

# Q1 2020

PGNiG Group Q1 2020 Results

June 4<sup>th</sup> 2020

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# Key events Q1 2020

01  
> January



- > 3 new exploration licences on the Norwegian Continental Shelf awarded to PGNiG Upstream Norway in the annual licensing round (APA 2019).
- > Closing of acquisition of an additional 10% interest in the Duva field.

02  
> February



- > Agreement with Aker BP to purchase an interest in the Alve Nord field and to increase the existing interest in the producing Gina Krog field by 3.3pp.

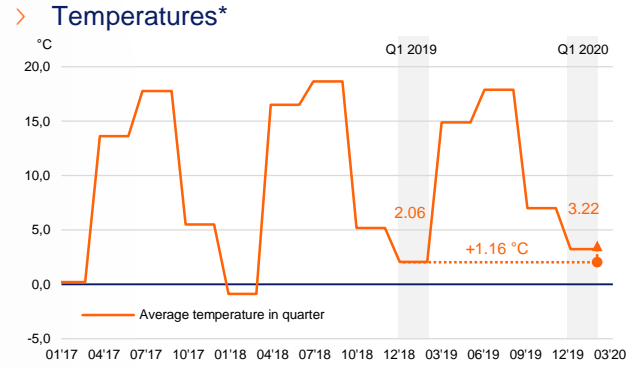
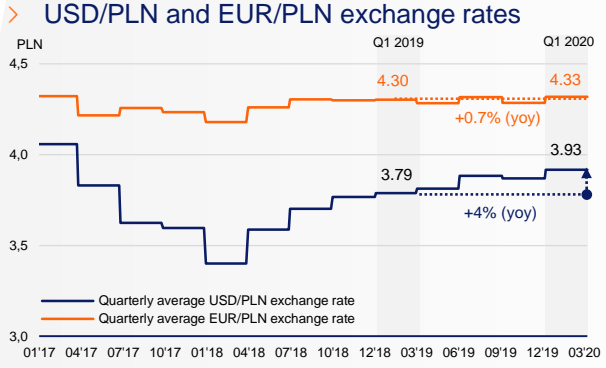
03  
> March



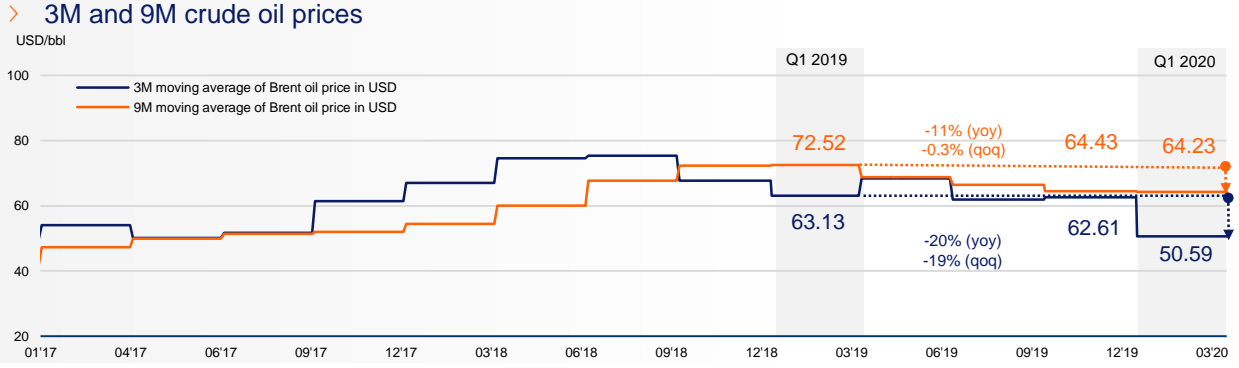
- > Launch of production from the Skogul field – ca. 115,000 tonnes of crude oil in 2020.
- > Decision by the President of the Energy Regulatory Office regarding the Distribution Tariff of Polska Spółka Gazownictwa – increase in the prices and rates of network fees by an average of 3.5% as of April 3<sup>rd</sup> 2020.
- ! > Issue by the Stockholm Arbitration Tribunal of a final award in favour of PGNiG S.A. in the arbitration case against Gazprom. Introduction of a new pricing formula in settlements for gas supplies delivered in March 2020.

## External and market factors

- > USD/PLN exchange rate up 4% yoy in Q1 2020, to PLN 3.93.
- > EUR/PLN exchange rate up 0.7% yoy in Q1 2020, to PLN 4.33.
- > Average temperature\* up 1.2°C yoy in Q1 2020.



- > 3M (quarterly) average oil price down 20% yoy, to USD 50.59 per barrel.
- > 9M average oil price down 11% yoy, to USD 64.23 per barrel at the end of Q1 2020.

