

# Polish Oil and Gas Company

## Company Overview



June 2017



# Agenda

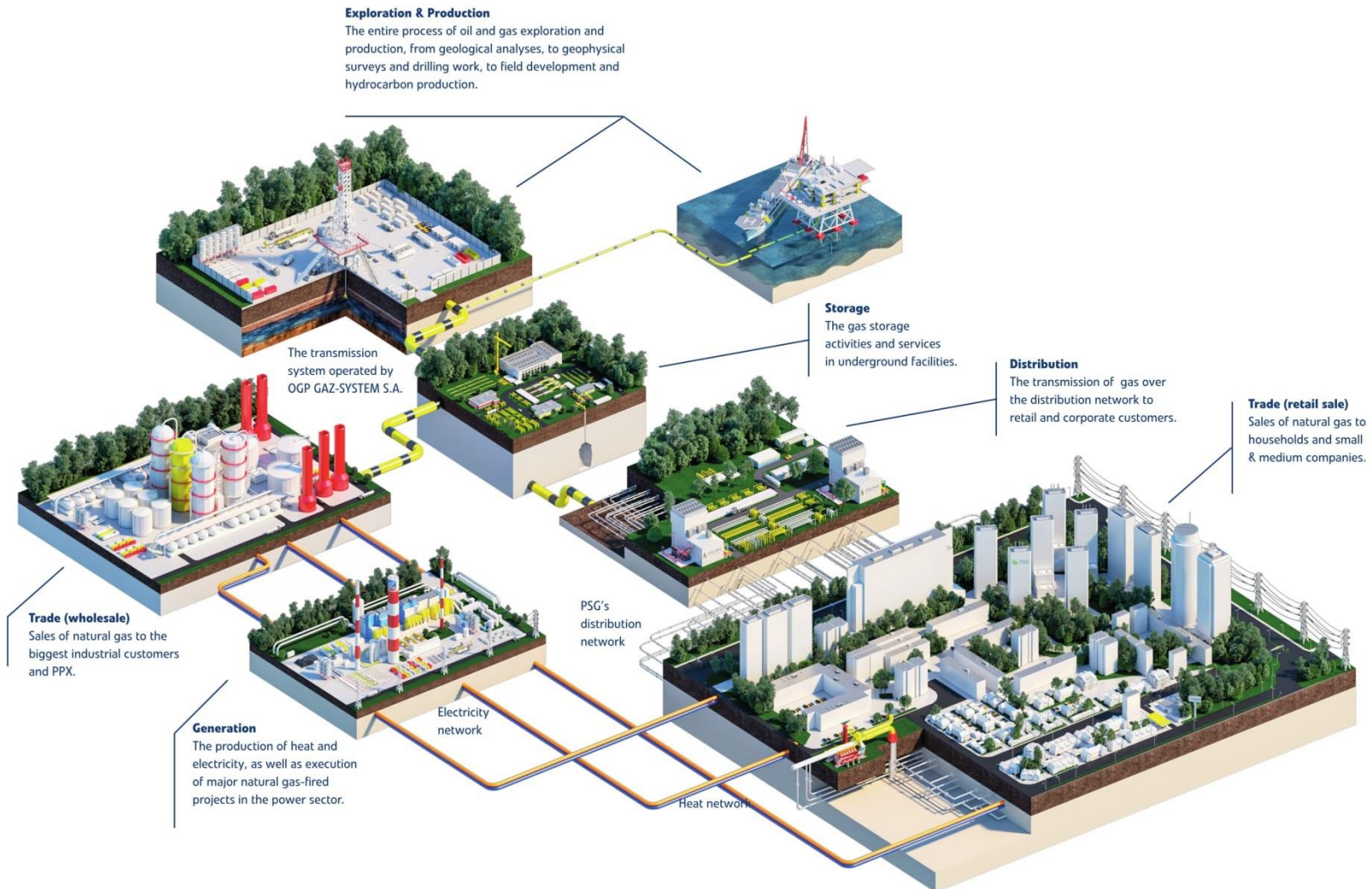
- > 1. PGNiG Group & Polish Gas Market
- > 2. PGNiG Segments
  -  > Exploration and Production
  -  > Trade and Storage
  -  > Distribution
  -  > Generation
- > 3. Strategy, CAPEX
- > 4. Changes in segments presentation
- > 5. Appendix - Financial Results of Q1 2017 and FY 2016



# PGNiG Group and Polish Gas Market



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

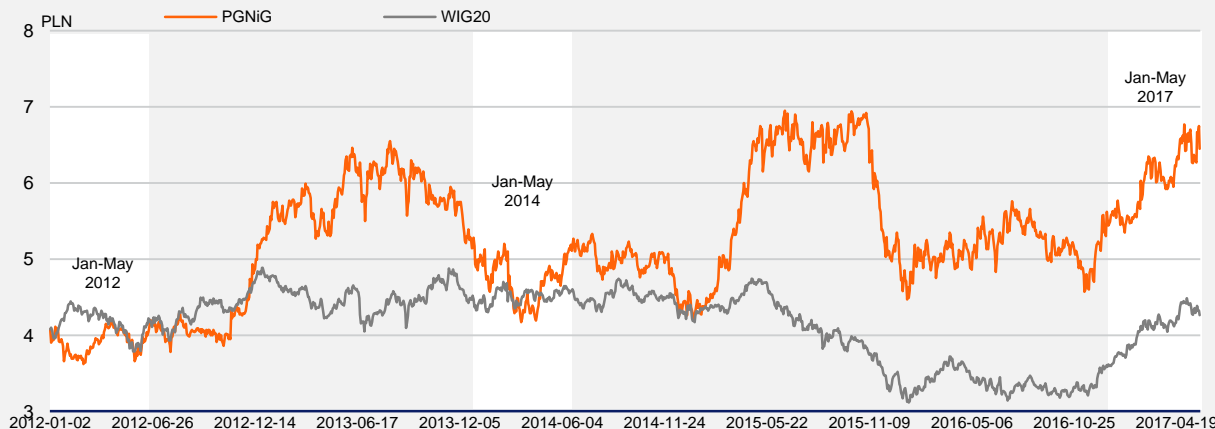


# 4th largest Polish company on the Warsaw Stock Exchange\*\*

## Stock performance since January 1<sup>st</sup>, 2016



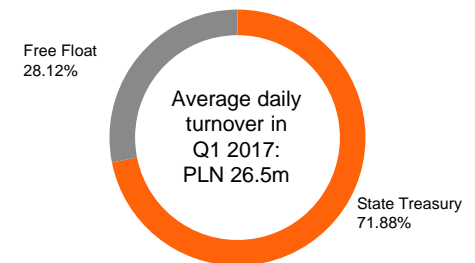
## Stock performance since January 1<sup>st</sup>, 2012



\* PGNiG = 6.45 PLN and EUR/PLN = 4.17; USD/PLN = 3.75 (as at May 30th 2017) / \*\* May 30th 2017, in terms of market cap.

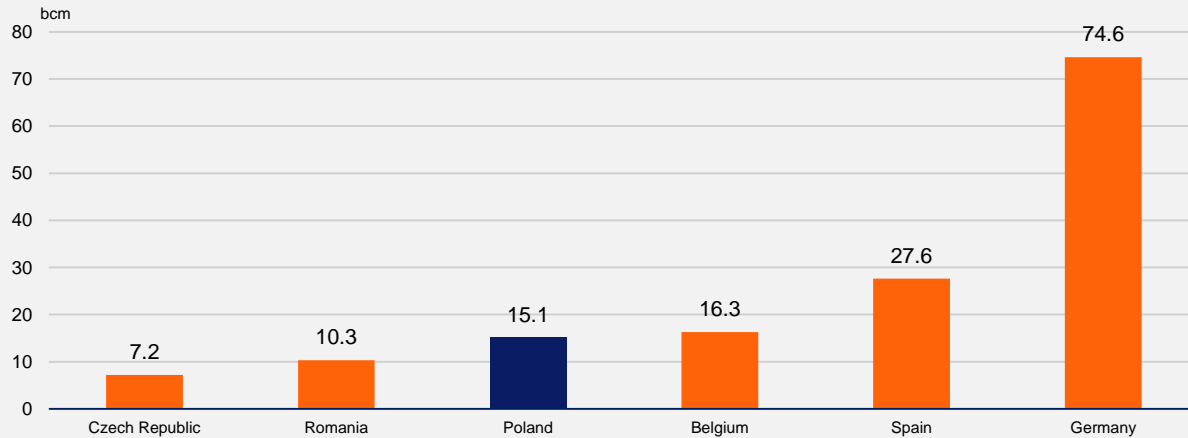
- > Listed on WSE since September 2005
- > Market cap. of PLN 37.3bn (EUR 8,9bn, USD 9.9bn)\*
- > Significant share in WIG 20 based on number of shares in the index: 5%

- > Shareholders (as at March 31, 2017)

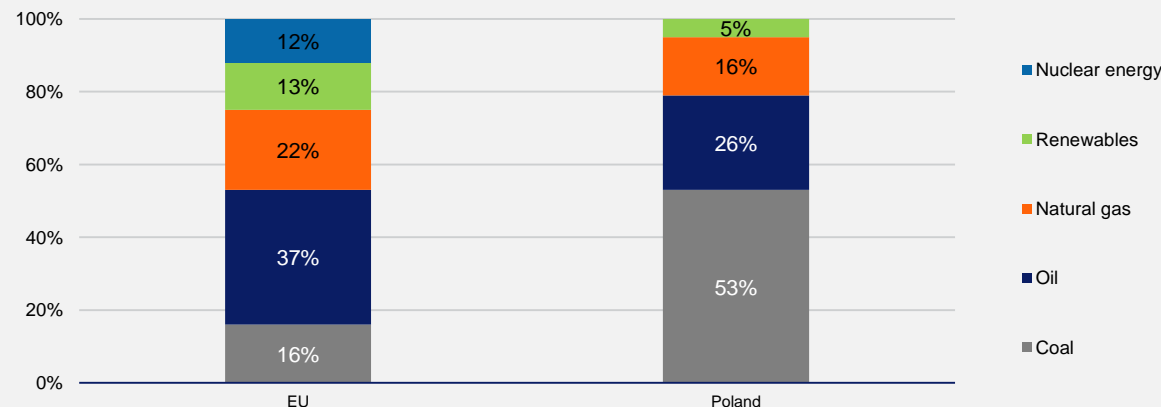


# Gas market in Poland: Low consumption with growth potential

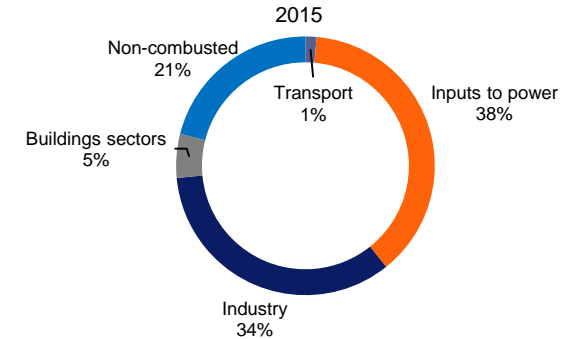
## > Natural gas consumption by country in 2015



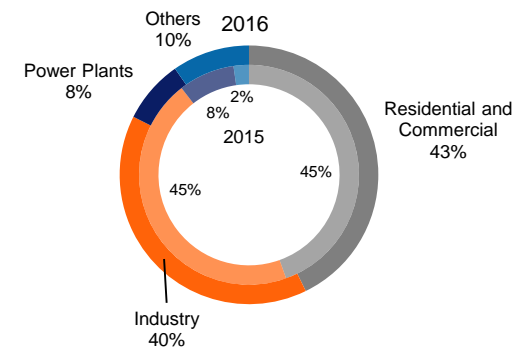
## > Primary energy consumption by fuel in 2015



