



PGNiG

Polish Oil & Gas Company

PGNiG Group H1 and Q2 2015 Results

August 14th 2015

Financial highlights – Q2 2015



(PLNm)	Q2 2014	Q2 2015	Δ%
Revenue	6,846	7,895	15%
Operating expenses (excl. D&A)	(5,560)	(6,225)	12%
EBITDA	1,286	1,670	30%
Depreciation and amortisation expense	(675)	(723)	7%
EBIT	611	947	55%
Net finance income/(costs)	(75)	14	
Net profit	340	621	83%

Good operating efficiency, with lower yoy impact of one-off items

- Revenue from high-methane (E) gas sales up PLN 1.4bn, to PLN 6.1bn in Q2 2015, with sales volume up 1.4 bcm year on year, to 4.5 bcm, driven by the exchange sale requirement.
- Revenue from crude oil and condensate sales down PLN 300m in Q2 2015, with volumes stable year on year at 372 thousand tonnes, with declining oil prices as the key driver (average oil price down from USD 110/bbl (PLN 333/bbl) in Q2 2014 to USD 62/bbl (PLN 230/bbl) in Q2 2015).
- Net effect of impairment losses and write-downs recognised/reversed, provisions and dry wells/seismic surveys written off at PLN -191m in Q2 2015 vs. PLN -699m in Q2 2014 (change: PLN+508m).
- Marginal negative impact of the net proceeds settlement of Qatari gas in Q2 2015 (one delivery settled in Q2).
- PLN 51m provision for the Voluntary Redundancy Programme at PGNiG SA and PGNiG OD recognised in Q2 2015.
- Interest expense down PLN 23m year on year (from PLN 45m to PLN 22m) and a positive impact of hedging transactions and FX differences on this expense item

Financial highlights – H1 2015



(PLNm)	H1 2014	H1 2015	Δ%
Revenue	16,381	20,390	24%
Operating expenses (excl. D&A)	(12,914)	(16,394)	27%
EBITDA	3,467	3,996	15%
Depreciation and amortisation expense	(1,298)	(1,387)	7%
EBIT	2,169	2,609	20%
Net finance income/(costs)	(106)	(58)	46%
Net profit	1,520	1,865	23%

PGNiG Group's consolidated EBITDA up despite steep falls in oil prices

- Revenue from E gas sales up PLN 4.6bn, to PLN 16.4bn in H1 2015, with sales volume up 4.2 bcm year on year, to 11.8 bcm, driven by the exchange sale requirement.
- Revenue from sales of crude oil and condensate down PLN 510m, despite a year-on-year increase in sales volumes by 61 thousand tonnes (consolidation of assets acquired from Total on the Norwegian Continental Shelf as of Q1 2015), with falling oil prices as the key driver.
- Cost of gas up PLN 4.4bn, to PLN 12.6bn in H1 2015 (as a result of the exchange sale requirement), with PGNiG SA's cost of gas down
- Net effect of impairment losses and write-downs recognised/reversed, provisions and dry wells/seismic surveys written off at PLN -204m in H1 2015 vs. PLN -787m in H1 2014 (change: PLN+583m).
- Depreciation/amortisation up PLN 70m year on year on step-up of Norwegian operations.
- Interest expense down PLN 46m year on year on lower debt and interest rate levels.

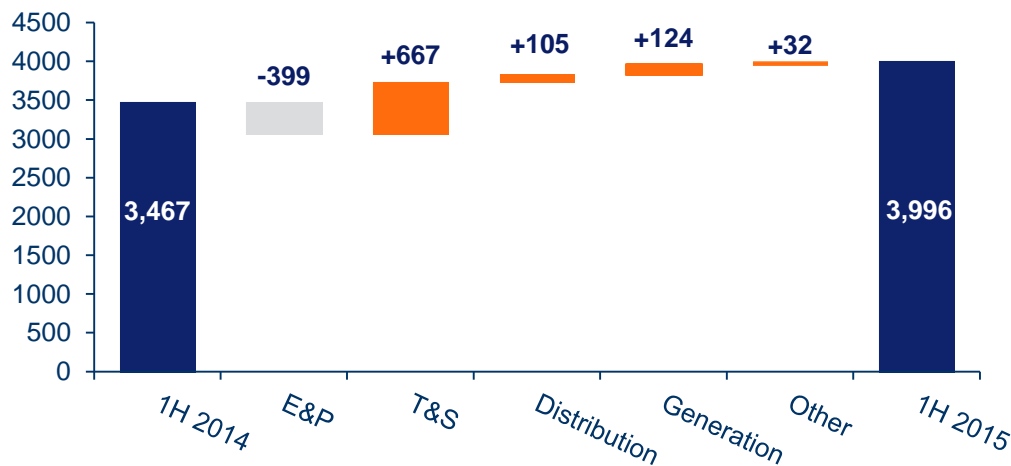
H1 2015 EBITDA by segment



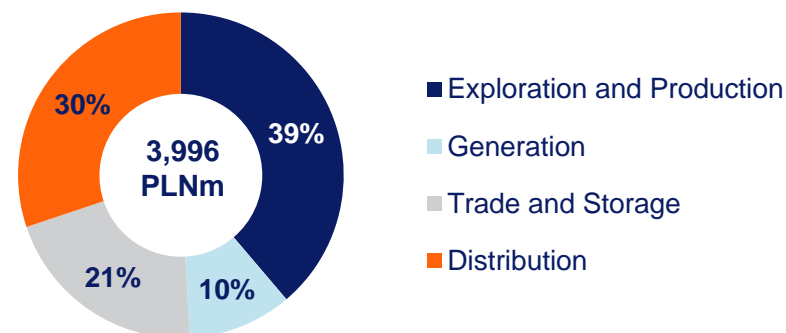
(PLNm)	H1 2014	H1 2015	Δ%	Contribution to Group's result
Exploration and Production	1,941	1,542	(21%)	39%
Trade and Storage	157	824	x5	21%
Distribution	1,113	1,218	9%	30%
Generation	288	412	43%	10%
Other, eliminations	(32)	-		
Total	3,467	3,996	15%	

