



**PGNiG**

Polskie Górnictwo Naftowe  
i Gazownictwo SA

## **PGNiG Group Q1 2015 Results**

**May 8th 2015**

# Financial highlights Q1 2015



(PLNm)	Q1 2014	Q1 2015	Δ%
Revenue	9,535	<b>12,495</b>	31%
Operating expenses (excl. D&A)	(7,354)	<b>(10,169)</b>	38%
EBITDA	2,181	<b>2,326</b>	7%
Depreciation and amortisation expense	(623)	<b>(664)</b>	7%
EBIT	1,558	<b>1,662</b>	7%
Net finance income/(cost)	(31)	<b>(72)</b>	132%
Net profit	1,180	<b>1,244</b>	5%

**Good operating efficiency, with lower unit cost of gas.**

- Revenue from natural gas sales up PLN 3.2bn, to PLN 10.8bn in Q1 2015, with sales volume up 2.8 bcm, to 7.7 bcm, driven by the exchange sale requirement.
- Revenue from sales of crude oil and condensate down PLN 205m, despite a year-on-year increase in sales volumes by 61 thousand tonnes (consolidation of assets acquired from Total on the Norwegian Continental Shelf), with declining oil prices as the key driver (average oil price down from USD 108/bbl in Q1 2014 to USD 54/bbl in Q1 2015).
- PLN 2.95bn increase in gas purchase costs, to PLN 8.2bn in Q1 2015 (effect of the exchange sale requirement).
- Marginal impact of the net proceeds settlement of Qatar gas in Q1 2015 (four LNG carriers).
- PLN 96m provision for the Voluntary Redundancy Programme at Polska Spółka Gazownictwa recognised in Q1 2015.
- Depreciation/amortisation up PLN 39m year on year on step-up of Norwegian operations.
- PLN 37m net exchange loss on the USD-denominated reserve based loan in Q1 2015.

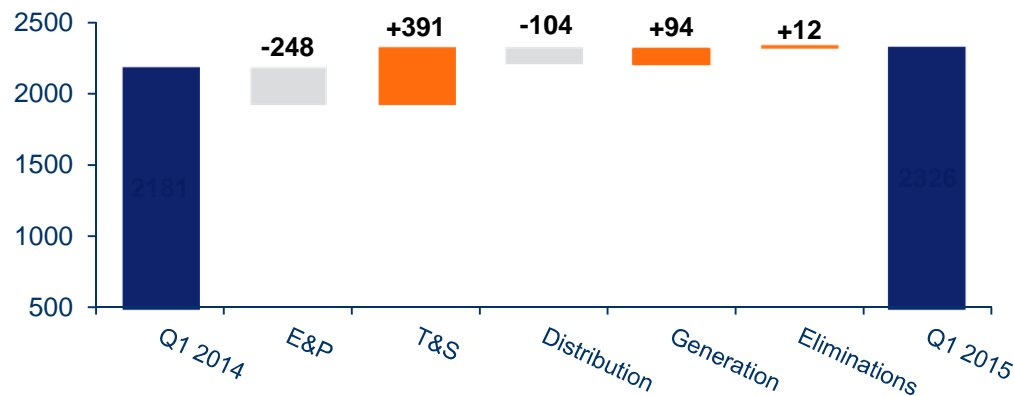
# Business segments – EBITDA Q1 2015



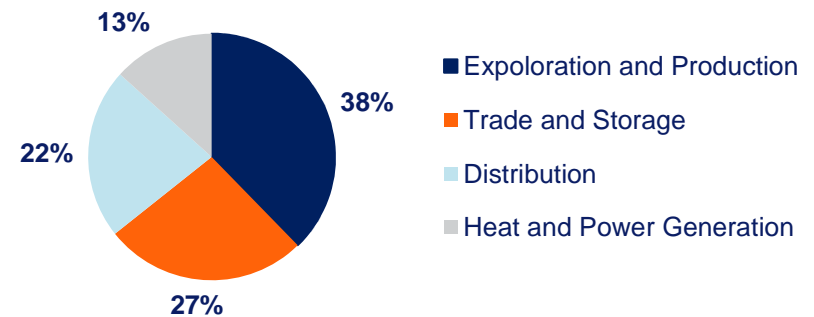
(PLNm)	Q1 2014	Q1 2015	Δ%	Contribution to Group's result
Exploration and Production	1,126	<b>878</b>	(22%)	<b>38%</b>
Trade and Storage	228	<b>619</b>	171%	<b>27%</b>
Distribution	625	<b>521</b>	(17%)	<b>22%</b>
Generation	216	<b>310</b>	44%	<b>13%</b>
Other, eliminations	(13)	<b>(2)</b>	(85%)	
<b>Total</b>	<b>2,182</b>	<b>2,326</b>	<b>7%</b>	

- Revenue from sales of oil and condensate down PLN 0.2bn year on year
- Lower unit gas purchase costs
- PLN 96m provision for the Voluntary Redundancy Programme recognised in Q1 2015
- Heat and electricity prices up, with stable volumes and reduced fuel prices

