





Polskie Górnictwo Naftowe i Gazownictwo SA

Financial performance of the PGNiG Group
in the first quarter of 2019



May 17th 2019

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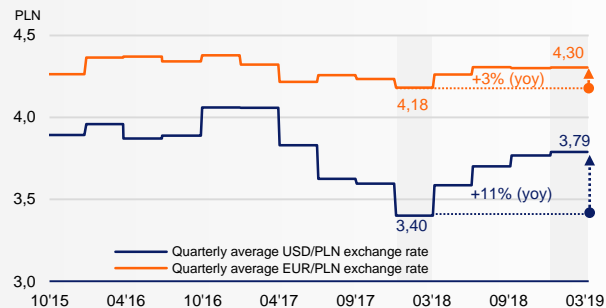
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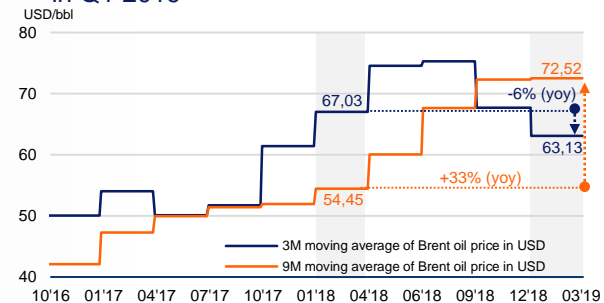
Performance drivers

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

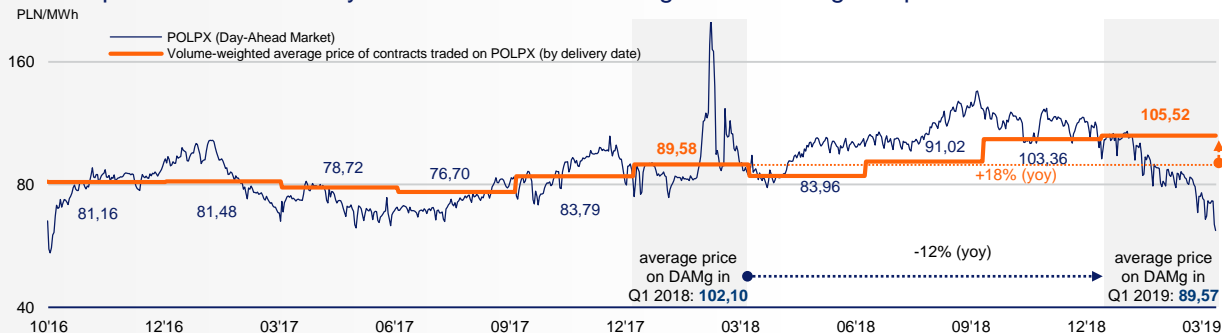
> PLN weaker against USD and EUR yoy



> 9-month average crude oil price up 33% yoy in Q1 2019



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



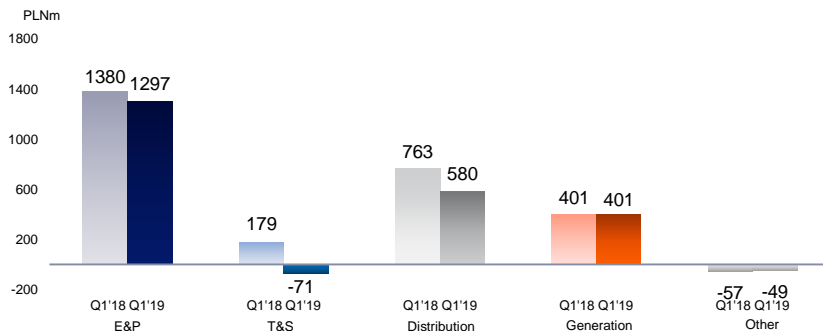
Comments:

- > 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 Q1 2019

[PLNm]	Q1 2018	Q1 2019	Δ%
Revenue	13 247	14 340	+8%
Operating expenses (excl. D&A)	10 573	12 175	+15%
EBITDA	2 674	2 165	-19%
<i>EBITDA (net of impairment losses on property, plant and equipment)</i>	2 433	2 147	-12%
Depreciation and amortisation	669	782	+17%
EBIT	2 005	1 383	-31%
Net finance income/(costs)	40	15	-63%
Net profit	1 566	1 063	-32%

> Group's EBITDA by segment in Q1 2018 vs Q1 2019



Exploration and Production

- > Revenue from gas sales down PLN 61m (5%) yoy and revenue from sale of crude and condensate down PLN 215m (31%) yoy.
- > Cost of dry wells and seismic surveys written off: PLN -13m (Q1 2018: PLN -244m).

Trade and Storage

- > Revenue from sale of gas up 15% and cost of gas up 17% yoy, chiefly driven by higher costs of gas imports.
- > Gain/loss realised on hedging instruments designated for hedge accounting, recognised in profit or loss: PLN +179m (Q1 2018: PLN -169m).
- > PLN +37m in reversals of gas inventory write-downs vs gas inventory write-down reversals of PLN +25m in Q1 2018.

Distribution

- > Distribution volume down 8% yoy and revenue from distribution services down 11% yoy due to tariff reduction made on February 15th 2019.
- > Net income/cost of system balancing up PLN 46m yoy.

Generation

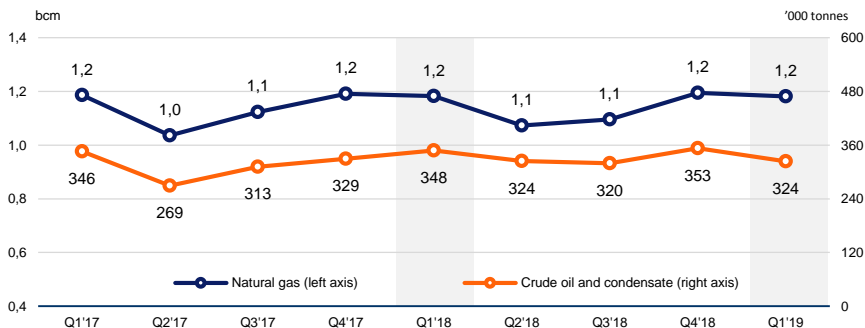
- > Revenue from sale of heat down 9% yoy due to higher average temperatures in Q1 2019 and lower heat production volumes.
- > Revenue from electricity sales up 38% yoy, driven by rising electricity prices.

Segments – 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 production volumes in Norway.

[PLNm]	Q1 2018	Q1 2019	Δ%
Revenue	1 979	1 712	-13%
Operating expenses (excl. D&A)	-599	-415	-31%
<i>Cost of dry wells and seismic surveys written-off</i>	-244	-13	-95%
<i>Impairment of non-current assets</i>	241	18	-93%
EBITDA	1 380	1 297	-6%
Depreciation and amortisation	-252	-278	+10%
EBIT	1 128	1 019	-10%

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



Comments

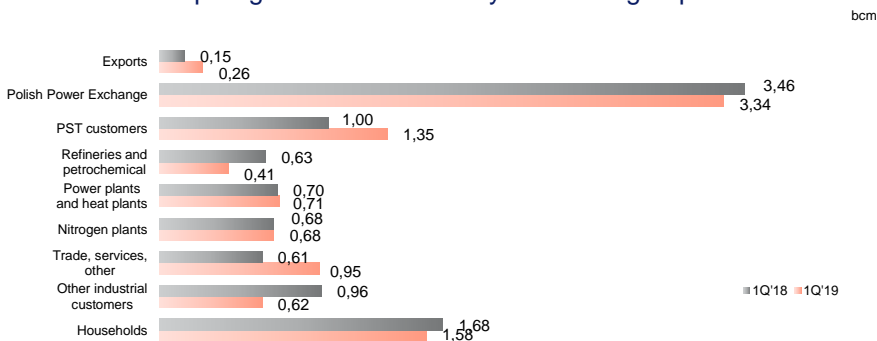
- > Revenue from sales of crude oil and condensate down PLN 215m yoy, mainly on a 6% decrease in the average oil price in USD for the quarter and a 17% yoy reduction in production volumes in Norway, to 116,000 tonnes.
- > The segment's revenue from sale of gas down PLN 61m (5%) yoy as a result of a 12% decline in gas prices on the POLPX Day-Ahead Market and a 3% yoy decrease in sales volumes.
- > Cost of dry wells and seismic surveys written off: PLN -13m in Q1 2019 vs PLN -244m in Q1 2018.
- > Reversal of impairment losses on non-current assets: PLN +18m in Q1 2019 vs PLN +241m in Q1 2018.
- > Underlift position in Norway as at March 31st 2019 – impact on Q1 2019 performance: up PLN +64m (lower net other income). The overlift position reported as at March 31st 2018 contributed PLN -139m to the Q1 2019 performance (higher net other income).

