

Polskie Górnictwo Naftowe i Gazownictwo SA

PGNiG Group
Q1 2017 Results



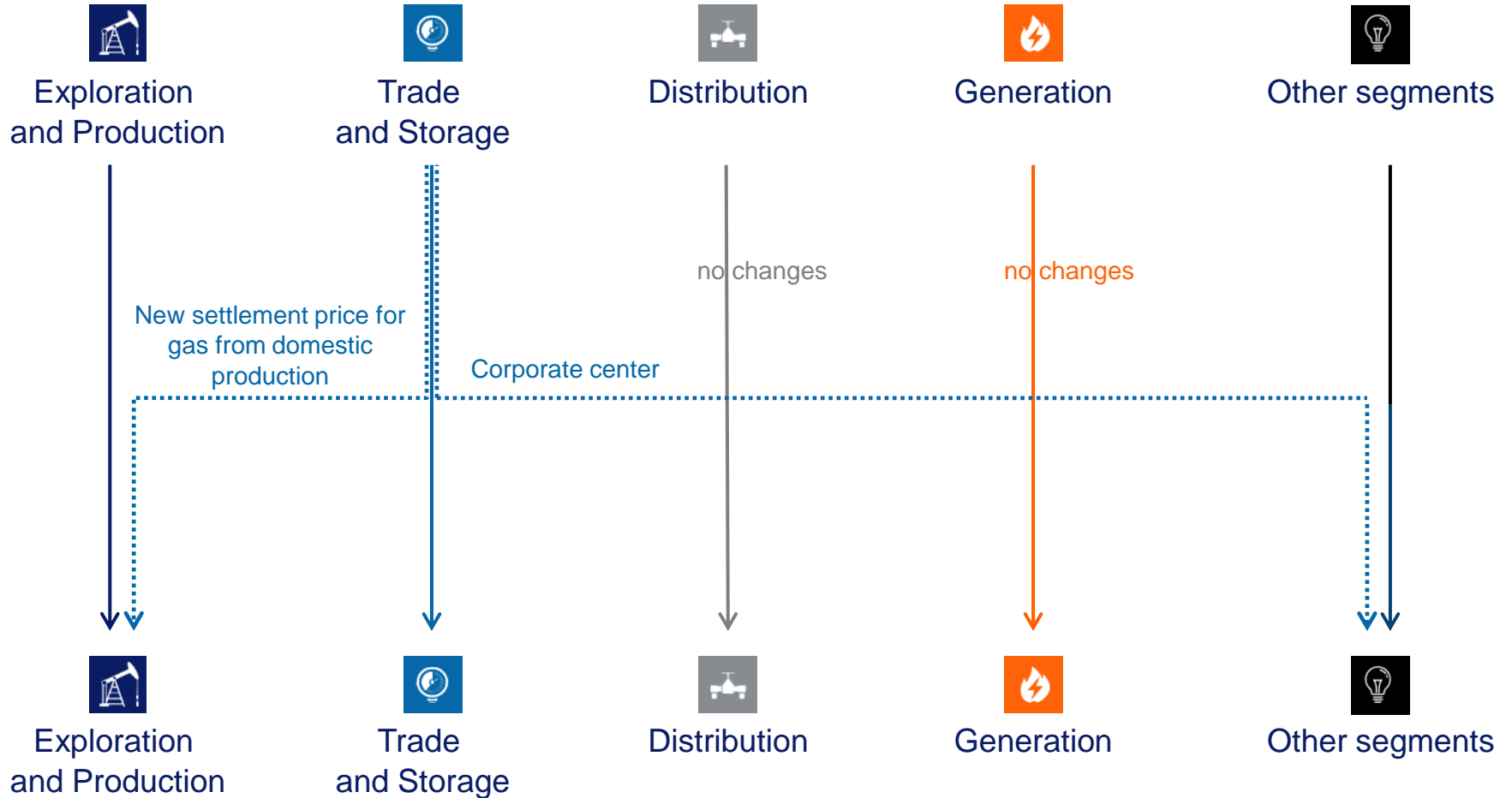
May 25th 2017



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.

