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LAT NA GIEŁDZIE
PAPIERÓW
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PGNiG Group results for Q3 and first nine months of 2015

November 6th 2015

Financial highlights – Q3 2015



(PLNm)	Q3 2014	Q3 2015	Δ%
Revenue	6,436	6,305	(2%)
Operating expenses (excl. D&A)	(4,917)	(4,992)	2%
EBITDA	1,519	1,313	(14%)
Depreciation and amortisation expense	(604)	(686)	14%
EBIT	915	627	(31%)
Net finance income/(costs)	(109)	(96)	(12%)
Net profit	616	292	(53%)

Good quarter in terms of operating performance, with only minor impact of one-off items

- Revenue from high-methane (E) gas sales up PLN 110m, to PLN 4.7bn in Q3 2015, with sales volume up 0.4 bcm year on year, to 3.7 bcm, driven by the exchange sale requirement.
- Revenue from crude oil and condensate sales down PLN 123m in Q3 2015, with sales volumes up 36% year on year, to 356 thousand tonnes, with declining oil prices as the key driver (average oil price down from USD 102/bbl (PLN 322/bbl) in Q3 2014 to USD 50/bbl (PLN 189/bbl) in Q3 2015).
- Gas purchase costs up only 2%, or PLN 0.1bn year on year, with a marked reduction reported by PGNiG SA.
- Negative impact of the net proceeds settlement of Qatari gas in Q3 2015 (three deliveries settled in Q3).
- PLN -51m impairment loss on shares in SGT EUROPOL GAZ S.A. recognised in “Share in net profit/loss of equity-accounted entities”.
- Despite pre-tax profit being PLN 327m lower, income tax effect on net profit in both quarters came close to PLN 190m due to high nominal tax rate in Norway.

Q1–Q3 2015 financial highlights



(PLNm)	Q1-Q3 2014	Q1-Q3 2015	Δ%
Revenue	22,817	26,695	17%
Operating expenses (excl. D&A)	(17,831)	(21,386)	(20%)
EBITDA	4,986	5,309	6%
Depreciation and amortisation expense	(1,902)	(2,073)	9%
EBIT	3,084	3,236	5%
Net finance income/(costs)	(215)	(154)	(28%)
Net profit	2,136	2,157	1%

EBITDA up 6% amid falling crude oil and natural gas prices, supported by efficiency improvements and lesser impact of non-cash one-off items

- Revenue from E gas sales up PLN 4.7bn, to PLN 21.1bn in Q1–Q3 2015, with sales volume up 4.6 bcm year on year, to 15.5 bcm, driven by the exchange sale requirement.
- Revenue from sales of crude oil and condensate down PLN 633m, despite a year-on-year increase in sales volumes by 155 thousand tonnes (consolidation of assets acquired from Total on the Norwegian Continental Shelf as of Q1 2015).
- Gas purchase costs up PLN 4.5bn, to PLN 15.9bn in 9M 2015 (exchange sale requirement), with a decrease in costs reported by PGNiG SA.
- Net impairment losses, provisions and dry wells and seismic surveys written off at PLN -277m in 9M 2015, compared with PLN -698m in 9M 2014 (change: +421m PLN).
- Depreciation/amortisation up PLN 171m year on year on step-up of Norwegian operations.
- Income tax in the P&L up PLN 141m, with tax rate also up from 26% to 29% (effect of tax settlements in Norway).

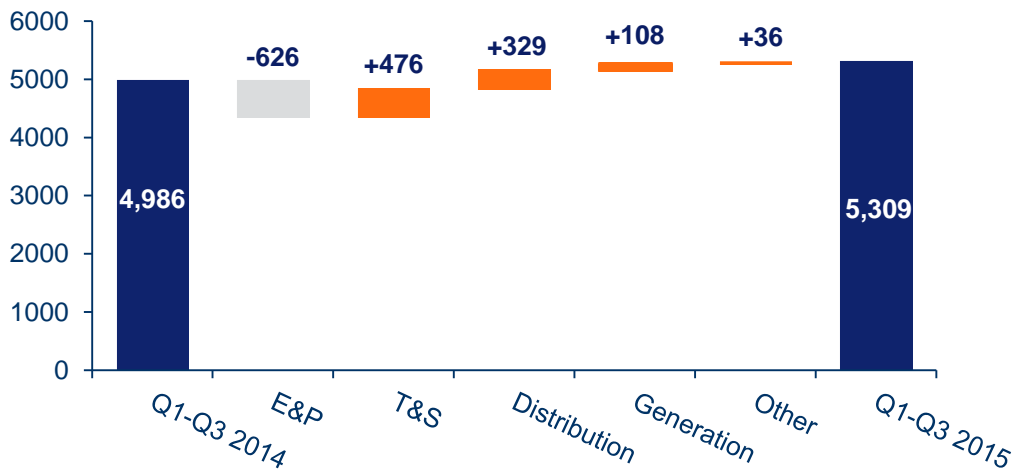
Business segments – EBITDA in Q1–Q3 2015



