

Polskie Górnictwo Naftowe i Gazownictwo SA

PGNiG Group
Q3 2017 Results



**YEARS OF
ACTIVITY**
OF PGNiG ON THE
NORWEGIAN CONTINENTAL SHELF

November 13th 2017

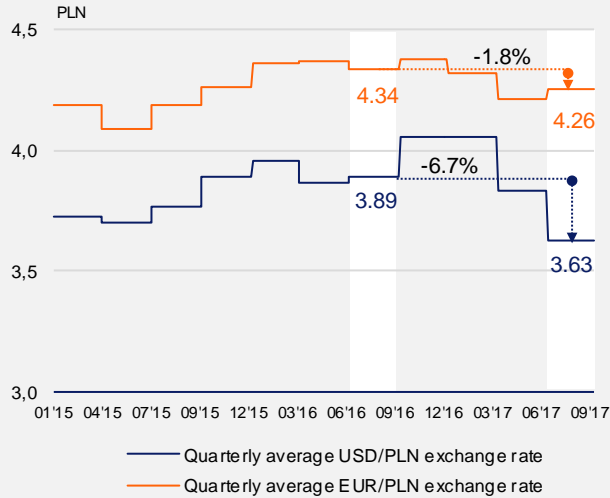


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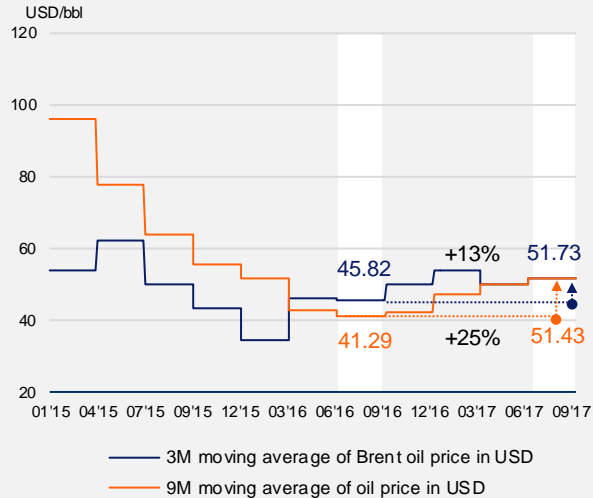
- > 1. Performance drivers
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Performance drivers

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

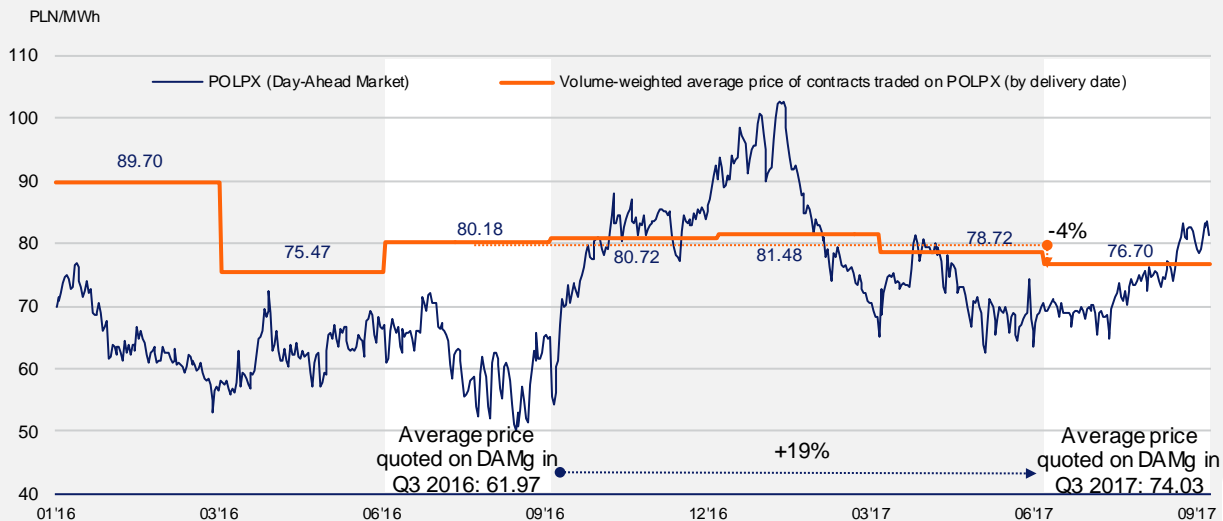


- 9-month average crude oil price in USD up 25% y/y



- Revenue up on higher prices and gas sales volumes

- Gas prices quoted on the POLPX Day-Ahead Market and average volume-weighted price of contracts

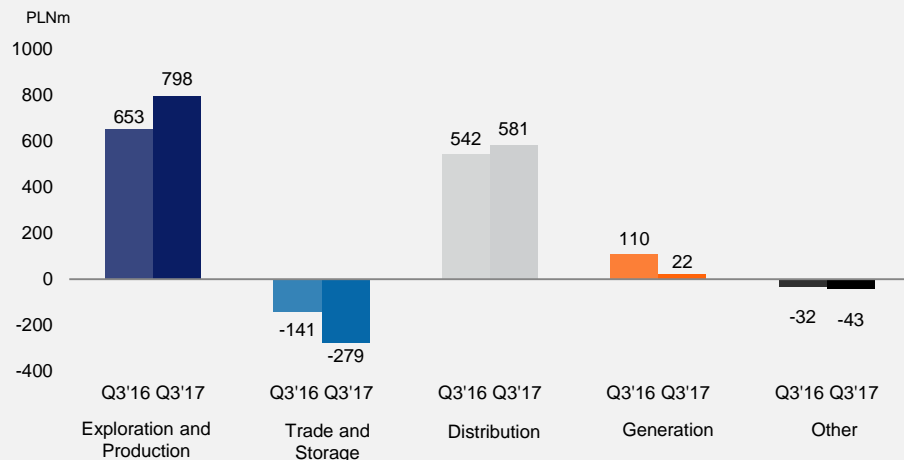


Comments:

- Selling prices on 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. These were complemented by monthly/weekly futures and spot contracts.
- The volume-weighted average price of contracts traded on the POLPX for a given quarter is calculated based on the prices of contracts for delivery in that quarter.

