Polskie Górnictwo Naftowe i Gazownictwo SA

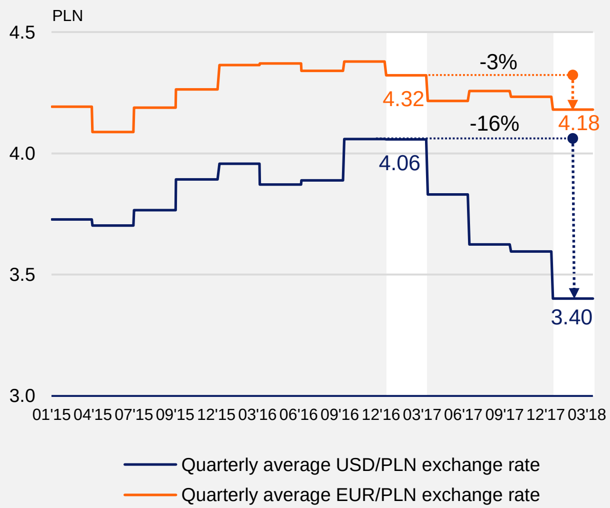
PGNiG Group

Q1 2018 Results

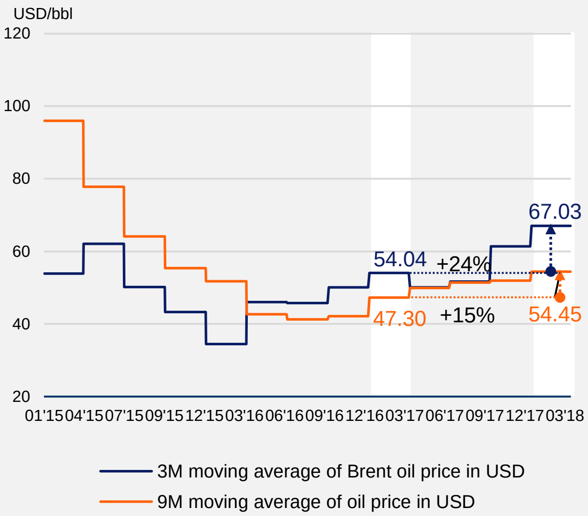
May 23rd 2018

Performance drivers

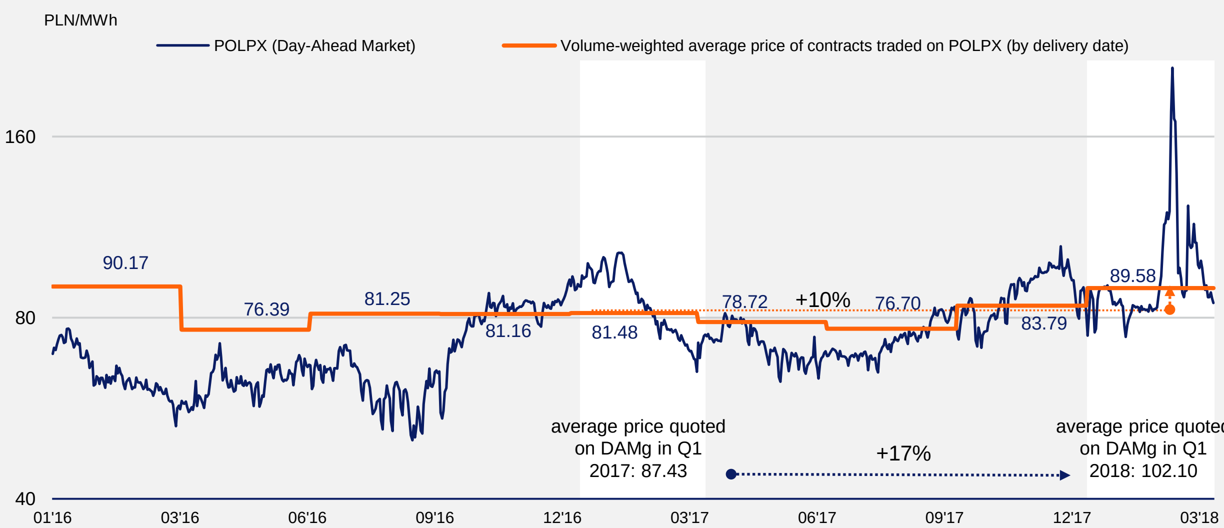
PLN strengthening yoy against both EUR and USD



9-month average crude oil price up 15% yoy in Q1 2018



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



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

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.

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Changes in the presentation of services under IFRS 15

Effect of the implementation of IFRS 15 on the consolidated statement of profit or loss

2017 consolidated statement of profit and loss (PLNm)	Q1 2017 before restatement	effect	Q1 2017 after restatement
Revenue, including:	11,652	-37	11,615
Revenue from sales of gas	9,468	-1,234	8,234
Other revenue	2,184	1,197	3,381
Operating expenses (excl. D&A), including:	-8,883	37	-8,846
Transmission services	-294	34	-260
Other services	-361	3	-358

2018 consolidated statement of profit and loss (PLNm)	Q1 2018 before restatement	effect	Q1 2018 after restatement
Revenue, including:	13,297	-50	13,247
Revenue from sales of gas	10,853	-1,291	9,562
Other revenue	2,444	1,241	3,685
Operating expenses (excl. D&A), including:	-10,623	50	-10,573
Transmission services	-311	42	-269
Other services	-400	8	-392

- The Group has applied the requirements of new IFRS 9 and IFRS 15 with the use of a modified retrospective approach, effective as of January 1st 2018 and, as prescribed by IFRS, did not restate the comparative period data in the interim report.
- To facilitate the interpretation of financial results, this slide provides a simplified overview of the impact of IFRS 15 on the presentation of the Q1 2017 and Q1 2018 figures.
- **The next slides compare Q1 2018 with Q1 2017 restated according to IFRS 15.**

IFRS 9 *Financial Instruments*

- changes to the rules for classification and measurement of financial assets,
- introduction of a new model for determining expected credit losses and
- changes in hedge accounting requirements.