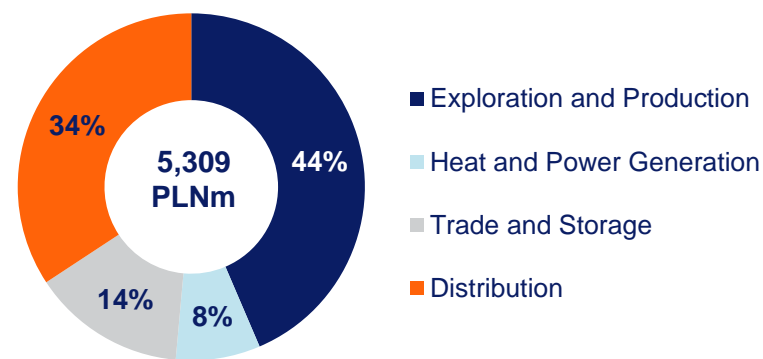
(PLNm)	Q1-Q3 2014	Q1-Q3 2015	Δ%	Contribution to Group's result
Exploration and Production	2,935	2,309	(21%)	44%
Trade and Storage	282	758	169%	14%
Distribution	1,485	1,814	22%	34%
Heat and Power Generation	309	417	35%	8%
Other, eliminations	-25	11	-	-
Total	4,986	5,309	6%	-

- Revenue from sales of oil and condensate down PLN 0.6bn year on year.
- Lower unit gas purchase costs and positive operating margin on E gas in Q1 2015 (the quarter contributed 82% of the overall segment result in 9M 2015).
- Tariff prices up 3% and volumes up 4% year on year.
- Net income from system balancing at PLN +194m in 9M 2015, relative to PLN +69m the year before.
- Heat and electricity prices up, with volumes slightly down and reduced fuel prices.

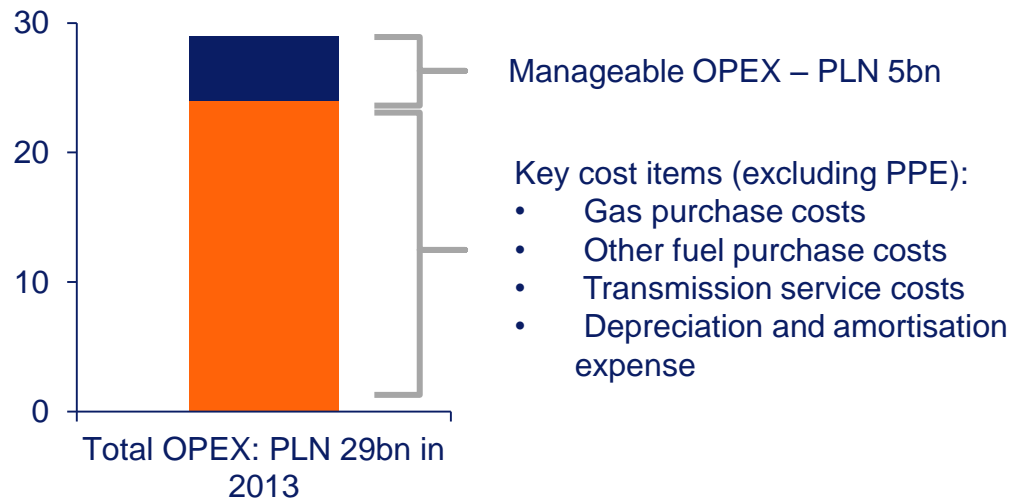
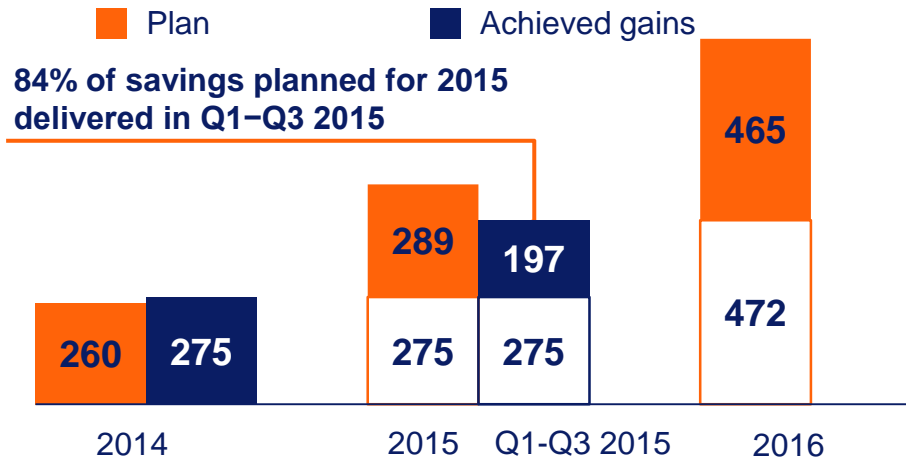
PGNiG Group EBITDA up in Q1–Q3 2015 on Q1–Q3 2014