Financial highlights Q3 2017

> Group's EBITDA by segment in Q3 2017 vs Q3 2016



Exploration and Production

- > Revenue from gas sales up PLN 176m y/y (+29%).
- > Impairment losses on property, plant and equipment, dry wells and seismic surveys written off in Q3 2017 at PLN -20m, compared with PLN -35m in Q3 2016.

Trade and Storage

- > Revenue from gas sales up 9%, mainly led by a 7% rise in volumes.
- > PLN +64m in reversals of gas inventory write-downs and write-downs on impairment losses of energy efficiency certificates (mainly white certificates) of PLN -48m in Q3 2017. In Q3 2016 PLN -26m increase in gas inventory write-downs (reflecting chiefly the market valuation of gas at the LNG terminal).

Distribution

- > Gas distribution volume 5% higher y/y in Q3 2017 with revenue from distribution services up 6% y/y.

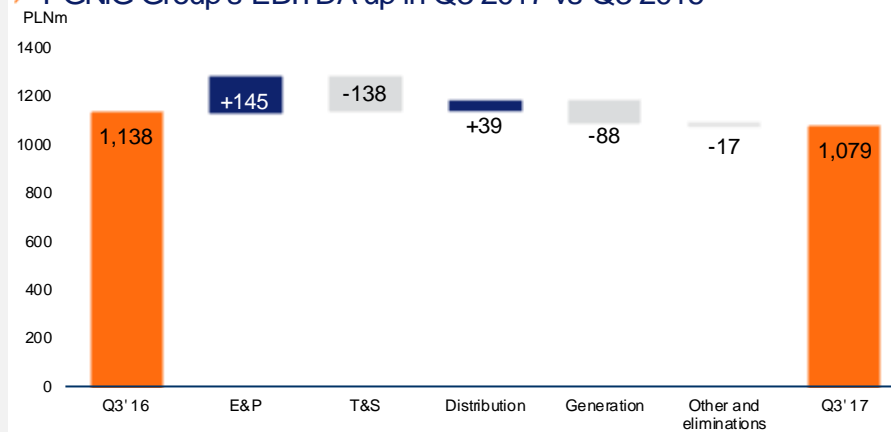
Generation

- > Sales volumes of generated heat and electricity from own sources up by 18% y/y and down by 3% y/y, respectively.
- > Reported performance skewed by one-off items.

[PLNm]

	Q3 2016	Q3 2017	Δ%
Revenue	5,701	6,075	7%
Operating expenses (excl. D&A)	-4,563	-4,996	9%
EBITDA	1,138	1,079	-5%
<i>EBITDA (net of impairment losses on property plant and equipment)</i>	1,176	1,039	-12%
Depreciation and amortisation expense	-619	-661	7%
EBIT	519	418	-19%
Net finance income/(costs)	7	22	3x
Net profit	357	367	3%

> PGNiG Group's EBITDA up in Q3 2017 vs Q3 2016*



* Eliminations: PLN 0m in Q3 2017 vs PLN 6m in Q3 2016



Segments – Exploration and Production

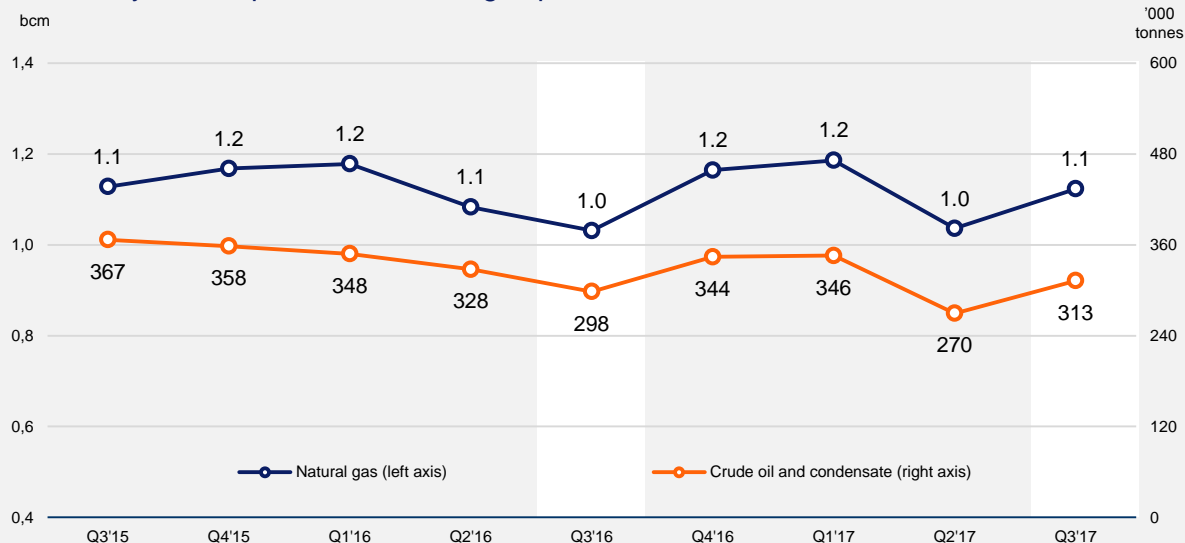
[PLNm]	Q3 2016	Q3 2017	Δ%
Revenue	1,119	1,270	13%
Operating expenses (excl. D&A)	-466	-472	1%
EBITDA	653	798	22%
<i>EBITDA (net of impairment losses on property plant and equipment)</i>	688	764	11%
Depreciation and amortisation expense	-237	-258	9%
EBIT	416	540	30%

- Revenue growth driven by gas prices. Lower oil sales in the quarter.