IFRS 15 *Revenue from Contracts with Customers*

- Group companies which identified their role with respect to specific goods or services as that of an agent changed the manner of presentation of relevant revenue and expenses. Revenue is recognised in the amount of net consideration.
- In respect of gas transmission and electricity distribution services, the Group has no control over the main features or price of such services, acting solely as an agent. Revenue from sales of gas distribution services is recognised in an amount equal to the full value of such services provided to customers from outside the PGNiG Group.

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Effects of presentation changes under IFRS 15 – segments

Without presentation changes under IFRS 15	Q1 2017	Q1 2018
Trade and Storage		
Revenue	9,932	11,506
Operating expenses (excl. D&A)	-9,574	-11,327
Distribution		
Revenue	1,469	1,551
Sales to external customers	260	294
Inter-segment sales	1,209	1,257
Operating expenses (excl. D&A)	-777	-788

Effect of IFRS 15		
Trade and Storage		
Revenue	-1,235	-1,297
Operating expenses (excl. D&A)	1,235	1,297
Distribution		
Revenue	0	0
Sales to external customers	1,198	1,247
Inter-segment sales	-1,198	-1,247
Operating expenses (excl. D&A)	0	0

New manner of presentation	Q1 2017	Q1 2018
Trade and Storage		
Revenue	8,697	10,209
Operating expenses (excl. D&A)	-8,339	-10,030
Distribution		
Revenue	1,469	1,551
Sales to external customers	1,458	1,541
Inter-segment sales	11	10
Operating expenses (excl. D&A)	-777	-788

- The Trade and Storage segment acts as a agent with respect to gas distribution, gas transmission and electricity distribution services. Therefore, revenue and expenses are recognised in net amounts.
- In the Distribution segment, the presentation change consists in the recognition of revenue from sales of distribution services provided to customers from outside the PGNiG Group as sales to external customers.
- The next slides compare Q1 2018 according to the new standards with Q1 2017 restated according to IFRS 15.

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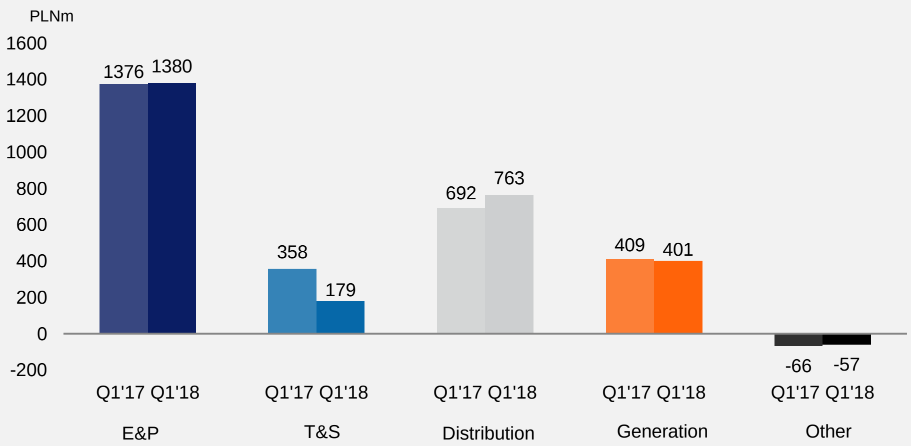
Financial highlights Q1 2018

Group's EBITDA by segment in Q1 2017 vs Q1 2018



Exploration and Production

- Revenue from gas sales up by PLN 107m yoy (+10%).
- Cost of dry wells written off in Q1 2018 at PLN -244m, compared with PLN -17m in Q1 2017.
- Reversal of impairment losses on non-current assets in Q1 2018 at PLN +241m, against PLN +5m in Q1 2017.

Trade and Storage

- Revenue from gas sales up 16%, led mainly by a 13% rise in volumes yoy.
- PLN +25m in reversals of gas inventory write-downs recognised in Q1 2018 (mark-to-market valuation of gas at the LNG terminal). In Q1 2017 gas inventory write-downs increased by PLN -35m.

Distribution

- Gas distribution volume 7% higher yoy in Q1 2018, with revenue from distribution services up 5% yoy.

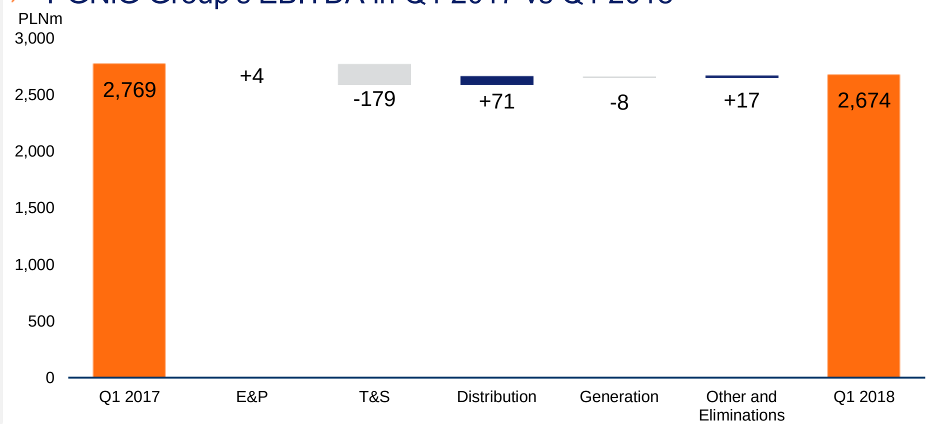
Generation

- Sales volumes of electricity (from own sources) and heat up 6% and 5% yoy, respectively.

[PLNm]	Q1 2017	Q1 2018	Δ%
Revenue	11,615*	**13,247**	14%
Operating expenses (excl. D&A)	-8,846*	**-10,573**	20%
EBITDA	2,769	**2,674**	-3%
Depreciation and amortisation	-695	**-669**	-4%
EBIT	2,074	**2,005**	-3%
Net finance income/(costs)	19	**40**	106%
Net profit	1,599	**1,566**	-2%

*Data restated to ensure comparability following the adoption of amended IFRS 15.