Segments' contribution to Group EBITDA



Efficiency Improvement Programme – 2016 target raised to PLN 0.94bn



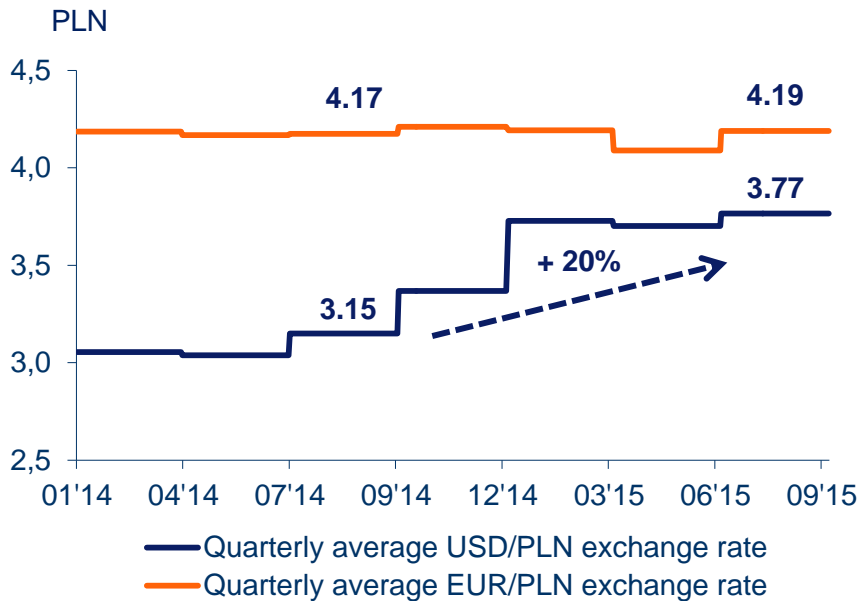
- Setting efficiency improvement targets for PGNiG Group segments and companies
- Defining the scope and timing of efficiency improvement measures
- Delivery by the end of 2016

The Programme aims to permanently reduce the manageable cost base across core PGNiG Group segments by over PLN 0.9bn
(upward revision of the previous target by PLN 151m)

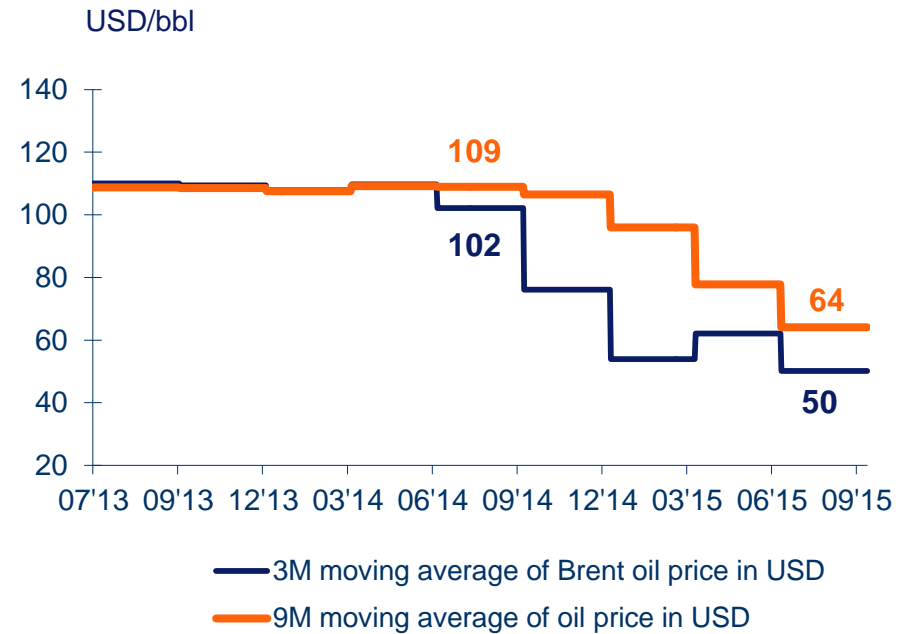
Performance drivers



Stronger USD and stable EUR against PLN yoy



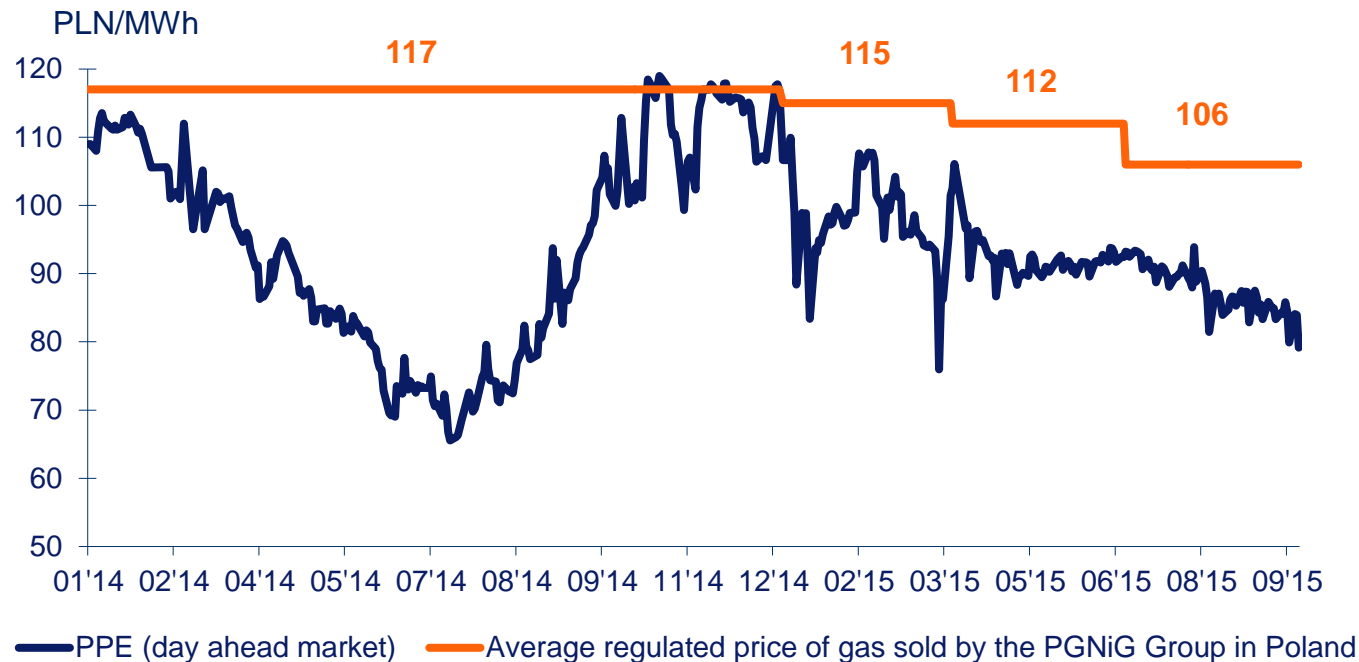
In Q3 2015, 9-month average of crude oil prices in USD down 41% year on year and down 18% quarter on quarter



