Polskie Górnictwo Naftowe i Gazownictwo S.A.

INTERIM REPORT
for the six months
ended June 30th 2018

prepared in accordance with International Financial Reporting Standards
as endorsed by the European Union

Financial highlights

Key financial data – interim condensed consolidated financial statements	PLN million		EUR million	
	6 months ended Jun 30 2018	6 months ended Jun 30 2017	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Revenue	20,886	18,817	4,927	4,430
Operating profit before depreciation and amortisation (EBITDA)	4,300	4,177	1,014	983
Operating profit (EBIT)	2,974	2,842	701	669
Profit before tax	3,087	2,859	728	673
Net profit attributable to owners of the parent	2,270	2,098	535	494
Net profit	2,270	2,098	535	494
Total comprehensive income attributable to owners of the parent	2,284	1,951	539	459
Total comprehensive income	2,284	1,951	539	459
Net cash flows from operating activities	4,596	3,932	1,084	926
Net cash flows from investing activities	(1,741)	(2,076)	(411)	(489)
Net cash flows from financing activities	(2,376)	(4,976)	(560)	(1,172)
Net cash flows	479	(3,120)	113	(735)
Basic and diluted earnings per share (PLN)	0.39	0.36	0.09	0.09
	As at Jun 30 2018	As at Dec 31 2017	As at Jun 30 2018	As at Dec 31 2017
Total assets	48,622	48,203	11,148	11,557
Total liabilities	12,853	14,576	2,947	3,495
Total non-current liabilities	6,968	7,004	1,598	1,679
Total current liabilities	5,885	7,572	1,349	1,816
Total equity	35,769	33,627	8,201	8,062
Share capital	5,778	5,778	1,325	1,385
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778
Book value per share and diluted book value per share (PLN and EUR)	6.19	5.82	1.42	1.40
Dividend per share declared or paid (PLN and EUR)	-	0.20	-	0.05

Key financial data – interim condensed separate financial statements	PLN million		EUR million	
	6 months ended Jun 30 2018	6 months ended Jun 30 2017	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Net revenue	10,915	9,645	2,575	2,271
Operating profit before depreciation and amortisation (EBITDA)	1 637	1 232	386	290
Operating profit (EBIT)	1 249	858	295	202
Profit before tax	3,080	2,033	727	479
Net profit	2,791	1,827	658	430
Total comprehensive income	2,782	1,713	656	403
Net cash flows from operating activities	1,279	689	302	162
Net cash flows from investing activities	(575)	(942)	(136)	(222)
Net cash flows from financing activities	(1,563)	(4,399)	(369)	(1,036)
Net cash flows	(859)	(4,652)	(203)	(1,096)
Earnings and diluted earnings per share attributable to holders of ordinary shares (PLN and EUR)	0.48	0.32	0.11	0.07
	As at Jun 30 2018	As at Dec 31 2017	As at Jun 30 2018	As at Dec 31 2017
Total assets	35,328	33,447	8,100	8,020
Total liabilities	6,684	7,414	1,533	1,778
Total non-current liabilities	2,473	2,288	567	549
Total current liabilities	4,211	5,126	966	1,229
Equity	28,644	26,033	6,567	6,242
Share capital and share premium	7,518	7,518	1,724	1,802
Weighted average number of shares (million) in the period	5,778	5,778	5,778	5,778
Book value per share and diluted book value per share (PLN and EUR)	4.96	4.51	1.14	1.08
Dividend per share declared or paid (PLN/EUR)	-	0.20	-	0.05

Average EUR/PLN exchange rates quoted by the NBP	Jun 30 2018	Jun 30 2017	Dec 31 2017
Average exchange rate in period	4.2395	4.2474	4.2447
Exchange rate at end of period	4.3616	4.2265	4.1709

Items of the statement of profit or loss, statement of comprehensive income, and statement of cash flows were translated at the EUR/PLN exchange rate computed as the arithmetic mean of the mid rates quoted by the National Bank of Poland (NBP) for the last day of each calendar month in the reporting period. Items of the statement of financial position were translated at the mid EUR/PLN exchange rate quoted by the NBP for the end of the reporting period.

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1. Interim condensed consolidated financial statements

Consolidated statement of profit or loss	3 months ended Jun 30 2018	6 months ended Jun 30 2018	3 months ended Jun 30 2017	6 months ended Jun 30 2017	
	unaudited	unaudited	unaudited	unaudited	
Revenue from sales of gas	5,192	14,754	5,581	15,049	*Note 4.4*
Other revenue	2,447	6,132	1,584	3,768	*Note 4.4*
Revenue	**7,639**	**20,886**	**7,165**	**18,817**	
Cost of gas sold	(4,066)	(12,281)	(3,793)	(10,542)	*Note 4.5*
Other raw materials and consumables	(545)	(1,338)	(534)	(1,177)	*Note 4.5*
Employee benefits expense	(723)	(1,392)	(672)	(1,312)	*Note 4.5*
Transmission services	(259)	(528)	(263)	(557)	
Other services	(445)	(837)	(411)	(772)	*Note 4.5*
Taxes and charges	(41)	(598)	(43)	(567)	
Other income and expenses	(114)	(2)	(245)	(78)	*Note 4.6*
Work performed by the entity and capitalised	240	454	229	388	
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	(60)	(64)	(25)	(23)	*Note 4.5*
Operating profit before depreciation and amortisation (EBITDA)	**1,626**	**4,300**	**1,408**	**4,177**	
Depreciation and amortisation	(657)	(1,326)	(640)	(1,335)	
Operating profit (EBIT)	**969**	**2,974**	**768**	**2,842**	
Net finance costs	11	51	(10)	9	*Note 4.7*
Profit/(loss) from equity-accounted investees	27	62	(4)	8	
Profit before tax	**1,007**	**3,087**	**754**	**2,859**	
Income tax	(303)	(817)	(255)	(761)	*Note 4.8*
Net profit	**704**	**2,270**	**499**	**2,098**	
Net profit attributable to:					
Owners of the parent	704	2,270	499	2,098	
Non-controlling interests	-	-	-	-	
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778	
Basic and diluted earnings per share (PLN)	0.12	0.39	0.09	0.36	

Consolidated statement of comprehensive income	3 months ended Jun 30 2018	6 months ended Jun 30 2018	3 months ended Jun 30 2017	6 months ended Jun 30 2017
	unaudited	unaudited	unaudited	unaudited
Net profit	**704**	**2,270**	**499**	**2,098**
Exchange differences on translating foreign operations	30	26	(1)	(28)
Hedge accounting	43	(15)	(7)	(134)
Revaluation of financial assets available for sale	-	-	(4)	-
Deferred tax	1	9	2	25
Share of other comprehensive income of equity-accounted investees	-	4	-	-
Other comprehensive income subject to reclassification to profit or loss	**74**	**24**	**(10)**	**(137)**
Actuarial losses on employee benefits	(14)	(14)	(13)	(13)
Deferred tax	3	3	2	2
Share of other comprehensive income of equity-accounted investees	1	1	1	1
Other comprehensive income not subject to reclassification to profit or loss	**(10)**	**(10)**	**(10)**	**(10)**
Other comprehensive income, net	**64**	**14**	**(20)**	**(147)**
Total comprehensive income	**768**	**2,284**	**479**	**1,951**
Total comprehensive income attributable to:				
Owners of the parent	768	2,284	479	1,951
Non-controlling interests	-	-	-	-

(in PLN million, unless stated otherwise)

Consolidated statement of cash flows	6 months ended Jun 30 2018	6 months ended Jun 30 2017
	unaudited	unaudited
Cash flows from operating activities		
Net profit	2,270	2,098
Depreciation and amortisation	1,326	1,335
Current tax expense	817	761
Net gain/(loss) on investing activities	(248)	(64)
Other non-cash adjustments	232	61
Income tax paid	(664)	(562)
Movements in working capital	863	303
Net cash from operating activities	**4,596**	**3,932**
Cash flows from investing activities		
Payments for tangible exploration and evaluation assets under construction	(408)	(299)
Payments for other items of property, plant and equipment and intangible assets	(1,204)	(1,124)
Payments for shares in related entities	(90)	(347)
Other items, net	(39)	(306)
Net cash from investing activities	**(1,741)**	**(2,076)**
Cash flows from financing activities		
Increase in debt	4	12
Proceeds from derivative financial instruments	-	165
Decrease in debt	(2,390)	(5,139)
Payments for derivative financial instruments	-	(20)
Other items, net	10	6
Net cash from financing activities	**(2,376)**	**(4,976)**
Net cash flows	**479**	**(3,120)**
Cash and cash equivalents at beginning of period	2,581	5,832
Foreign exchange differences on cash and cash equivalents	22	(4)
Cash and cash equivalents at end of period	**3,060**	**2,712**

(in PLN million, unless stated otherwise)

Consolidated statement of financial position	As at Jun 30 2018	As at Dec 31 2017	
	unaudited	audited	
ASSETS			
Property, plant and equipment	32,810	32,452	*Note 4.9*
Intangible assets	1,065	1,115	
Deferred tax assets	79	141	
Equity-accounted investees	1,758	1,601	
Derivative financial instruments	90	-	
Other assets	1,415	1,055	
Non-current assets	**37,217**	**36,364**	
Inventories	2,748	2,748	
Receivables	4,069	5,781	
Derivative financial instruments	1,043	450	*Note 4.10*
Other assets	447	216	
Cash and cash equivalents	3,078	2,578	
Assets held for sale	20	66	
Current assets	**11,405**	**11,839**	
TOTAL ASSETS	**48,622**	**48,203**	
EQUITY AND LIABILITIES			
Share capital and share premium	7,518	7,518	
Hedging reserve	(31)	7	
Accumulated other comprehensive income	(142)	(165)	
Retained earnings	28,423	26,266	
Equity attributable to owners of the parent	35,768	33,626	
Equity attributable to non-controlling interests	1	1	
TOTAL EQUITY	**35,769**	**33,627**	
Financing liabilities	603	951	
Derivative financial instruments	175	-	
Employee benefit obligations	776	725	
Provision for well decommissioning costs	1,807	1,717	*Note 4.3*
Other provisions	176	181	*Note 4.3*
Grants	742	767	
Deferred tax liabilities	2,112	2,019	
Other liabilities	577	644	
Non-current liabilities	**6,968**	**7,004**	
Financing liabilities	68	2,055	
Derivative financial instruments	961	322	*Note 4.10*
Trade and tax payables*	2,904	3,249	
Employee benefit obligations	365	371	
Provision for well decommissioning costs	58	53	*Note 4.3*
Other provisions	593	621	*Note 4.3*
Other liabilities	936	901	
Current liabilities	**5,885**	**7,572**	
TOTAL LIABILITIES	**12,853**	**14,576**	
TOTAL EQUITY AND LIABILITIES	**48,622**	**48,203**	

*Including income tax of PLN 303m (2017: PLN 217m)

(in PLN million, unless stated otherwise)

