Polskie Górnictwo Naftowe i Gazownictwo S.A.

PGNiG Group’s financial performance in Q2 and H1 2019

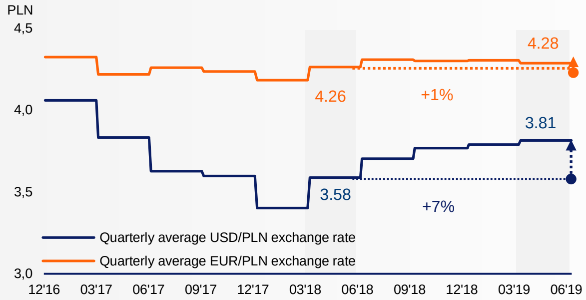
August 22nd 2019

Table of contents

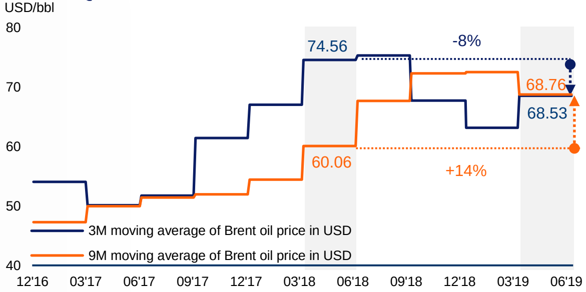
Performance drivers

- Rising cost of gas imported from east of Poland
- Lower product prices, including average quarterly oil prices and gas prices quoted on the POLPX Day-Ahead Market

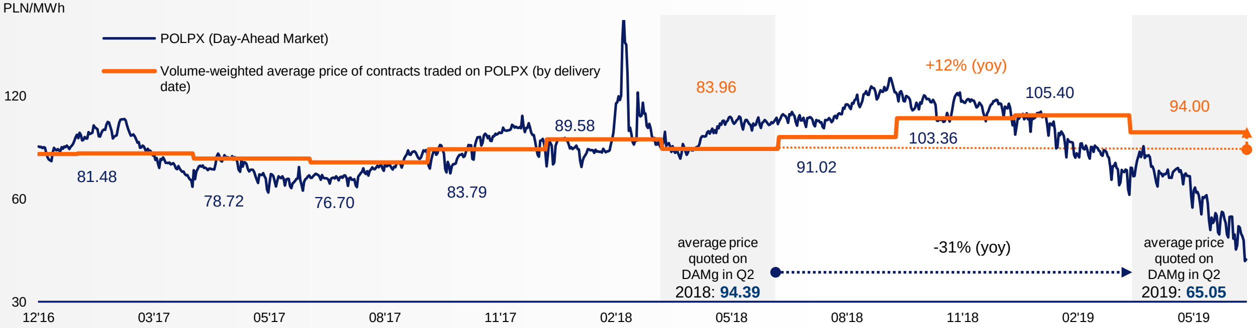
PLN weaker against USD and EUR yoy



9-month average crude oil price up 14% yoy in Q2 2019



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



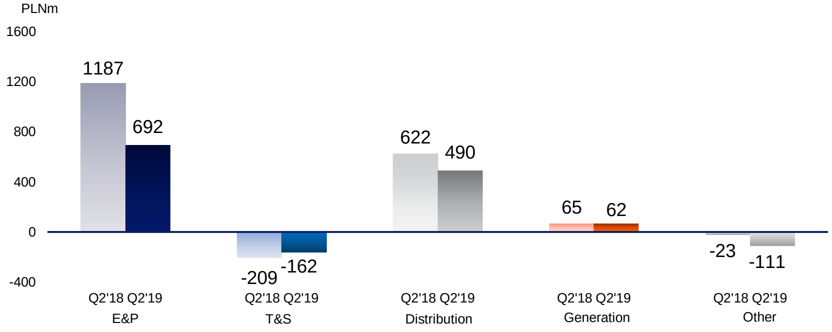
Comments:

- 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 Q2 2019

[PLNm]	Q2 2018	Q2 2019	Δ%
Revenue	7,639	**8,284**	+8%
Operating expenses (excl. D&A)	-6,013	**-7,323**	+22%
EBITDA	1,626	**961**	-41%
EBITDA (net of impairment losses on non-current assets and the provision for CO_2 emission allowances)	*1,555*	***1,244***	*-20%*
Depreciation and amortisation expense	-657	**-669**	+2%
EBIT	969	**292**	-70%
Net finance income/(costs)	11	**16**	+45%
Net profit	704	**248**	-65%

Group's EBITDA by segment in Q2 2019 vs Q2 2018*



*Eliminations in Q2 2018: PLN -15m; Q2 2019: PLN -10m.