Performance drivers

Marked tariff reductions over the past periods. In Q3 2015 – 9% lower year-on-year average regulated price.

Price in the chart is calculated on the combined tariff sales of PGNiG SA and PGNiG OD to customers in Poland. PPE transactions, impact of the discount policy 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.

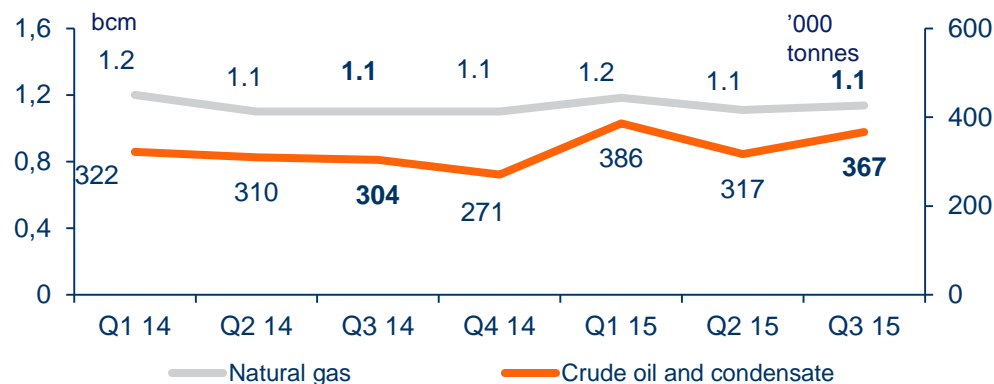
Segments – Exploration and Production



(PLNm)	Q3 2014	Q3 2015	Δ%
Revenue	1,433	1,179	(18%)
Operating expenses (excl. D&A)	(439)	(412)	(6%)
EBITDA	994	767	(23%)
Depreciation and amortisation expense	(277)	(342)	23%
EBIT	716	425	(41%)

- Revenue from sales of crude oil and condensate down PLN 0.12bn year on year, with oil prices in PLN down over 41% and sales volumes up 36%, to 356 thousand tonnes.
- Revenue from geophysical and drilling services down PLN 134m, to PLN 67m.
- PLN 55m yoy rise in depreciation/amortisation expense in Norway on increased crude sales volumes (units-of-production method).

Gas output stable and crude output up year on year in Q3 2015



- 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 down for maintenance in Q3 2014 (in 2015, maintenance shutdown in Q2).

Effect of low crude prices

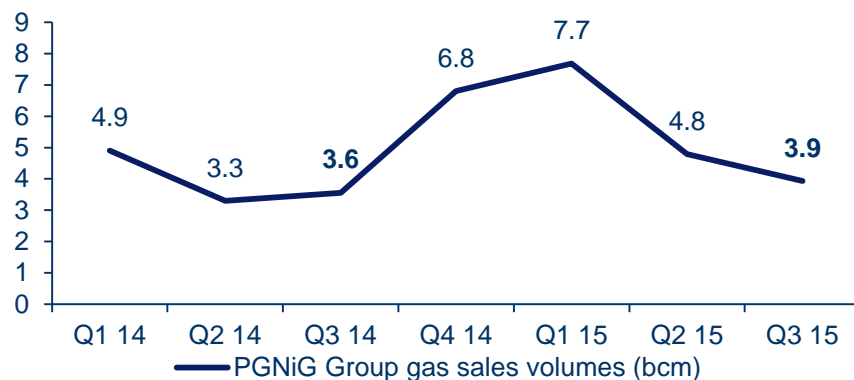
Segments – Trade and Storage (1)



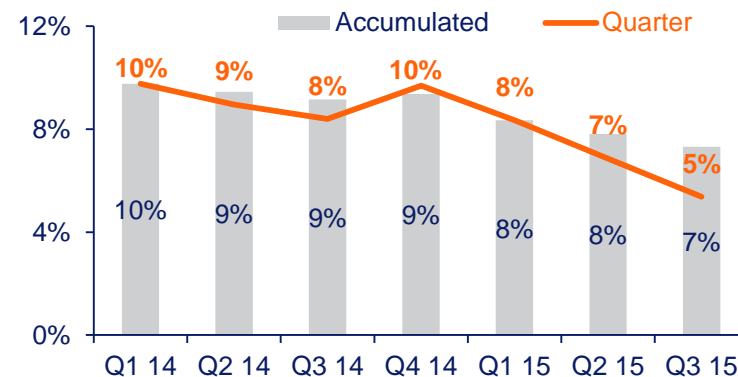
(PLNm)	Q3 2014	Q3 2015	Δ%
Revenue	5,300	5,296	
Operating expenses (excl. D&A)	(5,175)	(5,362)	4%
EBITDA	125	(66)	
Depreciation and amortisation expense	(39)	(43)	10%
EBIT	86	(109)	

- Rise in revenue from gas sales in the Trade and Storage segment from PLN 4.8bn to PLN 4.9bn, with shifts in the sales structure and prices (exchange sale requirement).
- PST's contribution to overall gas sales revenue: PLN 0.57bn relative to PLN 0.35bn in Q3 2014.
- Segment's electricity sales: PLN 0.37bn in Q3 2015 vs. PLN 0.48bn in Q3 2014.
- PLN -19m write-down recognised on gas inventories in Q3 2015 (loss of calorific value of gas in the Wierchowice Gas Storage and market valuation of inventories). PLN 141m gas inventory write-down reversed in Q3 2014.

