

# **Corporate Presentation**

Financial Results of Q4 and FY 2015

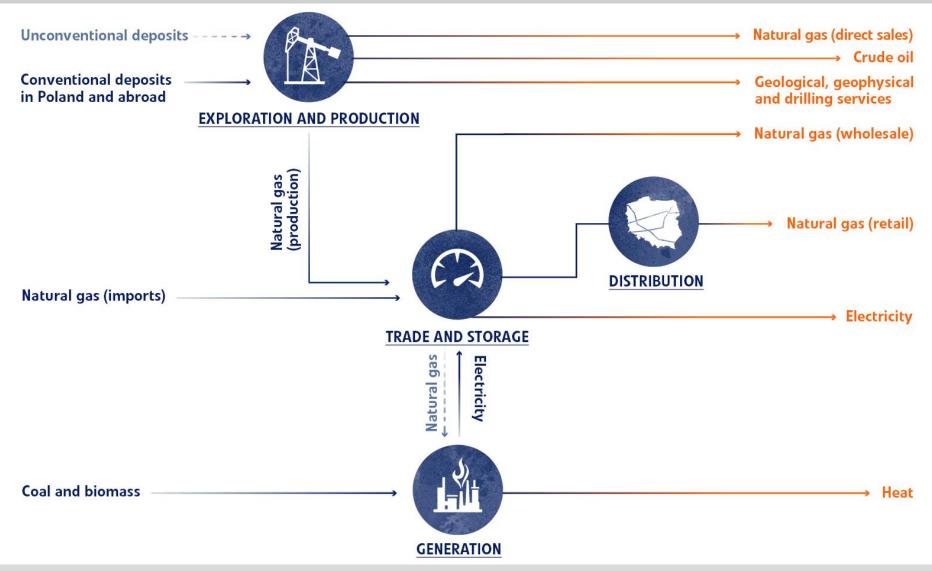
March 2016





# Poland's no.1 integrated group in the oil and gas sector





# **PGNiG** on Warsaw Stock Exchange



Fifth largest Polish company on the Warsaw Stock Exchange\*\*

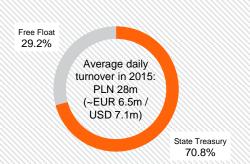
Listed on WSE since September 2005

Market cap. of PLN 29bn (EUR 6.7bn USD 7.4bn)\* Significant share in WIG 20 index: 5%

#### Stock performance since January 2012

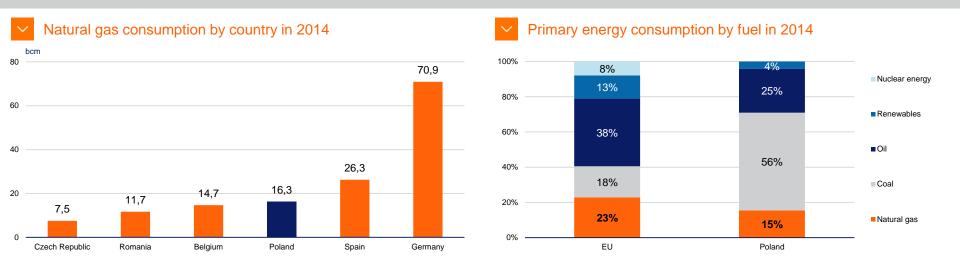


Shareholder Structure (as on December 31, 2015)

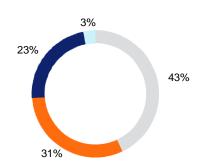


# **Gas market in Poland**

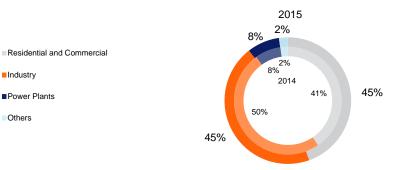












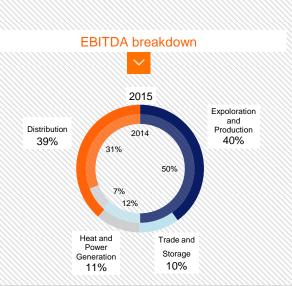
Low consumption with growth potential



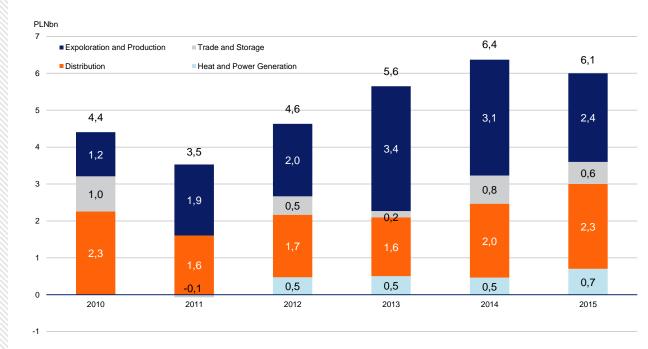
# **EBITDA 2010-2015**



Stable EBITDA level due to diversified inflows sources



## PGNiG Group's EBITDA\*



# **Exploration & Production summary**



PGNiG SA is a leader in production of gas and crude oil in Poland

#### PGNiG's resources base in Poland:

- Proved gas reserves 501 mboe (77.7 bcm)\*
- Proved oil reserves 130 mboe (17.8 m tonnes)