Exploration and Production

- Revenue from gas sales down PLN 313m (32%) yoy and revenue from sale of crude and condensate down PLN 76m (13%) yoy.
- Impairment loss on non-current assets: PLN -206m vs PLN +71m in Q2 2018.

Trade and Storage

- Revenue from sale of gas up 15% and cost of gas up 8% yoy, chiefly driven by higher costs of gas imports.
- Exercise of hedging instruments designated for hedge accounting, recognised in profit or loss: PLN +102m (Q2 2018: PLN -102m).
- Effect of a PLN 152m increase in gas inventory write-downs vs a partial gas inventory write-down reversal of PLN +7m in Q2 2018.

Distribution

- Volume of distributed gas up +14% yoy and revenue from distribution services up +5% yoy.
- Net income/cost of system balancing down PLN 45m yoy.

Generation

- Revenue from sale of heat up 28% yoy on lower average temperature in Q2 2019 and a 36% yoy increase in heat sales volumes.
- Revenue from electricity sales up 58% yoy, driven by rising electricity prices.
- A provision for CO_2 emission allowances of PLN -43m was recognised in Q2 2019 and disclosed in net other expenses (change in provisions). Subsequent redemption of acquired CO_2 emission allowances, presented in the amortisation charges, will be accompanied by reversal of the provision.

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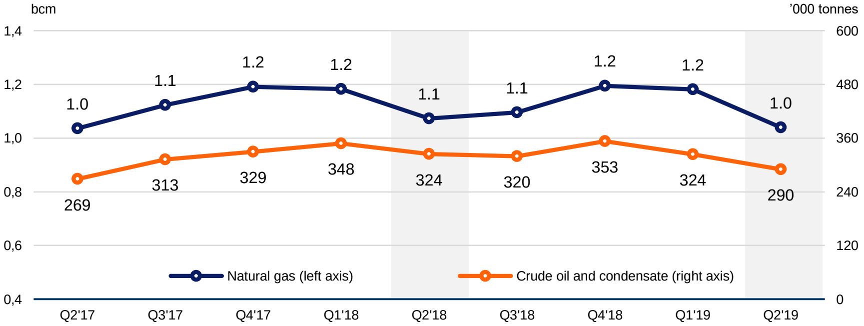
Exploration and Production

Lower revenue due to a yoy decrease in prices of crude oil and natural gas (on the POLPX Day-Ahead Market) and lower oil sales volumes.

[PLNm]	Q2 2018	Q2 2019	Δ%
Revenue	1,681	**1,279**	-24%
Operating expenses (excl. D&A)	-494	**-588**	+19%
Cost of dry wells and seismic surveys written-off	*-132*	***-11***	-92%
Impairment of non-current assets	*+71*	***-206***	-
EBITDA	1,187	**692**	-42%
Depreciation and amortisation expense	-269	**-261**	-3%
EBIT	918	**431**	-53%

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



Comments:

- Revenue from sale of crude oil and condensate down PLN 76m yoy, mainly on a 16% yoy drop in sales volumes in Norway, to 113,000 tonnes, and an 8% decrease in the average oil price in USD for the quarter.
- The segment's revenue from sale of gas down PLN 313m (32%) yoy as a result of a 31% decline in gas prices on the POLPX Day-Ahead Market and a 4% yoy decrease in sales volumes.
- Cost of dry wells and seismic surveys written off: PLN -11m in Q2 2019 vs PLN -132m in Q2 2018.
- Recognition of impairment losses on non-current assets: PLN -206m in Q2 2019 vs reversal of PLN +71m in Q2 2018.
- Underlift position in Norway as at June 30th 2019 – impact on Q2 2019 performance: up by PLN 41m (lower net other expenses). The underlift position reported as at June 30th 2018 contributed PLN 47m to the Q2 2018 performance.

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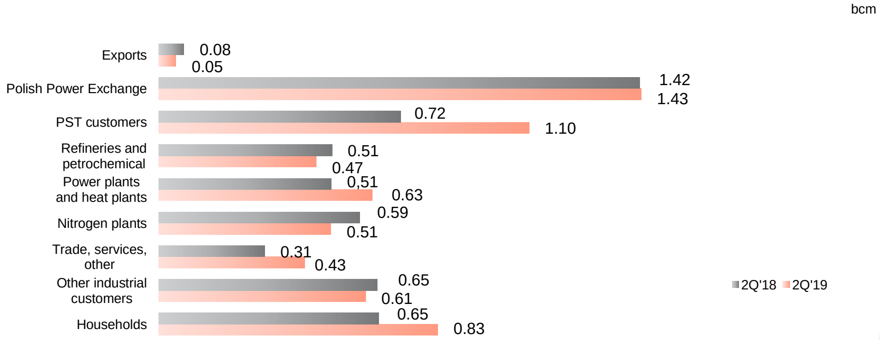
Trade and Storage

Higher gas procurement cost, mainly due to higher 9-month average crude oil prices.

