- Refineries and petrochemicals: effect of contract with Grupa Lotos
- Trade and services: 260m cubic metres sold by PST in Germany
- In 1Q13, 6.3m cubic metres sold and delivered through gas exchange

Gas inventory levels at storage facilities vs. mandatory reserve

Segments – Distribution

(m PLN)	1Q2012	1Q2013	Δ%
Revenue	1 231	1 420	15%
Operating expenses (without D&A)	(500)	(605)	21%
Ebitda	731	815	11%
Depreciation and amortisation	(203)	(211)	4%
Ebit	528	604	14%

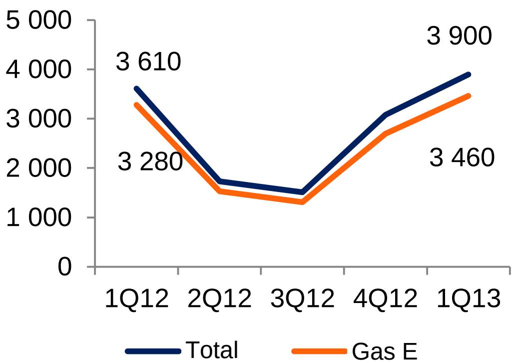
- Volume up 8%
- Revenue increase following amendments to the Distribution and Transmission Grid Codes (IRiESD & IRiESP; neutral to operating profit/loss)

- PLN 175m increase in cost of transmission service, corresponding to growth in revenue (change of grid codes)

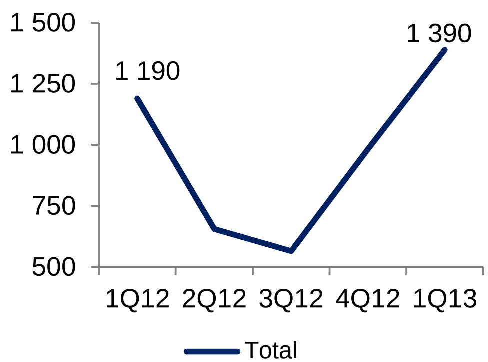
- Higher growth in revenue (+17% Y/Y) than growth in volume, attributable (change of grid codes)

- 6% of the volume distributed to customers from outside the PGNiG Group (mainly coke gas)

Distribution volume (m cm)



Revenue from distribution services (m PLN)



EBITDA up 11% in a stable business segment

Segments – Generation

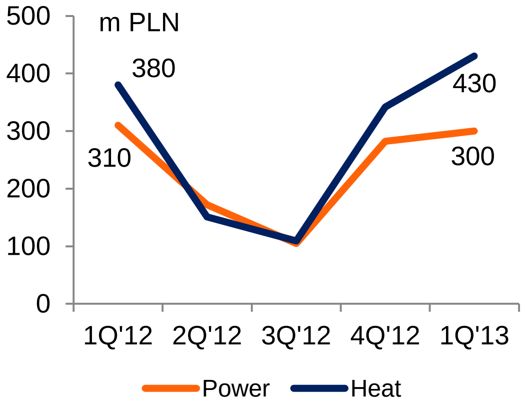
(m PLN)	1Q2012	1Q2013	Δ%
Revenue	752	758	1%
Operating expenses (without D&A)	(556)	(501)	(10%)
EBITDA	195	257	32%
Depreciation and amortisation	(70)	(100)	43%
EBIT	126	157	25%

- 10% increase in heat tariff in July 2012: heat revenue up by PLN 54m
- Revenues from energy certificates PLN -37m Y/Y

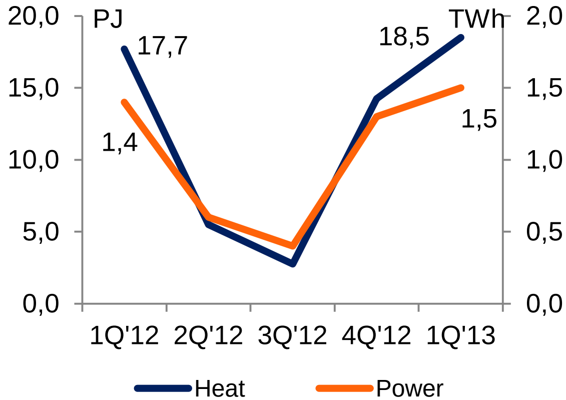
- Lower cost of biomass and other fuels used in heat and electricity generation
- Cost of certificates of origin for electricity down by PLN 25m Y/Y

