



**YEARS OF
ACTIVITY
OF PGNiG ON THE
NORWEGIAN CONTINENTAL SHELF**

PGNiG Group in 2016

Exploration & Production

1.3 m tonnes

production of crude oil,
condensate and NGL

54

of oil and gas production
facilities in Poland

over **2** thousand
producing wells

48

hydrocarbon exploration
and appraisal licences

4.5 bcm

production of natural gas

225

production licences

Trade & Storage

24.3 bcm

volume of gas sold

3.2 bcm

gas storage capacities

11.5 bcm

volume of imported gas

9.1 bcm

volume of gas
sold via the PPX

Distribution

1.5 thousand

municipalities/communes
connected to the gas grid

6.9 m

number of customers

10.9 bcm

volume of distributed gas

Generation

40 PJ

heat output

3.6 TWh

electricity output

1.1 GW

electric power

5.4 GW

thermal power

397 km

length of heat
distribution network

Financial data

33.2 PLN bn

revenue

6 PLN bn

EBITDA

49.7 PLN bn

total assets

25.3 thousand

number of employees

Letter from the President of the Management Board



Ladies and Gentlemen,

Our presence on the Norwegian Continental Shelf is a perfect example of a flourishing economic partnership and close business relationship between Norway and Poland. We are engaged in a tough and high-risk yet extremely attractive business of exploration and production of oil and natural gas.

Over the decade of our presence in Norway, we have built from scratch a company that employs 40 experienced staff from around the world today and boasts licence operatorships. During that time, we have invested over USD 1.5bn in Norway, and participated in the drilling of more than 30 exploratory and production wells, which led to the our first oil and gas discoveries on the Norwegian Continental Shelf. We have taken part in over ten licensing rounds and have been awarded around a dozen oil and gas exploration and production licences. Last year our Norwegian operations generated revenue in excess of PLN 1bn, with production in Norway now accounting for some 15% of the PGNiG Group's total output.

We continually seek to advance and expand our experience and know-how in offshore exploration and development. We value the collaboration and excellent relations with our foreign partners operating with us on the Norwegian licences. We recognise their skills, knowledge and capabilities, just as they recognise ours. The best testimony to this are field operatorships awarded to us in Norway.

The scale of our Norwegian operations makes Norway the key destination for the Group's international expansion, with three main factors determining our choice: diversification of Poland's gas supply sources, strong exploration potential and a stable, transparent regulatory framework. We are committed to scaling up natural gas production in Norway so that in a few years' time the annual output reaches or exceeds 2.5 bcm. With this front of mind, we have recently brought on stream the Gina Krog field and commenced the development of the Storklakken field, with production start expected in the near term. We have also taken steps to acquire interests in new licence areas.

We believe our activity in Norway offers prospects for the entire PGNiG Capital Group. We are pursuing options to enable direct oil and gas imports from the Norwegian Continental Shelf into Poland. Once built, the planned gas pipeline link through Denmark will not only allow us to bring Norwegian gas to Poland, but it will permanently change the energy policy landscape in Central and Eastern Europe, strengthening Poland's security.

Kind regards,

Piotr Woźniak
President of the PGNiG Management Board

3.4 PLN bn
EBIT

2.3 PLN bn
net profit

7.3%
ROE

4.7%
ROA

Who we are

PGNiG Upstream Norway AS was established in 2007. Its main task is to explore for and produce oil and gas from fields on the Norwegian Continental Shelf.

The Company is a part of the PGNiG Group. The sole owner is Polskie Górnictwo Naftowe i Gazownictwo SA, which is the largest exploration and production company in Poland. It is the leader in the natural gas industry in Poland, responsible for maintaining energy security in the country. PGNiG has been listed on the Warsaw Stock Exchange since 2005.

In 2010, PGNiG Upstream Norway pre-qualified as an operator on the Norwegian Continental Shelf. This enabled the company to take a leading role in offshore oil and gas exploration and development projects.