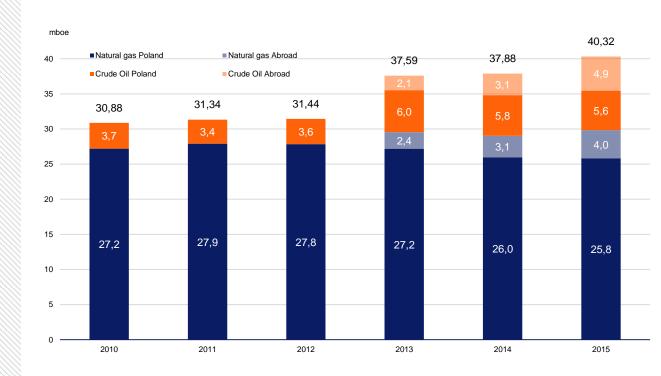
#### Oil & Gas Concessions in Poland:

- 61 exploration/appraisal
- 227 production

#### Exploration & Production activities:

- 57 production facilities in Poland
- Over 2 thousand producing wells

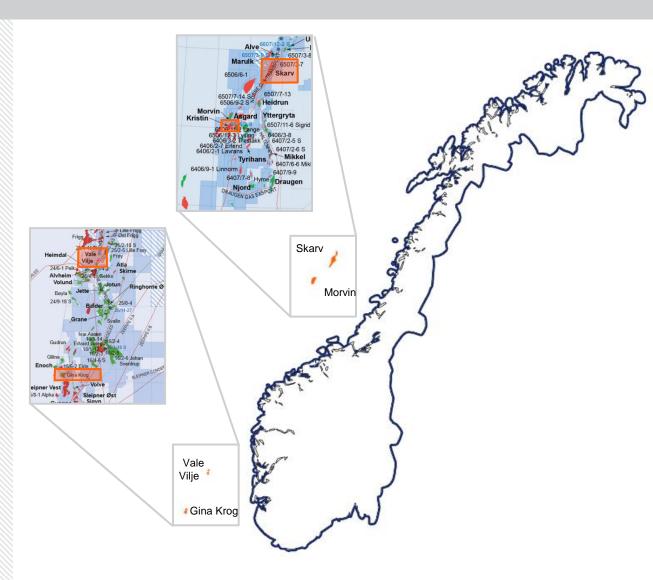




# **International E&P activities – Norway**



Licenses	19
	USD 360m (Skarv)
Licence cost	NOK 1.95bn (Morvin, Vale, Vilje, Gina Krog)
Skarv CAPEX (PGNiG's part)	approx. USD 800m
Reserves of the licence (2P) for PGNiG	59 mboe (Skarv)
	29 mboe (Morvin, Vale, Vilje, Gina Krog)
Skarv's production in 2015	2.8 mboe (0.4 bcm) of natural gas
	3.0 mboe (0.4m tonnes) of crude oil and NGL



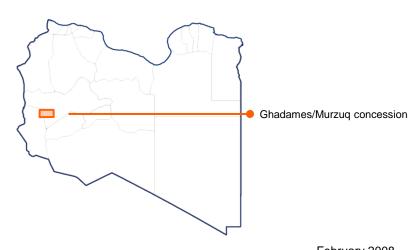
# International E&P activities – Africa and Asia

15m tonnes of condensate





African assets: Libya



agreement	February 2008
shares	PGNiG - 100%
area	5,494 sq km
location	Awbari province, Murzuq basin
obligations	3,000 km 2D; 1,500 sq km 3D, 8 wells
estimated reserves	146 bcm of natural gas,

4Q2013: asset write-off at PLN 420m and a provision for PLN 137m for future license obligations.

Force majeure clause activated.



Asian assets: Pakistan



May 2005
PGNiG 70% Pakistan Petroleum 30%
956 sq km
Sindh province, Folded belt Kirthar
2 wells, 100 km 2D (fulfilled)
11.5 bcm of natural gas
4.5 bcm of natural gas (Pab formation)

The Rizq-1 well proved the existence of a second deposit within the Kirthar licence area.

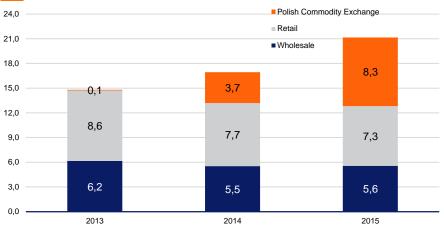
Surface installation (cost: USD 13m) allow to increase extraction to 800 cm/min

# Gas supply & sales

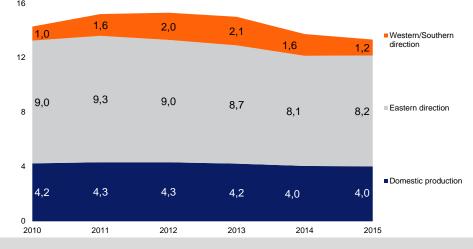


- Trade and Storage segment comprises:
  - sales of natural gas both imported and domestic to retail and wholesale markets,
  - storage of gas.
- Polish market growth: CAGR +1.6% 2005-2015
- App. 30% of Polish demand is met by domestic production the rest is covered by imports.
- Contract for natural gas deliveries with Gazprom ("Yamal contract") until 2022:
  - 10.2 bcm annually
  - 85% Take-or-Pay
  - Change in price formula in 4Q2012 from 100% oil link to oil/spot mix
- Contract for LNG with Qatargas until 2034:
  - 1.3 bcm annually
  - 100% Take-or-Pay
- 2.3 bcm of gas sold by PGNiG Supply & Trading to customers outside of Poland in 2015