Consolidated statement of changes in equity

	Equity attributable to owners of the parent											
	Share capital and share premium, including:		Hedging reserve	Accumulated other comprehensive income:				Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
	Share capital	Share premium		Exchange differences on translating foreign operations	Revaluation of financial assets available for sale	Actuarial gains/(losses) on employee benefits	Share of other comprehensive income of equity-accounted investees				
As at Jan 1 2017 (audited)	**5,778**	**1,740**	**69**	**(28)**	**2**	**(45)**	**(2)**	**24,499**	**32,013**	**3**	**32,016**
Net profit	-	-	-	-	-	-	-	2,098	**2,098**	-	**2,098**
Other comprehensive income, net	-	-	(109)	(28)	-	(11)	1	-	**(147)**	-	**(147)**
Total comprehensive income	**-**	**-**	**(109)**	**(28)**	**-**	**(11)**	**1**	**2,098**	**1,951**	**-**	**1,951**
Dividend	-	-	-	-	-	-	-	(1,156)	**(1,156)**	-	**(1,156)**
As at Jun 30 2017 (unaudited)	**5,778**	**1,740**	**(40)**	**(56)**	**2**	**(56)**	**(1)**	**25,441**	**32,808**	**3**	**32,811**
As at Jan 1 2018 (audited)	**5,778**	**1,740**	**7**	**(93)**	**(3)**	**(64)**	**(5)**	**26,266**	**33,626**	**1**	**33,627**
Effect of amended IFRS 9	-	-	-	-	3	-	-	(113)	(110)	-	(110)
Net profit	-	-	-	-	-	-	-	2,270	**2,270**	-	**2,270**
Other comprehensive income, net	-	-	(6)	26	-	(11)	5	-	**14**	-	**14**
Total comprehensive income	**-**	**-**	**(6)**	**26**	**-**	**(11)**	**5**	**2,270**	**2,284**	**-**	**2,284**
Change in equity recognised in inventories	-	-	(32)	-	-	-	-	-	**(32)**	-	**(32)**
As at Jun 30 2018 (unaudited)	**5,778**	**1,740**	**(31)**	**(67)**	**-**	**(75)**	**-**	**28,423**	**35,768**	**1**	**35,769**

2. General information

2.1. The Group

Name	Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna
Registered office	ul. Marcina Kasprzaka 25, 01-224 Warsaw, Poland
Court of registration	District Court for the Capital City of Warsaw, 16th Commercial Division
NATIONAL COURT REGISTER (KRS) NO.	0000059492
INDUSTRY IDENTIFICATION NUMBER (REGON)	012216736
TAX IDENTIFICATION NUMBER (NIP)	525-000-80-28
Description of business	The Company’s principal business activity includes exploration for and production of crude oil and natural gas; import, storage and sale of gas fuels; and trade in electricity.

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna is the Parent of the PGNiG Group (PGNiG Group, Group). PGNiG shares ("PGNiG", the "Company", the "Parent") are listed on the Warsaw Stock Exchange (“WSE”).

As at the date of issue of this interim report, the State Treasury, represented by the Minister of Energy, was the only shareholder holding 5% or more of the Company's share capital. For more information on the PGNiG S.A. shareholding structure, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in H1 2018.

The PGNiG Group is the only vertically integrated organisation in the Polish gas sector, and holds the leading position in all segments of the country’s gas industry. It is also a significant domestic producer of heat and electricity. The PGNiG Group’s business comprises exploration for hydrocarbon deposits; production of oil and natural gas; and import, storage and distribution of and trade in gas fuels. The PGNiG Group imports gas fuel, and is the largest producer of natural gas from Polish deposits. The Group’s upstream business is one of the key factors ensuring PGNiG’s competitive position on the liberalised gas market in Poland.

For further information on the Group’s operating segments and consolidated entities, see **Note 3**.

2.2. Basis of preparation of the financial statements presented in this report

These interim condensed consolidated financial statements and interim condensed separate financial statements for the first half of 2018 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as endorsed by the European Union, and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (consolidated text: Dz.U. of 2018, item 757).

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future, with the exception of two subsidiaries: Geofizyka Kraków S.A. w likwidacji and PGNiG Finance AB i likvidation, which have been placed in liquidation. As at the date of authorisation of these financial statements for issue, no circumstances were identified which would indicate any threat to the Group’s continuing as a going concern.

The Polish zloty (PLN) is the functional currency of PGNiG S.A. and the presentation currency of these consolidated financial statements. The method of translation of items denominated in foreign currencies is presented in the full-year consolidated financial statements for the year ended December 31st 2017, issued on March 14th 2018.

Unless otherwise indicated, all amounts in this report are given in millions of Polish zloty.

This interim report for the first half of 2018 was signed and authorised for issue by the Parent's Management Board on August 30th 2018.

(in PLN million, unless stated otherwise)

2.3. Significant accounting policies

The accounting policies applied in preparing the interim condensed consolidated and separate financial statements were consistent with the policies applied to prepare the consolidated financial statements for 2017, except for the accounting policies arising from the application of new standards: IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

The Group has applied the requirements of the standards using a modified retrospective method, with effect as of January 1st 2018. For detailed information, see the interim report of the PGNiG Group for Q1 2018. Presentation changes are described in **Note 2.5** to the financial statements.

2.4. Effect of new standards on the financial statements of the PGNiG Group

In these financial statements, the Group did not elect to early apply the following standards, interpretations or amendments to the existing standards which have been issued and are relevant to the Group's business:

Standard	Description	Estimated effect
IFRS 16 *Leases* **Effective date:** January 1st 2019	The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions result in the lessee acquiring a right-of-use asset and incurring a lease liability. Thus, IFRS 16 abolishes the operating and finance lease classification under IFRS 17 and provides a single lessee accounting model, requiring lessees to recognise (a) assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value, and (b) amortisation/depreciation of the leased asset separately from interest on lease liability in the statement of profit or loss. IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. Lessors continue to classify leases as operating or finance leases, with each of them subject to different accounting treatment.	As at June 30th 2018, the Group was analysing the effect of IFRS 16 on its financial statements. Based on a preliminary assessment, IFRS 16 may have a significant effect on the Group's financial statements. Following a review of the contracts, the following groups of contracts containing a lease have been identified so far, including in particular: • lease/rental contracts for plots/land used for the purpose of operation of equipment/installations located on those plots, production of natural gas, etc.; • lease/rental contracts for office, warehouse and parking space used in the Group's operations; • perpetual usufruct rights to land, acquired for consideration or received free of charge from third parties; • vehicle rental contracts; • contracts for the use of IT infrastructure – ISDN devices, routers, optical fibre lines used to provide Internet access, telecommunications connections, and data transmission services; • contracts for the lease of equipment and devices. Currently, work is in progress to estimate the impact of the identified lease contracts on the financial statements as at the date of the first application of the standard. The Company plans to apply IFRS 16 retrospectively, with the cumulative effect of the first application recognised as an adjustment to the opening balance of retained earnings as at the date of its first application, i.e. January 1st 2019.

The other standards and interpretations that have been issued but are not yet effective are not relevant to the Group's business or will have no significant effect on the accounting policies applied by the PGNiG Group.

2.5. Presentation changes in the financial statements

The Group has applied the requirements of new IFRS 9 and IFRS 15 using a modified retrospective method, with effect as of January 1st 2018 (without restating the comparative period figures).

The presentation changes resulting from these new regulations are presented below.

(in PLN million, unless stated otherwise)

As at the date of the first application, the Group did not identify any adjustments of the initial balance of retained earnings to be recognised following the implementation of IFRS 15. The impact of the application of IFRS 15 on the consolidated financial statements of the Group for the reporting period is presented in the tables below.

Consolidated statement of profit or loss	Period ended Jun 30 2018 in accordance with IAS 18 and IAS 11	Impact of transition from IAS 18 and IAS 11 to IFRS 15	Period ended Jun 30 2018 in accordance with IFRS 15
Revenue	**20,982**	**(96)**	**20,886**
including:			
Revenue from sales of gas	16,796	(2,042)	14,754
Other revenue	4,186	1,946	6,132
Operating expenses (excl. D&A)	**(16,682)**	**96**	**(16,586)**
including:			
Transmission services	(608)	80	(528)
Other services	(853)	16	(837)
Operating profit before depreciation and amortisation (EBITDA)	**4,300**	**-**	**4,300**
Operating profit (EBIT)	**2,974**	**-**	**2,974**
Profit before tax	**3,087**	**-**	**3,087**
Net profit	**2,270**	**-**	**2,270**

6 months ended Jun 30 2018	Sales to external customers	Inter-segment sales	Total revenue	EBITDA	Depreciation and amortisation	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce
Trade and storage in accordance with IAS 18 and IAS 11	**17,581**	**242**	**17,823**	**(29)**	**(93)**	**(122)**	**-**	**(26)**	**3,249**	**3,002**
Impact of transition from IAS 18 and IAS 11 to IFRS 15	(2,053)	-	(2,053)	-	-	-	-	-	-	-
Trade and storage in accordance with IFRS 15	**15,528**	**242**	**15,770**	**(29)**	**(93)**	**(122)**	**-**	**(26)**	**3,249**	**3,002**
Distribution in accordance with IAS 18 and IAS 11	**590**	**2,097**	**2,687**	**1,384**	**(457)**	**927**	**1**	**(769)**	**13,275**	**11,600**
Impact of transition from IAS 18 and IAS 11 to IFRS 15	1,957	(1,957)	-	-	-	-	-	-	-	-
Distribution in accordance with IFRS 15	**2,547**	**140**	**2,687**	**1,384**	**(457)**	**927**	**1**	**(769)**	**13,275**	**11,600**
Reconciliation with consolidated data in accordance with IAS 18 and IAS 11			**(4,696)**	**(8)**	**-**	**(8)**	**-**	**(4)**	**(191)**	**-**
Impact of transition from IAS 18 and IAS 11 to IFRS 15			1,957	-	-	-	-	-	-	-
Reconciliation with consolidated data in accordance with IFRS 15			**(2,739)**	**(8)**	**-**	**(8)**	**-**	**(4)**	**(191)**	**-**

(in PLN million, unless stated otherwise)

