

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

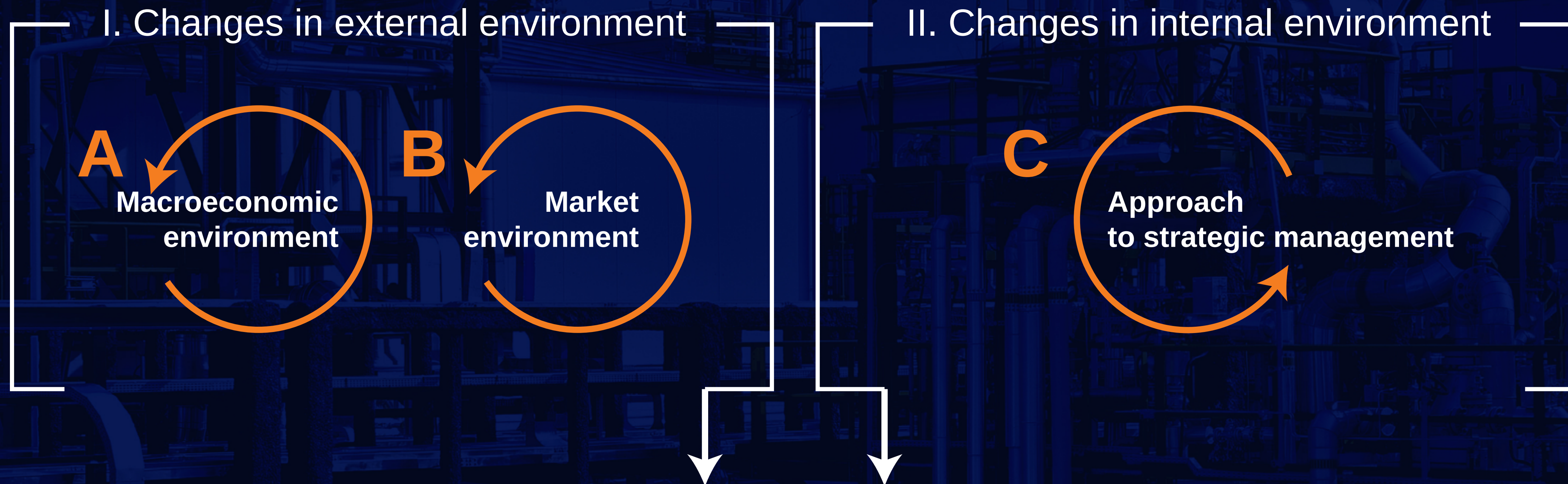


# Agenda

1. Introduction
2. PGNiG Group key strategic objectives
3. PGNiG Group ambitions in key business areas
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# Key rationales for developing the new PGNiG Group Strategy



Rationale for developing the new PGNiG Group Strategy  
for 2017–2022 (extended until 2026)



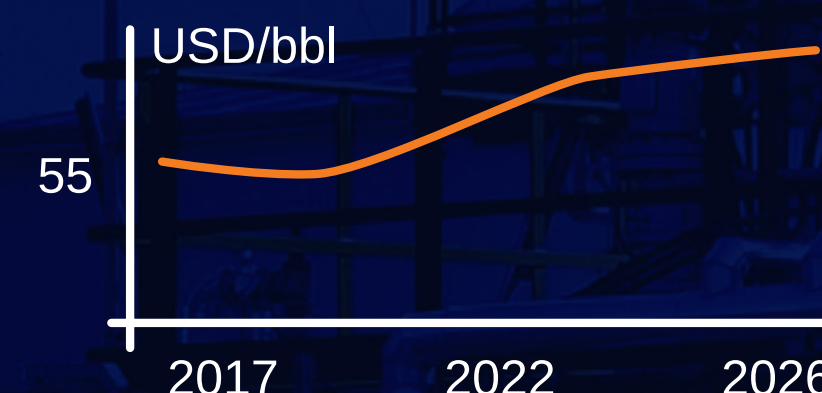
# Rationale for developing the new PGNiG Group Strategy for 2017–2022 (extended until 2026)

## A. Macroeconomic environment changes



Crude oil

Average annual price decline of ca. 26% for the years from 2013 to 2016

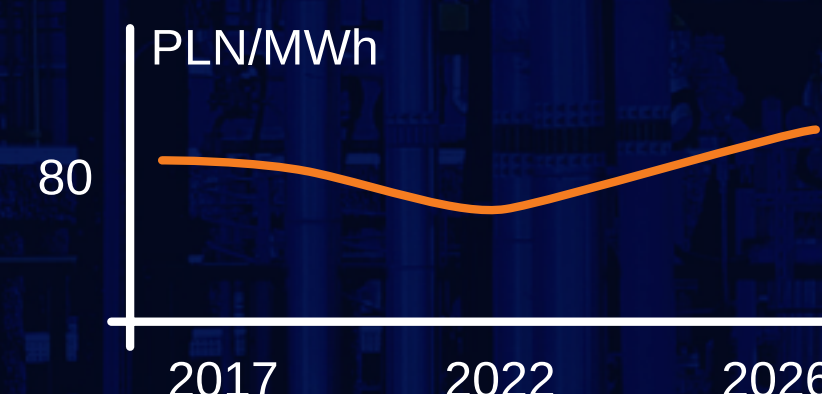


Oil prices to increase from ca. **USD 55/bbl** in 2017 to ca. **USD 70/bbl** in 2022 (up 27%\*), and further to ca. **USD 90/bbl** in 2026 (up 64%\*).



Natural gas

Average annual price decline of ca. 20% for the years from 2013 to 2016

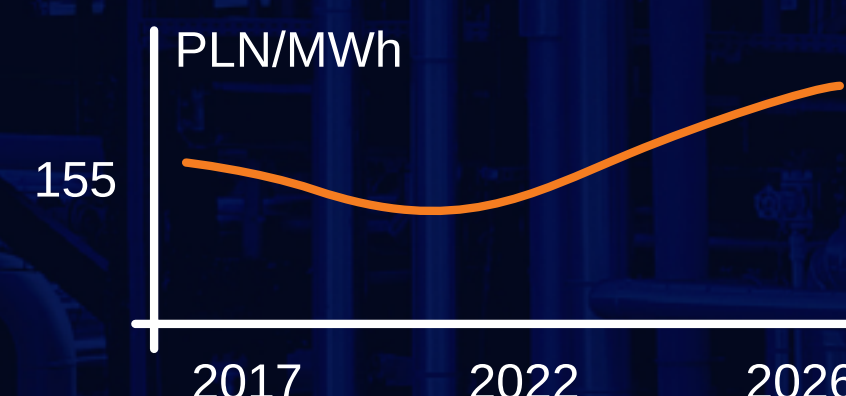


Gas prices to decrease from ca. **PLN 80/MWh** in 2017 to ca. **PLN 60/MWh** in 2022\*\* (down 25%\*), and then to rebound to ca. **PLN 98/MWh** in 2026 (up 23%\*).



Electricity

Stagnant prices in 2015–2016 at ca. PLN 160/MWh



Electricity prices to decrease slightly from ca. **PLN 155/MWh** in 2017 to ca. **PLN 150/MWh** in 2022 (down 3%\*), and then to rebound to ca. **PLN 170/MWh** in 2026 (up 10%\*).