[PLNm]	Q2 2018	Q2 2019	Δ%
Revenue	5,561	**6,184**	+11%
Operating expenses (excl. D&A)	-5,770	**-6,346**	+10%
EBITDA	-209	**-162**	-22%
Depreciation and amortisation expense	-47	**-50**	+6%
EBIT	-256	**-212**	-17%

PGNiG Group* – gas sales volumes by customer group



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

Comments:

- Revenue from sale of gas (including the effect of hedging transactions) up by PLN 0.6bn yoy (to PLN 5.6bn in Q2 2019), with sales volumes to external customers up 12% yoy.
- Gain/loss realised on hedging instruments designated for hedge accounting: PLN +102m in Q2 2019 vs PLN -102m in Q2 2018. Change in capital recognised in inventories (balance-sheet item as at the end of 2019) – impact of PLN -107m (lower gas purchase cost). In Q2 2018, the impact was PLN -32m.
- Yoy decrease in gas imports from east of Poland (Q2 2019: 2.19 bcm vs Q2 2018: 2.60 bcm). Higher imports from west of Poland (+0.41 bcm yoy) and LNG (+0.23 bcm).
- Total revenue from sale of electricity: PLN 537m, up by PLN 71m (+15%) yoy; cost of electricity for trading up by PLN 81m (+18%) yoy.
- Recognition of gas inventory write-downs in Q2 2019: PLN -152m vs partial reversal of gas inventory write-downs in Q2 2018: PLN +7m. Net write-downs at the end of Q2 2019 were PLN 186m.
- Effect of recognition of a provision for energy efficiency buy-out price: PLN -26m in Q2 2019 vs PLN -19m in Q2 2018.

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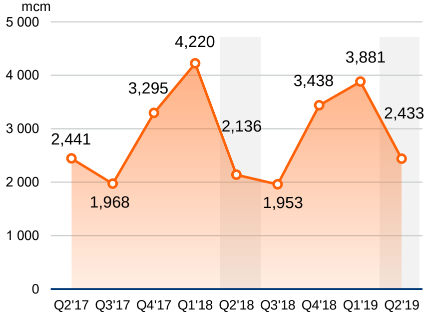
Distribution

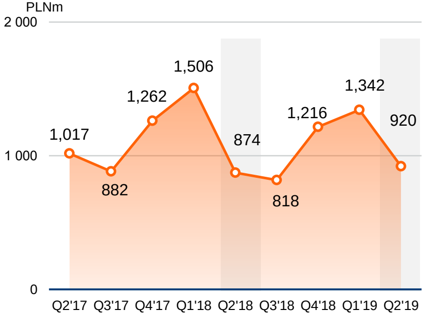
Segment performance driven by lower tariff prices and lower average temperature in the period.

[PLNm]	Q2 2018	Q2 2019	Δ%
Revenue	1,137	**1,084**	-5%
Operating expenses (excl. D&A)	-516	**-593**	+15%
EBITDA	622	**490**	-21%
Depreciation and amortisation expense	-231	**-242**	+5%
EBIT	391	**248**	-37%

Volumes of distributed gas



Revenue from distribution services



Comments:

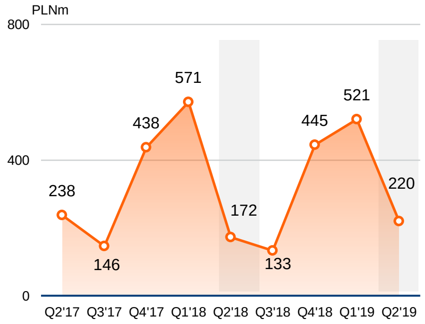
- Gas distribution volumes up 14% yoy to 2.43 bcm, with the average temperature for the quarter down 1.6˚C yoy.
- Revenue from distribution services up by PLN 46m (5%) yoy, despite an approximately 5% reduction in tariff prices from February 15th 2019. Q1 2018 also saw lower tariffs (on March 1st 2018 they were reduced by approximately 7.4% relative to 2017).
- Net income/cost of system balancing: PLN +181m in Q2 2019, compared with PLN +226m in Q2 2018.
- Employee benefits expense up by PLN 98m (+31% yoy), mainly due to a change in additional benefits payable to PSG employees under bonuses and other awards. The additional benefits due to PSG employees will be paid in Q3 2019.