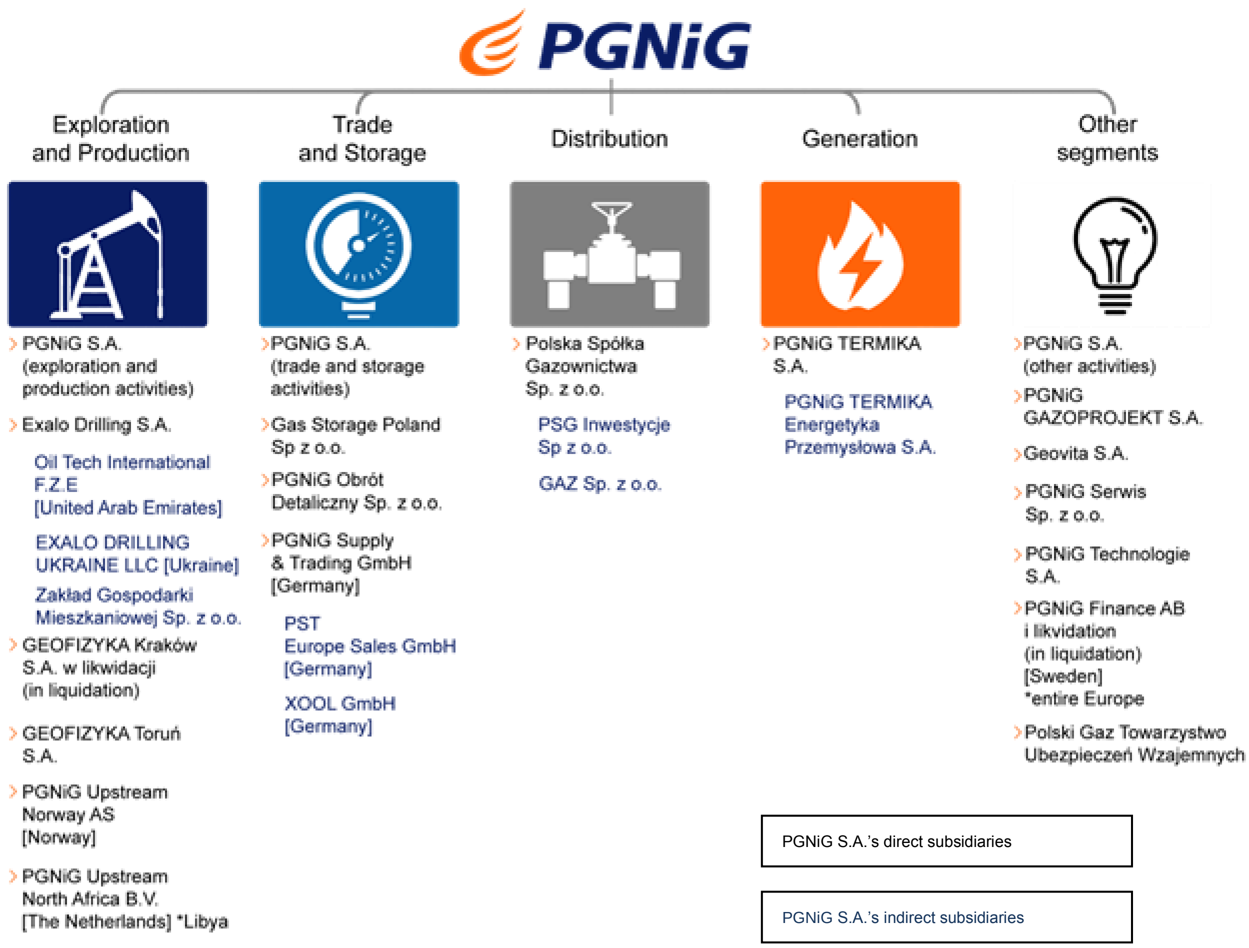
The impact of IFRS 9 adoption is presented below:

Consolidated statement of financial position	As at Dec 31 2017 − before restatement	Effect of IFRS 9 on consolidated statement of financial position	As at Jan 1 2018 − after restatement
ASSETS			
Non-current assets	**36,364**	**(17)**	**36,347**
including:			
Deferred tax assets	141	4	145
Other assets	1,055	(21)	1,034
Current assets	**11,839**	**(66)**	**11,773**
including:			
Receivables	5,781	(66)	5,715
TOTAL ASSETS	**48,203**	**(83)**	**48,120**
EQUITY AND LIABILITIES			
TOTAL EQUITY	**33,627**	**(110)**	**33,517**
including:			
Accumulated other comprehensive income	(165)	3	(162)
Retained earnings	26,266	(113)	26,153
Non-current liabilities	**7,004**	**3**	**7,007**
including:			
Other liabilities	644	3	647
Current liabilities	**7,572**	**24**	**7,596**
including:			
Other provisions	621	18	639
Other liabilities	901	6	907
TOTAL LIABILITIES	**14,576**	**27**	**14,603**
TOTAL EQUITY AND LIABILITIES	**48,203**	**(83)**	**48,120**

3. The Group and its reporting segments

The Group identifies five reporting segments.

The Group's fully-consolidated entities are presented below, by reporting segment. For more information on the Group structure, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in the first half of 2018.



[] - Country of registration (if other than Poland).
** Principal place of business (if other than country of registration)*

Figure 1 ***Group structure by reporting segments***

The reporting segments were identified based on the type of business conducted by the Group companies. The individual operating segments were aggregated into reporting segments according to the aggregation criteria presented in the table below. The parent's Management Board is the chief operating decision maker (CODM).

Segment	Description	Operating segments and aggregation criteria
Exploration and Production	The segment's business focuses on extracting hydrocarbons from deposits and preparing them for sale. This involves exploring for and extracting natural gas and crude oil from deposits, and includes geological surveys, geophysical research, drilling, and development of and production of hydrocarbons from gas and oil fields. The segment sells natural gas to customers outside the Group and to other segments of the PGNiG Group. It also sells crude oil and other products in Poland and abroad.	This reporting segment comprises the operating segments of PGNiG S.A. (the exploration and production business) as well as the Group companies specified in ***Figure 1***. The key aggregation criteria were similarity of products and services; similar characteristics of the production process and of the customer base; and economic similarities (exposure to the same market risks, as reflected in the correlation of results (margins) generated by the aggregated operating segments).
Trade and Storage	The segment's principal business activities are sale of natural gas (imported, produced or purchased on gas exchanges), operation of underground gas storage facilities for trading purposes (Mogilno, Wierzchowice, Kosakowo, Husów, Brzeźnica, Strachocina and Swarzów), and electricity trading.	This reporting segment comprises the operating segments of PGNiG S.A. related to the gas fuel and electricity trading business, as well as the Group companies specified in ***Figure 1***. The segment operates seven underground gas storage facilities to ensure Poland's energy security and to build a gas portfolio that meets the market demand, which is subject to seasonal fluctuations. The key aggregation criteria were similarity of products and services, similarity of the customer base, and similar economic characteristics.
Distribution	The segment's principal business activity consists in distribution of natural gas via distribution networks to retail, industrial and wholesale customers, as well as operation, maintenance (repairs) and expansion of gas distribution networks.	This operating segment overlaps with the reporting segment Distribution, and comprises Polska Spółka Gazownictwa Sp. z o.o. and its subsidiaries specified in ***Figure 1***.
Generation	The segment's principal business activities consist in generation and sale of electricity and heat.	This reporting segment comprises the operating segments of PGNiG TERMIKA S.A. and its subsidiary PGNiG TERMIKA Energetyka Przemysłowa S.A. The key aggregation criteria were similarity of products and services, similarity of the customer base, and similar economic characteristics.
Other segments	This segment comprises activities which cannot be classified to any of the segments listed above, i.e. the functions performed by the PGNiG Corporate Centre, financial services for PGNiG S.A., engineering design and construction of structures, machinery and equipment for the extraction and energy sectors, as well as catering and hospitality and insurance services.	It includes PGNiG S.A.'s activities related to corporate support for other reporting segments, and the Group entities which do not qualify to be included in the other reporting segments, specified under Other Segments in ***Figure 1***.

(in PLN million, unless stated otherwise)

3.1. Key data on the reporting segments

6 months ended Jun 30 2018	Sales to external customers	Inter-segment sales	Total revenue	EBITDA	Depreciation and amortisation	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Profit/(loss) from equity-accounted investees	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce*
Exploration and Production	1,831	1,829	3,660	2,567	(521)	2,046	(65)	55	(588)	12,525	6,893
Trade and Storage	15,528	242	15,770	(29)	(93)	(122)	-	-	(26)	3,249	3,002
Distribution	2,547	140	2,687	1,384	(457)	927	1	-	(769)	13,275	11,600
Generation	888	377	1,265	466	(220)	246	-	-	(163)	3,491	1,821
Other Segments	92	151	243	(80)	(35)	(115)	-	7	(62)	461	1,533
Total	**20,886**	**2,739**	**23,625**	**4,308**	**(1,326)**	**2,982**	**(64)**	**62**	**(1,608)**	**33,001**	**24,849**
Reconciliation with consolidated data			(2,739)	(8)	-	(8)	-	-	(4)	(191)	
Total			**20,886**	**4,300**	**(1,326)**	**2,974**	**(64)**	**62**	**(1,612)**	**32,810**	

*Excluding employees of equity-accounted investees.

6 months ended Jun 30 2017	Sales to external customers	Inter-segment sales	Total revenue	EBITDA	Depreciation and amortisation	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Profit/(loss) from equity-accounted investees	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce*
Exploration and Production	1,637	1,509	3,146	2,239	(549)	1,690	(15)	4	(523)	12,565	7,094
Trade and Storage	15,630	189	15,819	89	(102)	(13)	-	-	(64)	3,789	2,945
Distribution	554	2,056	2,610	1,383	(460)	923	(1)	-	(568)	12,727	11,128
Generation	943	324	1,267	580	(198)	382	-	-	(198)	3,393	1,835
Other Segments	53	107	160	(120)	(26)	(146)	(7)	4	(40)	473	1,870
Total	**18,817**	**4,185**	**23,002**	**4,171**	**(1,335)**	**2,836**	**(23)**	**8**	**(1,393)**	**32,947**	**24,872**
Reconciliation with consolidated data			(4,185)	6	-	6	-	-	(30)	(200)	
Total			**18,817**	**4,177**	**(1,335)**	**2,842**	**(23)**	**8**	**(1,423)**	**32,747**	

*Excluding employees of equity-accounted investees.

For discussion of the Group's financial results, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in the first half of 2018.

(in PLN million, unless stated otherwise)

4. Notes to the interim condensed consolidated financial statements

4.1. Deferred tax

	Deferred tax assets	Deferred tax liabilities	Set-off of assets and liabilities	Assets after set-off	Liabilities after set-off	Net effect of changes in the period
As at Jan 1 2017	**1,281**	**3,113**	**(1,181)**	**100**	**1,932**	
Increase	75	52				**23**
Decrease	(325)	(124)				**(201)**
Currency translation differences	(30)	(161)				**131**
Other changes	-	(1)				**1**
As at Dec 31 2017	**1,001**	**2,879**	**(860)**	**141**	**2,019**	**(46)**
As at Jan 1 2018	**1,001**	**2,879**	**(860)**	**141**	**2,019**	
Effect of amended IFRS 9	4	-		4	-	
Increase	195	165				**30**
Decrease	(128)	(15)				**(113)**
Currency translation differences	8	103				**(95)**
Other changes	-	(19)				**19**
As at Jun 30 2018	**1,080**	**3,113**	**(1,001)**	**79**	**2,112**	**(159)**

4.2. Impairment losses/write-downs

	Property, plant and equipment	Intangible assets	Assets held for sale	Equity-accounted investees	Other (non-current) assets	Inventories	Receivables	Total
As at Jan 1 2017	**3,758**	**88**	**19**	**879**	**32**	**128**	**772**	**5,676**
Recognised provision taken to profit or loss	1,226	6	-	-	1	127	124	**1,484**
Provision reversal taken to profit or loss	(794)	(3)	(2)	(35)	-	(59)	(123)	**(1,016)**
Used provision	(63)	-	(3)	-	(1)	(1)	(146)	**(214)**
Transfers	(1)	-	3	-	(2)	-	-	**-**
Other changes	(88)	(7)	-	-	-	(4)	132	**33**
As at Dec 31 2017	**4,038**	**84**	**17**	**844**	**30**	**191**	**759**	**5,963**
As at Jan 1 2018	**4,038**	**84**	**17**	**844**	**30**	**191**	**759**	**5,963**
Effect of amended IFRS 9	**-**	**-**	**-**	**-**	**-**	**-**	65	**65**
Recognised provision taken to profit or loss	248	1	4	36	-	58	227	**574**
Provision reversal taken to profit or loss	(564)	(1)	-	-	-	(121)	(192)	**(878)**
Used provision	(19)	(1)	-	-	-	(1)	(6)	**(27)**
Transfers	-	-	(7)	-	77	-	(70)	**-**
Other changes	4	1	(1)	-	-	1	38	**43**
As at Jun 30 2018	**3,707**	**84**	**13**	**880**	**107**	**128**	**821**	**5,740**