PGNiG Group gas sales volumes up 0.3 bcm in Q3 2015, with volumes of gas sold by PGNiG SA on the Polish Power Exchange up 0.2 bcm



Positive margin on (E) gas fuel posted by PGNiG SA and PGNiG OD, with a negative operating margin.

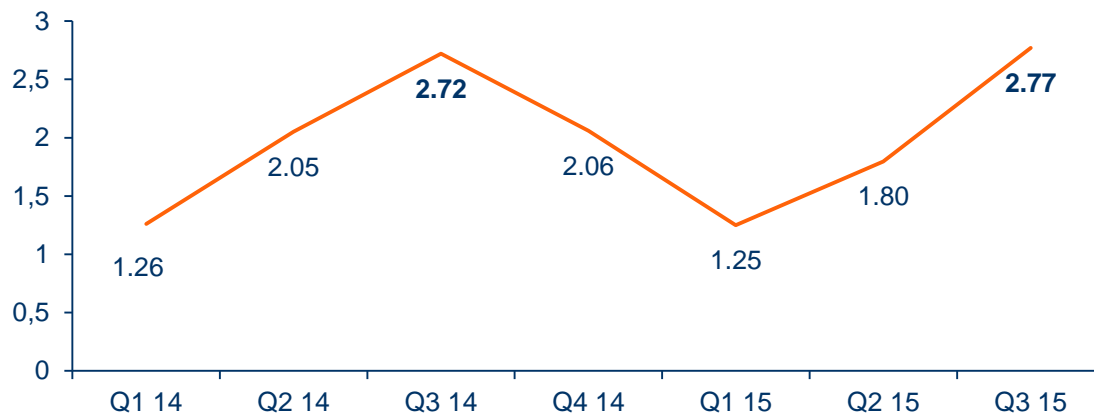


Margin on E gas fuel up 5%, with operating margin on the product down 3% in 3Q 2015

Segments – Trade and Storage (2)

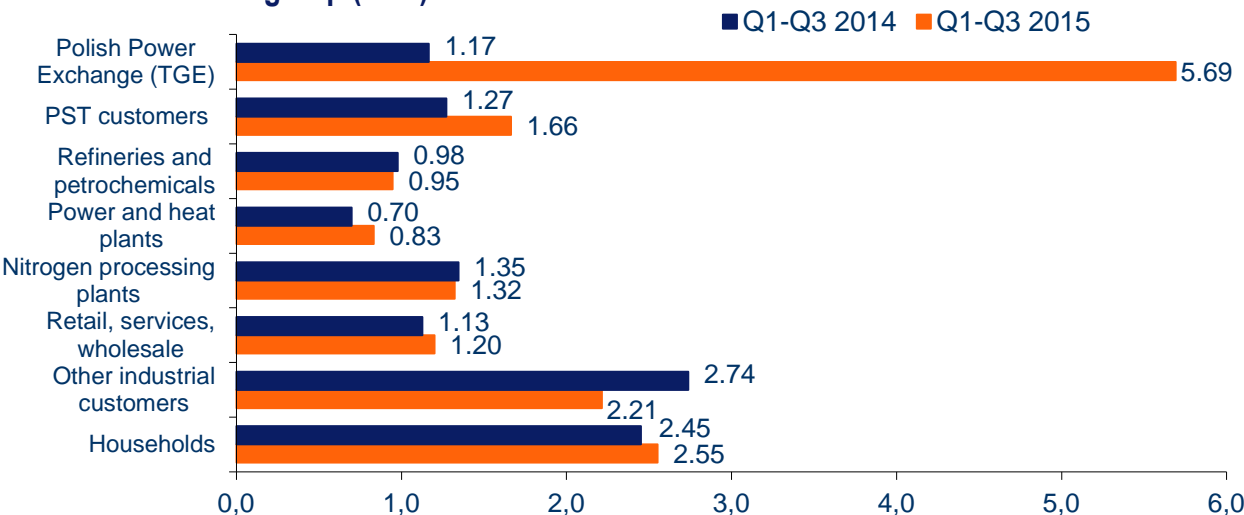


Gas inventory levels (bcm)



- Volumes of gas injected to underground storage facilities increased in Q3 2015 compared with 2014 due to gas purchase cost being lower year on year and quarter on quarter.
- Volume of gas imported by PGNiG SA up 12% on Q3 2014, to 2.4 bcm, with imports from east of Poland up 0.5 bcm and imports from west and south of Poland down 0.3 bcm.

