

# PGNiG Group's Financial Performance in H1 2014

August 14th 2014

# Financial highlights Q2 2014

| (PLNm)   | Q2 2013 | Q2 2014        | Δ%   |
|--|---------|----------------|------|
| Revenue  | 6,505   | <b>6,846</b>   | 5%   |
| Operating expenses (excl. D&A)                   | (5,145) | <b>(5,560)</b> | 8%   |
| EBITDA   | 1,360   | <b>1,285</b>   | -5%  |
| <i>EBITDA adjusted for net impairment losses</i> | 1,321   | <b>1,775</b>   | 34%  |
| Depreciation and amortisation                    | (613)   | <b>(674)</b>   | 10%  |
| EBIT   | 747     | <b>611</b>     | -18% |
| Net finance income/(cost)                        | (86)    | <b>(76)</b>    | -11% |
| Net profit                                       | 354     | <b>340</b>     | -4%  |

- Revenue from sales of crude oil and condensate up PLN 343m, with sales volumes at 373 thousand tonnes in Q2 2014.
- Revenue from gas sales down PLN 164m and cost of gas lower by nearly PLN 0.4bn at the PGNiG Group level, with sales volumes up 120 mcm.
- Year-on-year growth of trade in purchased electricity: revenue and costs up PLN 183m and PLN 172m, respectively.
- Net impairment losses of PLN -490m in Q2 2014 (including on exploration and production assets and write-down of gas inventories) following a review of the usefulness of licences and exploration work performed in 2003–2014, and remeasurement of assets using a methodology reflecting changes taking place on the Polish gas market. PLN -160m attributable to costs of geophysical assets and dry wells written off under upstream operations. Total impact on the Group's performance: PLN -650m.

**Strong operating performance  
constrained by non-recurring  
and non-cash items**

# Financial highlights H1 2014

| (PLNm)   | H1 2013  | H1 2014         | Δ%   |
|--|----------|-----------------|------|
| Revenue  | 16,740   | <b>16,383</b>   | -2%  |
| Operating expenses (excl. D&A)                   | (13,404) | <b>(12,916)</b> | -4%  |
| EBITDA   | 3,336    | <b>3,467</b>    | 4%   |
| <i>EBITDA adjusted for net impairment losses</i> | 3,278    | <b>3,968</b>    | 21%  |
| Depreciation and amortisation                    | (1,162)  | <b>(1,298)</b>  | 12%  |
| EBIT   | 2,174    | <b>2,169</b>    | 0%   |
| Net finance income/(cost)                        | (233)    | <b>(106)</b>    | -54% |
| Net profit                                       | 1,428    | <b>1,520</b>    | 6%   |

- Gas sales revenue down by slightly over PLN 1bn, driven by 0.5 bcm lower sales volume of Group E gas, due mainly to a weak heating season.
- Growth of crude oil and condensate output to 632 thousand tonnes (H1 2013: 462 thousand tonnes), lifting revenue by more than PLN 0.5bn.
- Year-on-year improvement in trade in electricity, with revenue at PLN 866m (H1 2013: PLN 552m). Cost of purchased electricity: PLN 530m vs PLN 180m in H1 2013.
- Cost of gas down PLN 1.5bn, or 16%, with the decrease attributable partly to the lower sales volume but also to flexibility of contracts and pricing formulas, coupled with a concurrent drop in prices on gas exchanges
- Net impairment losses of PLN -501m in H1 2014 (including on exploration and production assets, and write-down of gas inventories), compared with PLN +58m in H1 2013.
- Finance costs down due to lower debt and limited effect of foreign exchange differences.

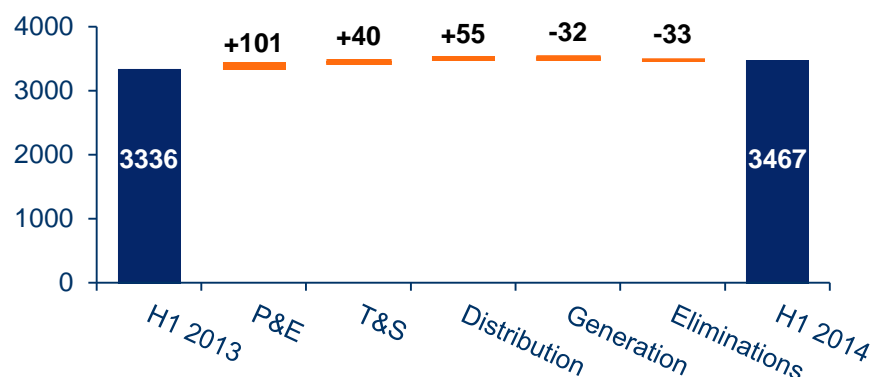
**Strong operating performance  
constrained by non-recurring non-cash  
items and mild winter**

# Business segments – EBITDA H1 2014

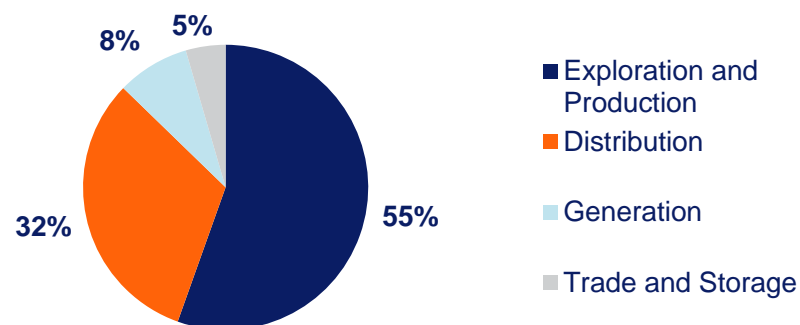
| (PLNm)                     | H1 2013 | H1 2014      | Δ%   | Contribution to Group's result |
|----------------------------|---------|--------------|------|--------------------------------|
| Exploration and Production | 1,840   | <b>1,941</b> | 5%   | <b>55%</b>                     |
| Trade and Storage          | 118     | <b>158</b>   | 34%  | <b>5%</b>                      |
| Distribution               | 1,058   | <b>1,113</b> | 5%   | <b>32%</b>                     |
| Generation                 | 320     | <b>288</b>   | -10% | <b>8%</b>                      |
| Other, eliminations        | 0       | <b>(33)</b>  | -    | -                              |
| Total                      | 3,336   | <b>3,467</b> | 4%   | <b>100%</b>                    |