Segments – Trade and Storage

Higher gas procurement cost mainly due to rising prices of crude oil.

[PLNm]	Q1 2018	Q1 2019	Δ%
Revenue	10 209	11 693	+15%
Operating expenses (excl. D&A)	-10 030	-11 764	+17%
EBITDA	179	-71	-140%
Depreciation and amortisation	-46	-50	-9%
EBIT	133	-121	-3x

> PGNiG Group* – gas sales volumes by customer group



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

Comments

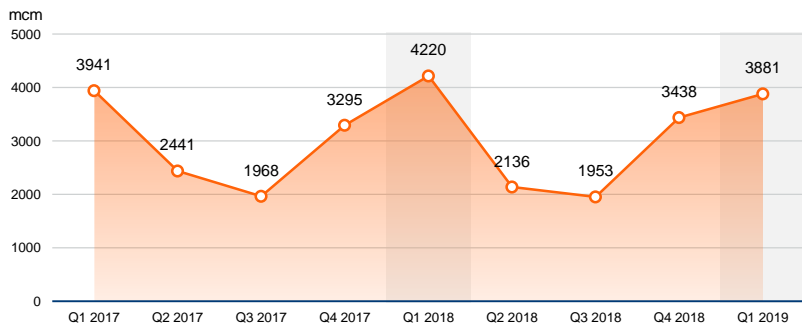
- > Revenue from sale of gas (including the effect of hedging transactions) up by PLN 1.4bn yoy (to PLN 10.9bn in Q1 2019), with sales volumes stable.
- > Gain/loss realised on hedging instruments designated for hedge accounting: PLN +179m in Q1 2019 vs PLN -169m in Q1 2019. Change in equity recognised in inventories (balance-sheet item) – impact of PLN +94m (lower gas purchase cost). In Q1 2018, the impact was PLN -15m.
- > Yoy decrease in gas imports from east of Poland (Q1 2019: 1.79 bcm vs Q1 2018: 2.98 bcm). Higher gas imports from the Western direction (up 329% yoy) and LNG imports (up 43% yoy).
- > Revenue from sale of electricity: PLN 667m, up by PLN 73m (12%) yoy; cost of electricity for trading down by PLN 59m.
- > Gas inventory write-down reversal in Q1 2019: PLN +37m; Q1 2018: PLN +25m. Net write-down at the end of Q1 2019 was PLN 34m.
- > Effect of recognition of a provision for energy efficiency buy-out price: PLN -77m in Q1 2019 vs provision reversal of PLN -41m in Q1 2018.