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



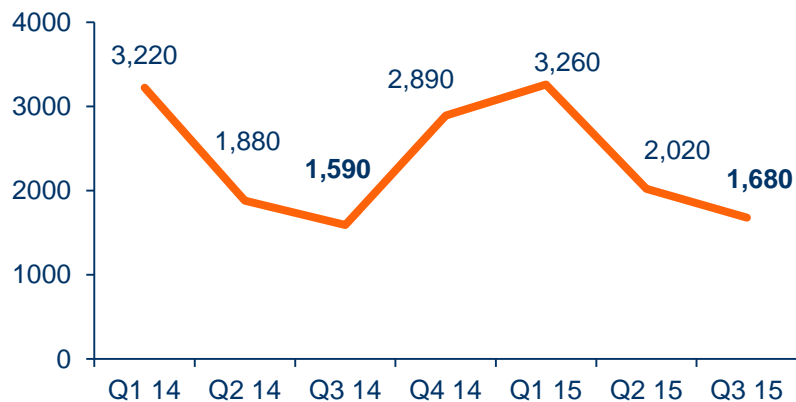
- Increase in sales to CHP plants by 0.13 bcm year on year, driven by the gas-fired cogeneration support system reinstated as of May 2014.
- Decelerating declines in sales to nitrogen processing plants and refineries coupled with reclining sales to other industrial customers (various sectors).
- In Q3 2015, less divergence between the selling price of gas and market prices compared with last year (discounts, tariff reductions).
- Average air temperature in the quarter up 1.6°C year on year; average air temperature in August up 3.4°C.
- PST: higher gas trading volumes.

Segments – Distribution

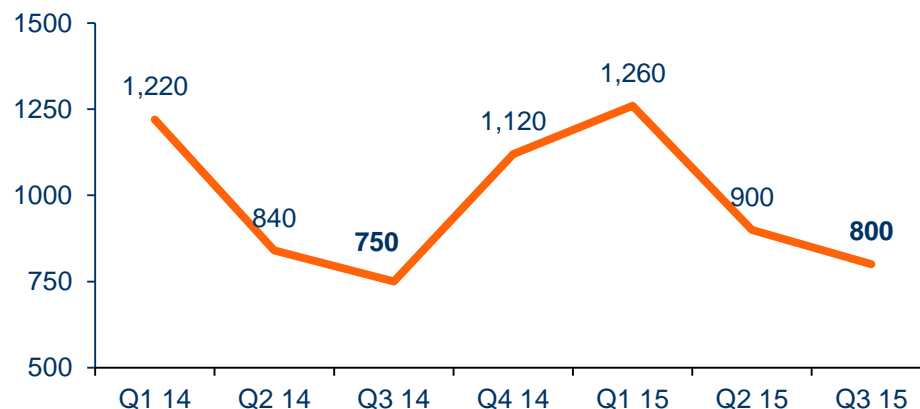
(PLNm)	Q3 2014	Q3 2015	Δ%
Revenue	887	1,030	16%
Operating expenses (excl. D&A)	(514)	(433)	(16%)
EBITDA	372	596	60%
Depreciation and amortisation expense	(216)	(223)	3%
EBIT	156	373	x2.4

- Volume of distributed gas up 6% year on year, to 1.68 bcm, with tariff prices up 3% as of January 2015.
- Net result of system balancing at PLN 175m in Q3 2015, compared with PLN 59m in Q3 2014. Based on the assumptions underlying the temperature-based sales forecasting method, the effect of system balancing on segment's results is expected to be negative in Q4 2015.
- Cost of employee benefits down following workforce reduction by over 1,700 year on year.

Gas distribution volume (mcm)



Revenue from distribution services (PLNm)



Sound performance delivered by a stable segment

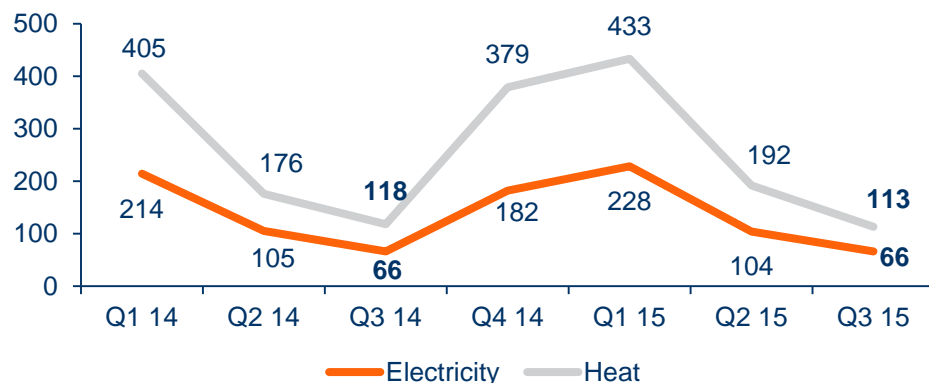
Segments – Heat and Power Generation



(PLNm)	Q3 2014	Q3 2015	Δ%
Revenue	291	239	(18%)
Operating expenses (excl. D&A)	(270)	(234)	(13%)
EBITDA	21	5	(76%)
Depreciation and amortisation expense	(68)	(74)	9%
EBIT	(47)	(69)	47%

- Revenue from sales of heat down 4%, to PLN 0.11bn, with volumes down almost 6% and a higher heat tariff effective from August 15th 2015.
- Revenue from electricity sales down 34%, to PLN 0.10bn, due to reduced trading in electricity purchased from other parties (with corresponding costs also down). Stable revenue on electricity from own sources, at PLN 66m in Q3 2015 and Q3 2014, with the selling price up.
- Cost of fuels for heat and power generation down.