\*All percentage values in reference to the 2017 base

\*\*Gas prices expected to fall on anticipated LNG oversupply on global markets



# Key rationales for developing the new PGNiG Group Strategy

## B. Market environment changes



### Growing competition on Polish gas market

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Increase in number of gas suppliers: more than 190 at end of 2016

Growing number of customers switching gas suppliers: ca. 48 000 in 2016 vs 200 in 2013



### Need to diversify gas imports from 2022 onwards

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Expiry of the Yamal contract in 2022

Need to diversify gas imports: creation of Norwegian Corridor and further use of LNG terminal in Świnoujście



### Changes in regulatory environment

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Gradual exemption from obligation to seek approval for gas trading tariffs (institutional customers: October 2017, retail customers: 2024)

Unpredictable future of support mechanism for generation area beyond 2018



# Key rationales for developing the new PGNiG Group Strategy

## C. New approach to strategic management

### Balancing financial, operating, and development goals

#### Perspectives of the new strategy



Development and implementation of the new strategy was based on the methodology of **sustainable strategic management** – the Balanced Scorecard (BSC).

The BSC methodology enables the **balancing of financial, operating and development goals** in the PGNiG Group based on **BSC's four key 'perspectives'** (financial, customers, processes, and resources and growth).

Definition of the strategic objectives from the various BSC perspectives **mitigates the risk of focusing on short-term performance at the expense of long-term results.**



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# PGNiG Group mission statement, vision and paramount objective

## Mission statement



**We are a trustworthy supplier of energy for households and businesses**

## Vision



**We are a responsible and effective provider of innovative energy solutions**

## Paramount objective



**Increasing the PGNiG Group 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

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**Responsibly** – we act transparently, in line with the principles of corporate social responsibility

**Effectively** – we have implemented process and cost optimisation measures

**Innovative solutions** – we are an innovation leader in the energy sector

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**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



## 2. PGNiG Group key strategic objectives

# PGNiG Group strategic objective is to strengthen its competitive position while supporting the development and ensuring security of the gas market in Poland



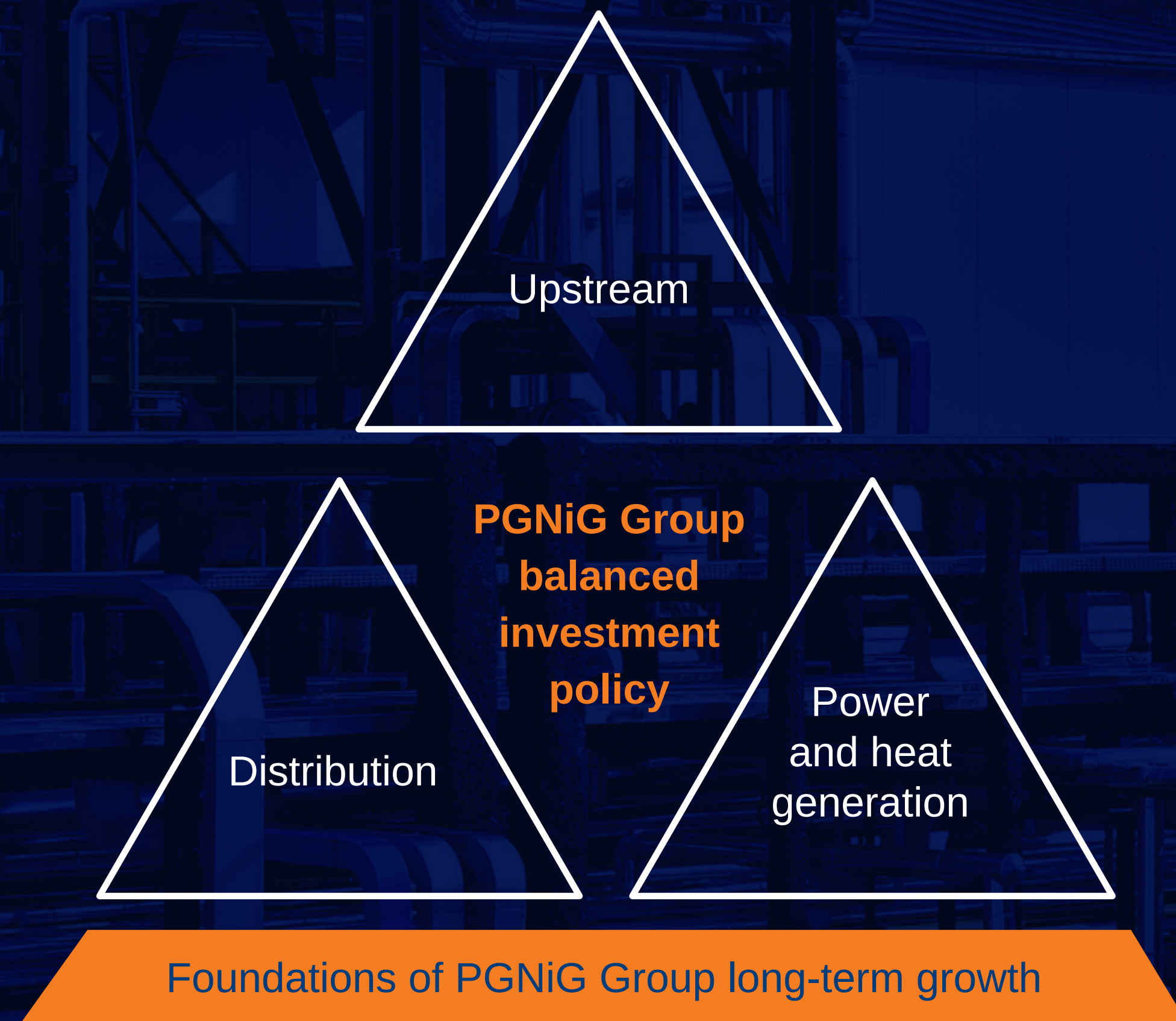


## 2. PGNiG Group key strategic objectives

# Priority areas of strategic investments and development

## Investment policy

Balancing investment risk will ensure a long-term and stable growth of the PGNiG Group



Our priority is **Group's sustainable development** through:

investing in business areas yielding relatively high return rates vs risks involved (**upstream**),

while simultaneously

investing in regulated business areas offering considerable investment safety (**gas distribution, power and heat generation**).