## > Natural gas sales by sector in the world in 2015

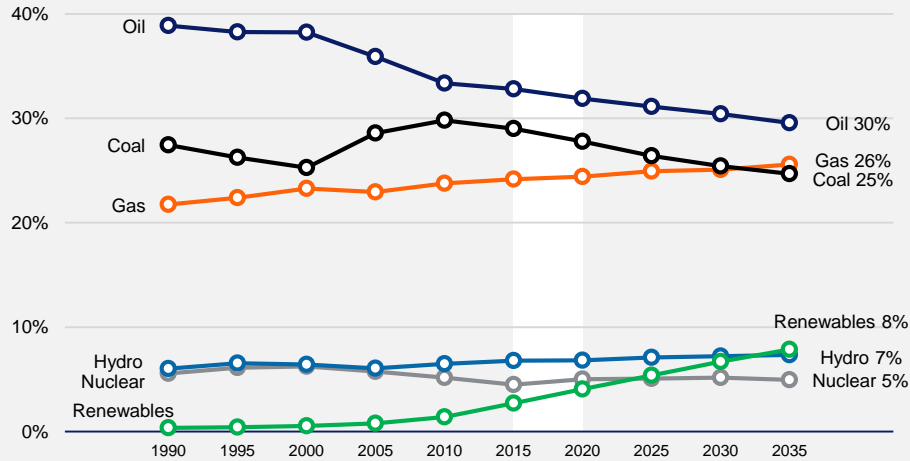


## > Natural gas sales by sector by PGNiG in Poland in 2016 and 2015

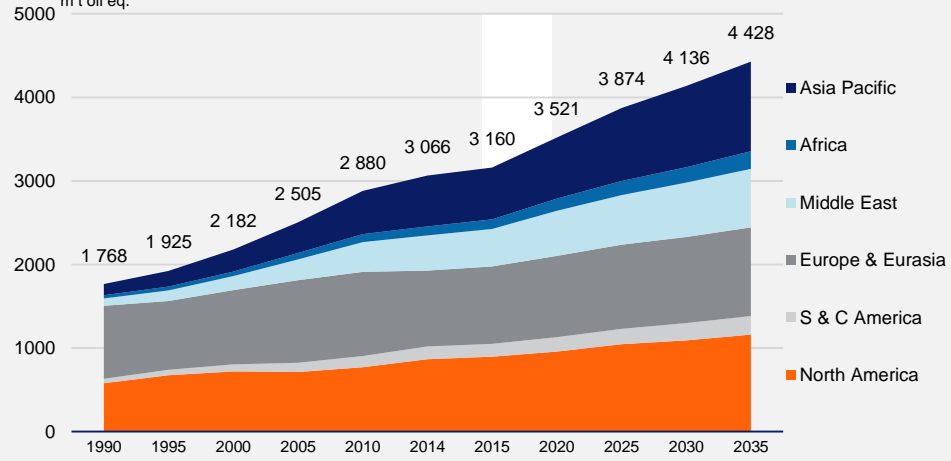


# Gas market worldwide

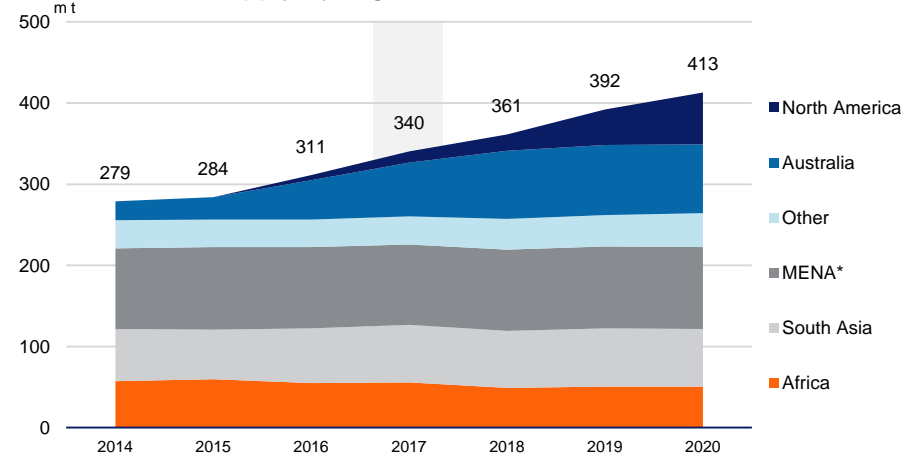
## > Primary energy consumption by fuel



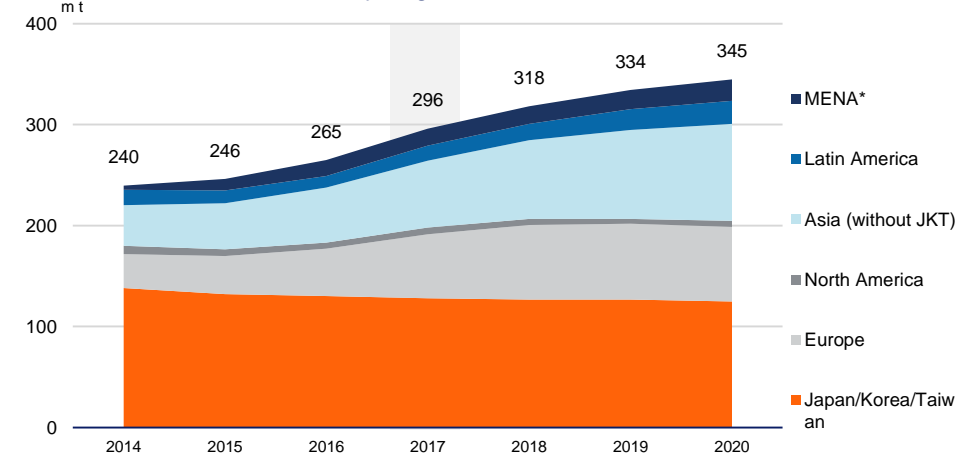
## > Natural gas demand



## > Annual LNG supply by region



## > Annual LNG demand by region





Exploration & Production



Trade & Storage



Distribution



Generation

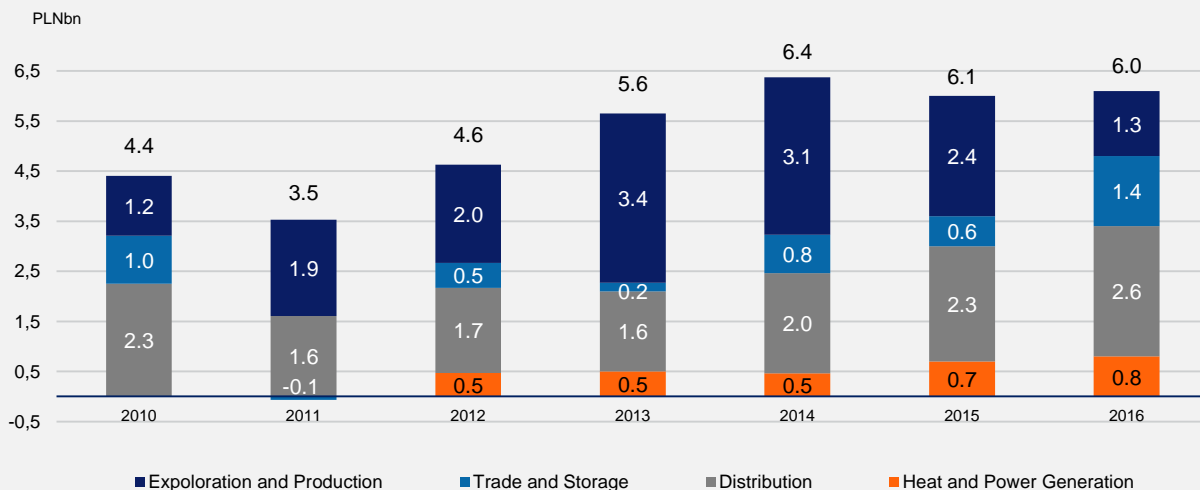


# Operating segments of PGNiG Group



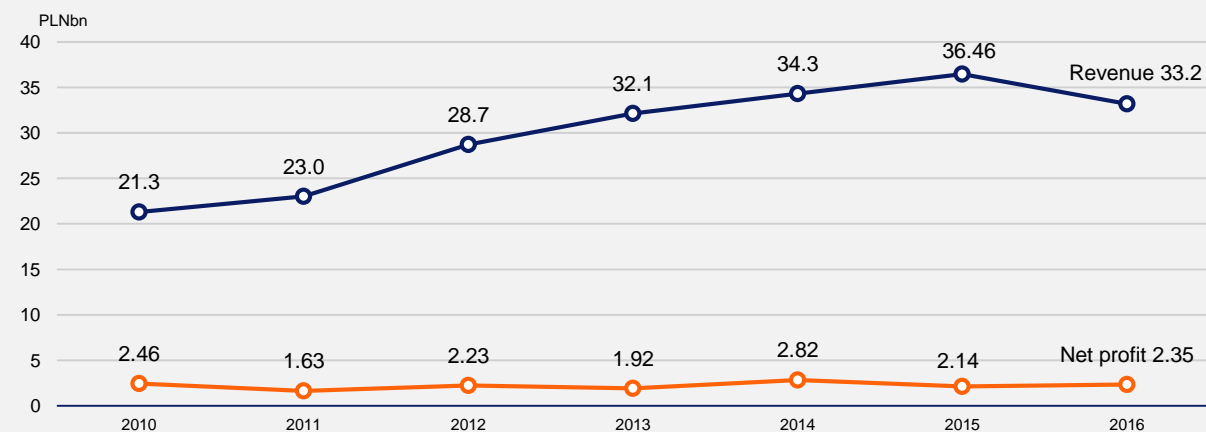
# PGNiG Group's financials 2010-2016

## PGNiG Group's EBITDA\*\*

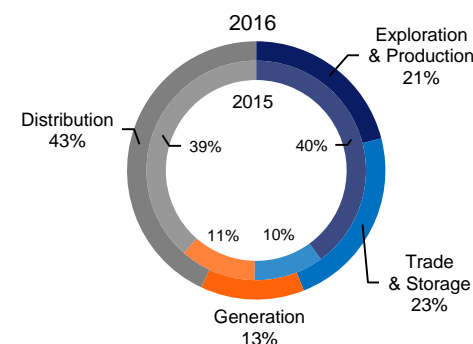


- > 5th biggest company in Central and Eastern Europe\*
- > 3rd biggest oil company in the region\*
- > Stable EBITDA level due to diversified inflows sources

## PGNiG Group's revenue and net profit



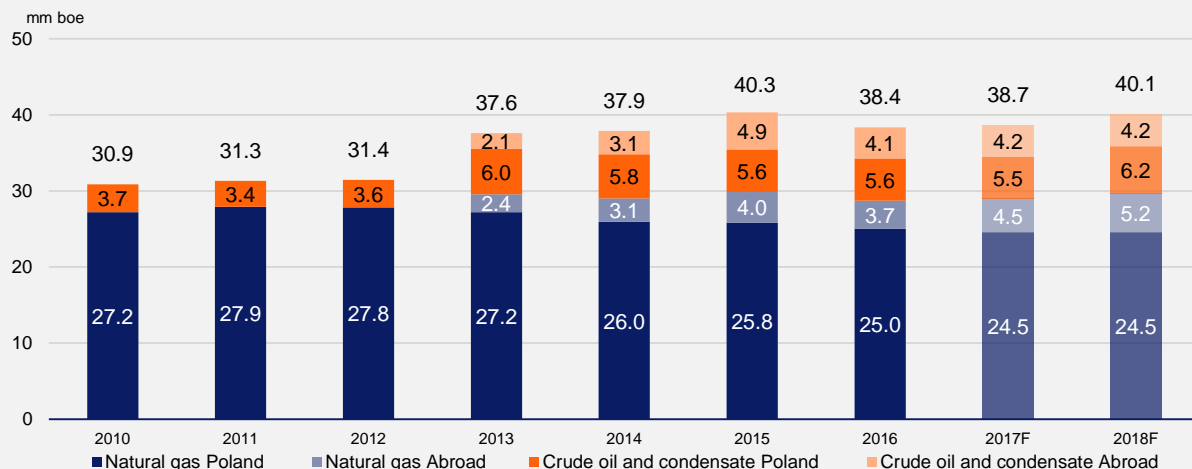
## EBITDA breakdown



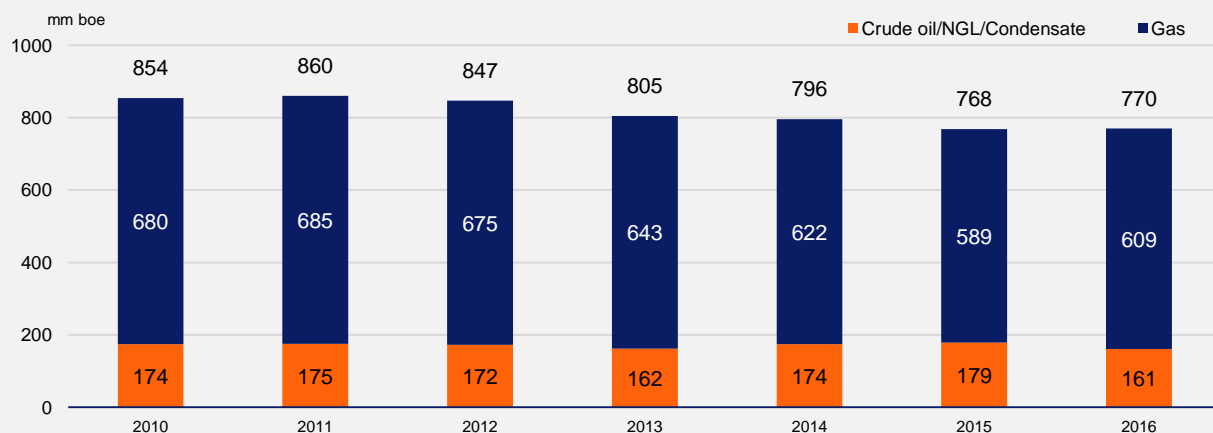
\* Source: Rzeczpospolita: Europa 500 (2016 edition) / \*\* EBITDA before intra-group eliminations and excluding „Other segments“

# Exploration & Production summary

## > Production volumes



## > Reserves of natural gas and crude oil



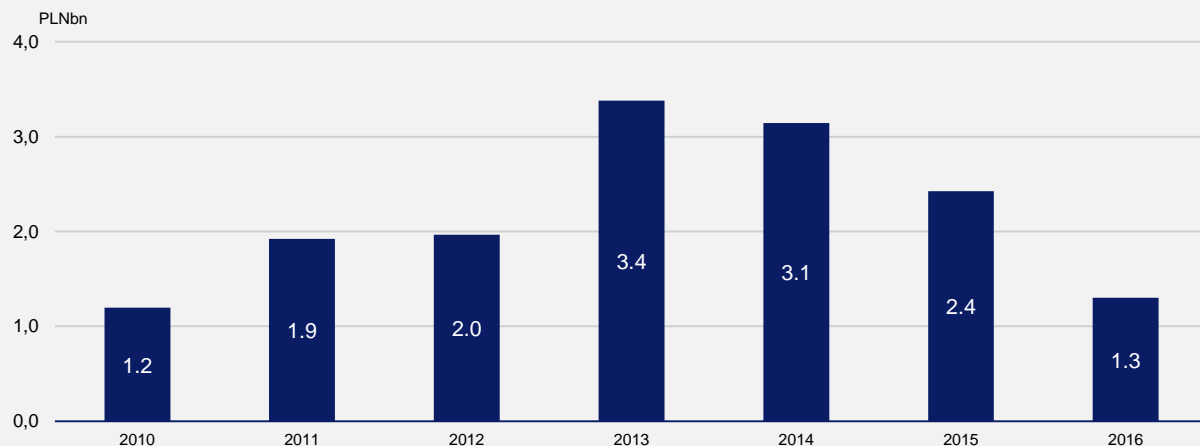
\* High-methane gas equivalent

- > PGNiG SA is a leader in production of gas and crude oil in Poland
- > Average daily production – over 105,000 boe
- > PGNiG's resource base in Poland:
  - > proved gas reserves 498 mm boe (79.7 bcm)\*
  - > proved oil reserves 126 mm boe (17.6 m tonnes)
- > Oil & Gas concessions in Poland:
  - > 48 exploration/appraisal
  - > 225 production
- > Exploration & Production activities:
  - > 54 production facilities in Poland
  - > over 2 thousand producing wells



# Exploration & Production financial results

## > Exploration and Production's EBITDA



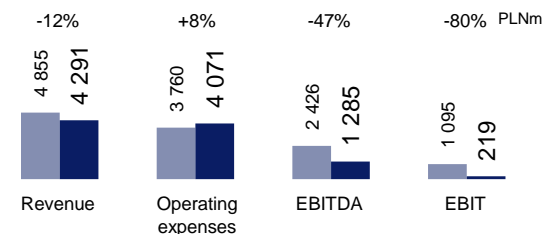
## > Average prices of crude oil



## > Average of Brent oil prices down over 15% in 2016 vs 2015

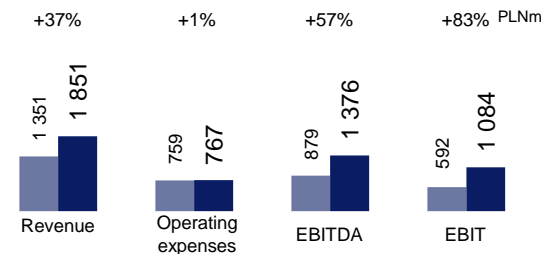
- > Revenue from sales of crude oil and condensate down PLN 339m yoy, with oil prices in PLN down by close to 12% and sales volumes down 3%, to 1,347 thousand tonnes

## > Segment's results for FY 2016



## > Segment's results for Q1 2017

In Q1 2017, the Group made significant changes in segment reporting. They have a crucial impact on segment's figures, including E&P EBITDA Q/Q. More details see p. 25-29.