(in PLN million, unless stated otherwise)

4.3. Provisions

	Provision for well decommissioning costs	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provision for environmental liabilities	Provision for UOKiK fine	Provision for claims under extra-contractual use of land	Other provisions	Total	
As at Jan 1 2017	**1,661**	**143**	**194**	**117**	**10**	**36**	**258**	**2,419**	
Recognised provision capitalised in the cost of property, plant and equipment	184	-	-	-	-	-	-	**184**	
Recognised provision taken to profit or loss	73	160	-	24	-	7	148	**412**	
Provision reversal taken to profit or loss	(64)	(13)	-	(17)	-	(12)	(59)	**(165)**	
Used provision	(34)	(133)	-	-	-	-	(28)	**(195)**	
Other changes	(50)	(2)	(31)	-	-	-	-	**(83)**	
As at Dec 31 2017	**1,770**	**155**	**163**	**124**	**10**	**31**	**319**	**2,572**	
As at Jan 1 2018	**1,770**	**155**	**163**	**124**	**10**	**31**	**319**	**2,572**	
Effect of amended IFRS 9	**-**	**-**	**-**	**-**	**-**	**-**	**18**	**18**	
Recognised provision capitalised in the cost of property, plant and equipment	66	-	-	-	-	-	-	**66**	
Recognised provision taken to profit or loss	17	81	-	-	-	2	92	**192**	*Note 4.6*
Provision reversal taken to profit or loss	(13)	(55)	-	(9)	-	(5)	(70)	**(152)**	*Note 4.6*
Used provision	(5)	(114)	-	-	(10)	-	(3)	**(132)**	
Other changes	30	29	12	-	-	-	(1)	**70**	
As at Jun 30 2018	**1,865**	**96**	**175**	**115**	**-**	**28**	**355**	**2,634**	

(in PLN million, unless stated otherwise)

4.4. Revenue

	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Revenue from sales of gas, including:	**14,754**	**15,049**
High-methane gas	14,233	14,176
Nitrogen-rich gas	714	786
LNG	38	39
CNG	17	17
Propane-butane gas	32	31
Adjustment to gas sales due to hedging transactions	(280)	-
Other revenue, including:	**6,132**	**3,768**
Sale of crude oil and natural gasoline	1,194	987
Sale of NGL	62	45
Sale of heat	744	788
Sale of electricity	1,046	901
Revenue from rendering of services:		
- drilling and oilfield services	83	78
- geophysical and geological services	40	121
- construction and assembly services	69	35
- distribution services	2,411	438
- connection charge	73	55
- other	184	106
Other	226	214
Total revenue	**20,886**	**18,817**

4.5. Operating expenses

	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Cost of gas sold	**(12,281)**	**(10,542)**
Gas fuel	(12,290)	(10,571)
Cost of transactions hedging gas prices	9	29
Other raw materials and consumables used	**(1,338)**	**(1,177)**
Fuels for electricity and heat generation	(466)	(411)
Electricity for trading purposes	(657)	(521)
Other raw materials and consumables used	(215)	(245)
Employee benefits expense	**(1,392)**	**(1,312)**
Salaries and wages	(1,049)	(981)
Social security contributions	(235)	(219)
Cost of long-term employee benefits	2	27
Other employee benefits expense	(110)	(139)
Other services	**(837)**	**(772)**
Regasification services	(181)	-
Repair and construction services	(99)	(66)
Mineral resources production services	(119)	(77)
Rental services	(48)	(55)
Other services	(390)	(574)
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	**(64)**	**(23)**
Cost of exploration and evaluation assets written-off	(376)	(98)
Impairment losses on property, plant and equipment	312	76
Impairment losses on intangible assets	-	(1)
Total	**(15,912)**	**(13,826)**

(in PLN million, unless stated otherwise)

4.6. Other income and expenses

	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Compensations, penalties, and fines received	18	40
Exchange differences related to operating activities	114	(92)
Measurement and exercise of derivative financial instruments	(73)	96
Change in inventory write-downs	63	(50)
Change in impairment losses on trade and other receivables	(35)	21
Change in provision for well decommissioning costs	(4)	(5)
Change in provision for certificates of origin and energy efficiency certificates	(26)	(125)
Change in other provisions	(22)	(38)
Change in products	170	177
Change in hydrocarbon production surplus/shortage compared with contractual levels	(92)	-
Other income and costs	(115)	(102)
Total other income and expenses	**(2)**	**(78)**

4.7. Net finance income/(costs)

	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Interest on debt (including fees)	(28)	(67)
Foreign exchange differences	28	51
Measurement and exercise of derivative financial instruments not designated for hedge accounting	(9)	(18)
Fair value measurement of financial assets	21	-
Other net finance costs/(income)	39	43
Total net finance costs	**51**	**9**

(in PLN million, unless stated otherwise)

4.8. Income tax

Reconciliation of effective tax rate	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Profit before tax	3,087	2,859
Corporate income tax at the 19% statutory rate applicable in Poland	(587)	(543)
Deductible temporary differences in respect of which no deferred tax was recognised	(230)	(218)
Income tax expense disclosed in the statement of profit or loss	**(817)**	**(761)**
Including:		
Current tax expense	(722)	(508)
Deferred tax expense	(95)	(253)
Effective tax rate	26%	27%

Tax group

PGNiG S.A. represents the PGNiG Tax Group which, under the agreement concluded on September 19th 2016, will exist from January 1st 2017 to December 31st 2020.
The PGNiG Tax Group comprises: PGNiG S.A., PGNiG Obrót Detaliczny Sp. z o.o., Polska Spółka Gazownictwa Sp. z o.o., PGNiG Termika S.A., Gas Storage Poland Sp. z o.o., PGNiG SPV 5 Sp. z o.o., PGNiG SPV 6 Sp. z o.o., PGNiG SPV 7 Sp. z o.o., Geofizyka Toruń S.A., PGNiG Technologie S.A., and PGNiG Serwis Sp. z o.o.

The present PGNiG Tax Group replaced the former PGNiG Tax Group, established for the period April 1st 2014−December 31st 2016, which comprised: PGNiG S.A., PGNiG Obrót Detaliczny Sp. z o.o., PSG Sp. z o.o., PGNiG Termika S.A., Gas Storage Poland Sp. z o.o., PGNiG SPV 5 Sp. z o.o., PGNiG SPV 6 Sp. z o.o., and PGNiG SPV 7 Sp. z o.o. In accordance with applicable tax laws, companies included in the PGNiG Tax Group lost their status as separate payers of corporate income tax and such status was acquired by the PGNiG Tax Group, which made it possible to calculate corporate income tax jointly for all members of the PGNiG Tax Group. The PGNiG Tax Group is a separate entity only for corporate income tax purposes, and it should not be viewed as a separate legal person. Its tax status does not extend to other types of taxes; in particular, each of the companies forming the PGNiG Tax Group is a separate payer of value-added tax and of tax on civil-law transactions, and a separate remitter of personal income tax withholdings. The other companies of the PGNiG Group are separate payers of corporate income tax.

The PGNiG Tax Group is a source of certain benefits for its member companies, including:

- ability to offset losses generated by individual members of the PGNiG Tax Group against profits earned by other member companies in the period when such losses are incurred,
- ability to recognise donations to other members of the PGNiG Tax Group as tax deductible expenses,
- CIT settlements are processed by a single entity.

4.9. Property, plant and equipment

	As at Jun 30 2018	As at Dec 31 2017
Land	106	101
Buildings and structures	18,542	18,302
Plant and equipment	8,746	8,612
Vehicles and other	1,147	1,127
Total tangible assets	**28,541**	**28,142**
Tangible exploration and evaluation assets under construction	2,119	2,154
Other tangible assets under construction	2,150	2,156
Total property, plant and equipment	**32,810**	**32,452**

4.9.1. Material transactions to purchase or sell items of property, plant and equipment

In the reporting period, the Group did not execute any material transactions to purchase or sell items of property, plant and equipment.

4.9.2. Material liabilities related to purchase of property, plant and equipment

In the reporting period, the Group did not carry any material liabilities related to purchase of property, plant and equipment.

(in PLN million, unless stated otherwise)

4.10. Derivative financial instruments

The Group uses derivative financial instruments to hedge commodity, currency and interest rate risk exposures.

In the reporting period, the Parent accounted for all eligible transactions using cash-flow or fair-value hedge accounting. The Company was party to CCIRS transactions, which are not designated for hedge accounting, as the valuation of both the hedged item and the hedge (the derivative transaction) is recognised in profit or loss, which produces the same effect as if hedge accounting was applied.

In the first half of 2018, as part of its trading activity, the Parent entered into transactions within the approved limits. The aggregate amount of the hedging transactions does not exceed the amount of the hedged items.

The transactions in derivative financial instruments entered into by the parent are based on the ISDA (International Swap & Derivatives Association) standards or Polish Master Agreements prepared in accordance with the guidelines of the Polish Banks Association.

The effect of the valuation of derivative instruments on profit or loss is presented in the table below.

Income and expenses related to assets and liabilities under derivative financial instruments			**6 months ended Jun 30 2018**		**6 months ended Jun 30 2017**	
Item of statement of profit or loss and statement of comprehensive income	**Item referenced in Note / additional explanations**	**Notes**	**Derivative financial instruments not designated for hedge accounting**	**Derivative financial instruments designated for cash flow hedge accounting**	**Derivative financial instruments not designated for hedge accounting**	**Derivative financial instruments designated for cash flow hedge accounting**
Effect on statement of profit or loss						
Net finance costs	Measurement and exercise of derivative financial instruments not designated for hedge accounting	*Note 4.7*	(9)	-	(18)	-
Other income and expenses	Measurement and exercise of derivative financial instruments not designated for hedge accounting	*Note 4.6*	(73)	-	96	-
Revenue	Reclassification from other comprehensive income	*Note 4.4*	-	(280)	-	-
Cost of gas sold	Reclassification from other comprehensive income	*Note 4.5*	-	9	-	29
			(82)	**(271)**	**78**	**29**
Effect on other comprehensive income						
Gains/(losses) on measurement of derivative instruments designated for cash flow hedge accounting [effective portion]				(286)		(105)
Reclassification of derivative instruments valuation to profit or loss upon exercise (cash flow hedges)				271		(29)
				(15)		**(134)**
Effect on comprehensive income			**(82)**	**(286)**	**78**	**(105)**

(in PLN million, unless stated otherwise)

The tables below present the Group companies' derivative transactions as at June 30th 2018.