PGNiG Group EBITDA up in Q1 2015 on Q1 2014



Segments' contribution to Group EBITDA

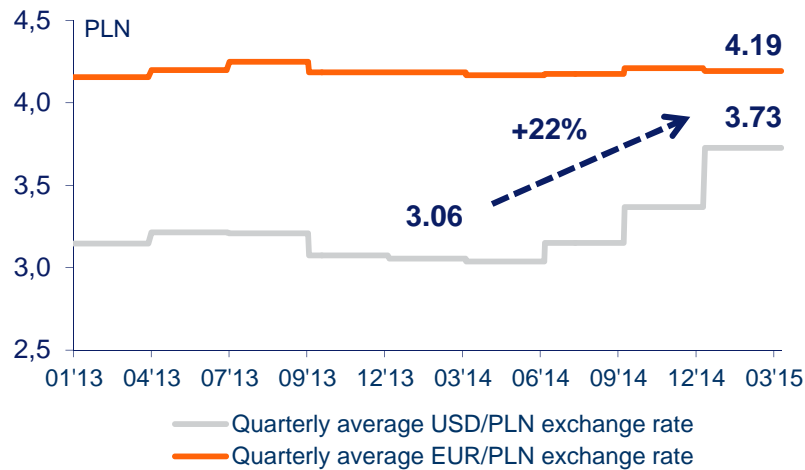


**EBITDA stronger despite falling oil prices**

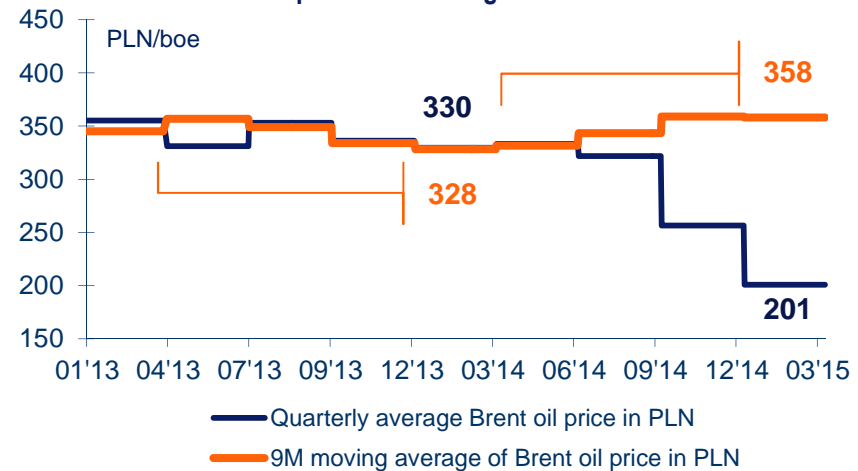
# Factors contributing to financial performance



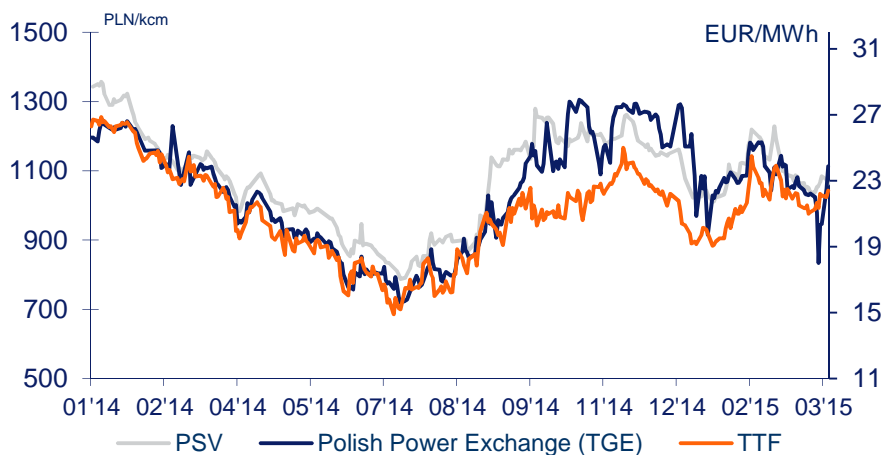
Stronger USD and stable EUR against PLN yoy



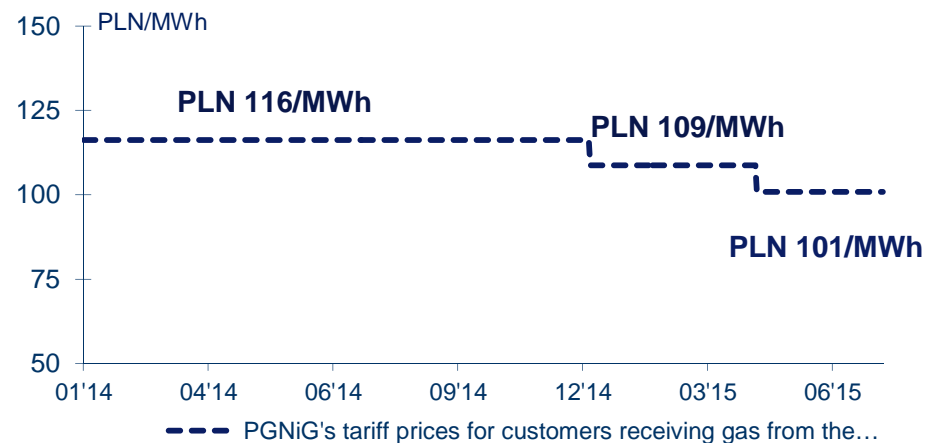
Nine-month average crude oil price in PLN up 9% yoy in Q1 2015 due to lower crude prices and stronger USD



Converging gas prices on the Polish Power Exchange and the European markets (divergent transmission costs, liquidity and number of players)