Comments:

- Revenue from sales of crude oil and condensate down PLN 32m y/y, despite a 5% rise in the average oil price in PLN for the quarter, reflecting a -12% y/y decline in sales volumes, to 251 thousand tonnes.
- PLN 176m (29%) y/y increase in revenue from gas sales recorded by the segment, driven by higher market prices, with sales volumes up 8% y/y.
- Dry wells and seismic surveys written off at PLN -54m in Q3 2017. No write-offs recognised in Q3 2016.
- Impairment losses on property, plant and equipment with no significant one-offs in Q3 2017 (PLN +34m) compared with Q3 2016 (PLN -35m).

Year-on-year comparison of oil and gas production volumes



Segments – Trade and Storage

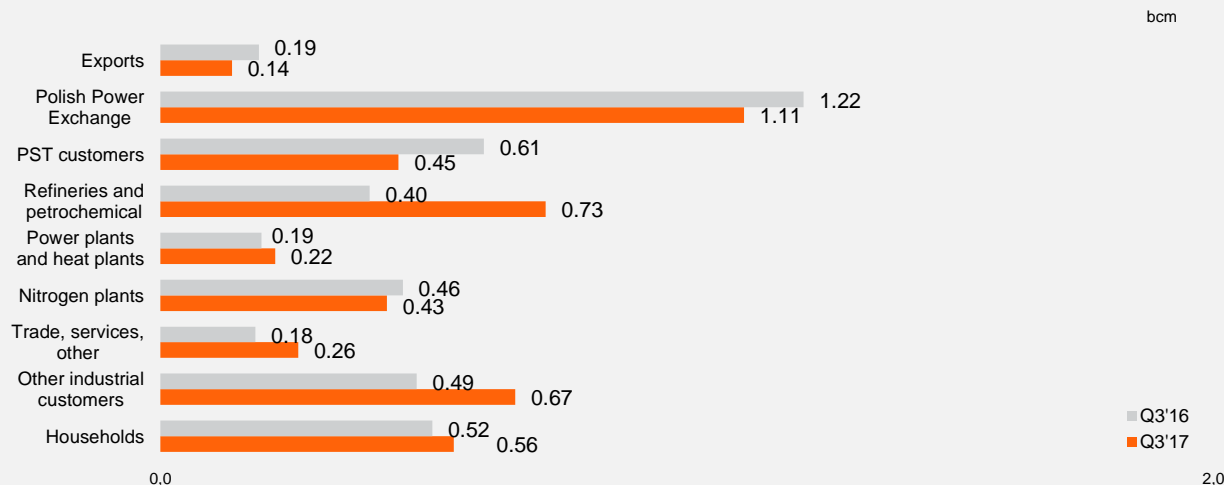
[PLNm]	Q3 2016	Q3 2017	Δ%
Revenue	4,724	5,051	7%
Operating expenses (excl. D&A)	-4,865	-5,330	10%
EBITDA	-141	-279	2x
Depreciation and amortisation expense	-54	-52	-4%
EBIT	-195	-331	70%

- › Revenue growth driven by higher volumes with selling prices down

Comments:

- › Revenue from gas sales up PLN 379m y/y (to PLN 4.6bn in Q3 2017) on higher volumes, with lower average prices of gas forward instruments.
- › Higher volumes of gas sold to industrial customers (both retail and wholesale) and households. Lower volumes of gas sold on POLPX.
- › Gas imports to Poland up y/y (3.49 bcm in Q3 2017 vs 3.02 bcm in Q3 2016), with lower imports from eastern directions.
- › Sales of electricity contributing PLN 407m to Q3 2017, revenue down by PLN 60m (-13% y/y), with lower cost of electricity for trading.
- › PLN +64m of gas inventory write-downs reversed in Q3 2017 vs a PLN -26m increase in write-downs in Q3 2016. Net write-downs: PLN 24m.
- › Increase of PLN 15m in the provision for energy efficiency buy-out price, to PLN 35m.
- › PLN -48m write-downs on impairment losses of energy efficiency certificates (mainly white certificates) in Q3 2017.

› PGNiG Group* – gas sales volumes by customer group



*Total volumes of gas sold by E&P and T&S segments to external customers

Segments – Distribution

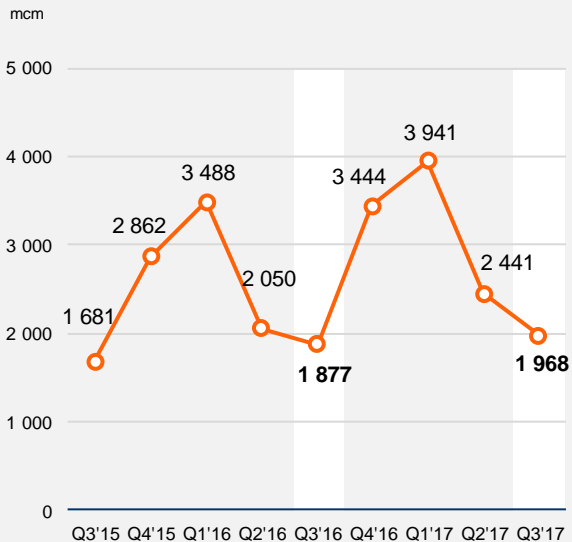
[PLNm]	Q3 2016	Q3 2017	Δ%
Revenue	1,037	1,085	5%
Operating expenses (excl. D&A)	-495	-504	2%
EBITDA	542	581	7%
Depreciation and amortisation expense	-232	-228	-2%
EBIT	310	353	14%