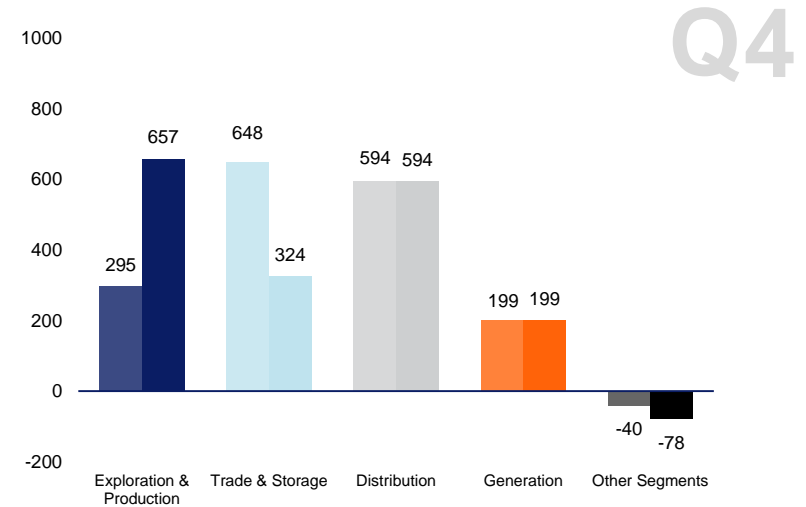
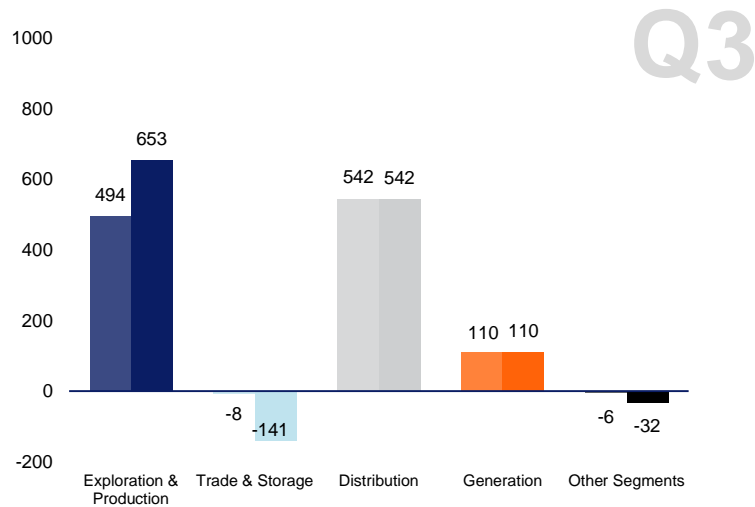
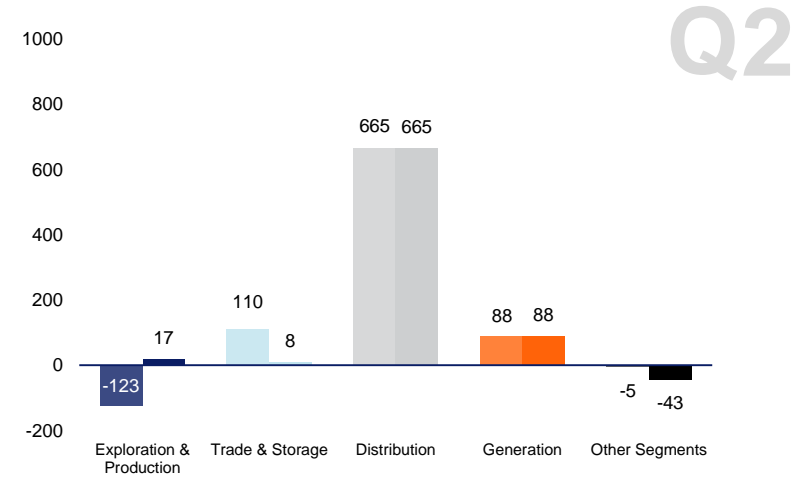
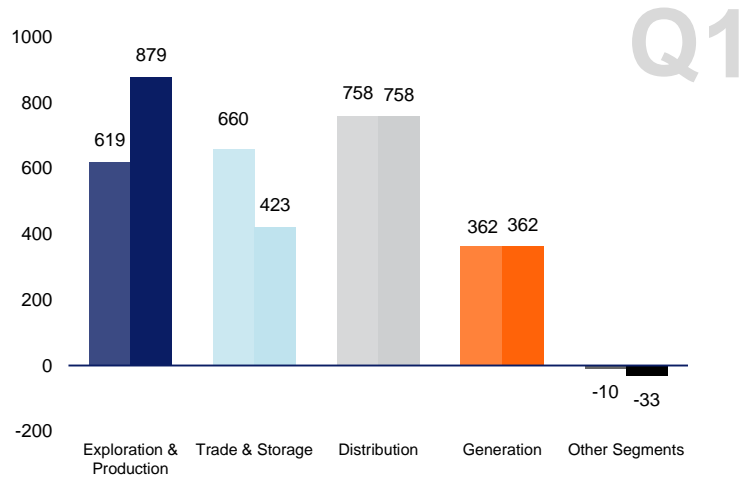
Effects of changes [EBITDA 2016 in PLNm] (3/4)

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)*



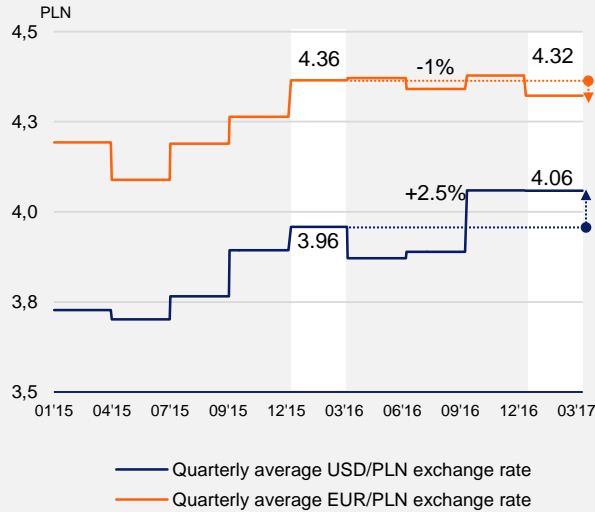
* Left column – previous method of reporting / Right column – new method of reporting. Charts do not include reconciliation with consolidated data.