Generation

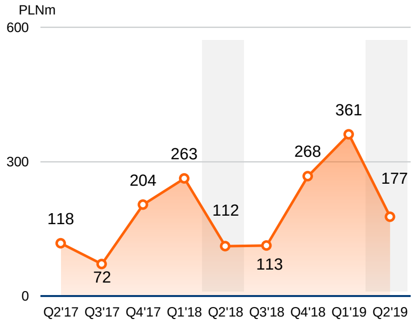
The segment's performance driven by higher electricity sales prices and increased cost of feedstocks as well as higher volumes of heat sold.

[PLNm]	Q2 2018	Q2 2019	Δ%
Revenue	347	**457**	+32%
Operating expenses (excl. D&A)	-281	**-395**	+41%
EBITDA	65	**62**	-5%
EBITDA (net of the provision for CO_2 emission allowances in other expenses)	*65*	***105***	*+62%*
Depreciation and amortisation expense	-94	**-101**	+7%
EBIT	-28	**-38**	+36%

Revenue from sale of heat



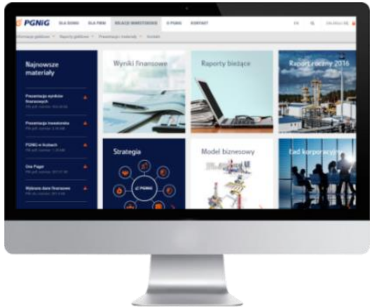
Revenue from sale of electricity from own sources



Comments:

- Revenue from sale of electricity generated from the segment's own sources up 58% yoy, to PLN 177m, with higher market prices and sales volumes up 24% yoy.
- A 28% yoy increase in revenue from sale of heat, to PLN 220m, with sales volumes rising 36% yoy.
- A provision for CO2 emission allowances of -43 million złoty was recognised in Q2 2019 and disclosed in net other expenses (change in provisions). As a result, the segment's operating expenses increased significantly, by +41% cent year on year, while the reported EBITDA fell 5% year on year. To ensure comparability of data – considering that the subsequent redemption of the acquired CO_2 emission allowances, presented in the amortisation charges, will be accompanied by reversal of the provision, EBITDA adjusted for the change in the provision amount would be 105 million złoty.
- Cost of coal up by PLN 43m (to PLN 148m in Q2 2019) on higher unit prices of coal including transport.
- A 7% year-on-year increase in depreciation and amortisation expense following the launch of a new power generating unit at the Zofiówka CHP plant in Q4 2018.
- Sales volumes in Q2 2019:
  - Sales of heat to customers outside the PGNiG Group: 6.04 PJ
  - Electricity from own sources: 0.74 TWh

Contact details



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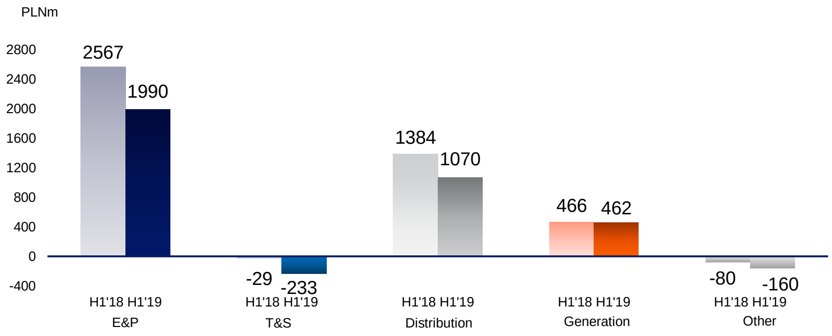
Appendices

- 1. Financial highlights H1 2019
- 2. Gas sales and imports structure
- 2. Operating expenses
- 3. Debt and sources of funding
- 4. CAPEX, statement of financial position, statement of cash flows
- 5. Production and sales volumes

Financial highlights H1 2019

[PLNm]	H1 2018	H1 2019	Δ%
Revenue	20,886	**22,624**	+8%
Operating expenses (excl. D&A)	-16,586	**-19,498**	+18%
EBITDA	4,300	**3,126**	-27%
EBITDA (net of impairment losses on non-current assets and the provision for CO2 emission allowances)	*3,988*	***3,391***	*-15%*
Depreciation and amortisation expense	-1,326	**-1,451**	+9%
EBIT	2,974	**1,675**	-44%
Net finance income/(costs)	51	**31**	+39%
Net profit	2,270	**1,311**	-42%

Group's EBITDA by segment in H1 2019 vs H1 2018*



*Eliminations in H1 2018: PLN -8m; H1 2019: PLN -3m.

Exploration and Production

- Revenue from gas sales down by PLN 373m (17%) yoy and revenue from sale of crude and condensate down by PLN 291m (23%) yoy.
- Impairment loss on non-current assets: PLN -189m vs PLN +311m in H1 2018.

