

Polskie Górnictwo Naftowe i Gazownictwo SA

PGNiG Group Q4 and FY 2017
results

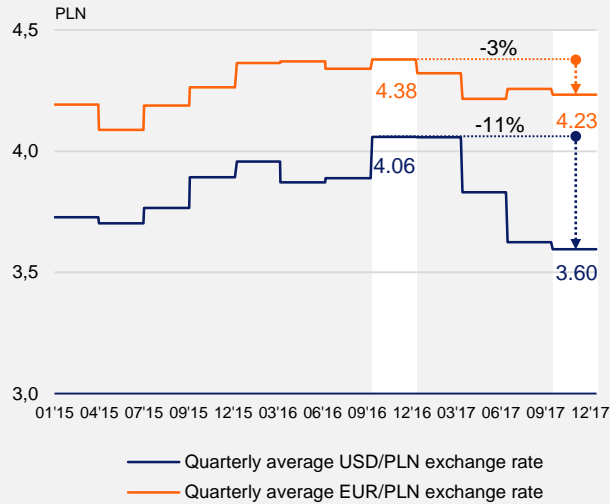


March 14th 2018

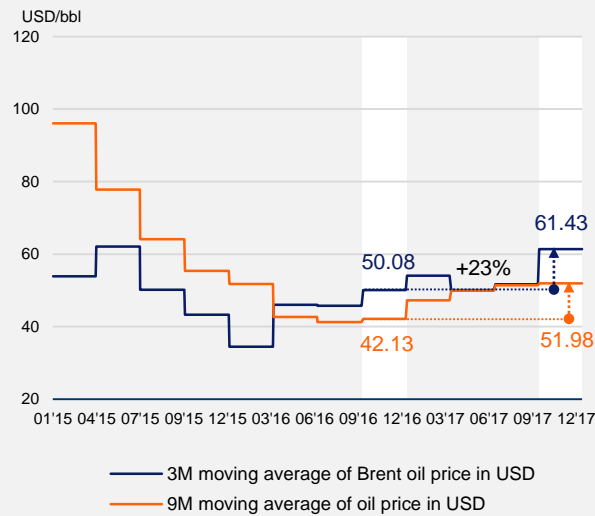


Performance drivers

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

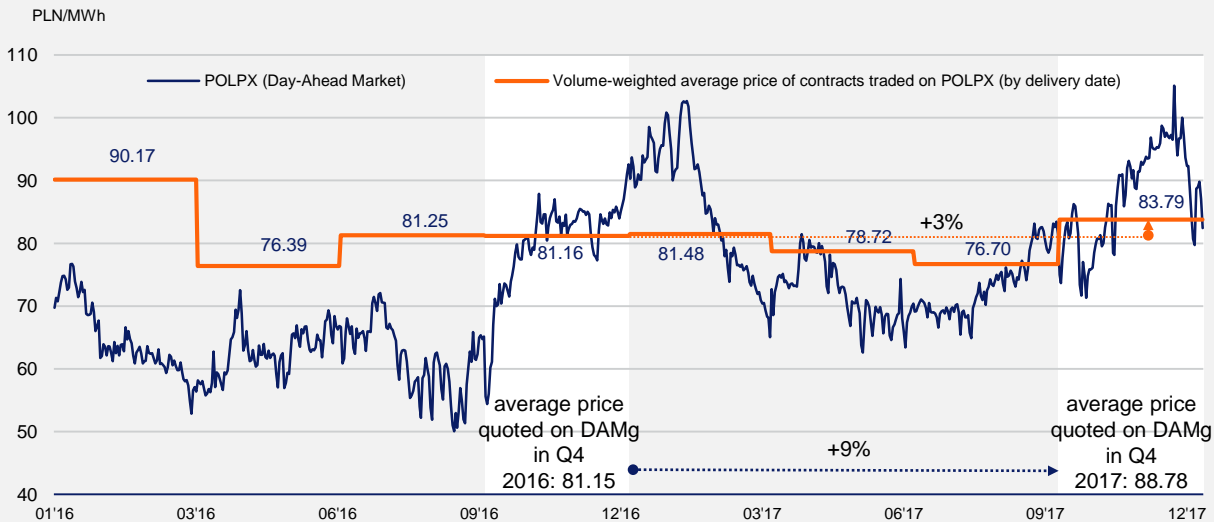


- 9-month average crude oil price up 23% y/y in Q4 2017



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

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



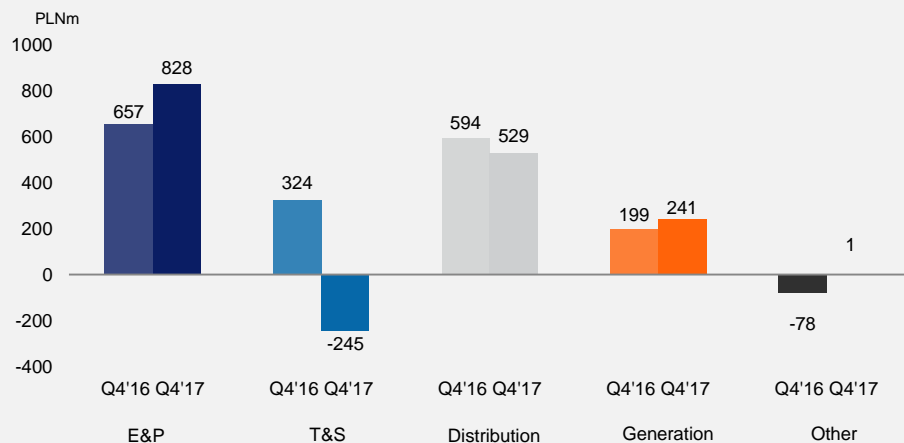
Comments:

- 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. 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 Q4 2017

Group's EBITDA by segment in Q4 2016 vs Q4 2017



Exploration and Production

- Revenue from gas sales up by PLN 127m y/y (+14%).
- Impairment losses on property, plant and equipment, dry wells and seismic surveys written off in Q4 2017 at PLN -444m, compared with PLN -315m in Q4 2016.

Trade and Storage

- Revenue from gas sales up 11%, led mainly by an 11% rise in volumes.
- A PLN -26m gas inventory write-downs recognised in Q4 2017. PLN +32m in reversals of gas inventory write-downs recognised in Q4 2016 (mark-to-market valuation of gas at the LNG terminal). Impairment loss recognised on power generating assets at Wierzchowice PLN -364m in Q4 2017 compared with Q4 2016 (PLN -10m).