# Sales of natural gas of PGNiG SA and PGNiG Retail (bcm)

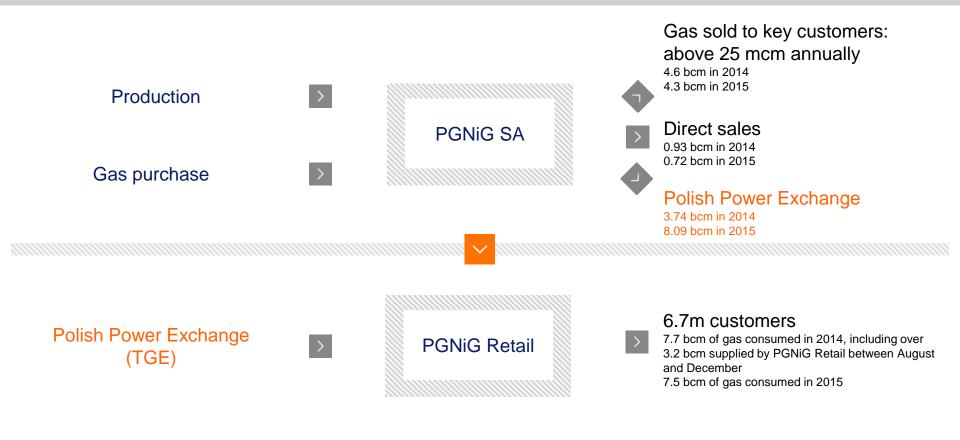


## Sources of gas supply of PGNiG SA in Poland (bcm)



# Gas trading and retail sales in Poland after August 1st 2014





Sales made on PPE by PGNiG SA and purchases made on PPE by PGNiG Retail, which commenced operations on August 1st 2014, are not subject to elimination from the consolidated financial statements, and are disclosed under the Trade and Storage segment.

Measured as high-methane gas equivalent (without intragroup eliminations).

# Development of underground gas storage facilities



#### Important data:

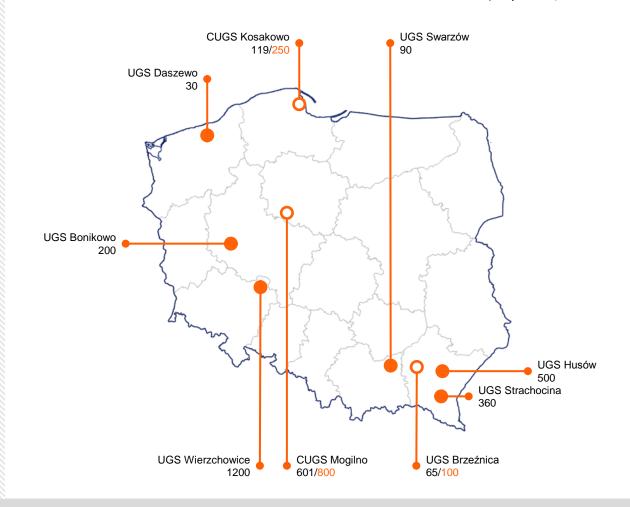
- Current no. of storage facilities including salt caverns
- 9 2
- Current capacity approx. 3.2 bcm
- Planned increased capacity for 2016:
  - UGS Brzeźnica +35 mcm
  - CUGS Kosakowo +25 mcm
- Required strategic gas reserves: 30 days (of daily average import)





UGS in construction/extension Capacity: actual/planned



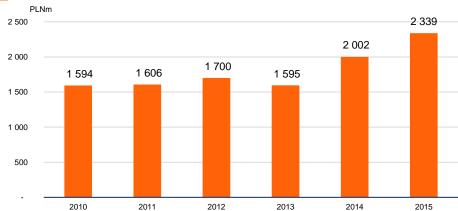


# **Distribution**

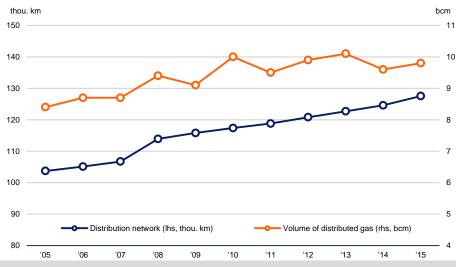


- Gas Distibution Company supplies natural gas from gas sellers to households, industrial and wholesale customers, and is responsible for operation, maintenance and development of gas pipelines.
- In 2015 "Polish Gas Company" (formerly six Regional Gas Companies) distributed 9.5 bcm of natural gas to 6.9m customers through 128 ths. km of distribution network.
- Tariff model: cost + return on capital (7.2% WACC × PLN 11.9bn RAB) PLN 150m gap (until June 2016).

## Stable EBITDA of the regulated segment



# Stabe network's growth and increase of distributed volumes (+1.6% CAGR 2005-2015)



## Coverage of gas distribution network



## **Heat and Power Generation**



#### **PGNiG Termika**

- January 2012 acquisition of 99.8% stake of Vattenfall Heat Poland S.A. from Vattenfall AB for PLN 3bn in cash (PLN 3.5bn EV)
- The largest heat producer in Poland; over 23% of the total heat capacities installed in Poland
- Covering approx. 75% of the total heat demand in Warsaw, as well as 98% of heat distributed through city's heating network
- Heat tariffs benchmarking scheme creates significant upside for profitability as PGNiG Termika produces low-cost heat
- 400 MWe gas-fired block is planned in Warsaw at Żerań plant (H1 2019)
- 146 MWt biomass-fired boiler to be built in Warsaw at Siekierki plant (2016)

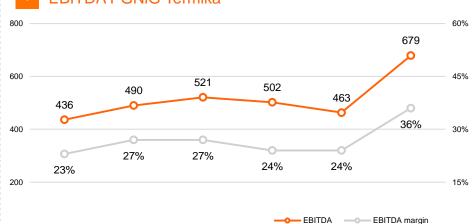
#### Combined Heat and Power Plant Stalowa Wola