PGNiG Group E gas tariff price for the largest customers



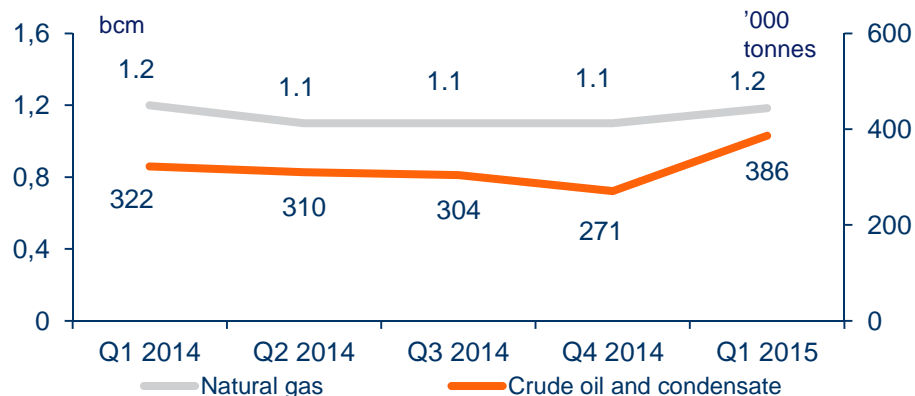
# Segments – Exploration and Production



(PLNm)	Q1 2014	Q1 2015	Δ%
Revenue	1,617	<b>1,217</b>	(25%)
Operating expenses (excl. D&A)	(491)	<b>(339)</b>	(31%)
EBITDA	1,126	<b>878</b>	(22%)
Depreciation and amortisation	(281)	<b>(317)</b>	13%
EBIT	845	<b>561</b>	(34%)

- Revenue from sales of crude oil down (PLN 0.2bn year on year), with prices in PLN down almost 40% and sales volumes up 21%.
- Sales volumes of helium preserved amid growing global supply (new capacities: Qatar, Algeria); revenue down 54% year on year, to PLN 19m.
- Reductions in the following expense items of the segment: employee benefits (down PLN 52m; headcount reduced by over 640), services, raw materials used.
- Depreciation/amortisation in Norway up PLN 39m year on year on step-up of operations.

## Gas output stable and crude output up in Q1 2015



- Increase in crude output following consolidation of assets acquired from Total (interests in the Morvin, Vale and Vilje fields).
- 2015 production planned at 1.27m tonnes of crude oil and condensate and 4.5 bcm of gas. Differences between production and sales volumes may occur in particular quarters as crude oil needs to be transported from platforms in Norway by tankers.

**Lower costs and higher volumes in response to falling crude prices**

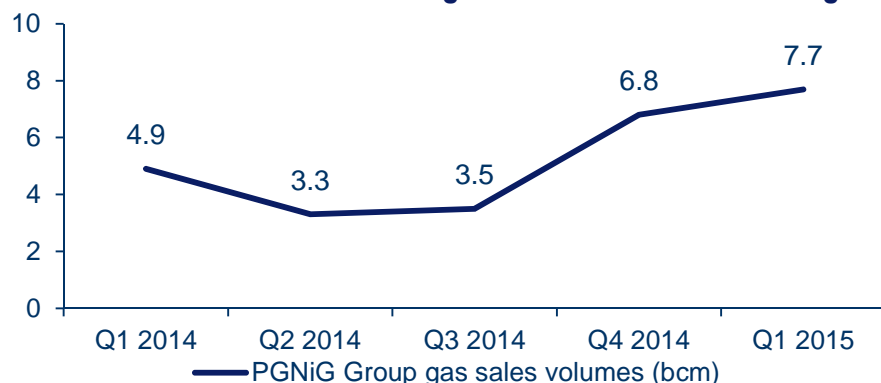
# Segments – Trade and Storage (1)



(PLNm)	Q1 2014	Q1 2015	Δ%
Revenue	7,949	<b>11,190</b>	41%
Operating expenses (excl. D&A)	(7,721)	<b>(10,571)</b>	37%
EBITDA	228	<b>619</b>	171%
Depreciation and amortisation	(39)	<b>(40)</b>	-
EBIT	189	<b>579</b>	206%

- Rise in revenue from gas sales in the Trade and Storage segment from PLN 7.4bn to PLN 10.7bn, with shifts in the sales structure and prices (exchange sale requirement).
- PST's contribution to overall gas sales revenue: PLN 617m relative to PLN 571m Q1 2014
- Segment's electricity sales stable at around PLN 0.45bn
- Effect of hedging transactions and FX differences on the segment's performance at PLN -41m in Q1 2015 vs PLN -143m in Q1 2014.
- Partial write-down reversal of gas inventories in Q1 2015: PLN+20m (At quarter end: PLN 49m).