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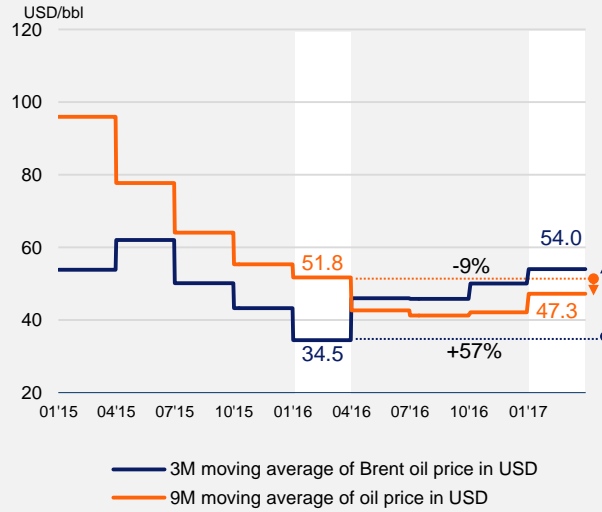
- > 1. Performance drivers
- > 2. Financial highlights Q1 2017
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Performance drivers

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

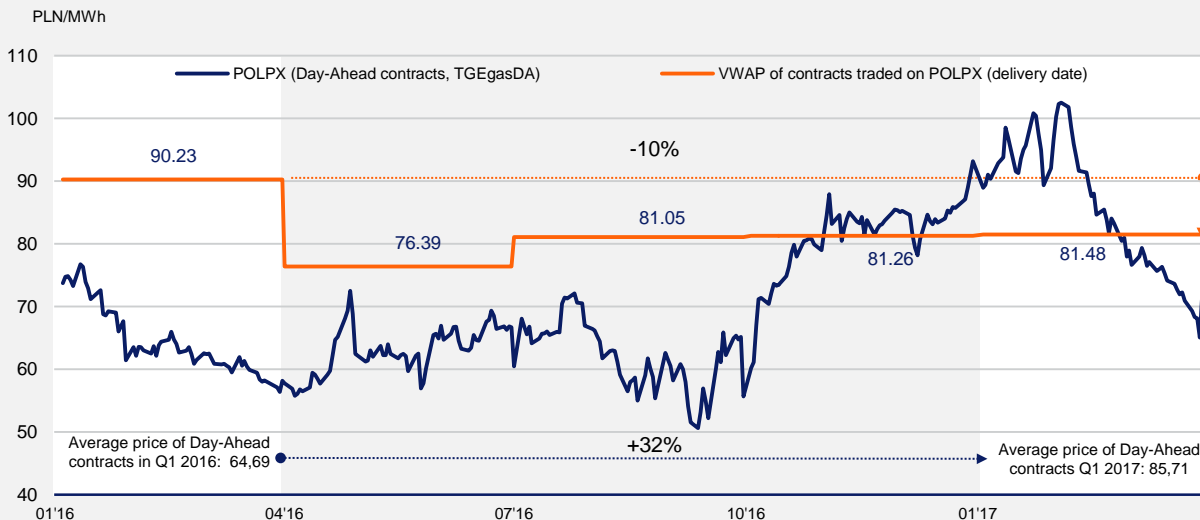


> 3-month average crude oil price up 57% y/y in Q1 2017



> 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



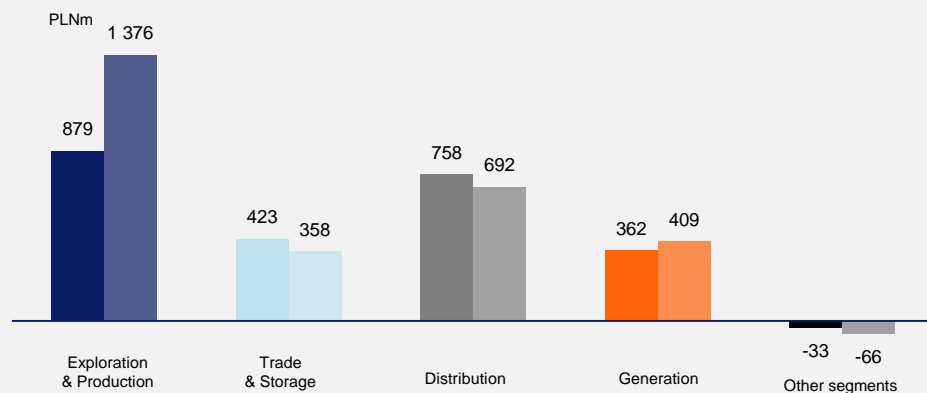
Comments:

- > 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.



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

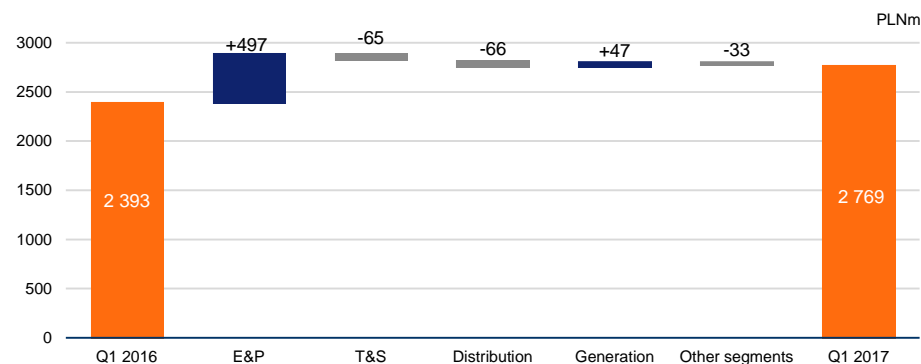
- > Volume up 13% y/y in Q1 2017,
- > Net cost of system balancing at PLN -218m in Q1 2017, compared with PLN -150m the year before.

Generation

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

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

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



* Changes do not include reconciliation with consolidated data.