- Growing crude oil sales volumes.
- Impact of non-cash items: recognition of impairment losses of PLN -343m.
- Half-year margin on sales of Group E gas at +0.5% (H1 2013: -2%).
- PLN -141m write-down of gas inventories.
- Stable performance thanks to lower balancing costs in Q2 2014 and annual bonus payments postponed until Q3 2014.
- Impact of average air temperatures on heat and electricity sales volumes and lower electricity prices

## Segments' contribution to Group's EBITDA H1 2013 vs H1 2014



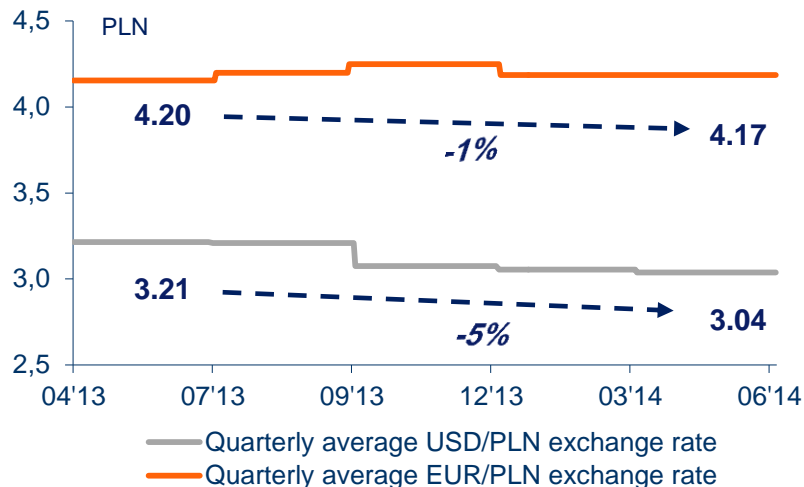
## Segments' contribution to Group EBITDA



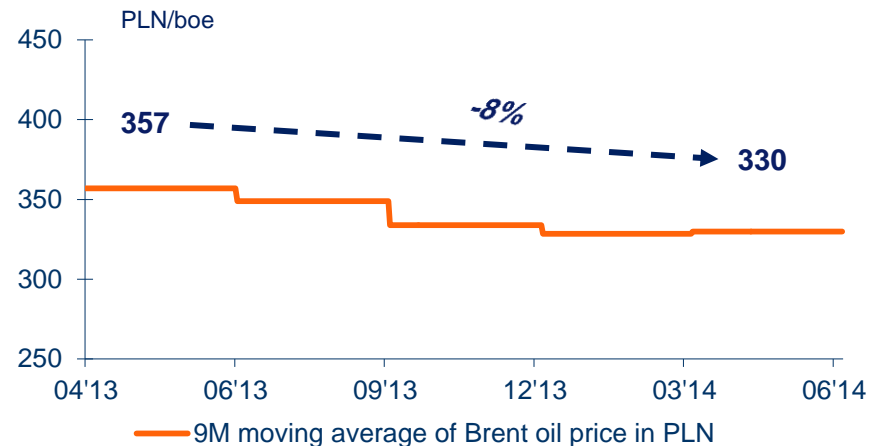
**Commercial viability of upstream projects confirmed**

# Factors contributing to financial performance

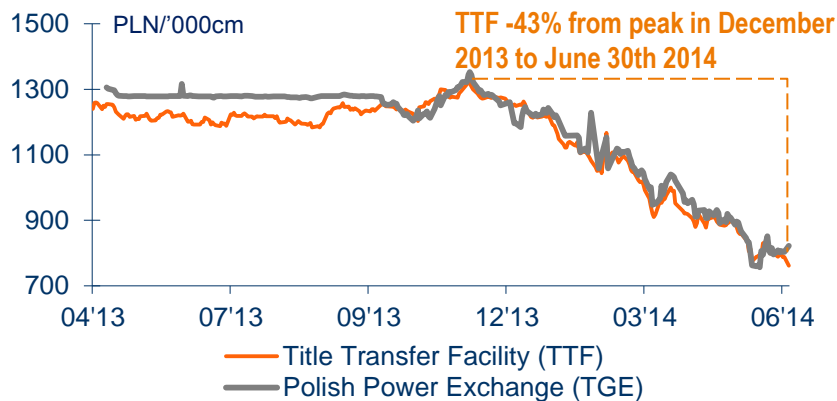
## Stable average USD/PLN and EUR/PLN FX rates



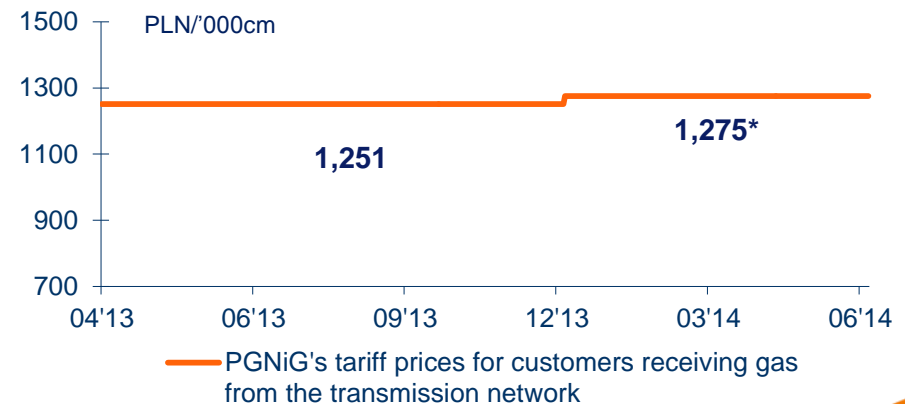
## Stable crude oil prices in 2014 with a yoy decline of 8%