- 50/50 JV PGNiG and Tauron Polska Energia:
  - Total CAPEX PLN 1.6bn (project finance)
  - PGNiG to supply 0.5 bcm of gas for 14 years
  - Agreement for Sale of Electricity, signed for 14 years (50% to PGNiG)
  - Total power output: 450 MWe and 240 MWt
  - In January, 2016: cancellation of the contract and imposition of penalties for general contractor related to the improper execution of the contract

#### PGNiG Termika operating data

Installed heat power	4,782 MWt
Installed electric power	1,015 MWe
Heat sales in 2015 (regulated)	36.2 PJ
Produced electricity sales in 2015	3.5 TWh







# Strategy of PGNiG Group for 2014-2022



## **E** PGNiG

- Maintaining stable trading volumes (both in retail and wholesale)
  - Optimisation of natural gas portfolio management
  - Developing and implementing a new retail and wholesale model

- Maximising cash flows from infrastructure and generation areas
  - Maximising value from transmission infrastructure (gas and heat distribution)
    - New area of development: acquisition of heat networks
- Taking active part in creating energy market regulations

- Strengthening and transforming the exploration and production area
- Maintaining domestic production at current levels (33 mboe)
- 6 Confirming the geological and economic potential of shale gas deposits in Poland
- Expanding the upstream business outside of Poland (approx. 20 mboe)

New area of development: acquisition of foreign assets

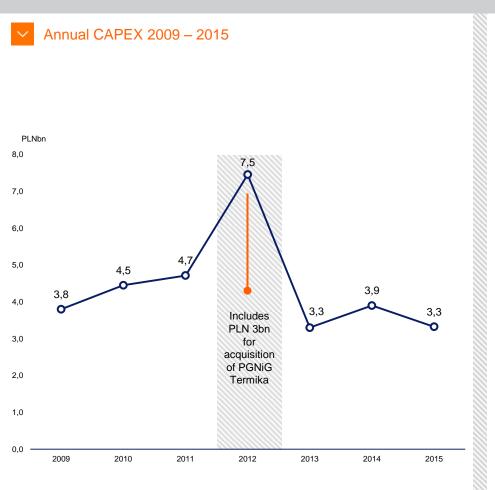
Laying foundations for growth along the value chain (PLN 700m–800m in savings)

Stabilisation of EBITDA at ~PLN 7bn in 2022

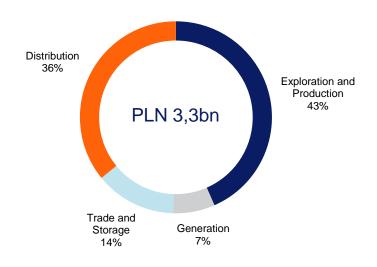
- Up to 50% of consolidated net profit to be paid as dividend in 2015–2022
  - (provided that the financial situation is stable, financing sources for investment projects are secured and PGNiG SA receives dividends from subsidiaries for a given year)

# CAPEX estimate for the years 2014-2022: PLN 40-50 billion









# **Debt and sources of financing**

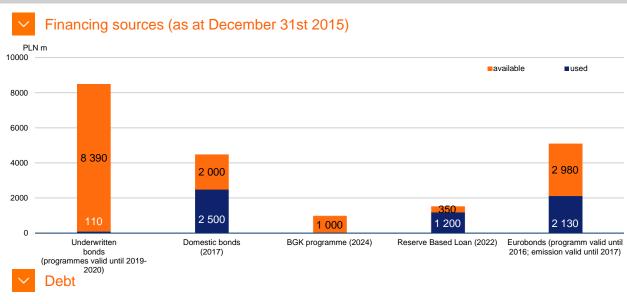


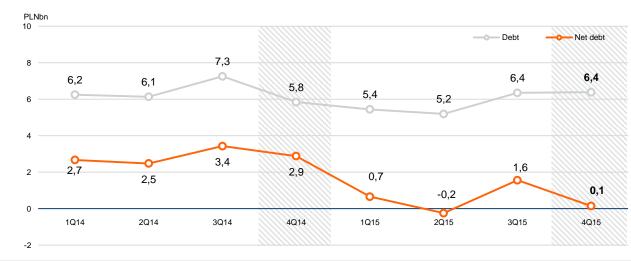
#### Strong financial standing



#### Comment:

- Available financing programmes for PLN 14.7bn, including PLN 9.7bn underwritten.
- In August 2015, PGNiG Upstream International signed a new reserve based loan agreement, with loan amount raised to USD 400m. This increased the scale of self-financing of PUI and the financing capacity of the PGNiG Group. The loan is a seven-year revolving facility with a grace period of 30 months.





## 2016 outlook



- Weaker results of Exploration and Production segment
- high global oil supply
- oversupply of natural gas during warm winter
- decline in hydrocarbon prices while strengthening of USD
- risk of further write-downs of production assets and other assets associated with exploration
- lower production volumes of crude oil and condensate in the PGNiG Group as a result of natural decline

- The fight for customers in the Trade and Storage
  - falling natural gas prices on European markets favorable for the purchase price while putting pressure on selling prices in Poland
- continuation of the discount policy
- a further decline in the cost of gas in the context of longterm contracts as a result of persistently low oil prices
- first supplies of LNG from Qatargas under the long-term contract

- Stable results of Distribution
- expected new tariff for Polska Spółka Gazownictwa starting in the second half of 2016
- increase in the volume of gas distributed as a result of investment and development of new connections
- further improvement of the cost effectiveness

The increase in the profitability of Generation

- lower prices of fuels used in production of heat and electricity
- possible acquisition of heating networks



# Financial highlights - Q4 2015



Major impact of falling commodity prices and gas market liberalisation on Q4 2015 operating performance