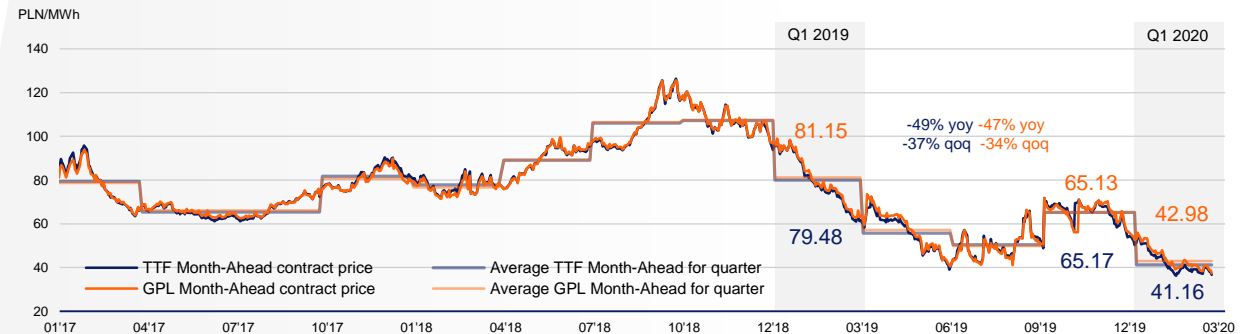


\* Reference point for temperature measurement: Rzeszów

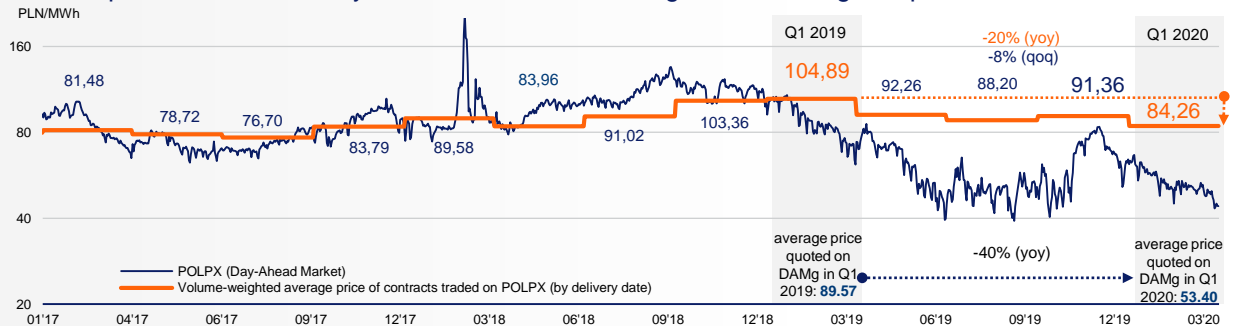
# Gas markets

- > TTF and GPL gas prices (Month-Ahead contract) in PLN down in Q1 2020 by -49% and -47% yoy respectively.
- > Quarterly average volume-weighted price of contracts and Day-Ahead Market prices on POLPX down in Q1 2020 by -20% and -40% respectively.
- > Trading volumes on POLPX in Q1 2020, including all contracts and maturities, up approximately 3% yoy.

## > TTF and GPL gas prices (Month-Ahead contract)



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



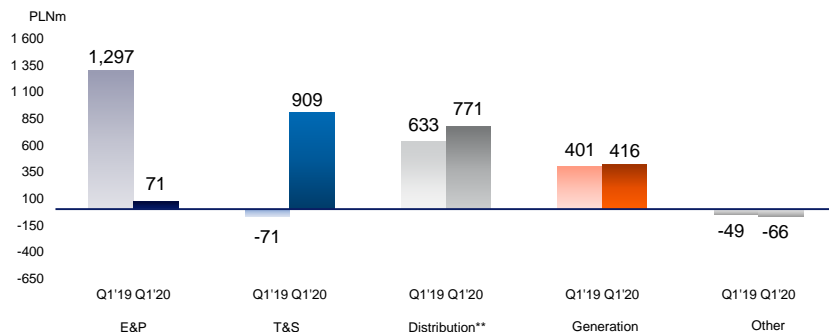
## Comments:

- > 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 POLPX for a given quarter is calculated based on the prices of contracts for delivery in that quarter.

# Financial highlights Q1 2020

[PLNm]	Q1 2019**	Q1 2020	Δ%
Revenue	14,340	<b>13,756</b>	-4%
Operating expenses (excl. D&A)	-12,122	<b>-11,678</b>	-4%
EBITDA	2,218	<b>2,078</b>	-6%
<i>EBITDA (net of impairment losses on property, plant and equipment)</i>	<i>2,200</i>	<i>2,835</i>	<i>+29%</i>
Depreciation and amortisation expense	-789	<b>-871</b>	+10%
EBIT	1,429	<b>1,207</b>	-16%
Net finance income/(costs)	6	<b>-270</b>	-44x
Net profit	1,100	<b>779</b>	-29%

## > Group's EBITDA by segment in Q1 2020 vs Q1 2019\*



\*Eliminations in Q1 2019: PLN 7m; Q1 2020: PLN -23m.

\*\* Data restated for comparability following analysis of regulations concerning recognition of underground infrastructure lease contracts/decisions and taking into account the interpretation issued by the IFRS Interpretation Committee in preparing the financial statements as at December 31st 2019.