- > Segment performance buoyed by higher gas distribution volumes

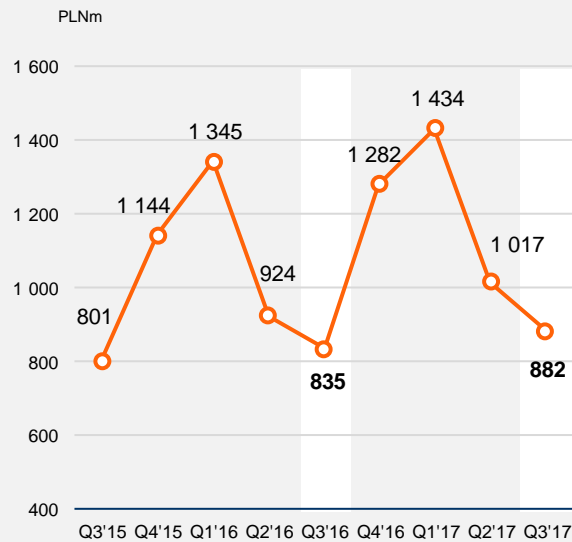
Comments:

- > Volume of distributed gas up 5% y/y, to 1.97 bcm (mainly on the back of new connections).
- > Revenue from distribution services up PLN 47m (6%) y/y.
- > Net income/cost of system balancing slightly higher y/y, at PLN 147m in Q3 2017, compared with PLN 139m in Q3 2016.
- > Transmission costs up 7% y/y to PLN 150m.

> Gas distribution volume



> Revenue from distribution services



Segments – Generation

[PLNm]	Q3 2016	Q3 2017	Δ%
Revenue	316	262	-17%
Operating expenses (excl. D&A)	-206	-240	17%
EBITDA	110	22	-80%
<i>Adjusted EBITDA</i>	37	43	16%
Depreciation and amortisation expense	-83	-110	33%
EBIT	27	-88	-4x

> Segment performance affected by one-off items

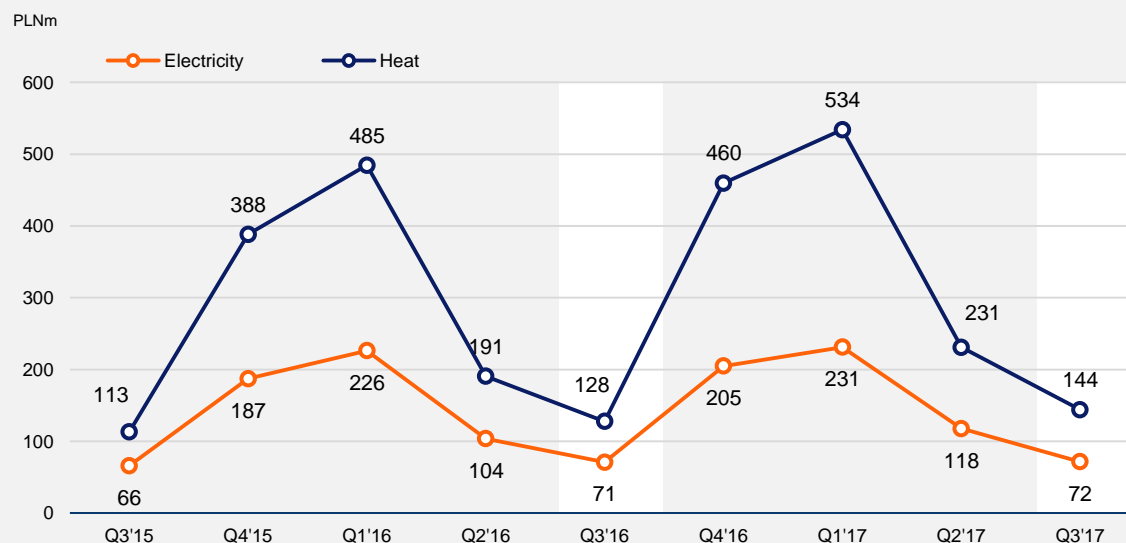
Comments:

- > Revenue from sales of heat up 13% y/y to PLN 144m, on a 18% increase in volumes.
- > Stable revenue from sales of generated electricity (up 1% y/y to PLN 72m), with sales volumes broadly unchanged (down 3% y/y).
- > Cost of coal comparable y/y at PLN -61m in Q3 2017 vs PLN -63m in Q3 2016.
- > A reduction in the segment's electricity trading.
- > PLN 19m increase of change in provision to PLN -28m in Q3 2017 vs PLN -8m in Q3 2016 with impacted EBITDA negatively.
- > PLN 73m gain from the bargain purchase of SEJ recognised in Q3 2016.

Sales volumes in Q3 2017:

- > Sales of heat to customers outside the PGNiG Group: 3.5 PJ.
- > Electricity from own sources: 407 GWh.

> Segment's revenue from sales of generated heat and electricity



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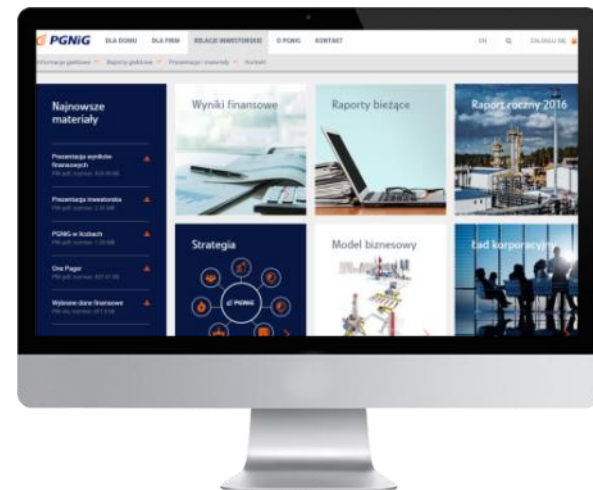
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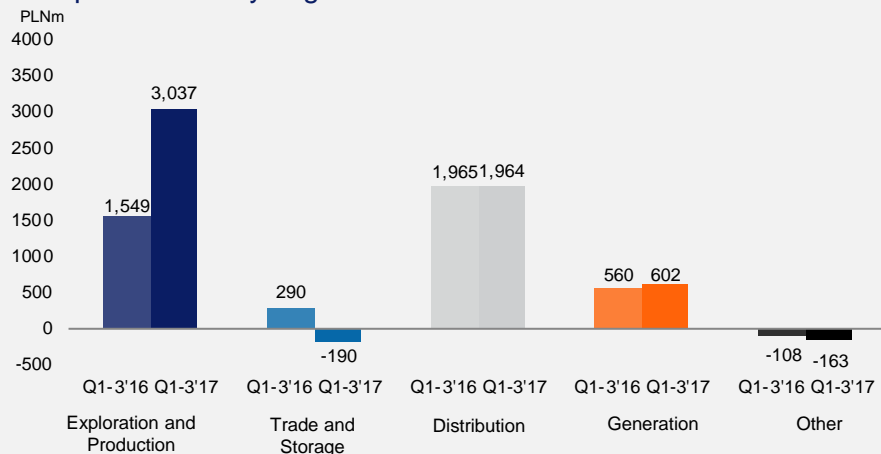
Appendices