Trade and Storage

- Revenue from sale of gas up +14% yoy and cost of gas up +14% yoy.
- Exercise of hedging instruments designated for hedge accounting, recognised in profit or loss: PLN +280m (H1 2018: PLN -271m).
- Effect of a PLN 115m increase in gas inventory write-downs vs gas inventory write-down reversal of PLN 32m in H1 2018.

Distribution

- Volume of distributed gas down 1% yoy and revenue from distribution services down 5% yoy due to a decline in distribution tariff rate.
- Stable net income/cost of system balancing.

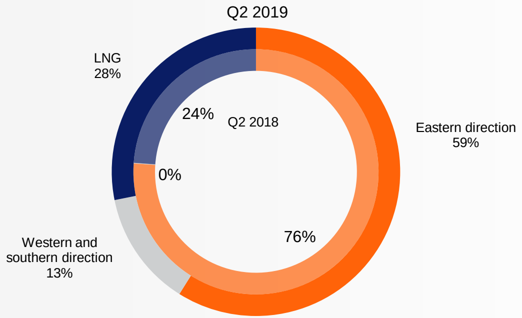
Generation

- Stable revenue from sale of heat yoy due to a 0.7˚C yoy increase in average temperature in the period and a -2% yoy decrease in sales volumes of heat.
- Revenue from electricity sales up 44% yoy, driven by rising electricity prices.

Gas sales and imports structure

- Increased role of sources south and west of Poland as well as LNG in total gas imports; In Q2 2019, nine gas tanker ships were unloaded, including six deliveries under a contract with Qatargas, one delivery under a contract with Centrica and two deliveries under spot contracts
- Higher gas sales by the PGNiG Group; increase in sales by PST (foreign operations)
- Stocks of gas in the high-methane gas underground storage facilities up 19% yoy, of which 0.3 bcm was stored in Ukraine

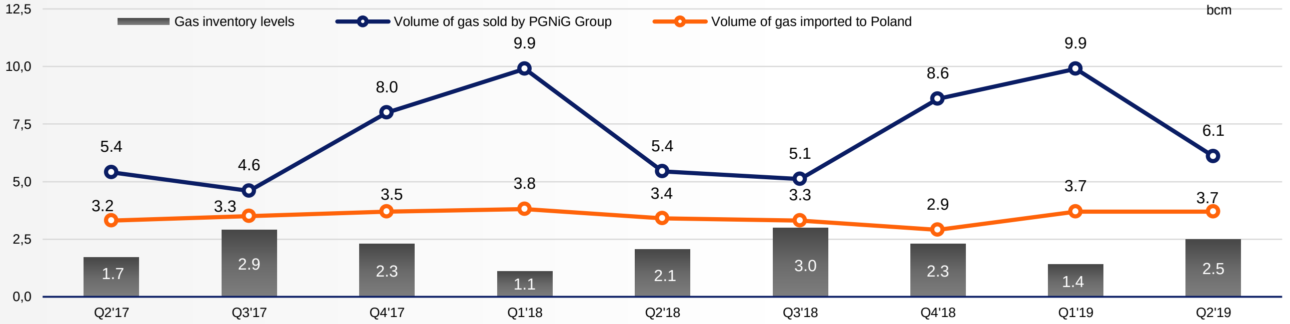
Imports of natural gas to Poland



Gas sales outside the PGNiG Group by company

[mcm]	Q2 2018	Q2 2019	Δ%
PGNiG Group:	5,442	**6,051**	+11%
PGNiG S.A.	*3,311*	***3,387***	*+2%*
PGNiG OD	*1,416*	***1,566***	*+11%*
PST	*716*	***1,099***	*+53%*

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



Comments:

- LNG terminal stocks: 103 mcm after regasification (as at June 30th 2019).

Operating expenses in Q2 2018 vs Q2 2019

[PLNm]	Q2 2018	Q2 2019	Δ%
Cost of gas sold	-4,066	**-4,846**	+19%
Fuels for heat and power generation	-110	**-168**	+53%
Other raw materials and consumables used	-435	**-460**	+6%
Employee benefits expense	-723	**-834**	+15%
Transmission services	-259	**-258**	0%
Other services	-445	**-441**	-1%
LNG regasification services	*-91*	***-95***	+4%
Taxes and charges	-41	**-46**	+12%
Other income and expenses*	-114	**-265**	+132%
Change in inventory write-downs	*1*	***-94***	-
Change in provisions	*9*	***-62***	-
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	-60	**-251**	+318%
Cost of dry wells and seismic surveys written-off	*-132*	***-11***	*-92%*
Impairment losses on non-current assets	*72*	***-240***	-
Work performed by the entity and capitalised	240	**246**	+3%
Depreciation and amortisation expense	-657	**-669**	+2%
Total operating expenses	-6,670	**-7,992**	+20%
Operating expenses net of cost of gas sold	*-2,604*	***-3,146***	*+21%*