## Exploration and Production

- > Revenue from sale of gas down PLN -396m (-35%) yoy, while revenue from sale of crude and condensate down PLN -103m (-22%) yoy.
- > Recognition of impairment loss on non-current assets in Q1 2020: PLN -758m, vs reversals in Q1 2019: PLN +18m.

## Trade and Storage

- > Revenue from sale of gas down -7% and cost of gas down -15% yoy, with a +7% yoy increase in gas volumes sold outside the Group.
- > Exercise of hedging instruments designated for hedge accounting, recognised in profit or loss: PLN +819m (Q1 2019: PLN +179m).
- > Effect of gas inventory write-down reversals of PLN +255m, vs reversals of PLN +37m in Q1 2019.

## Distribution

- > Gas distribution volume up +2% yoy and revenue from distribution services down -1% yoy.
- > Net income/cost of system balancing up PLN +146m yoy.

## Generation

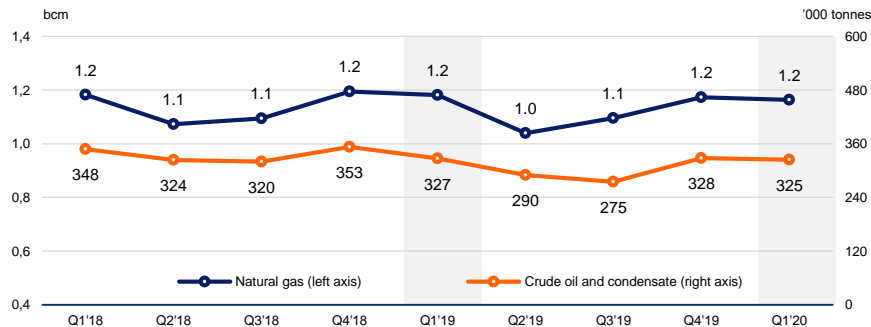
- > Stable revenue from sale of heat (up +2% yoy), with the average air temperature 1.2°C higher in Q1 2020, -5% fall yoy in heat volumes sold, and higher heat sales tariff at PGNiG Termika SA.
- > Revenue from sale of electricity down -3% yoy, with sales volumes down -9% (higher exercise prices of electricity sale contracts).

# Exploration and Production

Lower revenue due to a yoy decrease in crude oil and natural gas prices (on the POLPX Day-Ahead Market), with oil and gas production volumes stable.

[PLNm]	Q1 2019	Q1 2020	Δ%
Revenue	1,712	<b>1,271</b>	-26%
Operating expenses (excl. D&A)	-415	<b>-1,200</b>	+189%
<i>Cost of dry wells and seismic surveys written-off</i>	-13	<b>-17</b>	+31%
<i>Impairment of non-current assets</i>	18	<b>-758</b>	-45x
EBITDA	1,297	<b>71</b>	-95%
Depreciation and amortisation expense	-278	<b>-275</b>	-1%
EBIT	1,019	<b>-204</b>	-120%

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



## Comments:

- › The segment's revenue from sale of gas down PLN -396m (-35%) yoy as a result of a -40% decline in gas prices on the POLPX Day-Ahead Market and a -1% yoy decrease in sales volumes.
- › Revenue from sale of crude oil and condensate down PLN -103m (-22%) yoy, on lower sale volumes (-4% yoy), and a -20% decrease in the average oil price for the quarter in USD.
- › Oil production volumes in Poland down -4%, to 200,000 tonnes, in Norway up +7% yoy, to 125,000 tonnes.
- › Cost of dry wells and seismic surveys written off: PLN -17m in Q1 2020 vs PLN -13m in Q1 2019.
- › Recognition of impairment losses on non-current assets: PLN -758m in Q1 2020, vs reversals of PLN +18m in Q1 2019.
- › Overlift/underlift position in Norway in Q1 2020 – effect on Q1 2020 results of PLN +72m (lower net other expenses). The effect of overlift/underlift on Q1 2019 results was PLN +64m.

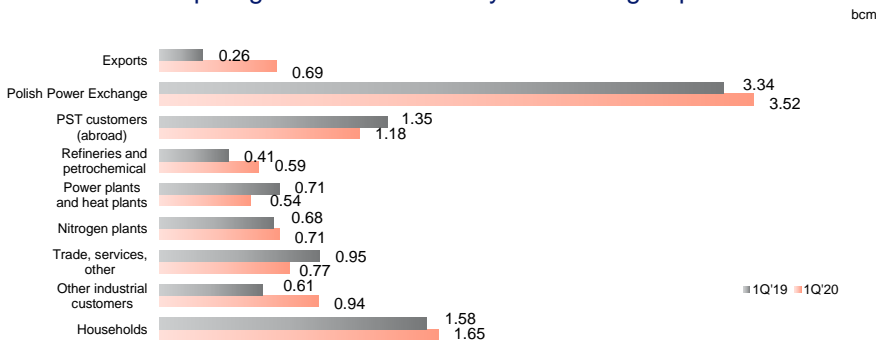


# Trade and Storage

Segment's performance driven by higher sales volumes outside the Group and lower yoy costs of gas fuel.