Segments – Distribution

Segment's performance driven by lower tariffs and lower gas distribution volumes

[PLNm]	Q1 2018	Q1 2019	Δ%
Revenue	1 551	1 388	-11%
Operating expenses (excl. D&A)	-788	-808	3%
EBITDA	763	580	-24%
Depreciation and amortisation	-226	-235	4%
EBIT	537	345	-36%

> Volumes of distributed gas



Comments

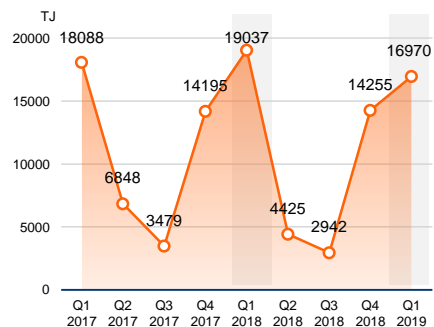
- > Gas distribution volumes down 8% yoy, to 3.88 bcm, with the average temperature for the quarter up 2.9 °C yoy.
- > Revenue from distribution services down PLN 164m (11%) yoy, among other things, reflecting an approximately 5% reduction in tariff prices from February 15th 2019. Q1 2018 also saw lower tariffs (on March 1st 2018 they were reduced by approximately 7.4% relative to 2017).
- > Net income/cost of system balancing: PLN -131m in Q1 2019, compared with PLN -177m in Q1 2018.
- > Employee benefits expense up PLN 34m (12%) yoy due to employment restructuring in PGNiG Group including shifting of PGNiG Technologie workforce to Distribution segment.

Segments – Generation

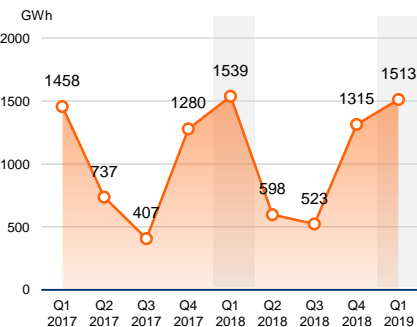
The segment's performance driven by higher electricity sales prices and cost of raw materials and lower volumes of heat sold.

[PLNm]	Q1 2018	Q1 2019	Δ%
Revenue	918	952	4%
Operating expenses (excl. D&A)	-517	-551	7%
EBITDA	401	401	0%
Depreciation and amortisation	-127	-204	61%
EBIT	274	197	-28%

> Production of heat



> Production of electricity*

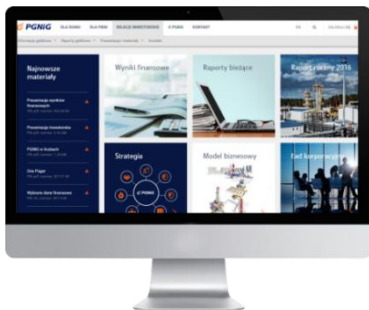


* Net, secondary generation (for sale)

Comments

- > Revenue from sale of electricity generated from the segment's own sources up 38% yoy, to PLN 361m, with market prices rising and sales volumes down 2% yoy.
- > A 9% yoy decline in revenue from sale of heat, to PLN 521m, with sales volumes falling 11% yoy.
- > Cost of coal up by PLN 27m (to PLN 354m in Q1 2019) on higher unit prices of coal including transport.
- > Cost of depreciation and amortisation up by 61% yoy due to higher cost of redemption of CO₂ certificates and launch new unit at the Zofiówka CHPP in 4Q 2018.
- > Sales volumes in Q1 2019:
 - > Sales of heat to customers outside the PGNiG Group: 16.97 PJ.
 - > Electricity from own sources: 1.51 TWh

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Appendices

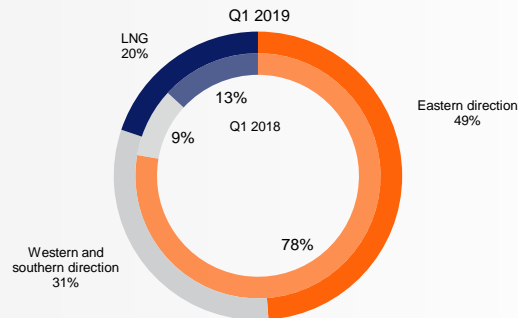
- > 1. Gas sales and imports structure
- > 2. Operating expenses
- > 3. Debt and sources of funding
- > 4. CAPEX, statement of financial position, statement of cash flows
- > 5. Production and sales volumes



Gas sales and imports structure

- > Increased role of sources south and west of Poland as well as LNG in total gas imports; in Q1 2019, seven gas tanker ships were unloaded, including three deliveries under a contract with Qatargas and four deliveries under spot contracts.
- > Gas sales outside the Group flat, with an increase in sales by PST (foreign operations).
- > Stocks of gas in the high-methane gas underground storage facilities up 27% yoy.

