

Polskie Górnictwo Naftowe i Gazownictwo SA

PGNiG Group
H1 and Q2 2017



August 18th 2017

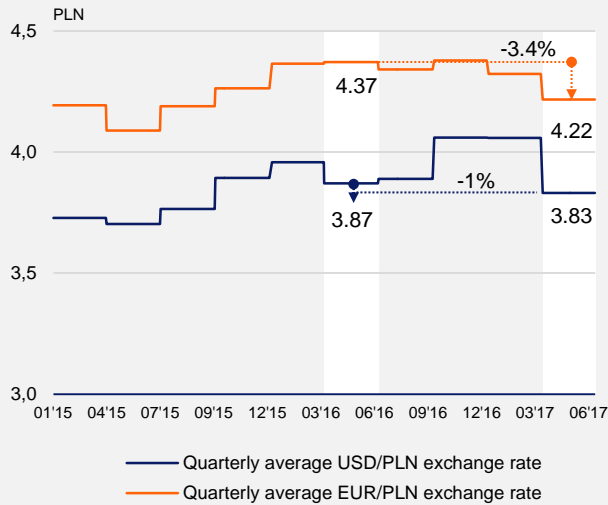


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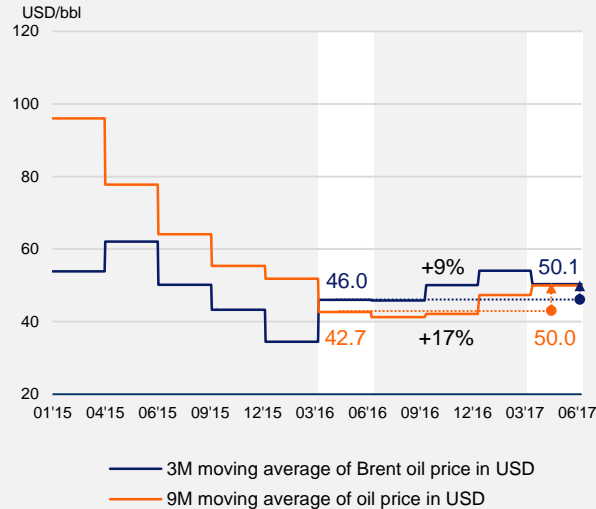
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 -  > Exploration and Production
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Performance drivers

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

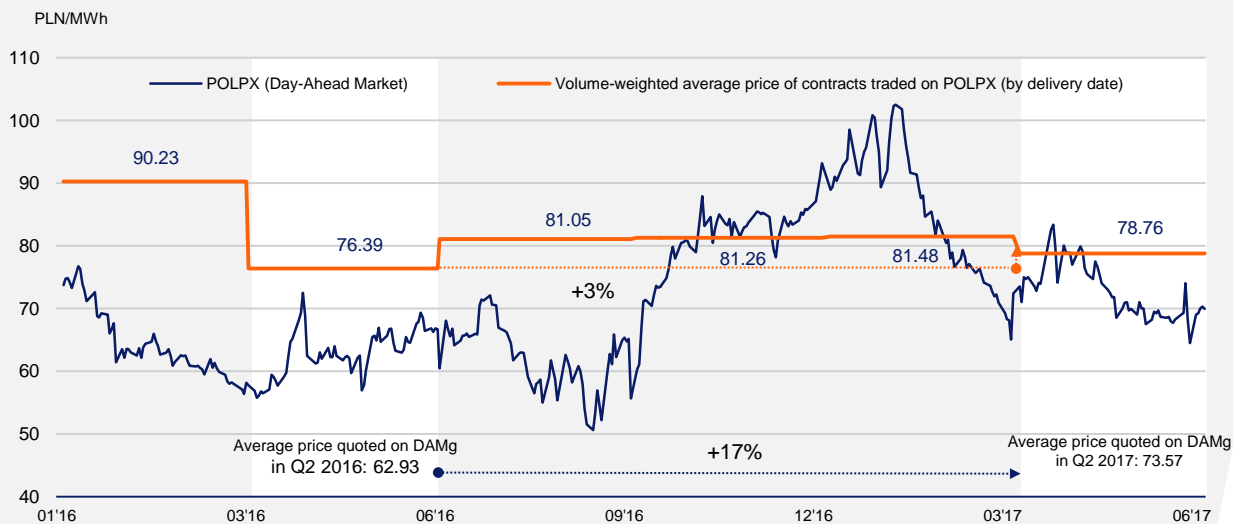


- > 9-month average crude oil price up 17% y/y in Q2 2017



- > Revenue up on high sales volumes, with unit cost of gas rising

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



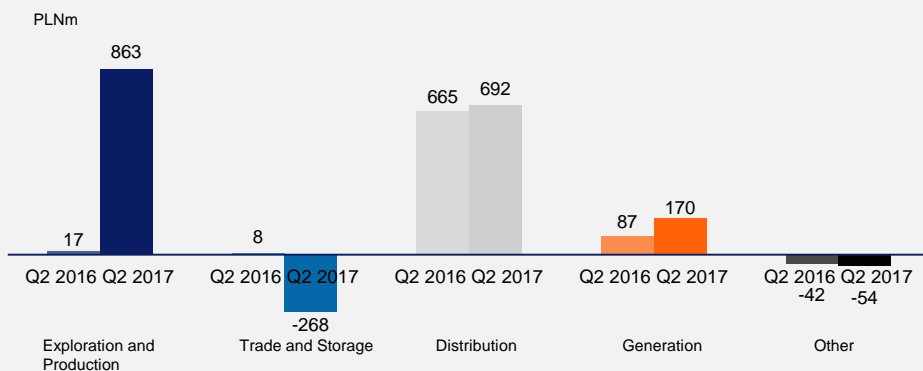
Comments:

- > 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. Monthly/weekly futures and spot contracts play a complementary role.
- > 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 Q2 2017

> Group's EBITDA by segment in Q2 2017 vs Q2 2016



Exploration and Production

- > Revenue from gas sales up PLN 67m y/y (+10%).
- > Impairment losses on property, plant and equipment at PLN +78m in Q2 2017 vs PLN -710m in Q2 2016.

Trade and Storage

- > Revenue from gas sales up 14%, mainly led by a 19% rise in volumes.
- > Increase of PLN -21m in gas inventory write-downs in Q2 2017 vs partial write-down reversal of PLN +51m in Q2 2016 (net write-downs at the end of Q2 2017 at PLN 88m).