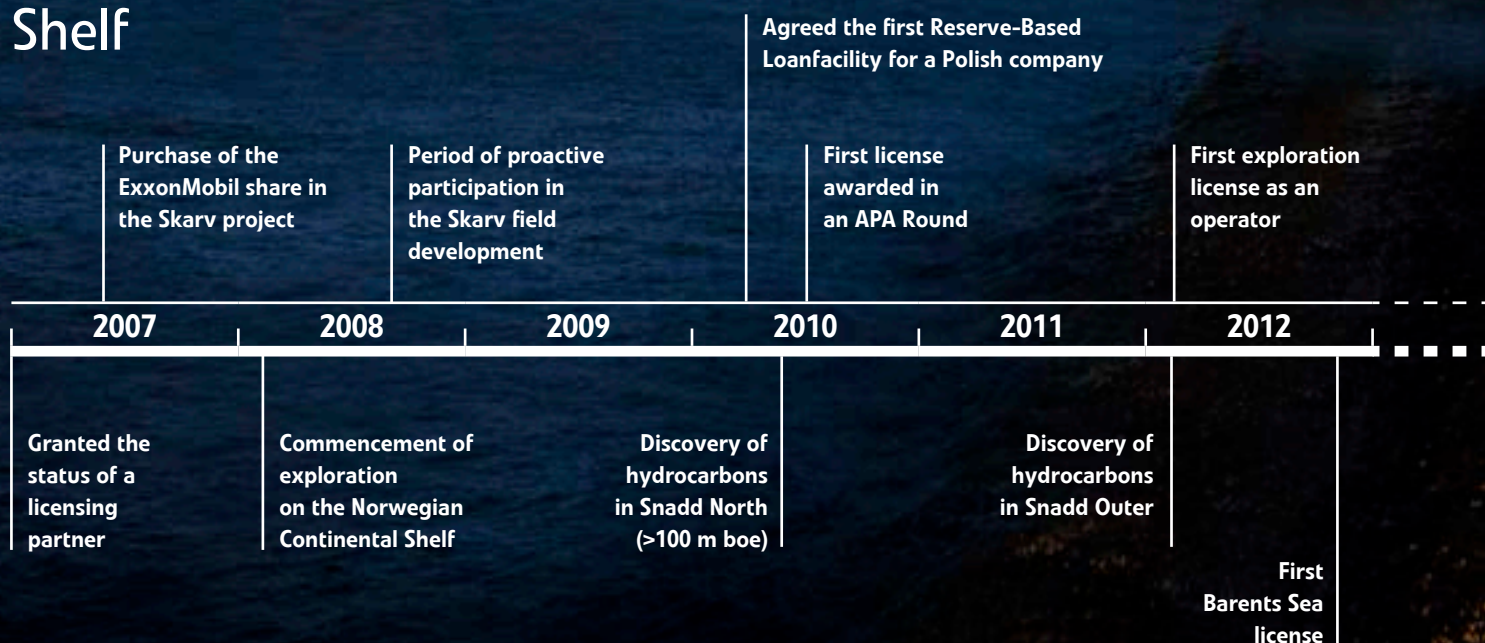
During its first ten years, PGNiG Upstream Norway has actively participated in Norwegian licensing rounds. Currently, the company holds 18 exploration licenses. The company intends to maintain its active role in exploration, including applying for additional production licenses.

In 2012, PGNiG Upstream Norway participated in production of oil and gas from the Skarv Field. Thus, PGNiG became the first Polish company with a significant international hydrocarbon production as part of its portfolio.. In addition this was also PGNiG's first offshore producing field.

Currently, PGNiG Upstream Norway produces hydrocarbons from 5 oil and gas fields (Skarv, Vilje, Morvin, Vale, and Gina Krog). In addition it also participates in two development projects, the Snadd and Storklakken Fields. The company's resources in Norway amount to 78 million barrels of oil equivalents (as of 1 January 2017). The company has its base in Sandnes, Norway.



10 years on the Norwegian Continental Shelf



Mission

The mission of PGNiG Upstream Norway is to ensure the supply of crude oil and natural gas to the European market. The company conducts its activities in order to minimize negative environmental and health effects, while maximizing financial benefits for its stakeholders. PGNiG Upstream Norway achieves this goal by investing in high-quality, competitive oil and gas projects which are conducted in a secure manner, lie within a rigid financial framework and are in accordance with legal obligations.

Values

High corporate governance standards are an integral part of the company's managerial approach. Therefore, practicing compliance is an important part of the company's goals, which includes the key values of creativity, credibility, and responsibility. These values are reflected in all hydrocarbon exploration and production company activities involving on the Norwegian Continental Shelf.