- 1. Financial highlights Q1–3 2017
- 2. Sales and gas imports structure
- 3. Operating expenses
- 4. Debt and sources of funding
- 5. Statement of financial position, statement of cash flows, financial ratios and headcount
- 6. Production and sales volumes



Financial highlights Q1-3 2017

> Group's EBITDA by segment in Q1-3 2017 vs Q1-3 2016



Exploration and Production

- > Revenue from gas sales up PLN 461m y/y (+22%).
- > Impairment losses on property, plant and equipment at PLN +117m in Q1-3 2017 vs PLN -692m in Q1-3 2016.

Trade and Storage

- > Revenue from gas sales up 8%, mainly led by a 11% y/y rise in volumes.
- > PLN +7m in reversals of gas inventory write-downs in Q1-3 2017. PLN +194m in reversals of gas inventory write-downs in Q1-3 2016.

Distribution

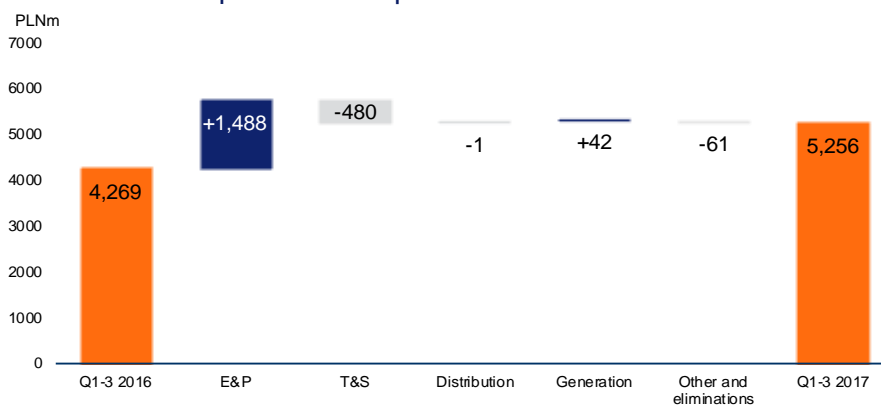
- > Gas distribution volume up 13% y/y.
- > Employee benefit expenses up in Q1-3 2017 to PLN 816m, from PLN 663m in Q1-3 2016, reflecting a new bonus payment policy and an increase in headcount in 2017 following PSG's organisational restructuring.

Generation

- > In Q1-3 2017 sales volumes of generated heat and electricity up 14% and 8%, respectively.

[PLNm]	Q3 2016	Q3 2017	Δ%
Revenue	23,050	24,892	8%
Operating expenses (excl. D&A)	-18,781	-19,636	5%
EBITDA	4,269	5,256	23%
<i>EBITDA (net of impairment losses on property plant and equipment)</i>	4,983	5,141	3%
Depreciation and amortisation expense	-1,956	-1,996	2%
EBIT	2,313	3,260	41%
Net finance income/(costs)	-13	31	3x
Net profit	1,628	2,465	51%