Distribution

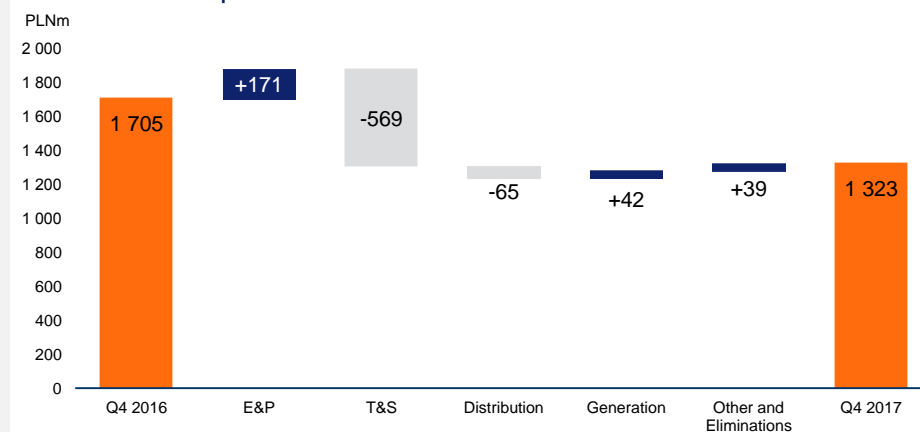
- Gas distribution volume 4% down y/y in Q4 2017, with revenue from distribution services falling 2% y/y.

Generation

- Sales volumes of electricity (from own sources) up 6% y/y, whereas sales volumes of heat down 6% y/y

[PLNm]	Q4 2016	Q4 2017	Δ%
Revenue	10,146	10,965	8%
Operating expenses (excl. D&A)	-8,441	-9,642	14%
EBITDA	1,705	1,323	-22%
<i>EBITDA (net of impairment losses on property, plant and equipment)</i>	<i>1,827</i>	<i>1,871</i>	<i>2%</i>
Depreciation and amortisation	-658	-673	2%
EBIT	1,047	650	-38%
Net finance income/(costs)	-63	-47	-25%
Net profit	721	456	-37%

PGNiG Group's EBITDA in Q4 2016 vs Q4 2017*



* Eliminations in Q4 2017: PLN 31m, in Q4 2016: PLN -9m



Segments – Exploration and Production

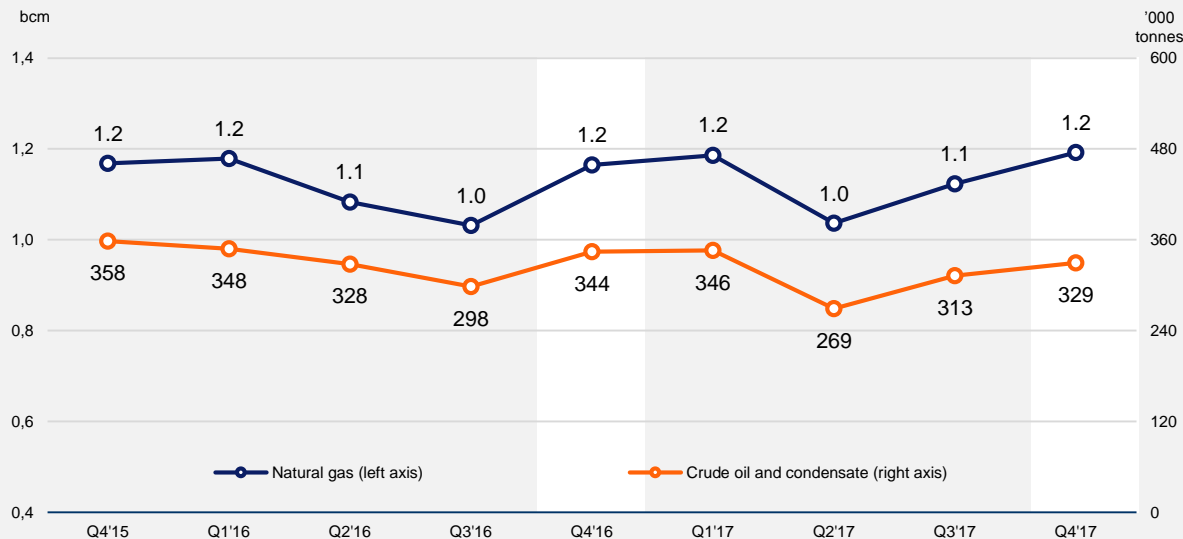
[PLNm]	Q4 2016	Q4 2017	Δ%
Revenue	1,587	1,702	7%
Operating expenses (excl. D&A)	-930	-874	-6%
EBITDA	657	828	26%
<i>EBITDA (net of impairment losses on property, plant and equipment)</i>	734	1,023	39%
Depreciation and amortisation	-255	-253	1%
EBIT	402	575	43%

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

Comments:

- Revenue from sales of crude oil and condensate up PLN 40m y/y on the back of a 9% rise in the average oil price in PLN for the quarter, despite a -4% y/y decline in sales volumes, to 313 thousand tonnes.
- PLN 127m (+14%) y/y increase in revenue from gas sales recorded by the segment, driven by higher market prices, with sales volumes up +2% y/y.
- Dry wells and seismic surveys written off at PLN -249m in Q4 2017 vs PLN -237m in Q4 2016.
- Impairment losses on property, plant and equipment: PLN -195m in Q4 2017 vs PLN -78m in Q4 2016.
- Higher other operating income in Q4 2017 as a result of market valuation of the underlift position in Norway - impact on the result of PLN +65m.