Distribution

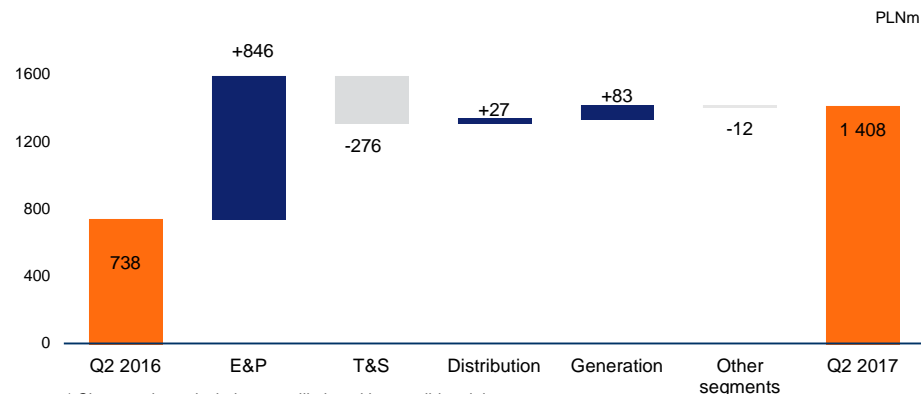
- > Gas distribution volume 19% higher y/y in Q2 2017, with revenue from distribution services up 10% y/y.

Generation

- > Sales volumes of heat and electricity (from own generation sources) up by over 25%.

[PLNm]	Q2 2016	Q2 2017	Δ%
Revenue	6,369	7,165	12%
Operating expenses (excl. D&A)	(5,631)	(5,757)	2%
EBITDA	738	1,408	91%
<i>EBITDA (net of impairment losses on property, plant and equipment)</i>	1,463	1352	(8%)
Depreciation and amortisation expense	(665)	(640)	(4%)
EBIT	73	768	10x
Net finance income/(costs)	(68)	(10)	(85%)
Net profit	(115)	499	5x

> PGNiG Group's EBITDA up in Q2 2017 vs Q2 2016*



* Changes do not include reconciliation with consolidated data.

Segments – Exploration and Production

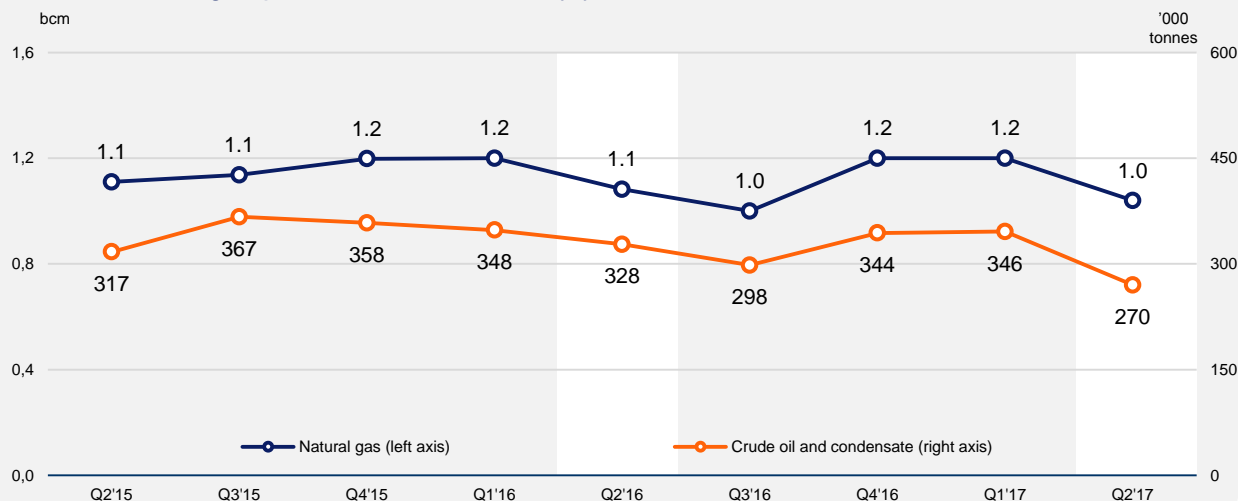
> Revenue growth driven by oil and gas prices

Comments:

- > Revenue from sales of crude oil and condensate up PLN 5m y/y, with quarterly average oil prices in PLN up by almost 8% and sales volumes down 6%, to 315 thousand tonnes.
- > PLN 67m increase in revenue from gas sales reported by the segment, driven by higher market prices, with sales volumes stable.
- > Dry wells and seismic surveys written off: PLN -81m in Q2 2017 vs PLN -36m in Q2 2016.
- > Impairment losses on property, plant and equipment with no significant one-offs in Q2 2017 (PLN +78m). High impairments in Q2 2016 (PLN -710m).

[PLNm]	Q2 2016	Q2 2017	Δ%
Revenue	1,232	1,294	5%
Operating expenses (excl. D&A)	(1,215)	(431)	(65%)
EBITDA	17	863	50x
<i>EBITDA (net of impairment losses on property, plant and equipment)</i>	726	785	8%
Depreciation and amortisation expense	(290)	(257)	(11%)
EBIT	(273)	606	(3x)

> Oil and natural gas production in Q2 2017 y/y



Segments – Trade and Storage

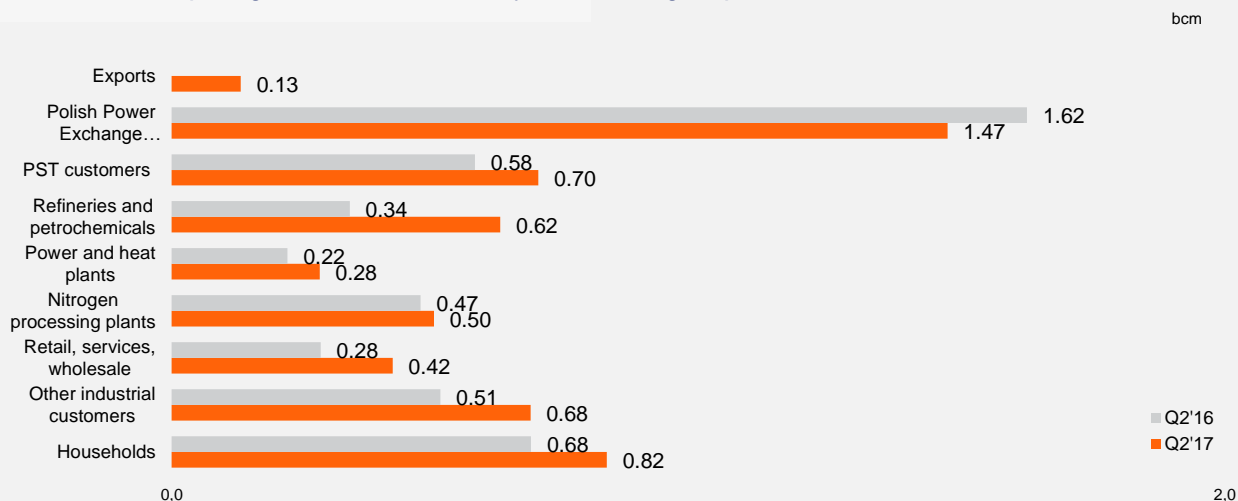
- Revenue growth driven by higher volumes and a slight increase in market prices

Comments:

- Gas sales up PLN 675m (to PLN 5.4bn in Q2 2017) on higher selling prices and higher volumes.
- Higher volumes of gas sold to industrial customers (both retail and wholesale) and households. Lower volumes of gas sold on POLPX.
- Revenue from sales of electricity at PLN 399m in Q2 2017, down PLN 58m (-13% y/y).
- Increase of PLN -21m in gas inventory write-downs in Q2 2017 vs partial write-down reversal of PLN +51m in Q2 2016 (net write-downs at the end of Q2 2017 at PLN 88m).
- Increase of PLN 15m in the provision for buy-out price on energy efficiency certificates, to PLN 40m.
- Effect of transactions hedging the risk related to gas purchase: PLN -16m in Q2 2017 relative to PLN -202m in Q2 2016.