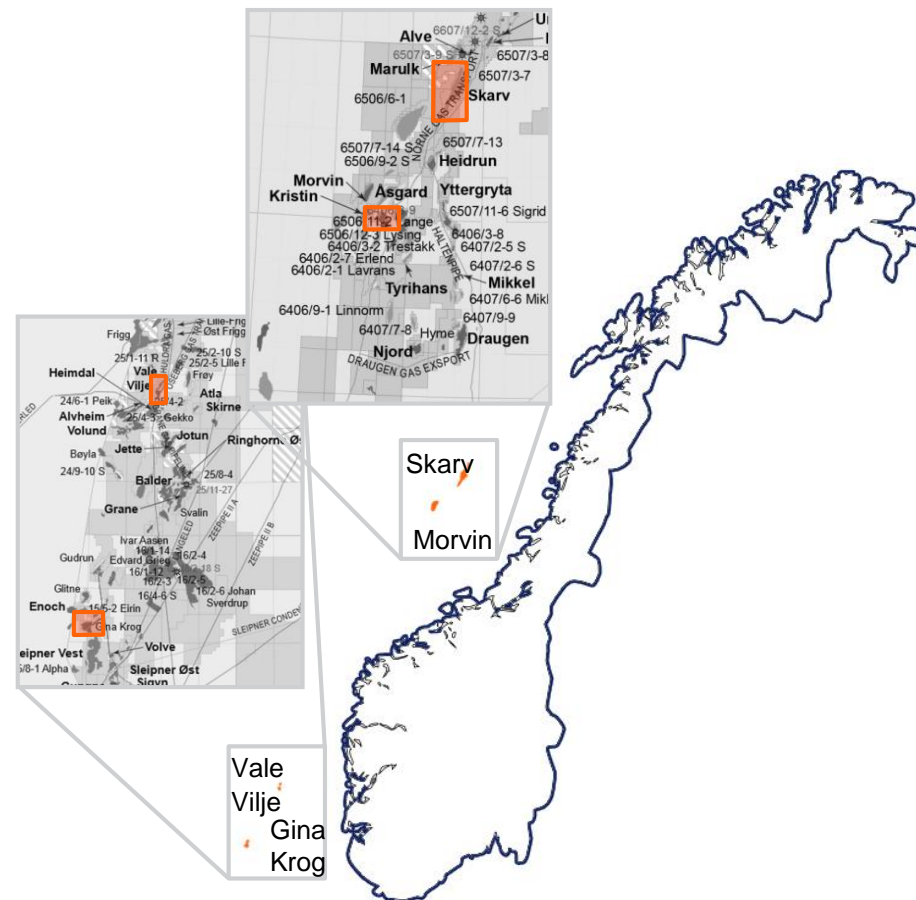
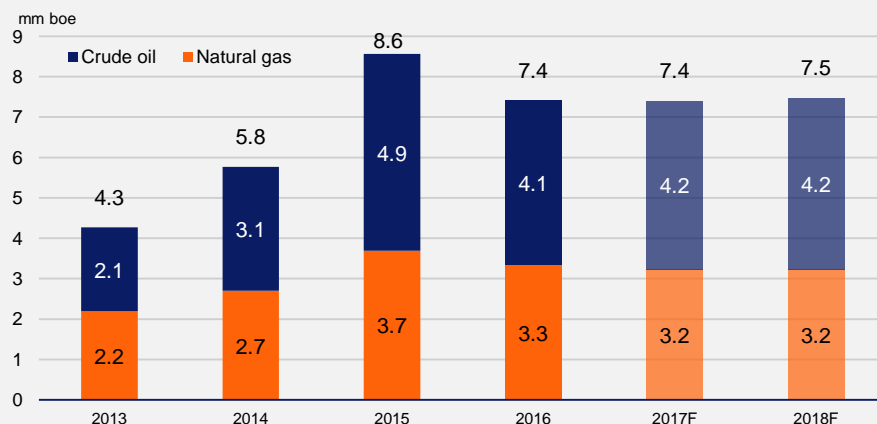




# International E&P activities – Norway

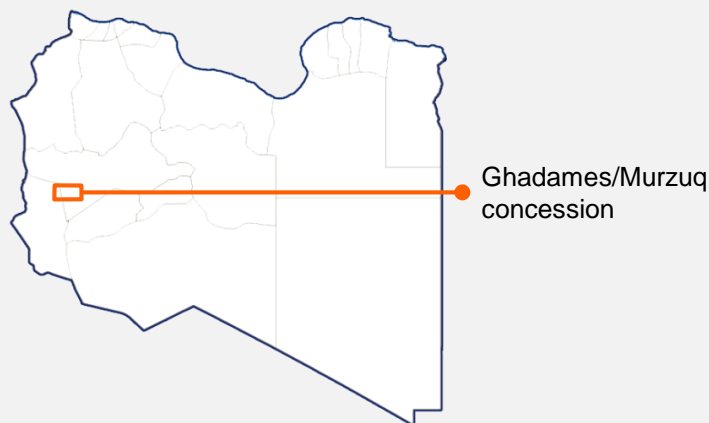
Licenses	18
Licence cost	USD 360m (Skarv) NOK 1.95bn (Morvin, Vale, Vilje, Gina Krog)
Skarv CAPEX (PGNiG's part)	approx. USD 800m
Reserves of the licence (2P) for PGNiG	51 mmboe (Skarv, Snadd) 27 mmboe (Morvin, Vale, Vilje, Gina Krog)

## > Production in Norway



# International E&P activities – Africa and Asia

## > African assets: Lybia



agreement	February 25th 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, 15m tonnes of condensate

Q4 2013: asset write-off at PLN 420m and a provision for PLN 137m for future license obligations.

Force majeure clause activated.

## > Asian assets: Pakistan



agreement	May 18th 2005
shares	PGNiG 70%, Pakistan Petroleum 30%
area	956 sq km
location	Sindh province, folded belt Kirthar
obligations	2 wells, 100 km 2D (fulfilled) 15.1 bcm of natural gas
estimated reserves	(11.3 bcm Rehman, 3.8 bcm Rizq)

Q4 2016: the drilling of Rehman-2 was completed, Rehman-3 has spudded, enable production from Rizq-1

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, sales and trading of electricity
- > storage of gas.

## > Polish market growth: CAGR +1.6% 2005-2015

## > Contract for natural gas deliveries with Gazprom („Yamal contract”) until 2022:

- > 10.2 bcm annually, 85% Take-or-Pay

## > Contract for LNG with Qatargas until 2034:

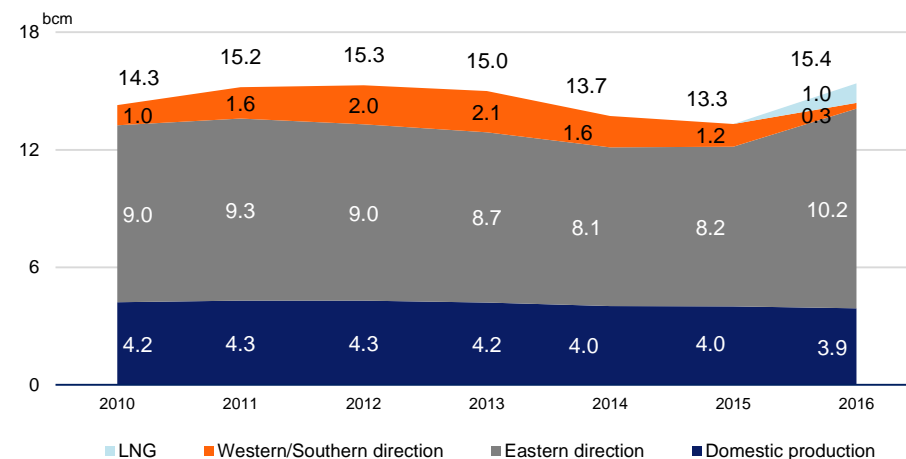
- > 1.3 bcm annually, 100% Take-or-Pay. Deliveries since June 2016
- > side agreement (the total volume will increase to 2.8 bcm per annum, in 2018-2020 volume will be increased to 2,9 bcm)

## > 2.5 bcm of gas sold by PGNiG Supply & Trading to customers outside of Poland in 2016

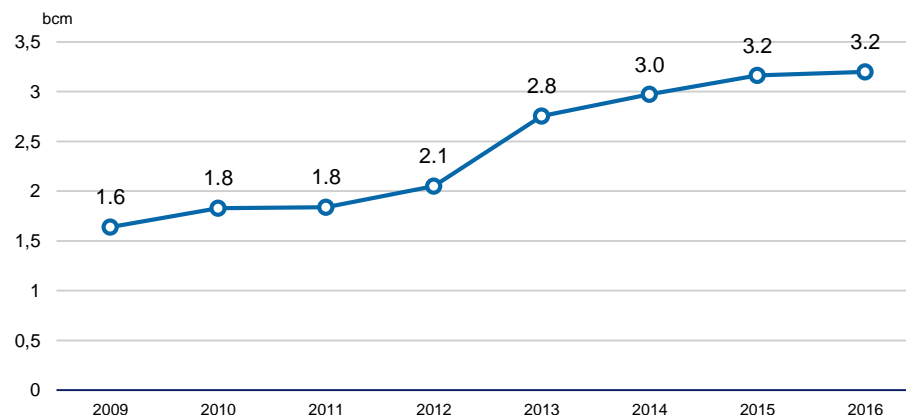
## > Tariffs:

- > Gas sales: Cost of gas + operating costs + margin
  - > Retail: PGNiG Retail's cost base including cost of gas on the commodity exchange
  - > Wholesale: Including cost of imports + cost of production (with return on capital invested in E&P)
- > Storage: Cost + return on capital (6.0% WACC x PLN 3.7bn RAB) (until March 2018)

## > Sources of gas supply of PGNiG SA in Poland



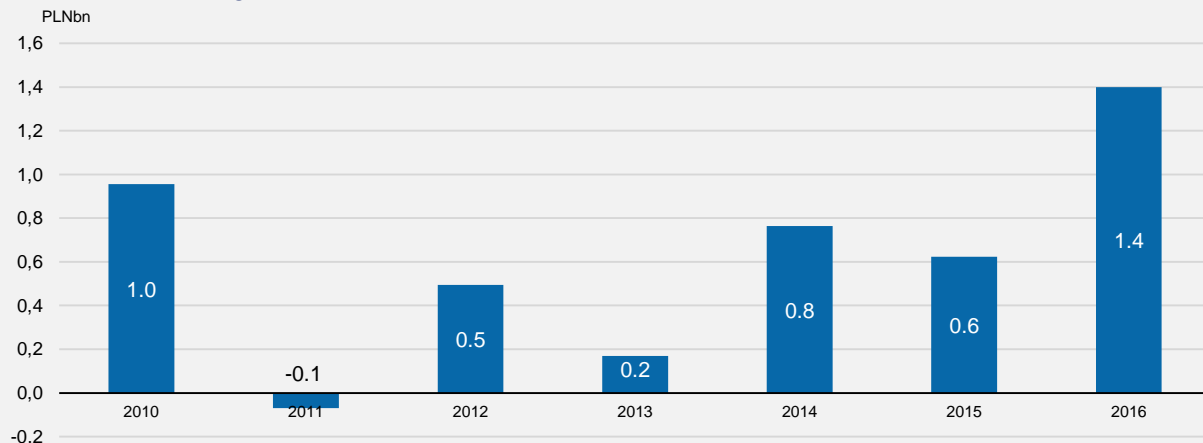
## > Storage capacity (incl. storage capacity used only by E&P segment)



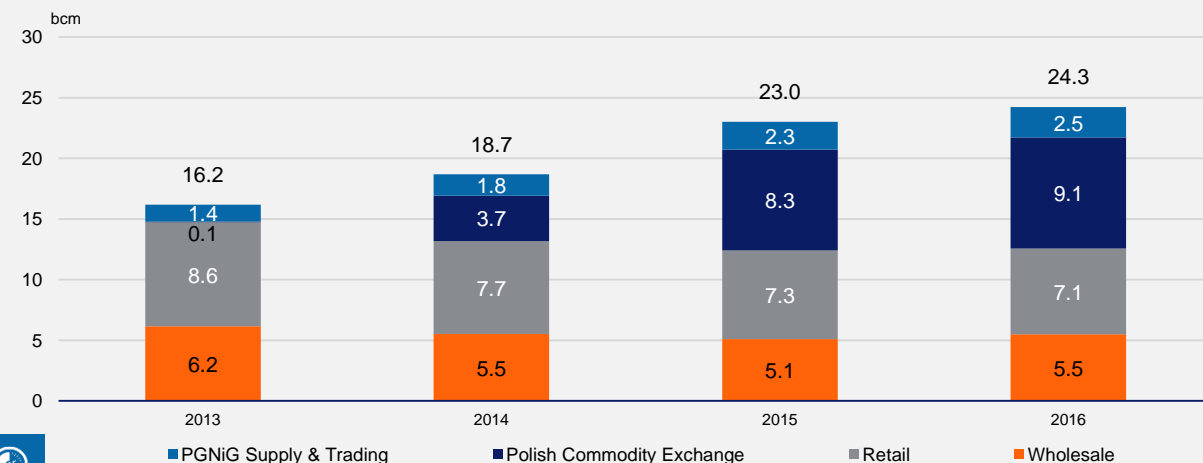


# Trade & Storage's financial results

## > Trade and Storage's EBITDA

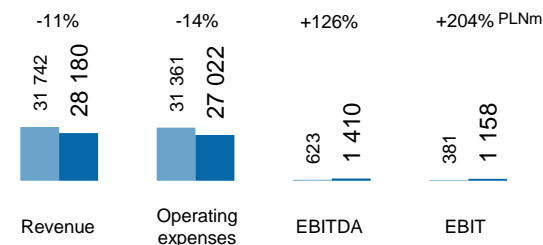


## > Sales of natural gas of PGNiG SA, PGNiG Retail and PST



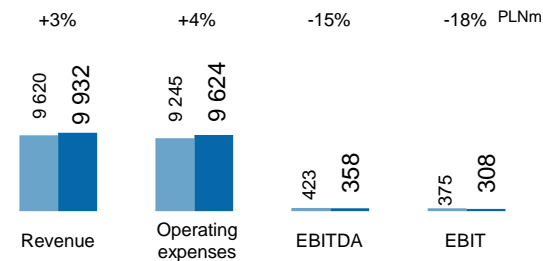
## > Cost of gas sold down on lower unit purchase cost of gas in 2016

### > Segment's results for FY 2016



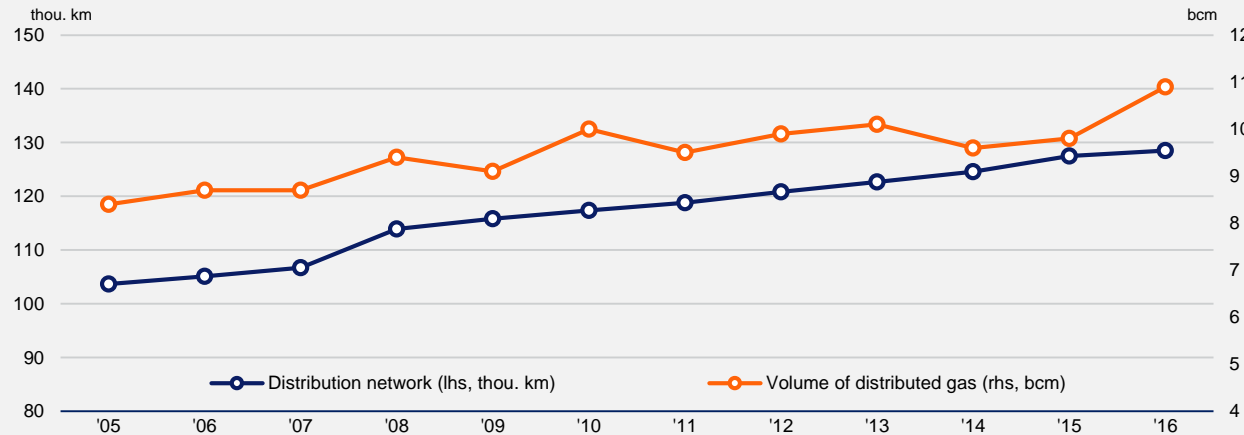
### > Segment's results for Q1 2017

In Q1 2017, the Group made significant changes in segment reporting. They have a crucial impact on segment's figures, including T&S EBITDA Q/Q. More details see p. 25-29.