## Converging gas prices at TTF and TGE



## Stable gas tariff in 2014



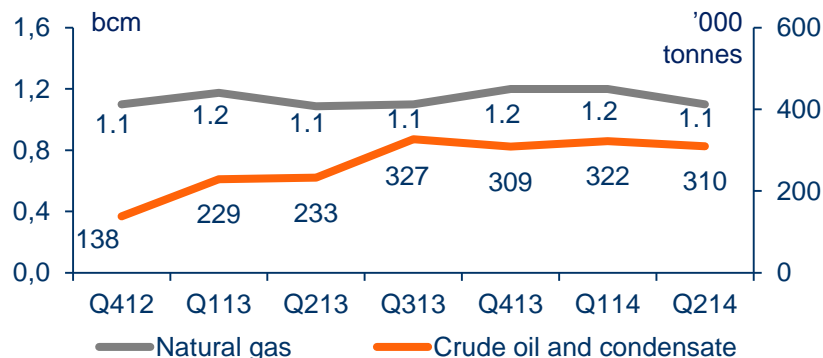
\*Since January 1st 2014, the gas fuel price has included storage cost and a part of transmission cost, previously included in the network charge.

# Segments – Exploration and Production

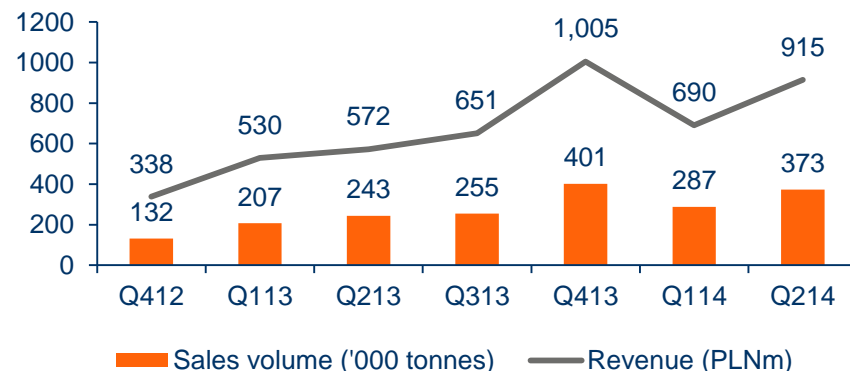
| (PLNm)                         | H1 2013 | H1 2014        | Δ%  |
|--------------------------------|---------|----------------|-----|
| Revenue                        | 2,762   | <b>3,426</b>   | 24% |
| Operating expenses (excl. D&A) | (922)   | <b>(1,485)</b> | 61% |
| EBITDA                         | 1,840   | <b>1,941</b>   | 5%  |
| Depreciation and amortisation  | (465)   | <b>(625)</b>   | 34% |
| EBIT                           | 1,375   | <b>1,316</b>   | -4% |

- +PLN 504m (+46%) yoy growth in revenue from sales of crude oil and condensate, with sales volume up from 450 to 660 thousand tonnes.
- Higher inter-segment sales of gas from Norwegian fields to PGNiG Sales & Trading: 232 mcm vs 146 mcm.
- Net impairment losses of PLN -343m in H1 2014 (H1 2013: PLN +78m): i) exploration assets, ii) production assets – market gas price used in DCF models.
- Services include higher costs of dry wells and exploration assets written off (PLN -198m in H1 2014 vs PLN -81m in H1 2013).
- PLN 146m higher depreciation and amortisation expense on Norwegian assets (depreciated using units-of-production method).