## 2. PGNiG Group key strategic objectives

# PGNiG Group financial targets for 2017–2022

## Capital expenditure (CAPEX)

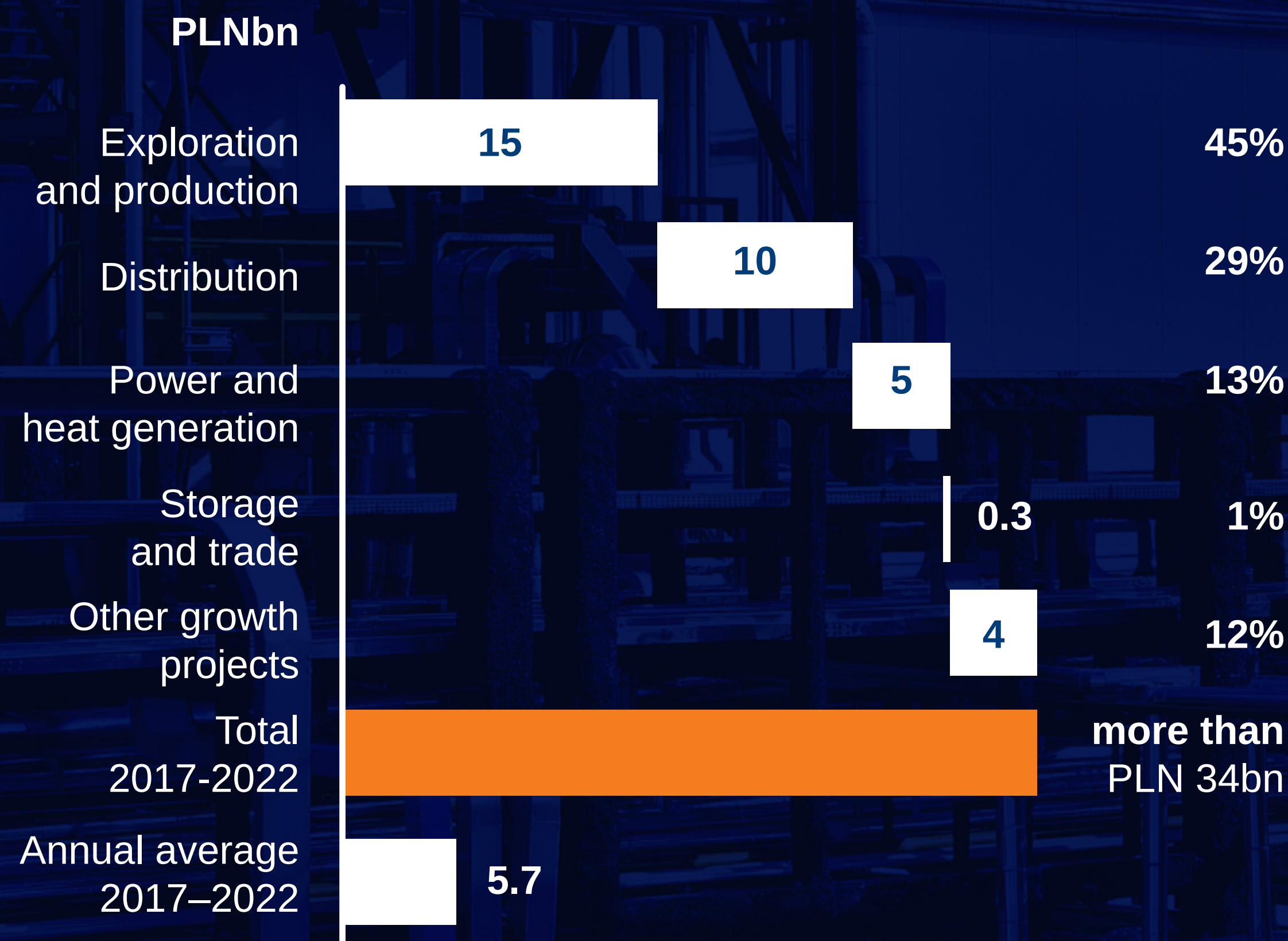
**In 2017–2022 our CAPEX will exceed PLN 34bn**

**Almost half of CAPEX (45%) will be spent on hydrocarbon exploration and production.**

**Almost 30% of capital expenditure will be incurred on developing the distribution business. Ca. 13% will be spent on power and heat generation projects.**

**Additionally, ca. 12% of CAPEX will be allocated to other, selected growth projects offering attractive returns, including distribution, trading, power and heat generation.**

**Average annual capital expenditure in 2017–2022 at ca. PLN 5.7bn.**

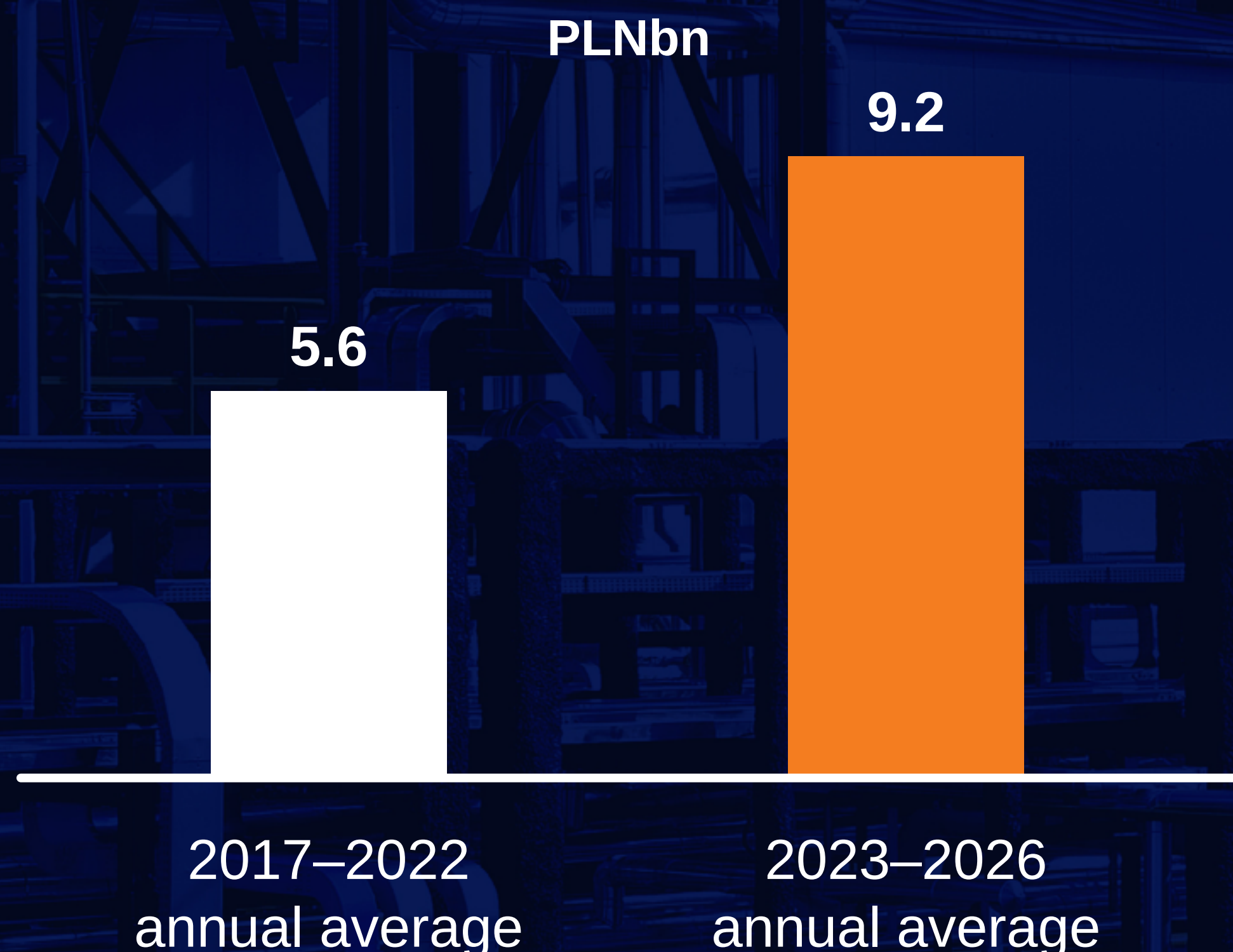




## PGNiG Group financial targets for 2017–2022 (extended until 2026)

EBITDA

In 2017–2022 our cumulative EBITDA will reach ca. PLN 33.7bn



Our investment programme will drive long-term growth of the Group's EBITDA, particularly in 2023–2026 (at the annual average of ca. PLN 9.2bn).

Keeping net debt to EBITDA ratio below 2.0.

Upholding the current dividend policy up to 50% of the Group's consolidated net profit.\*

\*PGNiG Management Board will each time take into account the current financial standing of its investment plans before giving the recommendation on dividend payment.