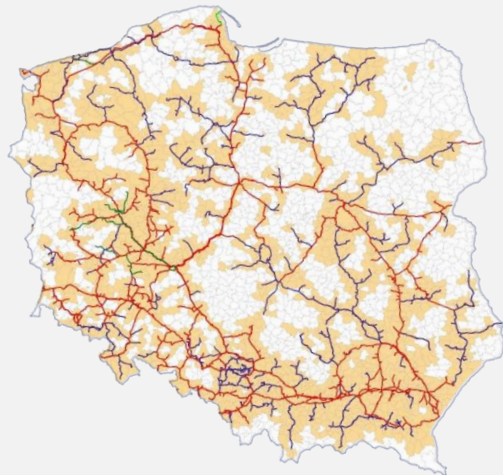


# Distribution

- > Stable network's growth and increase of distributed volumes (+2.4% CAGR 2005-2016)



- > Coverage of distribution network



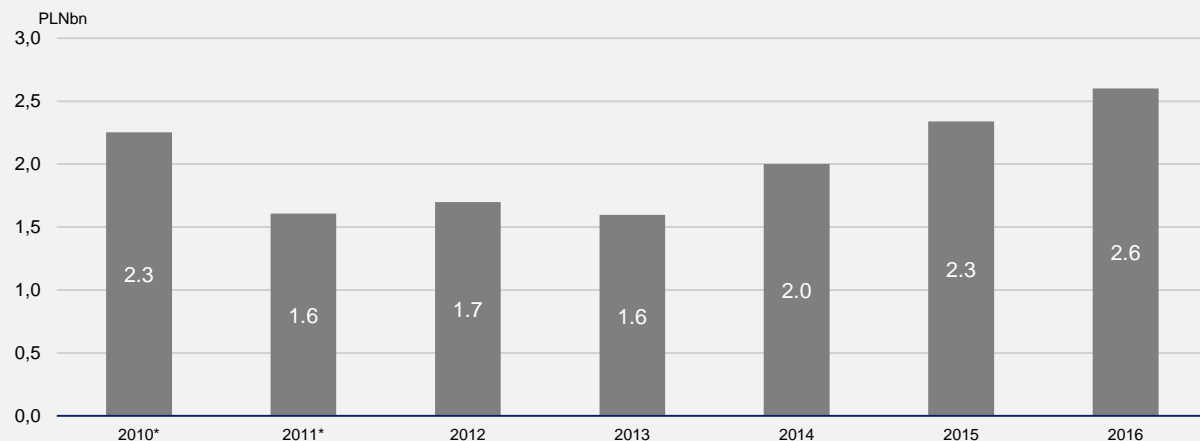
- > The owner of approximately 96% of Poland's distribution network and nearly 99% of the gas service lines
- > Transports natural gas from gas sellers to households, industrial and wholesale customers
- > Responsible for operation, maintenance and development of gas pipelines

- > **Tariff:**

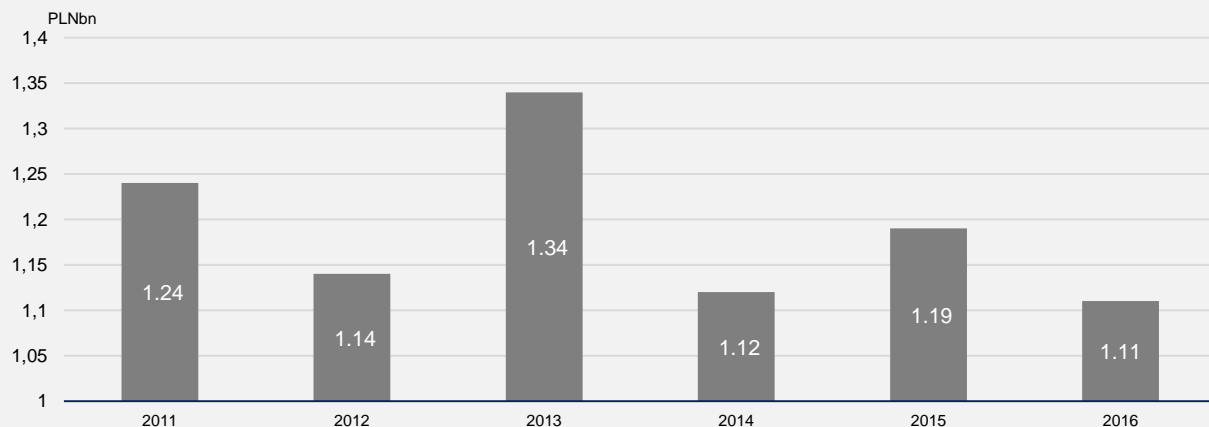
- > set in 2014 and still valid
- > cost + return on capital  
(7.2% WACC x PLN 11.9bn RAB)

# Distribution's financial results

## > Distribution's EBITDA

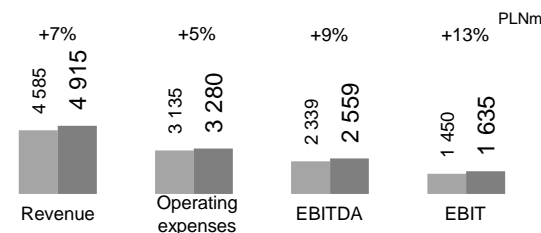


## > Segment's CAPEX

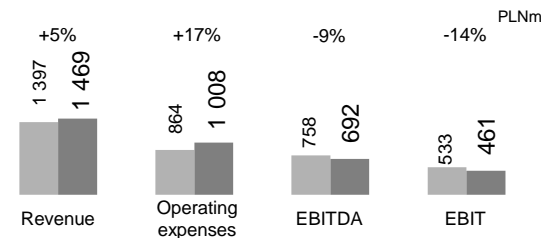


- > Volumes up 11% in 2016 vs 2015
- > PSG's strategic goal is to generate cum. EBITDA of PLN 16bn in 2016-2022

## > Segment's results for FY 2016



## > Wyniki segmentu za Q1 2017





# Heat and Power Generation

- > PGNiG Termika - the largest heat producer in Poland with over 11% of heat capacities
- > Covering approx. 70% of the total heat demand in Warsaw, as well as 98% of heat distributed through city's heating network
- > **Timeline:**
  - > 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)
  - > April 2016: The acquisition of up to 17.1% of the share capital of the Polish Mining group as a result of the investment of PLN 500m
  - > Expansion of heat and power generation and distribution:
    - > April 2016: purchase of JSW SA Thermal Energy Enterprise („PEC”) for PLN 190m
      - > 14 local heat plants
      - > 260 MW of total heat output
      - > 288 km of heat distribution network
    - > August 2016: purchase of JSW SA Energy Company „Jastrzębie” („SEJ”)
      - > 5 CHP
      - > 130 MW of electricity output
      - > 540 MW of heat output
    - > Total cost: PLN 372m
- > **Tariff:**
  - > Heat tariffs benchmarking scheme creates significant upside for profitability as PGNiG Termika produces low-cost heat

## Generation segment operating data

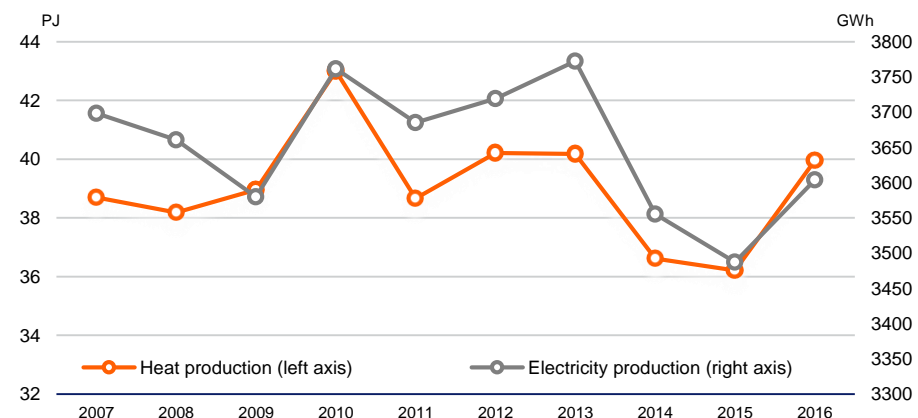
Installed heat power	5,408 MWt
----------------------	-----------

Installed electric power	1,147 MWe
--------------------------	-----------

Heat sales in 2016 (regulated)	40 PJ
--------------------------------	-------

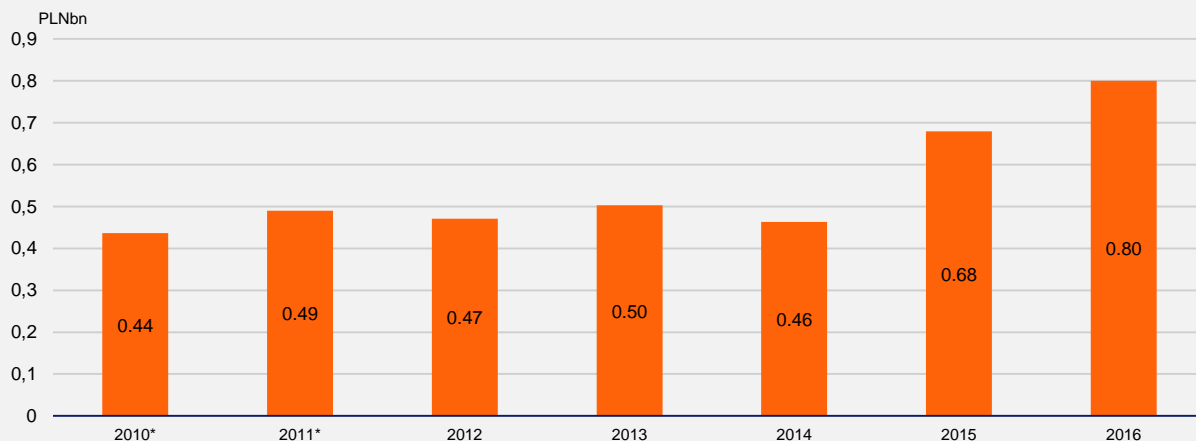
Produced electricity sales in 2016	3.6 TWh
------------------------------------	---------

## > Production of heat and electricity



# Generation's financial results

## > Generation's EBITDA

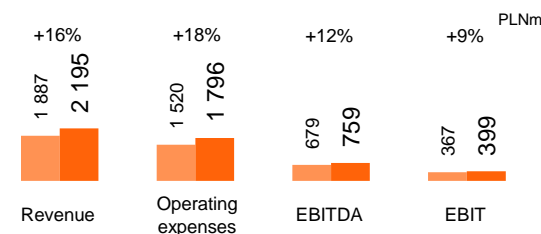


## > Investments

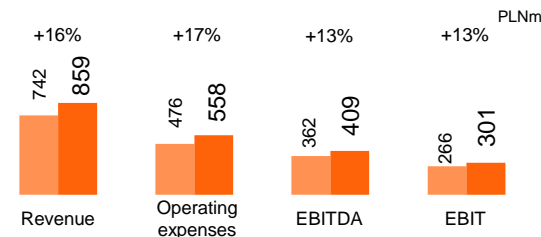
- > 490 MWe gas-fired block in Warsaw at Żerań plant (2020)
- > 146 MWt biomass-fired boiler in Warsaw at Siekierki plant (2016)
- > Combined Heat and Power Plant Stalowa Wola
  - > 50/50 JV PGNiG and Tauron Polska Energia. Total CAPEX PLN 1.6bn (project finance)
  - > Agreement for Sale of Electricity. PGNiG to supply 0.5 bcm of gas for 14 years
  - > 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
  - > An agreement on key preconditions for the project restructuring was signed in October 2016, aligning ECSW's existing commercial agreements to the expected start date of commercial operation and current market conditions.
  - > A survey of the project's status ended in 2016. The project will be resumed by a specialised firm, responsible for supporting its coordination on an EPCM basis.

- > Revenue from sales of heat up 12% yoy, to PLN 1,263m, on a 10% increase in volumes (1.01 -15.08 – higher heat tariff, from 15.08 – heat tariff level unchanged).
- > Revenue from sales of electricity from own sources up PLN 21m yoy, to PLN 606m, attributable to higher sales volumes.