[PLNm]	Q1 2019	Q1 2020	Δ%
Revenue	11,693	<b>11,042</b>	-6%
Operating expenses (excl. D&A)	-11,764	<b>-10,133</b>	-14%
<i>Impairment loss on gas inventory</i>	37	<b>255</b>	7x
EBITDA	-71	<b>909</b>	15x
Depreciation and amortisation expense	-50	<b>-53</b>	+8%
EBIT	-121	<b>856</b>	9x

## > PGNiG Group\* – gas sales volumes by customer group



## Comments:

- > Revenue from sale of gas (including the effect of hedging transactions) down by PLN 0.7bn, or -7%, yoy (to PLN 10.2bn in Q1 2020), and cost of gas down by PLN 1.6bn, or -15% yoy (to PLN 9.2bn in Q1 2020), with +7% yoy increase in sales to customers outside the Group.
- > Gain/loss realised on hedging instruments designated for hedge accounting: PLN +819m in Q1 2020 vs PLN +179m in Q1 2019.
- > Higher yoy gas imports to Poland from the east (Q1 2020: 1.92 bcm vs Q1 2019: 1.79 bcm) and LNG (+0,26 bcm yoy). Lower volumes of imports from the west and south (Q1 2020: 0.56 bcm vs Q1 2019: 1.15 bcm).
- > Total revenue from sale of electricity: PLN 750m, up by PLN 82m (+12%) yoy; cost of electricity for trading up by PLN 83m (+13%) yoy.
- > Gas inventory write-down reversal in Q1 2020: PLN +255m; Q1 2019: PLN +37m. Net write-down at the end of Q1 2020 was PLN -121m.
- > Effect of recognition of a provision for energy efficiency buy-out price: PLN -82m in Q1 2020 vs PLN -77m in Q1 2019.



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

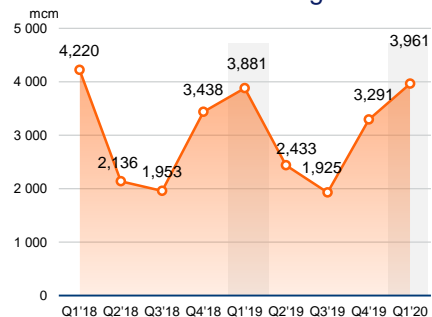


# Segments – Distribution

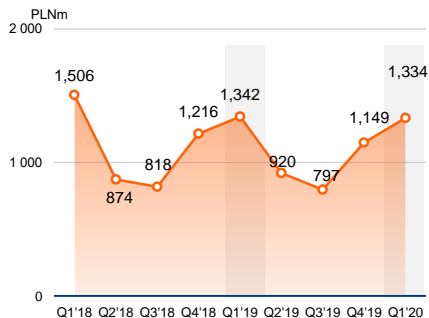
Segment's performance driven by higher volumes of distributed gas and changes in system balancing regulations.

[PLNm]	Q1 2019*	Q1 2020	Δ%
Revenue	1,388	<b>1,399</b>	+1%
Operating expenses (excl. D&A)	-755	<b>-628</b>	-17%
EBITDA	633	<b>771</b>	+22%
Depreciation and amortisation expense	-242	<b>-260</b>	+7%
EBIT	391	<b>511</b>	+31%

## > Volumes of distributed gas



## > Revenue from distribution services



## Comments:

- > Gas distribution volumes slightly up (+2% yoy), to 3.96 bcm, with the average temperature for the quarter up 1.2°C yoy.
- > Stable revenue from distribution services (down PLN -8m, or -1% yoy).
- > Net income/cost of system balancing: PLN +16m in Q1 2020, compared with PLN -131m in Q1 2019.
  - > A new Gas Grid Code introduced changes to the commercial balancing regime for natural gas distribution as of January 1st 2020. The changes include an annual settlement period for the difference between settlement allocations and distribution services, taking into account the average annual gas price on POLPX – departure from the monthly settlement of the difference between gas fed into and withdrawn from the grid and introduction of a compensation procedure, whereby volumes of gas fed into and withdrawn from the grid will be compared on an annual basis.
- > Employee benefits expense up PLN 37m (+11%) yoy.

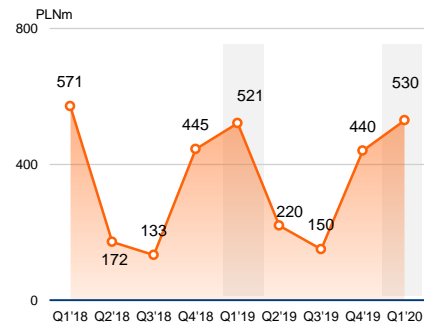
\*Data restated for comparability following analysis of regulations concerning recognition of underground infrastructure lease contracts/decisions and taking into account the interpretation issued by the IFRS Interpretations Committee in preparing the financial statements as at December 31st 2019.