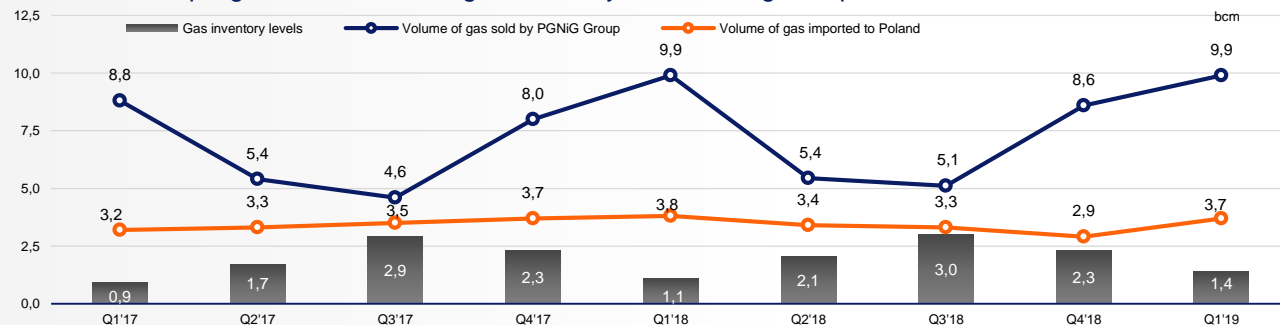
> Imports of natural gas to Poland



> Gas sales outside the PGNiG Group by company

[mcm]	Q1 2018	Q1 2019	Δ%
Grupa PGNiG:	9 905	9 896	-
<i>PGNiG SA</i>	5 944	5 715	-4%
<i>PGNiG OD</i>	2 963	2 829	-5%
<i>PST</i>	998	1 352	+35%

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



Comments

- > LNG terminal stocks: 9 mcm after regasification (as at March 31st 2019).

Operating expenses in Q1 2018 vs Q1 2019

[PLNm]	Q1 2018	Q1 2019	Δ%
Cost of gas sold	-8 215	-9 931	+21%
Fuels for heat and power generation	-355	-383	+8%
Other raw materials and consumables used	-438	-416	-5%
Employee benefits expense	-669	-713	+6%
Transmission services	-269	-261	-3%
Other services	-392	-408	+4%
<i>LNG regasification services</i>	-89	-93	+5%
Taxes and charges	-557	-553	-1%
Other income and expenses*	112	248	+120%
<i>Change in inventory write-downs</i>	63	19	-71%
<i>Change in provisions</i>	-62	-116	+87%
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	-4	5	-3x
<i>Cost of dry wells and seismic surveys written-off</i>	-244	-13	-95%
<i>Impairment losses on non-current assets</i>	240	18	-93%
Work performed by the entity and capitalised	214	237	+10%
Depreciation and amortisation	-669	-782	+17%
Total operating expenses	-11 242	-12 957	+15%
<i>Operating expenses net of cost of gas sold</i>	-3 027	-3 026	-1%