## > Segment's results for FY 2016



## > Segment's results for Q1 2017





# Strategy, CAPEX

# PGNiG Group Strategy for 2017-2022

The new PGNiG Group Strategy for 2017–2022 (extended until 2026)

## #1 Mission statement

We are a trustworthy supplier of energy for households and businesses

## #2 Vision

We are a responsible and effective provider of innovative energy solutions

## #3 Primary objective

Increasing the PGNiG Group's value and ensuring its financial stability

### Trustworthy

The customers can depend on premium quality and reliability of our services

### Energy supplier

Our customers are offered a full range of energy products (gas + electricity + heat + other/services)

### Households and businesses

We care for and value all our customers: households, businesses, and institutions

### Responsible

We act transparently, in line with the principles of corporate social responsibility

### Effective

We have implemented process and cost optimisation measures

### Innovative solutions

We are an innovation leader in the energy sector

### Value growth

Our primary ambition is to create added value for our shareholders and customers

### Financial stability

We seek to secure long-term financial stability and creditworthiness





# The Group's key strategic objectives

## Strategic objective

competitive position while supporting the development and ensuring security of the gas market in Poland

### PGNiG's strong competitive position

Securing new gas supply sources to strengthen the Group's competitive position following expiry of the Yamal contract in 2022

Production projects in Norway, focused on increasing annual gas output to ca. 2.5 bcm from 2022 onwards

Participation in the Norwegian Corridor project to secure direct gas imports from Norway

Developing gas and LNG trading functions to make PGNiG more competitive on gas markets in Europe and in Poland

### Paramount objective

Increase the PGNiG Group's value and ensuring its financial stability

### Development of gas market in Poland

More rapid expansion of distribution network in order to enable more new customer connections and gas market growth

Expanding the upstream business in Poland to replenish hydrocarbon reserves and to maintain high levels of production

Significant improvement of customer service quality through digitalisation of service channels and expansion of the product portfolio expansion

# Ambitions in the key business areas



## 1. Exploration and production

- > Increase the base of documented hydrocarbon reserves by 35% (to 1,208 mm boe in 2022)
- > Increase annual hydrocarbon production by 41% (to 55 mm boe in 2022)



## 2. Wholesale

- > Diversified gas supply portfolio after 2022
- > Increasing the overall volume of natural gas sales by 7% (to 178 TWh in 2022)
- > Cumulative natural gas sales volume on wholesale markets in Poland and abroad 1000 TWh



## 3. Retail

- > Maximising retail margins
- > Maintaining the total volume of retail gas sales at ca. 67-69 TWh/year



## 4. Storage

- > Securing access to storage capacities adjusted to actual demand
- > Improve storage efficiency



## 5. Distribution

- > More than 300 thousand new service lines in 2017–2022
- > The annual growth rate in the number of service lines by 17%
- > Increase gas distribution volume by 16% (to 12.3 bcm in 2022)



## 6. Power and heat generation

- > Increase power and heat sales volumes by 20% (to 18 TWh in 2022)

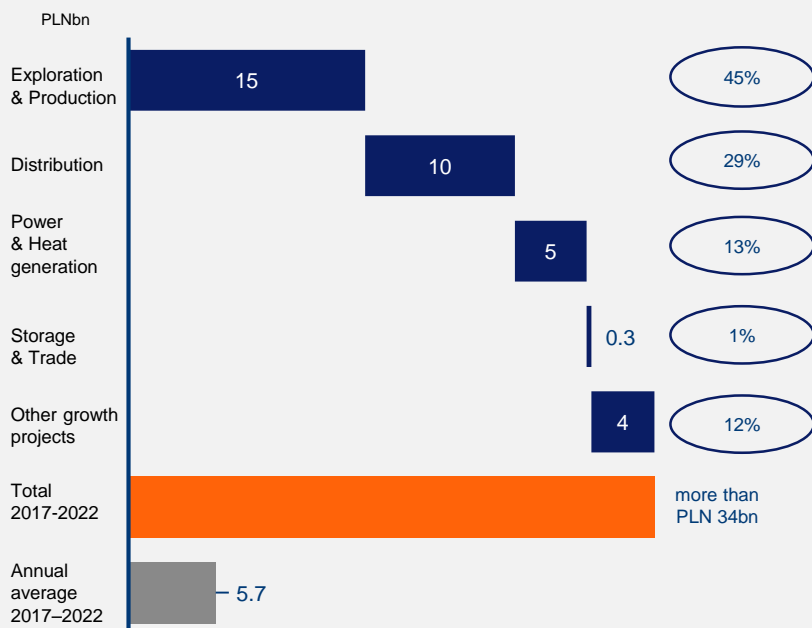


## 7. Corporate Centre

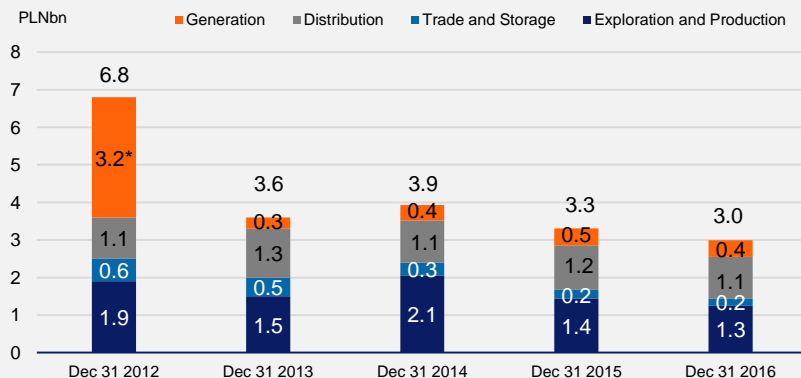
- > Effective execution of R&D&I projects
- > Operational efficiency improvement across the PGNiG Group
- > Enhancing the PGNiG Group's image

# CAPEX and EBITDA for 2017-2022

## CAPEX breakdown for 2017-2022

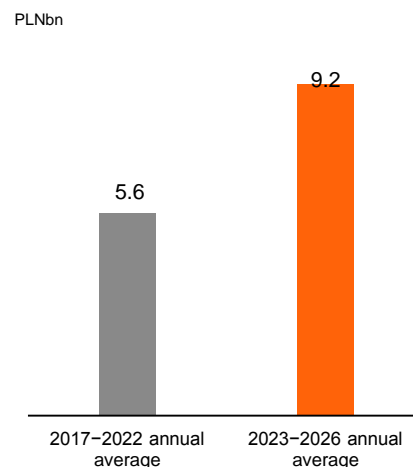


## Annual CAPEX 2012 – 2016



\* Includes PLN 3bn for acquisition of PGNiG Termika

## EBITDA for 2017 – 2022



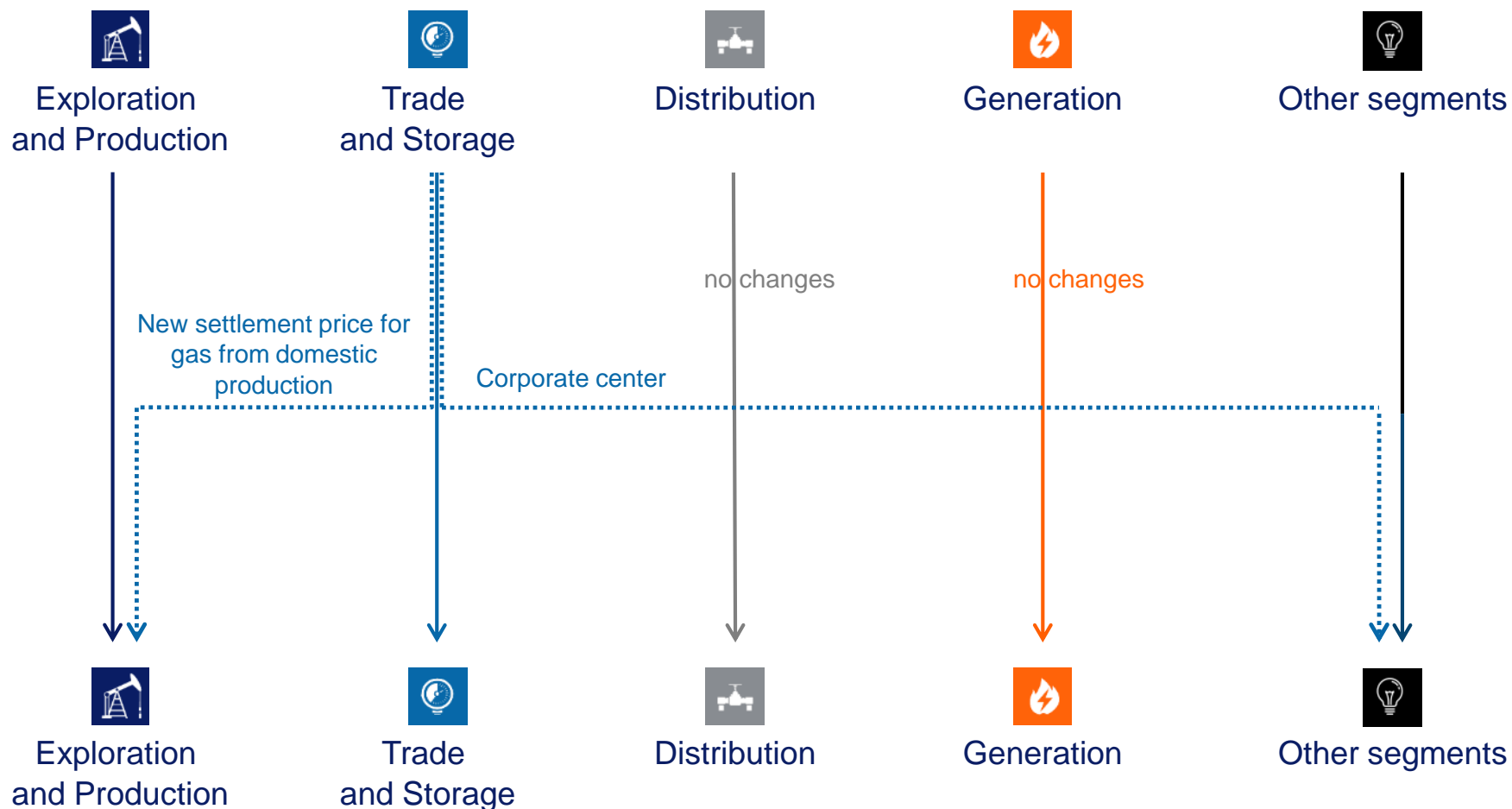
- > PLN 33.7bn cumulative EBITDA
- > Ambitious investment programme: long-term growth of the Group's EBITDA, particularly in 2023-2026 (at the annual average of ca. PLN 9.2bn)
- > Keeping debt at safe levels (net debt/EBITDA below 2.0)

- > Almost half of CAPEX (45%) will be spent on hydrocarbon exploration and production.
- > Average annual capital expenditure in 2017-2022 at ca. PLN 5.7bn.

# Changes in segments presentation



# Changes in segments (1/4)





# Changes in segments (2/4)

## 1 The settlement price methodology



- Transfer of gas from the Exploration and Production segment to the Trade and Storage segment is made at a price calculated as the average monthly price quoted on the POLPX Day-Ahead Market, less a discount enabling the Trade and Storage segment to cover an appropriate position of costs of high-methane gas storage plus margin.

## 2 Separation of corporate centre



- The PGNiG Management Board resolved to adjust the financial results of the Trade and Storage segment for the revenue, costs and expenses generated by PGNiG S.A.'s Head Office and PGNiG Finance AB, which perform support functions for the other segments of the PGNiG Group.
- Corporate centre has presented in „Other segments”

## 3 Operating expenses – other positions

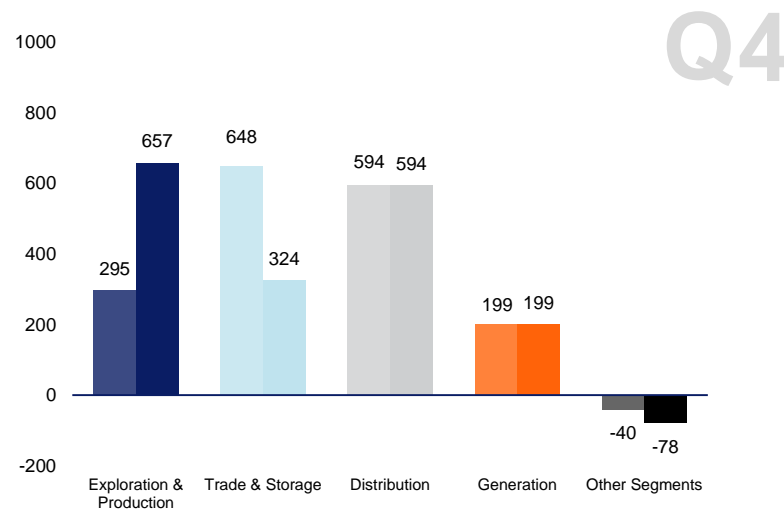
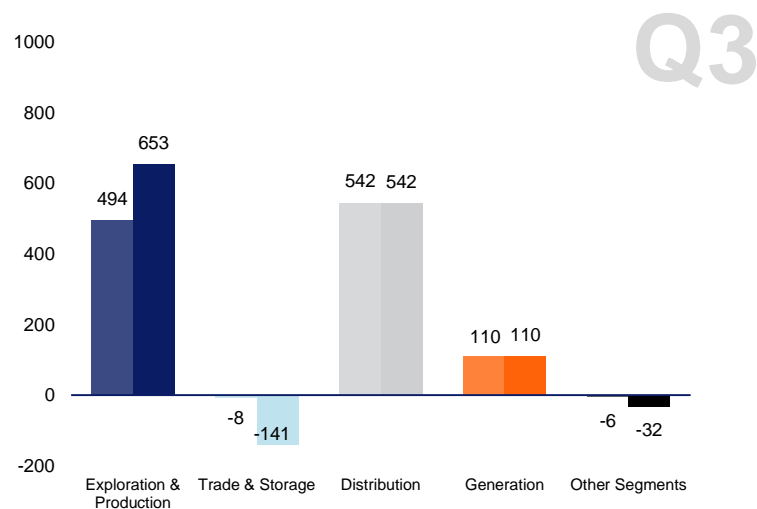
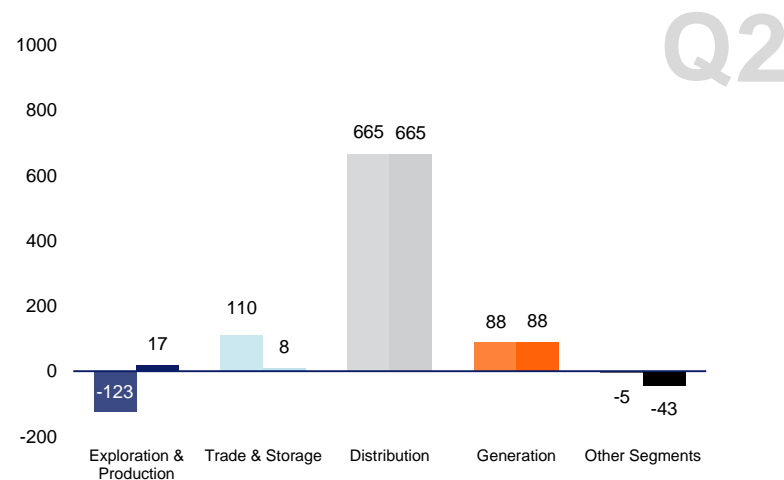
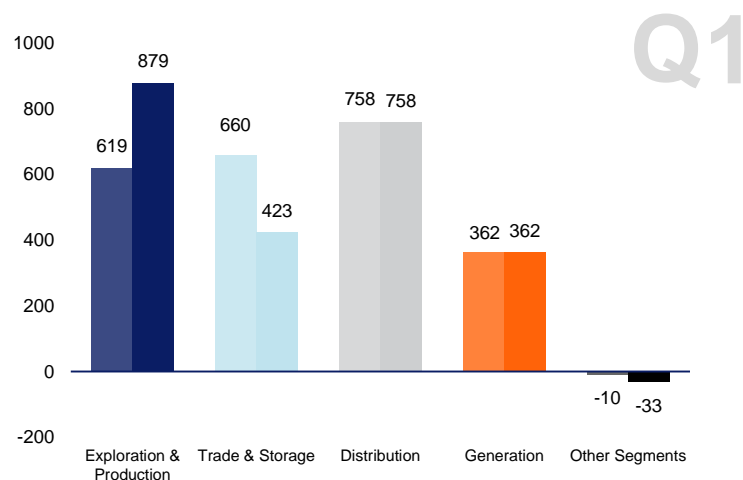


- In addition, reclassifications were also made between other items of operating expenses based on the type of operations.