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



Sales volumes at PGNiG Termika in Q3 2015 (own generation sources):

- Sales of heat at 2.7 PJ, down 6% year on year.
- Electricity: 328 GWh, down 15% year on year.

Stable performance in the weakest quarter in the seasonal cycle

Effective operating cost management in Q3 2015



(PLNm)	Q3 2014	Q3 2015	Δ%
Electricity for trading	(300)	(249)	(17%)
Other raw materials and consumables used	(177)	(157)	(11%)
Fuels for heat and power generation	(76)	(75)	(1%)
Employee benefits expense	(631)	(525)	(17%)
Transmission services	(256)	(271)	6%
Cost of dry wells and seismic surveys written-off	-	(25)	-
Other services	(369)	(287)	(22%)
Net other income/(expenses)	(189)	(320)	69%
<ul style="list-style-type: none"> Change in impairment losses 	150	6	(96%)
Work performed by the entity and capitalised	292	206	(29%)
Depreciation and amortisation expense	(604)	(686)	14%
Operating expenses net of cost of gas sold	(2,310)	(2,389)	3%
Cost of gas sold	(3,211)	(3,289)	2%
Total operating expenses	(5,521)	(5,678)	3%

- Reduced trading in electricity purchased from other parties.
- Group companies' expenses down following a workforce reduction by 4,100 year on year, to 25,500 (14%).
- Savings on various cost items under the Efficiency Improvement Programme (gas, transport, and rental services).
- PLN 141m gas inventory write-down reversed in Q3 2014.
- Depreciation/amortisation up PLN -55m in the Norwegian subsidiary due to year-on-year increase in crude sales.
- Sales volume up 0.4 bcm yoy, to 3.9 bcm, with lower unit cost of gas. To achieve data comparability, PLN 0.31bn could be subtracted on a pro-forma basis from the Q3 2015 figures, which corresponds to the value of gas purchased by PGNiG OD on the Polish Power Exchange in July 2015.
- Expenses up PLN 0.16bn mainly on growing depreciation/amortisation (PLN 82m) and cost of gas (PLN 78m, with sales volume up 0.4 bcm).

Major declines in employee benefit costs, services and other raw materials and consumables used.

Appendix



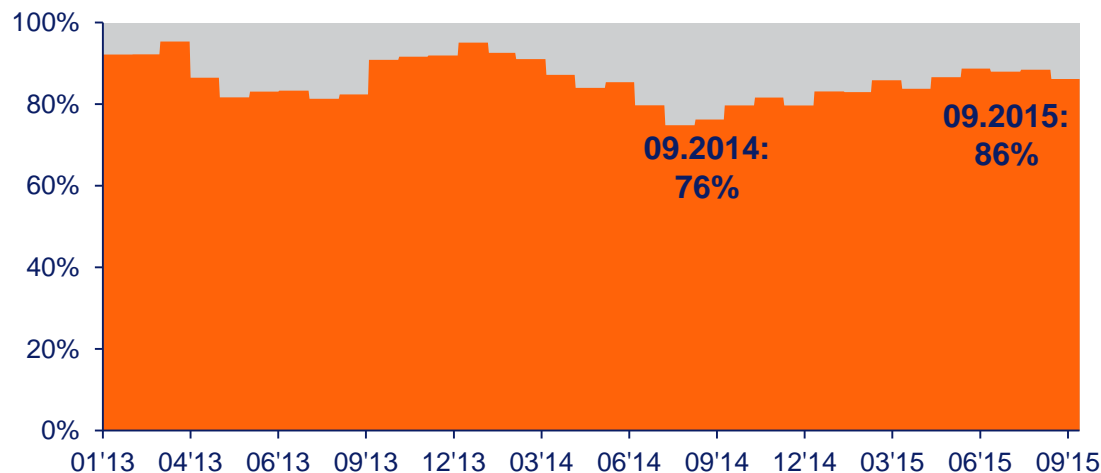
Changes on the Polish gas market



Gas sales volume (mcm)	Q1-Q3 2014	Q1-Q3 2015	Δ%
Total PGNiG Group	11,805	16,460	39%
PGNiG SA	9,740	9,330	(4%)
including PGNiG SA through PPE	1,166	5,525	374%
PGNiG Obrót Detaliczny	751	5,428	x7

- 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.
- To achieve year-on-year data comparability, revenue and expenses could be reduced on a pro-forma basis by the value of gas purchased by PGNiG OD on the Polish Power Exchange in the period from January to July and in July, which amounted to PLN 5.1bn and PLN 0.31bn, respectively.