Comments:

- PLN 780m (+19%) yoy increase in the cost of gas sold, due to higher prices of oil and gas.
- Cost of heat and electricity production up PLN 58m (53% yoy), mainly on higher unit prices of coal including transport.
- Employee benefit expense up due to payment of annual bonus to PSG employees having been postponed until the next quarter.
- Lower yoy cost of dry wells and seismic surveys (PLN -11m). One dry well written off in Q2 2019 vs seven written off in Q2 2018 (PLN 132m).
- Recognition of impairment loss on non-current assets of PLN -240m in Q2 2019 vs reversal of PLN +72m in Q2 2018.
- Change in provisions down by PLN 71m onrecognition of the provision for CO_2 emission allowances (PLN -43m).
- Recognition of a provision for energy efficiency buy-out price: PLN -23m in Q2 2019 vs reversal of PLN +16m in Q2 2018.
- Recognition of gas inventory write-downs in Q2 2019: PLN -152m vs partial reversal of gas inventory write-downs in Q2 2018: PLN +7m.
- Net exchange differences related to operating activities: PLN -13m in Q2 2019 vs PLN +63m in Q2 2018.
- Net gain/loss on derivative instruments recognised in net other income/expenses (not designated for hedge accounting): PLN +50m in Q2 2019 vs PLN -30m in Q2 2018.

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

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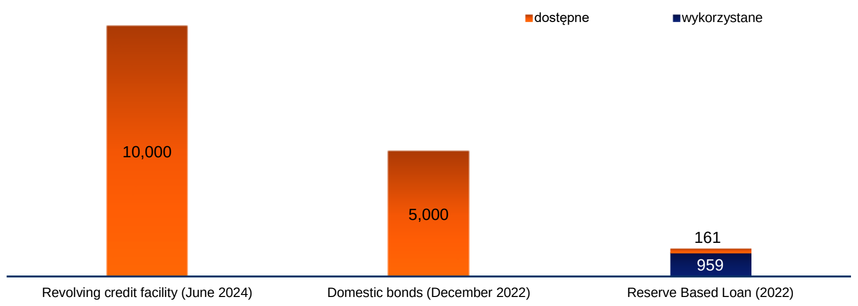
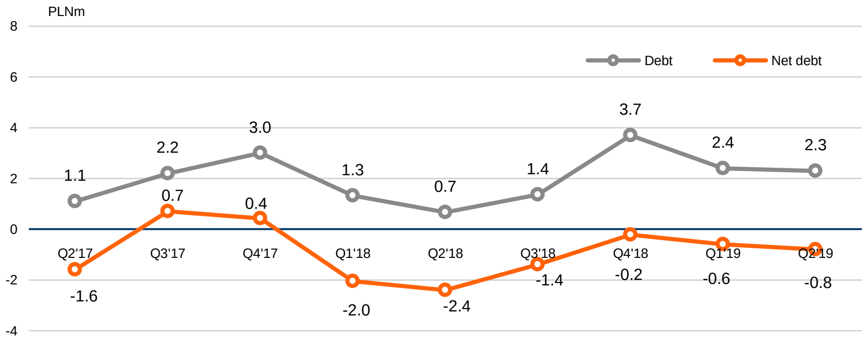
Debt and sources of funding

Sources of funding (as at June 30th 2019)

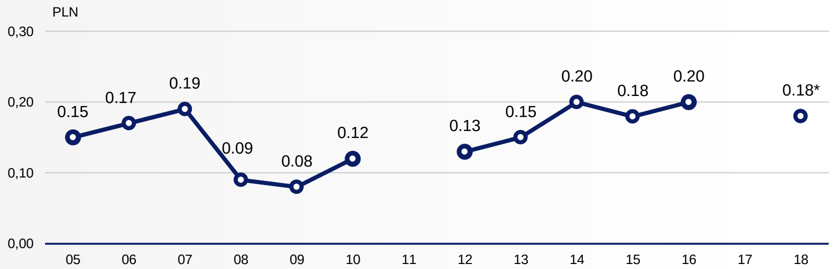


Debt at quarter end



- On June 24th 2019, the Company entered into a syndicated revolving credit facility agreement. The agreement was concluded with a syndicate of nine banks. The revolving credit facility amounts to PLN 10bn and is available for five years from the date of the credit facility agreement. It will replace the financing in the form of two note programmes with a PLN 8bn subscription guarantee.