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



Trade and Storage

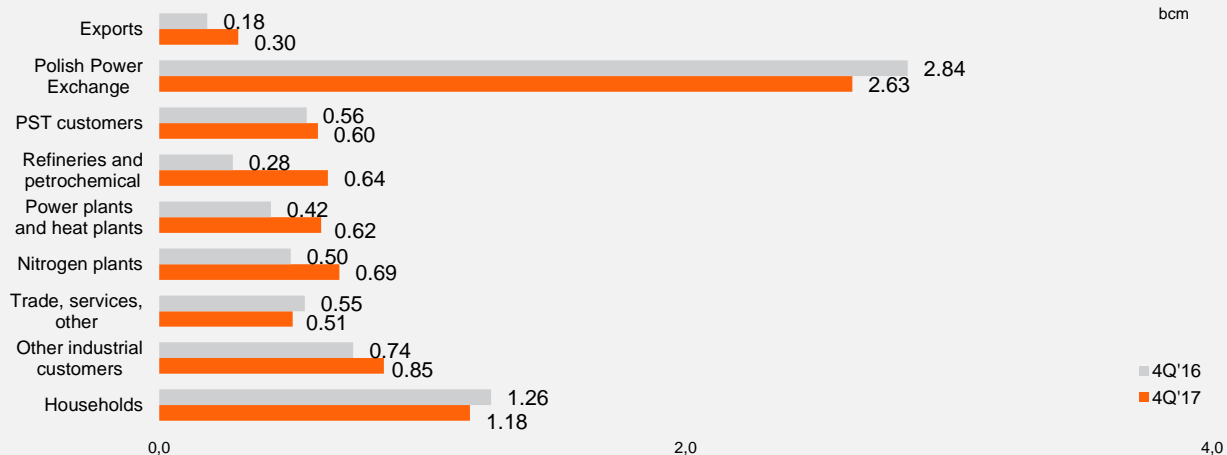
[PLNm]	Q4 2016	Q4 2017	Δ%
Revenue	8,573	9,625	12%
Operating expenses (excl. D&A)	-8,249	-9,870	20%
EBITDA	324	-245	-176%
<i>EBITDA (net of impairment losses on property, plant and equipment)</i>	334	120	-64%
Depreciation and amortisation	-54	-51	-7%
EBIT	270	-296	-210%

- › Revenue growth driven by higher volumes and selling prices

Comments:

- › Gas sales revenue up PLN 871m y/y (to PLN 8.7bn in Q4 2017), on the back of higher volumes and average selling prices of gas under futures contracts.
- › Higher volume of sales to industrial customers (especially in wholesale) and higher volume of export sales.
- › Gas imports to Poland up y/y (3.67 bcm in Q4 2017 vs 2.97 bcm in Q4 2016), with stable imports from countries east of Poland (lower share of source in total gas imports)
- › Sales of electricity contributing PLN 723m to Q4 2017 revenue, up PLN 148m (+26% y/y). Simultaneous increase in revenue of electricity for trading, up PLN 152m (+39% y/y) and cost up PLN 137m (+25% y/y).
- › Gas inventory write-downs increased in Q4 2017 by PLN -26m vs PLN +32m reversed in Q4 2016. Net write-downs: PLN 50m.
- › Impairment loss recognised on power generating assets at Wierzchowice PLN -364m in Q4 2017.
- › Decrease of PLN 51m y/y in the provision for energy efficiency buy-out price, to PLN 9m.

› PGNiG Group* – gas sales volumes by customer group



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

Volumes of gas sales to: refineries and petrochemical plants, power and heat plants and nitrogen processing plants have been restated.

Segments – Distribution

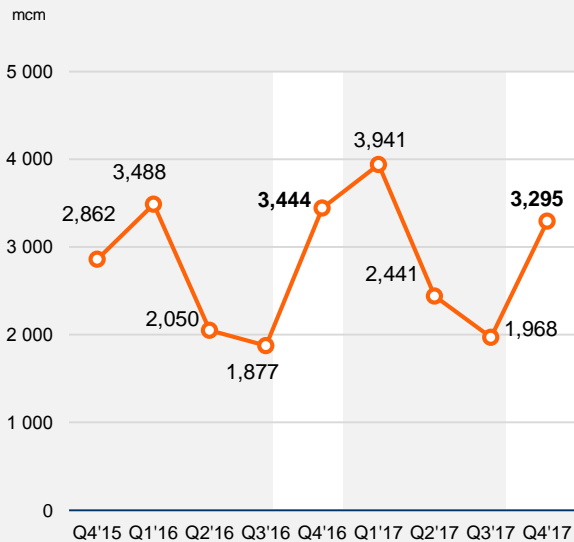
[PLNm]	Q4 2016	Q4 2017	Δ%
Revenue	1,416	1,242	-12%
Operating expenses (excl. D&A)	-822	-713	-13%
EBITDA	594	529	-11%
Depreciation and amortisation	-237	-237	-
EBIT	357	292	-18%

- Segment performance affected by lower gas distribution volume

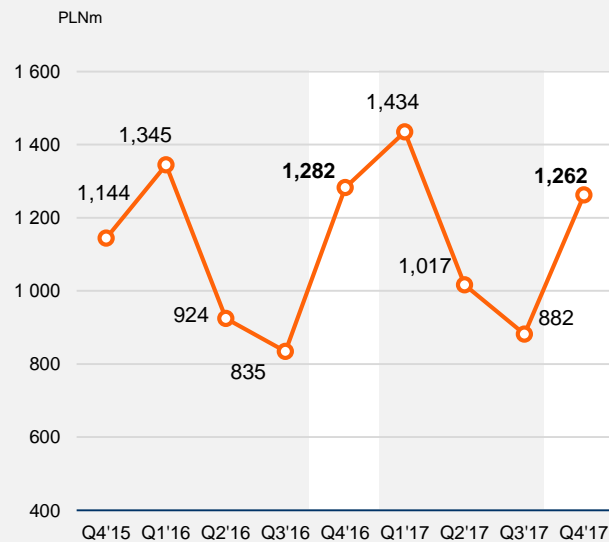
Comments:

- Volume of distributed gas down 4% y/y, to 3.29 bcm (due mainly to higher temperatures).
- Revenue from distribution services down PLN 20m (-2%) y/y.
- Lower net income/cost of system balancing y/y, at PLN -229m in Q4 2017, compared with PLN -193m in Q4 2016.
- Transmission costs down 14% y/y, down PLN 27m, to PLN 171m.
- Income and expenses down y/y due to reclassification of the Powiśle Park building from assets held for sale to finance leases in Q4 2016. Net contribution to Q4 2016 profit of PLN +26m.