# Segments – Generation

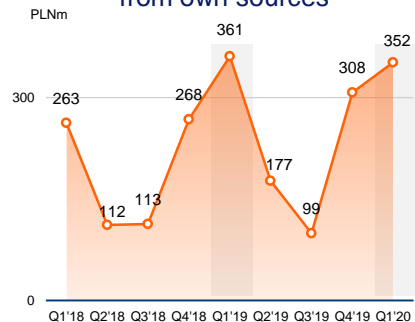
Segment's performance driven by higher air temperatures, lower sales volumes and higher tariff prices of heat.

[PLNm]	Q1 2019	Q1 2020	Δ%
Revenue	952	<b>973</b>	+2%
Operating expenses (excl. D&A)	-551	<b>-557</b>	+1%
EBITDA	401	<b>416</b>	+4%
Depreciation and amortisation expense	-204	<b>-268</b>	+32%
EBIT	197	<b>148</b>	-25%

## > Revenue from sale of heat



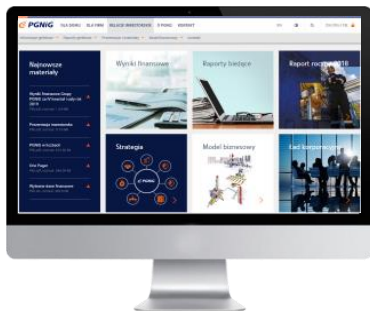
## > Revenue from sale of electricity from own sources



### Comments:

- > Revenue from sale of electricity generated from the segment's own sources down 3% yoy, to PLN 352m, with sales volumes down 9% yoy.
- > Revenue from sale of heat up +2% yoy, to PLN 530m, on the higher average temperature, lower volumes of heat sold (-5% yoy), and an average increase in the heat tariff at PGNiG TERMIKA SA by ca. +7.3% (effective since September 1st 2019).
- > PLN +65m yoy increase in depreciation and amortisation expense attributable to CO<sub>2</sub> emission allowances.
- > Sales volumes in Q1 2020:
  - > Sales of heat to non-PGNiG Group customers: 16.05 PJ.
  - > Electricity from own sources: 1.38 TWh.





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[www.ri.pgnig.pl](http://www.ri.pgnig.pl)



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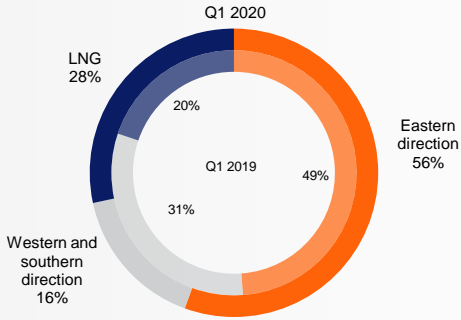
- 1. Gas sales and imports structure
- 2. Operating expenses
- 2. Debt and sources of funding
- 3. CAPEX, statement of financial position, statement of cash flows
- 4. Production and sales volumes



## Gas sales and imports structure

- > Higher share of imports from east of Poland and of LNG, with lower share of imports from the south and west. In Q1 2020, 10 gas tanker ships were unloaded, including 3 deliveries under a contract with Qatargas and 7 deliveries under spot contracts.
- > Growth in the PGNiG Group's gas sales mainly on higher sales by PGNiG SA (significant increase in exports).

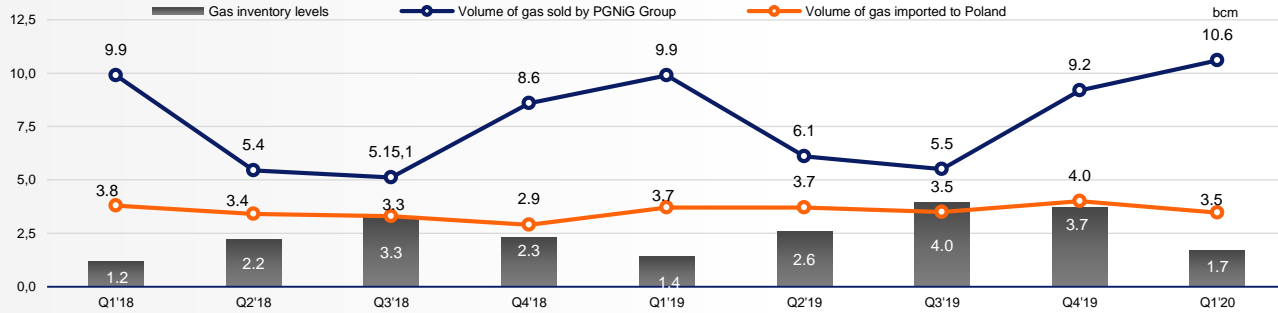
### > Imports of natural gas to Poland



### > Gas sales outside the PGNiG Group by company

[mcm]	Q1 2019	Q1 2020	Δ%
<b>PGNiG Group:</b>	9,896	<b>10,601</b>	+7%
<i>PGNiG SA</i>	5,715	<b>6,314</b>	+10%
<i>PGNiG OD</i>	2,829	<b>2,925</b>	+3%
<i>PST</i>	1,352	<b>1,362</b>	+1%

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



### Comments:

- > LNG terminal stocks: 5 mcm after regasification (as at March 31st 2020).