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	PGNiG	WIG20	

[PLNm]	Q4 2014	Q4 2015	$\Delta\%$
Revenue	11,487	9,769	(15%)
Operating expenses (excl. D&A)	(10,130)	(8,998)	(11%)
EBITDA	1,357	771	(43%)
Depreciation and amortisation expense	(600)	(717)	20%
EBIT	757	54	(93%)
Net finance income/(costs)	(130)	(70)	(46%)
Net profit	686	(21)	

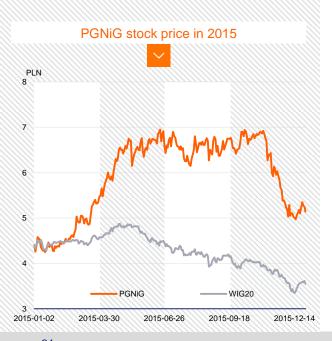
- Revenue from high-methane (E) gas sales down PLN 1.9bn year on year (PLN 7.4bn in Q4 2015), with sales volume down 0.3 bcm year on year, to 6.2 bcm.
- Revenue from crude oil and condensate sales down PLN 77m in Q4 2015, despite a 27% yearon-year rise in sales volumes, to 315 thousand tonnes, with declining oil prices as the key driver (average oil price down from USD 76/bbl (PLN 256/bbl) in Q4 2014 to USD 43/bbl (PLN 169/bbl) in Q4 2015.
- Cost of purchased gas down 17%, or PLN 1.3bn year on year.

- Negligible impact of the net proceeds settlement of Qatari gas in Q4 2015 (three deliveries settled in Q4).
- Depreciation/amortisation charge up PLN 117m year on year on higher sales volumes in Norway (units-of-production method of depreciation) and placement in service of the Wierzchowice underground storage facility.
- In Q4 2014 partial reversal of an impairment loss on shares in EuRoPol GAZ increased pre-tax profit by PLN 129m (DCF analysis based on lower interest rates and higher cash).
   No impact on performance in Q4 2015.

# Financial highlights – 2015



EBITDA down 4%, with oil and gas prices declining



[PLNm]	2014	2015	$\Delta\%$
Revenue	34,304	36,464	6%
Operating expenses (excl. D&A)	(27,959)	(30,384)	9%
EBITDA	6,345	6,080	(4%)
Depreciation and amortisation expense	(2,502)	(2,790)	12%
EBIT	3,843	3,290	(14%)
Net finance income/(costs)	(346)	(225)	(35%)
Net profit	2,822	2,136	(24%)

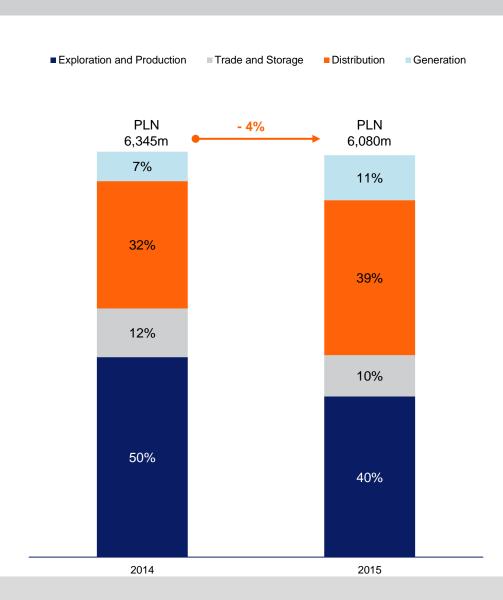
- Revenue from E gas sales up PLN 2.8bn, to PLN 28.5bn in 2015, with sales volume up 4.3 bcm year on year, to 21.7 bcm, driven by the exchange sale requirement.
- Revenue from sales of crude oil and condensate down PLN 709m, with sales volumes up 222 thousand tonnes year on year (consolidation of assets acquired from Total on the Norwegian Continental Shelf as of Q1 2015).
- Cost of gas sold up PLN 3.3bn, to PLN 22bn in 2015 (exchange sale requirement), with a decrease in costs reported by PGNiG SA.

- Net impairment losses, provisions and dry wells and seismics written off at PLN -1,062m in 2015, compared with PLN -1,513m in 2014 (change: +451m PLN).
- Depreciation/amortisation charge up PLN 288m year on year on higher sales volumes in Norway (units-of-production method) and placement in service of the Wierzchowice underground storage facility.
- Income tax up PLN 74m, with effective tax rate up from 22% to 29% (effect of tax settlements in Norway).
- Separate net profit of PGNiG SA in 2015: PLN 1.5bn vs PLN 1.9bn in 2014.

# Decrease at EBITDA in 2015 due to fall of oil prices globally



- The impact of falling commodity prices, mainly oil. EBITDA decreased by 4%, or PLN 260 million.
- The net impact of impairments, reserves, written-off dry wells and seismic surveys in 2015 amounted to PLN -1 062 million in comparison to PLN 513 million in 2014 difference of more than PLN 450 million
- Exploration and Production: The decrease in the price of crude oil and condensate and increase of the volume of sales
- Trade and Storage: revenues decreased by 9% at higher pace than the costs (8%) associated with a reduction in tariffs.
- Distribution: increased volume of gas distributed by 2%, increased tariff for distribution by 3% and the result of balancing the system of PLN 64 million in comparison with PLN -49 million a year earlier.
- Generation: lower fuel costs, increased price tariff of heat, obtained electricity sales prices higher by 6%



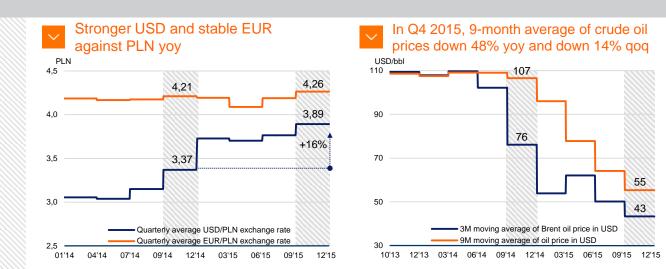
# **Performance drivers**



Noticeable impact of recent periods' tariff reductions on gas selling prices; average regulated price down 10% year on year in Q4 2015

#### Comments:

- Price in the chart is calculated on the combined tariff-price sales of PGNiG SA and PGNiG Retail to customers in Poland. It excludes transactions on the Polish Power Exchange, discounts, and gas sold directly from the fields.
- The largest volumes of gas were traded on the PPE and other gas exchanges under contracts with maturities of a quarter, season (summer/winter) and gas year, with the spot market playing a complementary role in gas trading.