PGNiG Upstream Norway complies with the highest standards of health, safety, and environmental protection making it a reliable and transparent partner. Principles of sustainable development are fully implemented in the values for the development and growth of the company.

CREATIVITY

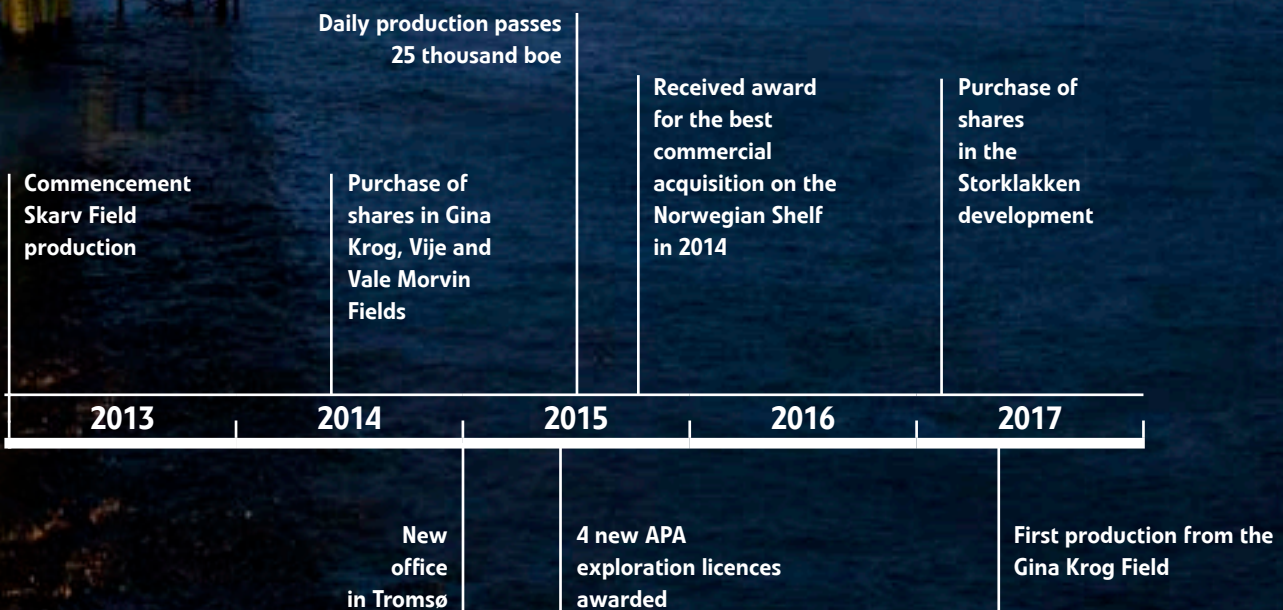
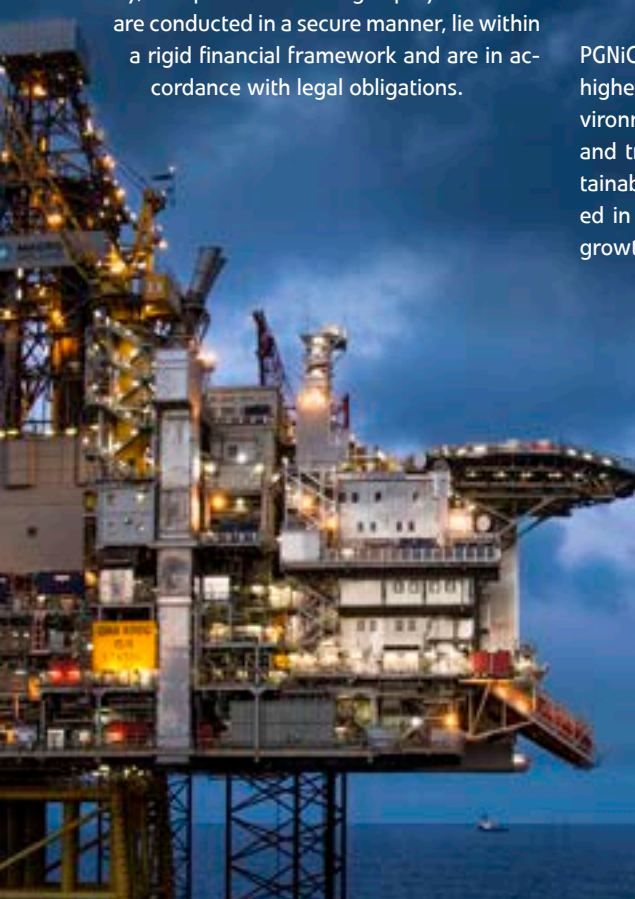
The company is continuously developing, improving its operating methods, developing employee competences and implementing innovative technologies. It is distinguished by its flexibility and openness to new market challenges. In this way, it is able to provide its customers with products and services of the highest quality.