Gas distribution volume



Revenue from distribution services



Segments – Generation

[PLNm]	Q4 2016	Q4 2017	Δ%
Revenue	756	722	-4%
Operating expenses (excl. D&A)	-557	-481	-14%
EBITDA	199	241	21%
Depreciation and amortisation	-101	-110	9%
EBIT	98	131	34%

- > Segment performance affected by temperature

Comments:

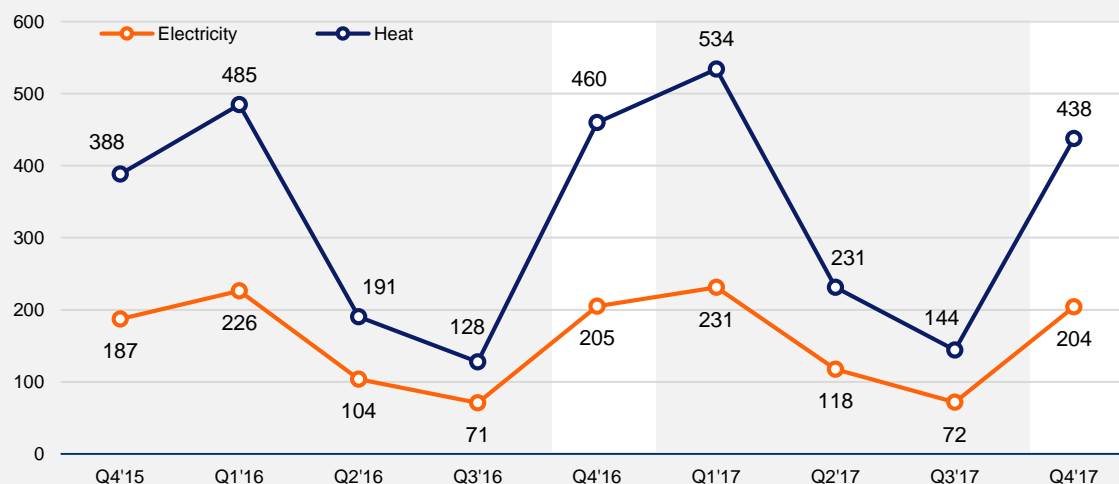
- > Revenue from sales of heat down 5% y/y, to PLN 438m, on a 6% decline in volumes.
- > Stable revenue from sales of electricity generated by the segment's own sources (down -0.4% y/y, to PLN 204m), with sales volumes on an upward trend (up 6% y/y).
- > Cost of coal comparable y/y, PLN -228m in Q4 2017 vs PLN -232m in Q4 2016.
- > A reduction in the segment's electricity trading.
- > Reversal of PLN 73m gain from the bargain purchase of SEJ (currently Termika EP) in Q4 2016.

Sales volumes in Q4 2017:

- > Sales of heat to customers outside the PGNiG Group: 14.2 PJ.
- > Electricity from own sources: 1,280 GWh.

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

PLNm



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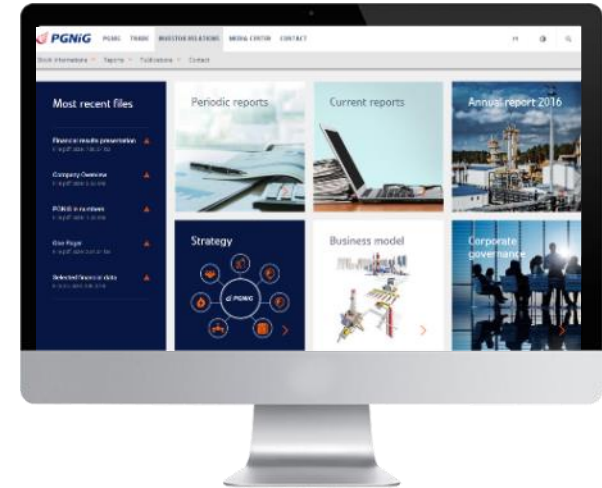
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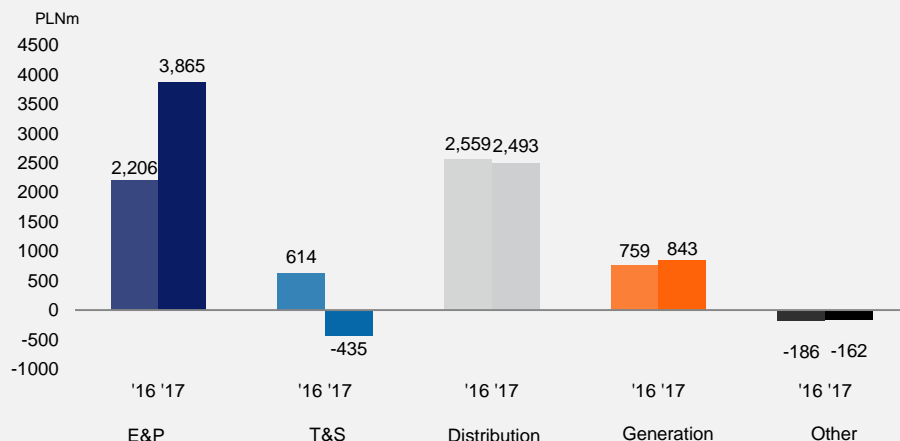
Appendice:

- > 1. Financial highlights FY 2017
- > 2. Gas sales and 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 FY 2017

> Group's EBITDA by segment in 2017 vs 2016



Exploration and Production

- > Revenue from gas sales up by PLN 589m y/y (+20%).
- > Impairment losses on property, plant and equipment: PLN -79m in 2017 vs PLN -771m in 2016.

Trade and Storage

- > Revenue from gas sales up 9%, led mainly by an 11% y/y rise in volumes.
- > PLN -19m gas inventory write-downs recognised in 2017. PLN +226m in reversals of gas inventory write-downs in 2016. Impairment losses on property, plant and equipment: PLN -364m in 2017 vs PLN -12m in 2016.

Distribution

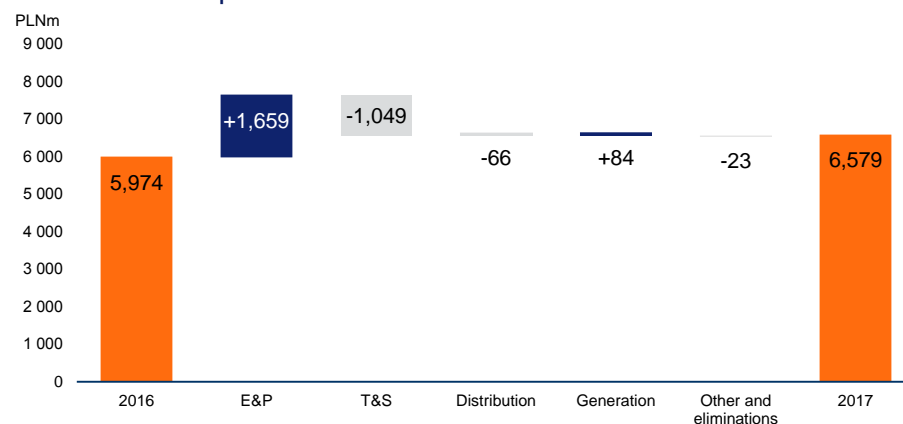
- > Gas distribution volume up 7% y/y
- > In 2017, employee benefit expense increased (PLN 1,149m in 2017 vs PLN 995m in 2016) on higher headcount and new bonus scheme adopted by PSG in 2017.