> PGNiG Group's EBITDA up in Q1-3 2017 vs Q1-3 2016*

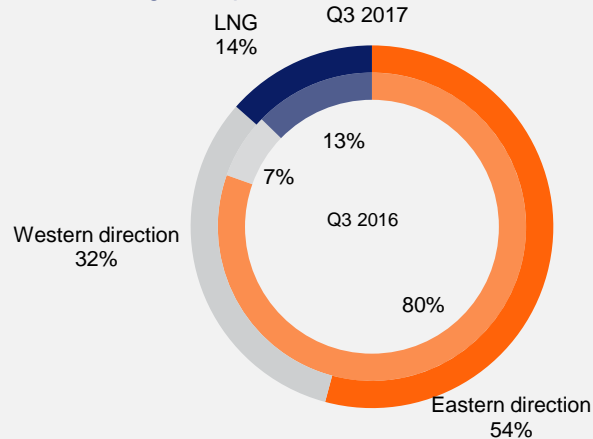


* Eliminations: PLN 6m in Q1-3 2017 vs PLN 13m in Q1-3 2016



Sales and gas imports structure

> Poland's gas imports structure



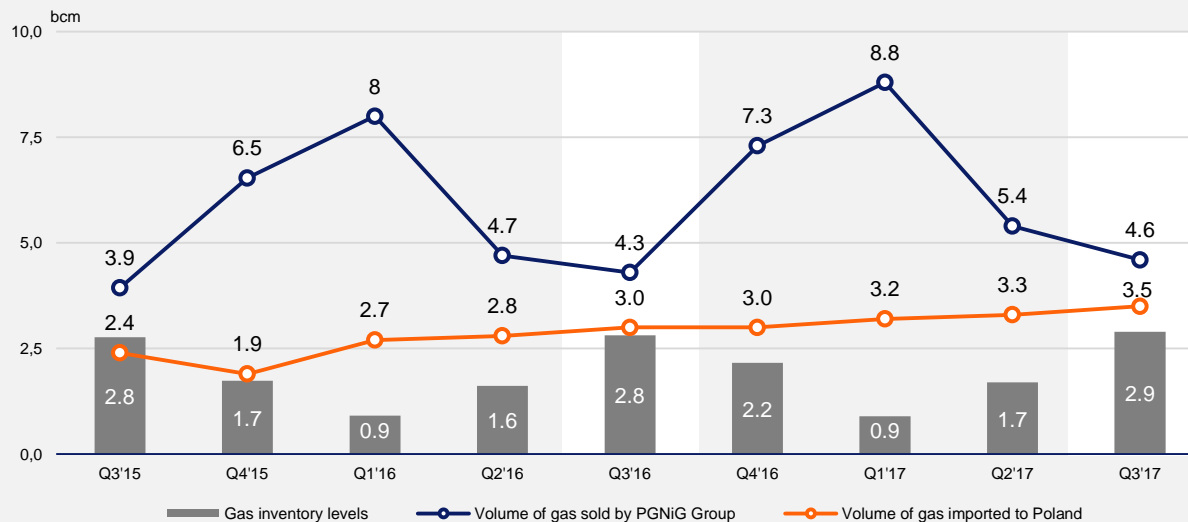
> Gas sales outside PGNiG Group by company

[mcm]	3Q 2016	3Q 2017	Δ%
PGNiG Group:	4,249	4,594	8%
<i>PGNiG SA</i>	2,605	3,021	16%
<i>PGNiG OD</i>	1,028	1,121	9%
<i>PST</i>	614	452	-26%

> A marked increase in the share of sources west of Poland in Q3 2017 gas imports structure

> PGNiG Group's sales of gas to both industrial customers (retail and wholesale) and households up by 0.3 bcm y/y in Q3 2017

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



Comments:

> LNG terminal stocks as at September 30th 2017: 75 mcm.



Operating expenses in Q3 2017 vs Q3 2016

[PLNm]	Q3 2016	Q3 2017	Δ%
Cost of gas sold	-2,754	-3,073	12%
Fuels for heat and power generation	-68	-77	13%
Other raw materials and consumables used	-458	-450	-2%
Employee benefits expense	-611	-590	-4%
Transmission services	-264	-283	7%
Other services	-375	-426	14%
<i>LNG regasification services</i>	-84	-90	7%
Taxes and charges	-128	-103	-20%
Net other income/(expenses)*	-69	-200	3x
<i>Change in inventory write-downs</i>	-36	16	-144%
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	-38	-13	-62%
<i>Cost of dry wells and seismic surveys written-off</i>	0	-54	-
<i>Impairment losses on property, plant and equipment</i>	-37	40	-2x
Work performed by the entity and capitalised	202	219	8%
Depreciation and amortisation expense	-619	-661	7%
Total operating expenses	-5,384	-5,877	9%
<i>Operating expenses net of cost of gas sold</i>	-2,428	-2,584	6%

- > Higher operating expenses in Q3 2017, mainly led by higher cost of gas

Comments:

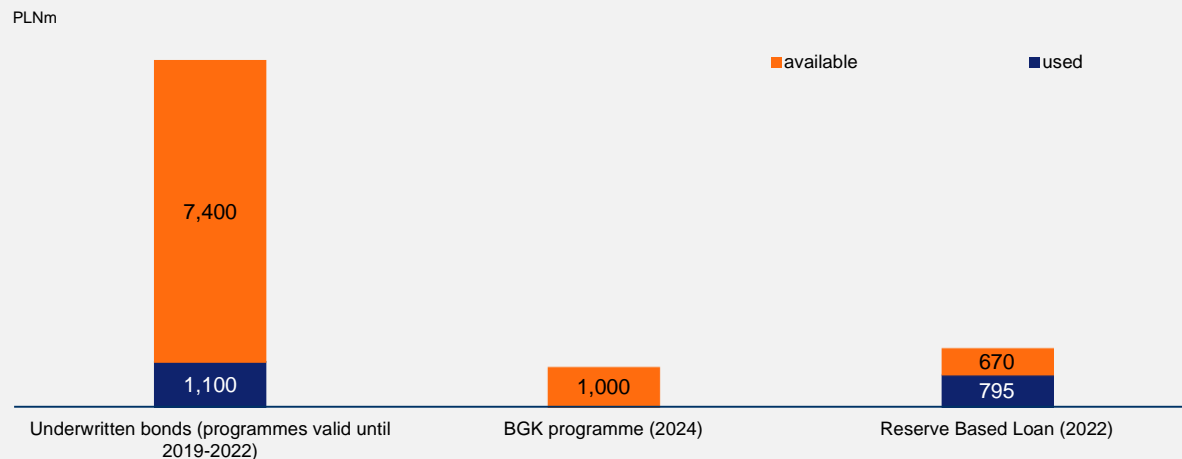
- > Other income/expenses up y/y, from PLN 69m in Q3 2016 to PLN 200m in Q3 2017. PLN 73m gain from the bargain purchase of SEJ in Q3 2016 included in this position.
- > PLN 319m (+12%) y/y increase in the cost of gas sold.
- > Increase in dry wells written off by PLN 54m y/y. Three dry wells written off in Q3 2017, no wells written off in Q3 2016. No write-offs recognised with respect to seismic surveys in Q3 2017 or the comparative period.
- > Regasification costs up by PLN 6m y/y, reflecting an increased share of LNG in total volumes.
- > Cost of gas price hedging transactions at PLN -28m in Q3 2017 vs PLN -16m in Q2 2017.