- Revenue from sales of oil and condensate down PLN 0.5bn year on year.
- Lower unit costs of gas purchase and greater impact of one-off items in H1 2014.
- Tariff prices up, with volumes growing 3% y/y
- Negative impact of system balancing (PLN +19m) and the Voluntary Redundancy Programme (PLN -96m) on H1 2015 results.
- Heat and electricity prices up, with volumes slightly up and reduced fuel prices.

PGNiG Group EBITDA up in H1 2015 on H1 2014



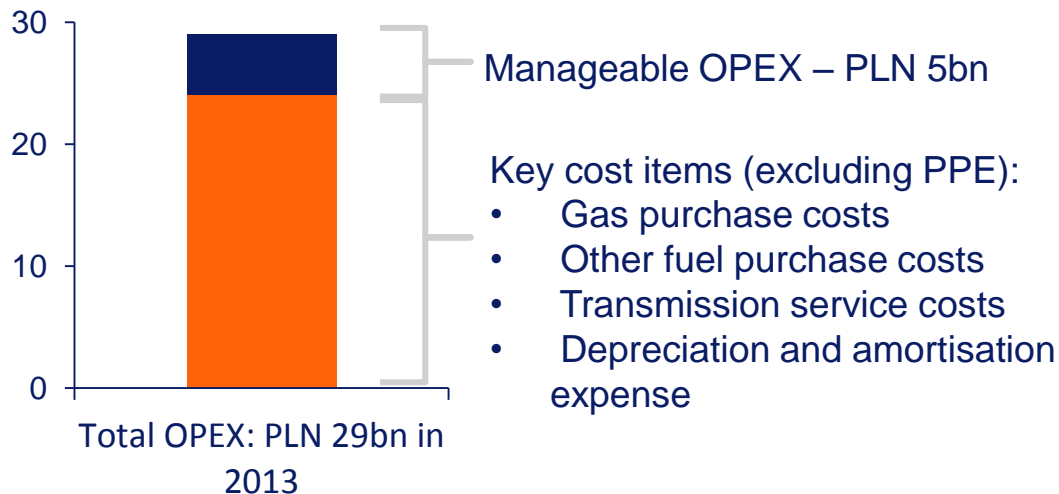
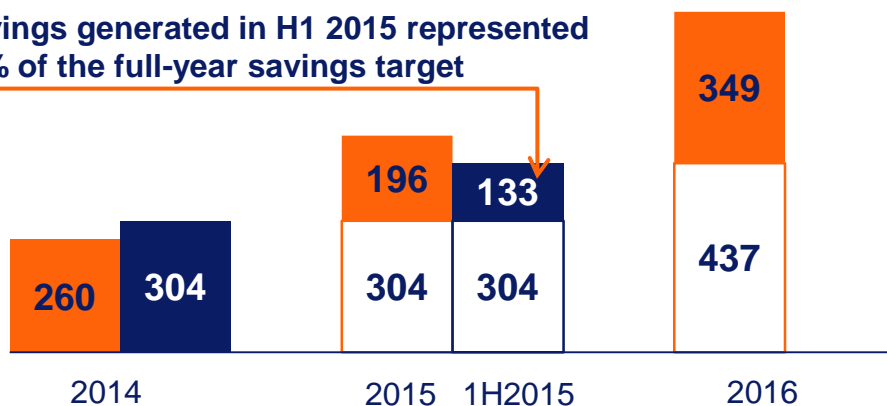
Segments' contribution to Group EBITDA



PPE – 87% of the 2015 target achieved

Planned gains Achieved gains

Savings generated in H1 2015 represented 87% of the full-year savings target



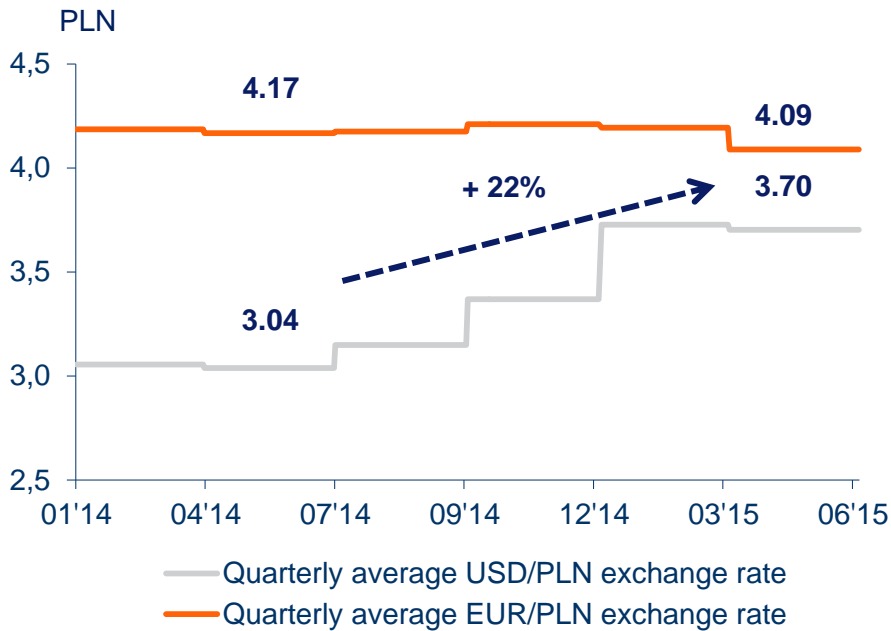
- Setting efficiency improvement targets for PGNiG Group segments and companies.
- Defining the scope and timing of efficiency improvement measures.
- Delivery by the end of 2016.