## Steady natural gas production and higher crude oil output vs H1 2013



## Crude oil and condensate: quarter's revenue (depending on date of sale)



**Strong operating performance constrained by non-recurring items**

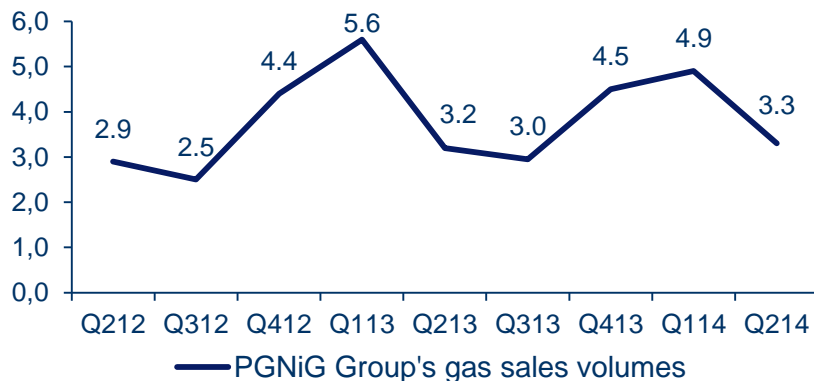


# Segments – Trade and Storage (1)

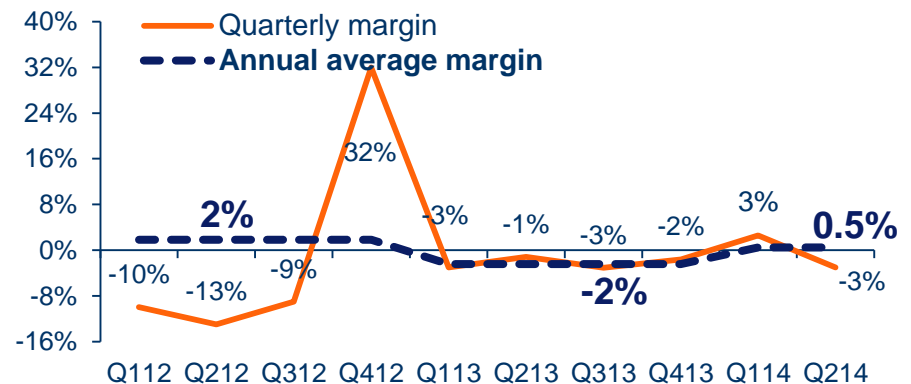
| (PLNm)                         | H1 2013  | H1 2014         | Δ%   |
|--------------------------------|----------|-----------------|------|
| Revenue                        | 13,827   | <b>13,306</b>   | -4%  |
| Operating expenses (excl. D&A) | (13,709) | <b>(13,148)</b> | -4%  |
| EBITDA                         | 118      | <b>158</b>      | 34%  |
| Depreciation and amortisation  | (87)     | <b>(77)</b>     | -11% |
| EBIT                           | 30       | <b>80</b>       | 167% |

- 0.6 bcm yoy decline in sales volume of gas in H1 2014, with a concurrent growth in off-tariff sales of gas on the Polish Power Exchange (241 mcm vs 25 mcm).
- PST's contribution to overall gas sale revenue remaining stable yoy at PLN 0.9bn.
- PLN 0.98bn in revenue from electricity sales in H1 2014 vs PLN 0.36bn in H1 2013 (Trade & Storage).
- Negative margin (-3%) on Group E gas sales in Q2 2014 (despite lower gas fuel cost) after accounting for the PLN 290m higher cost of: hedging transactions, exploration costs, white certificates and imbalance charge incurred by PGNiG SA – compared with Q2 2013.
- PLN 141m write-down of gas inventories recognised in Q2 2014.

## PGNiG Group's gas sales down 0.6 bcm in H1 2014 yoy (Q2 2014: up 0.1 bcm yoy)



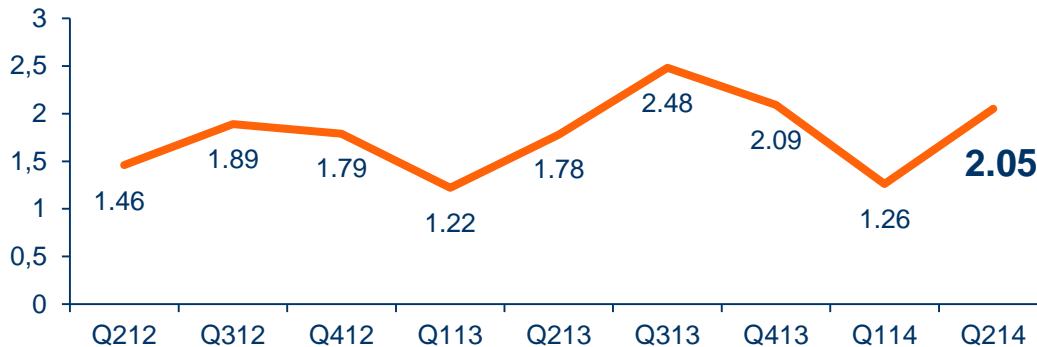
## PGNiG's Group E gas margin at +0.5% in H1 2014



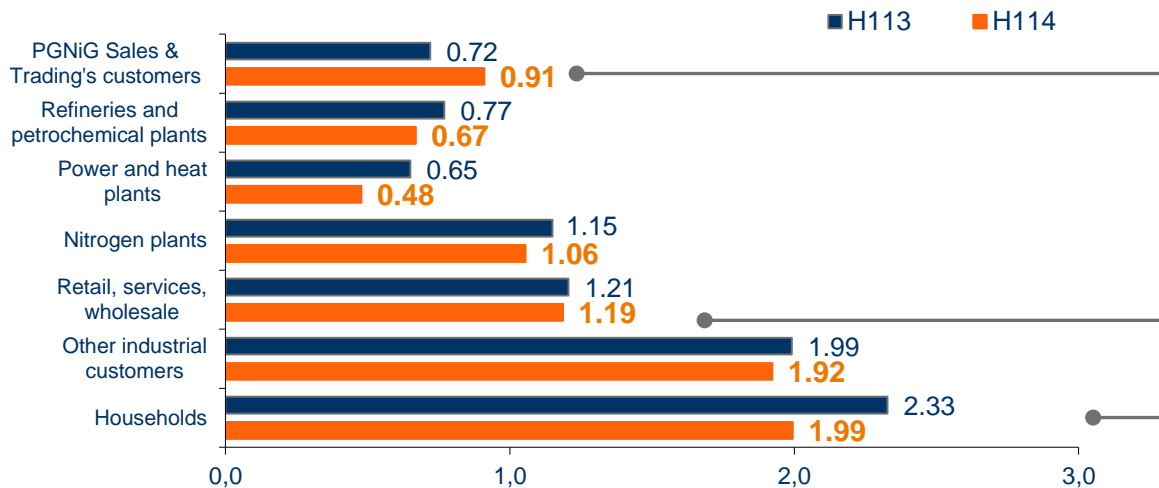
**Positive margin on gas sales and EBITDA up year on year**

# Segments – Trade and Storage (2)

## Gas inventory levels (bcm)



## PGNiG Group – Gas sales volumes by customer group (bcm)



- Since August 1st 2014, supplies of natural gas to 6.7m PGNiG S.A.'s customers have been handled by PGNiG Obrót Detaliczny based on the current gas tariff, which remains in force until 2014. The tariff to be applicable in subsequent periods will be determined based on the retail trading company's costs, in particular the cost of gas, which in major part will be purchased through the Polish Power Exchange.
- At PGNiG SA: gas imports down year on year by over 0.8 bcm (5.13 bcm vs 5.94 bcm), including 0.52 bcm less from countries east of Poland.
- Gas imports from across Poland's eastern border at 4.5 bcm, with imports from across the western and southern borders at 0.6 bcm (5.1 bcm and 0.9 bcm in H1 2013, respectively).
- 0.91 bcm of gas sold by PST (mainly in Germany) in H1 2014 vs 0.72 bcm in H1 2013.
- 241 mcm of gas sold and delivered by PGNiG SA through Polish Power Exchange in H1 2014 (H1 2013: 25 mcm) - a nearly tenfold yoy increase.
- Significant impact of warmer winter on sales to retail customers and CHP plants.