[PLNm]	Q2 2016	Q2 2017	Δ%
Revenue	5,262	5,887	12%
Operating expenses (excl. D&A)	(5,254)	(6,155)	17%
EBITDA	8	(268)	(35x)
Depreciation and amortisation expense	(53)	(52)	(2%)
EBIT	(45)	(321)	6x

PGNiG Group* – gas sales volumes by customer group



* Overall volume of gas sold outside PGNiG Group by E&P and T&S segments

Segments – Distribution

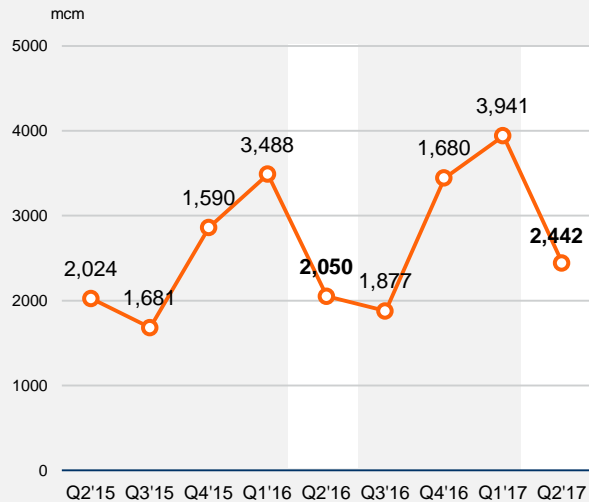
[PLNm]	Q2 2016	Q2 2017	Δ%
Revenue	1,065	1,142	7%
Operating expenses (excl. D&A)	(400)	(450)	13%
EBITDA	665	692	4%
Depreciation and amortisation expense	(230)	(229)	-
EBIT	435	463	6%

- > Segment performance buoyed by higher gas distribution volumes

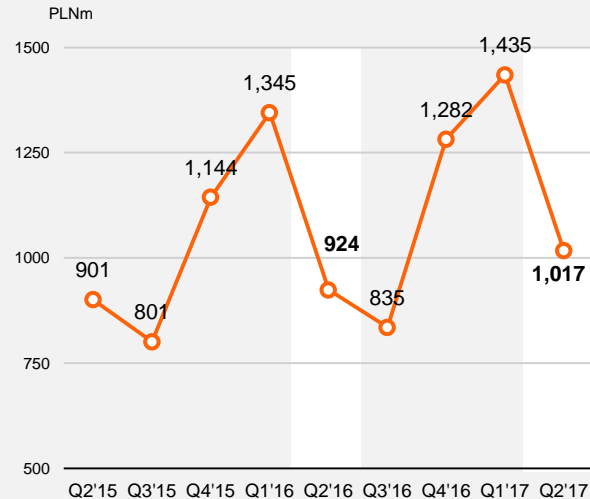
Comments:

- > Volume of distributed gas up by more than 19% y/y, to 2.4 bcm (new connections and lower temperature).
- > Revenue from distribution services up by PLN 92m (10%) y/y.
- > Net income/cost of system balancing higher y/y, at PLN 172m in Q2 2017, compared with PLN 156m in Q2 2016.
- > Employee benefits up by PLN 82m, mainly as a result of an increase in headcount following an organisational restructuring at Polska Spółka Gazownictwa Sp. z o.o. (up 3.5% y/y), a change of the remuneration and bonus system, and a shift in bonus payments from Q3 2017 to Q2 2017.

> Gas distribution volume



> Revenue from distribution services



Segments – Generation

[PLNm]	Q2 2016	Q2 2017	Δ%
Revenue	381	408	7%
Operating expenses (excl. D&A)	(294)	(238)	(19%)
EBITDA	88	170	93%
Depreciation and amortisation expense	(80)	(90)	13%
EBIT	8	81	9x

- > Segment's performance supported by acquisitions and increased heat sales volumes

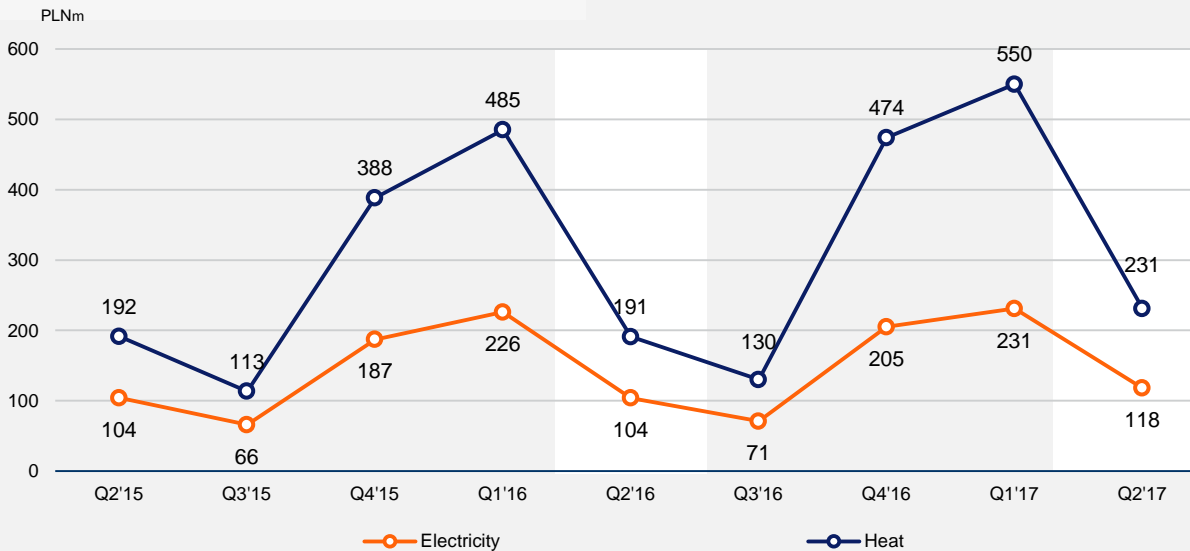
Comments:

- > Revenue from sales of heat up by 21% y/y, to PLN 231m, on a 26% increase in volumes.
- > Revenue from sales of electricity generated at own sources up by PLN 14m y/y, to PLN 118m, driven by a 25% increase in sales volumes.
- > Cost of coal up by 23% y/y, to PLN -113m in Q2 2017.
- > A reduction in electricity trading reported by the segment.