\* Includes high-methane gas, nitrogen-rich gas stored in Poland and abroad, as well as LNG at the terminal.



# Operating expenses in Q1 2020 vs Q1 2019

[PLNm]	Q1 2019	Q1 2020	Δ%
Cost of gas sold	-9,931	<b>-8,694</b>	-12%
Fuels for heat and power generation	-383	<b>-360</b>	-6%
Other raw materials and consumables used	-416	<b>-518</b>	+25%
Employee benefits expense	-713	<b>-800</b>	+12%
Transmission services	-261	<b>-259</b>	-1%
Other services	-408	<b>-419</b>	+3%
<i>LNG regasification services</i>	-93	<b>-98</b>	+5%
Taxes and charges	-500*	<b>-574</b>	+15%
Other income and expenses**	248	<b>445</b>	+79%
<i>Change in inventory write-downs</i>	19	<b>253</b>	+14x
<i>Change in provisions</i>	-116	<b>-143</b>	+23%
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	5	<b>-774</b>	-157x
<i>Cost of dry wells and seismic surveys written-off</i>	-13	<b>-17</b>	+31%
<i>Impairment losses on non-current assets</i>	18	<b>-757</b>	-44x
Work performed by the entity and capitalised	237	<b>275</b>	+16%
Depreciation and amortisation expense	-789	<b>-871</b>	+10%
<b>Total operating expenses</b>	<b>-12,911</b>	<b>-12,549</b>	-3%
<i>Operating expenses net of cost of gas sold</i>	<i>-2,980</i>	<i><b>-3,855</b></i>	<i>+29%</i>

## Comments:

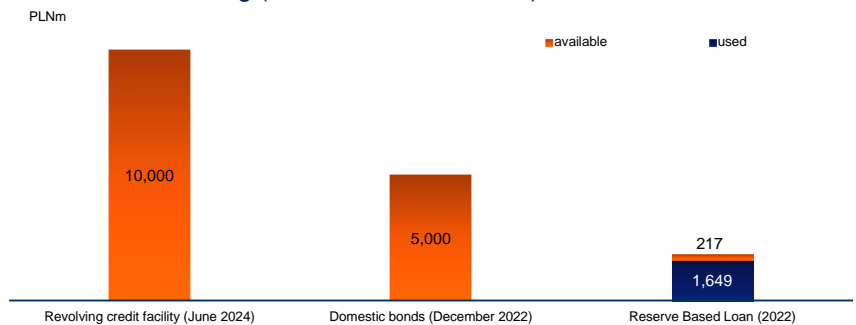
- > Cost of gas sold down -12% yoy: 9M USD-denominated average price of Brent crude down -11% yoy and the effect of payments, as of March 1st 2020, for gas supplied under the Yamal contract in amounts resulting from the pricing formula based on the Stockholm Arbitration Institute's award.
- > Higher cost of electricity purchased for trading purposes (by PLN 389m, or +32% yoy) on to higher electricity prices yoy.
- > Cost of fuels (mainly coal) for heat and electricity production down PLN -22m, or -6% yoy.
- > Employee benefits expense up (+12%) yoy, driven mainly by higher employee benefits in the Distribution segment.
- > Cost of dry wells and seismic surveys written off stable at PLN -17m in Q1 2020 vs PLN -13m in Q1 2019. 1 dry well written off in each Q1 2020 and Q1 2019.
- > Recognition of impairment loss on non-current assets of PLN -757m in Q1 2020, vs reversals of PLN +18m in Q1 2019.
- > Net change in inventories: PLN -143m in Q1 2020 vs PLN -116m in Q1 2019, with a stable level of the provision for energy efficiency buy-out price, at PLN -87m in Q1 2020 vs PLN -82m in Q1 2019.
- > Gas inventory write-down reversal in Q1 2020: PLN +255m; Q1 2019: PLN +37m.
- > Net exchange differences related to operating activities: PLN -162m in Q1 2020 vs PLN +18m in Q1 2019.
- > Net gain/loss on derivative instruments recognised in net other income/expenses (not designated for hedge accounting): PLN +206m in Q1 2020 vs PLN +15m in Q1 2019.

\* Data restated for comparability following analysis of regulations concerning recognition of underground infrastructure lease contracts/decisions and taking into account the interpretation issued by the IFRS Interpretations Committee in preparing the financial statements as at December 31st 2019.

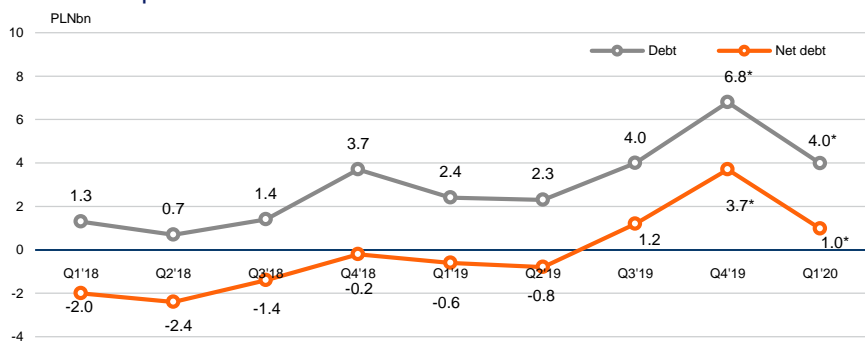
\*\*Other expenses shown above do not include taxes and charges, or impairment losses on property, plant and equipment and intangible assets.