**High inventory levels and the impact of high average air temperatures on sales volume**

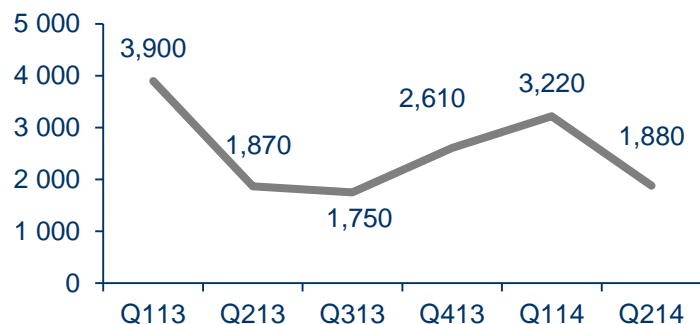


# Segments – Distribution

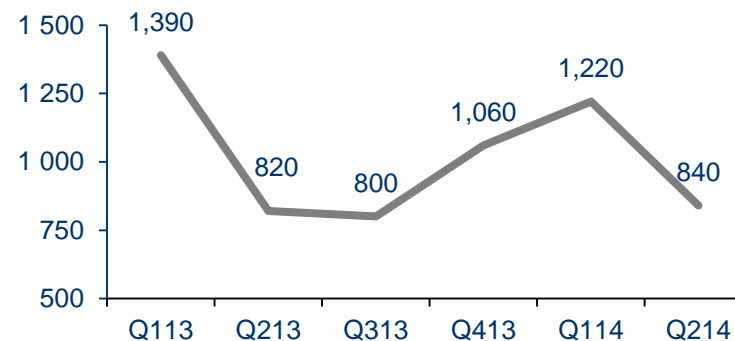
| (PLNm)                         | H1 2013 | H1 2014        | Δ%  |
|--------------------------------|---------|----------------|-----|
| Revenue                        | 2,306   | <b>2,319</b>   | 1%  |
| Operating expenses (excl. D&A) | (1,248) | <b>(1,206)</b> | -3% |
| EBITDA                         | 1,058   | <b>1,113</b>   | 5%  |
| Depreciation and amortisation  | (422)   | <b>(431)</b>   | 2%  |
| EBIT                           | 636     | <b>682</b>     | 7%  |

- Gas distribution volume in Q2 2014 remained unchanged year on year, but Q1 2014 saw a 17% decline. In H1 2014, distribution volume was down 0.67 bcm, or 12% (average air temperature higher by 2°C).
- The cost of employee benefits was lower by PLN 62m in H1 2014, partly due to annual bonus payments postponed until Q3 2014 (relevant provision of PLN 71m recognised in Q4 2013).
- Net cost of system balancing stood at PLN +12m in H1 2014 (including PLN +116m in Q2 2014 alone).

Gas distribution volume (mcm)



Revenue from distribution services (PLNm)



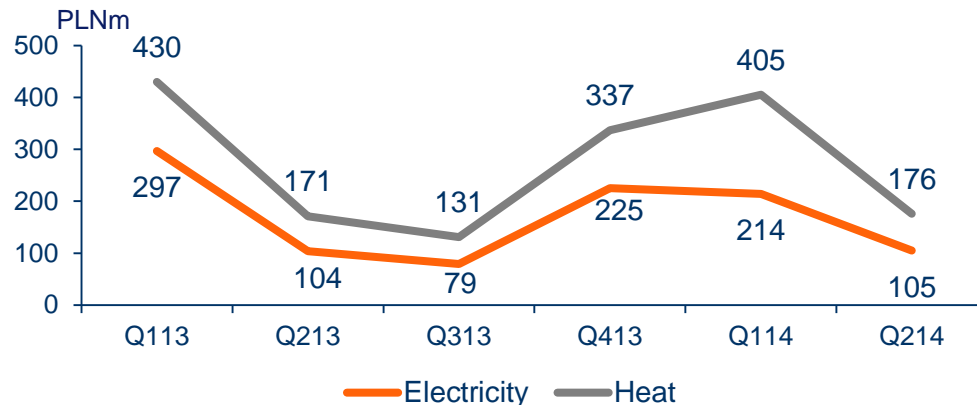
Stable performance for H1 2014

# Segments – Generation

| (PLNm)                         | H1 2013 | H1 2014      | Δ%   |
|--------------------------------|---------|--------------|------|
| Revenue                        | 1,128   | <b>1,035</b> | -8%  |
| Operating expenses (excl. D&A) | (809)   | <b>(747)</b> | -8%  |
| EBITDA                         | 320     | <b>288</b>   | -10% |
| Depreciation and amortisation  | (176)   | <b>(155)</b> | -12% |
| EBIT                           | 143     | <b>133</b>   | -7%  |

- Revenue from heat sales down PLN 20m, to PLN 581m, despite a rise in heat tariff as of July 2013.
- Revenue from sales of electricity cut by PLN 59m, to PLN 426m.
- Revenue from sale of certificates of origin for electricity down (PLN 10m in H1 2014 vs PLN 27m a year earlier), and no revenue from red certificates (cogeneration).
- Cost of fuels for electricity and heat generation down PLN -95m, to PLN 439m.
- Amortisation of intangible assets, including CO2 emission allowances, at PLN -26m vs PLN -40m in H1 2013.