PGNiG Group's EBITDA in Q1 2017 vs Q1 2018**

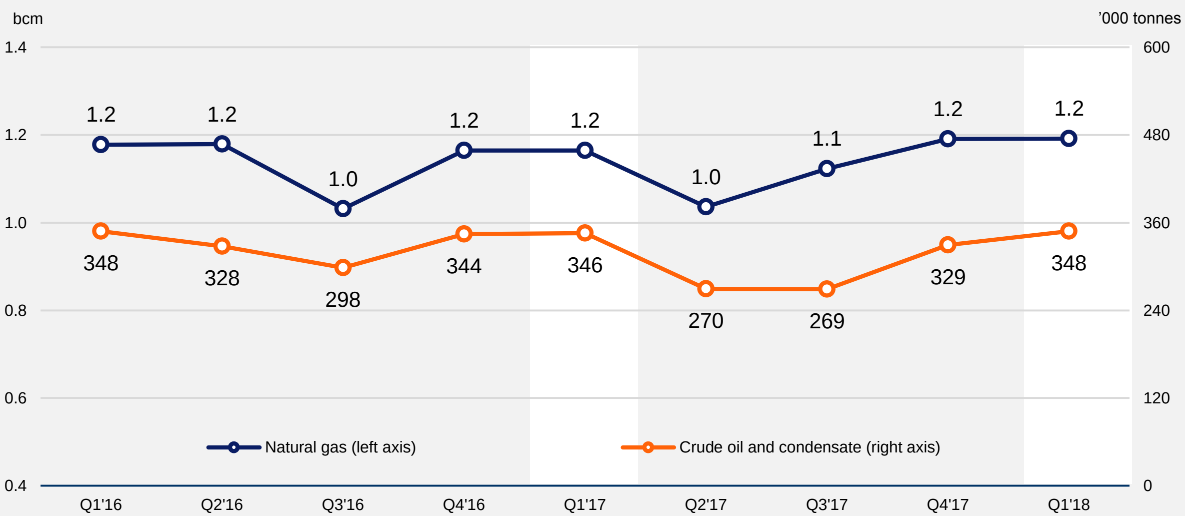


**Eliminations in Q1 2018: PLN +8m, Q1 2017: PLN 0m

Segments – Exploration and Production

[PLNm]	Q1 2017	Q1 2018	Δ%
Revenue	1,851	**1,979**	7%
Operating expenses (excl. D&A)	-475	**-599**	26%
Cost of dry wells	*-17*	***-244***	13x
Impairment losses on non-current assets	*5*	***241***	47x
EBITDA	1,376	**1,380**	0%
Depreciation and amortisation	-292	**-252**	-14%
EBIT	1,084	**1,128**	4%

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



› Revenue growth driven by higher prices of oil and gas yoy and an increase in the volumes of oil and gas sold during the quarter.

Comments:

- Revenue from sales of crude oil and condensate up PLN 85m yoy on a 4% rise in the average oil price in PLN for the quarter and a 10% yoy increase in sales volumes, to 429 ths tonnes.
- PLN 107m (+10%) yoy increase in revenue from gas sales recorded by the segment, driven by higher sales volumes (up 19 mcm, or 2% yoy) and higher gas prices.
- Cost of dry wells written off: PLN -244m in Q1 2018 vs PLN -17m in Q1 2017.
- Reversal of impairment losses on non-current assets: PLN +241m in Q1 2018 vs PLN +5m in Q1 2017.
- Overlift position at the end of Q1 2018: PLN 43 ths (crude oil, NGL, and natural gas), at market value PLN -139m. Application of the new valuation method of over-/underlift position would impact on E&P result in Q1 2017 at PLN -64m.

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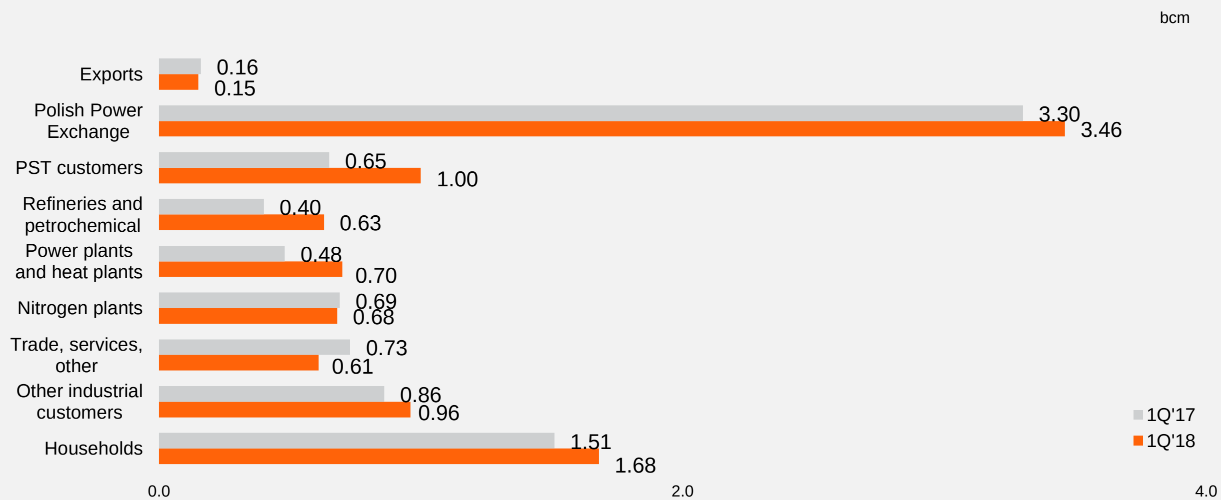
Trade and Storage

[PLNm]	Q1 2017	Q1 2018	Δ%
Revenue	8,697*	**10,209**	17%
Operating expenses (excl. D&A)	-8,339*	**-10,030**	20%
EBITDA	358	**179**	-50%
Depreciation and amortisation	-50	**-46**	-8%
EBIT	308	**133**	-57%

PGNiG Group** – gas sales volumes by customer group



Revenue growth driven by increased volumes. Higher costs of gas.