Average tariff price of gas fuel in Poland and the price of gas on the PPE



# Operating expenses fuelled with increases in the cost of gas sold



(2,211) (2,714)	(11%)
	(11%)
(2,714)	
	(4%)
(2,674)	(6%)
(283)	(14%)
(1,733)	(15%)
(747)	(13%)
953	(3%)
(2,790)	12%
(11,169)	(5%)
(22,005)	17%
(33,174)	9%
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# EIP – 2016 target raised to over PLN 1bn



The Efficiency Improvement Programme aims to permanently reduce the manageable cost base across core PGNiG Group segments

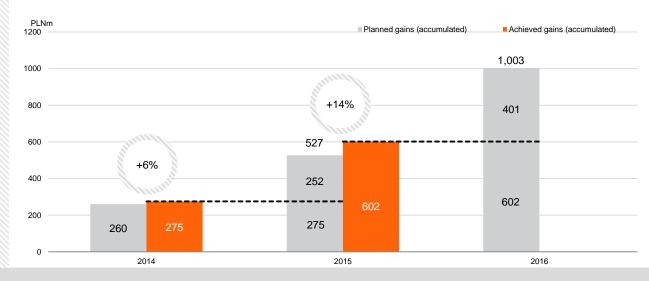
#### Programme objectives:

- To set efficiency improvement targets for the individual segments and entities within the PGNiG Group and to define related benefits to quality improvement.
- To define the scope of action and to assign specific tasks to individual business segments based on identified areas for improvement.
- To implement initiatives designed to improve PGNiG Group's operational efficiency by the end of 2016.

# Operating expenses covered by the EIP Manageable OPEX – PLN 5bn Key cost items (excluding EIP): Gas purchase costs Other fuel purchase costs Transmission service costs Transmission service costs Depreciation and

amortisation expense

## Cost savings target exceeded by PLN 75m in 2015



# Challenges of shale gas development – Poland vs USA

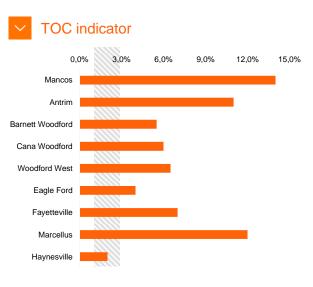


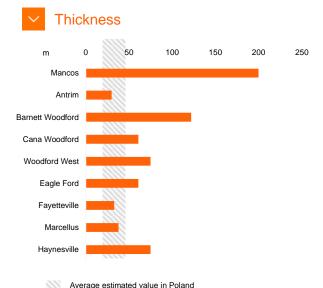
#### Reserves estimates:

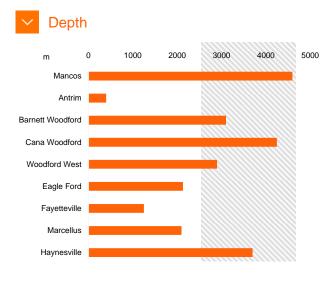
- 2 trillion cubic meters: initial estimate of shale gas resources in Poland
- PGNiG owns 3 standalone exploration licences with perspectives for shale gas
- Acreage of shale gas concessions over 2.5 thou. sq km
- 18 out of 68 wells drilled for shale gas by PGNiG

#### Challenges of shale gas development – Poland vs USA

- TOC indicator (Total Organic Carbon) describes the amount of organic matter in the rock indicates how much gas can be obtained from the deposit. The average TOC in Poland is approx. 2-5% and in the USA 2-14%.
- Thickness thickness of bedrock layer with higher thickness the posibility of obtaining hydrocarbons raises. The average thickness in Poland is approx. 30-70 m and in the USA 20-200 m.
- Deposit depth depth at which the production of deposit is possible. In Poland shale gas deposits are usually 3,000-4,000 m and in the USA are approx. 400-4,600 m.
- Mineralogical composition indicates the content of mineral composition in the bedrock. In Poland there is mainly mudstone and clay which are more difficult for hydraulic fracturing





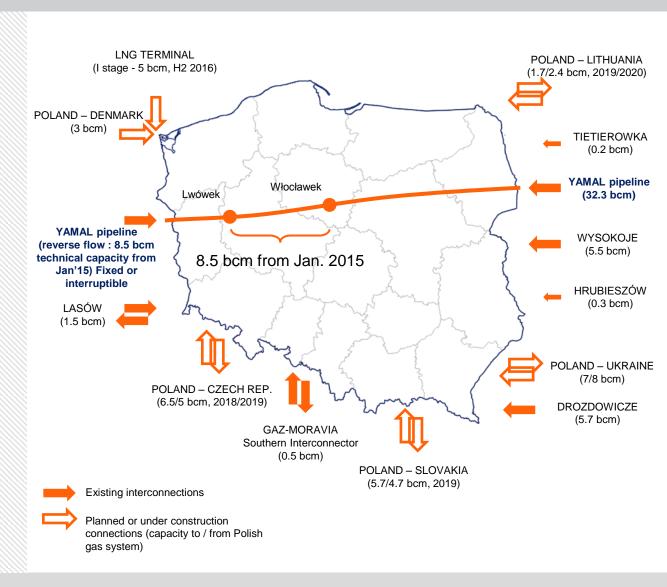


# **Gas transport routes**



#### Supply diversification:

- Increasing the level of supply security
- Avoiding interruptions in gas supply
- Reducing dependence on one source of supply (62% of gas sold in 2015 was imported from the east);
- Raising volumes of imported gas (gas demand is growing, the current entry points are overloaded);
- Balancing the gas supply sources.