CREDIBILITY

PGNiG Upstream Norway operates reliably and transparently, in full respect of the law and under licence conditions with a zero-tolerance to any form of corruption. The Company takes a partnership approach to stakeholders, is open to dialogue, and tries to understand their requirements and expectations. It approaches all employees and members of the local community with understanding and respect, accounting for their aspirations, customs, culture, and beliefs.

RESPONSIBILITY

The company is responsible for its commitments to employees, stakeholders, and customers, as well as to the social and natural environment. In the process of exploration and production activities, it aims to eliminate or minimise within reasonable conditions, any environmental impact.



How does a FPSO work?

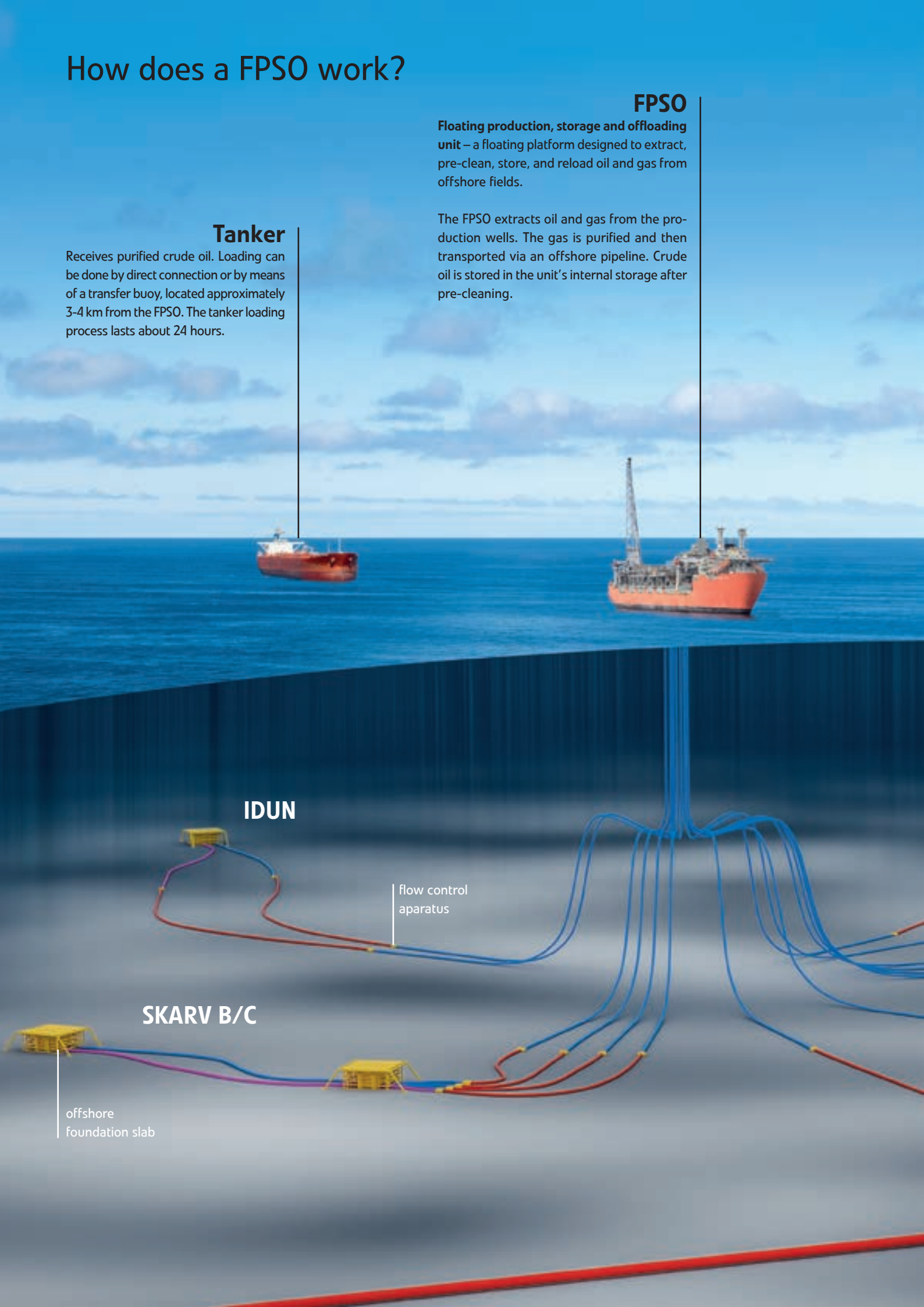
FPSO

Floating production, storage and offloading unit – a floating platform designed to extract, pre-clean, store, and reload oil and gas from offshore fields.

The FPSO extracts oil and gas from the production wells. The gas is purified and then transported via an offshore pipeline. Crude oil is stored in the unit's internal storage after pre-cleaning.

Tanker

Receives purified crude oil. Loading can be done by direct connection or by means of a transfer buoy, located approximately 3-4 km from the FPSO. The tanker loading process lasts about 24 hours.



77.9

mboe

the amount of estimated
PGNiG UN reserves

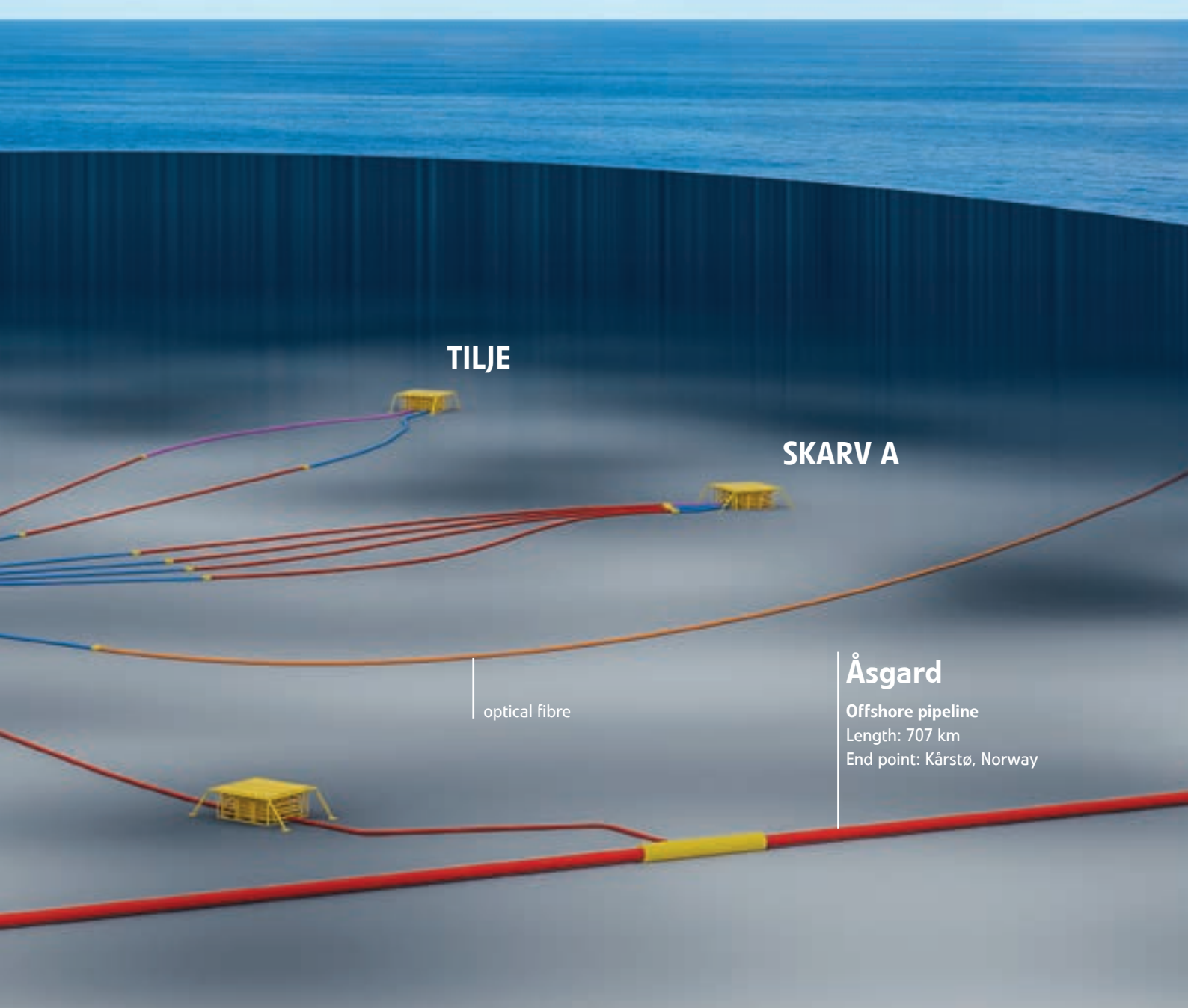
(state as at 31 December 2016)