Comments:

- Gas sales revenue (including impact of gas sales hedging transactions: PLN -173m) up PLN 1,347m yoy (to PLN 9.5bn in Q1 2018), reflecting higher volumes and higher average selling prices of gas.
- Higher volume of sales to the largest industrial customers and via the Polish Power Exchange. Significant increase in gas sales by PST.
- Higher cost of gas in the segment due to rising prices of crude oil and natural gas.
- Gas imports to Poland up yoy (3.84 bcm in Q1 2018 vs 3.22 bcm in Q1 2017), with higher imports from countries east of Poland and LNG imports.
- Sales of electricity contributing PLN 595m to Q1 2018 revenue, up PLN 113m (+23% yoy). Simultaneous increase in cost of electricity for trading, up PLN 136m. Increase in electricity for trading volumes, especially abroad (double growth yoy).
- Reversal of gas inventory write-down in Q1 2018: PLN 25m, Q1 2017: write-down increase of PLN 35m.
- Recognition of a provision for energy efficiency buy-out price: PLN -41m in Q1 2018 vs PLN -81m in Q1 2017.

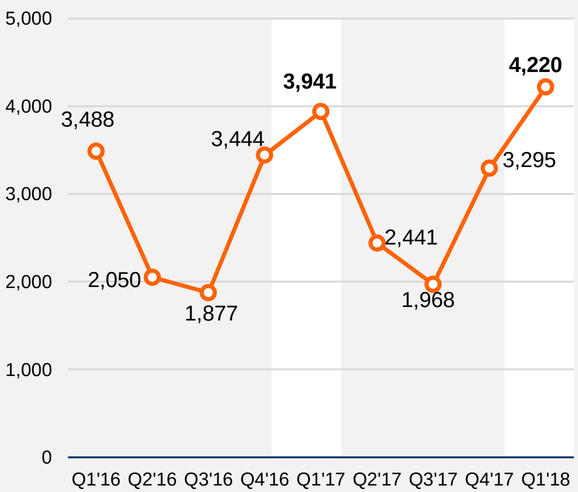
*Data restated to ensure comparability following the adoption of amended IFRS 15.
**Total volumes of gas sold by E&P and T&S segments to external customers.
Volumes of gas sales to: refineries and petrochemical plants, power and heat plants and nitrogen processing plants have been restated.

Segments – Distribution

[PLNm]	Q1 2017	Q1 2018	Δ%
Revenue	1,469	**1,551**	6%
Operating expenses (excl. D&A)*	-777	**-788**	1%
EBITDA	692	**763**	10%
Depreciation and amortisation	-231	**-226**	-2%
EBIT	461	**537**	16%

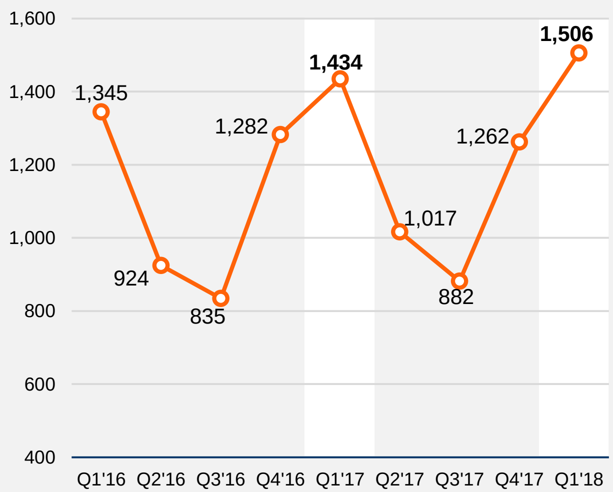
Gas distribution volume

mcm



Revenue from distribution services

PLNm



- Segment's performance driven by higher gas distribution volumes.

Comments:

- Volume of distributed gas up 7% yoy, to 4.22 bcm (due mainly to air temperatures).
- Revenue from distribution services up PLN 71m (or 5%) yoy.
- Net income/cost of system balancing: PLN -177m in Q1 2018, compared with PLN -218m in Q1 2017.
- Employee benefits expense up PLN 14m, as a result of headcount growth in the segment.
- Cost of transmission service broadly unchanged at PLN 169m.

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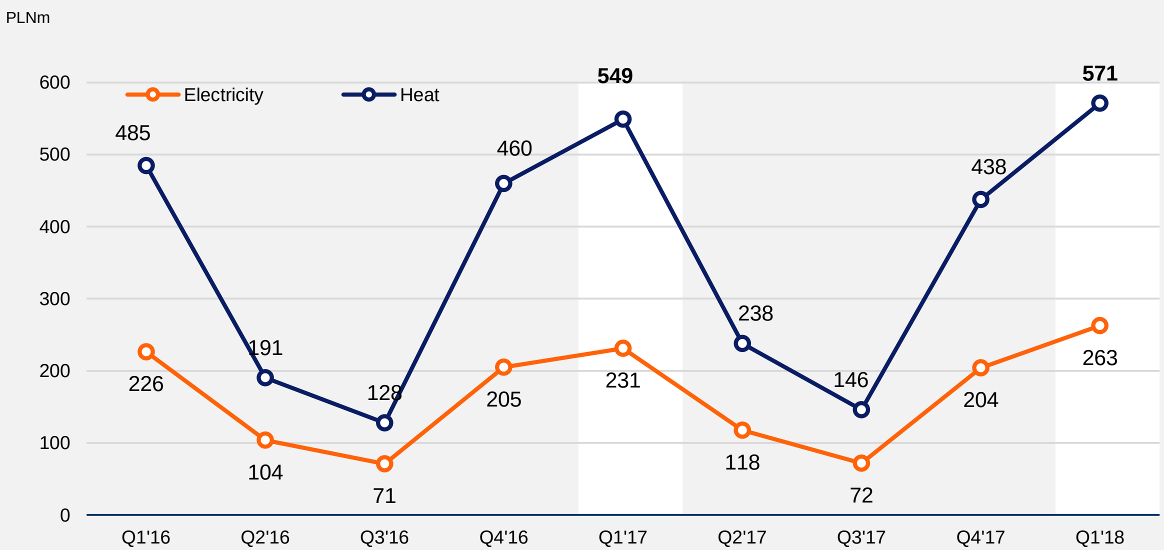
Segments – Generation

[PLNm]	Q1 2017	Q1 2018	Δ%
Revenue	859	**918**	7%
Operating expenses (excl. D&A)	-450	**-517**	15%
EBITDA	409	**401**	-2%
Depreciation and amortisation	-108	**-127**	18%
EBIT	301	**274**	-9%

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



- Key contributors to the segment's performance include air temperatures and higher cost of raw materials.