## PGNiG Termika's revenue from sale of heat and electricity (from own generation sources)



### Semi-annual sales volumes at PGNiG Termika:

- Heat sales at 20.7 PJ, i.e. 14% less yoy (mainly as a result of mild winter in Q1 2014).
- Electricity sales: down 5%, to 2 TWh (in Q2 2014 alone – up 6% yoy)

**Weaker performance amid unfavourable conditions**

# Operating expenses – H1 2014

| (PLNm)  | H1 2013  | H1 2014         | Δ%   |
|---|----------|-----------------|------|
| Cost of gas sold                              | (9,801)  | <b>(8,271)</b>  | -16% |
| Electricity for trading                       | (180)    | <b>(530)</b>    | 195% |
| Other raw material and consumables used       | (323)    | <b>(269)</b>    | -17% |
| Fuels for heat and power generation           | (534)    | <b>(439)</b>    | -18% |
| Employee benefits                             | (1,418)  | <b>(1,373)</b>  | -3%  |
| Transmission services                         | (559)    | <b>(548)</b>    | -2%  |
| Cost of dry wells written-off                 | (81)     | <b>(157)</b>    | 94%  |
| Other services                                | (640)    | <b>(695)</b>    | 9%   |
| Net other income/(expenses)                   | (292)    | <b>(1,009)</b>  | 245% |
| ▪ <i>change in impairment losses</i>          | 58       | <b>(501)</b>    | x10  |
| ▪ <i>exchange differences and derivatives</i> | (22)     | <b>(168)</b>    | x7   |
| Work performed by the entity and capitalised  | 424      | <b>375</b>      | -11% |
| Operating expenses (excl. D&A)                | (13,404) | <b>(12,915)</b> | -4%  |
| Depreciation and amortisation                 | (1,162)  | <b>(1,298)</b>  | 12%  |
| Total operating expenses                      | (14,566) | <b>(14 214)</b> | -2%  |

- Gas sales volume down -6% year on year.
- The effect of cost of gas being partially linked to exchange prices, which went down approx. -17% year on year.

- Electricity trading volume up at PGNiG SA and PGNiG Sales & Trading.

- Lower coal consumption and unit coal prices (including transport costs).

- Eight dry wells written off in H1 2014 (five in Q2 2014, including one on the Norwegian Continental Shelf).

- PLN -41m cost of geophysical surveys written off in H1 2014 (H1 2013: PLN 0m).

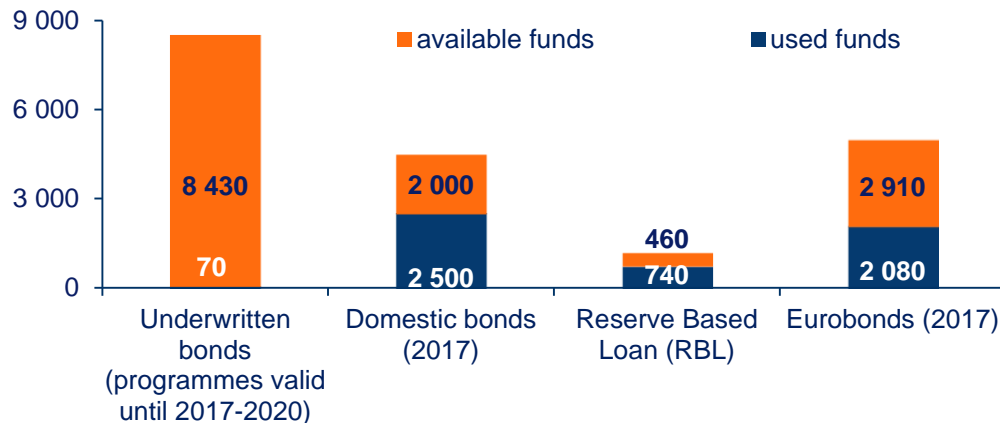
- Impact of impairment losses on exploration and production assets (including geophysical assets) and write-down of gas inventories following a review of the usefulness of exploration work performed in 2003–2014, and revision of the measurement methodology, which now reflects changes taking place on the Polish gas market.

- PLN 146m yoy rise in depreciation expense on Skarv production assets (depreciated using units-of-production method).

**Flexibility of gas supply contracts and effect of non-recurring items**

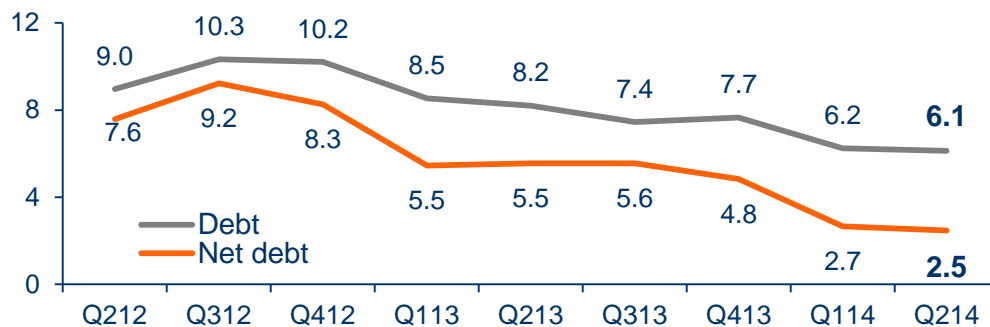
# Debt and sources of financing

## Financing sources as at June 30th 2014 (PLNm)

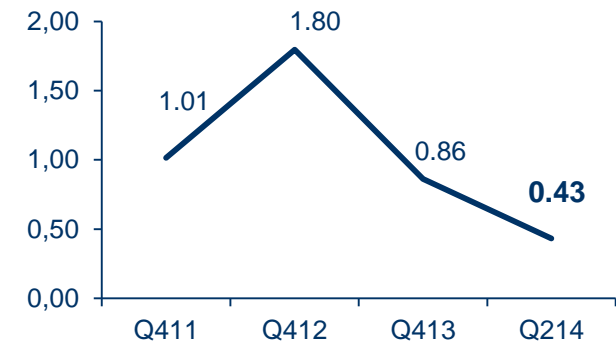


- Optimisation of financing sources
- Available financing programmes for PLN 13.8bn, including PLN 8.4bn underwritten.
- Net debt / EBITDA for the four quarters: 0.43.