- 1Q13: amortisation of CO_2 emission allowances at PLN -32m

Revenue from sale of heat and electricity



Sales volume of heat and electricity



- Temperatures 1Q13: 0+/- more efficient use of available sources of heat and electricity

- Price of electricity down 7%

Revenue from sale of heat up by PLN 54m

Operating expenses

(m PLN)	1Q2012	1Q2013	Δ%
Cost of gas sold	5 886	6 297	*7%*
Other raw materials and consumables used	192	151	*(22%)*
Fuel for heat and power generation	412	397	*(4%)*
Employee benefits	691	671	*(3%)*
OGP GAZ-SYSTEM transmission services	418	383	*(8%)*
Cost of written-off dry wells	59	23	*(61%)*
Other contracted services	324	332	*2%*
Other operating expenses net	361	222	*(39%)*
▪ *exchange differences and derivatives*	*186*	*8*	*(96%)*
▪ *taxes and surcharges*	*360*	*382*	*6%*
Cost of services for own needs	(195)	(197)	*1%*
Operating expenses (without D&A)	**8 148**	**8 279**	***2%***
Depreciation and amortisation	455	549	*21%*
Total Operating expenses	**8 603**	**8 828**	***3%***

- Cost of gas under control thanks to change in the Yamal Contract formula

- Lower consumption across all segments, mainly in Generation and Other

- Effect of severance payments offset by release of provision for the Voluntary Termination Programme (PLN 83m)

- Transfer of part of responsibilities from Transmission to Distribution (amendment to Transmission Grid Code)

- Value of merchandise sold: change of PLN -46m
- Recognition of provision for white certificates: PLN -45m

- Increase in Norwegian assets
- In Q1 2013: amortisation of CO_2 emission allowances in Generation at PLN -32m

Operating expenses under control

Cash flows

(m PLN)	1Q2012	1Q2013	Δ%
Cash flows from operating activities	**1 961**	**3 578**	**82%**
Net profit	333	1 074	214%
Depreciation and amortisation	455	549	21%
Current tax expense	(50)	(130)	160%
Change in working capital	1 141	1 981	74%
Change in receivables	*(268)*	*301*	*212%*
Change in obligations	*630*	*1 130*	*79%*
Change in inventories	*1 098*	*843*	*(23%)*
Change in other assets	*(319)*	*(293)*	*(8%)*
Net cash flows from operating activities	**(3 726)**	**(738)**	**(80%)**
Sale / purchase of assets	(3 011)	14	-
Purchase of property, plant and equipment and intangible assets	(950)	(761)	(20%)
Free cash flow	**(1 765)**	**2 839**	**261%**
Dividend	-	-	-

- 1Q12: reflects changes related to the acquisition of PGNiG Termika, including PLN 325m on inventory

- High amounts due on 31.12.2012 related to receivables of the retroactive effect from Gazprom

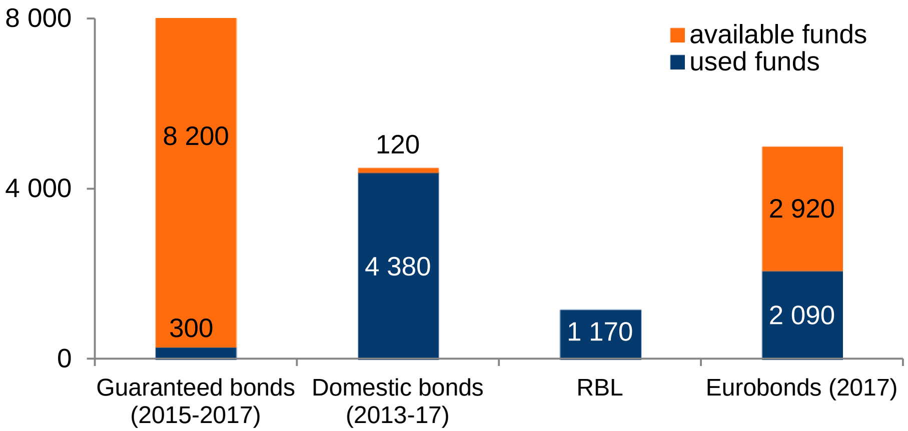
- Increased purchases of imports gas: 3.5 bln m^3 in 1Q13, +0.5 bln m^3 Y/Y