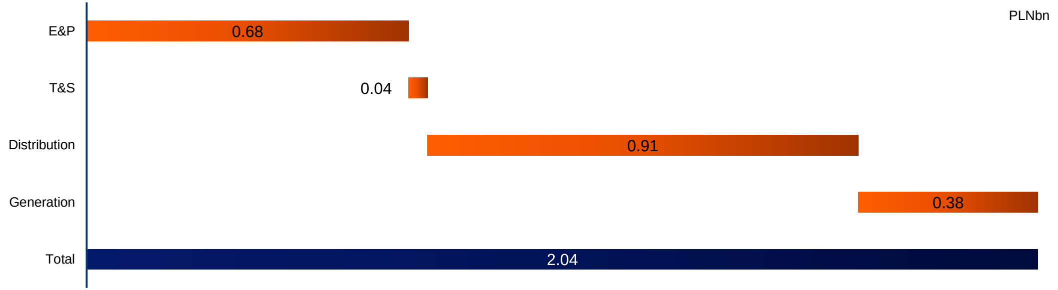
Dividend per share for the financial year



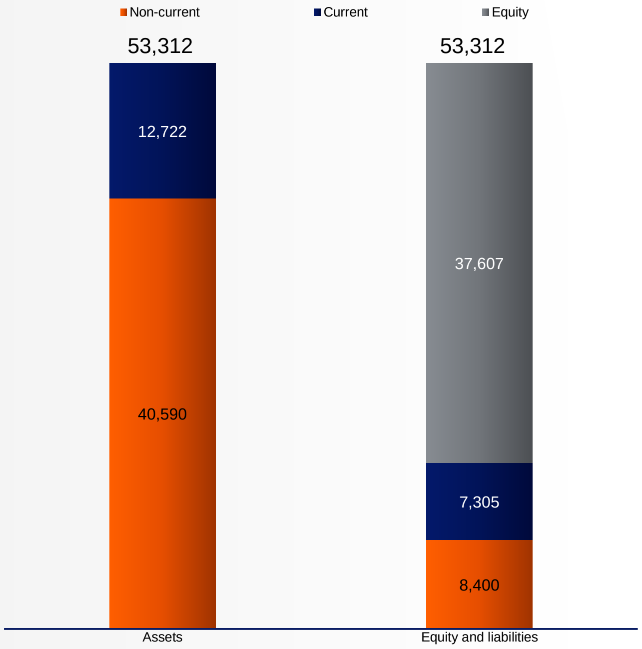
- The dividend for 2018 was distributed in two tranches. On October 29th 2018, a decision was made to pay an interim dividend of PLN 0.07 per share from the Company's 2018 profit. On June 27th 2019, the Annual General Meeting resolved to pay out the remaining portion of the 2018 dividend of PLN 0.11 per share. The payment was made on August 7th 2019.

CAPEX, statement of financial position and statement of cash flows

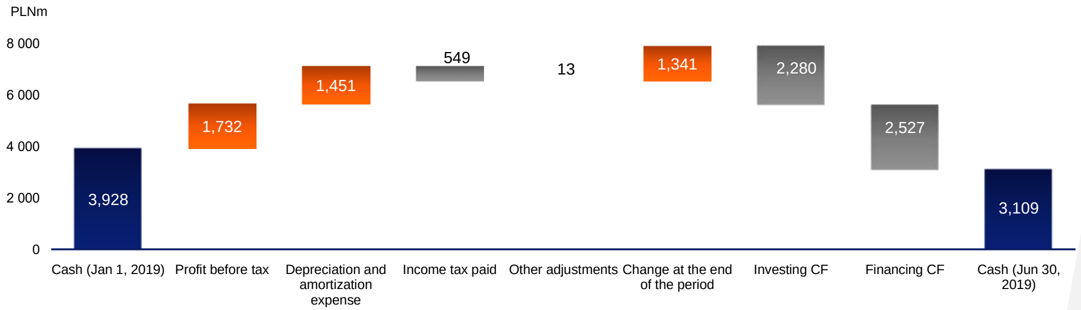
CAPEX incurred as at June 30th 2019*



Group's statement of financial position (as at June 30th 2019)



Consolidated cash flows (Jan 1−Jun 30 2019)



- *CAPEX including expenditure on acquisition of hydrocarbon deposits. CAPEX incurred in the Other Activities segment: PLN 0.03bn