The Programme aims to permanently reduce the manageable cost base across core PGNiG Group segments by approximately PLN 0.8bn.

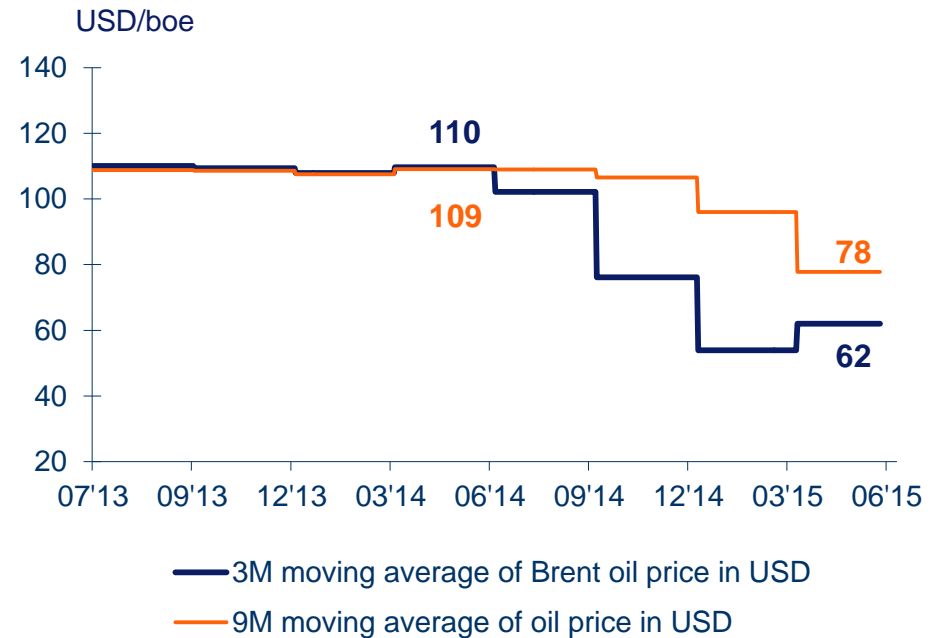
Performance drivers



PLN down against a stronger USD and up against a weaker EUR year on year



Nine-month average crude oil price in USD down 29% year on year in Q2 2015, on the back of falling oil prices



Performance drivers

Marked tariff reductions over the past periods and impact of the discount policy in Q2 2015.

Price in the chart is calculated on the combined tariff sales of PGNiG SA and PGNiG OD to customers in Poland. PPE transactions and sales of gas directly from the fields are not taken into account.



The largest volumes of gas were traded on the PPE and other gas exchanges under contracts with maturities of a quarter, season (summer/winter) and calendar year, with the spot market playing a complementary role in gas trading.

Segments – Exploration and Production



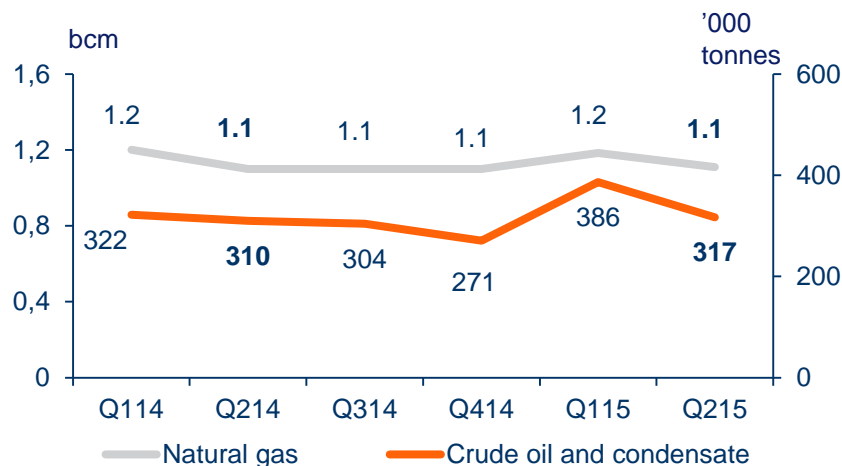
(PLNm)	Q2 2014	Q2 2015	Δ%
Revenue	1,809	1,316	(27%)
Operating expenses (excl. D&A)	(994)	(652)	(34%)
EBITDA	815	664	(19%)
Depreciation and amortisation expense	(344)	(378)	10%
EBIT	471	286	(40%)

- Revenue from sales of crude oil down (PLN 0.3bn year on year), with prices in PLN down over 30% and sales volumes unchanged.
- Revenue from geophysical and drilling services down PLN 96m, to PLN 99m.

- Segment's Q2 2015 performance affected by impairment losses on production assets and the costs of seismic surveys and dry wells written off, totalling PLN 361m (Q2 2014: PLN 488m).
- PLN 139m well decommissioning provision reversed due to lower decommissioning costs (Sanok branch) and a higher discount rate. The value of the wells corresponding to the provision was too low, hence the positive effect on profit or loss.

- Year-on-year increase in crude output following consolidation of assets acquired from Total (interests in the Morvin, Vale and Vilje fields).
- LMG extraction facility shut down for maintenance in Q2 2015 (last year the maintenance work took place in Q3).