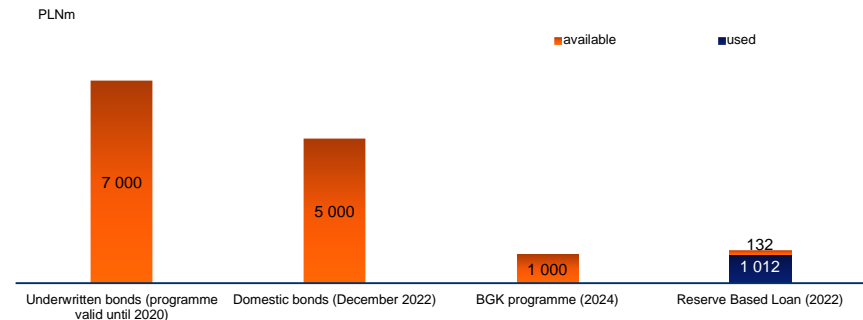
Comments

- › Cost of gas sold up by PLN 1,716m (21%) yoy, due to higher prices of oil and gas.
- › Stable operating expenses net of cost of gas sold: PLN -3,026m in Q1 2019 vs PLN -3,027m in Q1 2018.
- › Lower yoy cost of dry wells and seismic surveys (PLN -13m). One dry well was written off in Q1 2019 vs seven in Q1 2018 (PLN -244m).
- › Reversal of impairment loss on non-current assets of PLN 18m in Q1 2019 vs PLN 240m in Q1 2018.
- › Yoy increase in depreciation and amortisation charges: PLN -782m in Q1 2019 vs PLN -669m in Q1 2018, mainly due to higher depreciation and amortisation in Generation segment.
- › Recognition of a provision for energy efficiency buy-out price: PLN -82m in Q1 2019 vs PLN -43m in Q1 2018.
- › Reversal of a gas inventory write-down: PLN +37m in Q1 2019 vs PLN +25m in Q1 2018.
- › Recognition of impairment loss on trade receivables: PLN -14m in Q1 2019 vs PLN -36m in Q1 2018.
- › Net exchange differences related to operating activities: PLN +18m in Q1 2019 vs PLN +52m in Q1 2018.
- › Net gain/loss on derivative instruments recognised in net other income/expenses (not designated for hedge accounting): PLN +14m in Q1 2019 vs PLN -46m in Q1 2018.

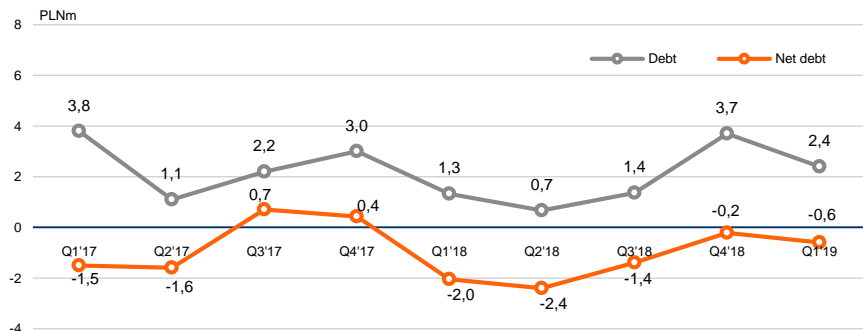
* Other expenses shown above do not include taxes and charges, or impairment losses on property, plant and equipment and intangible assets.

Debt and sources of funding

> Sources of funding (as at March 31st 2019)

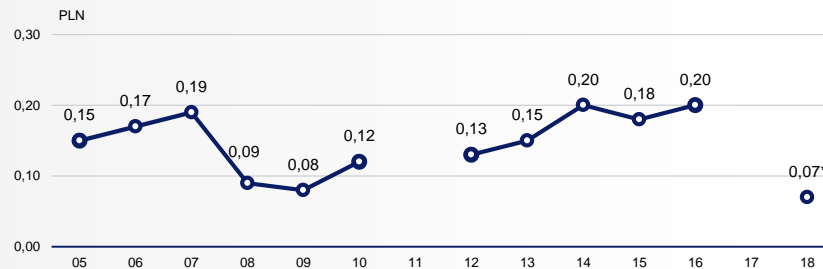


> Debt at quarter end



- > In the reporting period, PGNiG SA redeemed domestic notes with an aggregate nominal value of PLN 2.3bn. The total value of guaranteed notes is PLN 7bn.