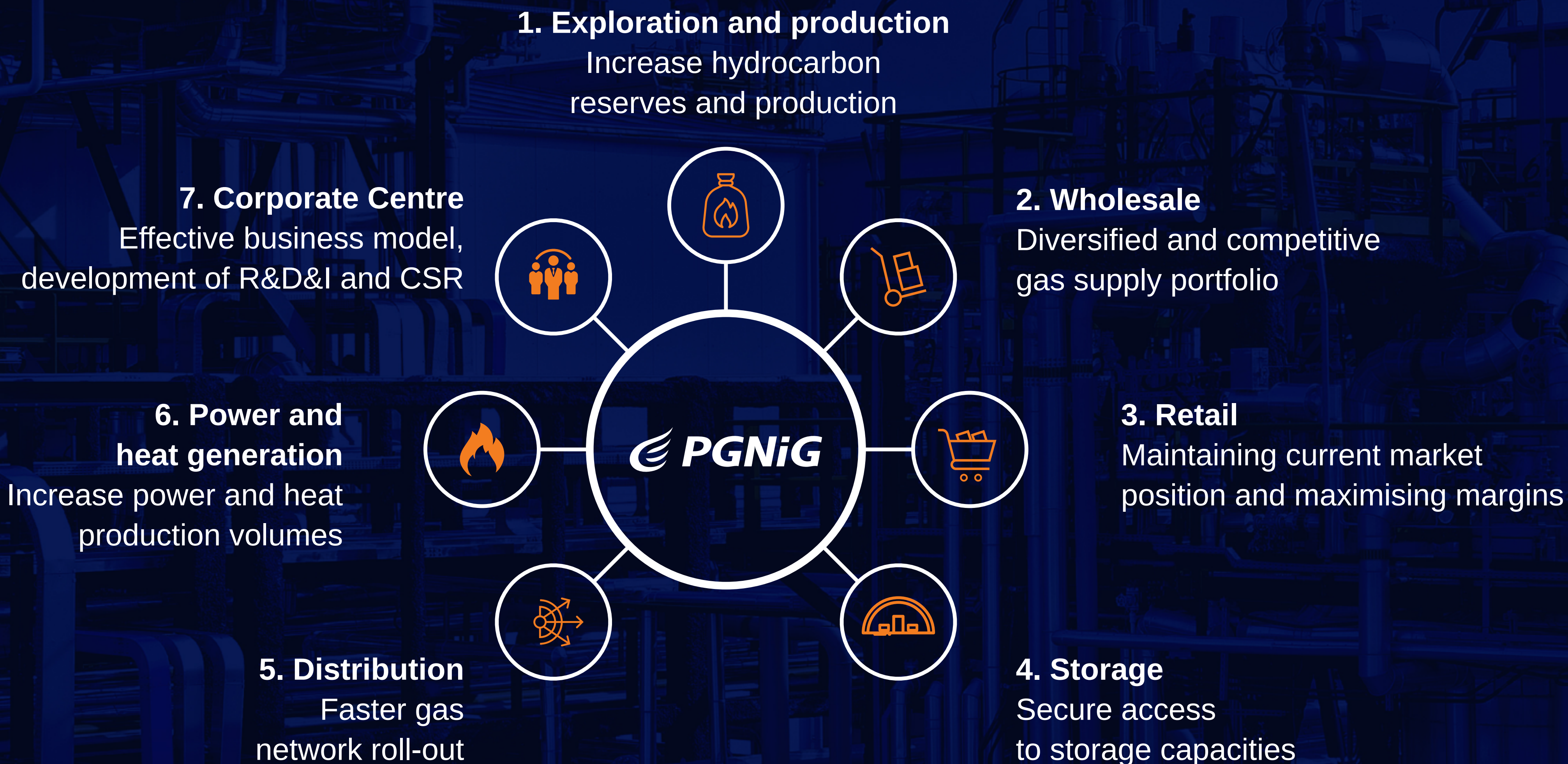


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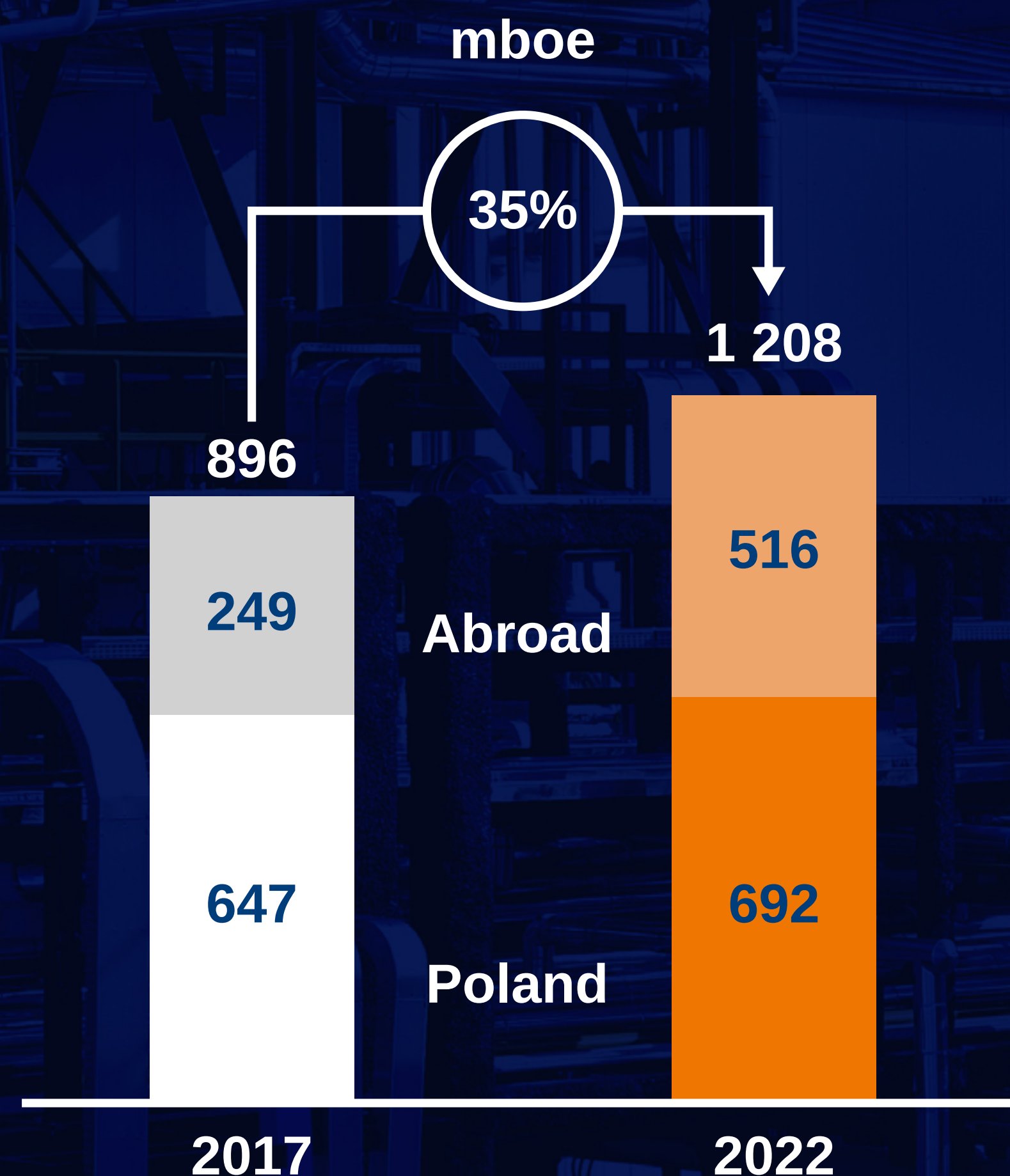
## Ambitions in key business areas





# 1. Exploration and production

Increase the base of documented hydrocarbon reserves



## What is our objective?

Increase the current base of documented hydrocarbon reserves by 35%.

## How to achieve it?

We will increase our domestic base of documented hydrocarbon reserves by 7%.

We will more than double our foreign base of documented reserves (mainly in Norway and Pakistan).