Sales volumes in Q2 2017:

- > Sales of heat to customers outside the PGNiG Group at 6.7 PJ.
- > Electricity from own sources: 737 GWh.

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



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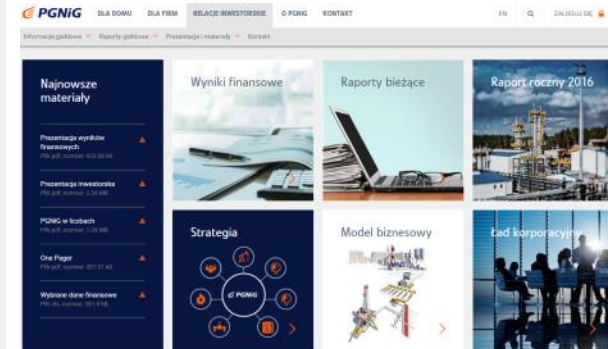
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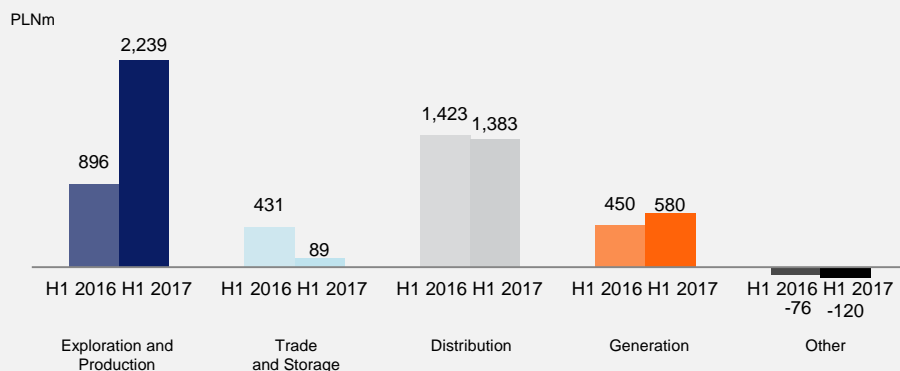
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- > 1. Financial highlights H1 2017
- > 2. Sales and gas imports structure
- > 3. Operating expense
- > 4. Debt and sources of funding
- > 5. Statement of financial position, statement of cash flows, financial ratios and headcount
- > 6. Production and sales volumes



Financial highlights H1 2017

> Group's EBITDA by segment in H1 2017 vs H1 2016



Exploration and Production

- > Revenue from sales of gas up by PLN 285m y/y (+19%).
- > Impairment losses on property, plant and equipment at PLN +83m in H1 2017 vs PLN -657m in H1 2016.

Trade and Storage

- > Revenue from gas sales up by 8%, mainly led by a 14% rise in volumes.
- > Increase of PLN 45m in gas inventory write-downs in H1 2017 vs partial write-down reversal of PLN +218m in H1 2016 (net write-downs at the end of Q2 2017 at PLN 88m).

Distribution

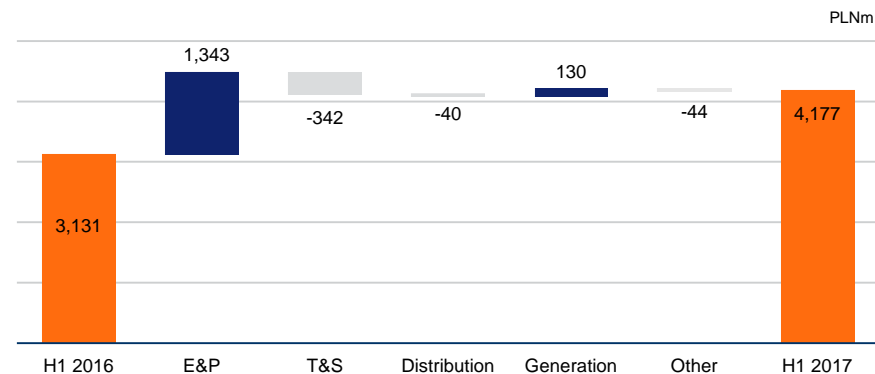
- > Growth in distribution volumes by 15% y/y in H1 2017.
- > Employee benefit expenses up in H1 2017 (PLN 565m in H1 2017 vs. PLN 420m in H1 2016).

Generation

- > Sales volumes of heat rise up by 13% y/y and electricity (from own generation sources) up by over 11% in H1 2017.

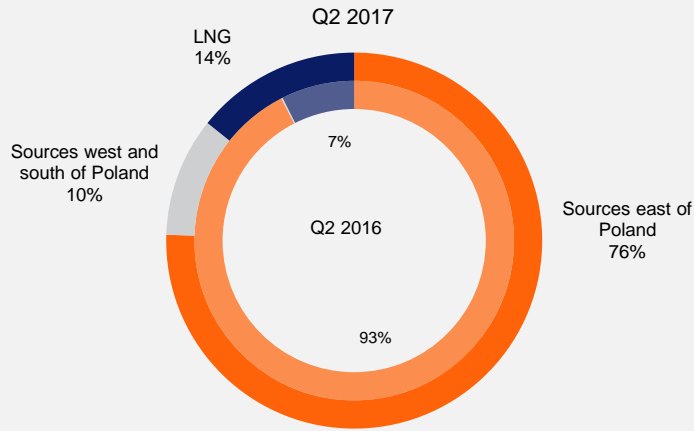
[PLNm]	H1 2016	H1 2017	Δ%
Revenue	17,349	18,817	8%
Operating expenses (excl. D&A)	(14,218)	(14,640)	3%
EBITDA	3,131	4,177	33%
<i>EBITDA (net of impairment losses on property, plant and equipment)</i>	3,807	4,101	8%
Depreciation and amortisation expense	(1,337)	(1,335)	(1%)
EBIT	1,794	2,842	58%
Net finance income/(costs)	(20)	9	(147%)
Net profit	1,271	2,098	65%