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

Free cash flow 2.6x higher

Indebtedness

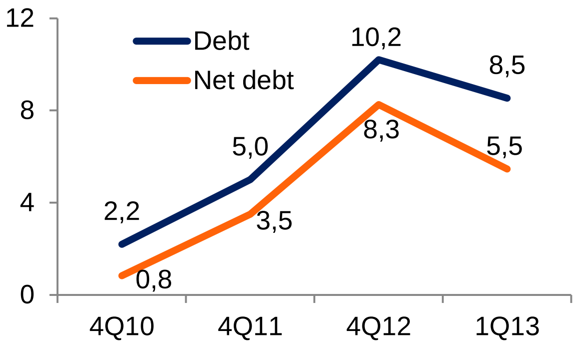
Financing sources as at March 31st 2013 (m PLN)



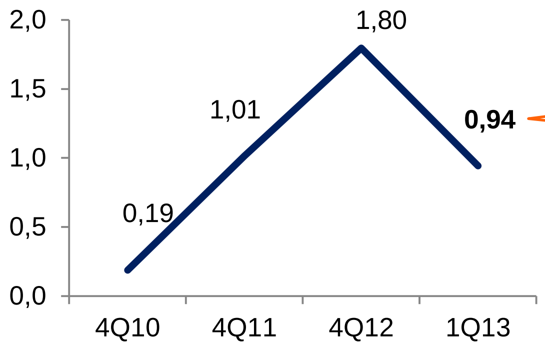
- Renegotiation of the Yamal Contract – reduction of net debt
- Optimisation of financing sources
- Available financing programmes for PLN 11.2bn, including guaranteed PLN 8.2bn

- Execution of financing agreements for Stalowa Wola CHP Plant: PLN 1.13bn under project finance formula (off PGNiG's balance sheet)

Debt (billion PLN)



Net debt / EBITDA



- 1Q13: Net debt / EBITDA < 1

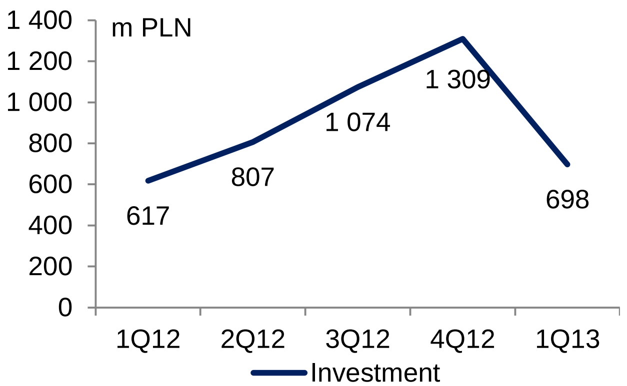
Stable financial position as springboard for further investments

Capital expenditure by business segments

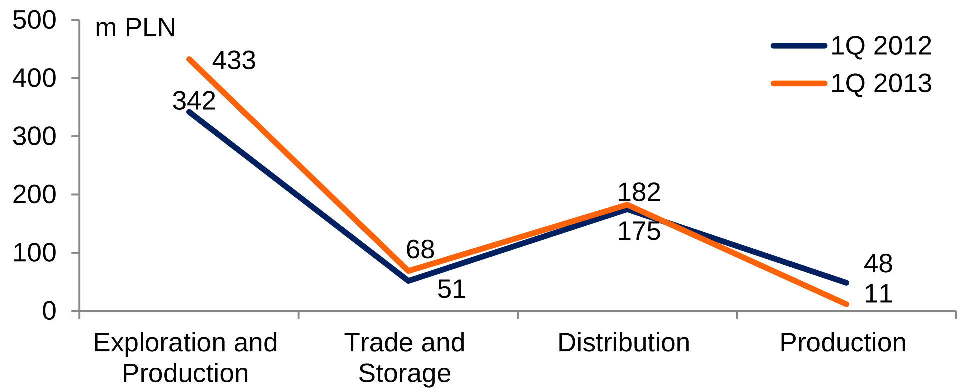
(m PLN)	1Q 2012	1Q 2013	Δ%
Total	617	698	13%
Exploration and Production	342	433	26%
Trade and Storage	51	68	33%
Distribution	175	182	4%
Generation	48	11	-77%
Other	1	3	213%

- Completion of the LMG project
- Planned expansion of underground storage facilities
- Upgrade and development investments in the distribution network
- 1Q12: construction of FGD and deNox units

Quarterly Capex of PGNiG Group



Capex by segment 1Q13 vs 1Q12



Capex 1Q13 similar to 1Q12

PGNiG