Generation

- > In 2017, sales volumes of heat and electricity from own generation sources were up 6% and 8%, respectively.

[PLNm]	2016	2017	Δ%
Revenue	33,196	35,857	8%
Operating expenses (excl. D&A)	-27,222	-29,278	8%
EBITDA	5,974	6,579	10%
<i>EBITDA (net of impairment losses on property, plant and equipment)</i>	<i>6,810</i>	<i>7,012</i>	3%
Depreciation and amortisation	-2,614	-2,669	2%
EBIT	3,360	3,910	16%
Net finance income/(costs)	-76	-16	-79%
Net profit	2,349	2,921	24%

> PGNiG Group's EBITDA in 2016 vs 2017*

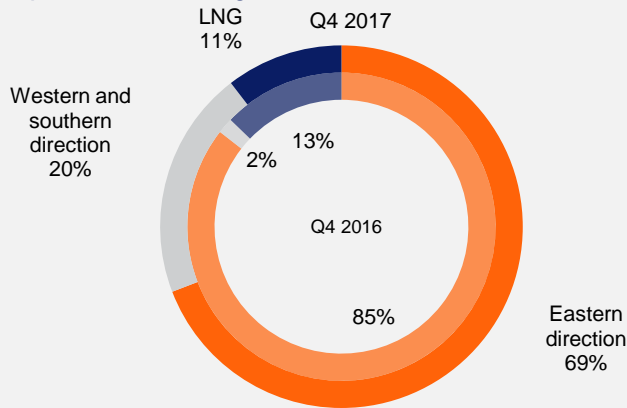


* Eliminations in 2017: PLN -25m vs PLN 22m in 2016



Gas sales and imports structure

Imports of natural gas to Poland



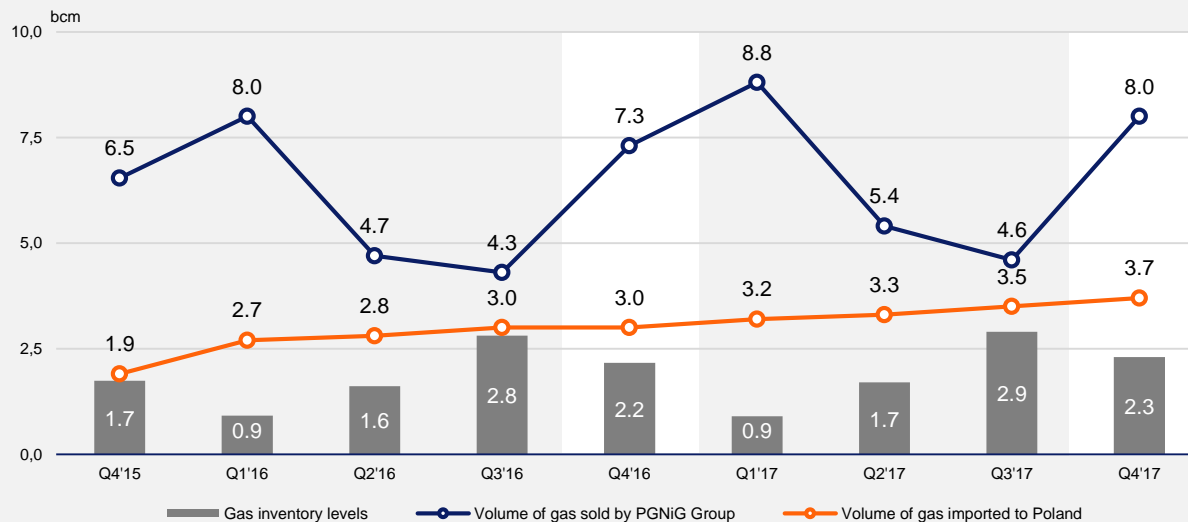
Gas sales outside the PGNiG Group by company

[mcm]	Q4 2016	Q4 2017	Δ%
PGNiG Group:	7,338	8,022	9%
<i>PGNiG SA</i>	4,474	5,212	16%
<i>PGNiG OD</i>	2,302	2,207	-4%
<i>PST</i>	561	603	7%

> A marked increase in the share of sources west of Poland in Q4 2017 gas imports.

> PGNiG Group gas sales volumes up 0.7 bcm y/y in Q4 2017. Strong increase in sales to industrial customers, mainly: refineries and petrochemical plants, power and heat plants, and nitrogen processing plants