> PGNiG Group's EBITDA up in H1 2017 vs H1 2016



Sales and gas imports structure

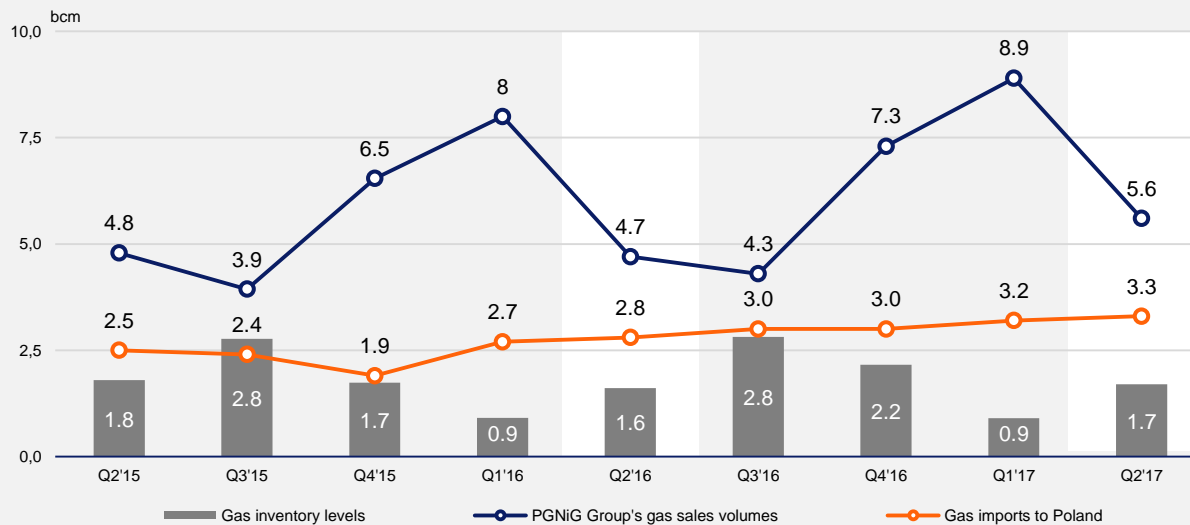
> Poland's gas imports structure in Q2 2017 vs Q2 2016



> Significant share of LNG in gas imports in Q2 2017

> PGNiG Group's sales of gas to industrial customers (retail and wholesale) and to households up by 0.9 bcm y/y in Q2 2017

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



Comments:

> LNG terminal stocks as at June 30th 2017: 25 mcm.



Operating expenses in Q2 2017 vs Q2 2016

[PLNm]	Q2 2016	Q2 2017	Δ%
Fuels for heat and power generation	(105)	(119)	13%
Other raw materials and consumables used	(389)	(415)	7%
Employee benefits expense	(639)	(672)	5%
Transmission services	(271)	(263)	(3%)
Cost of dry wells and seismic surveys written-off	(36)	(81)	125%
Other services	(313)	(410)	31%
<i>Gas services (including LNG regasification)</i>	<i>(16)</i>	<i>(103)</i>	<i>5x</i>
Net other income/(expenses)	(914)	(232)	(75%)
<i>Change in impairment losses/inventory write-downs</i>	<i>(677)</i>	<i>39</i>	<i>(106%)</i>
- <i>Inventory write-down</i>	<i>46</i>	<i>(32)</i>	<i>(170%)</i>
- <i>Impairment loss on non-current assets</i>	<i>(725)</i>	<i>56</i>	<i>(108%)</i>
<i>Taxes and charges</i>	<i>(56)</i>	<i>(43)</i>	<i>(23%)</i>
Work performed by the entity and capitalised	161	229	42%
Depreciation and amortisation expense	(665)	(640)	(4%)
Operating expenses net of cost of gas sold	(3,171)	(2,603)	(18%)
Cost of gas sold	(3,126)	(3,793)	21%
Total operating expenses	(6,296)	(6,396)	2%

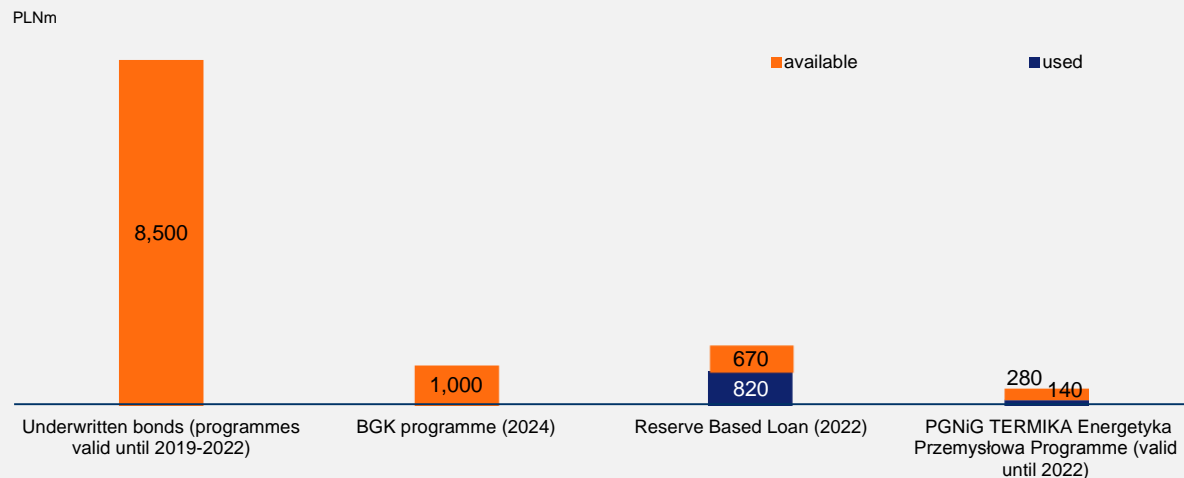
- Higher cost of gas, including regasification costs, offset by lack of adverse one-off events that occurred in Q2 2016

Comments:

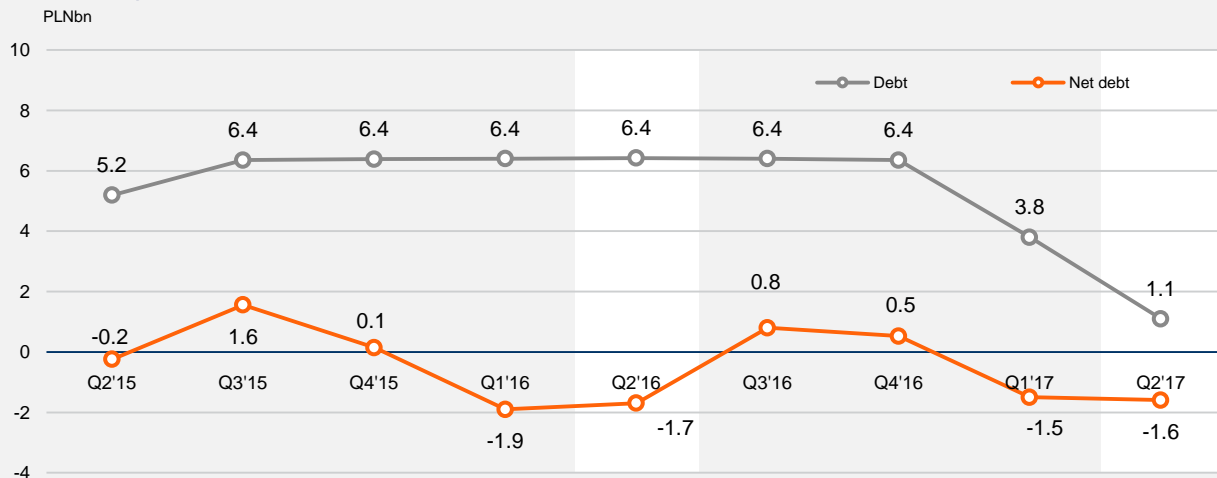
- Other expenses down y/y with no adverse one-off impacts (in Q2 2016 impairment losses of PLN 725m recognised on non-current assets).
- PLN 667m y/y increase in the cost of gas sold.
- Increase in dry wells and seismic surveys written off: PLN -81m in Q2 2017 vs PLN -36m in Q2 2016. Four dry wells written off in Q2 2017 compared with two wells in Q2 2016.
- Regasification costs up by PLN +87m y/y due to an increased share of LNG in total volumes.
- Cost of gas price hedging transactions down by PLN 186m (PLN -16m in Q2 2017 vs PLN -202m in Q1 2017)