**PGNiG Group gas sales up 2.8 bcm yoy in Q1 2015, including a PLN 2.8 bcm increase in sales through the Polish Power Exchange**



**Group E gas margin at PGNiG SA and PGNiG Obrót Detaliczny**



**Lower cost of gas procurement  
paired with significantly higher yoy EBITDA**

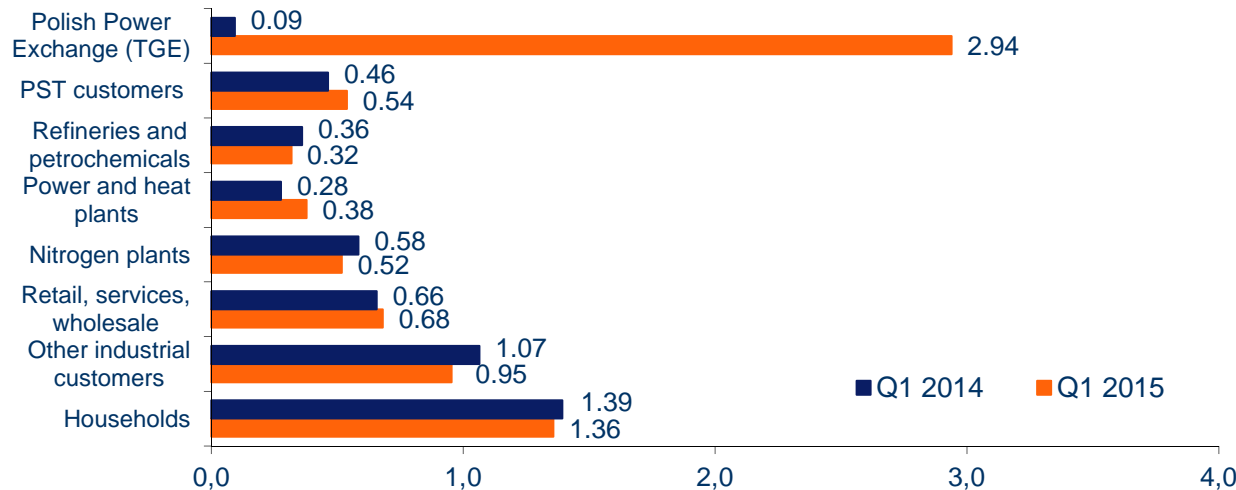
# Segments – Trade and Storage (2)



Gas inventory levels (bcm)



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



- Large volumes of gas withdrawn from storage facilities in Q4 and Q1 due to reduced deliveries from sources east of Poland. This caused the volume of gas in storage to fall from the record 2.7 bcm in September 2014 to 1.25 bcm at the end of winter season. Average air temperature down 0.6°C year on year in Q1 2015.
- Since August 1st 2014, supplies of natural gas to ca. 6.7m PGNiG SA's customers have been provided by PGNiG Obrót Detaliczny
- The volume of gas imported by PGNiG SA remained flat on Q1 2014 (2.5 bcm), with imports from east of Poland down 0.2 bcm and imports from west and south of Poland up 0.2 bcm.
- Increase in sales to CHP plants of 0.1 bcm yoy, driven by the reinstated gas-fired cogeneration support system as of May 2014, and a 0.1 bcm decline in sales to nitrogen processing plants and refineries.
- In the winter season the difference between the tariff-fixed price of gas and the market price on the Polish Power Exchange was smaller than in the summer.

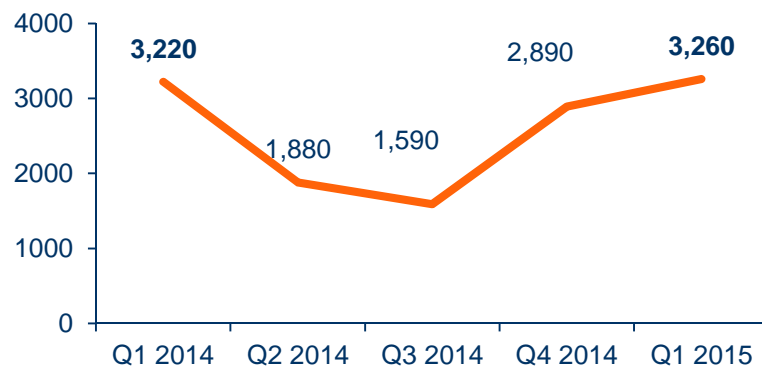
# Segments – Distribution



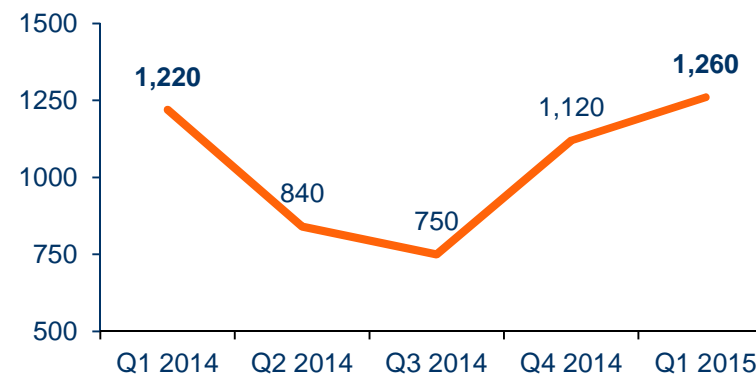
(PLNm)	Q1 2014	Q1 2015	Δ%
Revenue	1,252	<b>1,316</b>	5%
Operating expenses (excl. D&A)	(627)	<b>(795)</b>	27%
EBITDA	625	<b>521</b>	(17%)
Depreciation and amortisation	(216)	<b>(219)</b>	1%
EBIT	409	<b>302</b>	(26%)

- Gas distribution volume up 1% year on year (average air temperature lower by 0.6°C), to 3.26 bcm.
- Net cost of system balancing at PLN -153m in Q1 2015, compared with PLN -103m in Q1 2014
- PLN 96m provision for the Voluntary Redundancy Programme (covering 1,300 employees) recognised in Q1 2015; realisation scheduled for Q2 2015.