Gas output stable and crude output up year on year in Q2 2015



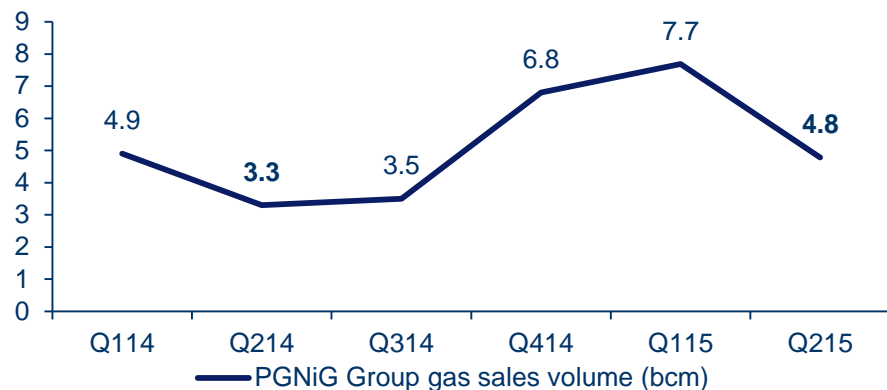
Effect of low crude prices

Segments – Trade and Storage (1)

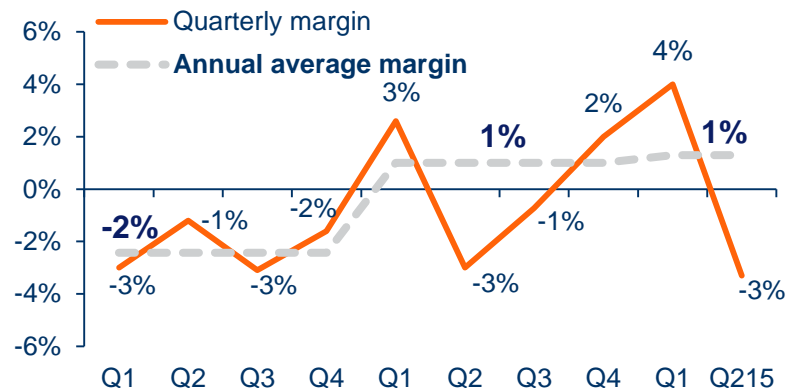
(PLNm)	Q2 2014	Q2 2015	Δ%
Revenue	5,357	6,634	24%
Operating expenses (excl. D&A)	(5,428)	(6,429)	18%
EBITDA	(71)	205	-
Depreciation and amortisation expense	(38)	(43)	9%
EBIT	(109)	162	-

- Rise in revenue from gas sales in the Trade and Storage segment from PLN 4.8bn to PLN 6.2bn, with shifts in the sales structure and prices (exchange sale requirement).
- PST's contribution to overall gas sales revenue: PLN 0.5bn relative to PLN 0.4bn in Q2 2014.
- Segment's electricity sales: PLN 0.36bn in Q2 2015.
- Effect of hedging transactions and FX differences on the segment's performance at PLN -57m in Q2 2015 vs PLN -107m in Q2 2014.
- Partial reversal of gas inventory write-down in Q2 2015 (positive effect of PLN +25m). Q2 2014 performance affected by a PLN 141m gas inventory write-down.

PGNiG Group's gas sales up 1.4 bcm year on year in Q2 2015, with the growth entirely attributable to sales on the PPE (1.55 bcm in Q2 2015)



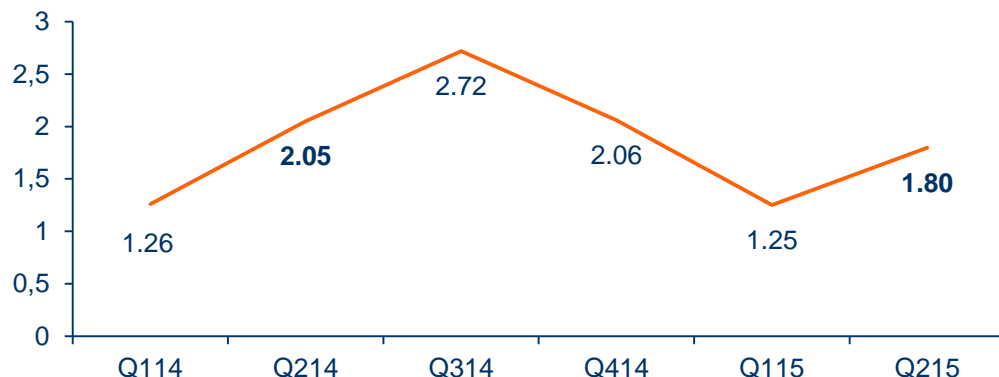
Group E gas margin at PGNiG SA and PGNiG Obrót Detaliczny



