PGNiG

CURRENT REPORT

Polish Oil and Gas Company (PGNiG SA)
Head Office

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Current Report No. 106/2014

September 30th 2014 Moody's downgrades PGNiG's rating from Baa2 to Baa3

Current report no. 106/2014The Management Board of Polskie Górnictwo Naftowe i Gazownictwo SA ("PGNiG" or the "Company") reports that on September 30th 2014 it was notified that the rating agency Moody's Investors Service ("Moody's" or the "Agency") downgraded PGNiG's credit rating from Baa2 to Baa3, with stable outlook.

According to Moody's, the downgrades reflect PGNiG's evolving business risk profile in light of the increasing share of the exploration and production activities, as well as challenges stemming from the evolution of the Polish gas market given the company's take-or-pay contracts and the price that it has to pay. The outlook is stable, what reflects the current strong financial and liquidity profile of the Company.

Concurrently, the rating agency has downgraded the provisional rating of the EUR1.2 billion euro medium-term programme of PGNiG Finance AB (publ) to Baa3 from Baa2.

Overall, PGNiG's Baa3 rating is underpinned by (1) the group's position as a large vertically-integrated utility provider; (2) the company's dominant position in the Polish natural gas market; (3) the sizeable contribution of fairly stable, regulated cash flows stemming from distribution and storage activities; (4) the current strong financial and liquidity profile. However, the rating is constrained by the group's (1) earnings volatility; (2) high dependence on gas imports, mainly from Russia's Gazprom; (3) its take-or-pay obligations under the long-term gas supply contracts; and (4) rising risks to cash flows due to the company's increasing exposure to commodity price and output risk from gas and oil investments.

The Agency points out that the stable rating outlook reflects PGNiG's flexibility under the current strong financial and liquidity profile, which should help absorb more challenging developments in the market over the near to medium term.

The PGNiG Management Board views the Company's liquidity position as secure, with financing needs under the investment programme fully met.

The Management Board underlines that an investment rating is a priority, particularly in the context of the ongoing investment projects designed to enhance the country's energy security, as it facilitates the execution and ensures less costly access to financing for the projects.

See also: Current Report No. 119/2011, Current Report 125/2011, Current Report No. 23/2012 and Current report No. 166/2012.