Comments:

- Revenue from sales of heat up 4% yoy, to PLN 571m, on a 5% increase in volumes.
- Growth of revenue from sales of electricity generated by the segment's own sources (up 14% yoy), to PLN 263m, with sales volumes rising by 6% yoy.
- Cost of coal up by PLN 62m, to PLN -327m in Q1 2018.
- Sales volumes in Q1 2018:
  - Sales of heat to customers outside the PGNiG Group: 19.04 PJ.
  - Electricity from own sources: 1,539 GWh.

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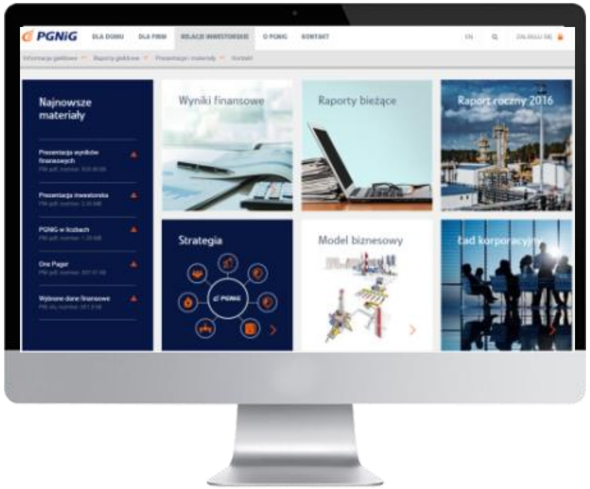
More information



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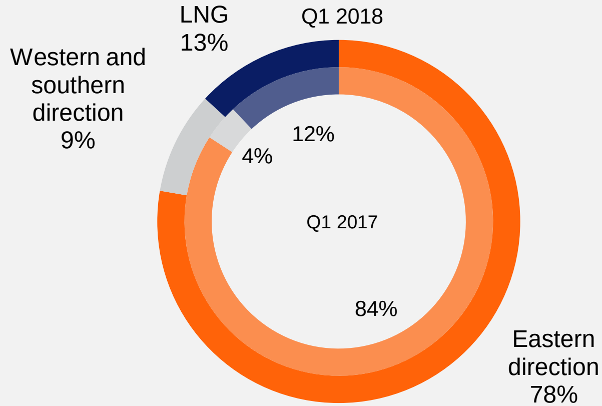
Appendices

- 1. Gas sales and 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

Gas sales and imports structure

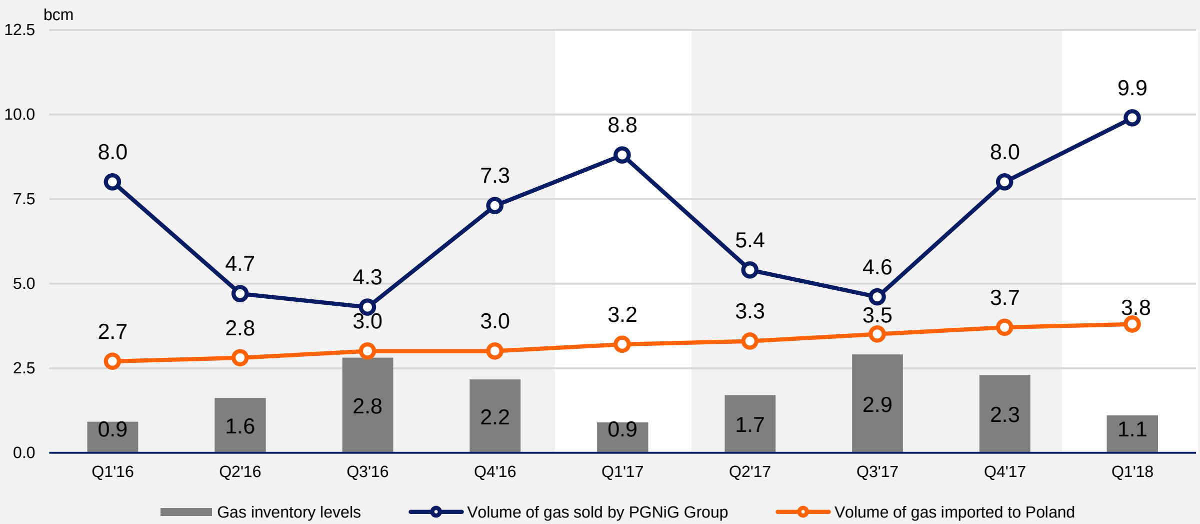
Imports of natural gas to Poland



Gas sales outside the PGNiG Group by company

[mcm]	Q1 2017	Q1 2018	∆%
PGNiG Group:	8,781	**9,905**	+13%
PGNiG SA	*5,387*	***5,944***	*+10%*
PGNiG OD	*2,744*	***2,963***	*+8%*
PST	*649*	***998***	*+54%*

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



- Lower share of sources east of Poland, with an increased role of sources south and west of Poland as well as LNG, in total gas imports in Q1 2018.
- PGNiG Group gas sales volumes up 1.1 bcm yoy in Q1 2018. Higher sales to industrial customers, mainly refineries and petrochemical plants, as well as power and heat producers.

Comments:

- LNG terminal stocks: 96 mcm after regasification (as at March 31st 2018).