Average margin on high-methane gas at 1% in H1 2015

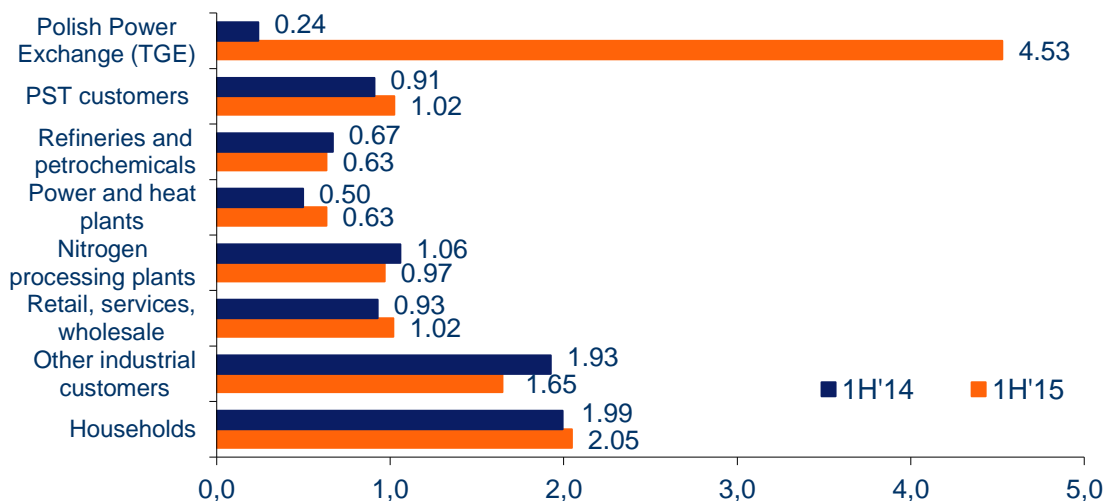
Segments – Trade and Storage (2)

Gas inventory levels (bcm)



- In Q2 2015, underground injection volumes down relative to 2014. Higher utilisation of gas storage capacities expected in Q3 2015. Gas inventory level on 31st July- 2.2 bcm.
- Volume of gas imported by PGNiG SA down 4% on Q2 2014 (to 2.5 bcm), with imports from east of Poland down 0.3 bcm and imports from west and south of Poland up 0.2 bcm.

PGNiG Group (PGNiG SA, PGNiG Obrót Detaliczny, PST) – gas sales volumes by customer group (bcm)



- Increase in sales to CHP plants by 0.13 bcm year on year, driven by the gas-fired cogeneration support system reinstated as of May 2014, and a 0.13 bcm decline in sales to nitrogen processing plants and refineries.
- In winter the difference between the tariff-fixed price of gas and the market price on the Polish Power Exchange was smaller than in summer.
- Average air temperature in the quarter down 0.3°C year on year; average air temperature in April down 1.4°C.

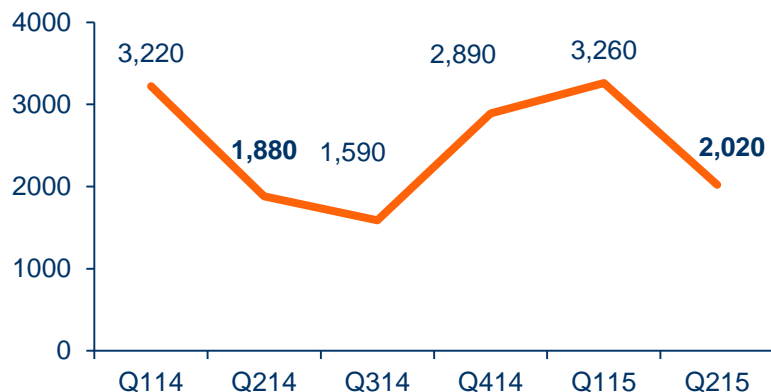
Segments – Distribution



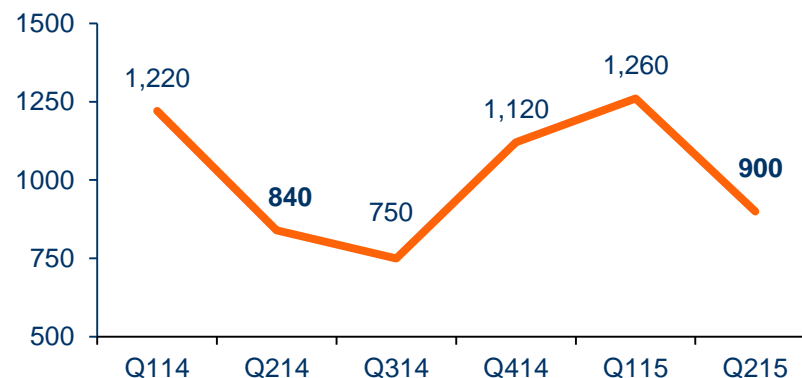
(PLNm)	Q2 2014	Q2 2015	Δ%
Revenue	964	1,078	12%
Operating expenses (excl. D&A)	(476)	(381)	(20%)
EBITDA	488	697	43%
Depreciation and amortisation expense	(215)	(220)	2%
EBIT	273	477	74%

- Gas distribution volume up 7.5% year on year (average air temperature lower by 0.3°C; average air temperature in April down 1.4°C), to 2.02 bcm.
- Net income from system balancing at PLN 172m in Q2 2015, compared with PLN 114m in Q2 2014.
- Payment of benefits under the Voluntary Redundancy Programme (VRP) and use of the PLN 96m voluntary redundancy provision in Q2 2015.
- Reversal of the PLN 39m provision for extra-contractual use of land.