Production and sales volumes

NATURAL GAS PRODUCTION BY THE PGNIG GROUP [mcm]	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	H1 2019	H1 2018	H1 2017	FY 2018	FY 2017	FY 2016
HIGH-METHANE GAS (E)	439	477	473	436	461	464	461	459	469	474	916	925	943	1,834	1,863	1,919
including in Poland	*327*	*326*	*336*	*323*	*314*	*323*	*335*	*325*	*327*	*328*	*653*	*637*	*655*	*1,296*	*1,315*	*1,401*
including in Norway	*112*	*151*	*137*	*113*	*147*	*141*	*126*	*134*	*142*	*146*	*263*	*288*	*288*	*538*	*548*	*518*
NITROGEN-RICH GAS (Ls/Lw as E equivalent)	601	704	722	659	612	719	731	664	567	712	1,305	1,331	1,279	2,712	2,674	2,540
including in Poland	*556*	*661*	*673*	*606*	*559*	*674*	*684*	*627*	*533*	*680*	*1,217*	*1,233*	*1,213*	*2,512*	*2,524*	*2,481*
including in Pakistan	*45*	*43*	*49*	*53*	*53*	*45*	*47*	*37*	*34*	*32*	*88*	*98*	*66*	*200*	*150*	*59*
TOTAL (measured as E equivalent)	**1,040**	**1,181**	**1,195**	**1,095**	**1,073**	**1,183**	**1,192**	**1,123**	**1,036**	**1,186**	**2,221**	**2,256**	**2,222**	**4,546**	**4,537**	**4,458**
NATURAL GAS SALES BY THE PGNiG GROUP [mcm]																
HIGH-METHANE GAS (E)	5,715	9,431	8,141	4,777	5,134	9,414	7,603	4,298	5,079	8,311	15,146	14,548	13,390	27,466	25,291	22,895
including PST sales outside PGNiG Group	*1,099*	*1,352*	*1,360*	*855*	*716*	*998*	*603*	*452*	*482*	*649*	*2,451*	*1,714*	*1,131*	*3,929*	*2,186*	*2,510*
NITROGEN-RICH GAS (Ls/Lw as E equivalent)	336	465	442	337	308	491	419	296	312	469	801	799	781	1,578	1,496	1,371
TOTAL (measured as E equivalent)	**6,051**	**9,896**	**8,583**	**5,114**	**5,442**	**9,905**	**8,022**	**4,594**	**5,391**	**8,780**	**15,947**	**15,347**	**14,171**	**29,044**	**26,787**	**24,266**
including sales directly from the fields	*170*	*229*	*228*	*211*	*179*	*237*	*226*	*182*	*161*	*227*	*399*	*416*	*388*	*855*	*796*	*718*
NATURAL GAS IMPORTS BY PGNiG S.A. [mcm]																
Total	3,710	3,667	2,949	3,324	3,419	3,837	3,673	3,488	3,334	3,219	7,377	7,256	6,553	13,530	13,714	11,527
including: sources east of Poland	*2,186*	*1,791*	*1,097*	*2,357*	*2,602*	*2,982*	*2,540*	*1,889*	*2,518*	*2,709*	*3,977*	*5,584*	*5,227*	*9,038*	*9,656*	*10,248*
including: LNG	*1,044*	*727*	*759*	*635*	*815*	*505*	*383*	*470*	*475*	*387*	*1,771*	*1,320*	*862*	*2,713*	*1,715*	*974*
CRUDE OIL, PGNiG GROUP (thousand tonnes)																
Production of crude oil and condensate	290	324	353	320	324	348	329	313	269	346	614	672	615	1,345	1,257	1,318
including in Poland	*177*	*208*	*219*	*202*	*189*	*208*	*220*	*203*	*148*	*216*	*385*	*397*	*364*	*818*	*787*	*763*
including in Norway	*113*	*116*	*134*	*118*	*135*	*140*	*109*	*110*	*121*	*130*	*229*	*275*	*251*	*527*	*470*	*555*
Sales of crude oil and condensate from own production	266	288	378	309	294	429	313	251	316	390	554	723	706	1,410	1,270	1,346
including in Poland	*177*	*210*	*225*	*194*	*188*	*210*	*222*	*190*	*161*	*218*	*387*	*398*	*379*	*817*	*791*	*753*
including in Norway	*89*	*78*	*153*	*115*	*106*	*219*	*91*	*61*	*155*	*172*	*167*	*325*	*327*	*593*	*479*	*593*
GENERATION																
Production of heat, net (sales) (TJ)	6,040	16,970	14,255	2,942	4,425	19,037	14,195	3,476	6,848	18,088	23,010	23,462	24,936	40,659	42,607	39,527
Production of electricity, net, secondary generation (for sale) (GWh)	744	1,513	1,315	523	598	1,539	1,280	407	737	1,458	2,257	2,137	2,195	3,974	3,882	3,604