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Operating expenses in Q1 2018 vs Q1 2017

[PLNm]	Q1 2017	Q1 2018	Δ%
Cost of gas sold	-6,749	**-8,215**	22%
Fuels for heat and power generation	-293	**-355**	21%
Other raw materials and consumables used	-350	**-438**	25%
Employee benefits expense	-640	**-669**	5%
Transmission services	-260*	**-269**	3%
Other services	-358*	**-392**	9%
LNG regasification services	*-87*	***-89***	*2%*
Taxes and charges	-524	**-557**	6%
Other net income and expenses**	167	**112**	-33%
Change in inventory write-downs	*-19*	***63***	*-4x*
Change in provisions	*-63*	***-92***	*-46%*
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	2	**-4**	3x
Cost of dry wells and seismic surveys written-off	*-17*	***-244***	*14x*
Impairment losses on non-current assets	*20*	***240***	*12x*
Work performed by the entity and capitalised	159	**214**	35%
Depreciation and amortisation	-695	**-669**	-4%
Total operating expenses	-9,541*	**-11,242**	18%
Operating expenses net of cost of gas sold	*-2,792**	***-3,027***	*8%*

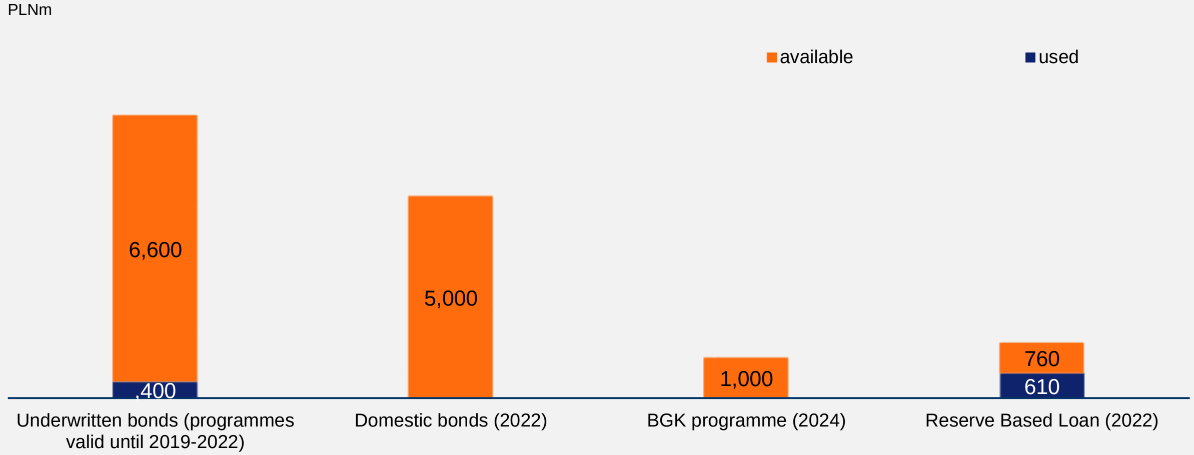
* Data restated to ensure comparability following the adoption of amended IFRS 15.
** Other expenses shown above do not include taxes and charges, or impairment losses on property, plant and equipment and intangible assets.

Comments:

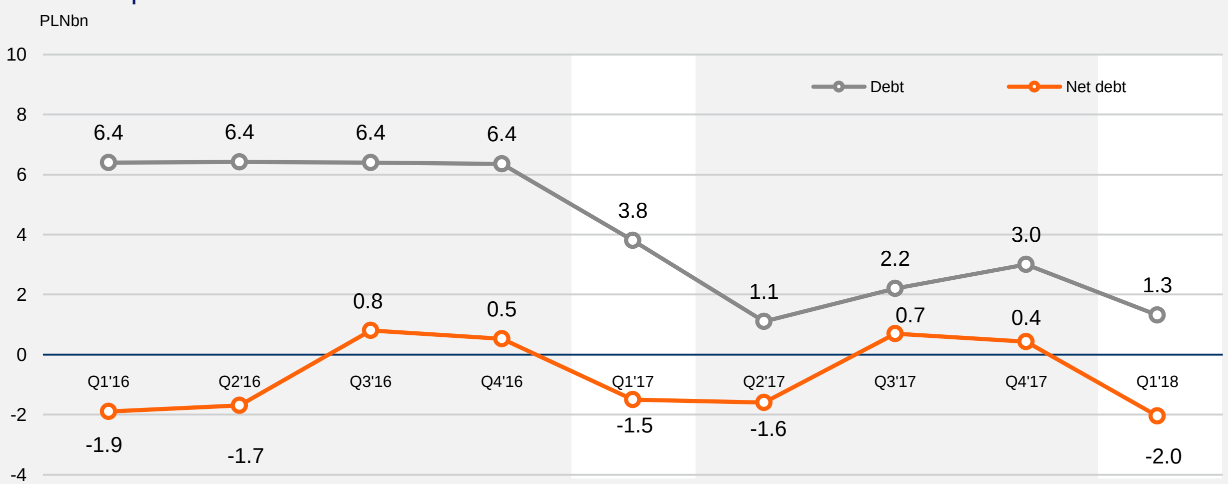
- PLN 1.5bn (or 22%) yoy increase in the cost of gas sold, due to higher prices of oil and gas.
- Higher yoy cost of dry wells (PLN -244m). Seven dry wells written off in Q1 2018 vs three in Q1 2017 (PLN -17m).
- Reversal of impairment loss on non-current assets at PLN 240m. In Q1 2017, reversal was low at PLN 20m.
- Lower depreciation and amortisation yoy (PLN -669m in Q1 2018 vs PLN -695m in Q1 2017), mainly on account of a PLN 40m (or 29%) decrease in depreciation and amortisation charges on Norwegian assets in Q1 2018 vs Q1 2017.
- Decline of other income/expenses in Q1 2018 caused, among other factors, by a reversal of gas inventory write-downs of PLN 25m (vs an increase in write-downs of PLN 35m in Q1 2017) and lower provisions for certificates of origin (Q1 2018: PLN -43m, Q1 2017: PLN -82m).
- Net exchange differences related to operating activities: PLN +52m in Q1 2018 vs PLN -74m in Q1 2017.
- Net loss on derivative instruments charged to other expenses: PLN -43m in Q1 2018, vs net gain of PLN +53m in Q1 2017.
- Cost of transactions hedging gas prices at PLN +4m in Q1 2018 vs PLN +45m in Q1 2017.