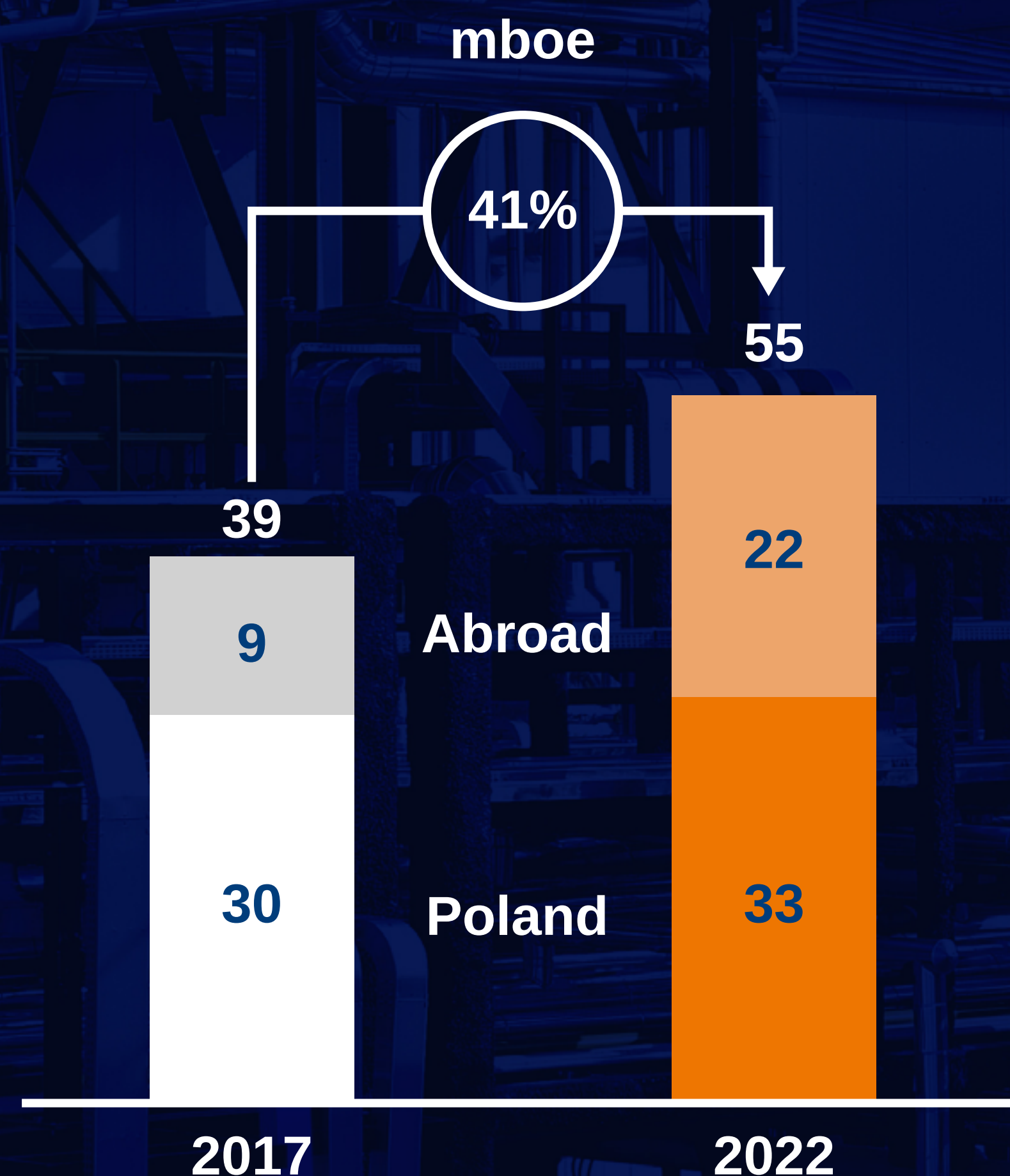
We will accelerate exploration and acquisition of hydrocarbon deposits abroad.

We will intensify exploration for domestic hydrocarbon deposits.



# 1. Exploration and production

Increase hydrocarbon production



## What is our objective?

Increasing total output of hydrocarbons by 41%.

## How to achieve it?

**We will increase the annual output of hydrocarbons in Poland by 10%.**

**We will more than double the annual output of hydrocarbons abroad (mainly in Norway and Pakistan).**

Additionally, after 2022 we intend to **increase production in Norway to 2.5 bcm per year** (equity gas for the Norwegian Corridor).



# 1. Exploration and production

## Improve profitability of the E&P business

### What is our objective?

Significantly reduce unit costs of exploration and deposit appraisal.

### How to achieve it?

We will focus exploration efforts on projects offering the **highest potential for positive return on investment.**

We will review **our exploration plans in Poland** to maximise probability of discovering and documenting new hydrocarbon deposits.

We will **review our existing licences** to assess economic viability of on-going projects.

We will **reduce the average time to complete** appraisal of deposits in Poland.

### What is our objective?

Maintaining unit cost of field development and hydrocarbon production.

### How to achieve it?

We will improve the efficiency of **investment processes** by **reviewing and updating investment plans** in field development and reducing the **average field development time by six months.**

We will roll out new approach to preparation of **field development and set-up concept.**

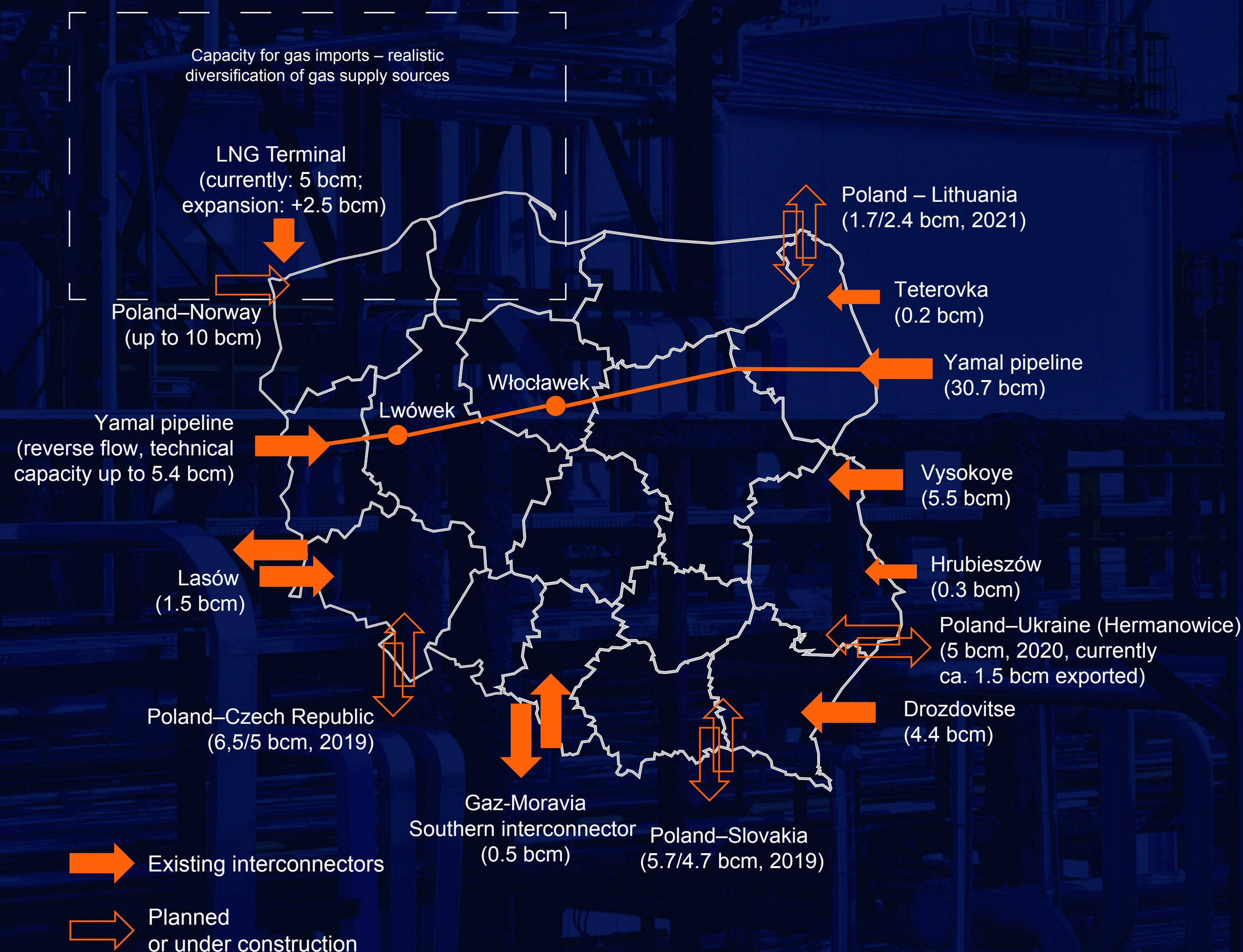
We will adjust **technical requirements for the construction of overground infrastructure** to actual technological and operational needs.