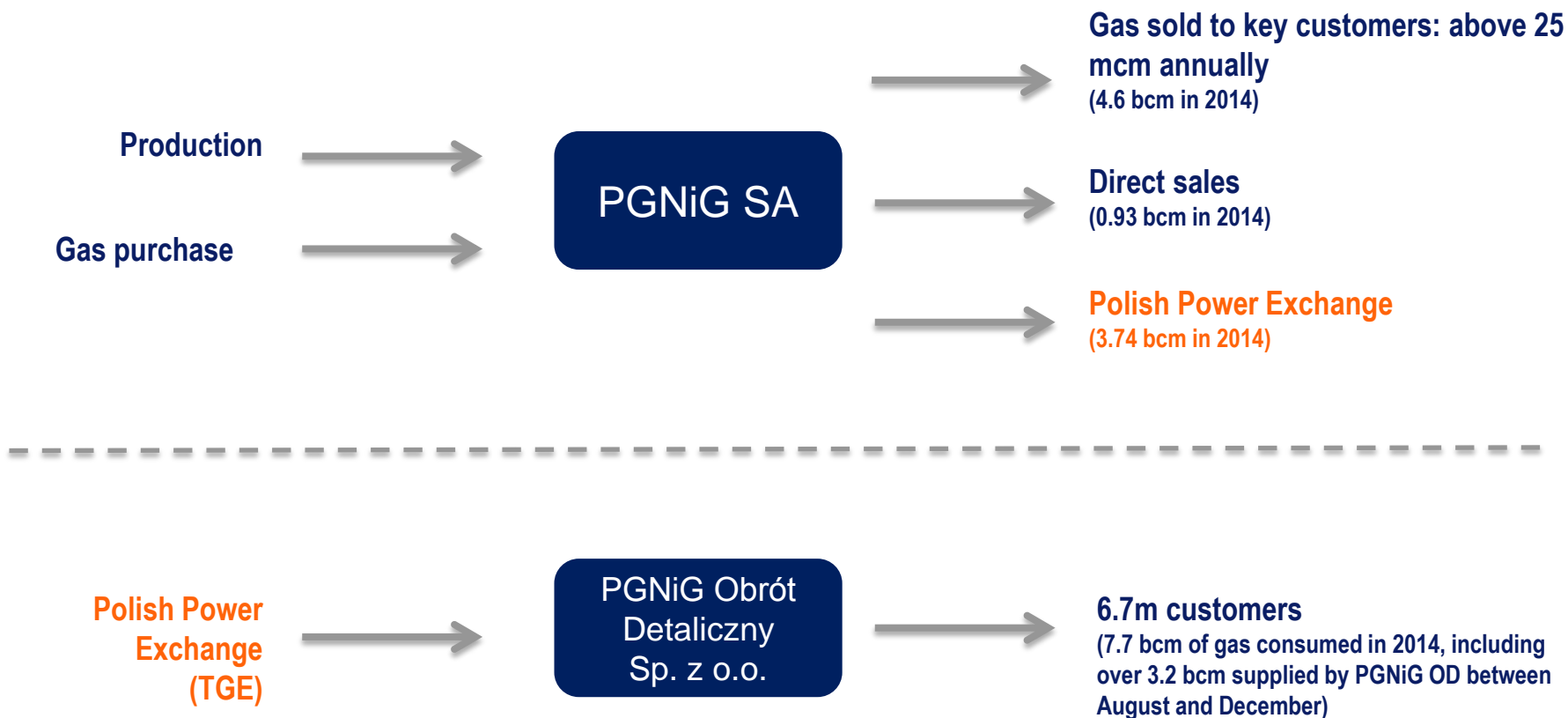
PGNiG's share in gas imports to Poland*



- 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.

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)								
	Q3 2015	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	FY 2013
HIGH-METHANE GAS (E)	515	507	501	1,876	440	475	482	479	1,890
including in Poland	359	362	367	1,457	368	361	362	367	1,550
including in Norway	156	145	134	419	73	114	120	112	340
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	622	602	684	2,627	692	582	650	704	2,692
including in Poland	610	589	671	2,569	677	567	636	690	2,667
including in Pakistan	12	13	13	58	14	15	15	14	25
TOTAL (measured as E equivalent)	1,137	1,109	1,185	4,503	1,132	1,057	1,132	1,182	4,582
Total production in kboe/d	80	79	83	80	79	74	80	85	81
NATURAL GAS SALES, PGNiG Group									
	(mcm)								
	Q3 2015	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	FY 2013
HIGH-METHANE GAS (E)	3,674	4,521	7,320	17,261	6,373	3,284	3,078	4,526	15,006
including PST sales outside PGNiG Group	639	502	522	1,760	488	363	444	465	1,383
NITROGEN-RICH GAS (Ls/Lw as E equiv.)	262	282	401	1,342	424	272	271	375	1,202
TOTAL (measured as E equivalent)	3,936	4,803	7,721	18,602	6,797	3,556	3,349	4,900	16,208
including sales directly from the fields	176	175	212	808	212	177	180	238	749
GAS IMPORTS by PGNiG SA									
	(mcm)								
	Q3 2015	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	FY 2013
Total	2,398	2,495	2,574	9,700	2,423	2,143	2,594	2,541	10,850
including: sources east of Poland	2,329	2,219	1,833	8,097	1,751	1,805	2,515	2,026	8,734
CRUDE OIL, PGNiG Group									
	('000 tonnes)								
	Q3 2015	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	FY 2013
Production of crude oil and condensate	367	317	386	1,207	271	304	310	322	1,099
including in Poland	204	147	207	789	214	188	184	203	815
including in Norway	163	170	180	418	57	116	126	119	283
Total production in kbbl/d	29	26	31	24	22	24	25	26	22
Sales of crude oil and condensate	356	372	348	1,169	249	262	373	287	1,106
including in Poland	196	148	217	780	213	181	185	201	809
including in Norway	160	224	131	389	36	81	188	85	297
PGNiG TERMIKA									
	Q3 2015	Q2 2015	Q1 2015	FY 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	FY 2013
Production of heat, net (sales) (TJ)	2,701	5,810	15,055	36,617	12,980	2,867	5,336	15,434	40,175
Production of electricity, net, secondary generation (for sale) (GWh)	328	674	1,394	3,555	1,132	386	648	1,390	3,772