Debt and sources of funding

Sources of funding (as at March 31st 2018)



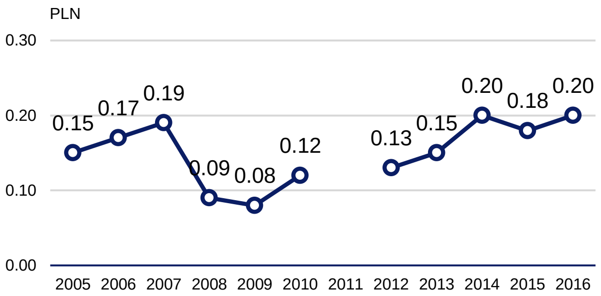
Debt at quarter end



Comments:

- On December 21st 2017, due to a mismatch between its investment programme and the PLN 1.5bn bond programme of July 4th 2012, PGNiG TERMIKA entered into agreements terminating the bond programme. As a result, the total value of guaranteed bonds reached PLN 7bn.
- On December 21st 2017, PGNiG S.A. signed a PLN 5bn bond programme agreement. The issue is organised by: ING Bank Śląski S.A., Bank Polska Kasa Opieki S.A., Bank Handlowy w Warszawie S.A., and Bank BGŻ BNP Paribas S.A.

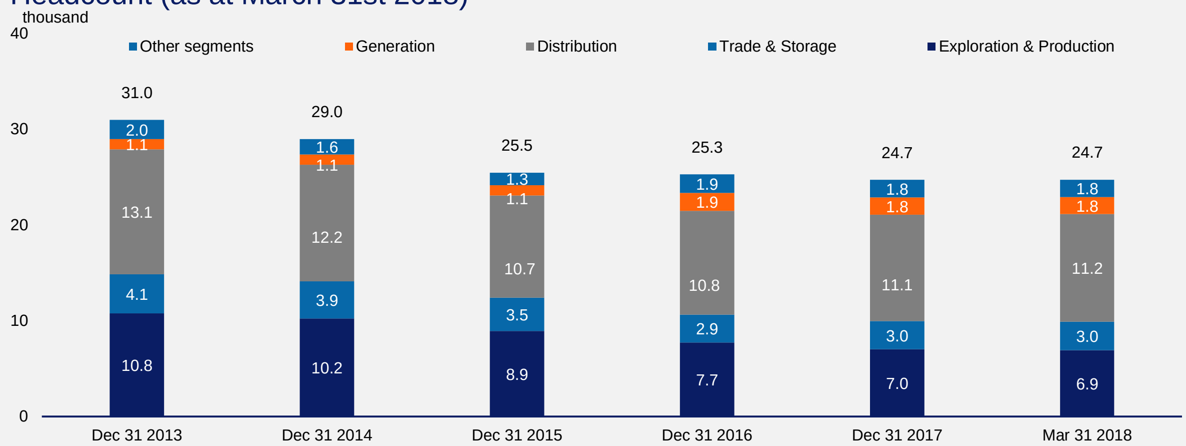
Dividend per share



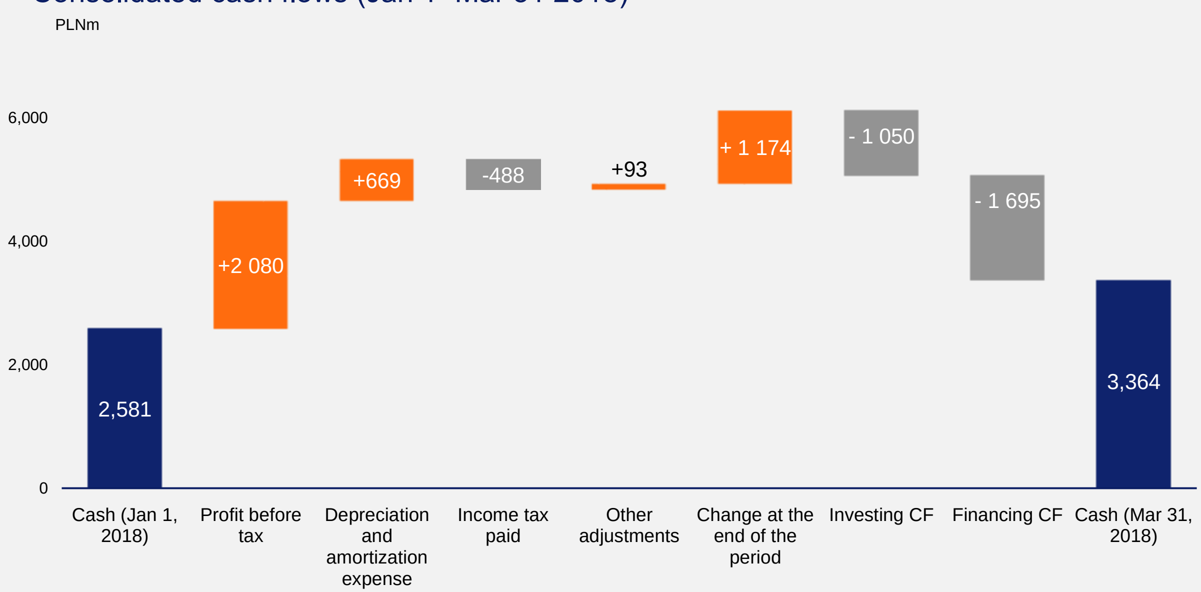
- Strategic objective: up to 50% of consolidated net profit to be distributed as dividend in 2015−2022 (provided that the financial condition is stable and financing for investment projects is secured).