Derivative instruments designated for hedge accounting	As at Jun 30 2018					As at Dec 31 2017		
Type of derivative instrument	Notional amount	Period over which cash flow will occur and affect the financial result	Exercise price (exercise price range)	Weighted average exercise price	Fair value of instruments for which cash flow hedge accounting is applied	Notional amount	Period over which cash flow will occur and affect the financial result	Fair value of instruments for which cash flow hedge accounting is applied
Derivative instruments used to hedge currency risk in gas purchase contracts								
Forward								
USD	USD 1,170	up to 3 years	3.47 - 3.70	3.54	320	USD 70	1–3 months	(8)
USD	USD 30	1–3 months	3.75 - 3.77	3.76	-	-	-	-
EUR	EUR 1,301	up to 3 years	4.30 - 4.48	4.39	(103)	-	-	-
					217			**(8)**
Derivative instruments used to hedge gas purchase prices								
TTF call options	-	-	-	-	-	2 MWh	1–12 months	13
TTF swap MA	5 MWh	Up to 12 months	13.72 - 20.17	19.70	35	1 MWh	1–12 months	12
TTF swap DA	7 MWh	Up to 12 months	21.85 - 23.44	22.58	17	-	-	-
TTF swap MA	6 MWh	1–3 months	21.88 - 22.97	22.32	(14)	-	-	-
TTF swap DA	14 MWh	Up to 12 months	16.75 - 23.44	20.78	(103)	0.13 MWh	1–3 months	(1)
BRENT Swap	0.375 Bbl	Up to 12 months	62.23	62.23	22	-	-	-
GASPOOL Swap DA	15 MWh	up to 3 years	15.97 - 17.59	16.79	(245)	-	-	-
					(288)			**24**
Derivative instruments used to hedge interest rate risk								
IRS	-	-	-	-	-	PLN 1,500	1–3 years	(16)
				Total	**(71)**		**Total**	**-**
			Including:	Assets	394	Including:	Assets	25
				Liabilities	465		Liabilities	25

TTF – Natural Gas at the Title Transfer Facility
IRS – Interest Rate Swap
MA – month-ahead; DA – day-ahead

(in PLN million, unless stated otherwise)

Derivative instruments not designated for hedge accounting	As at Jun 30 2018		As at Dec 31 2017	
Type of derivative instrument	Notional amount	Fair value of instruments not designated for hedge accounting	Notional amount	Fair value of instruments not designated for hedge accounting
Derivative instruments used to hedge interest rate and currency risk				
CCIRS				
NOK	NOK 2,318	42	NOK 2,318	114
Forward				
EUR	98 EUR	2	98 EUR	(12)
		44		**102**
Derivative instruments used as economic hedges of electricity purchase prices				
Forward				
electricity – PPX	469 MWh	116	476 MWh	36
electricity – PPX	1,207 MWh	(118)	882 MWh	(34)
electricity – OTC	1 MWh	64	1 MWh	40
electricity – OTC	2 MWh	(96)	2 MWh	(64)
Futures				
electricity – EEX AG	3 MWh	128	2 MWh	71
electricity – EEX AG	2 MWh	(97)	2 MWh	(47)
		(3)		**2**
Derivative instruments used to hedge gas purchase prices				
Forward				
gas - TGE	-	-	3 MWh	-
gas – OTC	28 MWh	222	15 MWh	94
gas – OTC	32 MWh	(282)	17 MWh	(113)
Futures				
gas – ICE ENDEX B.V.	2 MWh	32	2 MWh	16
gas – ICE ENDEX B.V.	2 MWh	(19)	2 MWh	(9)
gas – POWERNEXT SA	7 MWh	91	4 MWh	28
gas – POWERNEXT SA	4 MWh	(44)	3 MWh	(17)
TTF swap MA	0.29 MWh	10		
		10		**(1)**
Derivative instruments used to hedge purchase prices of CO_2 emission allowances				
Forward	EUR 20	2	EUR 7	-
Forward	EUR 1	-	-	-
Forward	34 t	1	-	-
Forward	41 t	(15)	12 t	(1)
Futures	119 t	13	11 t	1
		1		**-**
Derivative instruments used to hedge prices of property rights to certificates of energy origin – RES				
Forward	1.37 MWh	-	0.86 MWh	1
		-		**1**
Derivative instruments used to hedge share purchase prices				
Options	9.13 million shares	16	9.13 million shares	24
	Total	**68**	**Total**	**128**
	Including:		Including:	
	Assets	739	Assets	425
	Liabilities	671	Liabilities	297

CCIRS – Cross Currency Interest Rate Swap
PPE – Towarowa Giełda Energii S.A. (Polish Power Exchange)
OTC – non-regulated over-the-counter market
EEX AG – European Energy Exchange AG
ICE ENDEX B.V. and POWERNEXT SA – leading energy exchanges in Europe

(in PLN million, unless stated otherwise)

4.11. Contingent assets and liabilities

Contingent asset	As at Jun 30 2018	As at Dec 31 2017
	Estimated amount	
Promissory notes received	1	3
Grants awarded	220	172
Other contingent assets	15	15
Total	**236**	**190**

The change in contingent assets was mainly an effect of a EU grant agreement concluded in the reporting period by a subsidiary of PGNiG S.A.

Contingent liability	As at Jun 30 2018	As at Dec 31 2017
	Estimated amount	
Guarantees and sureties	4,535	3,537
Promissory notes	854	702
Other	11	11
Total	**5,400**	**4,250**

The increase in contingent liabilities under sureties and guarantees granted in H1 2018 was principally due to new guarantees issued by the Company as security for gas supplies, totalling EUR 149m (PLN 651m at the exchange rate quoted by the NBP for June 30th 2018). Contingent liabilities under sureties and guarantees also rose due to differences in the exchange rates of the currencies of most of the guarantees and sureties (USD, EUR, NOK).

4.12. Fair value hierarchy

In the reporting period, the Group made no changes to the fair value measurement method used to measure financial instruments. There were also no transfers between fair value hierarchy levels.

	As at Jun 30 2018		As at Dec 31 2017	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Derivative instruments	617	516	249	201
	617	**516**	**249**	**201**
Financial liabilities				
Derivative instruments	613	523	249	73
	613	**523**	**249**	**73**

4.13. Classification of financial assets

In the reporting period, no changes were made to the classification of the Group's financial assets.

(in PLN million, unless stated otherwise)

5. Supplementary information to the report

5.1. Key events related to the issuer in the reporting period

Date	Company	Event
January 19th 2018	PGNiG S.A.	An agreement was concluded with the TSO company Operator Systemu Przesyłowego Gaz-System S.A. (Gaz System S.A.) for the provision of gas transmission services from October 1st 2022 to September 30th 2037, as part of the 2017 Open Season procedure of the Baltic Pipe project (transmission contract) regarding gas transmission from Norway to Poland via Denmark. On January 29th 2018 an agreement was concluded with the Danish transmission system operator Energinet for the provision of gas transmission services from October 1st 2022 to September 30th 2037, as part of the 2017 Open Season procedure of the Baltic Pipe project (transmission contract) concerning gas transmission from Norway to Poland via Denmark. Conclusion of transmission contracts with transmission system operators, i.e. Gaz-System S.A. and Energinet with a total value of PLN 8.1bn is the last stage of the Open Season 2017 procedure (for more information, see Current Report No. 90/2017 of October 31st 2017).
January 25th 2018	Polska Spółka Gazownictwa sp. z o.o.	By a decision of January 25th 2018, the President of the Energy Regulatory Office ("President of URE") approved new Tariff No. 6 for gas fuel distribution and liquefied natural gas regasification services provided by Polska Spółka Gazownictwa sp. z o.o. ("Distribution Tariff"). The average reduction of prices and rates of network fees used for settlements with customers in the Distribution Tariff in relation to the current tariff of Polska Spółka Gazownictwa sp. o.o. for all tariff groups is 7.37%. The Distribution Tariff will remain in effect from March 1st to December 31st 2018. For detailed information on the approved tariff, see www.ure.gov.pl and Biuletyn Branżowy URE – Paliwa gazowe (the ERO official gazette – Gaseous fuels).
March 8th 2018	Elektrociepłownia Stalowa Wola S.A.	Elektrociepłownia Stalowa Wola S.A. (as the borrower) signed a loan agreement with Bank Gospodarstwa Krajowego (BGK) and PGNiG. Under the agreement, BGK and PGNiG will each grant the borrower loans of PLN 450m for refinancing of the borrower's debt to PGNiG and Tauron Polska Energia S.A., totalling PLN 600m, and PLN 300m to finance the borrower's further capital expenditure. The loan is due to be finally repaid on June 14th 2030.
March 14th 2018	PGNiG Obrót Detaliczny Sp. z o.o.	By virtue of a decision of the President of the Energy Regulatory Office dated March 14th 2018, amended Gas Fuel Trading Tariff No. 6 (amended Retail Tariff) of PGNiG Obrót Detaliczny was approved. The amended Retail Tariff provides for a 1% increase in gas fuel prices for all tariff groups relative to the previous tariff of PGNiG Obrót Detaliczny Sp. z o.o. Subscription fees remained unchanged. The Retail Tariff is effective from April 1st to December 31st 2018 and applies to households. For detailed information on the approved tariffs, see www.ure.gov.pl and Biuletyn Branżowy URE – Paliwa gazowe (the ERO official gazette – Gaseous fuels).
June 26th 2018	PGNiG S.A.	PGNiG signed agreements defining the basic terms and conditions of long-term LNG supply contracts with: • Port Arthur LNG, LLC (subsidiary of Sempra LNG & Midstream, LLC); • Venture Global LNG, Inc. Under each agreement, the parties will negotiate the provisions of the binding 20-year contract for the purchase by PGNiG of 2 million tonnes of LNG annually, which corresponds to the total volume of nearly 2.7 bcm of natural gas after regasification. The deliveries may be further traded by PGNiG on international markets and will be made on a free-on-board basis.

<table>
<tr><td></td><td></td><td> In the opinion of the PGNiG Management Board, the agreed terms and conditions of the agreements, including the competitive price of LNG, are satisfactory in the context of the PNGiG Group’s strategy for developing its global LNG trading activities. The deliveries from Port Arthur LNG, LLC will be made through its liquefaction unit in Jefferson County, Texas, which is currently under construction and which is planned for commissioning in 2023. The deliveries from Venture Global LNG, Inc. will be made through export facilities in Louisiana (Calcasieu Pass LNG in Calcasieu Parish and Plaquemines LNG in Plaquemines Parish), which are currently under construction and which are planned to be completed in 2022 and 2023, respectively. The signed agreements do not constitute PGNiG’s obligation to sign final LNG purchase contracts. </td></tr>
<tr><td>June 29th 2018</td><td>PGNiG S.A.</td><td> The Arbitration Court issued an ad hoc partial award in the arbitration proceedings initiated by PGNiG against PAO Gazprom and OOO Gazprom Export (Gazprom) to reduce the contract price for the gas supplied by Gazprom under a contract for the sale of natural gas to the Republic of Poland, dated September 25th 1996 (the Yamal Contract). Under the partial award, the Arbitration Court: found that in November 2014 PGNiG filed a valid and effective request for renegotiation of the contract price;
confirmed the satisfaction of the condition set forth in the Yamal Contract which entitles PGNiG to demand a reduction of the contract price for the gas supplied by Gazprom under the Yamal Contract, thus confirming that, in principle, PGNiG's request to determine a new, lower contract price is justified; and
found, contrary to Gazprom's claims, that it has the right to change the contract price within the limits of the claim; the Court also decided that the Company's initial demand regarding the new price formula is too far-reaching; the Court also determined ad hoc that the new contract price would be determined later on in the proceedings. Under the Yamal Contract, the new contract price determined ad hoc by the Arbitration Court should apply with retroactive force as of November 1st 2014, i.e. the date of PGNiG's request for renegotiation of the contract price. The ad hoc issuance by the Arbitration Court of a partial award does not rule out the possibility of the parties to the Yamal Contract reaching an agreement on changing the price terms. </td></tr>
</table>

5.2. Dividend paid (declared)

On July 20th 2018, the PGNiG Annual General Meeting resolved to allocate the net profit for 2017 to the Company's statutory reserve funds and capital reserve to be used for financing the expansion and modernisation of the Polish gas distribution network. Consequently, no dividend will be paid for 2017.