Segments – Exploration and Production

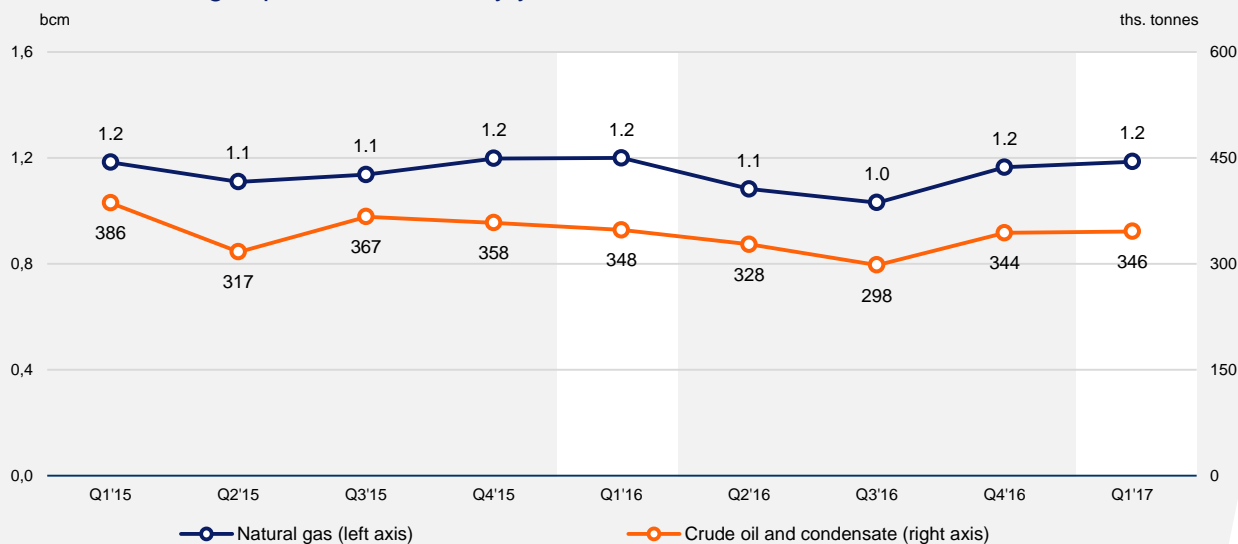
[PLNm]	Q1 2016	Q1 2017	Δ%
Revenue	1 351	1 851	37%
Operating expenses (excl. D&A)	(472)	(475)	(1%)
EBITDA	879	1 376	57%
Depreciation and amortisation expense	(287)	(292)	(2%)
EBIT	592	1 084	83%

› Revenue growth driven by oil prices

Comments:

- › Revenue from sales of crude oil and condensate up PLN 242m y/y, with oil prices in PLN up by almost 61% and sales volumes down 2%, to 390 thousand tonnes.
- › Segment's revenue from sales of gas up by PLN 219m y/y on higher prices quoted on POLPX (+33% y/y) and TTF (+32% y/y), with volume close to Q1 2016 levels. PGNiG SA's revenue higher by 25% (PLN 186m) and PUN's higher by PLN 33m y/y (+35%)
- › Dry wells and seismic surveys written off: PLN -17m in Q1 2017 vs PLN -46m in Q1 2016.

› Oil and natural gas production stable y/y in Q1 2017



Segments – Trade and Storage

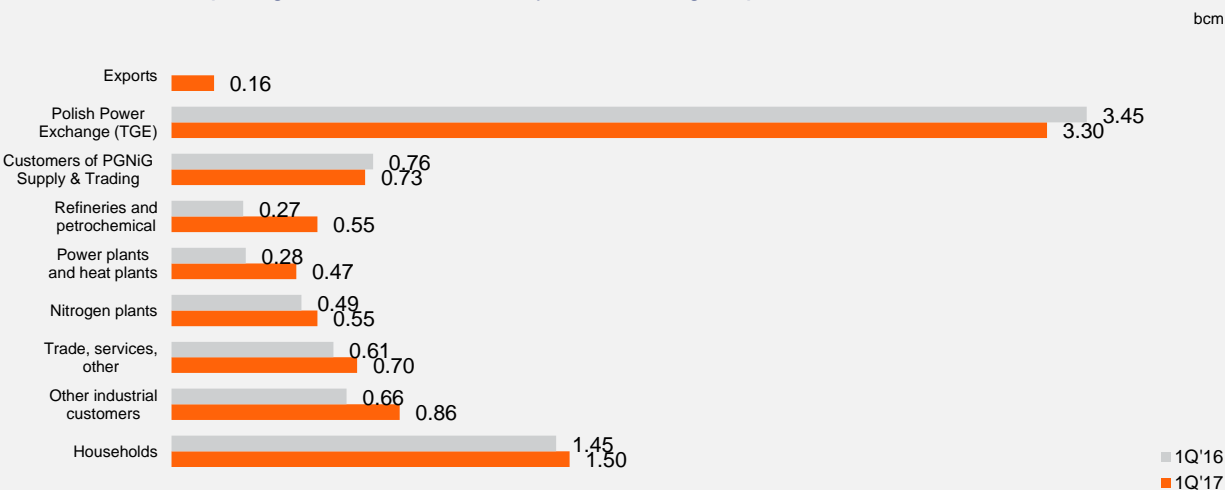
[PLNm]	Q1 2016	Q1 2017	Δ%
Revenue	9 620	9 932	3%
Operating expenses (excl. D&A)	(9 197)	(9 574)	(4%)
EBITDA	423	358	(15%)
Depreciation and amortisation expense	(48)	(50)	(4%)
EBIT	375	308	(18%)

- Revenue growth due to increase in volumes and lower gas market prices.