# Effects of changes [EBITDA 2016 in PLNm] (3/4)

Previous method of reporting	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Exploration & Production	619	(123)	494	295	-
Trade & Storage	660	110	(8)	648	-
Distribution	758	665	542	594	-
Generation	362	88	110	199	-
Other segments	(10)	(5)	(6)	(40)	-
Reconciliation	4	2	5	11	-
Reclassification	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Exploration & Production	260	140	159	362	-
Trade & Storage	(237)	(102)	(133)	(324)	-
Distribution	-	-	-	-	-
Generation	-	-	-	-	-
Other segments	(23)	(38)	(26)	(38)	-
Reconciliation	-	-	-	-	-
New method of reporting	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Exploration & Production	879	17	653	657	1 376
Trade & Storage	423	8	(141)	324	358
Distribution	758	665	542	594	692
Generation	362	88	110	199	409
Other segments	(33)	(43)	(32)	(78)	(66)
Reconciliation	4	2	5	11	-

# Effects of changes [EBITDA 2016 in PLNm] (4/4)\*



# Appendix

# Financial highlights FY 2016

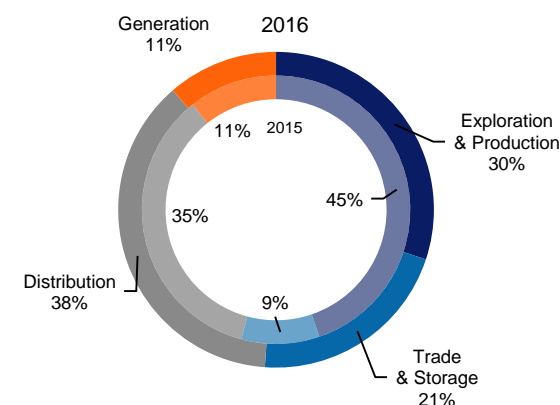
[PLNm]	2015	2016	Δ%
Revenue	36,464	<b>33,196</b>	(9%)
Operating expenses (excl. D&A)	(30,384)	<b>(27,222)</b>	(10%)
EBITDA	6,080	<b>5,974</b>	(2%)
Adjusted EBITDA*	6,670	<b>6,810</b>	2%
Depreciation and amortisation	(2,790)	<b>(2,614)</b>	(6%)
EBIT	3,290	<b>3,360</b>	2%
Net finance income/(costs)	(225)	<b>(76)</b>	(66%)
Net profit	2,136	<b>2,349</b>	10%

- > Revenue from high-methane (E) gas sales down PLN 3.7bn yoy (PLN 24.8bn in 2016), with sales volumes up 6% yoy, to almost 23 bcm.
- > Revenue from crude oil and condensate sales down PLN 338m in 2016, with sales volumes down 3% yoy, to 1,347 thousand tonnes.
- > Cost of gas sold down 17%, or PLN 3.7bn year on year.
- > Depreciation/amortisation expense in Norway down PLN 166m on lower sales volumes (units-of-production method) and on re-evaluation of Skarv reserves.

- > Major impact of impairment losses on non-current assets recognised in 2016 and 2015, of PLN -836m and PLN -590m, respectively. Adjusted EBITDA up 2% yoy.
- > PLN 55m net foreign exchange gains on the USD-denominated reserve based loan in 2016 vs PLN 80m net foreign exchange losses in 2015.
- > Equity method accounting for interest in PGG had an effect of reducing net profit by PLN -53m.
- > LNG regasification costs up PLN -176m yoy, oil and gas production charges in Poland increased by PLN 84m yoy.

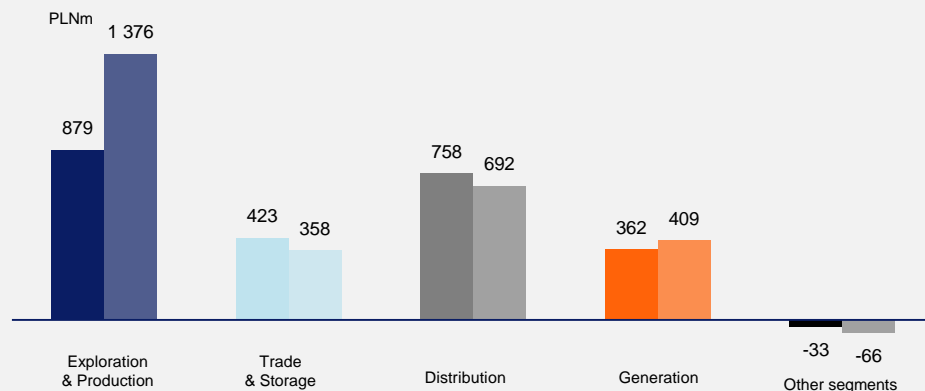
- > Major impact of falling commodity prices on full-year operating performance

- > Segments' contribution to Group adjusted EBITDA\* in 2016



# Financial highlights Q1 2017

## > PGNiG Group's EBITDA by segment in Q1 2017 vs Q1 2016



### Exploration & Production

- > Increase in revenue from sales of:
  - > oil and condensate by PLN 242m y/y (+66%),
  - > natural gas y/y by PLN 219m (+26%),
  - > geological/drilling services by PLN 25m (+26%).

### Trade & Storage

- > Revenue from sales of natural gas increase by 5% y/y, although lower market prices, mainly because of increase in sales volume by 11% y/y,
- > Higher write-down on gas inventories in Q1 2017 by PLN 35m vs PLN +165m reversal of write-down in Q1 2016 (net write-down at the end of 1Q 2017 at PLN 66m).

### Distribution

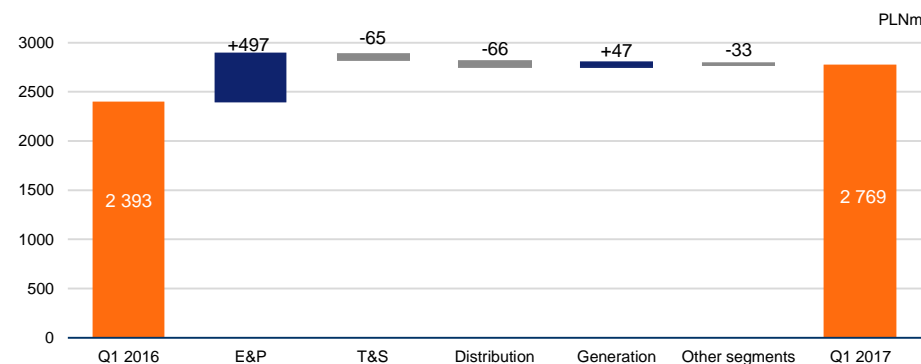
- > Volume up 13% y/y in Q1 2017,
- > Net cost of system balancing at PLN -218m in Q1 2017, compared with PLN -150m the year before.

### Generation

- > Higher heat and electricity sales volumes (from generation).

[PLNm]	Q1 2016	Q1 2017	Δ%
Revenue	10 980	<b>11 652</b>	6%
Operating expenses (excl. D&A)	(8 587)	<b>(8 883)</b>	3%
EBITDA	2 393	<b>2 769</b>	16%
Depreciation and amortisation expense	(672)	<b>(695)</b>	(3%)
EBIT	1 721	<b>2 074</b>	21%
Net finance income/(costs)	48	<b>19</b>	(60%)
Net profit	1 386	<b>1 599</b>	15%

## > PGNiG Group's EBITDA up in Q1 2017 vs Q1 2016\*



\* Changes do not include reconciliation with consolidated data.





# Operating expenses in Q1 2017

[PLNm]	Q1 2016	Q1 2017	Δ%
Fuels for heat and power generation	(282)	<b>(293)</b>	4%
Other raw materials and consumables used	(361)	<b>(351)</b>	(3%)
Employee benefits expense	(545)	<b>(642)</b>	18%
Transmission services	(239)	<b>(294)</b>	23%
Cost of dry wells and seismic surveys written-off	(46)	<b>(17)</b>	(63%)
Other services	(236)	<b>(361)</b>	52%
<i>Distribution services (including LNG regasification)</i>	<i>(10)</i>	<i><b>(95)</b></i>	<i>8x</i>
Net other income/(expenses)	(48)	<b>(338)</b>	6x
<i>Change in impairment losses</i>	<i>205</i>	<i><b>7</b></i>	<i>(97%)</i>
<i>- Inventory write-down</i>	<i>170</i>	<i><b>(19)</b></i>	<i>(111%)</i>
<i>- Impairment loss on non-current assets</i>	<i>49</i>	<i><b>20</b></i>	<i>(59%)</i>
<i>Taxes and charges</i>	<i>(448)</i>	<i><b>(524)</b></i>	<i>17%</i>
Work performed by the entity and capitalised	163	<b>159</b>	(2%)
Depreciation and amortisation expense	(672)	<b>(695)</b>	3%
Operating expenses net of cost of gas sold	(2 266)	<b>(2 829)</b>	4%
Cost of gas sold	(6 993)	<b>(6 749)</b>	(3%)
Total operating expenses	(9 259)	<b>(9 578)</b>	3%

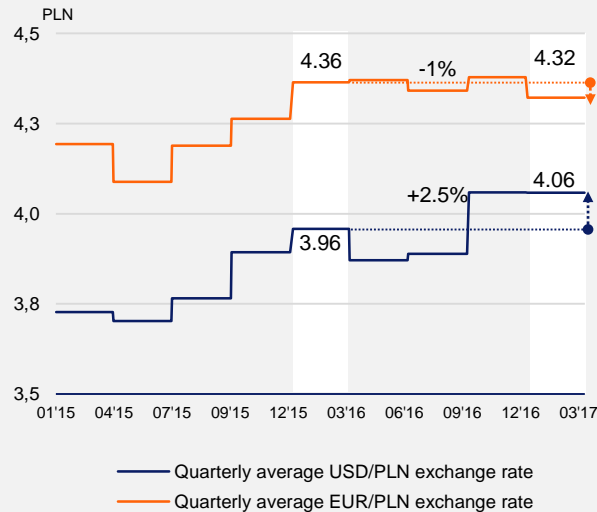
- Higher regasification costs and royalty rates offset by lower gas procurement costs.

## Komentarz:

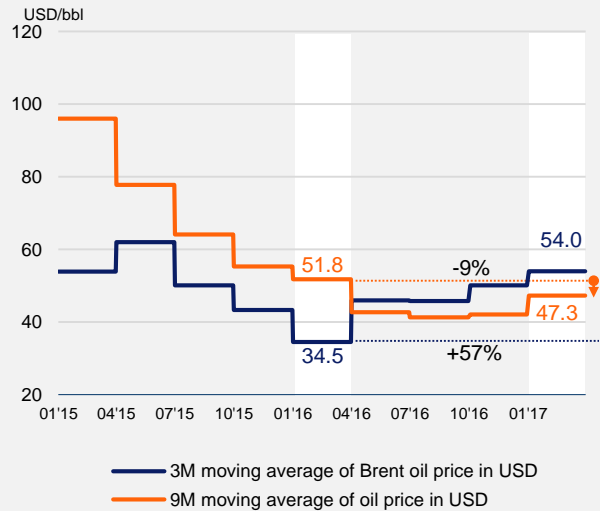
- Employee benefits expense up (PLN +50m y/y) on payment of employee bonuses, increase in salaries and wages (PLN +19m y/y) and in other employee benefits.
- Lower cost of dry wells written off: PLN -17m in Q1 2017 vs PLN -46m in Q1 2016. In both periods three dry wells were written off and no costs of seismic surveys were incurred.
- Cost of other services up PLN 123m y/y, mainly on higher regasification cost (PLN +87m y/y).
- Increase in foreign exchange costs related to operating activities by PLN 94m y/y
- Taxes and charges up (by PLN 75m), mainly due to underestimating the gas pipeline tax (up by PLN 56m) in Q1 2016.
- Change of products: PLN +107m y/y.

# Performance drivers

- Stronger USD against PLN y/y, stable EUR against PLN y/y

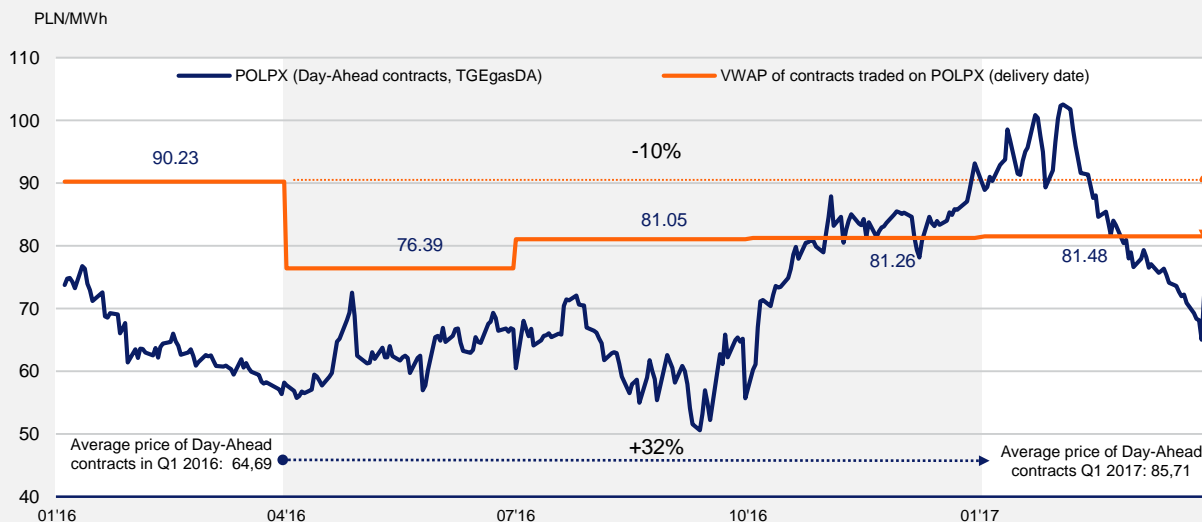


- 3-month average crude oil price up 57% y/y in Q1 2017



- Revenue growth attributable to rising crude prices and higher volumes of gas sold

- Gas prices on the POLPX Day-Ahead Market and the average price of futures contracts



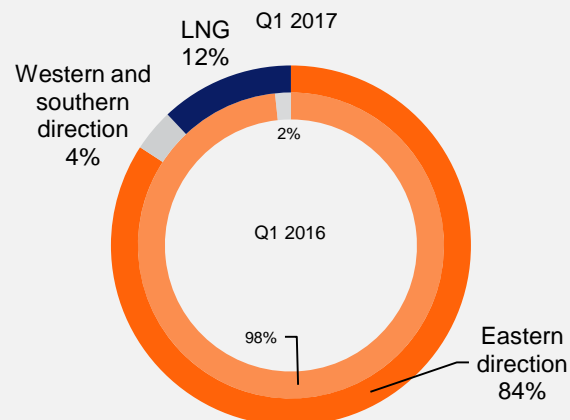
## Comments:

- Selling prices at POLPX: the largest volumes of gas were traded on the POLPX and other gas exchanges under contracts with maturities of a quarter, season (summer/winter) and year. Monthly/weekly futures and spot contracts play a complementary role.
- Volume-weighted average quarterly price of contracts on POLPX was calculated based on pricing of contracts with delivery date in particular quarter.