The dividend for 2016 was paid on August 3rd 2017. In accordance with a decision of the PGNiG Annual General Meeting, the dividend amount was PLN 1,156m (PLN 0.20 per share), and the dividend record date was July 19th 2017.

5.3. Issue, redemption, and repayment of debt securities

In H1 2018, PGNiG S.A. redeemed PLN 1.5bn and PLN 0.4bn of domestic bonds in Q1 and Q2, respectively, as part of the following programme:

					Utilisation (%) as at	Outstanding debt (PLN bn) at	
Start date	End date	Issuance Programme	Participating banks as at the reporting date	Limit	Jun 30 2018	Jun 30 2018	Dec 31 2017
Jun 10 2010	Jul 31 2020	Note issuance programme	Bank Pekao S.A., ING Bank Śląski S.A., PKO BP S.A., Bank Handlowy w Warszawie, BNP Paribas S.A. Oddział w Polsce, Societe Generale S.A., Bank Zachodni WBK S.A., mBank S.A.	PLN 7bn	-	-	1.9

PGNiG S.A. is also a party to debt securities programme agreements which were not performed in the reporting period (for PLN 1bn and PLN 5bn). A detailed description of the programmes is presented in the full-year consolidated financial statements for the period ended December 31st 2017.

5.4. Seasonality

The sale, distribution and storage of gas fuels, as well as cogeneration of heat and electricity which, in addition to hydrocarbon exploration and production, is the Group's principal business activity, are subject to significant seasonal fluctuations.

Revenue from sales of natural gas and heat in the winter season (the first and fourth quarters of the year) is substantially higher than in summer (the second and third quarters of the year). This is due to the seasonal changes in weather conditions in Poland, with the extent of the fluctuations determined by air temperatures – low in winter and high in summer. Revenue from sales of gas and heat to households is subject to much greater seasonal fluctuations than in the case of sales to industrial customers as households use gas and heat for heating purposes.

To ensure uninterrupted gas supplies in periods of peak demand and for reasons of security of the supplies, the underground gas storage facilities must be restocked in summer, and higher transmission and distribution capacities must be reserved for the winter season.

5.5. Settlements from court proceedings

In the current reporting period, the Group entities reported no material settlements arising in connection with any court proceedings.

5.6. Changes in the economic environment and trading conditions with a material bearing on fair value of financial assets and liabilities

In the reporting period, the PGNiG Group recorded no changes in its economic environment or trading conditions which would have a material bearing on the fair value of its financial assets and liabilities.

5.7. Credit default or breach of material credit covenants with respect to which no remedial action was taken before the end of the reporting period

In the reporting period, there were no events of credit default or breach of material credit covenants by the Parent or its subsidiaries.

(in PLN million, unless stated otherwise)

5.8. Events subsequent to the reporting date

Date	Company	Event
July 25th 2018	PGNiG Obrót Detaliczny Sp. z o.o.	By virtue of a decision of the President of the Energy Regulatory Office dated July 25th 2018, Amendment No. 2 to Gas Fuel Trading Tariff No. 6 (amended Retail Tariff) of PGNiG Obrót Detaliczny was approved. The amended Retail Tariff provides for a 5.9% increase in gas fuel prices for all tariff groups relative to the previous tariff of PGNiG Obrót Detaliczny Sp. z o.o. Subscription fees remained unchanged. The retail tariff applies only to household consumers of gaseous fuels. The amended Retail Tariff will be effective from August 10th to December 31st 2018. For detailed information on the approved tariffs, see www.ure.gov.pl and Biuletyn Branżowy URE – Paliwa gazowe (the ERO official gazette – Gaseous fuels).

5.9. Other information material to the assessment of assets, financial condition and results

Other than the information disclosed in this report, the PGNiG Group is not aware of any information which, in its opinion, could be material to the assessment of its assets, financial condition and results.

6. Interim condensed separate financial statements of PGNiG S.A.

Separate statement of profit or loss	3 months ended Jun 30 2018	6 months ended Jun 30 2018	3 months ended Jun 30 2017	6 months ended Jun 30 2017
Revenue from sales of gas	3,194	9,104	2,988	8,116
Other revenue	828	1,811	660	1,529
Revenue	**4,022**	**10,915**	**3,648**	**9,645**
Cost of gas sold	(2,540)	(7,223)	(2,484)	(6,315)
Other raw materials and consumables used	(265)	(649)	(233)	(593)
Employee benefits expense	(165)	(325)	(161)	(303)
Transmission, distribution and storage services	(244)	(483)	(277)	(558)
Other services	(317)	(723)	(263)	(450)
Depreciation and amortisation	(196)	(388)	(188)	(374)
Taxes and charges	(9)	(142)	(11)	(137)
Other income and expenses	(95)	(57)	(111)	(131)
Work performed by the entity and capitalised	2	3	2	4
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	77	320	71	71
Dividends	1,726	1,726	1,197	1,197
Finance income	109	221	94	142
Finance costs	(62)	(115)	(102)	(165)
Total	**(1,979)**	**(7,835)**	**(2,466)**	**(7,612)**
Profit before tax	**2,043**	**3,080**	**1,182**	**2,033**
Income tax	(77)	(289)	(36)	(206)
Net profit	**1,966**	**2,791**	**1,146**	**1,827**
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778
Basic and diluted earnings per share (PLN)	0.34	0.48	0.20	0.32

Separate statement of comprehensive income	3 months ended Jun 30 2018	6 months ended Jun 30 2018	3 months ended Jun 30 2017	6 months ended Jun 30 2018
Net profit	**1,966**	**2,791**	**1,146**	**1,827**
Hedge accounting	43	(15)	(6)	(133)
Deferred tax	1	9	1	25
Other comprehensive income subject to reclassification to profit or loss	**44**	**(6)**	**(5)**	**(108)**
Actuarial gains on employee benefits	(4)	(4)	(7)	(7)
Deferred tax	1	1	1	1
Other comprehensive income not subject to reclassification to profit or loss	**(3)**	**(3)**	**(6)**	**(6)**
Other comprehensive income, net	**41**	**(9)**	**(11)**	**(114)**
Total comprehensive income	**2,007**	**2,782**	**1,135**	**1,713**

(in PLN million, unless stated otherwise)

Separate statement of cash flows	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Cash flows from operating activities		
Net profit	2,791	1,827
Depreciation and amortisation	388	374
Interest and dividends	(1,785)	(1,238)
Net gain/(loss) on investing activities	(256)	(23)
Other non-cash adjustments	317	134
Income tax paid	(324)	(231)
Current tax expense	289	206
Movements in working capital	(141)	(360)
Net cash from operating activities	**1,279**	**689**
Cash flows from investing activities		
Payments for tangible exploration and evaluation assets	(372)	(298)
Payments for intangible assets and other property, plant and equipment	(170)	(146)
Loans advanced	(423)	(628)
Payments for derivative financial instruments	(62)	(67)
Payments for shares in related entities	(4)	(404)
Other cash used in investing activities	(4)	(4)
Repayments of loans advanced	323	353
Proceeds from sale of short-term securities	-	100
Proceeds from derivative financial instruments	34	84
Interest received	84	58
Dividends received	1	-
Other cash generated by financing activities	18	10
Net cash from investing activities	**(575)**	**(942)**
Cash flows from financing activities		
Proceeds from issue of debt securities	450	479
Proceeds from derivative financial instruments	-	165
Other cash generated by financing activities	2	5
Repayment of borrowings	-	(2,151)
Redemption of debt securities	(1,996)	(2,700)
Interest paid	(19)	(177)
Payments for derivative financial instruments	-	(20)
Net cash from financing activities	**(1,563)**	**(4,399)**
Net cash flows	**(859)**	**(4,652)**
Cash and cash equivalents at beginning of period	1,680	4,923
Cash and cash equivalents at end of period	**821**	**271**
including restricted cash	506	220

As at June 30th 2018, the following agreements were in effect:

- A cash pooling agreement of July 16th 2014 between Bank Pekao S.A. and the following Group companies: PGNiG S.A., Polska Spółką Gazownictwa Sp. z o.o., Exalo Driling S.A., PGNiG Technologie S.A., Geofizyka Kraków S.A. w likwidacji (in liquidation), Geofizyka Toruń S.A., Gas Storage Poland Sp. z o.o., PGNiG Serwis Sp. z o.o., PGNiG Termika S.A., PGNiG Obrót Detaliczny Sp. z o.o., Geovita S.A. and PGNiG Gazoprojekt S.A.

(in PLN million, unless stated otherwise)

- A cash pooling agreement of December 22nd 2016, effective as of March 1st 2017, between PKO BP S.A. and the following Group companies: PGNiG S.A., Polska Spółka Gazownictwa Sp. z o.o., PGNiG Technologie S.A., Geofizyka Toruń S.A., Gas Storage Poland Sp. z o.o., PGNiG Serwis Sp. z o.o., PGNiG Termika S.A. and PGNiG Obrót Detaliczny Sp. z o.o.

The main objective of these agreements is to improve the effectiveness of managing the Group's financial liquidity. The cash pooling arrangement facilitates liquidity planning within the PGNiG Group and has reduced dependency on borrowed funds. The improved and more efficient utilisation of free cash also enabled the Group to reduce its borrowing costs.

Therefore, cash flows under the cash pooling arrangement as well as exchange differences on translating cash and cash equivalents are presented in the statement of financial position under cash and cash equivalents, and as an adjustment to cash and cash equivalents in the statement of cash flows. As at June 30th 2018 and June 30th 2017, the fair value of the Company's financial assets and liabilities measured at amortised cost did not materially differ from their carrying amounts.

The table below presents reconciliation of cash and cash equivalents disclosed in the statement of cash flows with cash and cash equivalents disclosed in the statement of financial position.