## Debt (PLNbn)



## Net debt / trailing EBITDA



**Strong financial position**









# Appendix

# Business segments – EBITDA Q2 2014

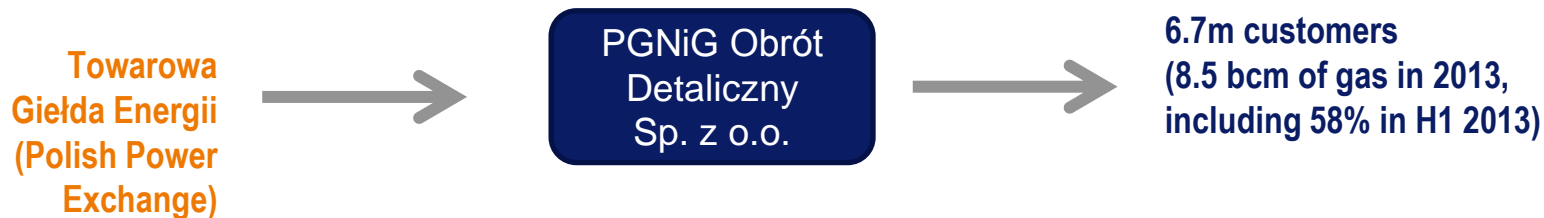
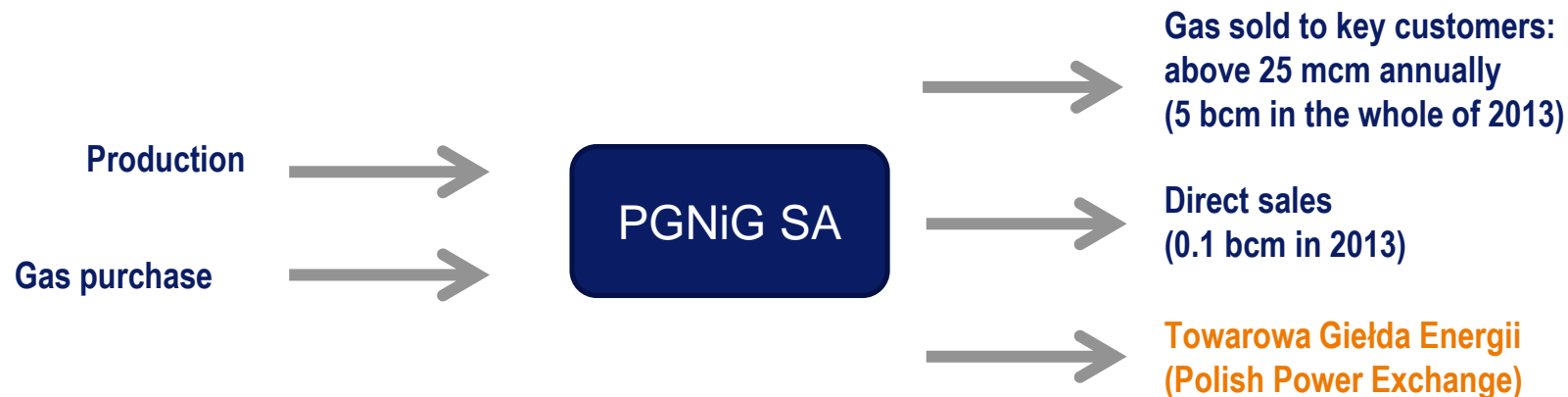
| (PLNm)                     | Q2 2013 | Q2 2014      | Δ%    | Contribution to Group's result |
|----------------------------|---------|--------------|-------|--------------------------------|
| Exploration and Production | 929     | <b>815</b>   | -12%  | <b>62%</b>                     |
| Trade and Storage          | 117     | <b>(70)</b>  | -160% | <b>-5%</b>                     |
| Distribution               | 243     | <b>488</b>   | 101%  | <b>37%</b>                     |
| Generation                 | 62      | <b>72</b>    | 16%   | <b>6%</b>                      |
| Other, eliminations        | 9       | <b>(19)</b>  | -311% | -                              |
| Total                      | 1,360   | <b>1,285</b> | -6%   | <b>100%</b>                    |

- Revenue from sales of crude oil and condensate up PLN 343m.
- Impact of non-cash items: recognition of impairment losses of PLN -333m.
- Negative Group E gas margin at -3% in Q2 2014.
- Recognition of a PLN -141m write-down on gas inventories.
- Cost of employee benefits down PLN 53m year on year (postponing bonus payments until Q3 2014).
- Net income under system balancing of PLN +116m in Q2 2014.
- Slight growth in revenue from sales of heat (lower sales volume with a higher price yoy) and electricity (higher sales volume with reduced prices).