Gas distribution volume (mcm)



Revenue from distribution services (PLNm)



**Strong operating performance  
constrained by non-recurring items**



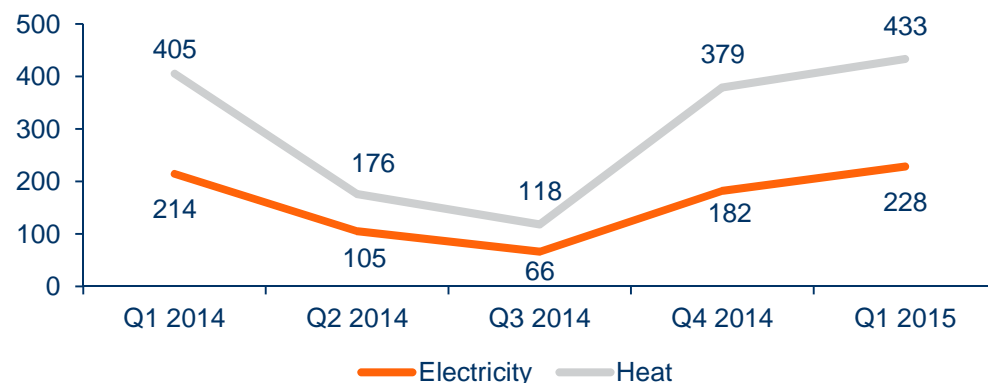
# Segments – Generation



(PLNm)	Q1 2014	Q1 2015	Δ%
Revenue	651	<b>688</b>	6%
Operating expenses (excl. D&A)	(435)	<b>(378)</b>	(13%)
EBITDA	216	<b>310</b>	44%
Depreciation and amortisation	(82)	<b>(83)</b>	1%
EBIT	134	<b>227</b>	69%

- Revenue from sales of heat up 7%: PLN 0.43bn, with volumes down almost 2% and a higher heat tariff effective from August 1st 2014.
- Revenue from sales of electricity from own sources up 6%, to PLN 0.23bn, with volumes remaining stable.
- PLN 17m revenue from sale of red certificates (Q1 2014: PLN 0).
- Cost of fuels for electricity and heat generation down PLN 44m, to PLN 270m, driven by lower coal prices and reduced biomass consumption.

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



Sales volumes at PGNiG Termika in Q1 2015 (own generation sources):

- Sales of heat at 15.1 PJ, down -2.5% year on year.
- Sales of electricity at 1.39 TWh, flat year on year.

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

# Operating expenses – Q1 2015

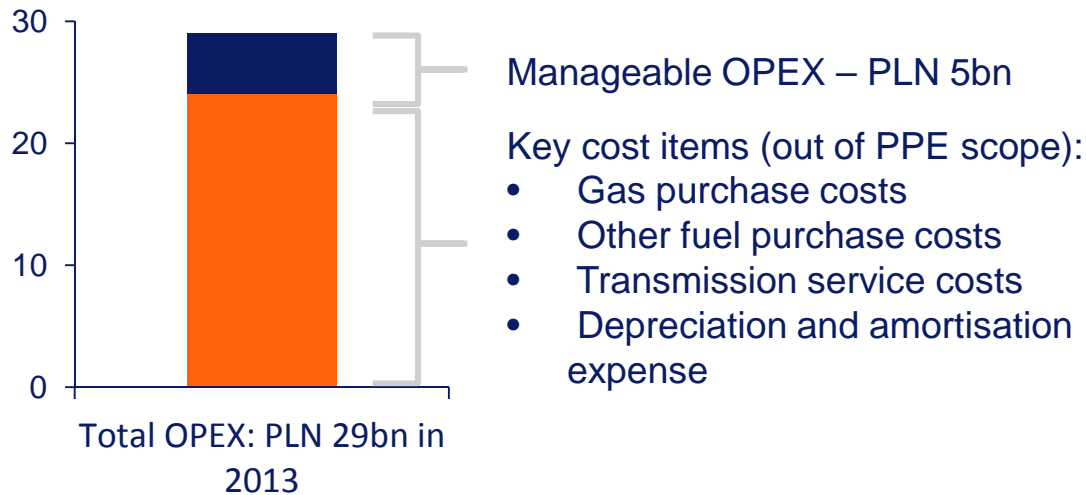
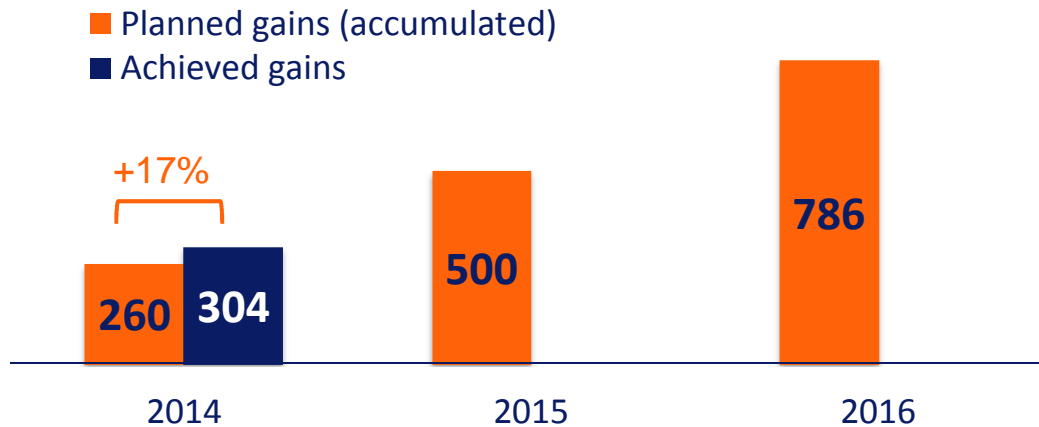