We will optimise **production processes from existing fields** and hydrocarbon extraction.



## 2. Wholesale

### Diversification of gas supply sources



### What is our objective?

**Diversified gas supply portfolio after 2022.**

### How to achieve it?

**Participate in the Norwegian Corridor project, considering the upcoming end of the Yamal contract.**

**We will increase our gas reserves in Poland and abroad (equity gas in Norway).**

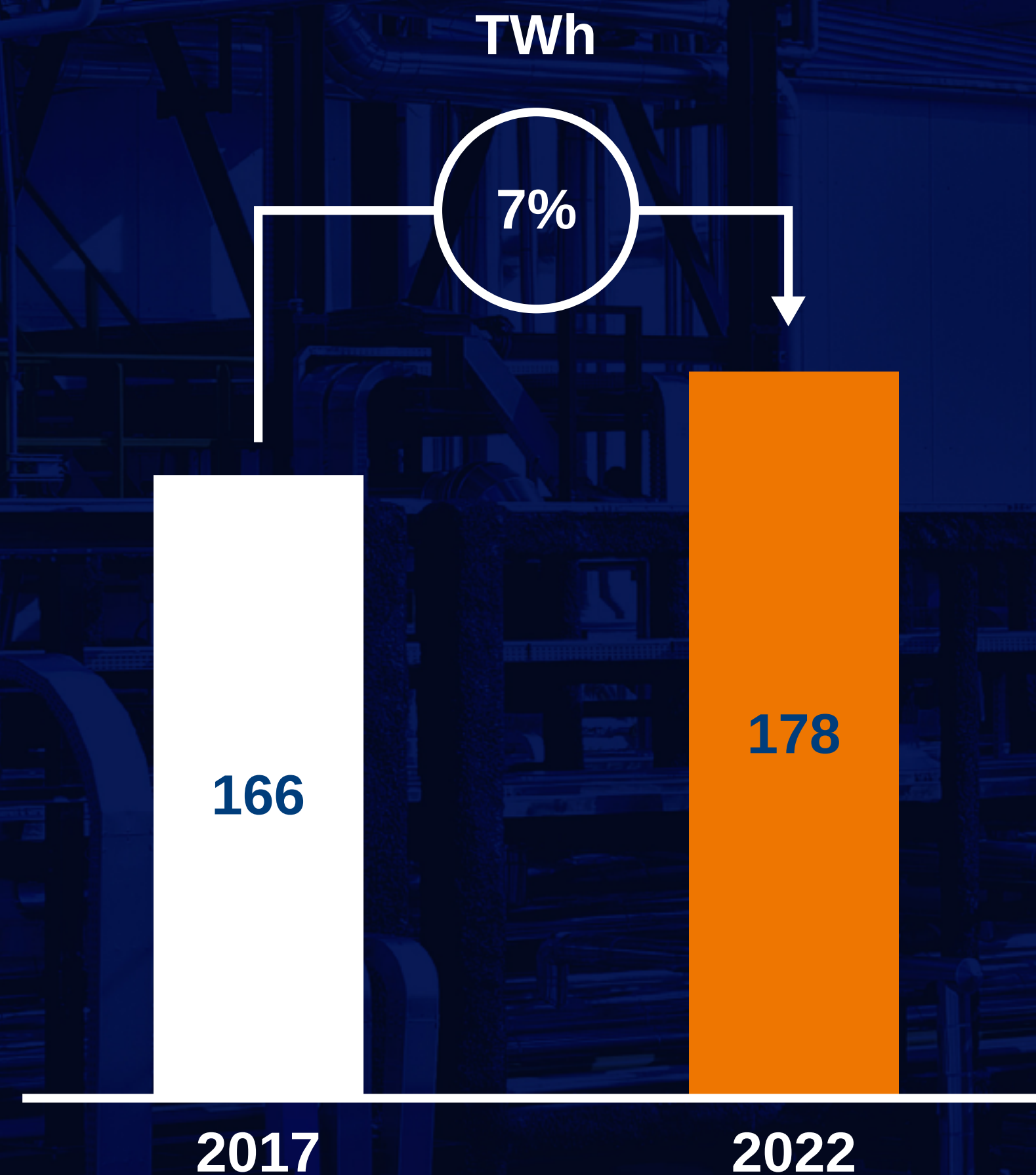
**We will increase capacity utilization at the LNG terminal in Świnoujście.**

**We are developing our trading presence on global gas and LNG markets.**



## 2. Wholesale

Increase gas sales volume



### What is our objective?

Increasing the overall volume of natural gas sales by 7%.

### How to achieve it?

We will maximise the volume of gas sales to strategic end users in Poland.

We will significantly increase the volume of gas sales abroad (especially on neighbouring markets).



## 3. Retail

### Maintaining current market position and maximising margins

#### What is our objective?

Maximising retail margins.

#### How to achieve it?

We are adjusting our **pricing policy** to market expectations and the competition.

We are introducing a **new product range** designed to increase added value for customers and the Group's margins.

**We are optimising costs of our retail operations.**

#### What is our objective?

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

#### How to achieve it?

We seek to **maximise the volume** of retail gas sales while maintaining attractive margins.

We are optimising the **customer service model** (including optimisation of traditional service channels and introducing new self-service channels).

We are expanding our **product and service portfolio** (gas + electricity, services).

We seek to improve **customer satisfaction and loyalty** among the Group's existing customers.



## 4. Storage

### Increase available storage capacities

#### What is our objective?

Securing access to storage capacities adjusted to actual demand.

#### How to achieve it?

We continue work on extending the Kosakowo storage cavern facility.

We are implementing the model of long-term planning for storage infrastructure development to be able to respond to changes in market demand.

#### What is our objective?

Improve storage efficiency.

#### How to achieve it?

We are streamlining the organisational model of the storage business through integration of processes and personnel at storage facilities.

We are optimising operating costs of the regulated storage activities.

We will implement the target model for critical IT processes and architecture.