Initially, oil and gas in the offshore mining industry was extracted from fields lying shallow under the water surface – at a level of up to at water depths not more than 50 meters.

When shallow oil and gas fields were exploited, the oil and gas were transported to land by pipeline. This method has become economically inefficient in the case of production from offshore fields at water depths of several hundred meters and at distances of as much as 100 kilometers from the shore. It was technically difficult and unprofitable to lay a pipeline of this length several hundred metres below sea level. Initially, oil and gas were received by feeder tankers on an ongoing basis, which, however, could not be berthed in the immediate vicinity of the production platform for safety and cost reasons.

Storage of oil pending its reception was solved in such a way that several tankers, called FSO (floating storage and offload units), were permanently anchored at a suitable distance from the platform. They were connected to the production platform by pipelines and functioned as temporary tanks for oil, which was pumped to the so-called shuttle tanker.

Over time, this technology has been improved by installing oil and gas purification equipment in the FSOs and connecting these units directly to seabed intakes. The FPSO units used by PGNiG Upstream Norway were created in this way.



TILJE

SKARV A

Åsgard

Offshore pipeline

Length: 707 km

End point: Kårstø, Norway

optical fibre

Activity of PGNiG in the area of the Norwegian Continental Shelf

PGNiG Upstream Norway holds interests in 18 exploration and production licenses on the Norwegian Continental Shelf, located in the Norwegian Sea, North Sea, and Barents Sea. Together with its partners, it is involved in the production of hydrocarbons from the Skarv, Morvin, Vilje and Vale and Gina Krog fields, as well as the development of the Snadd and Storklakken fields. Within the remaining licenses, the Company carries out exploration projects.

The main asset of PGNiG Upstream Norway is the Skarv field, developed using a floating FPSO production unit. The unit is owned by the license holders, including PGNiG UN. Skarv is expected to continue its operation for at least the next 20 years. The Morvin, Vilje, and Vale fields comprise a set of wells that have been tied back to existing production infrastructure. In 2016, the company produced 555 thousand tonnes of crude oil and 517 million cubic meters of natural gas from the four fields.

In June 2017, the company started production of oil and gas from the Gina Krog Field. It is a large field with initial reserves of 218 million barrels of oil equivalents, and with a significant exploration upside.

In 2015 and 2016, PGNiG Upstream Norway continued to develop the Gina Krog and Snadd Fields. On Gina Krog the purpose-designed Maersk drilling rig started pre-drilling of production wells in 2015. Simultaneously, the construction of the jacket structure for the platform started in Holland, while the topside and living quarters fabrication began in South Korea and Norway respectively, making the Gina Krog development truly a very global project. In parallel, marine activity, such as laying of intra-field pipelines and other subsea structures were ongoing on the Gina Krog field location in the North Sea. Moreover, in 2016, the Skarv partners selected the development concept for the Snadd Field. The investment plan assumes that three new production wells will be drilled in 2019 and 2020 and production will commence in the fourth quarter of 2020. PGNiG Upstream Norway, together with its partners, also continued works on the remaining exploration licenses.

In 2016, PGNiG Upstream Norway was awarded interests in 5 new exploration licenses on the Norwegian Continental Shelf, and in early 2017, the Norwegian Ministry of Petroleum and Energy awarded PGNiG another 2 licenses in the so-called numbered license round. One of the licenses was awarded to PGNiG Upstream Norway as an operator. Over the next years the company, together with its partners, will conduct geological and geophysical analyses with the aim to identify prospects with prospective resources high enough to justify exploration drilling. After this period, PGNiG and its partners will either decide to drill one or more exploration wells to test the structures or to relinquish the license without drilling.