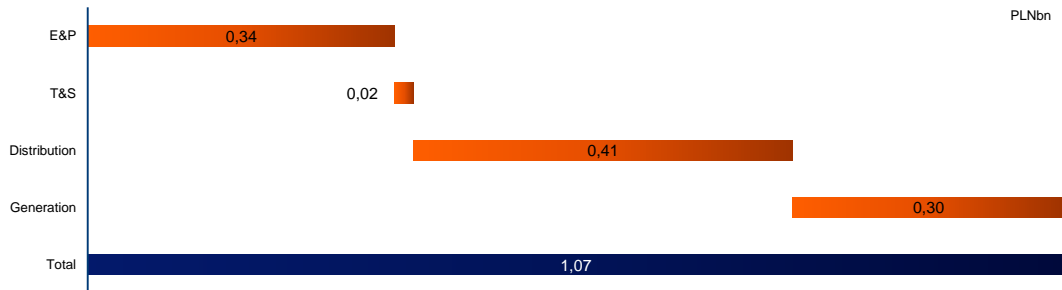
> Dividend per share for the financial year



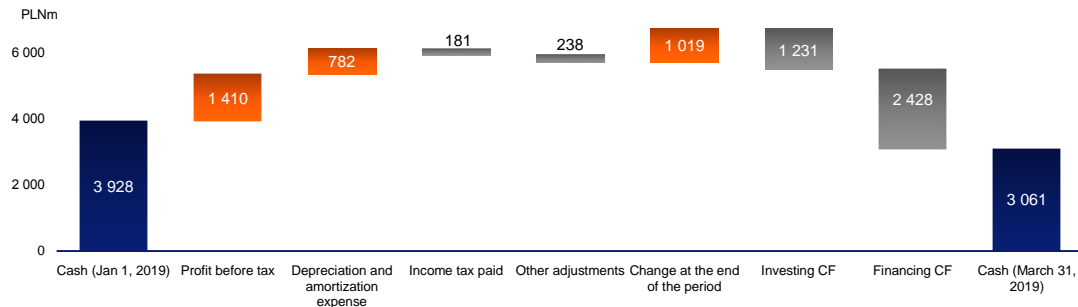
- > Strategic objective: up to 50% of consolidated net profit to be distributed as dividend in 2015–2022 (provided that the financial condition is stable and financing for investment projects is secured).
- > *On October 29th 2018, a decision was made to pay an interim dividend of PLN 0.07 per share from the Company's 2018 profit. The dividend record day was November 26th 2018, and the dividend was paid on December 3rd 2018.

CAPEX, statement of financial position and statement of cash flows

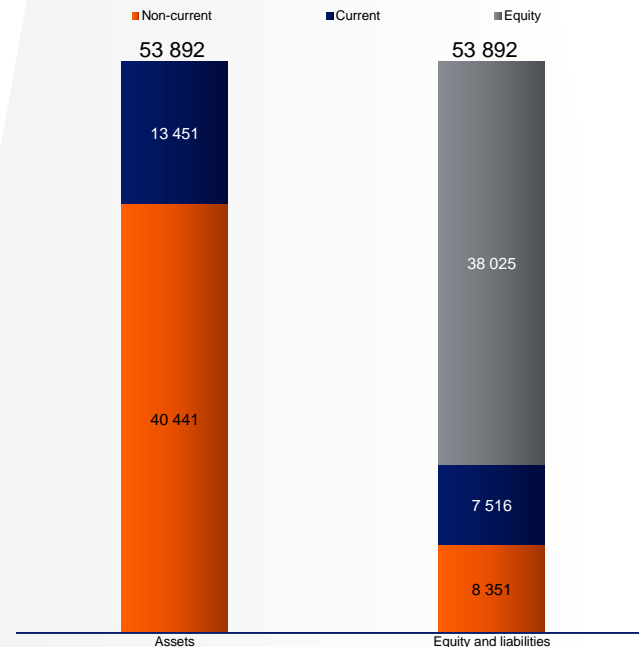
> CAPEX incurred as at March 31st 2019*



> Consolidated cash flows (Jan 1–Mar 31 2019)



> Group's statement of financial position (as at March 31st 2019)



* CAPEX including expenditure on acquisition of hydrocarbon deposits. CAPEX incurred in the Other Activities segment: PLN 0.02m

Production and sales volumes

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