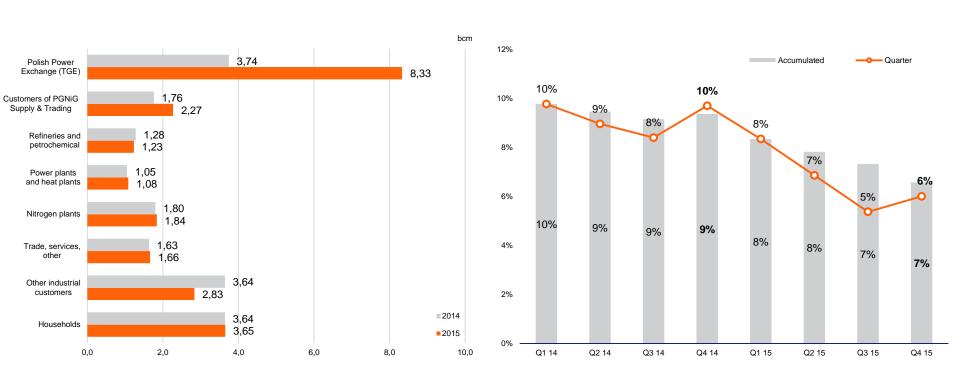
# **Trade and Storage**





PGNiG Group (PGNiG SA, PGNiG OD, PST) – gas sales volumes by customer group

Margin on (E) gas fuel



# Changes on the Polish gas market



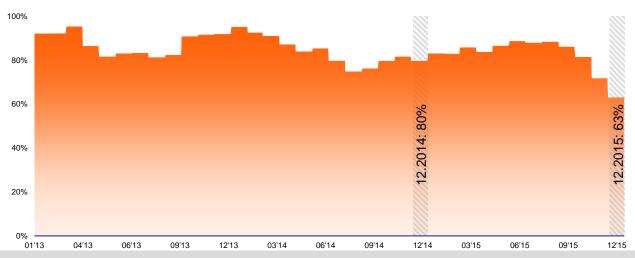
Gas market deregulation is affecting PGNiG's share in imports and sales structure

#### Comments:

- Since August 1st 2014, the PGNiG Group's gas sales volumes have included both PGNiG SA's sales through the exchange and PGNiG OD's sales to end customers and on the exchange.
- PGNiG OD's sales include nitrogen-rich gas, presented in the table as Group E gas equivalent.
- To achieve year-on-year data comparability, revenue and expenses could be reduced on a pro-forma basis by the value of gas purchased by PGNiG OD on the Polish Power Exchange in the period from January to July and in July, which amounted to PLN 5.1bn and PLN 0.31bn, respectively.
- Data in the chart are not to indicate PGNiG SA's share in the Polish gas market. They have been sourced from reports published by OGP Gaz-System on the volumes of gas flowing through interconnectors and illustrate PGNiG SA's share in gas inflows into Poland.

Gas sales volume [mcm]	2014	2015	Δ%
Total PGNiG Group	18 609	23 000	24%
PGNiG SA	13 751	13 177	(4%)
including PGNiG SA through PPE	3 742	8 089	x2,2
PGNiG Retail	3 042	7 502	x2,5

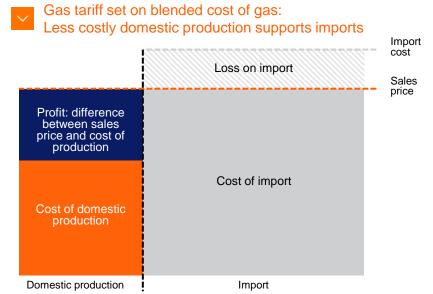


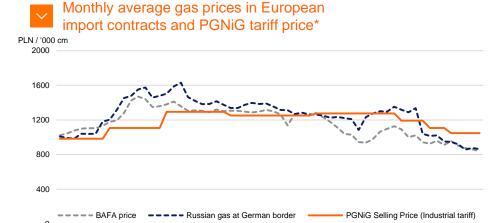


# **Tariff Model in Poland**



Type of activity	Regulatory mechanism
Direct sales	None
High-methane gas sales to large customers	Cost of imports + cost of production (including return on capital invested in E&P) + operating costs + margin
Storage (until March 2016)	Cost + return on capital (6.4% WACC x PLN 3.6bn RAB)
Distribution (until June 2016)	Cost + return on capital (7.2% WACC x PLN 11.9bn RAB) – 150m gap





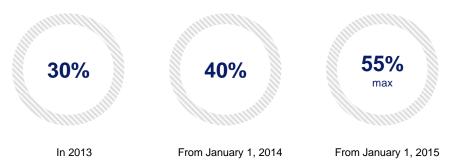
## Levels of obligatory trading on Polish Power Exchange