Comments:

- Revenue from sales of gas up by PLN 439m (to PLN 9.4bn in Q1 2017) despite lower tariffs, chiefly on higher volumes.
- The share of electricity sales in Q1 2017 revenue at PLN 483m – close to the Q1 2016 figure.
- Increase in gas inventory write-down in Q1 2017 by PLN 35m vs write-down reversal of PLN +165m in Q1 2016 (net write-downs at the end of Q1 2017 at PLN 66m – mainly LNG terminal stocks).
- Increase in the provision for buy-out price on energy efficiency certificates by PLN 62m, to PLN 81m. Lower costs in the comparative period attributable to reversal of excess provision for white certificates in Q1 2016.
- Effect of transactions hedging the risk related to gas purchase: PLN +45m in Q1 2017 relative to PLN -248m in Q1 2016.
- Higher sales volume to industrial customers both in retail and wholesale trading as well as to households.

PGNiG Group* – gas sales volumes by customer group



Segments – Distribution

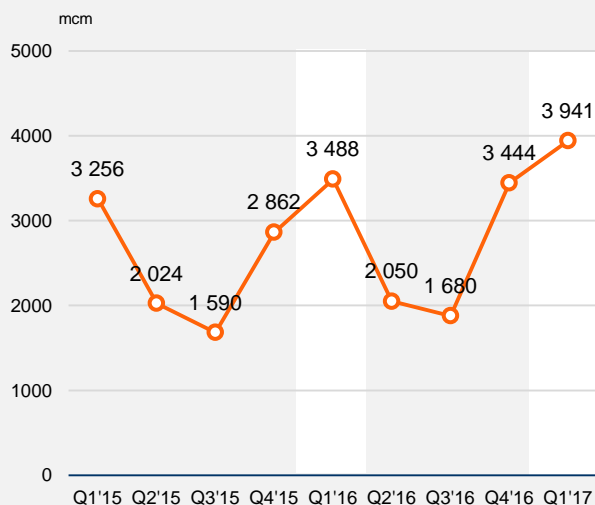
[PLNm]	Q1 2016	Q1 2017	Δ%
Revenue	1 397	1 469	5%
Operating expenses (excl. D&A)	(639)	(777)	(22%)
EBITDA	758	692	(9%)
Depreciation and amortisation expense	(225)	(231)	(3%)
EBIT	533	461	(14%)

- > Segment's performance affected by higher gas distribution volumes alongside higher operating expenses

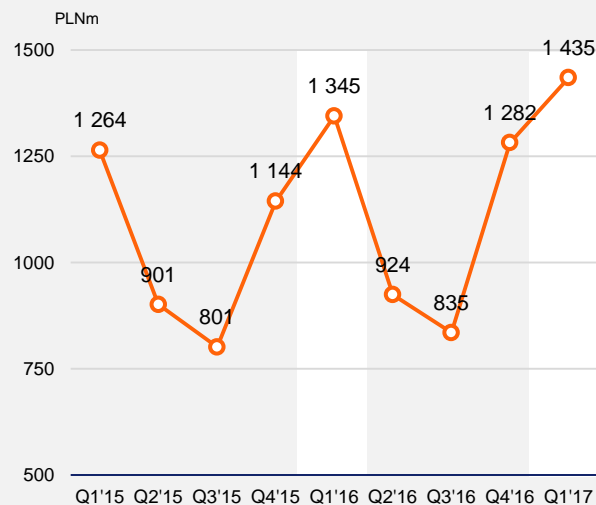
Comments:

- > Volume of distributed gas up by over 13% y/y, to 0.5 bcm (new connections and lower temperature).
- > Revenue from distribution services up PLN 90m (7%) y/y.
- > Net income/cost of system balancing lower y/y, at PLN -218m in Q1 2017, compared with PLN -150m in Q1 2016. The effect on performance is in line with assumptions of the temperature-based sales forecasting method.
- > Employee benefits expense up by 29% y/y, mainly due to a change in the organisational structure of Polska Spółka Gazownictwa and new rules of bonus payments.
- > Cost of transmission services up PLN 47m (39% y/y) due to increased gas volumes and higher tariffs charged by OGP Gaz-System S.A.

> Gas distribution volume



> Revenue from distribution services



Segments – Generation

[PLNm]	Q1 2016	Q1 2017	Δ%
Revenue	742	859	16%
Operating expenses (excl. D&A)	(380)	(450)	(18%)
EBITDA	362	409	13%
Depreciation and amortisation expense	(96)	(108)	13%
EBIT	266	301	13%

- Segment's performance buoyed by acquisitions of PEC and SEJ and increased heat sales volumes