## Debt and sources of funding

### > Sources of funding (as at March 31st 2020)



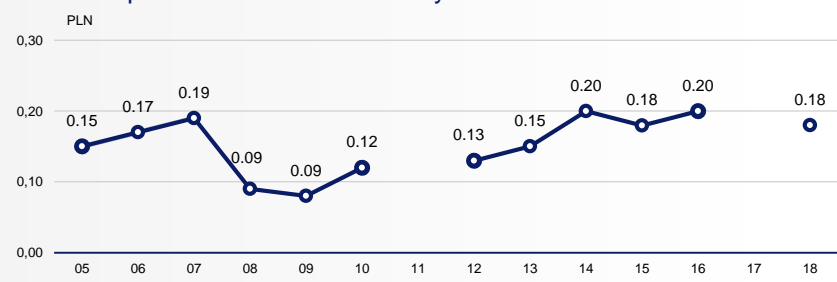
### > Debt at quarter end



\*The data include the impact of the first-time application of IFRS 16.

> 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 facility amount is PLN 10bn and the credit is available for five years from the agreement date. The facility will replace the financing in the form of two underwritten note programmes for a total amount of PLN 8bn.

### > Dividend per share for the financial year

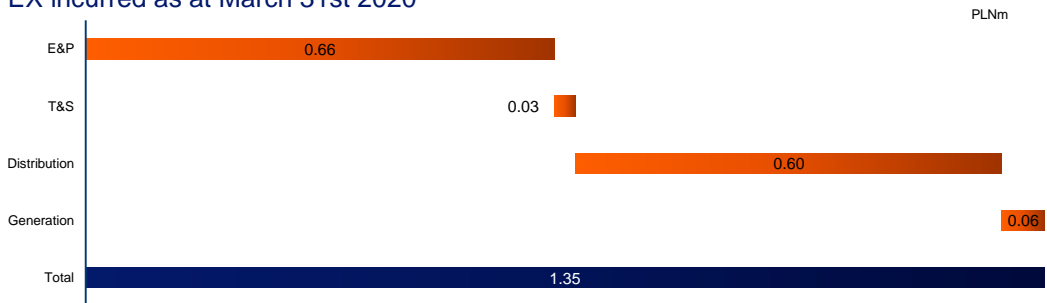


> The Management Board of PGNiG resolved on May 26th 2020 to recommend that the General Meeting of PGNiG allocates PLN 520,048,337.13 from the 2019 net profit to shareholders as dividend. It means payout at the level of PLN 0.09 per share.

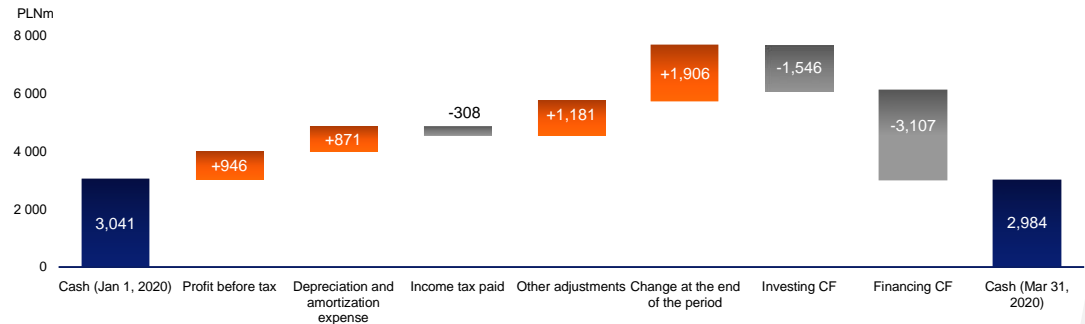
> Annual General Meeting of PGNiG SA convened for June 24th 2020.

# CAPEX, statement of financial position and cash flows

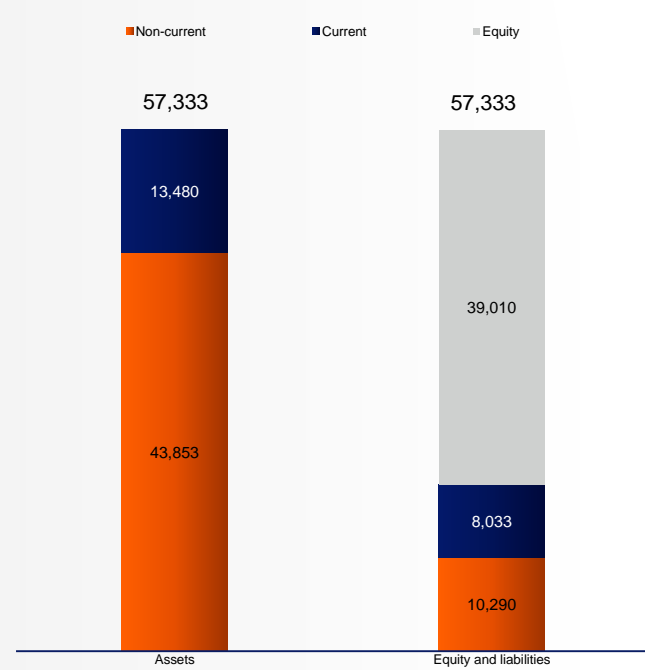
## > CAPEX incurred as at March 31st 2020\*