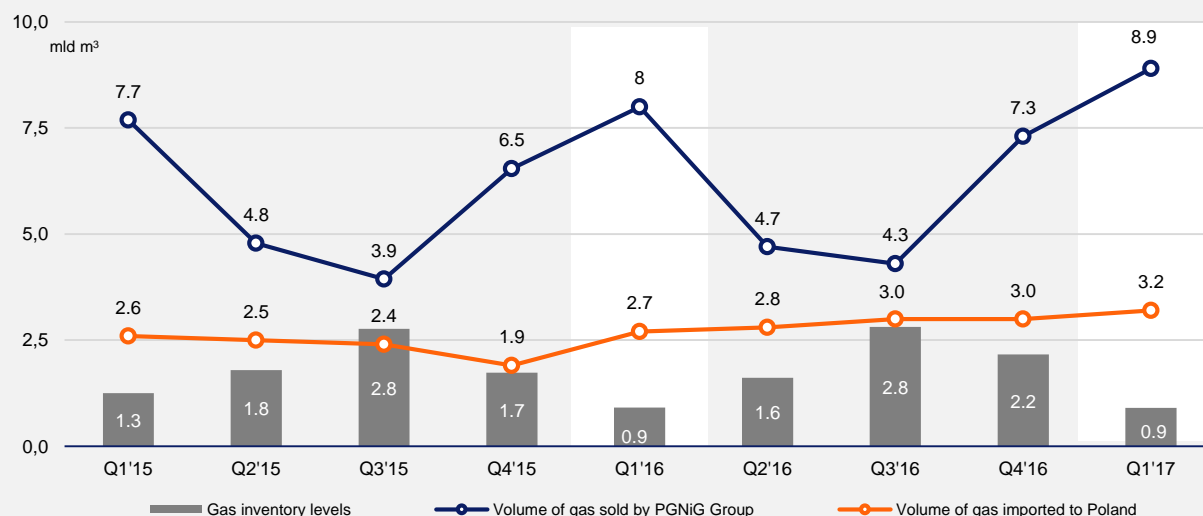


# Sales and gas imports structure

## > Poland's gas imports structure in Q1 2017 vs Q1 2016



## > PGNiG Group's gas sales volumes, gas inventory levels, and gas imports



> Significant share of LNG in gas imports in Q1 2017.

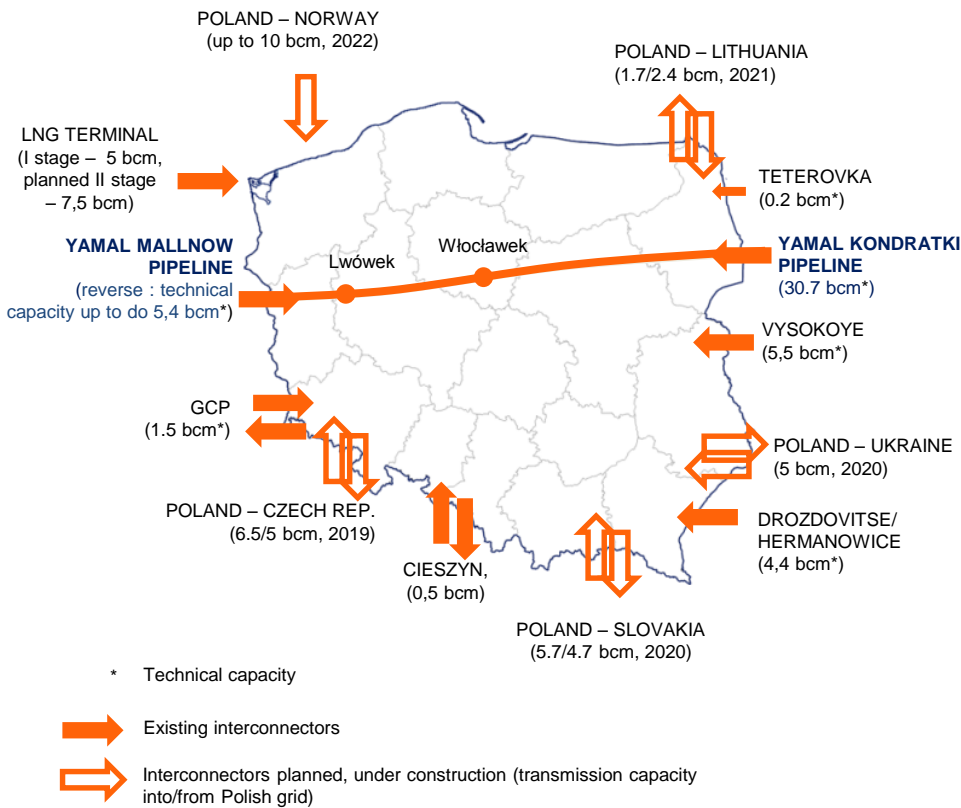
> PGNiG Group gas sales volumes up 0.9 bcm y/y in Q1 2017, especially to industrial customers (wholesale and retail trading).

### Comments:

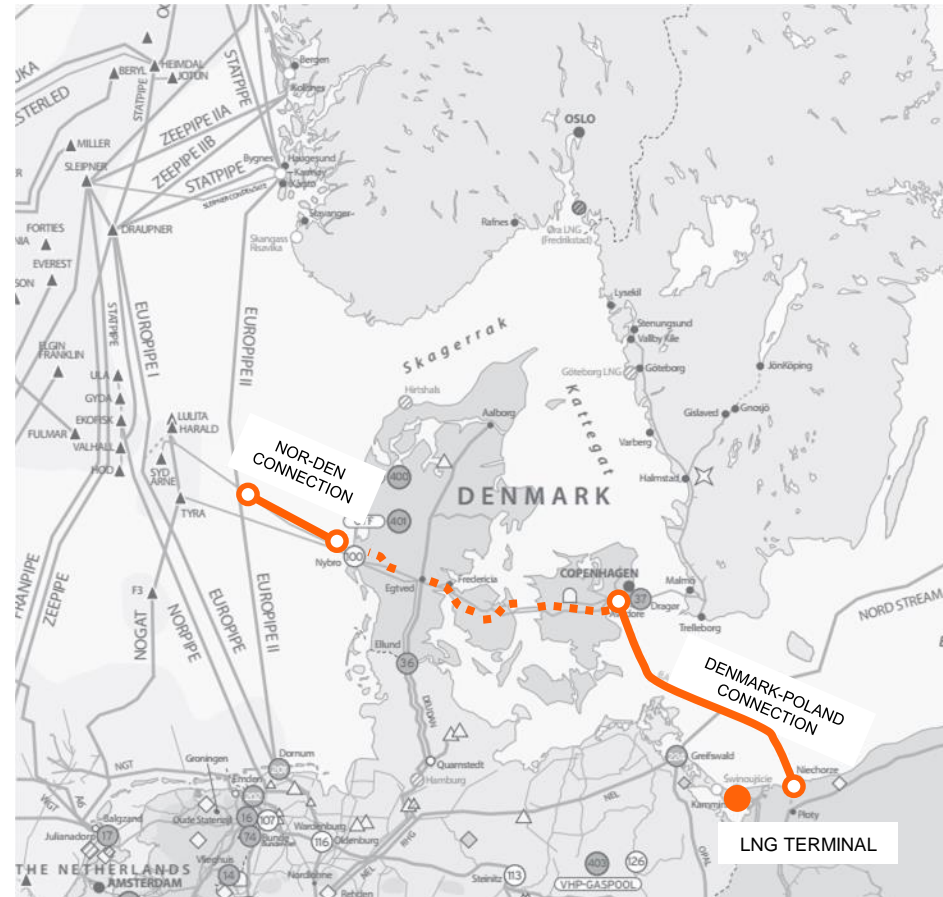
> LNG terminal stocks: 99 mcm (as at March 31st 2017).

# Gas transport routes

## > Interconnections



## > Northern Gate Project



# Gas trading and retail sales in Poland



Sales made on PPE by PGNiG SA and purchases made on PPE by PGNiG Obrót Detaliczny, 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).

# Changes on the Polish gas market

Gas sales volume (mcm)	2014	2015	2016
Total PGNiG Group	18.6	23.0	<b>24.3</b>
PGNiG SA (without Pakistan)	13.8	13.2	<b>14.5</b>
<i>including PGNiG SA through PPE</i>	3.7	8.1	<b>9.0</b>
PGNiG Obrót Detaliczny	3.0	7.5	<b>7.3</b>

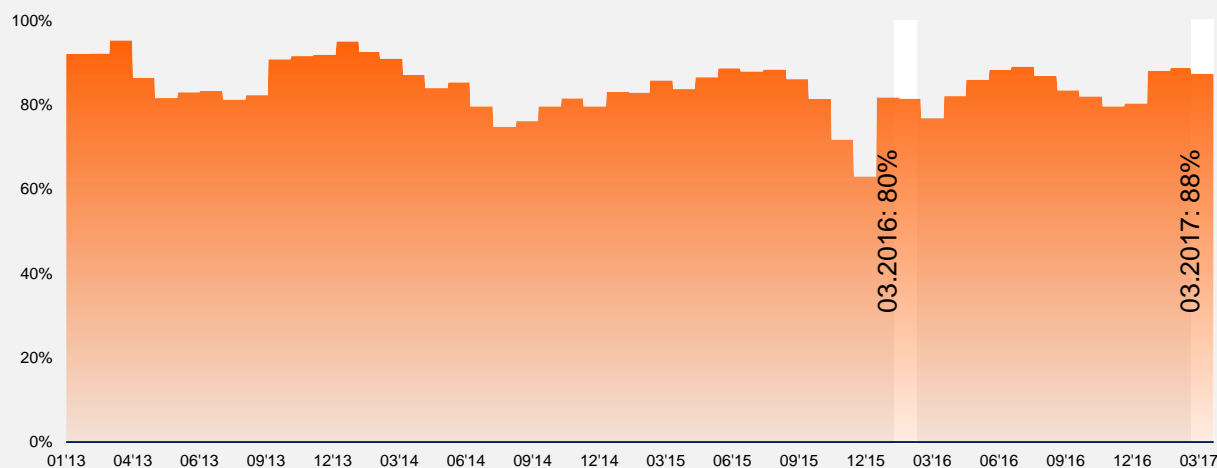
➤ Gas market deregulation is affecting PGNiG's share in imports and sales structure

- 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.
- Nitrogen-rich gas presented in the table as Group E gas equivalent.

\* Notes:

- The chart presents PGNiG SA's share in gas flowing into Poland through OGP Gaz-System's entry points (excluding transit volumes via the Yamal pipeline and including volumes for export), monthly data. The increase of PGNiG's share in imports observed in Q1 2016 caused mainly by reduced exports to Ukraine.
- Data in the chart do not show 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.

➤ PGNiG's share in gas imports to Poland\*





# Tariff Model in Poland

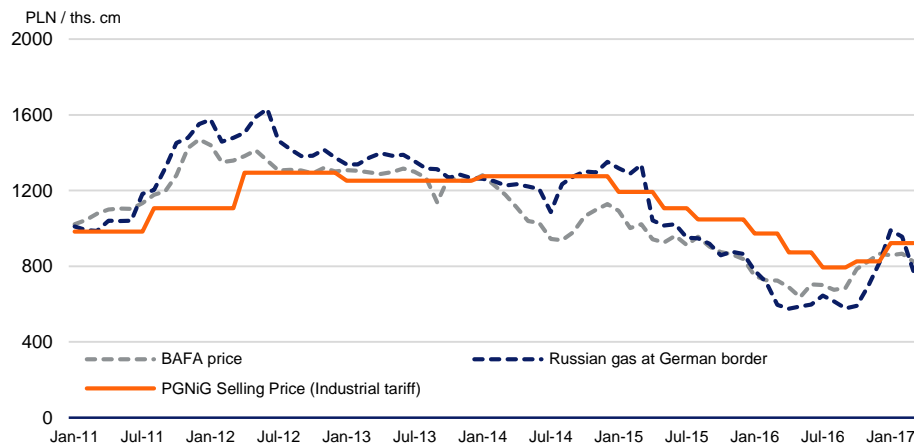
Type of activity	Regulatory mechanism
Direct sales	None
Gas sales	Cost of gas + operating costs + margin
Retail	PGNiG Retail's cost base including cost of gas on PPE
Wholesale	Including cost of imports + cost of production (with return on capital invested in E&P)
Storage (until March 2018)	Cost + return on capital (6.0% WACC x PLN 3.6bn RAB)
Distribution (set in 2014)	Cost + return on capital (7.2% WACC x PLN 11.9bn RAB)

## > Detariffication schedule for gas market in Poland



- > Eliminating gas fuel trading tariffs for wholesalers and end customers purchasing gas fuel (i) at a virtual gas trading point, (ii) in the form of LNG or CNG, and (iii) under tender, auction or public procurement procedures pursuant to the provisions of the Public Procurement Law.
- > Eliminating gas fuel trading tariffs for other business customers (including both bigger industrial companies and small & medium enterprises).
- > Maintained the obligation of providing tariffs for households.