(PLNm)	Q1 2014	Q1 2015	Δ%
Cost of gas sold	(5,177)	<b>(8,206)</b>	59%
Electricity for trading	(231)	<b>(203)</b>	(12%)
Other raw materials and consumables used	(136)	<b>(154)</b>	13%
Fuels for heat and power generation	(320)	<b>(274)</b>	(14%)
Employee benefits expense	(686)	<b>(698)</b>	2%
Transmission services	(246)	<b>(247)</b>	-
Cost of dry wells written-off	(38)	<b>(2)</b>	(95%)
Other services	(301)	<b>(274)</b>	(9%)
Net other income/(expenses)	(335)	<b>(318)</b>	(5%)
▪ <i>Exchange differences and derivatives</i>	(151)	<b>(47)</b>	(69%)
▪ <i>Change in products</i>	243	<b>186</b>	(23%)
Work performed by the entity and capitalised	190	<b>206</b>	8%
Operating expenses (excl. D&A)	(7,354)	<b>(10,169)</b>	38%
Depreciation and amortisation	(623)	<b>(664)</b>	7%
Total operating expenses	(7,977)	<b>(10,833)</b>	36%

- Sales volume up 2.8 bcm yoy, to 7.7 bcm, with lower unit cost of gas. Launch of operations by the retail subsidiary PGNiG Obrót Detaliczny in August 2014.
- Lower coal and biomass consumption; lower coal price (including cost of transport).
- PLN 96m provision for the Voluntary Redundancy Programme at PSG recognised in Q1 2015; costs down at Group companies on a headcount reduction by over 2,000 year on year.
- Increased oil and gas production costs following expansion of Norwegian operations.
- Cost reductions at Group companies
- The change (PLN 41m) reflects a stronger impact of gas network balancing (Distribution segment) on this expense item in Q1 2014.
- PLN 39m rise in depreciation/amortisation charges on Norwegian assets after the transaction with Total.

**Implementation of the Efficiency Improvement Programme  
focused on manageable expenses**

# Efficiency Improvement Programme of PGNiG Group (PPE)



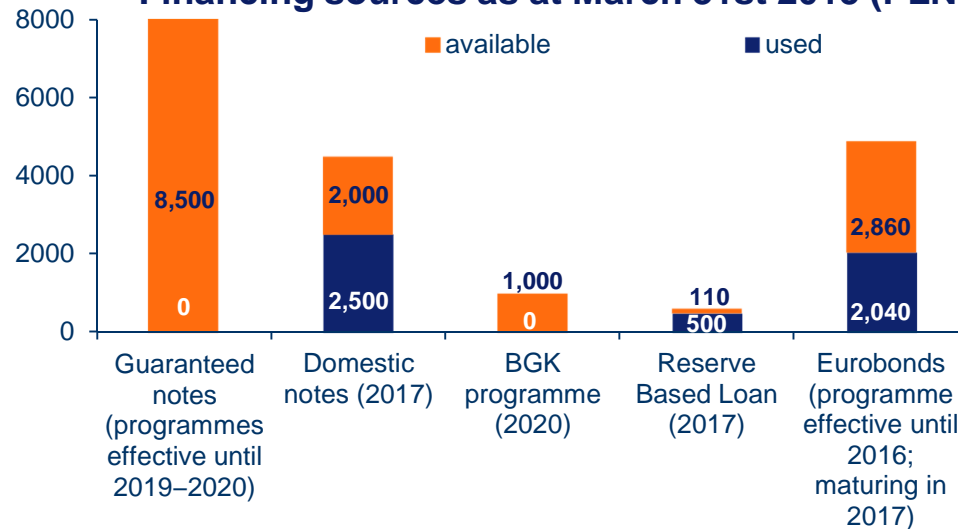
- Setting efficiency improvement targets for PGNiG Group individual segments and companies
- Defining the scope and timing of efficiency improvement measures
- Delivery by the end of 2016