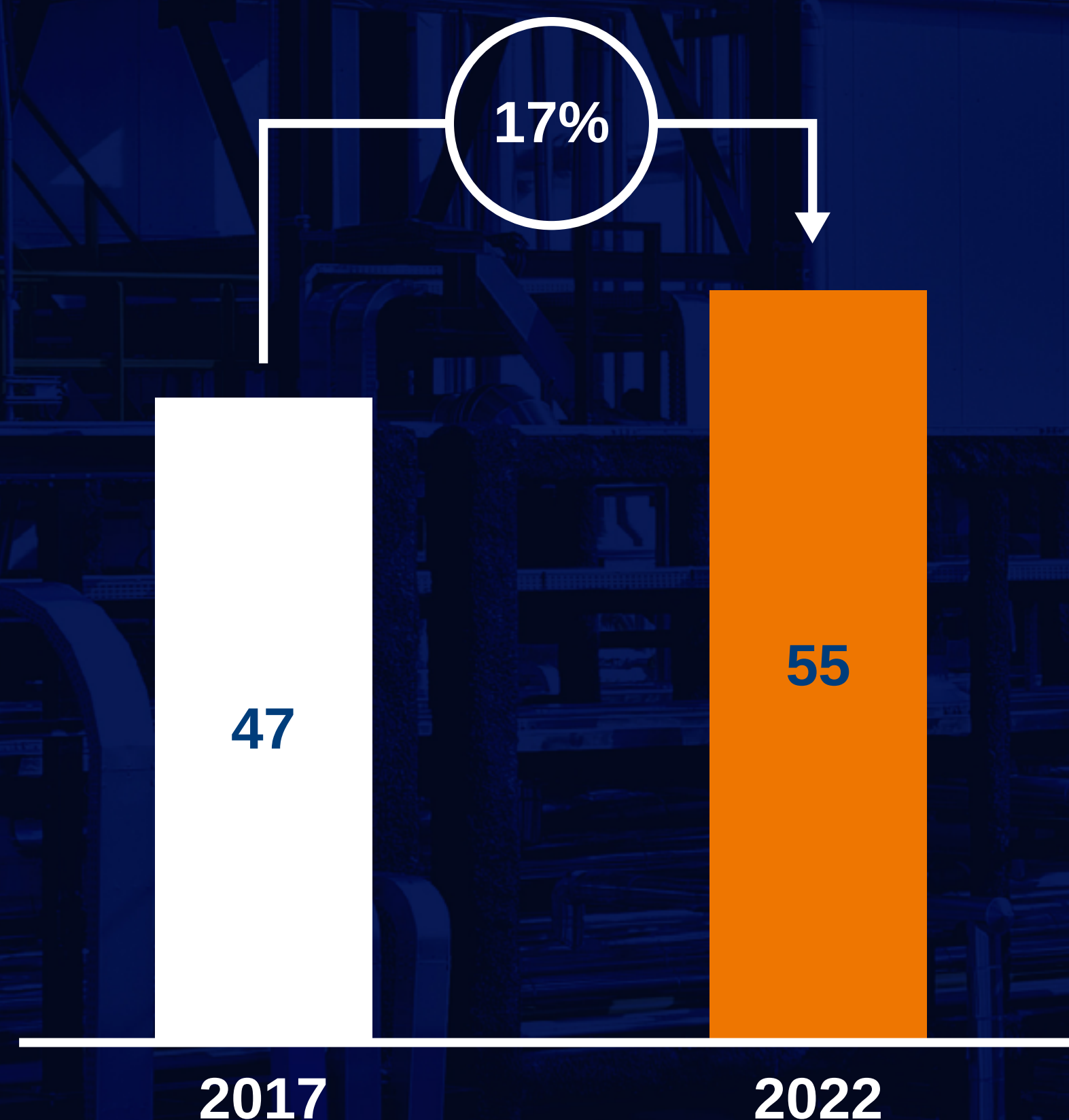
We will build new revenue sources for non-regulated activities.



## 5. Distribution

Accelerate connection of new customers

'000 service lines per year



### What is our objective?

More than 300 thousand new service lines in 2017–2022.

### How to achieve it?

We will increase the **annual growth rate in the number of service lines by 17%**.

We will simplify **new customer connection procedures** (we will reduce time to connect by approx. 20% and time to issue grid connection conditions by approx. 30%).

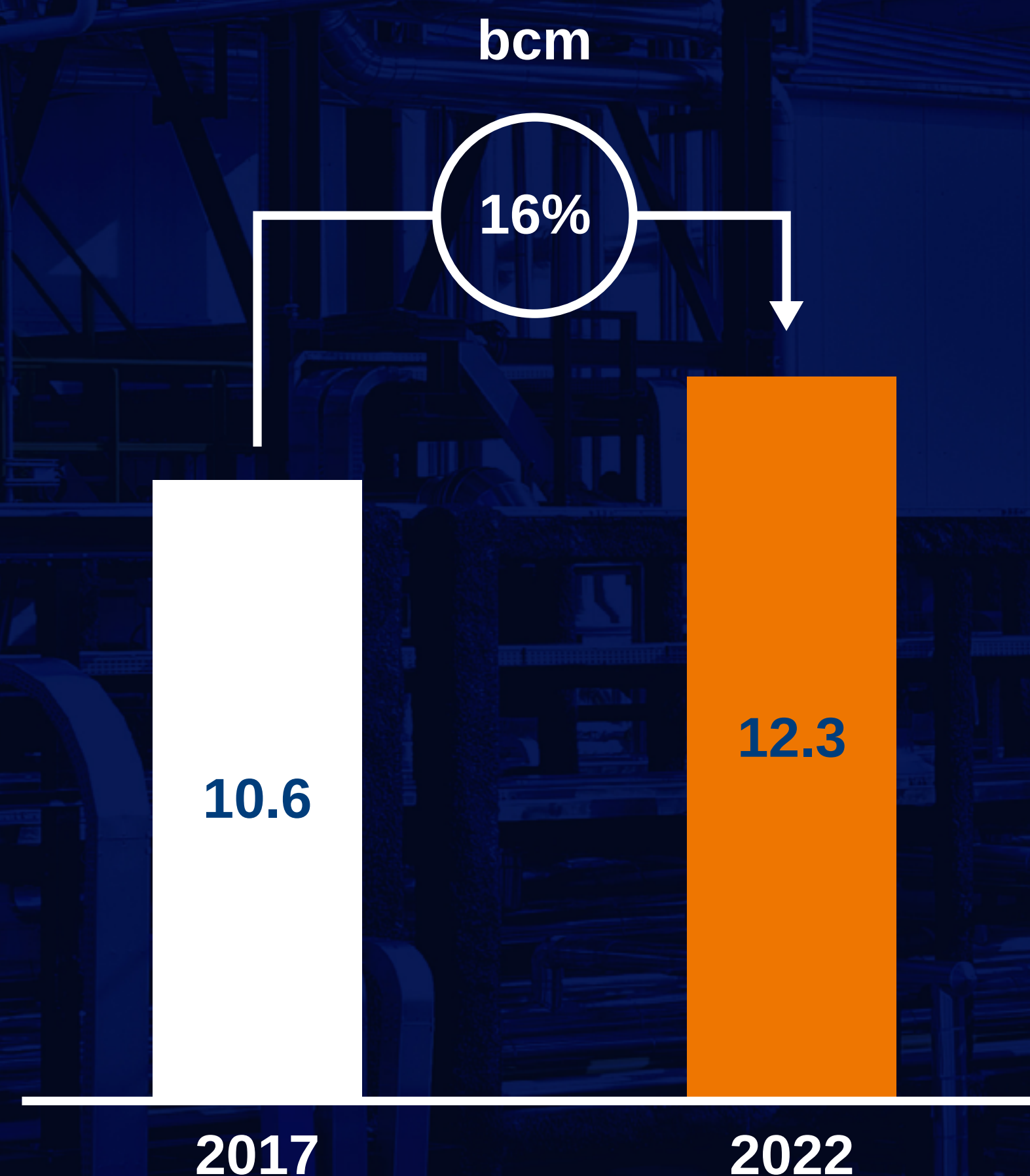
We will improve **customer service quality** (also through digitalisation of service processes).