Debt and sources of funding

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



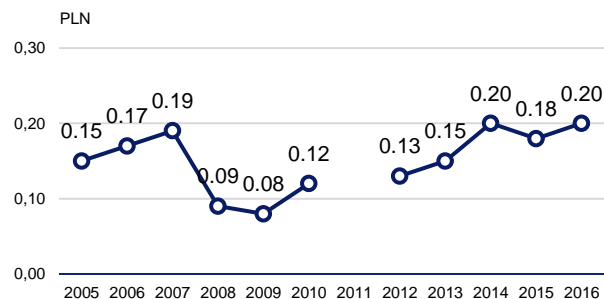
> Debt at quarter end



Comments:

- > Redemption of 5-year domestic bonds with a nominal value of PLN 2.5bn plus interest on June 19th – financed with own funds.

> Dividend per share

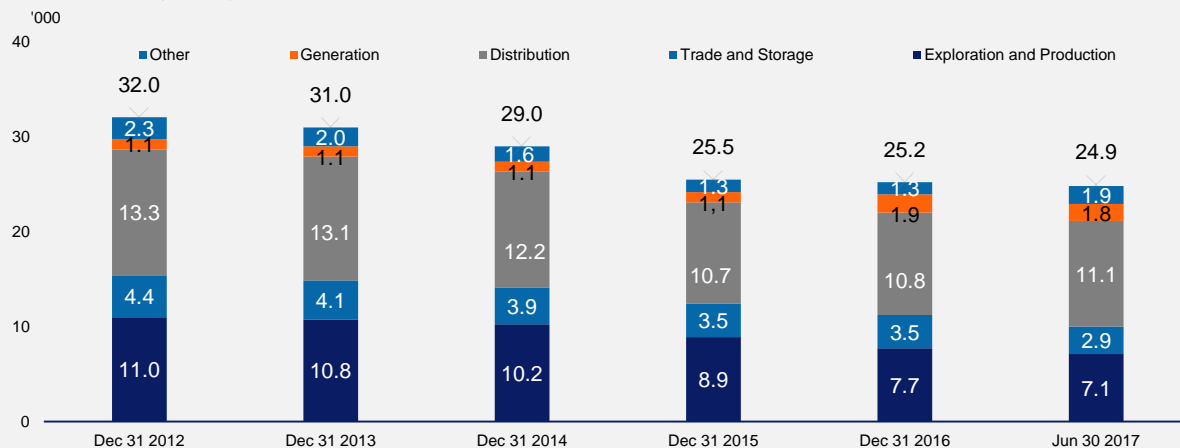


- > Strategic objective: up to 50% of consolidated net profit to be paid as dividend in 2015–2022 (provided that the financial condition is stable and financing sources for investment projects are secured).

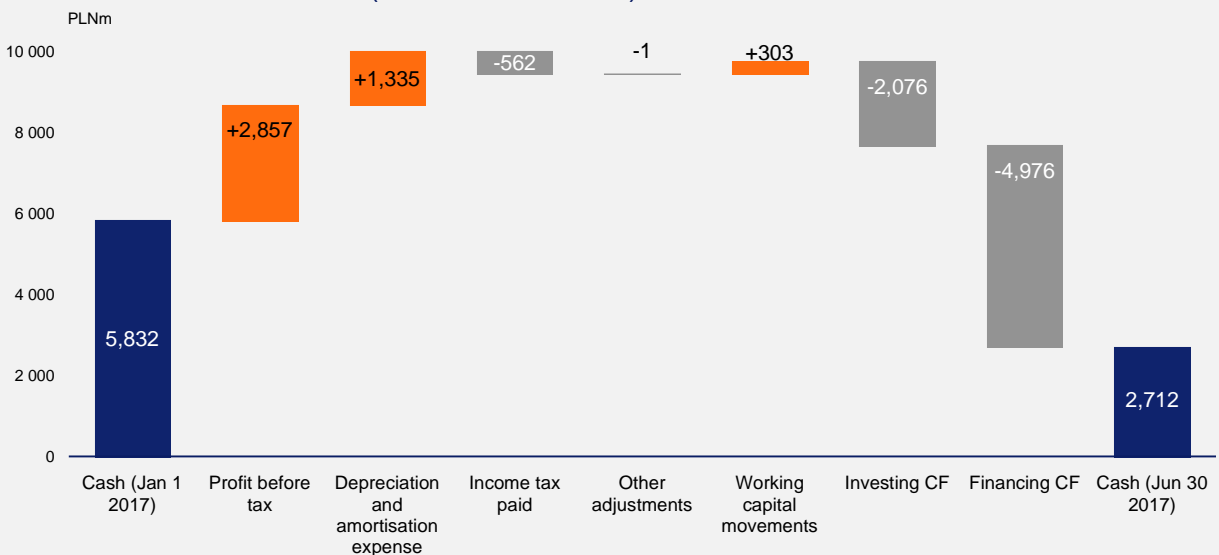


Statement of financial position, statement of cash flows, financial ratios and headcount

> Headcount (as at)

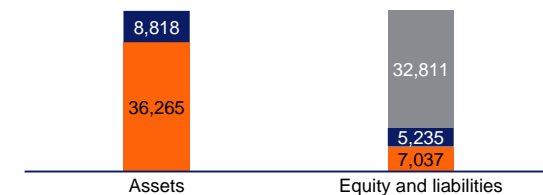


> Consolidated cash flows (Jan 1–Jun 30 2017)