## > Consolidated cash flows (Jan 1– Mar 31 2020)



## > Group's statement of financial position (as at March 31st 2020)



\* 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]	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	FY 2019	FY 2018	FY 2017	FY 2016
HIGH-METHANE GAS (E)	444	452	451	439	477	473	436	461	464	461	459	469	1,819	1,834	1,863	1,919
<i>including in Poland</i>	343	348	337	327	326	336	323	314	323	335	325	327	1,337	1,296	1,315	1,401
<i>including in Norway</i>	101	104	114	112	151	137	113	147	141	126	134	142	481	538	548	518
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	719	721	645	601	704	722	659	612	719	731	664	567	2,671	2,712	2,674	2,540
<i>including in Poland</i>	650	668	593	556	661	673	606	559	674	684	627	533	2,478	2,512	2,524	2,481
<i>including in Pakistan</i>	69	53	52	45	43	49	53	53	45	47	37	34	193	200	150	59
<b>TOTAL (measured as E equivalent)</b>	<b>1,163</b>	<b>1,173</b>	<b>1,096</b>	<b>1,040</b>	<b>1,181</b>	<b>1,195</b>	<b>1,095</b>	<b>1,073</b>	<b>1,183</b>	<b>1,192</b>	<b>1,123</b>	1,036	<b>4,489</b>	<b>4,546</b>	<b>4,537</b>	<b>4,458</b>
<b>NATURAL GAS SALES BY THE PGNIG GROUP [mcm]</b>																
HIGH-METHANE GAS (E)	10,119	8,735	5,175	5,715	9,431	8,141	4,777	5,134	9,414	7,603	4,298	5,079	29,057	27,466	25,291	22,895
<i>including PST sales outside PGNIG Group</i>	1,362	1,487	1,305	1,099	1,352	1,360	855	716	998	603	452	482	5,243	3,929	2,186	2,510
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	482	447	350	336	465	442	337	308	491	419	296	312	1,597	1,578	1,496	1,371
<b>TOTAL (measured as E equivalent)</b>	<b>10,601</b>	<b>9,182</b>	<b>5,525</b>	<b>6,051</b>	<b>9,896</b>	<b>8,583</b>	<b>5,114</b>	<b>5,442</b>	<b>9,905</b>	<b>8,022</b>	<b>4,594</b>	5,391	<b>30,654</b>	<b>29,044</b>	<b>26,787</b>	<b>24,266</b>
<i>including sales directly from the fields</i>	250	235	210	170	229	228	211	179	237	226	182	161	844	855	796	718
<b>NATURAL GAS IMPORTS BY PGNIG S.A. [mcm]</b>																
Total	3,462	3,965	3,508	3,710	3,667	2,949	3,324	3,419	3,837	3,673	3,488	3,334	14,851	13,530	13,714	11,527
<i>including: sources east of Poland</i>	1,923	2,654	2,316	2,186	1,791	1,097	2,357	2,602	2,982	2,540	1,889	2,518	8,946	9,038	9,656	10,248
<i>including: LNG</i>	982	948	706	1,044	727	759	635	815	505	383	470	475	3,425	2,713	1,715	974
<b>CRUDE OIL, PGNIG GROUP (thousand tonnes)</b>																
Production of crude oil and condensate	325	328	275	290	324	353	320	324	348	329	313	269	1,216	1,345	1,257	1,318
<i>including in Poland</i>	200	208	184	177	208	219	202	189	208	220	203	148	776	818	787	763
<i>including in Norway</i>	125	120	91	113	116	134	118	135	140	109	110	121	440	527	470	555
Sales of crude oil and condensate from own production	277	361	295	266	288	378	309	294	429	313	251	316	1,210	1,410	1,270	1,346
<i>including in Poland</i>	210	201	182	177	210	225	194	188	210	222	190	161	771	817	791	753
<i>including in Norway</i>	67	160	113	89	78	153	115	106	219	91	61	155	439	593	479	593
<b>GENERATION</b>																
Production of heat, net (sales) (TJ)	16,048	12,984	3,268	6,040	16,970	14,255	2,942	4,425	19,037	14,195	3,476	6,848	39,263	40,659	42,607	39,527
Production of electricity, net, secondary generation (for sale) (GWh)	1,382	1,266	425	744	1,513	1,315	523	598	1,539	1,280	407	737	3,948	3,974	3,882	3,604