## > Monthly average gas prices in European import contracts and PGNiG tariff price



## > Levels of obligatory trading on Polish Power Exchange



In 2013



From January 1, 2014

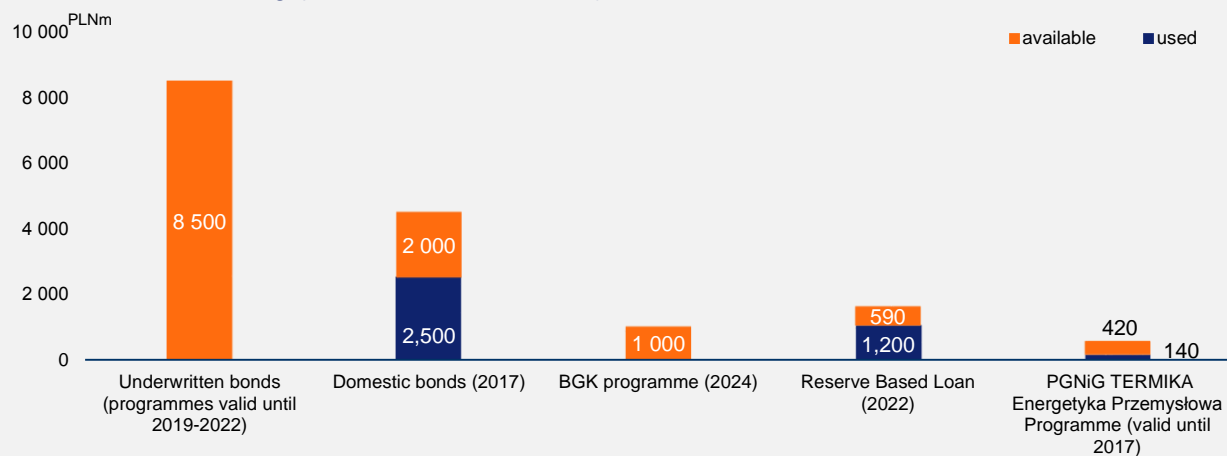


From January 1, 2015

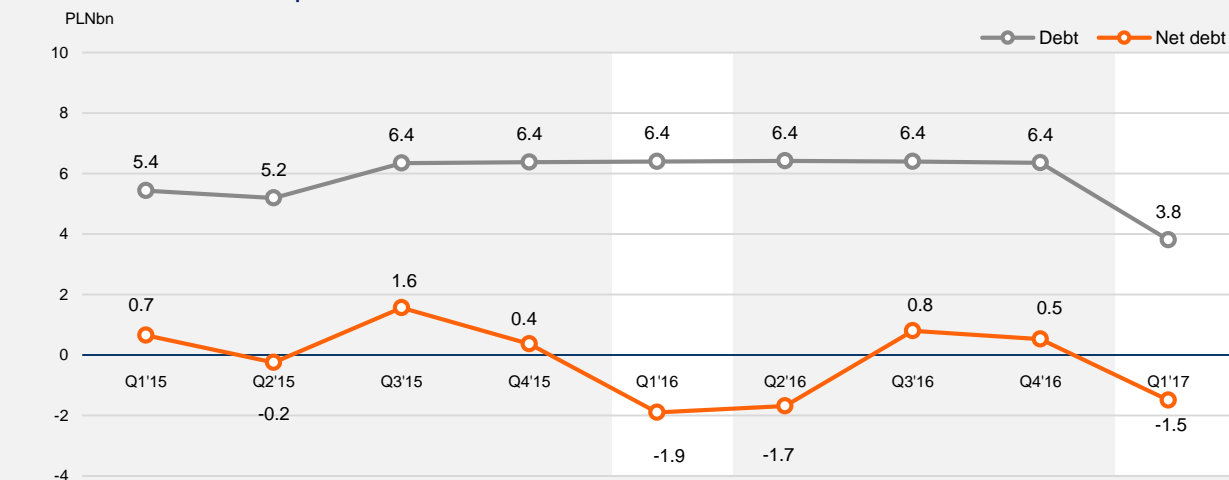
- > Liberalization of gas market in Poland is being implemented, based on obligatory trading on gas exchange in Warsaw and gradual removal of tariffs for certain segments of industrial customers.

# Debt and sources of funding

## > Sources of funding (as at March 31st 2017)



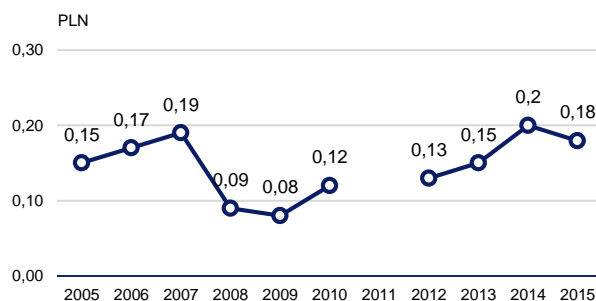
## > Debt at the end of quarter



## Comments:

- > On February 13th 2017, PGNiG made a timely repayment of a loan from PGNiG Finance AB of EUR 500m along with interest. On February 14th 2017, PGNiG Finance AB redeemed Eurobonds with a nominal value of EUR 500m and paid due interest.

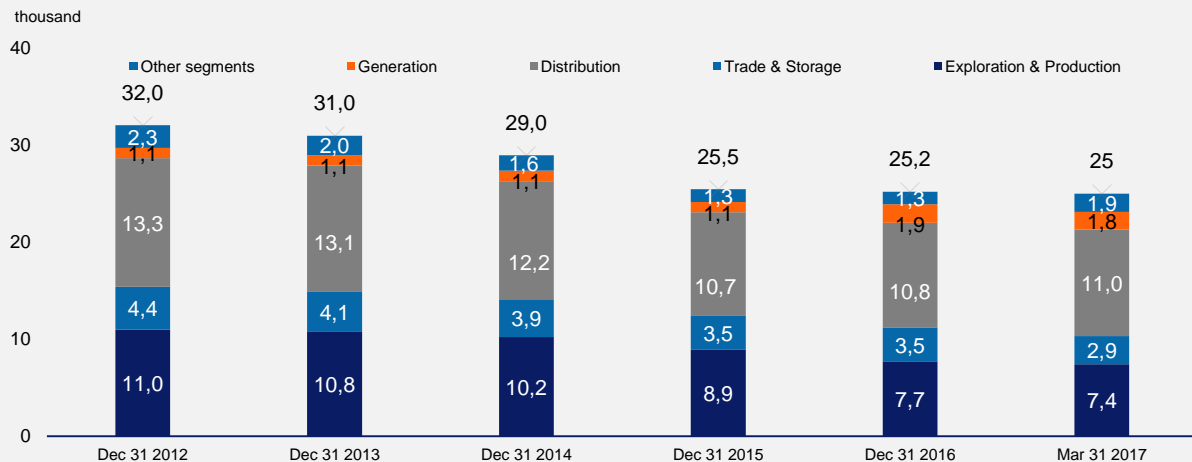
## > Dividend per share



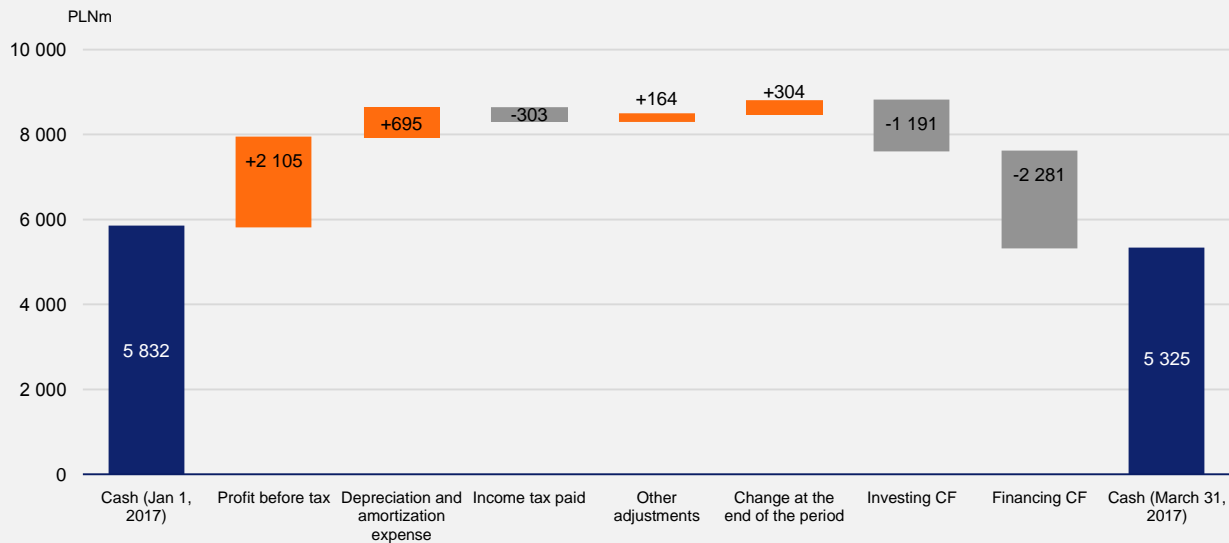
- > Up to 50% of consolidated net profit to be paid as dividend in 2015–2022 (provided that the financial condition is stable and financing sources for investment projects are secured).

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

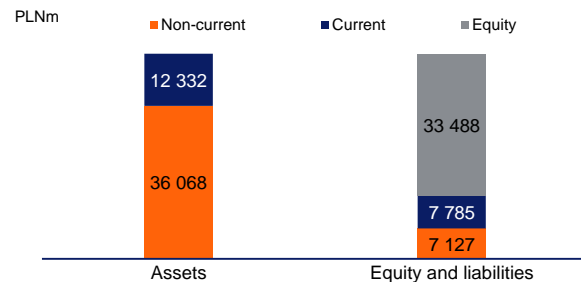
## > Headcount (at date)



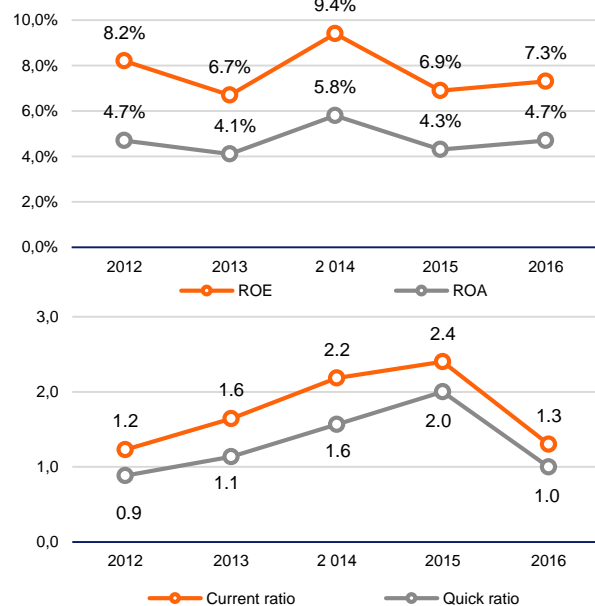
## > Consolidated cash flows (Jan 1–Mar 31 2017)



## > Group's statement of financial position (as at March 31st 2017)



## > Profitability and liquidity ratios



# Production and sales volumes

<b>NATURAL GAS PRODUCTION, PGNiG Group (mcm)</b>	<b>Q1 2017</b>	<b>FY 2016</b>	<b>Q4 2016</b>	<b>Q3 2016</b>	<b>Q2 2016</b>	<b>Q1 2016</b>	<b>FY 2015</b>	<b>Q4 2015</b>	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>
HIGH-METHANE GAS (E)	474	1 918	473	450	487	509	2 027	504	515	507	501
<i>including in Poland</i>	328	1 401	347	346	349	359	1 454	366	359	362	367
<i>including in Norway</i>	146	517	126	104	138	150	573	138	156	145	134
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	712	2 540	692	582	596	670	2 564	664	612	602	685
<i>including in Poland</i>	680	2 480	670	570	584	657	2 513	651	601	589	672
<i>including in Pakistan</i>	32	59	22	12	13	13	52	13	12	13	13
<b>TOTAL (measured as E equivalent)</b>	<b>1 186</b>	<b>4 458</b>	<b>1 165</b>	<b>1 032</b>	<b>1 083</b>	<b>1 179</b>	<b>4 591</b>	<b>1 168</b>	<b>1 128</b>	<b>1 109</b>	<b>1 186</b>
Total production in kboe/d	81	79	82	72	77	84	81	84	80	79	83

## NATURAL GAS SALES, PGNiG Group (mcm)

HIGH-METHANE GAS (E)	8 396	22 900	6 923	4 006	4 411	7 560	21 653	6 184	3 662	4 497	7 311
<i>including PST sales outside PGNiG Group</i>	734	2 511	561	614	571	764	2 311	648	639	502	522
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	469	1 373	419	244	298	412	1 295	355	261	285	395
<b>TOTAL (measured as E equiv.)</b>	<b>8 865</b>	<b>24 273</b>	<b>7 342</b>	<b>4 250</b>	<b>4 709</b>	<b>7 972</b>	<b>22 949</b>	<b>6 539</b>	<b>3 922</b>	<b>4 782</b>	<b>7 705</b>
<i>including sales directly from the fields</i>	243	756	218	137	181	221	736	192	169	169	206

## GAS IMPORTS by PGNiG SA (mcm)

Total	3 219	11 527	2 968	3 020	2 837	2 702	9 330	1 863	2 398	2 495	2 574
<i>including: sources east of Poland</i>	2 709	10 248	2 539	2 429	2 623	2 657	8 155	1 774	2 329	2 219	1 833
<i>including: LNG</i>	387	974	380	384	210	-	-	-	-	-	-

## CRUDE OIL, PGNiG Group (thousand tonnes)

Production of crude oil and condensate	346	1 318	344	298	328	348	1 428	358	367	317	386
<i>including in Poland</i>	216	764	207	177	176	203	765	207	204	147	207
<i>including in Norway</i>	130	555	137	121	152	145	664	151	163	170	180
Total production in kbb/d	27	26	27	24	26	28	29	29	29	26	31
Sales of crude oil and condensate	390	1 347	326	287	336	398	1 391	315	356	372	348
<i>including in Poland</i>	218	754	198	179	172	205	772	211	196	148	217
<i>including in Norway</i>	172	593	127	108	164	193	619	104	160	224	131

## GENERATION

Production of heat, net (sales) (TJ)	17 669	39 527	15 079	2 945	5 351	16 152	36 209	12 643	2 701	5 810	15 055
Production of electricity, net, secondary generation (for sale) (GWh)	1 458	3 604	1 204	418	591	1 390	3 487	1 136	328	674	1 349

# Glossary

2P	Proven reserves of fossil fuels
bbl	Barrel
BGK	Bank Gospodarstwa Krajowego
boe / mmboe	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
JV	Joint Venture
OPEX	Operating expenses
PPE	Polish Power Exchange
PSG	Polska Spółka Gazownictwa
PST	PGNiG Supply & Trading GmbH
PUN	PGNiG Upstream Norway
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

# Contact details

**Aleksandra Dobosiewicz**

Deputy Head of the Economic Department

Head of the Investor Relations Division

Phone: +48 22 589 46 71

Mobile: +48 665 004 847

Fax: +48 22 691 81 23

Email: [aleksandra.dobosiewicz@pgnig.pl](mailto:aleksandra.dobosiewicz@pgnig.pl)

**Marcin Piechota**

Senior Investor Relations Specialist

Phone: +48 22 589 43 22

Mobile: +48 885 889 890

Fax: +48 22 691 81 23

Email: [marcin.piechota@pgnig.pl](mailto:marcin.piechota@pgnig.pl)

**Polskie Górnictwo Naftowe i Gazownictwo S.A.**

ul. M. Kasprzaka 25

01-224 Warsaw, Poland

[www.en.pgnig.pl](http://www.en.pgnig.pl)

## Disclaimer

All opinions, judgements and projections contained in this presentation ('Presentation') have been prepared by Polskie Górnictwo Naftowe i Gazownictwo (PGNiG) S.A. relying on publicly available information. The information contained herein is subject to change without notice and may be incomplete or condensed, and it may omit some important details. No information contained herein is intended as an investment offer or recommendation or as an offer to provide any services. This Presentation contains information and statements relating to future, but not to past, events. Any such forward-looking statements are based on our current assumptions, but as they relate to the future and are subject to risks and uncertainties, actual results or events could materially differ from those anticipated in those forward-looking statements. This Presentation should not be acted or relied on in making any investment decisions. More information on PGNiG can be found in its current and periodic reports. PGNiG undertakes no obligation to update, and assumes no responsibility for the accuracy, completeness or use of, information contained in this Presentation. No information contained herein is intended as legal or other professional advice.

> More information



Investor Relations website

[www.en.pgnig.pl/investor-relations](http://www.en.pgnig.pl/investor-relations)