Gas distribution volume (mcm)



Revenue from distribution services (PLNm)

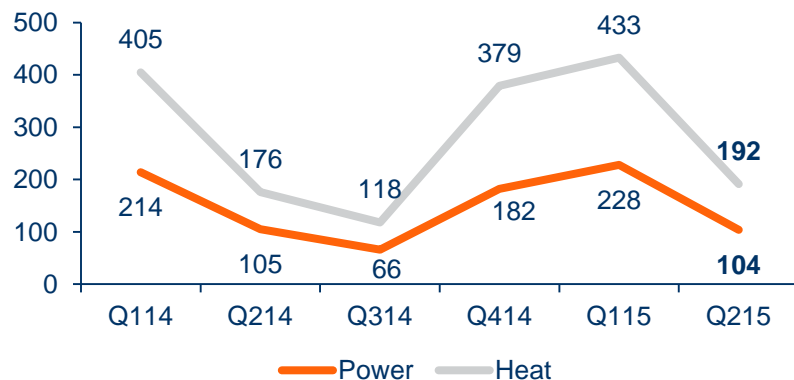


Sound performance delivered by a stable segment

Segments – Generation

(PLNm)	Q2 2014	Q2 2015	Δ%
Revenue	384	343	(10%)
Operating expenses (excl. D&A)	(312)	(241)	(22%)
EBITDA	72	102	42%
Depreciation and amortisation expense	(73)	(78)	8%
EBIT	(1)	24	-

PGNiG Termika's revenue from sales of heat and electricity (from own generation sources; PLNm)



- Revenue from sales of heat up 9%, to PLN 0.19bn, with volumes up almost 9% and a higher heat tariff effective from August 1st 2014.
- Revenue from electricity sales down 32%, to PLN 0.13bn, due to reduced trading in electricity purchased from other parties (with corresponding costs also down). Stable revenue from sales of internally generated electricity (PLN 104m in Q2 2015).
- Lower unit cost of fuels for heat and power generation with generation volumes growing.

Sales volumes at PGNiG Termika in Q2 2015 (own generation sources):

- Sales of heat: 5.8 PJ, up 9% year on year.
- Electricity: 674 GWh, up 4% year on year.

Performance improved on lower cost of fuel and higher heat and electricity prices

Operating expenses – Q2 2015

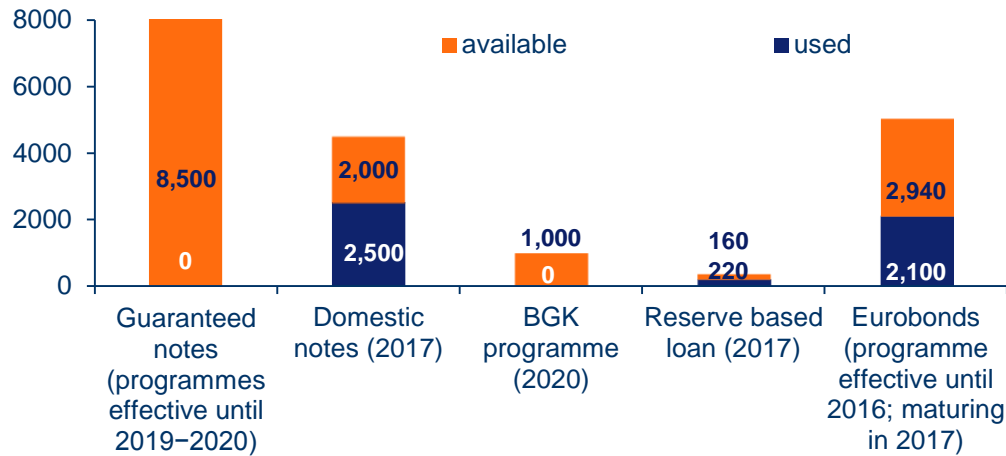
(PLNm)	Q2 2014	Q2 2015	Δ%
Cost of gas sold	(3,023)	(4,420)	46%
Electricity for trading	(299)	(218)	(28%)
Other raw materials and consumables used	(133)	(129)	(3%)
Fuels for heat and power generation	(119)	(120)	1%
Employee benefits expense	(687)	(583)	(15%)
Transmission services	(302)	(277)	(9%)
Cost of dry wells and seismic surveys written-off	(161)	(175)	9%
Other services	(353)	(302)	(14%)
Net other income/(expenses)	(669)	(229)	(66%)
▪ <i>change in impairment losses and write-downs</i>	(490)	(160)	(63%)
▪ <i>provision for well decommissioning costs</i>	(19)	143	
Work performed by the entity and capitalised	185	229	24%
Operating expenses (excl. D&A)	(5,560)	(6,225)	12%
Depreciation and amortisation expense	(675)	(723)	7%
Total operating expenses	(6,235)	(6,948)	11%

- Sales volume up 1.5 bcm yoy, to 4.8 bcm, with lower unit cost of gas.
- Reduced scale of trading in electricity purchased from other parties.
- Costs down in Group companies following a ca. 3,800 reduction in headcount year on year, to 25,900 employees, including 2,000 at PSG (of which 1,000 left under the VRP in 2015) and 900 at drilling and geophysical subsidiaries.
- Benefits paid under the VRP at PSG using the provision recognised for that purpose in Q1 2015 and no provision recognised for 2014 annual bonuses that would be paid in 2015 - negotiations with trade unions.
- Reversal of the provision for length-of-service awards due to lower employment and a higher discount rate (PLN 55m).
- Q2 2015 mainly affected by a PLN 188m impairment loss on production and exploration assets (Q2 2014: PLN 325m, and a PLN 141m write-down on gas inventories).