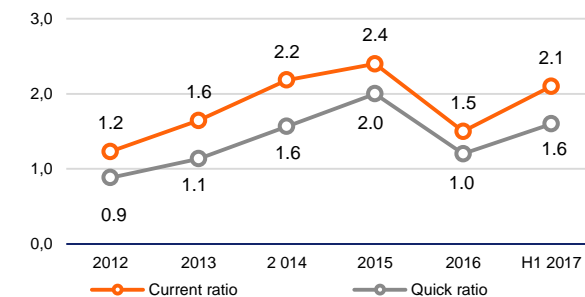
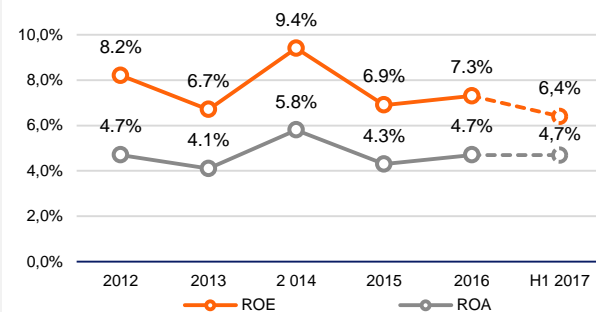


> Group's statement of financial position (as at June 30th 2017)

PLNm Non-current Current Equity



> Profitability and liquidity ratios



Production and sales volumes

NATURAL GAS PRODUCTION, PGNiG Group (mcm)

	H1 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)	944	469	474	1,918	473	450	487	509	2,027	504	515	507	501
<i>including in Poland</i>	656	327	328	1,401	347	346	349	359	1,454	366	359	362	367
<i>including in Norway</i>	288	142	146	517	126	104	138	150	573	138	156	145	134
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	1,279	567	712	2,540	692	582	596	670	2,564	664	612	602	685
<i>including in Poland</i>	1,213	533	680	2,480	670	570	584	657	2,513	651	601	589	672
<i>including in Pakistan</i>	66	34	32	59	22	12	13	13	52	13	12	13	13
TOTAL (measured as E equiv.)	2,222	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	73	83	79	82	72	77	84	81	84	80	79	83

NATURAL GAS SALES, PGNiG Group (mcm)

HIGH-METHANE GAS (E)	13,686	5,290	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>	1,426	693	734	2,511	561	614	571	764	2,311	648	639	502	522
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	781	312	469	1,373	419	244	298	412	1,295	355	261	285	395
TOTAL (measured as E equiv.)	14,467	5,602	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>	449	206	243	756	218	137	181	221	736	192	169	169	206

GAS IMPORTS by PGNiG SA (mcm)

Total	6,553	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>	5,227	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>	862	475	387	974	380	384	210	-	-	-	-	-	-

CRUDE OIL, PGNiG Group ('000 tonnes)

Production of crude oil and condensate	616	269	346	1,318	344	298	328	348	1,428	358	367	317	386
<i>including in Poland</i>	365	149	216	764	207	177	176	203	765	207	204	147	207
<i>including in Norway</i>	251	121	130	555	137	121	152	145	664	151	163	170	180
Total production in kbb/d	25	22	28	26	27	24	26	28	29	29	29	26	31
Sales of crude oil and condensate	705	316	390	1,347	326	287	336	398	1,391	315	356	372	348
<i>including in Poland</i>	379	161	218	754	198	179	172	205	772	211	196	148	217
<i>including in Norway</i>	326	154	172	593	127	108	164	193	619	104	160	224	131

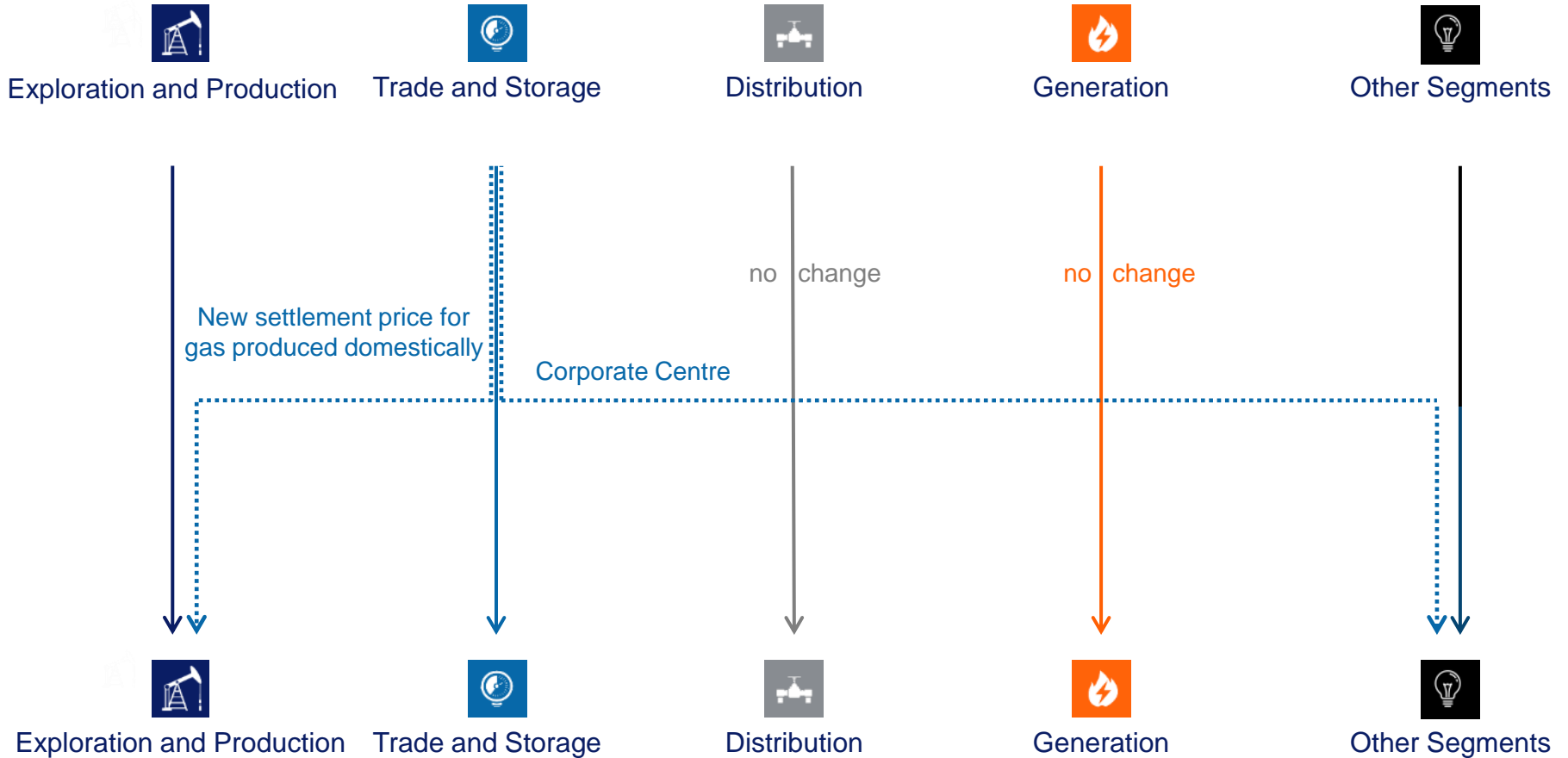
GENERATION

Production of heat, net (sales) (TJ)	24,401	6,732	17,669	39,527	15,079	2,945	5,351	16,152	36,209	12,643	2,701	5,810	15,055
Prod. of electricity, net, secondary generation (for sale) (GWh)	2,195	737	1,458	3,604	1,204	418	591	1,390	3,487	1,136	328	674	1,349