We will improve and accelerate the **process of extending our distribution infrastructure**.



## 5. Distribution

Increase gas distribution volume



**What is our objective?**

Increase gas distribution volume by 16%.

**How to achieve it?**

We will accelerate the process for **connecting new business customers**.

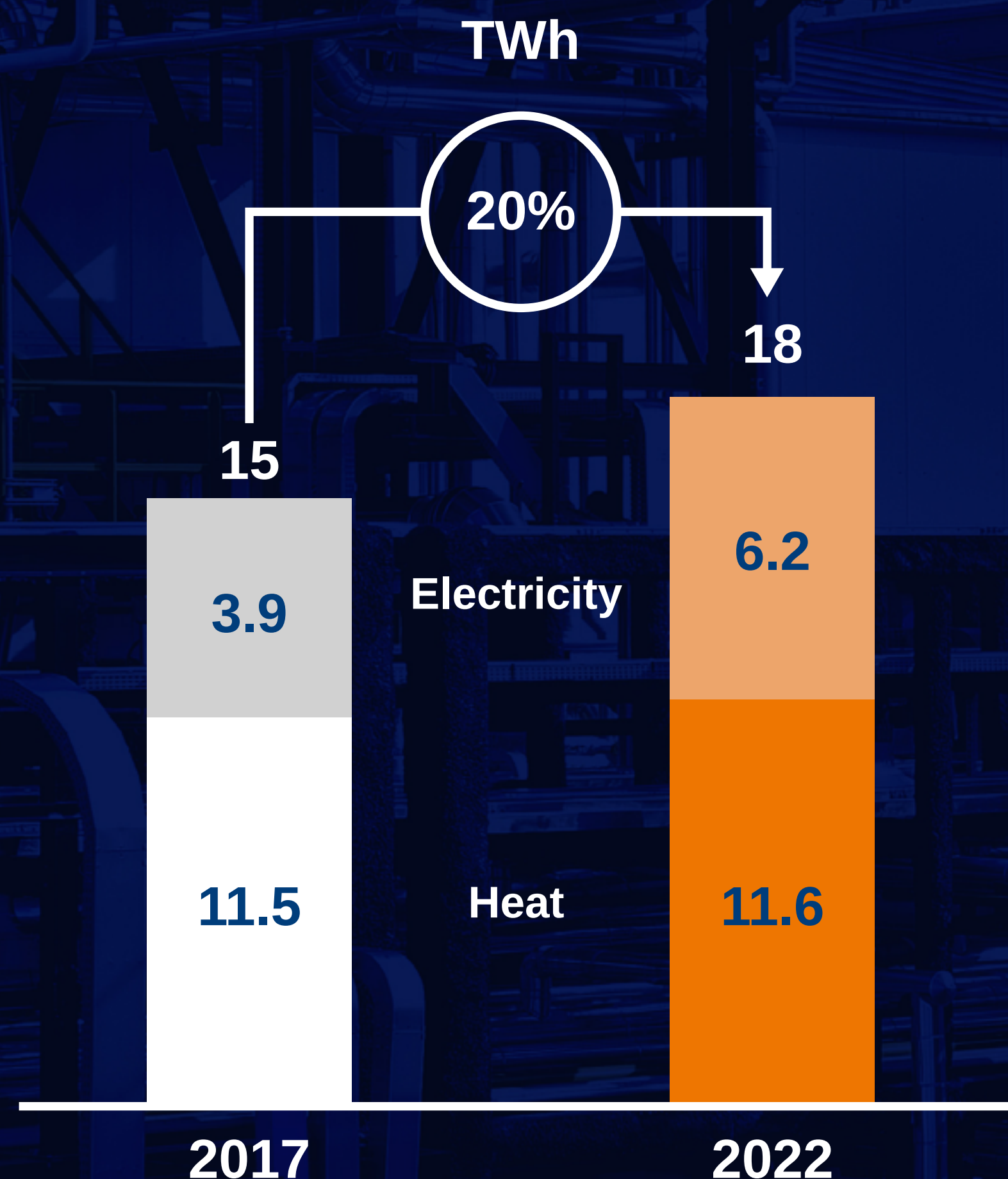
We will leverage the potential for increasing the number of **household service lines**, also as part of local anti-smog programmes.

We will continue the **gas network roll-out in areas not connected to the national distribution network**.



## 6. Power and heat generation

Increase power and heat sales volumes



### What is our objective?

Increase power and heat sales volumes by 20%.

### How to achieve it?

We will implement strategic upgrade and growth projects at the existing production facilities (CCGT unit at the Żerań CHP plant).

We will continue acquisitions of local heating networks (while ensuring expected returns on investment).

We will complete integration of the heating assets acquired to date within the PGNiG TERMIKA Group (PEC and SEJ).



## 7. Corporate Centre

### Effective business model, development of R&D&I and CSR

#### What is our objective?

Effective execution of R&D&I projects.

#### How to achieve it?

We will increase **involvement in R&D&I projects** of key organisational units across the PGNiG Group.

We will spend **ca. PLN 680m on research, development and innovation** in 2017–2022 (more than PLN 100m per year, on average).

#### What is our objective?

Operational efficiency improvement across the PGNiG Group.

#### How to achieve it?

We will optimise the **business model** and implement a **comprehensive process management system**.

We will reduce the **Corporate Centre's OPEX** by ca. 10%.

We will continue to optimise **procurement processes**.

#### What is our objective?

Enhancing the PGNiG Group's image.

#### How to achieve it?

We will roll out a **comprehensive CSR strategy** and monitor its delivery on an on-going basis.

We will work on enhancing **employee satisfaction** across the Group.

We will improve the **PGNiG Group image** as the employer.



# The new PGNiG Group Strategy is in line with the government's "Sustainable Development Plan"

## Strong Polish economy



### Re-industrialisation

Investments in **upgrades and development** of Poland's gas, power and heating infrastructure.

Accelerating growth of the gas sector by **improving access to natural gas** for business and household customers.



### Development of innovative businesses

Considerable outlays on **R&D** and the roll-out of **innovative solutions**.

Close partnership with **research centres and scientific circles**.



### Capital as the fuel for growth

Delivering **consistent financial results and cash flows** as the basis for the investment policy.

Utilisation of available **EU funding** to finance investments and R&D projects.



### Foreign expansion

Continuing expansion in **foreign upstream markets** (Norway, Pakistan).

Developing **trading presence on global natural gas and LNG markets**.

Building **customer base in neighbouring countries** (Germany).



### Social and regional development

Elimination of "gas exclusion" through accelerated **roll-out of the gas network in Poland**.

Investments in **human resources development**.

Partnership with **local communities** in anti-smog initiatives.



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# PGNiG Group targets and ambitions for 2017–2022

Summary of PGNiG Group's strategic ambitions across four key perspectives

## PGNiG Group strategic objectives

## Strategic ambitions for 2017-2022

### Financial

1. Increasing the PGNiG Group value and ensuring its financial stability

**PLN 33.7bn** cumulative EBITDA.

### Customers

2. Development of gas and electricity sales

Cumulative natural gas sales volume on wholesale markets in Poland and abroad **1000 TWh**. Cumulative natural gas and electricity retail sales volume **410 TWh**.

### Processes

3. Improve efficiency in connecting new customers

Over **300 thousand** new customers connected to PSG distribution network.

### Resources and growth

4. Increase hydrocarbon reserves
5. Increase potential for hydrocarbon production
6. Diversified gas supply portfolio

Increase the base of documented hydrocarbon reserves by **35%**.

Increase total output of hydrocarbons by **41%**.

Diversification of gas supply sources.





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