The new licences are characterised by a gas potential, which is directly connected with PGNiG SA's plans for gas imports from Norway to Poland (the Baltic Pipe project). Both licenses are located close to existing production infrastructure and pipelines, which can greatly facilitate and accelerate the investment process. PGNiG's crude oil production in Norway is sold directly from the fields to Shell International Trading and Shipping Company Ltd (Skarv, Vilje, and Vale fields) and TOTS Total Oil Trading SA (Morvin field).

Natural gas is also produced in all fields, (except the Vilje field), and this gas is routed via the existing offshore transmission network. PGNiG's gas is mainly exported to Germany, where it is received by PGNiG Supply & Trading GmbH. The main sales markets for PGNiG UN are Norway, Germany, and the United Kingdom.

- PL212E ●
- Skarv/Snadd ●
- PL839 ●
- PL838 ●
- PL891 ●
- Morvin ●
- PL887 ●

- Storklakken
- Vilje
- Vale

- PL813
- Gina Krog

9
active
production
licences



20

thousand boe

daily crude oil production
by PGNiG Norway Upstream
in 2016

• PL856

• PL850

Licence portfolio

Licence	Scope of works
PL029C (Gina Krog)	Exploration / Development / Production
PL036D (Vilje)	Production
PL036 (Vale)	Exploration / Production
PL249 (Vale)	Exploration / Production
PL134B (Morvin)	Production
PL134C (Morvin)	Production
PL212 (Skarv)	Exploration / Development / Production
PL212B (Skarv)	Exploration / Development / Production
PL262 (Skarv)	Exploration / Development / Production
PL212E (Snadd Outer)	Exploration
PL460 (Storklakken)	Development
PL813 (Elli)	Exploration
PL838 (Tunfisk/Shrek)	Exploration
PL839 (Nise/Storkobbe)	Exploration
PL850 (Ulv)	Exploration
PL856 (Princesse)	Exploration
PL887 (Novus E)	Exploration
PL891 (Tunfisk South)	Exploration

(state as at 01 September 2017)

Baltic Pipe Project

The PGNiG Group is involved in the Baltic Pipe project, a strategic infrastructure project aimed at creating a new gas supply corridor to the European market.

For the first time in history, the Baltic Pipe Project will enable the transmission of gas directly from deposits located in Norway, among others by PGNiG Upstream Norway to markets in Denmark and Poland, as well as to customers in neighbouring countries. At the same time, the Baltic Pipe project will enable gas supplies from Poland to the Danish and Swedish markets.

The implementation of this project is consistent with the energy policy objectives of the European Union, such as strengthening competition, integrating gas markets, enhancing security of supply, and effective implementation of sustainable development principles. The Baltic Pipe Project is part of the North-South Corridor concept and the Baltic Energy Market Interconnection Plan (BE-MIP), which constitute priorities for energy infrastructure development set by the European Union.

Objectives of the project:

- Strengthening security of supply in the region by providing access to Norwegian gas for the Danish-Swedish and Polish markets and for the markets in Central and Eastern Europe;
- Further increase of the burden on the existing infrastructure in Denmark to reduce tariffs for the benefit of the users;
- Increasing competitiveness on regional gas markets and facilitating price convergence between the markets, enabling new participants to enter the market, and potential growth of gas demand in the regions affected by the project;
- Increasing the technical reliability of gas supplies to customers through diversification of directions of imported gas supplies;
- Connection of the Baltic Pipe with the LNG terminal in Świnoujście, which could in the future guarantee Scandinavian countries access to the global market for liquefied natural gas (LNG).

The project implementation schedule assumes its commercial launch in October 2022. The planned gas transmission capacity from Denmark towards the Polish transmission system is 10 bcm/year, while the capacity from Poland to the Danish transmission system is 3 bcm/year.

10

bcm/year

Planned gas transmission capacity from Denmark towards the Polish transmission system

3

bcm/year

Planned capacity of gas transmission from Poland towards the Danish transmission system



In the construction phase of the Baltic Pipe project, it will be necessary to construct five sections of the transmission infrastructure.