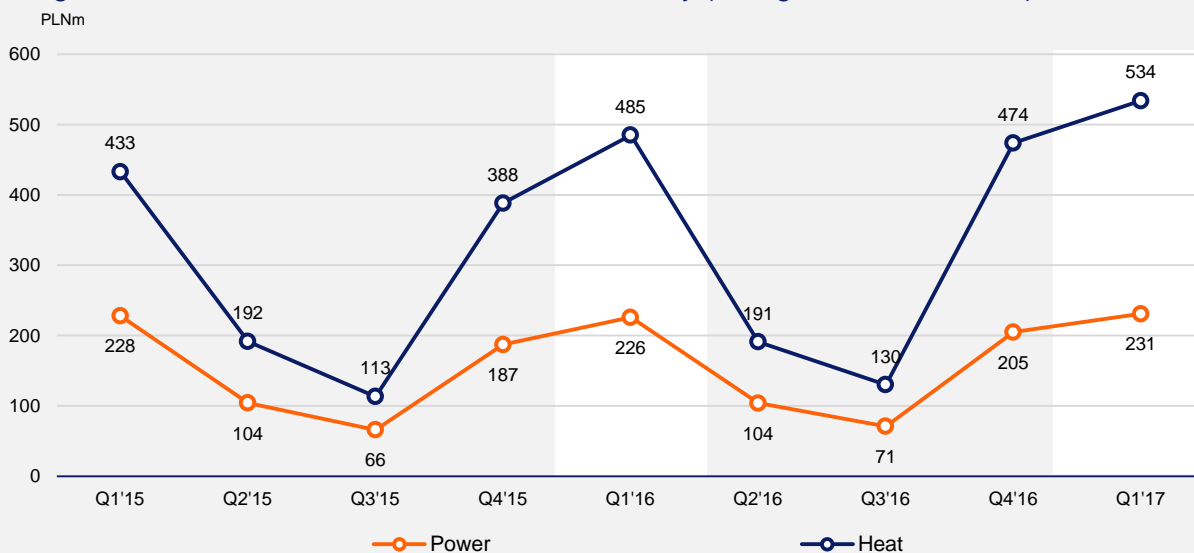
Comments:

- Revenue from sales of heat up by 10% y/y, to PLN 534m, on a 12% increase in volumes, with heat tariffs unchanged.
- Revenue from sales of electricity generated at own sources up PLN 5m y/y, to PLN 231m, attributable to higher (by 5%) sales volumes.
- Cost of coal up 2% y/y to PLN -265m in Q1 2017 (including PLN 17m attributable to coal purchase by SEJ and PEC).
- Change in fuel mix consumed, increased biomass and fuel oil consumption (Wola Heating Plant).

Sales volume in Q1 2017:

- Sales of heat outside the Group: 17.7 PJ, up 9% y/y.
- Electricity (own generation): 1.5 TWh, up 5% y/y.

Segment's revenue from sales of heat and electricity (own generation sources)



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> More information



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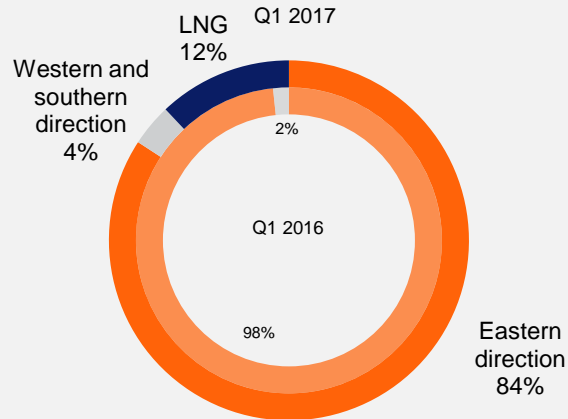
Appendices

- 1. Sales and gas imports structure
- 2. Operating expenses
- 3. Debt and sources of funding
- 4. Statement of financial position, statement of cash flows, financial ratios and headcount
- 5. Production and sales volumes



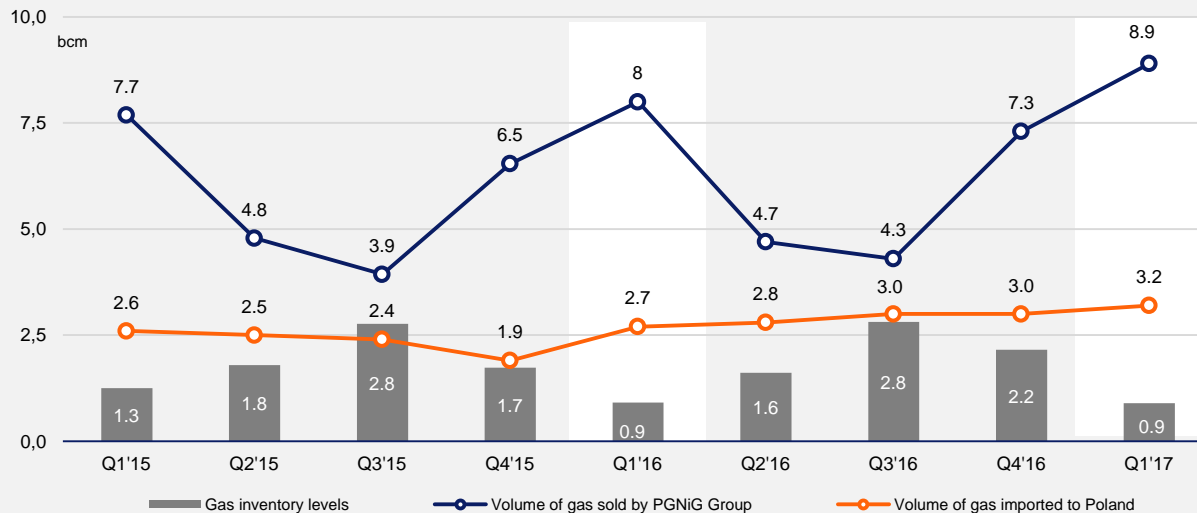
Sales and gas imports structure

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



- > 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).