Changes in segment presentation

Change of reporting segments (1/4)



Change of reporting segments (2/4)

1 Settlement price calculation method



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

2 Establishment of a separate 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 SA's Head Office and PGNiG Finance AB, which perform support functions for the other segments of the PGNiG Group.
- > The Corporate Centre is presented in Other Segments

3 Operating expenses – other items

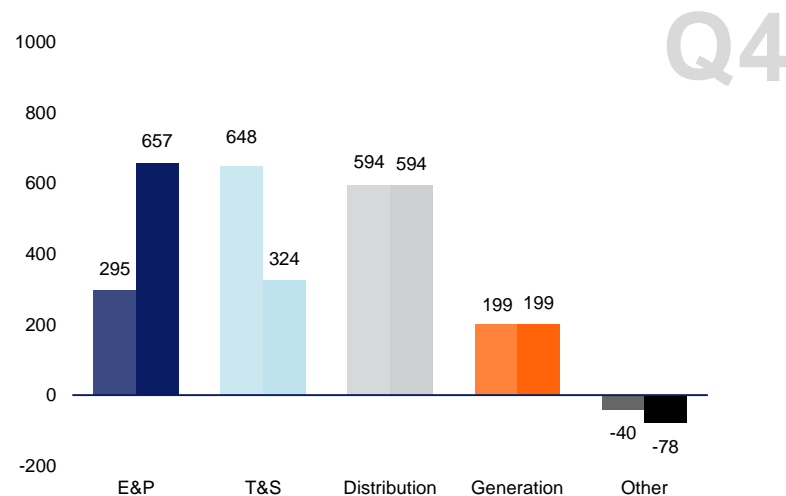
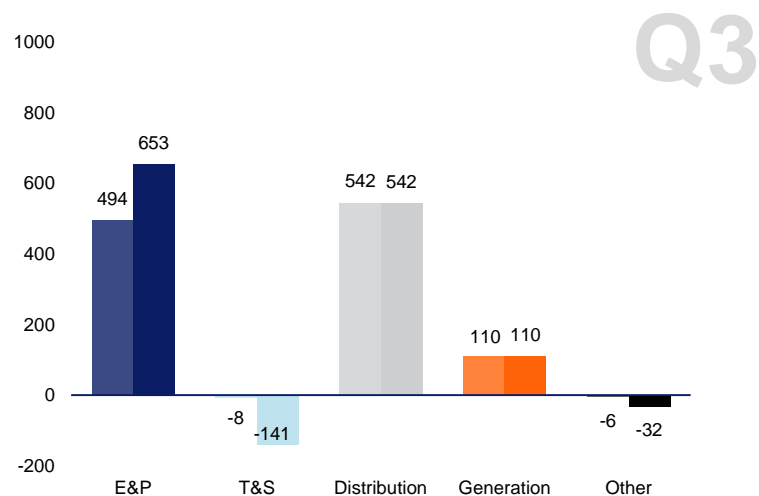
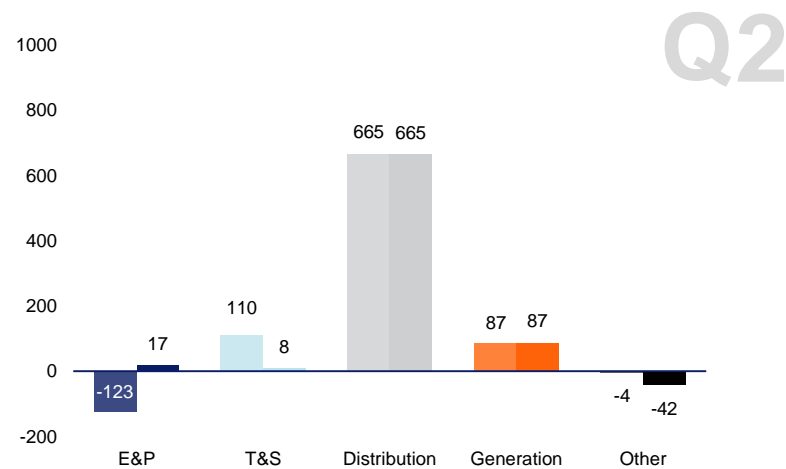
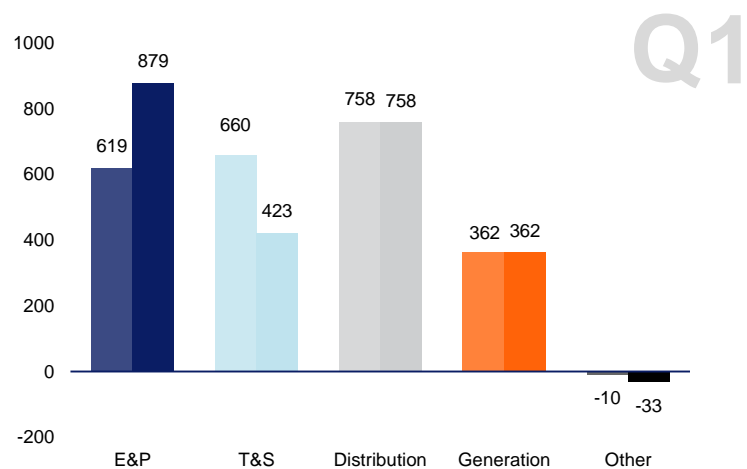


- > Reclassifications were made between other items of operating expenses based on the type of operations.

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

Previous reporting method	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Exploration and Production	619	(123)	494	295	-	-
Trade and Storage	660	110	(8)	648	-	-
Distribution	758	665	542	594	-	-
Generation	362	87	110	199	-	-
Other	(10)	(5)	(6)	(40)	-	-
Eliminations	4	2	5	11	-	-
Reclassification	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Exploration and Production	260	140	159	362	-	-
Trade and Storage	(237)	(102)	(133)	(324)	-	-
Distribution	-	-	-	-	-	-
Generation	-	-	-	-	-	-
Other	(23)	(38)	(26)	(38)	-	-
Eliminations	-	-	-	-	-	-
New reporting method	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Exploration and Production	879	17	653	657	1,376	863
Trade and Storage	423	8	(141)	324	358	(269)
Distribution	758	665	542	594	692	692
Generation	362	87	110	199	409	170
Other	(33)	(43)	(32)	(78)	(66)	(54)
Eliminations	4	2	5	11	-	5

Impact of the changes [2016 EBITDA in PLNm] (4/4)*



* Left bar – previous presentation method / right bar – new presentation method; the charts do not reflect reconciliation with consolidated data