Reconciliation of cash and cash equivalents disclosed in the statement of cash flows with cash and cash equivalents disclosed in the statement of financial position	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Cash and cash equivalents at end of period in the statement of cash flows	**918**	**271**
Opening balance of net exchange differences	(2)	(1)
Opening balance of inflows/outflows of cash under cash pooling arrangement	306	210
Net exchange differences in period	(76)	(5)
Inflows/(outflows) of cash under cash pooling arrangement in period	1,031	1,711
Cash at end of period in the statement of financial position	**2,177**	**2,186**

(in PLN million, unless stated otherwise)

Separate statement of financial position	As at Jun 30 2018	As at Dec 31 2017
Assets		
Property, plant and equipment	12,079	12,021
Licences, mining rights and rights to geological information	74	54
Deferred tax assets	24	79
Shares	9,807	9,800
Derivative financial instruments	75	-
Loans advanced	1,921	1,553
Other assets	719	727
Non-current assets	**24,699**	**24,234**
Inventories	2,220	2,231
Receivables	3,854	2,442
Cash pooling receivables	6	284
Derivative financial instruments	506	189
Loans advanced	1,764	2,042
Other assets	102	41
Cash and cash equivalents	2,177	1,984
Current assets	**10,629**	**9,213**
TOTAL ASSETS	**35,328**	**33,447**
Equity and liabilities		
Share capital and share premium	7,518	7,518
Hedging reserve	(31)	7
Accumulated other comprehensive income	20	23
Retained earnings	21,137	18,485
Total equity	**28,644**	**26,033**
Derivative financial instruments	175	-
Employee benefit obligations	234	222
Provision for well decommissioning costs	1,436	1,376
Other provisions	28	28
Grants	537	554
Other liabilities	63	108
Non-current liabilities	**2,473**	**2,288**
Financing liabilities	450	1,998
Derivative financial instruments	425	72
Trade and tax payables	1,477	2,002
Cash pooling liabilities	1,379	622
Employee benefit obligations	73	98
Provision for well decommissioning costs	58	53
Other provisions	275	229
Other liabilities	74	52
Current liabilities	**4,211**	**5,126**
TOTAL LIABILITIES	**6,684**	**7,414**
TOTAL EQUITY AND LIABILITIES	**35,328**	**33,447**

(in PLN million, unless stated otherwise)

Statement of changes in equity

	Share capital and share premium	Hedging reserve	Accumulated other comprehensive income	Retained earnings (deficit)	Total equity
As at Jan 1 2017	**7,518**	**69**	**34**	**17,607**	**25,228**
Net profit	-	-	-	1,827	1,827
Other comprehensive income, net	-	(108)	(6)	-	(114)
Total comprehensive income	**-**	**(108)**	**(6)**	**1,827**	**1,713**
Dividend	-	-	-	(1,156)	(1,156)
As at Jun 30 2017	**7,518**	**(39)**	**28**	**18,277**	**25,784**
As at Jan 1 2018	**7,518**	**7**	**23**	**18,485**	**26,033**
Effect of IFRS 9	-	-	-	(140)	(140)
As at Jan 1 2018 (restated)	**7,518**	**7**	**23**	**18,345**	**25,893**
Net profit	-	-	-	2,791	2,791
Other comprehensive income, net	-	(6)	(3)	-	(9)
Total comprehensive income	**-**	**(6)**	**(3)**	**2,791**	**2,782**
Change in equity recognised in inventories	-	(32)	-	-	(32)
As at Jun 30 2018	**7,518**	**(31)**	**20**	**21,137**	**28,644**

(in PLN million, unless stated otherwise)

7. Notes to the interim condensed separate financial statements

7.1. Presentation changes in the financial statements

PGNiG S.A. has adopted amended IFRS 9 and IFRS 15 starting from January 1st 2018 (for more information, see **Note 2.3.**).

Following the adoption of IFRS 15, data was restated so that revenue from sale of distribution and transmission services transferred to customers is presented in net amounts, i.e. less the costs to purchase these services from the transmission and distribution system operators.

The impact of the transition from IAS 18 and IAS 11 to IFRS 15 is presented below.

Statement of profit or loss	Period ended Jun 30 2018 in accordance with IAS 18 and IAS 11	Impact of transition from IAS 18 and IAS 11 to IFRS 15	Period ended Jun 30 2018 in accordance with IFRS 15
Revenue from sales of gas	9,232	(128)	9,104
Other revenue	1,811	-	1,811
Revenue	**11,043**	**(128)**	**10,915**
Cost of gas sold	(7,223)	-	(7,223)
Other raw materials and consumables used	(649)	-	(649)
Employee benefits expense	(325)	-	(325)
Transmission, distribution and storage services	(611)	128	(483)
Other services	(723)	-	(723)
Depreciation and amortisation	(388)	-	(388)
Taxes and charges	(142)	-	(142)
Other income and expenses	(57)	-	(57)
Work performed by the entity and capitalised	3	-	3
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	320	-	320
Dividends	1,726	-	1,726
Finance income	221	-	221
Finance costs	(115)	-	(115)
Total	**(7,963)**	**128**	**(7,835)**
Profit before tax	**3,080**	**-**	**3,080**
Income tax	(289)	-	(289)
Net profit	**2,791**	**-**	**2,791**

(in PLN million, unless stated otherwise)

The impact of IFRS 9 adoption is presented below:

Assets	Carrying amount as at Dec 31 2017	Effect of IFRS 9 on statement of financial position	Carrying amount as at Jan 1 2018
Property, plant and equipment	12,021	-	12,021
Licences, mining rights and rights to geological information	54	-	54
Deferred tax assets	79	4	83
Shares	9,800	-	9,800
Loans advanced	1,553	(22)	1,531
Other assets	727	-	727
Non-current assets	**24,234**	**(18)**	**24,216**
Inventories	2,231	-	2,231
Receivables	2,442	(13)	2,429
Cash pooling receivables	284	(6)	278
Derivative financial instruments	189	-	189
Loans advanced	2,042	(81)	1,961
Other assets	41	-	41
Cash and cash equivalents	1,984	-	1,984
Current assets	**9,213**	**(100)**	**9,113**
TOTAL ASSETS	**33,447**	**(118)**	**33,329**
Equity and liabilities			
Share capital and share premium	7,518	-	7,518
Hedging reserve	7	-	7
Accumulated other comprehensive income	23	-	23
Retained earnings	18,485	(140)	18,345
Total equity	**26,033**	**(140)**	**25,893**
Employee benefit obligations	222	-	222
Provision for well decommissioning costs	1,376	-	1,376
Other provisions	28	-	28
Grants	554	-	554
Other liabilities	108	3	111
Non-current liabilities	**2,288**	**3**	**2,291**
Financing liabilities	1,998	-	1,998
Derivative financial instruments	72	-	72
Trade and tax payables	2,002	-	2,002
Cash pooling liabilities	622	-	622
Employee benefit obligations	98	-	98
Provision for well decommissioning costs	53	-	53
Other provisions	229	18	247
Other liabilities	52	1	53
Current liabilities	**5,126**	**19**	**5,145**
TOTAL LIABILITIES	**7,414**	**22**	**7,436**
TOTAL EQUITY AND LIABILITIES	**33,447**	**(118)**	**33,329**

(in PLN million, unless stated otherwise)

As at Jan 1 2018	Classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents	loans and receivables	at amortised cost	1,984	1,984
Trade receivables	loans and receivables	at amortised cost	2,442	2,429
Cash pooling receivables	loans and receivables	at amortised cost	284	278
Loans advanced	loans and receivables	at amortised cost	3,567	3,485
Loans advanced	loans and receivables	at fair value through profit or loss	28	7
Other assets – cash of the Extraction Facilities Decommissioning Fund	loans and receivables	at amortised cost	180	180
TOTAL financial assets			**8,485**	**8,363**

Based on the business model assessment and SPPI test, the Parent identified intra-group loans granted by PGNiG S.A. to Elektrociepłownia Stalowa Wola S.A. which did not meet the criteria of solely payments of principal and interest on the principal amount, laid down in IFRS 9. Therefore, the Company reclassified these assets from loans and receivables to financial assets at fair value through profit or loss. As at December 31st 2017, the carrying amount of loans not meeting the SPPI test was PLN 28m. Following the fair value measurement performed as at January 1st 2018 in accordance with IFRS 9, the loans were adjusted by PLN 21m to PLN 7m.

(in PLN million, unless stated otherwise)

7.2. Deferred tax

		Credited/Charged				Credited/Charged		
	As at Jan 1 2017	Net profit/(loss)	Other comprehensive income	As at Dec 31 2017	Effect of IFRS 9	Net profit/(loss)	Other comprehensive income	As at Jun 30 2018
Deferred tax assets								
Employee benefit obligations	47	(1)	3	49	-	(1)	1	49
Provision for well decommissioning costs	141	14	-	155	-	6	-	161
Other provisions	22	4	-	26	-	17	-	43
Valuation of derivatives	18	(5)	-	13	-	100	-	113
Impairment of property, plant and equipment	214	(40)	-	174	-	(57)	-	117
Other	37	(11)	-	26	-	(9)	-	17
Total	**479**	**(39)**	**3**	**443**	**-**	**56**	**1**	**500**
Deferred tax liabilities								
Difference between depreciation rates for property, plant and equipment	359	(67)	-	292	-	38	-	330
Valuation of derivatives	65	(17)	(14)	34	-	85	(9)	110
Other	59	(21)	-	38	(4)	2	-	36
Total	**483**	**(105)**	**(14)**	**364**	**(4)**	**125**	**(9)**	**476**
Set-off of assets and liabilities	(479)	-	-	(364)		-	-	(476)
After set-off	-	-	-	-	-	-	-	-
Assets	-	-	-	79	-	-	-	24
Liabilities	4	-	-	-	-	-	-	-
Net effect of changes in the period		**66**	**17**		**4**	**(69)**	**10**	

The Company identified the effect of IFRS 9 on deferred tax liabilities at PLN 4m. As deferred tax is presented in the statement of financial position on a net basis, the balance of deferred tax assets was adjusted by the identified amount of liabilities.