Total operating expenses up PLN 0.7bn, with cost of gas up PLN 1.4bn

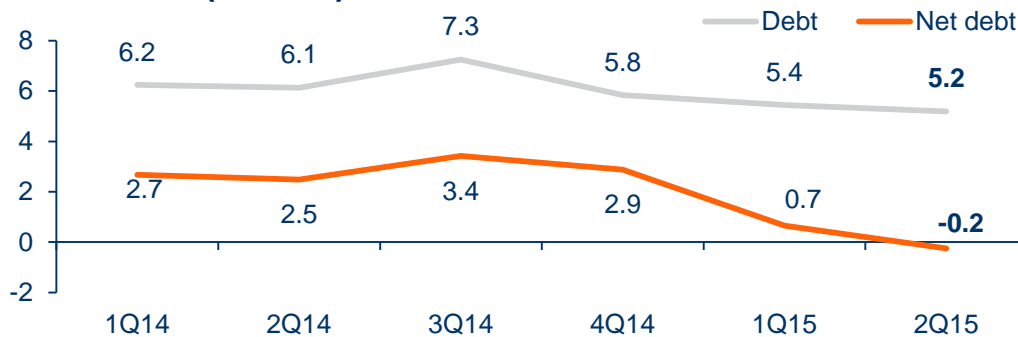
Debt and sources of financing

Financing sources as at June 30th 2015 (PLNm)



- Available financing programmes for PLN 14.6bn, including PLN 9.6bn underwritten
- Cash accumulated for distribution as dividend (paid on August 4th 2015).
- On August 13th 2015 PGNiG Upstream International has increased the scale of the Reserve Based Loan up to USD 400 mln, increasing PUI's self-financing abilities and financial capacity of PGNiG Group. The new, revolving credit facility is granted for the term of seven years with two and a half year grace period.

Debt (PLNbn)



Strong financial position



Appendix



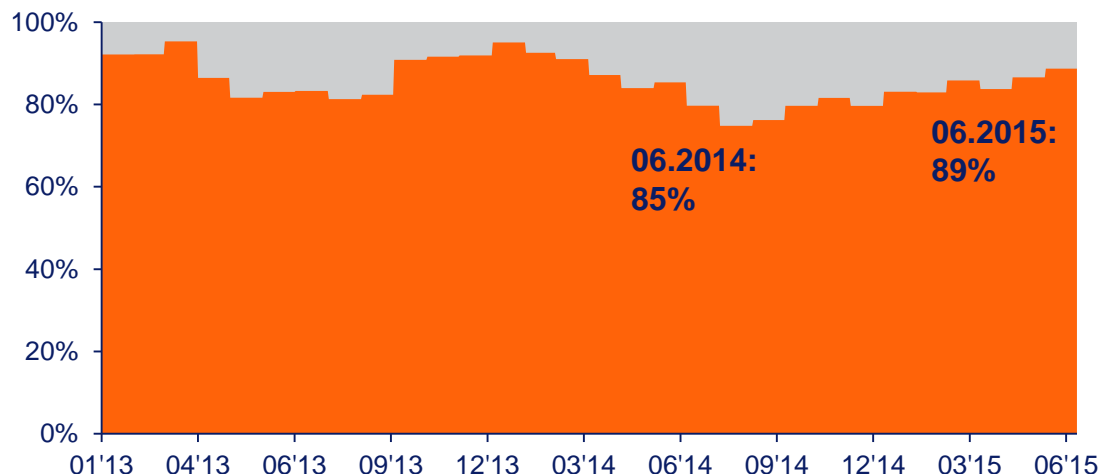
Changes on the Polish gas market



Gas sales volume (mcm)	H1 2014	H1 2015	Δ%
Total PGNiG Group	8,250	12,524	52%
PGNiG SA	7,312	7,139	(2%)
including PGNiG SA through PPE	241	4,406	x18
PGNiG Obrót Detaliczny	-	4,334	

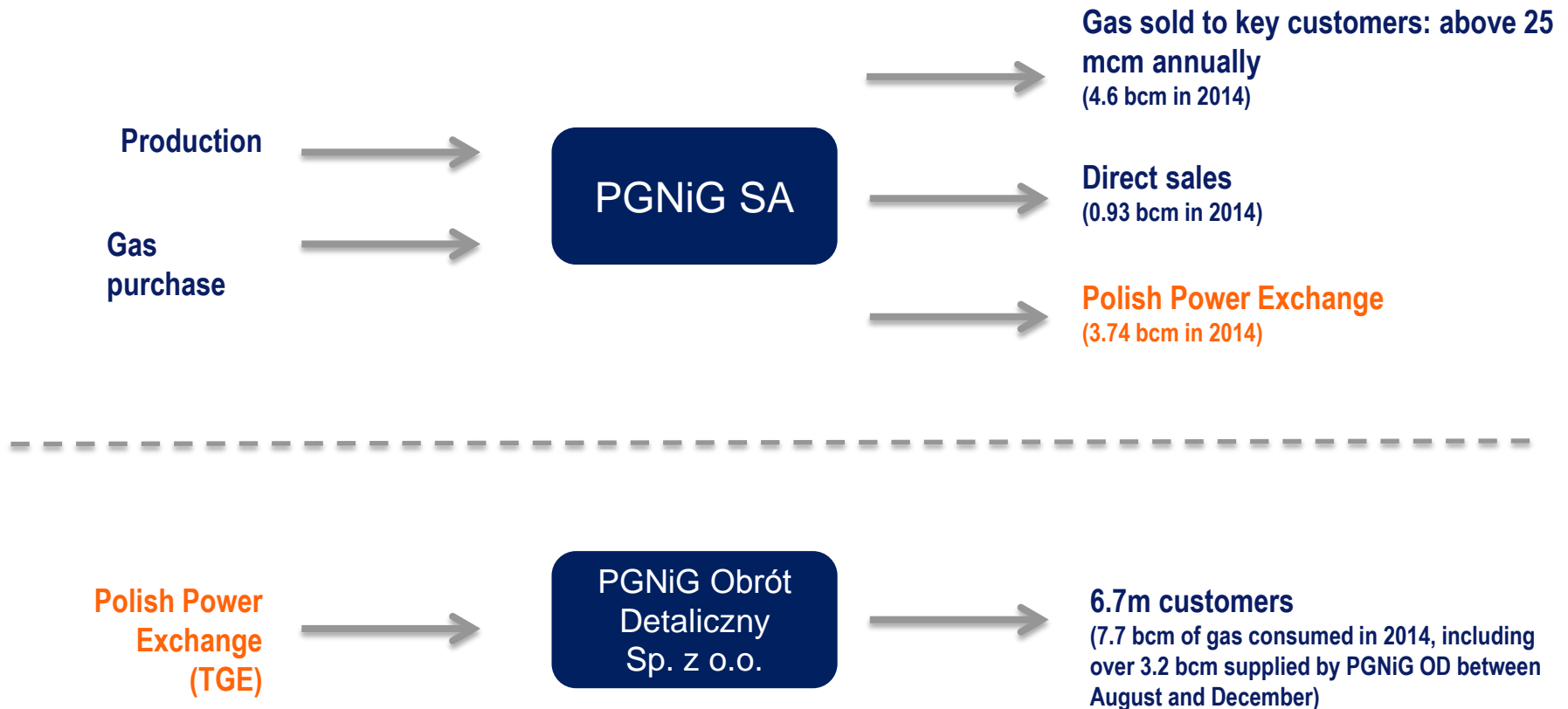
- Since August 1st 2014, the PGNiG Group's gas sales volumes have included both PGNiG SA's sales through the exchange and PGNiG OD's sales to end customers and on the exchange.
- PGNiG OD's sales include nitrogen-rich gas, presented in the table as Group E gas equivalent.
- The cost of gas purchase on PPE by PGNiG OD stood at PLN 1.45 bn in Q2 2015 and PLN 4.9bn in H1 2015. Approximately these amounts could be deducted from both revenue and cost of the Group to achieve like-for-like comparison to respective 2014's periods.
- Data in the chart are not to indicate PGNiG SA's share in the Polish gas market. They have been sourced from reports published by OGP Gaz-System on the volumes of gas flowing through interconnectors and illustrate PGNiG SA's share in gas inflows into Poland.