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

# Debt and sources of financing

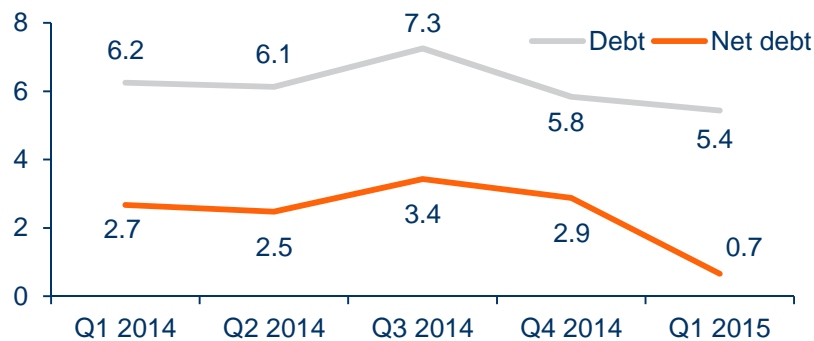


**Financing sources as at March 31st 2015 (PLNm)**

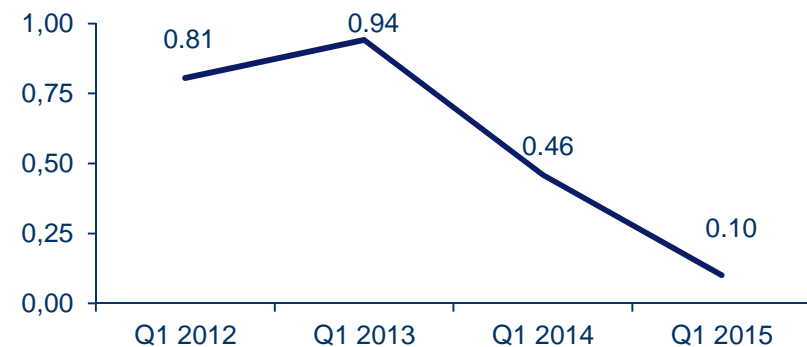


- Low debt level is a good starting point for investments under the 2014–2022 Strategy
- Available financing programmes for PLN 14.5bn, including PLN 9.6bn underwritten
- Net debt / EBITDA in Q1 2015: 0.10

**Debt (PLNbn)**



**Net debt / EBITDA**



**Strong financial position**

# Appendix



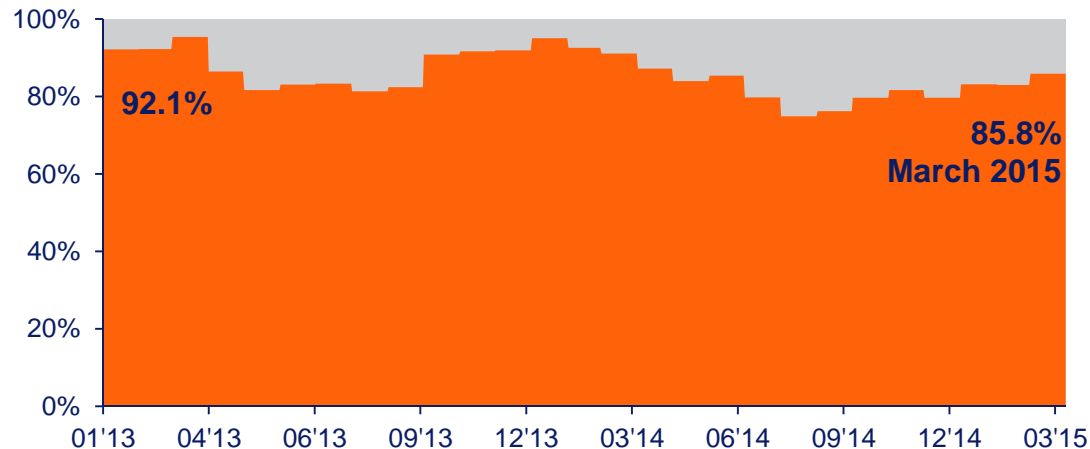
# Changes on the Polish gas market



Gas sales volume (cubic meters)	Q1 2014	Q1 2015	Δ%
Total PGNiG Group	4,900	<b>7,688</b>	57%
PGNiG SA	4,421	<b>4,342</b>	(2%)
including PGNiG SA through the TGE	94	<b>2,855</b>	
PGNiG Obrót Detaliczny		<b>2,793</b>	

- Since August 1st 2014, 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.

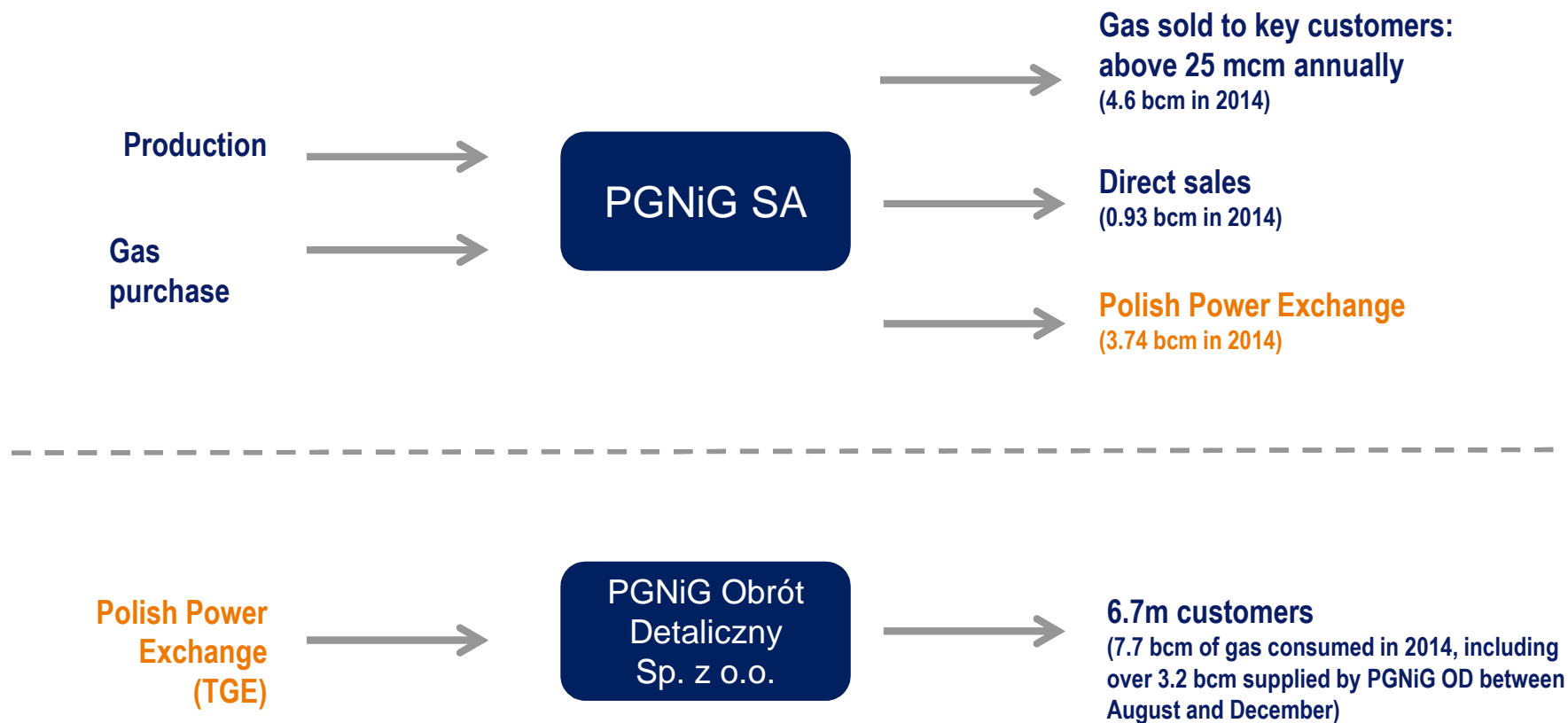
## PGNiG's monthly average share in gas imports to Poland\*