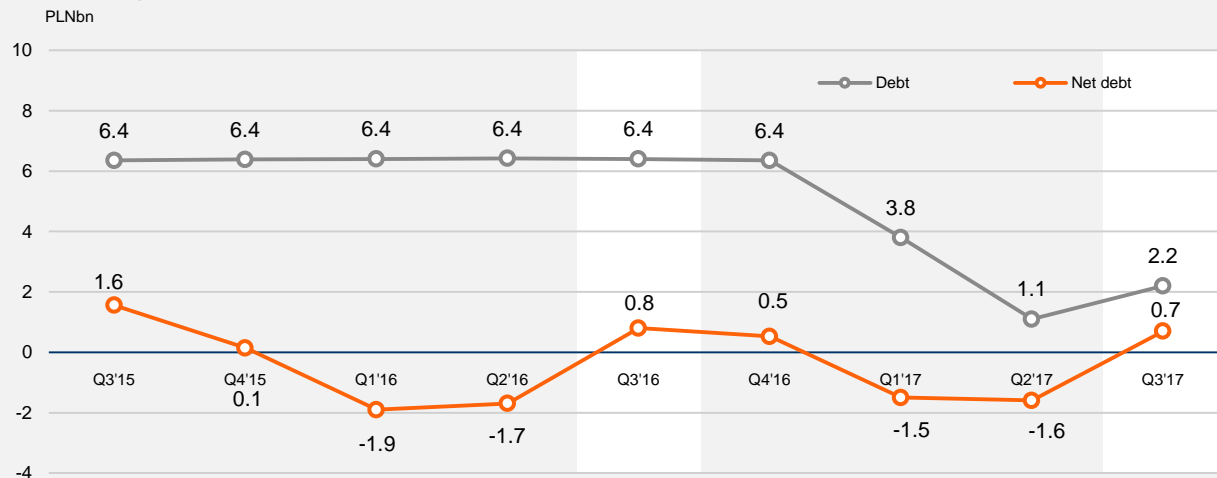
*Other operating expenses do not include the costs of taxes and charges and impairment losses on property, plant and equipment and intangible assets

Debt and sources of funding

> Sources of funding (as at September 30th 2017)



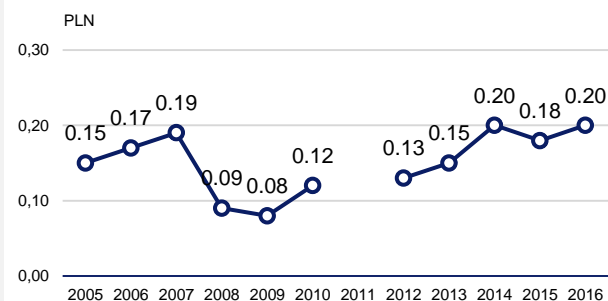
> Debt at quarter end



Comments:

- > On August 31st 2017, Bank Gospodarstwa Krajowego, Alior Bank S.A. and PGNiG TERMIKA Energetyka Przemysłowa S.A. signed an agreement on termination of the Note Programme Agreement and release of security.

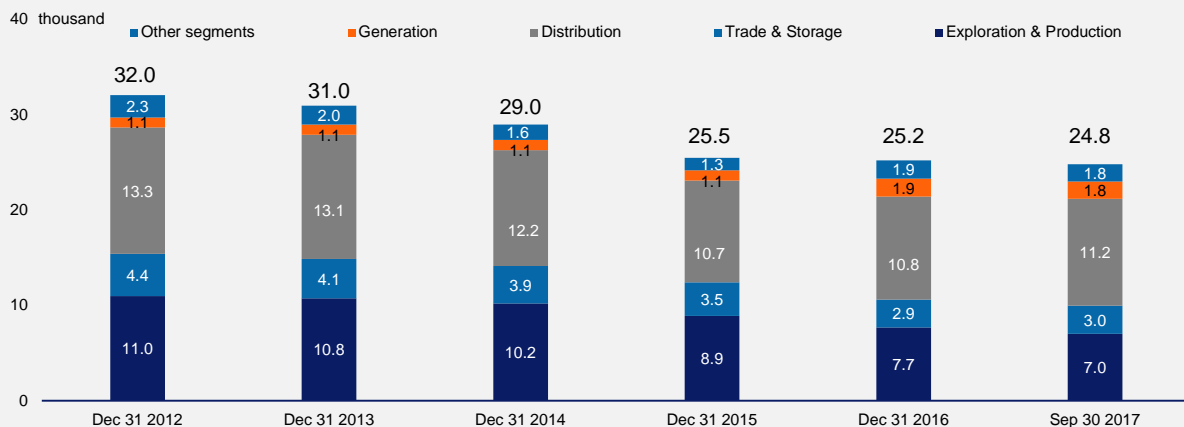
> Dividend per share



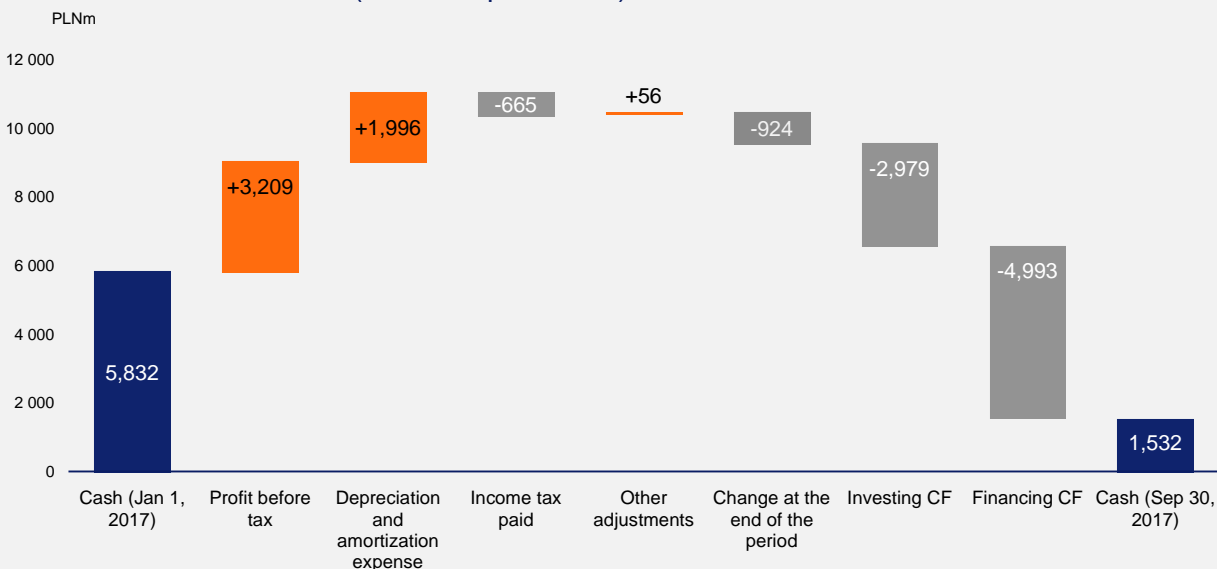
- > Strategic objective: up to 50% of consolidated net profit to be distributed as dividend in 2015–2022 (provided that the financial condition is stable and financing for investment projects is secured).