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

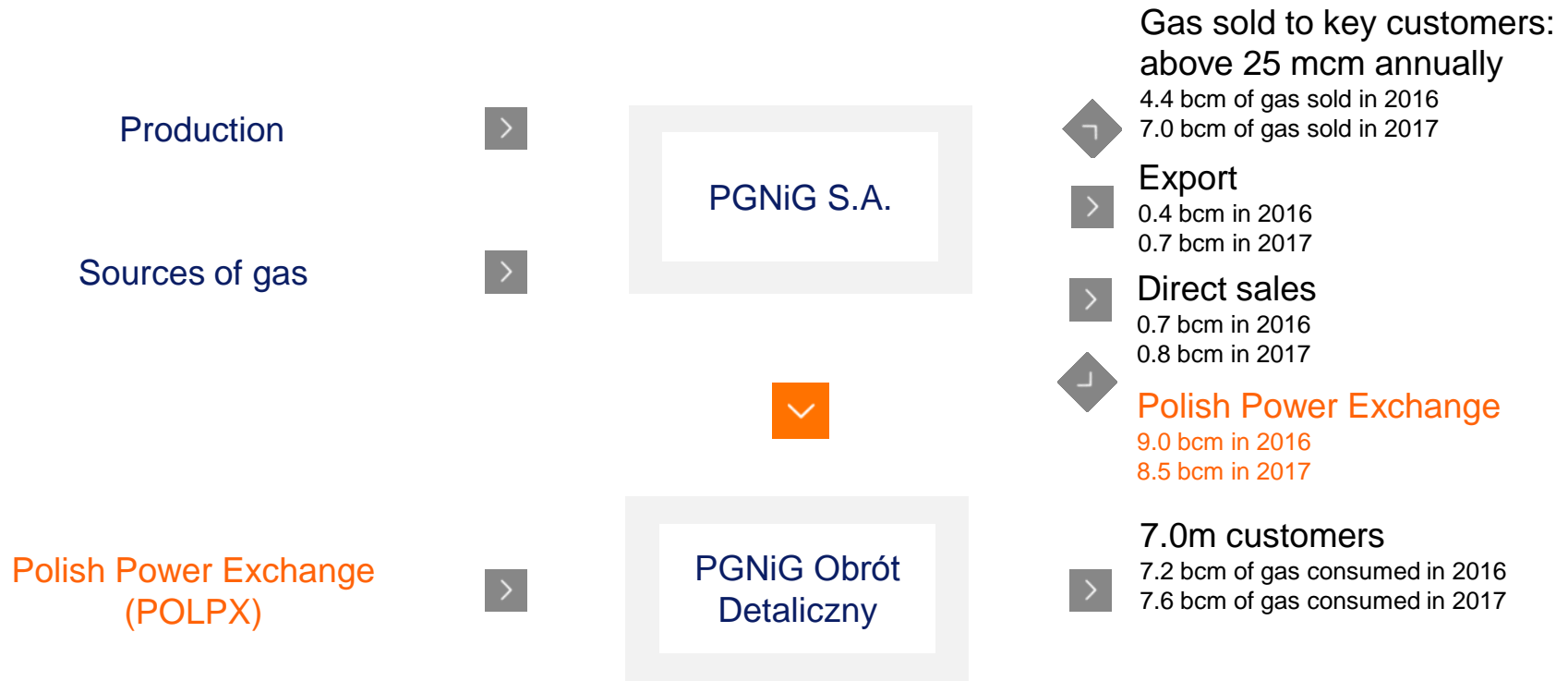


Comments:

> LNG terminal stocks: 80 mcm (as at December 31st 2017)



Gas trading and retail sales



Sales made on POLPX by PGNiG SA and purchases made on POLPX 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.

Operating expenses in Q4 2017 vs Q4 2016

[PLNm]	Q4 2016	Q4 2017	Δ%
Cost of gas sold	-5,447	-6,512	20%
Fuels for heat and power generation	-259	-252	-3%
Other raw materials and consumables used	-504	-630	25%
Employee benefits expense	-778	-794	2%
Transmission services	-332	-304	-8%
Other services	-488	-551	13%
<i>LNG regasification services</i>	-83	-86	4%
Taxes and charges	-132	-123	-7%
Other net income and expenses*	-484	-64	-87%
<i>Change in inventory write-downs</i>	3	-34	-12x
<i>Change in provisions</i>	-70	19	127%
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	-359	-797	122%
<i>Cost of dry wells and seismic surveys written-off</i>	-236	-249	6%
<i>Impairment losses on property, plant and equipment</i>	-123	-548	346%
Work performed by the entity and capitalised	342	385	13%
Depreciation and amortisation	-658	-673	2%
Total operating expenses	-9,099	-10,315	13%
<i>Operating expenses net of cost of gas sold</i>	-3,652	-3,803	4%

Comments:

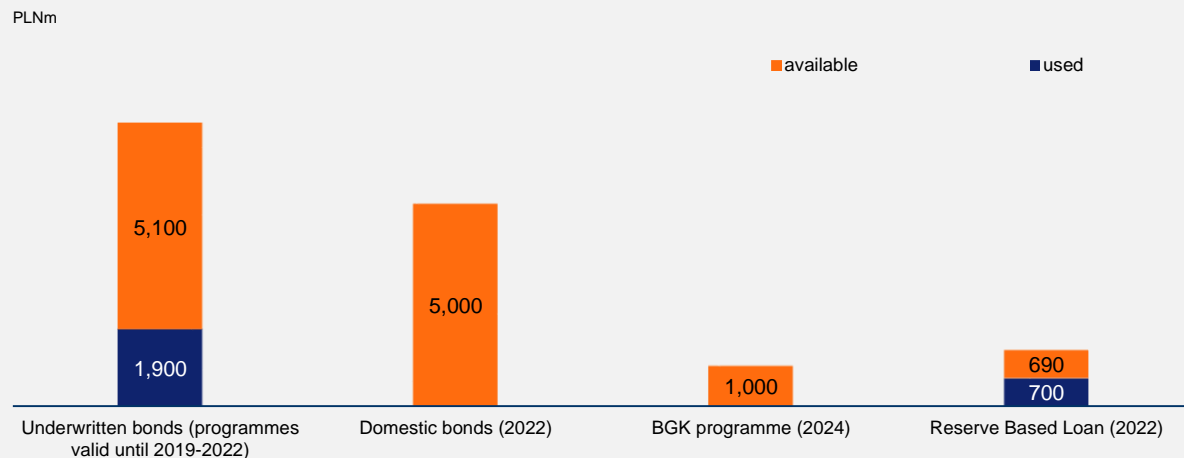
- > PLN 1.1bn (+20%) y/y increase in the cost of gas sold.
- > Higher other income and expenses y/y (Q4 2017: PLN -64m vs Q4 2016: PLN -484m), driven by factors such as higher gains on realised derivatives related to operating activities (up by PLN 120m y/y to PLN 72m in Q4 2017) and positive changes in the balance of provisions y/y by PLN 89m to the level of PLN 19m.
- > Higher other operating expenses in Q4 2016, driven by one-off items: reversal of PLN 73m gain from the bargain purchase of SEJ and reclassification of the Powiśle Park building to finance leases (impact on the cost of PLN -126m).
- > Higher other operating income in Q4 2017 as a result of market valuation of the underlift position in Norway - impact on the result of PLN +65m.
- > Cost of electricity for trading up PLN 141m (PLN 487m in Q4 2017), led by increased electricity trading volumes (up 18% y/y). Electricity sales volume at PST up by 153% to 873 GWh y/y.
- > Increase in dry wells written off by PLN 61m y/y to PLN 152m. Seven dry wells written off in Q4 2017 vs two wells written off in Q4 2016.
- > Higher impairment losses on property, plant and equipment, mainly on account of an impairment loss on power generating assets at Wierzychowice (PLN -364m).
- > Cost of gas price hedging transactions at PLN -13m in Q4 2017 vs PLN -28m in Q3 2017.