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



Comments:

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



Higher operating expenses in Q1 2017

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

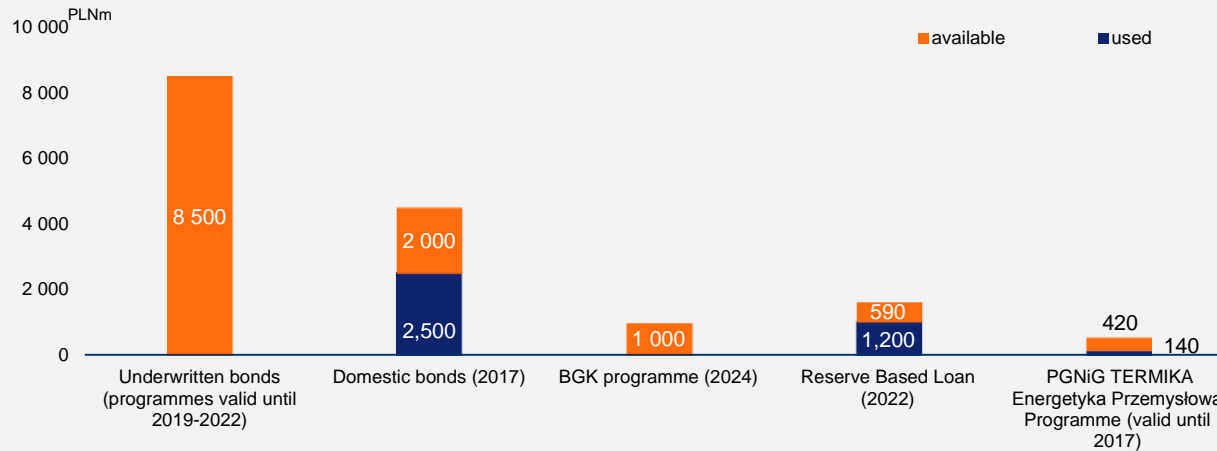
- > Higher regasification costs and royalty rates offset by lower gas procurement costs.

Komentarz:

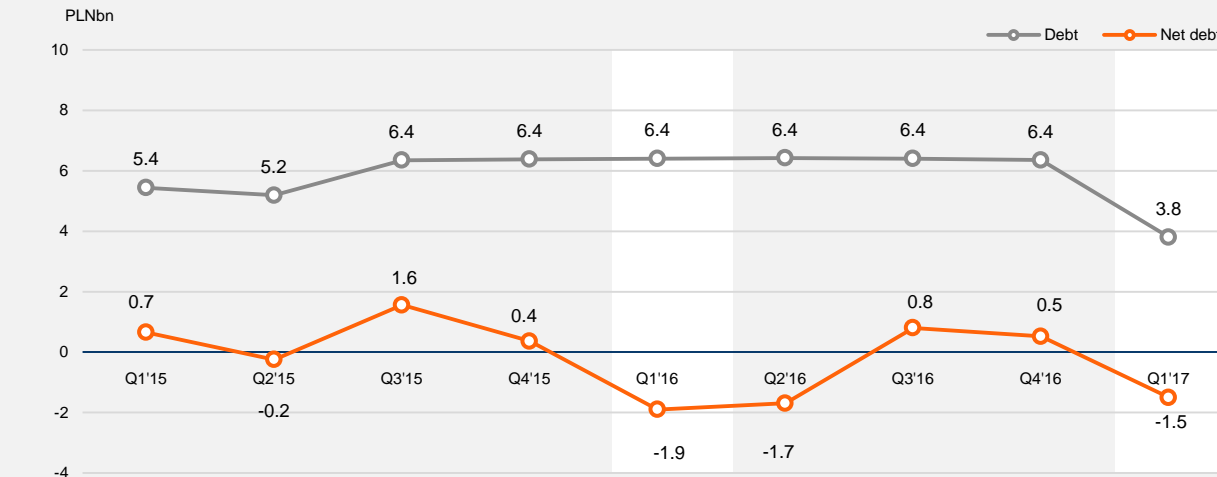
- > Employee benefits expense up (PLN +50m y/y) on payment of employee bonuses, increase in salaries and wages (PLN +19m y/y) and in other employee benefits.
- > Lower cost of dry wells written off: PLN -17m in Q1 2017 vs PLN -46m in Q1 2016. In both periods three dry wells were written off and no costs 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.

Debt and sources of funding

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



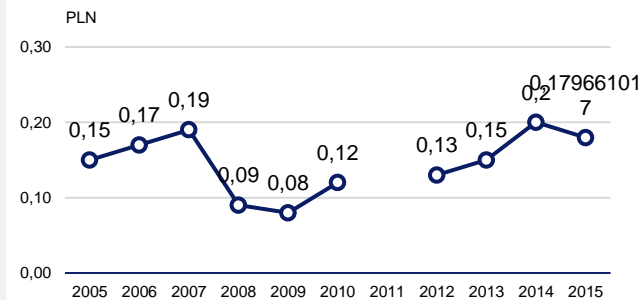
> Debt at the end of quarter



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.