PGNiG's share in gas imports to Poland*



Gas market deregulation is affecting PGNiG's share in imports and sales structure

Gas trading and retail sales after August 1st 2014



Sales made on PPE by PGNiG SA and purchases made on PPE by PGNiG Obrót Detaliczny, which commenced operations on August 1st 2014, **are not subject to elimination from the consolidated financial statements**, and are disclosed under the Trade and Storage segment.

Measured as high-methane gas equivalent (without intragroup eliminations).

Production and sales volumes



NATURAL GAS PRODUCTION, PGNiG Group

	(mcm)											
	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	FY 2013	Q4 2013	Q3 2013	Q2 2013	Q1 2013
HIGH-METHANE GAS (E)	507	501	1,876	440	475	482	479	1,890	483	481	484	443
including in Poland	362	367	1,457	368	361	362	367	1,550	384	387	387	393
including in Norway	145	134	419	73	114	120	112	340	99	94	96	50
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	602	684	2,627	692	582	650	704	2,692	737	619	604	733
including in Poland	589	671	2,569	677	567	636	690	2,667	722	609	604	733
including in Pakistan	13	13	58	14	15	15	14	25	15	10	0	0
TOTAL (measured as E equivalent)	1,109	1,185	4,503	1,132	1,057	1,132	1,182	4,582	1,220	1,100	1,087	1,175
Total production in kboe/d	78	83	80	79	74	80	85	81	85	77	77	84

NATURAL GAS SALES, PGNiG Group

	(mcm)											
	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	FY 2013	Q4 2013	Q3 2013	Q2 2013	Q1 2013
HIGH-METHANE GAS (E)	4,521	7,320	17,261	6,373	3,284	3,078	4,526	15,006	4,132	2,731	2,965	5,178
including PST sales outside PGNiG Group	502	522	1,760	488	363	444	465	1,383	356	306	271	449
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	282	401	1,342	424	272	271	375	1,202	351	220	245	387
TOTAL (measured as E equivalent)	4,803	7,721	18,602	6,797	3,556	3,349	4,900	16,208	4,483	2,951	3,210	5,564
including sales directly from the fields	175	212	808	212	177	180	238	749	216	164	153	216

GAS IMPORTS by PGNiG SA

	(mcm)											
	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	FY 2013	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Total	2,495	2,574	9,700	2,423	2,143	2,594	2,541	10,850	2,664	2,245	2,481	3,460
including: sources east of Poland	2,219	1,833	8,097	1,751	1,805	2,515	2,026	8,734	1,793	1,885	2,272	2,784

CRUDE OIL, PGNiG Group

	('000 tonnes)											
	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	FY 2013	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Production of crude oil and condensate	317	386	1,207	271	304	310	322	1,099	309	327	233	229
including in Poland	147	207	789	214	188	184	203	815	215	218	178	204
including in Norway	170	180	418	57	116	126	119	283	94	109	55	25
Total production in kbbl/d	26	31	24	22	24	25	26	22	25	26	19	19
Sales of crude oil and condensate	372	348	1,169	249	262	373	287	1,106	401	255	243	207
including in Poland	148	217	780	213	181	185	201	809	222	213	180	194
including in Norway	224	131	389	36	81	188	85	297	179	42	63	13

PGNiG TERMIKA

	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	FY 2013	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Production of heat, net (sales) (TJ)	5,810	15,055	36,617	12,980	2,867	5,336	15,434	40,175	12,530	3,367	5,766	18,511
Production of electricity, net, secondary generation (for sale) (GWh)	674	1,394	3,555	1,132	386	648	1,390	3,772	1,189	445	613	1,526