Quarterly performance constrained  
by non-cash items



# High-methane gas trading and retail sales after August 1st 2014



# Production and sales volumes

| NATURAL GAS PRODUCTION, PGNiG Group         |              |              |               |              |              |              |              |               |              |              |              |              |
|---|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| (mcm)                                       |              |              |               |              |              |              |              |               |              |              |              |              |
|   | Q2 2014      | Q1 2014      | FY 2013       | Q4 2013      | Q3 2013      | Q2 2013      | Q1 2013      | FY 2012       | Q4 2012      | Q3 2012      | Q2 2012      | Q1 2012      |
| HIGH-METHANE GAS (E)                        | 482          | 479          | 1,890         | 483          | 481          | 484          | 443          | 1,608         | 403          | 397          | 401          | 407          |
| including Poland                            | 362          | 367          | 1,550         | 384          | 387          | 387          | 393          | 1,608         | 403          | 397          | 401          | 407          |
| including in Norway                         | 120          | 112          | 340           | 99           | 94           | 96           | 50           | 0             | 0            | 0            | 0            | 0            |
| NITROGEN-RICH GAS (Ls/Lw as E equiv.)       | 650          | 704          | 2,692         | 737          | 619          | 604          | 733          | 2,710         | 706          | 648          | 625          | 731          |
| including Poland                            | 636          | 690          | 2,667         | 722          | 609          | 604          | 733          | 2,710         | 706          | 648          | 625          | 731          |
| including in Pakistan                       | 15           | 14           | 25            | 15           | 10           | 0            | 0            | 0             | 0            | 0            | 0            | 0            |
| <b>TOTAL (measured as E equivalent)</b>     | <b>1,132</b> | <b>1,182</b> | <b>4,582</b>  | <b>1,220</b> | <b>1,100</b> | <b>1,087</b> | <b>1,175</b> | <b>4,317</b>  | <b>1,109</b> | <b>1,044</b> | <b>1,026</b> | <b>1,138</b> |
| Total production in kboe/d                  | 78           | 83           | 79            | 83           | 75           | 75           | 82           | 74            | 76           | 71           | 71           | 79           |
| NATURAL GAS SALES, PGNiG Group              |              |              |               |              |              |              |              |               |              |              |              |              |
| (mcm)                                       |              |              |               |              |              |              |              |               |              |              |              |              |
|   | Q2 2014      | Q1 2014      | FY 2013       | Q4 2013      | Q3 2013      | Q2 2013      | Q1 2013      | FY 2012       | Q4 2012      | Q3 2012      | Q2 2012      | Q1 2012      |
| HIGH-METHANE GAS (E)                        | 3,078        | 4,521        | 15,006        | 4,132        | 2,731        | 2,965        | 5,178        | 13,756        | 4,070        | 2,315        | 2,698        | 4,673        |
| including PST sales outside PGNiG Group     | 444          | 465          | 1,383         | 356          | 306          | 271          | 449          | 324           | 211          | 40           | 24           | 49           |
| NITROGEN-RICH GAS (Ls/Lw as E equiv.)       | 253          | 361          | 1,202         | 351          | 220          | 245          | 387          | 1,156         | 336          | 216          | 233          | 372          |
| <b>TOTAL (measured as E equivalent)</b>     | <b>3,330</b> | <b>4,882</b> | <b>16,208</b> | <b>4,483</b> | <b>2,951</b> | <b>3,210</b> | <b>5,564</b> | <b>14,913</b> | <b>4,406</b> | <b>2,531</b> | <b>2,931</b> | <b>5,045</b> |
| GAS IMPORTS by PGNiG S.A.                   |              |              |               |              |              |              |              |               |              |              |              |              |
| (mcm)                                       |              |              |               |              |              |              |              |               |              |              |              |              |
|   | Q2 2014      | Q1 2014      | FY 2013       | Q4 2013      | Q3 2013      | Q2 2013      | Q1 2013      | FY 2012       | Q4 2012      | Q3 2012      | Q2 2012      | Q1 2012      |
| Total                                       | 2,594        | 2,541        | 10,850        | 2,664        | 2,245        | 2,481        | 3,460        | 11,000        | 3,105        | 2,133        | 2,763        | 2,999        |
| including: sources east of Poland           | 2,515        | 2,026        | 8,734         | 1,793        | 1,885        | 2,272        | 2,784        | 9,018         | 2,589        | 1,858        | 2,432        | 2,139        |
| CRUDE OIL                                   |              |              |               |              |              |              |              |               |              |              |              |              |
| ('000 tonnes)                               |              |              |               |              |              |              |              |               |              |              |              |              |
|   | Q2 2014      | Q1 2014      | FY 2013       | Q4 2013      | Q3 2013      | Q2 2013      | Q1 2013      | FY 2012       | Q4 2012      | Q3 2012      | Q2 2012      | Q1 2012      |
| Production of crude oil and condensate      | 310          | 322          | 1,099         | 309          | 327          | 233          | 229          | 492           | 139          | 130          | 96           | 128          |
| including Poland                            | 184          | 203          | 815           | 215          | 218          | 178          | 204          | 492           | 139          | 130          | 96           | 128          |
| including in Norway                         | 126          | 119          | 283           | 94           | 109          | 55           | 25           | 0             | 0            | 0            | 0            | 0            |
| Total production in kbb/d                   | 25           | 26           | 22            | 25           | 26           | 19           | 19           | 10            | 11           | 10           | 8            | 10           |
| Sales of crude oil and condensate           | 373          | 287          | 1,106         | 401          | 255          | 243          | 207          | 485           | 132          | 129          | 96           | 127          |
| including Poland                            | 185          | 201          | 809           | 222          | 213          | 180          | 194          | 485           | 132          | 129          | 96           | 127          |
| including in Norway                         | 188          | 85           | 297           | 179          | 42           | 63           | 13           | 0             | 0            | 0            | 0            | 0            |
| PGNiG TERMIKA                               |              |              |               |              |              |              |              |               |              |              |              |              |
|   | Q2 2014      | Q1 2014      | FY 2013       | Q4 2013      | Q3 2013      | Q2 2013      | Q1 2013      | FY 2012       | Q4 2012      | Q3 2012      | Q2 2012      | Q1 2012      |
| Production HEAT net (sales) (TJ)            | 5,336        | 15,434       | 40,175        | 12,530       | 3,367        | 5,766        | 18,511       | 40,214        | 14,242       | 2,748        | 5,503        | 17,721       |
| Production ELECTRICITY (net for sale) (GWh) | 648          | 1,390        | 3,772         | 1,189        | 445          | 613          | 1,526        | 3,719         | 1,288        | 396          | 633          | 1,403        |