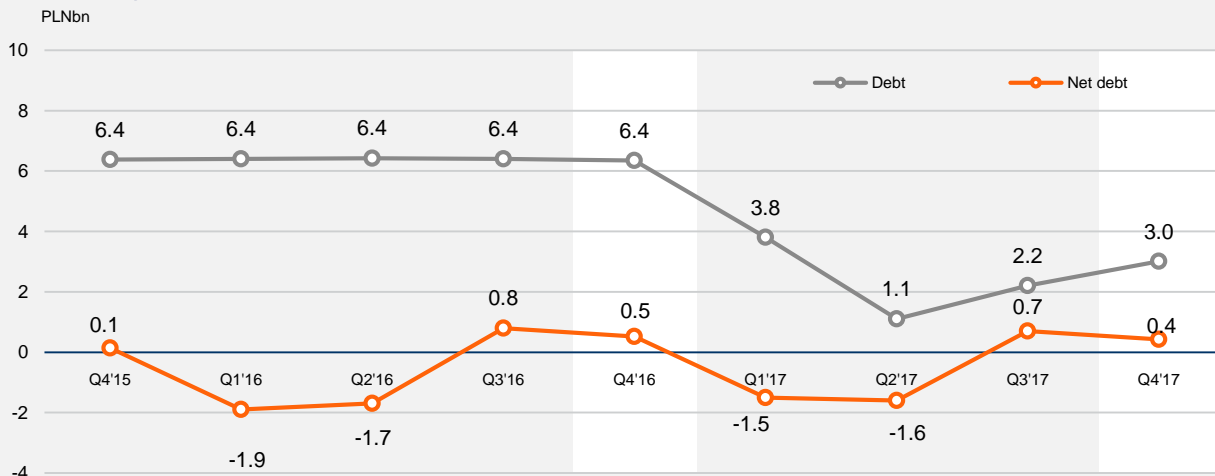
* Other expenses shown above do not include taxes and charges, or impairment losses on property, plant and equipment and intangible assets

Debt and sources of funding

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



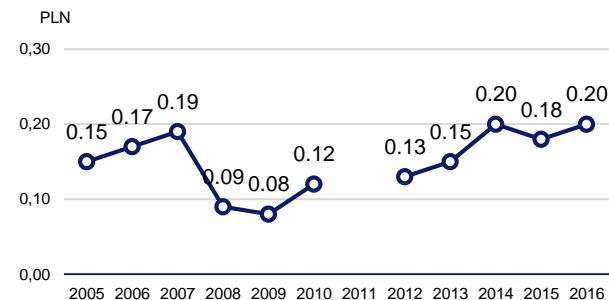
> Debt at quarter end



Comments:

- > On December 21st 2017, due to a mismatch between the investment programme and the bond programme, PGNiG TERMIKA S.A. entered into agreements terminating the PLN 1,500m bond programme established on July 4th 2012, as a result of which the total value of guaranteed bonds reached PLN 7bn.
- > On December 21st 2017, PGNiG S.A. signed a PLN 5bn bond programme agreement, with ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., Bank Handlowy w Warszawie S.A. and Bank BGŻ BNP Paribas S.A. as arrangers.

> Dividend per share

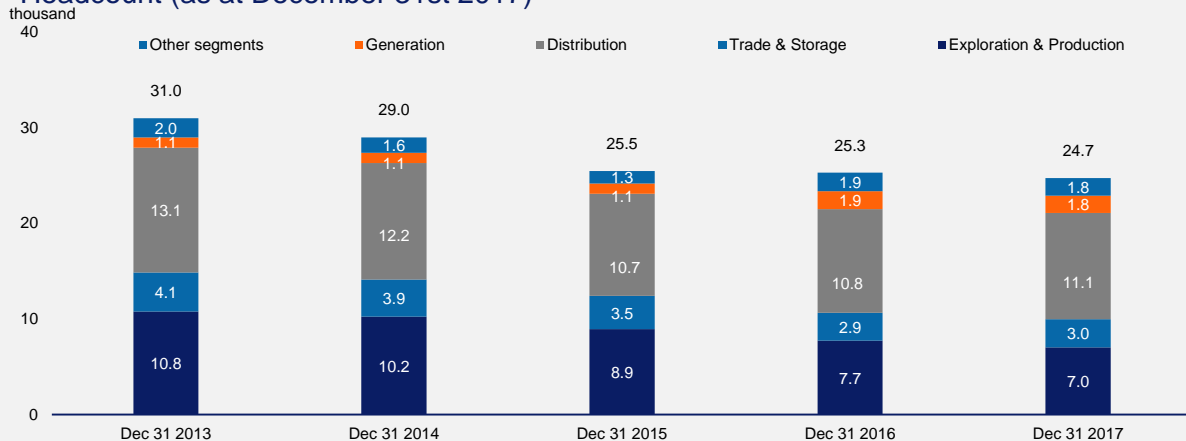


- > Strategic objective: up to 50% of consolidated net profit to be distributed as dividend in 2017-2022 (provided that the financial condition is stable and financing for investment projects is secured).