(in PLN million, unless stated otherwise)

7.3. Impairment losses/write-downs

	Property, plant and equipment, licences, mining rights and rights to geological information	Other assets	Loans advanced	Shares	Inventories	Receivables	Cash pooling receivables	Current financial assets	Total
As at Jan 1 2017	**3,231**	**15**	**56**	**2,567**	**72**	**309**	**-**	**40**	**6,290**
Recognised provision taken to profit or loss	1,203	3	4	104	88	222	-	-	1,624
Transfers	-	2	-	(2)	-	-	-	-	-
Provision reversal taken to profit or loss	772)	-	(10)	-	(57)	(212)	-	-	(1,051)
Other changes	(65)	-	-	-	-	-	-	-	(65)
As at Dec 31 2017	**3,597**	**20**	**50**	**2,669**	**103**	**319**	**-**	**40**	**6,798**
Effect of IFRS 9	-	-	81	-	-	13	6	-	100
As at Jan 1 2018 (restated)	**3,597**	**20**	**131**	**2,669**	**103**	**332**	**6**	**40**	**6,898**
Recognised provision taken to profit or loss	240	-	72	16	38	234	-	-	600
Transfers	-	(5)	-	7	-	(2)	-	-	-
Provision reversal taken to profit or loss	(560)	-	(63)	-	(81)	(166)	(6)	-	(876)
Other changes	(40)	-	-	-	-	-	-	-	(40)
As at Jun 30 2018	**3,237**	**15**	**140**	**2,692**	**60**	**398**	**-**	**40**	**6,582**

(in PLN million, unless stated otherwise)

7.4. Provisions

	Provision for well decommissioning costs	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provision for environmental liabilities	Provision for UOKiK fine	Provision for claims under extra-contractual use of land	Provision for financial guarantees	Other provisions	Total
As at Jan 1 2017	**1,272**	**29**	**194**	**26**	**10**	**8**	**-**	**9**	**1,548**
Recognised provision capitalised in the cost of property, plant and equipment	192	-	-	-	-	-	-	-	192
Recognised provision taken to profit or loss	63	29	-	-	-	-	-	12	104
Used provision	(34)	(18)	-	-	-	-	-	-	(52)
Provision reversal taken to profit or loss	(64)	(2)	(32)	-	-	(2)	-	(6)	(106)
As at Dec 31 2017	**1,429**	**38**	**162**	**26**	**10**	**6**	**-**	**15**	**1,686**
Effect of IFRS 9	-	-	-	-	-	-	18	-	18
As at Jan 1 2018 (restated)	**1,429**	**38**	**162**	**26**	**10**	**6**	**18**	**15**	**1,704**
Recognised provision capitalised in the cost of property, plant and equipment	66	-	-	-	-	-	-	-	66
Recognised provision taken to profit or loss	18	18	13	-	-	1	-	20	70
Used provision	(6)	(2)	-	-	(10)	-	-	-	(18)
Provision reversal taken to profit or loss	(13)	(1)	-	-	-	(1)	(12)	-	(27)
Other changes	-	-	-	-	-	-	2	-	2
As at Jun 30 2018	**1,494**	**53**	**175**	**26**	**-**	**6**	**8**	**35**	**1,797**

(in PLN million, unless stated otherwise)

7.5. Revenue

	Total		Domestic sales		Export sales	
	6 months ended Jun 30 2018	6 months ended Jun 30 2017	6 months ended Jun 30 2018	6 months ended Jun 30 2017	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Revenue from sales of gas, including:	**9,104**	**8,116**	**8,719**	**7,787**	**385**	**329**
High-methane gas	8,577	7,362	8,288	7,097	289	265
Nitrogen-rich gas	686	638	629	609	57	29
Propane-butane gas	32	31	32	31	-	-
LNG	42	44	42	44	-	-
Helium	47	41	8	6	39	35
Adjustment to gas sales due to hedging transactions	(280)	-	(280)	-	-	-
Other revenue, including:	**1,811**	**1,529**	**1,481**	**1,332**	**330**	**197**
Crude oil and natural gasoline	717	571	504	411	213	160
Sale of electricity	624	550	553	513	71	37
Right to use storage facilities	284	288	284	288	-	-
CO_2 emission allowances	4	-	4	-	-	-
Other	182	120	136	120	46	-
Total revenue	**10,915**	**9,645**	**10,200**	**9,119**	**715**	**526**

The bulk of the Company's revenue comes primarily from production of and trade in natural gas, generation and sale of electricity, and sale of crude oil to business customers. Sales are made directly to customers and via the Polish Power Exchange. Generally, the goods are transferred at a specific point in time. They are sold on the basis of individual short-term contracts, meeting the definition of "a contract" provided in IFRS 15. Such contracts are concluded under long-term framework agreements. Settlements are made on the basis of consideration determined by reference to the price specified in the agreement and the volume of goods received.

In addition, in accordance with the requirements of IFRS 15, the Company, defining its role as that of an agent (intermediary broker), presents revenue from sale of distribution and transmission services transferred to customers in net amounts, i.e. after deducting the respective costs to purchase these services from the transmission and distribution system operators. When entering into comprehensive service agreements with its customers, the Company does not bear the main responsibility for the performance of transmission and distribution services, has no control over the main features of such services, and cannot freely determine their prices, which leads to the conclusion that the Company acts as an agent with respect to their sale.

(in PLN million, unless stated otherwise)

7.6. Operating expenses

	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Cost of gas sold	**(7,223)**	**(6,315)**
Gas fuel	(7,232)	(6,344)
Net gain/(loss) on transactions hedging gas prices	9	29
Other raw materials and consumables used	**(649)**	**(593)**
Electricity for trading	(601)	(535)
Other raw materials and consumables	(48)	(58)
Employee benefits expense	**(325)**	**(303)**
Salaries and wages	(242)	(226)
Social security contributions	(61)	(57)
Other employee benefits expense	(39)	(36)
Employee benefit obligations	17	16
Transmission, distribution and storage services	**(483)**	**(558)**
Other services	**(723)**	**(450)**
Regasification services	(181)	(177)
Cost of dry wells written off	(366)	(96)
Cost of seismic surveys written off	-	(1)
Repair and construction services	(17)	(15)
Geological and exploration services	(17)	(25)
Mineral resources production services	(10)	(12)
Well abandonment services	(2)	(4)
Other services	(130)	(120)
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	**320**	**71**
Impairment losses on property, plant and equipment	320	72
Impairment losses on intangible assets	-	(1)
Total	**(9,083)**	**(8,148)**

7.7. Other income and expenses

	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Measurement and exercise of derivative financial instruments	(2)	(9)
Change in inventory write-downs	42	(43)
Change in provision for well decommissioning costs	(5)	(5)
Change in provision for certificates of origin and energy efficiency certificates	(17)	(29)
Cost of merchandise and materials sold	(9)	(28)
Change in other provisions	(20)	(37)
Change in impairment loss on receivables and interest on receivables	(64)	9
Other	18	11
Total other income and expenses	**(57)**	**(131)**

(in PLN million, unless stated otherwise)

7.8. Finance income and costs

	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Finance income		
Gain on measurement and exercise of forward contracts	-	43
Interest income	96	96
Foreign exchange gains	82	-
Fair value measurement of a loan	22	-
Other finance income	21	3
Total finance income	**221**	**142**
Finance costs		
Loss on measurement and exercise of forward contracts	(84)	-
Interest on debt and fees	(22)	(73)
Foreign exchange losses	-	(49)
Impairment losses on shares and other securities	(5)	(40)
Other	(4)	(3)
Total finance costs	**(115)**	**(165)**

7.9. Income tax

Reconciliation of effective tax rate	6 months ended Jun 30 2018	6 months ended Jun 30 2017
Profit before tax	**3,080**	**2,033**
Corporate income tax at the applicable 19% statutory rate	(585)	(386)
Dividends received	328	227
Other income not recognised as taxable income	74	25
Non-tax deductible expenses	(106)	(72)
Corporate income tax at the effective tax rate	**(289)**	**(206)**
Current tax expense	(220)	(196)
Deferred tax expense	(69)	(10)
Effective tax rate	**9%**	**10%**

7.10. Property, plant and equipment

	As at Jun 30 2018	As at Dec 31 2017
Land	43	43
Buildings and structures	7,126	6,981
Plant and equipment	2,331	2,386
Vehicles and other	110	102
Total tangible assets	**9,610**	**9,512**
Tangible exploration and evaluation assets under construction	2,012	2,055
Other tangible assets under construction	457	454
Total property, plant and equipment	**12,079**	**12,021**

(in PLN million, unless stated otherwise)

7.11. Derivative financial instruments

Type of hedging instrument	Notional amount	Carrying amount		Name of item in statement of financial position which includes hedging instrument	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in given period	Hedging gains or losses for reporting period, recognised in other comprehensive income	Hedge ineffectiveness amount taken to profit or loss	Item of statement of comprehensive income (statement of profit or loss) in which ineffectiveness amount is included	Amount reclassified from cash flow hedging reserve to profit or loss as reclassification adjustment	Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included
		Assets	Liabilities							
CASH FLOW HEDGES										
CURRENCY RISK										
Forward contracts for currency purchase (USD)	4,493	320	-	Derivative financial instruments	319	319	-	Operating income / expenses	Not applicable	Not applicable
Average rate forwards (EUR)	5,674	-	103	Derivative financial instruments	(103)	(103)	-	Operating income / expenses	-	Revenue from sales of gas
COMMODITY PRICE RISK										
Basis swap contracts for gas price indices	1,088	47	58	Derivative financial instruments	(11)	(11)	-	Operating income / expenses	(8)	Revenue from sale of gas
Swap contracts for gas price indices	2,485	6	304	Derivative financial instruments	(299)	(295)	(3)	Operating income / expenses	(272)	Revenue from sales of gas
Swap contracts for petroleum product price indices	112	22	-	Derivative financial instruments	22	22	-	Operating income / expenses	Not applicable	Not applicable
FAIR VALUE HEDGES										
Total	**13,852**	**395**	**465**	**-**	**(72)**	**(68)**	**(3)**	**-**	**(280)**	**-**

(in PLN million, unless stated otherwise)

Hedged items	Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	Balance of cash flow hedging reserve for continuing hedges	Balance remaining in cash flow hedging reserve in respect of all hedging relationships for which hedge accounting is no longer applied
CURRENCY RISK			
Cost of purchased gas (USD)	(319)	319	Not applicable
Cost of purchased gas (USD)	103	(103)	Not applicable
COMMODITY PRICE RISK			
Gas contracts indexed to monthly gas price indices	11	(3)	8
Gas contracts indexed to daily gas price indices	295	(283)	Not applicable
Gas contracts indexed to monthly petroleum product indices	(22)	22	Not applicable
TOTAL	**68**	**(48)**	**8**

	6 months ended Jun 30 2018	6 months ended Jun 30 2017
At beginning of period	8	84
CURRENCY RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	250	(14)
Part of loss taken to statement of profit or loss as hedged item was not expected to occur	-	-
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	-	-
Reclassified amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(25)	-
COMMODITY PRICE RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	(536)	(91)
Part of loss taken to statement of profit or loss as hedged item was not expected to occur	-	-
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	280	(28)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(7)	Not applicable
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment for those hedging relationships to which hedge accounting is no longer applied	(9)	-
At end of period	**(39)**	**(49)**

8. MANAGEMENT REPRESENTATIONS

Declaration on the reliability of preparation of the interim condensed financial statements

We represent that, to the best of our knowledge, the interim condensed consolidated financial statements of the PGNiG Group and the interim condensed separate financial statements of PGNiG S.A. as at June 30th 2018 and the comparative data have been prepared in compliance with the applicable accounting policies and give a true, clear and fair view of the assets, financial condition and financial results of the PGNiG Group and PGNiG S.A.

Declaration on the entity qualified to review the interim condensed financial statements

We represent that the qualified auditor of financial statements that reviewed the interim condensed consolidated financial statements of the PGNiG Group and the interim condensed separate financial statements of PGNiG S.A. as at June 30th 2018 had been appointed in accordance with the applicable laws.

Both the auditing firm and the auditors who performed the audit met the conditions required to issue an impartial and independent opinion on the review, in accordance with the applicable laws and professional standards.

PGNiG Management Board:

President of the Management Board	Piotr Woźniak	
Vice President of the Management Board	Radosław Bartosik	
Vice President of the Management Board	Łukasz Kroplewski	
Vice President of the Management Board	Michał Pietrzyk	
Vice President of the Management Board	Maciej Woźniak	
Vice President of the Management Board	Magdalena Zegarska	

Warsaw, August 28th 2018