- From January 2013 to March 2015, PGNiG's share in gas imports to Poland fell by 6 pp to 85.8%. The figure does not reflect the Company's market share, and is attributable to growing activity of other players on the gas market undergoing deregulation, including end users.
- The data in the chart is based on information on gas volumes transmitted through interconnectors, published by OGP Gaz-System, and illustrates PGNiG SA's share in gas flows into Poland (excluding transit volumes carried via the Yamal pipeline, but including gas imported to Poland by other entities for further export).

**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 the Polish Power Exchange by PGNiG SA and purchases made on the Polish Power Exchange 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)									
	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)	499	<b>1 876</b>	440	475	482	479	<b>1,890</b>	483	481	484	443
including in Poland	367	<b>1 457</b>	368	361	362	367	<b>1,550</b>	384	387	387	393
including in Norway	132	419	73	114	120	112	340	99	94	96	50
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	684	<b>2 627</b>	692	582	650	704	<b>2 692</b>	737	619	604	733
including in Poland	671	2 569	677	567	636	690	2 667	722	609	604	733
including in Pakistan	13	58	14	15	15	14	25	15	10	0	0
<b>TOTAL (measured as E equivalent)</b>	<b>1,183</b>	<b>4,503</b>	<b>1,132</b>	<b>1,057</b>	<b>1,132</b>	<b>1,182</b>	<b>4,582</b>	<b>1,220</b>	<b>1,100</b>	<b>1,087</b>	<b>1,175</b>
Total production in kboe/d	76	73	73	68	73	76	74	79	71	70	76
NATURAL GAS SALES, PGNiG Group		(mcm)									
HIGH-METHANE GAS (E)	7,287	<b>17,261</b>	6,373	3,284	3,078	4,526	<b>15,006</b>	4,132	2,731	2,965	5,178
including PST sales outside PGNiG Group	539	<b>1,760</b>	488	363	444	465	<b>1,383</b>	356	306	271	449
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	401	<b>1,342</b>	424	272	271	375	<b>1,202</b>	351	220	245	387
<b>TOTAL (measured as E equivalent)</b>	<b>7,688</b>	<b>18,602</b>	<b>6,797</b>	<b>3,556</b>	<b>3,349</b>	<b>4,900</b>	<b>16,208</b>	<b>4,483</b>	<b>2,951</b>	<b>3,210</b>	<b>5,564</b>
including sales directly from PGNiG's fields in Poland	199	750	198	163	166	224	724	201	154	153	216
GAS IMPORTS by PGNiG SA		(mcm)									
Total	2,574	<b>9,700</b>	2,423	2,143	2,594	2,541	<b>10,850</b>	2,664	2,245	2,481	3,460
including: sources east of Poland	1,833	<b>8,097</b>	1,751	1,805	2,515	2,026	<b>8,734</b>	1,793	1,885	2,272	2,784
CRUDE OIL, PGNiG Group		('000 tonnes)									
Production of crude oil and condensate	386	<b>1,207</b>	271	304	310	322	<b>1,099</b>	309	327	233	229
including in Poland	207	789	214	188	184	203	815	215	218	178	204
including in Norway	180	418	57	116	126	119	283	94	109	55	25
Total production in kbb/d	28	22	20	22	23	24	20	23	24	17	17
Sales of crude oil and condensate	348	<b>1,169</b>	249	262	373	287	<b>1,106</b>	401	255	243	207
including in Poland	217	780	213	181	185	201	809	222	213	180	194
including in Norway	131	389	36	81	188	85	297	179	42	63	13
PGNiG TERMIKA											
Production of heat, net (sales) (TJ)	15,055	<b>36,617</b>	12,980	2,867	5,336	15,434	<b>40,175</b>	12,530	3,367	5,766	18,511
Production of electricity, net, secondary generation (for sale) (GWh)	1,394	<b>3,555</b>	1,132	386	648	1,390	<b>3,772</b>	1,189	445	613	1,526