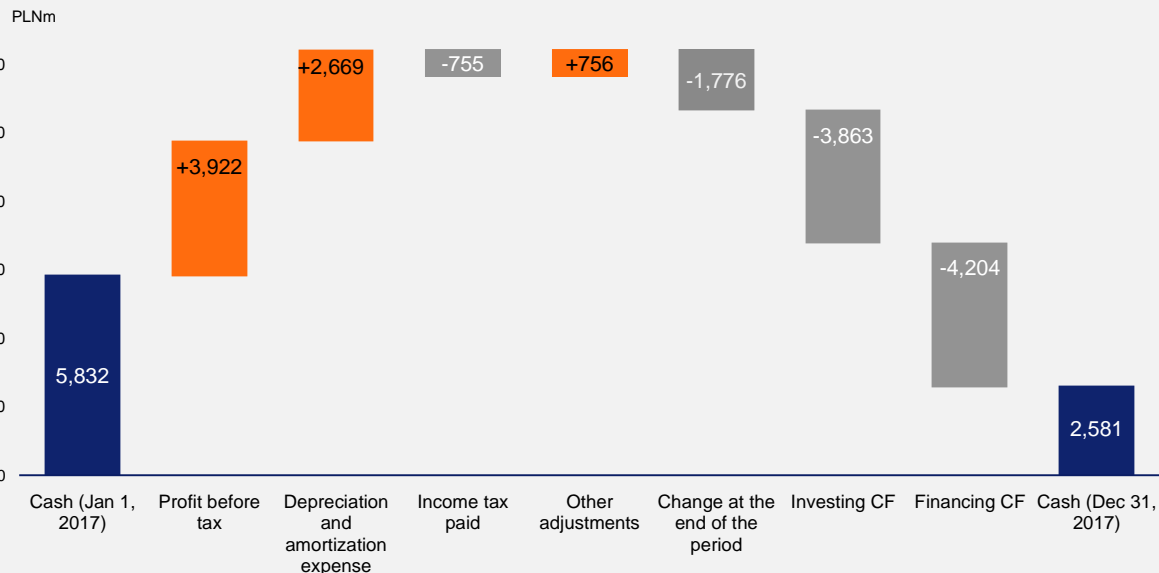


Statement of financial position, statement of cash flows, financial ratios and headcount

> Headcount (as at December 31st 2017)*

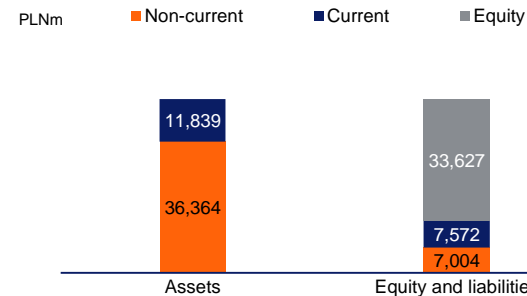


> Consolidated cash flows (Jan 1-Dec 31 2017)

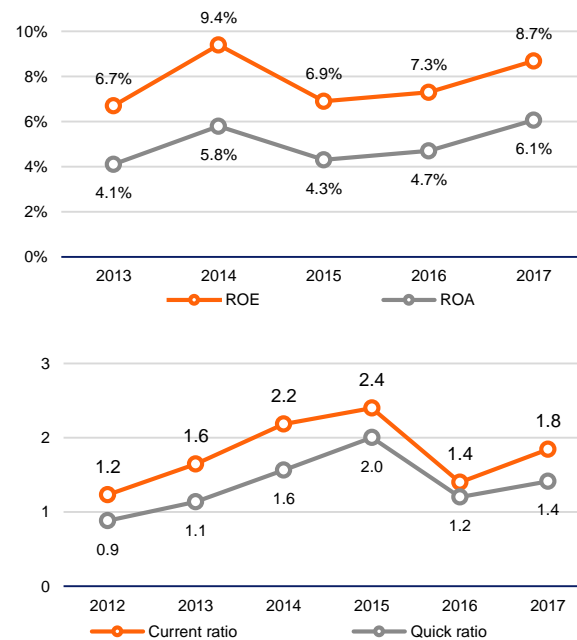


* Changes in the presentation of corporate centre's data, leading to changes in the Trade & Storage and Other segments in 2016.

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



> Profitability and liquidity ratios



Production and sales volumes

NATURAL GAS PRODUCTION BY THE PGNIG GROUP [mcm]

	FY 2017	Q4 2017	Q3 2017	Q2 2017	Q1 2017	FY 2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
HIGH-METHANE GAS (E)	1,863	461	459	469	474	1,919	473	449	487	509	504	515	507	501
<i>including in Poland</i>	1,315	335	325	327	328	1,401	347	346	349	359	366	359	362	367
<i>including in Norway</i>	548	126	134	142	146	518	126	103	138	150	138	156	145	134
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	2,674	731	664	567	712	2,540	692	582	596	670	664	612	602	685
<i>including in Poland</i>	2,524	684	627	533	680	2,481	670	570	584	657	651	601	589	672
<i>including in Pakistan</i>	150	47	37	34	32	59	22	12	12	13	13	12	13	13
TOTAL (measured as E equivalent)	4,537	1,192	1,123	1,036	1,186	4,458	1,165	1,031	1,083	1,179	1,168	1,128	1,109	1,186

NATURAL GAS SALES at PGNiG Group [mcm]

HIGH-METHANE GAS (E)	25,291	7,603	4,298	5,079	8,311	22,895	6,921	4,004	4,410	7,560	6,184	3,662	4,497	7,311
<i>including PST sales outside PGNiG Group</i>	2,186	603	452	482	649	2,510	561	614	571	764	648	639	502	522
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	1,496	419	296	312	469	1,371	417	244	298	412	355	261	285	395
TOTAL (measured as E equivalent)	26,787	8,022	4,594	5,391	8,780	24,266	7,338	4,248	4,708	7,972	6,539	3,922	4,782	7,705
<i>including sales directly from the fields</i>	796	226	182	161	227	718	209	129	172	208	184	155	161	196

NATURAL GAS IMPORTS by PGNiG SA [mcm]

Total	13,714	3,673	3,488	3,334	3,219	11,527	2,968	3,020	2,837	2,702	1,863	2,398	2,495	2,574
<i>including: sources east of Poland</i>	9,656	2,540	1,889	2,518	2,709	10,248	2,539	2,429	2,623	2,657	1,774	2,329	2,219	1,833
<i>including: LNG</i>	1,715	383	470	475	387	974	380	384	210	-	-	-	-	-

CRUDE OIL, PGNiG Group (thousand tonnes)

Production of crude oil and condensate	1,257	329	313	269	346	1,318	344	298	328	348	358	367	317	386
<i>including in Poland</i>	787	220	203	148	216	763	207	177	176	203	207	204	147	207
<i>including in Norway</i>	470	109	110	121	130	555	137	121	152	145	151	163	170	180
Sales of crude oil and condensate	1,270	313	251	316	390	1,346	325	287	336	398	315	356	372	348
<i>including in Poland</i>	791	222	190	161	218	753	198	179	171	205	211	196	148	217
<i>including in Norway</i>	479	91	61	155	172	593	127	108	165	193	104	160	224	131

GENERATION

Production of heat, net (sales) (TJ)	42,067	14,195	3,471	6,732	17,669	39,527	15,079	2,945	5,351	16,152	12,643	2,701	5,810	15,055
Production of electricity, net, secondary generation (for sale) (GWh)	3,882	1,280	407	737	1,458	3,604	1,204	418	592	1,390	1,136	328	674	1,349