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

Headcount (as at March 31st 2018)*

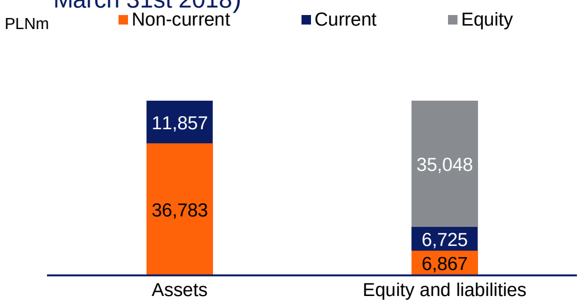


Consolidated cash flows (Jan 1−Mar 31 2018)

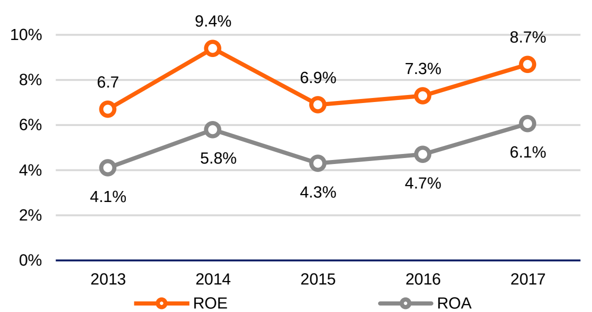


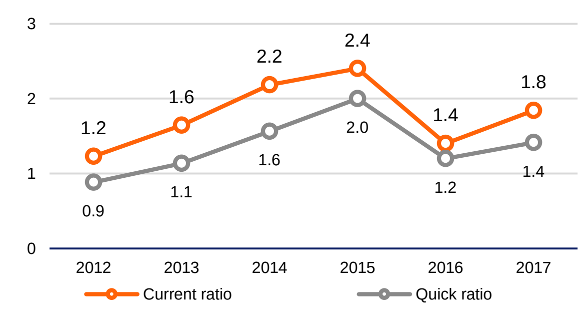
* Changes in the presentation of corporate centre data, leading to changes in the Trade & Storage and Other segments in 2016.

Group's statement of financial position (as at March 31st 2018)



Profitability and liquidity ratios





Production and sales volumes

NATURAL GAS PRODUCTION BY THE PGNIG GROUP [mcm]	Q1 2018	FY 2017	Q4 2017	Q3 2017	Q2 2017	Q1 2017	FY 2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016
HIGH-METHANE GAS (E)	464	1,863	461	459	469	474	1,919	473	449	487	509
including in Poland	*323*	*1,315*	*335*	*325*	*327*	*328*	*1,401*	*347*	*346*	*349*	*359*
including in Norway	*141*	*548*	*126*	*134*	*142*	*146*	*518*	*126*	*103*	*138*	*150*
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	719	2,674	731	664	567	712	2,540	692	582	596	670
including in Poland	*674*	*2,524*	*684*	*627*	*533*	*680*	*2,481*	*670*	*570*	*584*	*657*
including in Pakistan	*45*	*150*	*47*	*37*	*34*	*32*	*59*	*22*	*12*	*12*	*13*
TOTAL (measured as E equivalent)	**1,183**	**4,537**	**1,192**	**1,123**	**1,036**	**1,186**	**4,458**	**1,165**	**1,031**	**1,083**	**1,179**

NATURAL GAS SALES at PGNiG Group [mcm]	Q1 2018	FY 2017	Q4 2017	Q3 2017	Q2 2017	Q1 2017	FY 2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016
HIGH-METHANE GAS (E)	9,414	25,291	7,603	4,298	5,079	8,311	22,895	6,921	4,004	4,410	7,560
including PST sales outside PGNiG Group	*998*	*2,186*	*603*	*452*	*482*	*649*	*2,510*	*561*	*614*	*571*	*764*
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	491	1,496	419	296	312	469	1,371	417	244	298	412
TOTAL (measured as E equivalent)	**9,905**	**26,787**	**8,022**	**4,594**	**5,391**	**8,780**	**24,266**	**7,338**	**4,248**	**4,708**	**7,972**
including sales directly from the fields	*237*	*796*	*226*	*182*	*161*	*227*	*718*	*209*	*129*	*172*	*208*

NATURAL GAS IMPORTS by PGNiG SA [mcm]	Q1 2018	FY 2017	Q4 2017	Q3 2017	Q2 2017	Q1 2017	FY 2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Total	3,837	13,714	3,673	3,488	3,334	3,219	11,527	2,968	3,020	2,837	2,702
including: sources east of Poland	*2,982*	*9,656*	*2,540*	*1,889*	*2,518*	*2,709*	*10,248*	*2,539*	*2,429*	*2,623*	*2,657*
including: LNG	*505*	*1,715*	*383*	*470*	*475*	*387*	*974*	*380*	*384*	*210*	*-*

CRUDE OIL, PGNiG Group (thousand tonnes)	Q1 2018	FY 2017	Q4 2017	Q3 2017	Q2 2017	Q1 2017	FY 2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Production of crude oil and condensate	348	1,257	329	313	269	346	1,318	344	298	328	348
including in Poland	*208*	*787*	*220*	*203*	*148*	*216*	*763*	*207*	*177*	*176*	*203*
including in Norway	*140*	*470*	*109*	*110*	*121*	*130*	*555*	*137*	*121*	*152*	*145*
Sales of crude oil and condensate	429	1,270	313	251	316	390	1,346	325	287	336	398
including in Poland	*210*	*791*	*222*	*190*	*161*	*218*	*753*	*198*	*179*	*171*	*205*
including in Norway	*219*	*479*	*91*	*61*	*155*	*172*	*593*	*127*	*108*	*165*	*193*

GENERATION	Q1 2018	FY 2017	Q4 2017	Q3 2017	Q2 2017	Q1 2017	FY 2016	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Production of heat, net (sales) (TJ)	19,037	42,487	14,195	3,472	6,732	18,088	39,527	15,079	2,945	5,351	16,152
Production of electricity, net, secondary generation (for sale) (GWh)	1,539	3,882	1,280	407	737	1,458	3,604	1,204	418	592	1,390

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