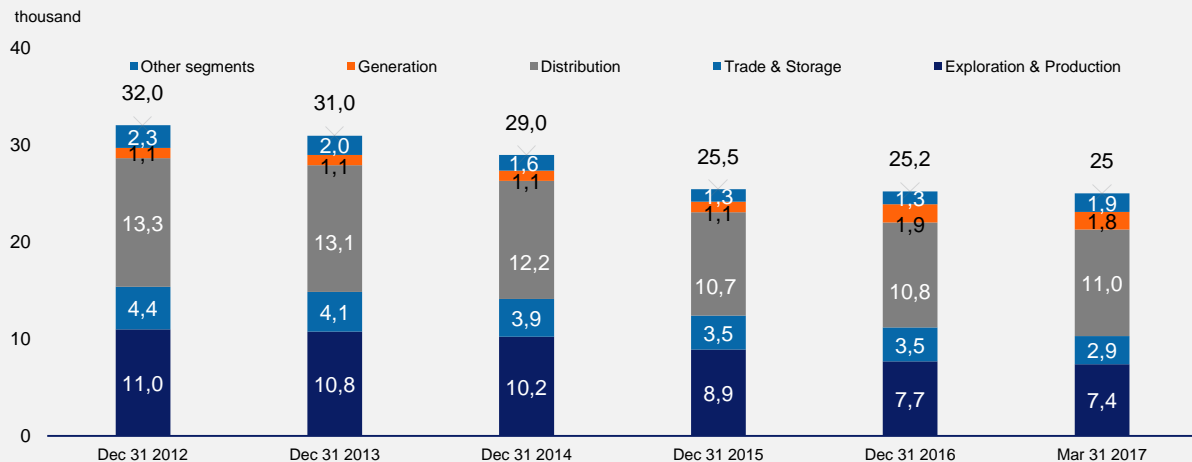
> Dividend per share



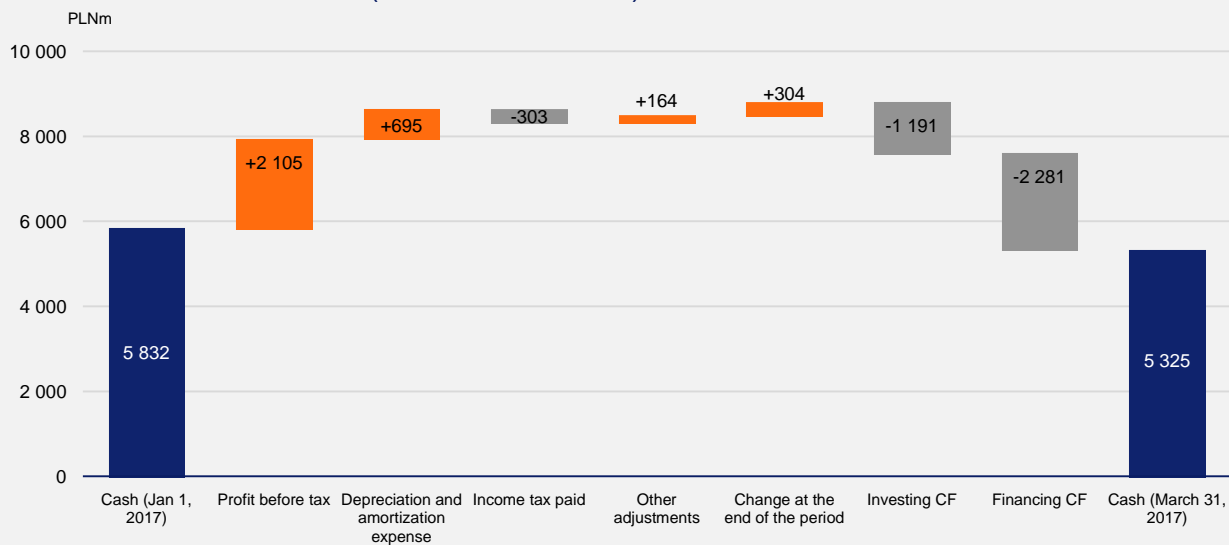
- > Up to 50% of consolidated net profit to be paid as dividend in 2015–2022 (provided that the financial condition is stable and financing sources for investment projects are secured).

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

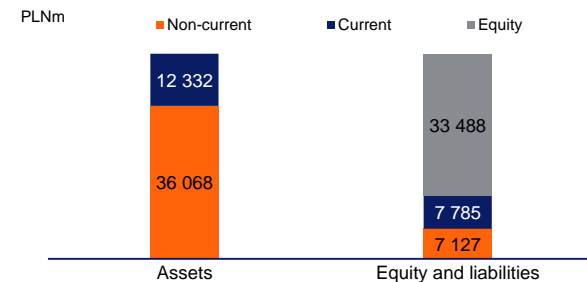
> Headcount (at date)



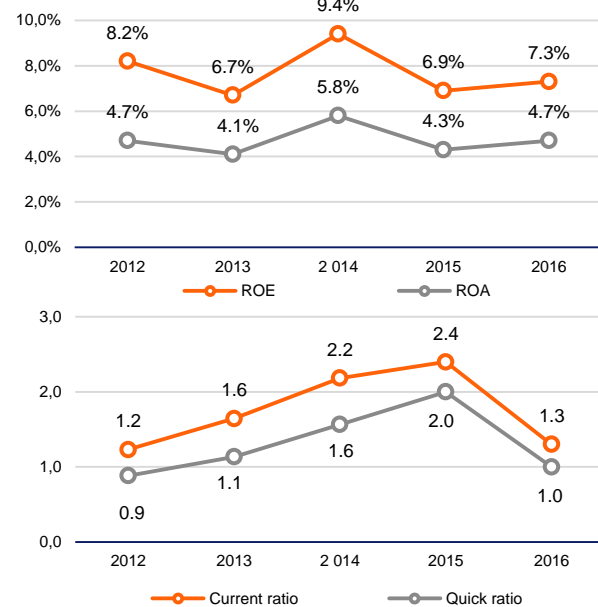
> Consolidated cash flows (Jan 1–Mar 31 2017)



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



> Profitability and liquidity ratios



Production and sales volumes

NATURAL GAS PRODUCTION, PGNiG Group (mcm)	Q1 2017	FY 2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016	FY 2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015
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
TOTAL (measured as E equivalent)	1 186	4 458	1 165	1 032	1 083	1 179	4 591	1 168	1 128	1 109	1 186
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
TOTAL (measured as E equiv.)	8 865	24 273	7 342	4 250	4 709	7 972	22 949	6 539	3 922	4 782	7 705
<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