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

> Headcount (as at September 30th 2017)*



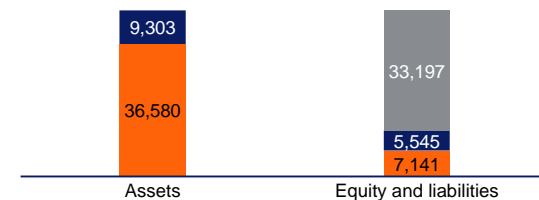
> Consolidated cash flows (Jan 1–Sep 30 2017)



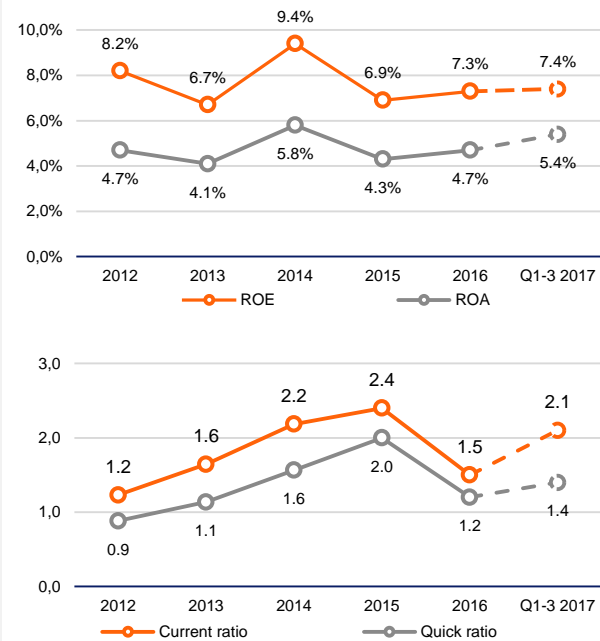
*Changes in the presentation of corporate centre data, leading to changes in the Trade & Storage and Other segments in 2016

> Group's statement of financial position (as at September 30th 2017)

PLNm Non-current Current Equity



> Profitability and liquidity ratios



Production and sales volumes

NATURAL GAS PRODUCTION. PGNiG Group (mcm)	Q1-3 2017	Q3 2017	Q2 2017	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)	1,403	459	469	474	1,918	473	450	487	509	2,027	504	515	507	501
<i>including in Poland</i>	981	325	327	328	1,401	347	346	349	359	1,454	366	359	362	367
<i>including in Norway</i>	422	134	142	146	517	126	104	138	150	573	138	156	145	134
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	1,943	664	567	712	2,540	692	582	596	670	2,564	664	612	602	685
<i>including in Poland</i>	1,840	627	533	680	2,480	670	570	584	657	2,513	651	601	589	672
<i>including in Pakistan</i>	104	38	34	32	59	22	12	13	13	52	13	12	13	13
TOTAL (measured as E equivalent)	3,346	1,123	1,036	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	79	79	73	83	79	82	72	77	84	81	84	80	79	83

NATURAL GAS SALES. PGNiG Group (mcm)

HIGH-METHANE GAS (E)	17,688	4,298	5,078	8,311	22,900	6,923	4,005	4,411	7,560	21,653	6,184	3,662	4,497	7,311
<i>including PST sales outside PGNiG Group</i>	1,583	452	481	649	2,511	561	614	571	764	2,311	648	639	502	522
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	1,077	296	312	469	1,373	419	244	298	412	1,295	355	261	285	395
TOTAL (measured as E equivalent)	18,765	4,594	5,390	8,780	24,273	7,342	4,249	4,709	7,972	22,949	6,539	3,922	4,782	7,705
<i>including sales directly from the fields</i>	612	195	174	243	756	218	139	181	221	736	192	169	169	206

GAS IMPORTS by PGNiG SA (mcm)

Total	10,041	3,488	3,334	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>	7,116	1,889	2,517	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>	1,332	470	475	387	974	380	384	210	-	-	-	-	-	-

CRUDE OIL. PGNiG Group ('000 tonnes)

Production of crude oil and condensate	928	313	270	346	1,318	344	298	328	348	1,428	358	367	317	386
<i>including in Poland</i>	567	203	149	216	764	207	177	176	203	765	207	204	147	207
<i>including in Norway</i>	361	110	121	130	555	137	121	152	145	664	151	163	170	180
Total production in kbb/d	25	25	22	28	26	27	24	26	28	29	29	29	26	31
Sales of crude oil and condensate	957	251	315	390	1,347	326	287	336	398	1,391	315	356	372	348
<i>including in Poland</i>	570	190	161	218	754	198	179	172	205	772	211	196	148	217
<i>including in Norway</i>	387	61	154	172	593	127	108	164	193	619	104	160	224	131

GENERATION

Production of heat. net (sales) (TJ)	27,872	3,471	6,732	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)	2,601	407	737	1,458	3,604	1,204	418	591	1,390	3,487	1,136	328	674	1,349