Oct-12

Aug-11

Jan-11

Mar-12



May-13

Dec-13

Jul-14

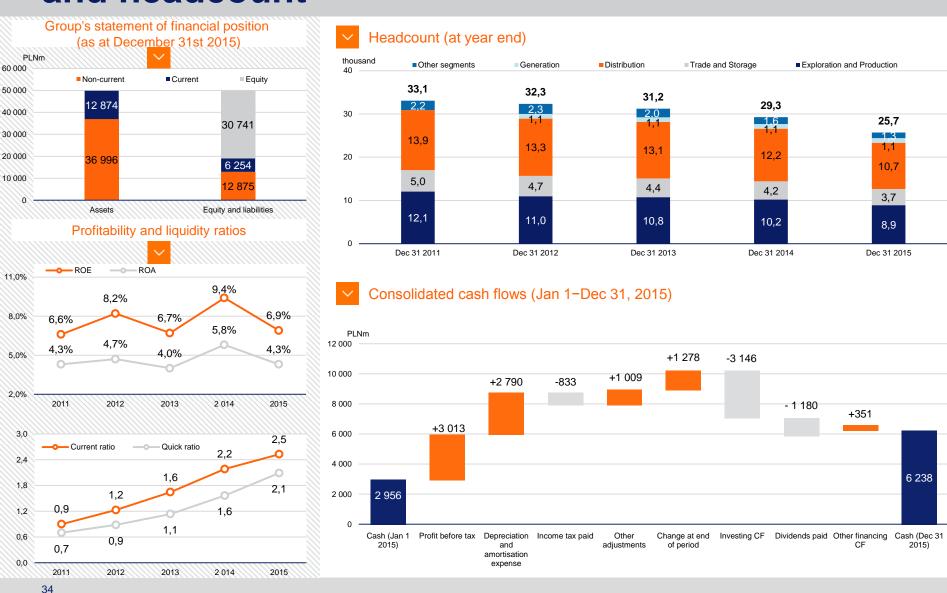
Feb-15

Sep-15

Liberalization of gas market in Poland is being implemented, based on obligatory trading on gas exchange in Warsaw and gradual removal of tariffs for certain segments of industrial customers.

# Statement of financial position, statement of cash flows, financial ratios and headcount





# **Production and sales volumes**



NATURAL GAS PRODUCTION, PGNiG Group [mcm]	FY 2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014
HIGH-METHANE GAS (E)	2,031	508	515	507	501	1,876	440	475	482	479
including in Poland	1,458	369	359	362	367	1,457	368	361	362	367
including in Norway	573	138	156	145	134	419	73	114	120	112
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	2,599	691	622	602	684	2,627	692	582	650	704
including in Poland	2,547	677	610	589	671	2,569	677	567	636	690
including in Pakistan	52	13	12	13	13	58	14	15	15	14
TOTAL (measured as E equivalent)	4,629	1,198	1,137	1,109	1,185	4,503	1,132	1,057	1,132	1,182
Total production in kboe/d	81	84	80	79	83	80	79	74	80	85
NATURAL GAS SALES, PGNiG Group [mcm]										
HIGH-METHANE GAS (E)	21,665	6,151	3,674	4,521	7,320	17,358	6,470	3,284	3,078	4,526
including PST sales outside PGNiG Group	2,271	608	639	502	522	1,760	488	363	444	465
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	1,335	390	262	282	401	1,252	334	272	271	375
TOTAL (measured as E equivalent)	23,000	6,541	3,936	4,803	7,721	18,609	6,804	3,556	3,349	4,900
including sales directly from the fields	764	201	176	175	212	800	205	177	180	238
GAS IMPORTS by PGNiG SA [mcm]		4.000	0.000	0.405	0.574	9,700	0.400	0.440	0.504	0.544
Total	9,330	1,863	2,398	2,495	2,574	211111111111	2,423	2,143	2,594	2,541
including: sources east of Poland	8,155	1,774	2,329	2,219	1,833	8,097	1,751	1,805	2,515	2,026
CRUDE OIL, PGNiG Group [thousand tonnes]										
Production of crude oil and condensate	1,428	358	367	317	386	1,207	271	304	310	322
including in Poland	765	207	204	147	207	789	214	188	184	203
including in Norway	664	151	163	170	180	418	57	116	126	119
Total production in kbbl/d	29	29	29	26	31	24	22	24	25	26
Calca of smide all and academasts	1,391	315	356	372	348	1,169	249	262	373	287
Sales of crude oil and condensate	772	211	196	148	217	780	213	181	185	201
including in Poland	-1111111111111									
including in Norway	619	104	160	224	131	389	36	81	188	85
PGNIG TERMIKA										
Production of heat, net (sales) [TJ]	36,209	12,643	2,701	5,810	15,055	36,617	12,980	2,867	5,336	15,434
Production of electricity, net, secondary generation (for sale) [GWh]	3,487	1,136	328	674	1,349	3,555	1,132	386	648	1,390

# **Glossary**



2P Proven reserves of fossil fuels

bbl barrel

BGK Bank Gospodarstwa Krajowego

boe / mboe Barrel of oil equivalent / Million barrel of oil equivalent (one barrel is approx. 0.136 tonnes)

CAGR Compound annual growth rate

CAPEX Capital expenses

cm / bcm cubic meters / billion cubic meters

D&A Depreciation and Amortization

DCF Discounted cash flow

EBIT Earnings before interest and taxes

EBITDA Earnings before interest, taxes, depreciation and amortization

EIP Efficiency Improvement Programme

JV Joint Venture

OPEX Operating expenses

PPE Polish Power Exchange

PSG Polska Spółka Gazownictwa

PST PGNiG Supply & Trading GmbH

PUI PGNiG Upstream International

RAB Regulatory Asset Base

UGS / CUGS Underground Gas Storage facility / Cavern Underground Gas Storage facility

WIG 20 Capitalization-weighted stock market index of the twenty largest companies on the Warsaw Stock Exchange

WSE Warsaw Stock Exchange

# **Additional information**



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