Polskie Górnictwo Naftowe i Gazownictwo S.A.

Director's report on the operations of PGNiG SA and the PGNiG Group

for the six months ended June 30th 2020

PGNIG GROUP IN H1 2020

PLN 21.0bn
revenue

PLN 5.9bn
net profit

PLN 62.2bn
total assets

PLN 9.4bn
EBITDA

Fourth
largest company listed on the WSE*

24.8 thousand
number of employees

PLN 7.7bn
EBIT

PLN 26.3bn
market capitalisation

EXPLORATION AND PRODUCTION

PLN 243m	EBITDA
656k tonnes	production of crude oil, condensate and NGL
2.2 bcm	production of natural gas
191	number of producing licences

GENERATION

PLN 533m	EBITDA
22.8 PJ	heat output
2.0 TWh	electricity output
5 118 MW	thermal power
1 200 MW	electric power

PGNiG

TRADE AND STORAGE

PLN 7 555m	EBITDA
16.9 bcm	volume of gas sold by Group (outside PGNiG Group)
5.2 bcm	volume of gas sold on PPX
7.5 bcm	volume of imported gas

DISTRIBUTION

PLN 1 176m	EBITDA
7.1m	number of customers
192.5k km	length of distribution network
1 611	number of municipalities connected to the gas grid
6.2 bcm	volume of distributed gas

*in terms of market capitalisation as at June 30th 2020.

Financial highlights of the PGNiG Group

Table 1 Selected financial data of the PGNiG Group for H1 2020

Key data from the interim condensed consolidated financial statements	PLNm		EURm	
	6 months ended June 30th 2020	6 months ended June 30th 2019	6 months ended June 30th 2020	6 months ended June 30th 2019
Revenue	21,038	22,624	4,737	5,276
Operating profit before interest, taxes, depreciation and amortisation (EBITDA)	9,352	3,180	2,106	742
Operating profit (EBIT)	7,656	1,714	1,724	400
Profit before tax	7,327	1,753	1,650	409
Net profit attributable to owners of the parent	5,920	1,333	1,333	311
Net profit	5,920	1,332	1,333	311
Total comprehensive income attributable to owners of the parent	5,597	1,600	1,260	373
Total comprehensive income	5,597	1,599	1,260	373
Net cash from operating activities	6,679	4,063	1,504	948
Net cash from investing activities	(2,938)	(2,280)	(662)	(532)
Net cash from financing activities	(3,119)	(2,602)	(702)	(607)
Net cash flows	622	(819)	140	(191)
Basic and diluted earnings per share (in PLN and EUR, respectively)	1.02	0.23	0.23	0.05
	As at June 30th 2020	As at December 31st 2019	As at June 30th 2020	As at December 31st 2019
Total assets	62,174	59,185	13,922	13,898
Total liabilities	18,739	21,078	4,196	4,950
Total non-current liabilities	10,960	10,378	2,454	2,437
Total current liabilities	7,779	10,700	1,742	2,513
Total equity	43,435	38,107	9,726	8,948
Share capital	5,778	5,778	1,294	1,357
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/EUR)	7.52	6.60	1.68	1.55
Dividend per share declared or paid (PLN and EUR)	0.09	0.11	0.02	0.03

Selected financial data of PGNiG

Table 2 Selected financial data of PGNiG for H1 2020

Key data from the interim condensed separate financial statements	PLNm		EURm	
	6 months ended June 30th 2020	6 months ended June 30th 2019	6 months ended June 30th 2020	6 months ended June 30th 2019
Revenue	11,037	12,035	2,485	2,807
Operating profit before interest, taxes, depreciation and amortisation (EBITDA)	6,776	864	1,526	201
Operating profit (EBIT)	6,365	447	1,433	104
Profit before tax	6,469	1,895	1,457	442
Net profit	5,230	1,772	1,178	413
Total comprehensive income	4,955	2,046	1,116	477
Net cash from operating activities	2,622	846	591	197
Net cash from investing activities	(1,083)	(241)	(244)	(56)
Net cash from financing activities	(3,051)	(2,387)	(687)	(557)
Net cash flows	(1,512)	(1,782)	(340)	(416)
Earnings and diluted earnings per share attributable to holders of ordinary shares (PLN/EUR)	0.91	0.31	0.20	0.07
	As at June 30th 2020	As at December 31st 2019	As at June 30th 2020	As at December 31st 2019
Total assets	43,790	41,044	9,805	9,638
Total liabilities	8,507	10,426	1,905	2,448
Total non-current liabilities	3,532	3,315	791	778
Total current liabilities	4,975	7,111	1,114	1,670
Equity	35,283	30,618	7,900	7,190
Share capital and share premium	7,518	7,518	1,683	1,765
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/EUR)	6.11	5.30	1.37	1.24
Dividend per share declared or paid (PLN/EUR)	0.09	0.11	0.02	0.03

Table 3 Average currency exchange rates

Average EUR/PLN exchange rates quoted by the NBP	June 30th 2020	June 30th 2019	December 31st 2019
Average exchange rate for period	4.4413	4.2880	4.3018
Exchange rate at end of period	4.4660	4.2520	4.2585

Calendar of corporate events for H1 2020

January 2020

January 9th: appointment of the President and members of the Management Board by the PGNiG Supervisory Board

January 9th: satisfaction of the condition precedent to the agreement whereby PGNiG UN purchased an interest in the Duva field from Pandion Energy

February 2020

February 27th: Appointment of Ms Magdalena Zegarska as Vice President of the PGNiG Management Board

March 2020

March 11th: Launch of production from the Skogul field in Norway by PGNiG Upstream Norway

March 18th: President of URE's decision on the Distribution Tariff of Polska Spółka Gazownictwa

March 30th: Issue by the Arbitration Court of Stockholm of a final award in the arbitration proceedings brought by PGNiG against PAO Gazprom/OOO Gazprom Export, concerning change of the contract price of gas supplied by PAO Gazprom and OOO Gazprom Export under the Yamal Contract

April 2020

April 18th: Launch of production from the Ærfugl field in Norway by PGNiG Upstream Norway

April 29th: Receipt from Gazprom of a declaration of compliance with the new pricing terms under the Yamal contract

May 2020

May 12th: Start of a new comprehensive hydrogen programme at PGNiG - Hydrogen – Clean Fuel for the Future

May 26th: PGNiG Management Board's recommendation regarding dividend payment from 2019 profit

May 26th: Execution of a regasification contract under the 'Świnoujście LNG Terminal Availability Procedure 2020'

June 2020

June 2nd: Filing by Gazprom of a petition for reversal of the final award issued in arbitration proceedings concerning reduction of the contractual price of gas supplied under the Yamal Contract

June 9th: Adoption of a directional action plan for future investment in the renewable energy sources sector

June 12th: First LNG delivery to PGNiG in Klaipėda

June 15th: Execution of an annex to the Yamal Contract between PGNiG and PAO Gazprom/OOO Gazprom Export and repayment of approximately USD 1.5bn to PGNiG

June 16th: Launch of exclusive negotiations with Tauron Polska Energia concerning the acquisition by PGNiG of 100% of shares in TAURON Ciepło

June 16th: President of URE's decision on the Retail Tariff of PGNiG Obrót Detaliczny

June 24th: AGM's decision regarding dividend payment from 2019 profit

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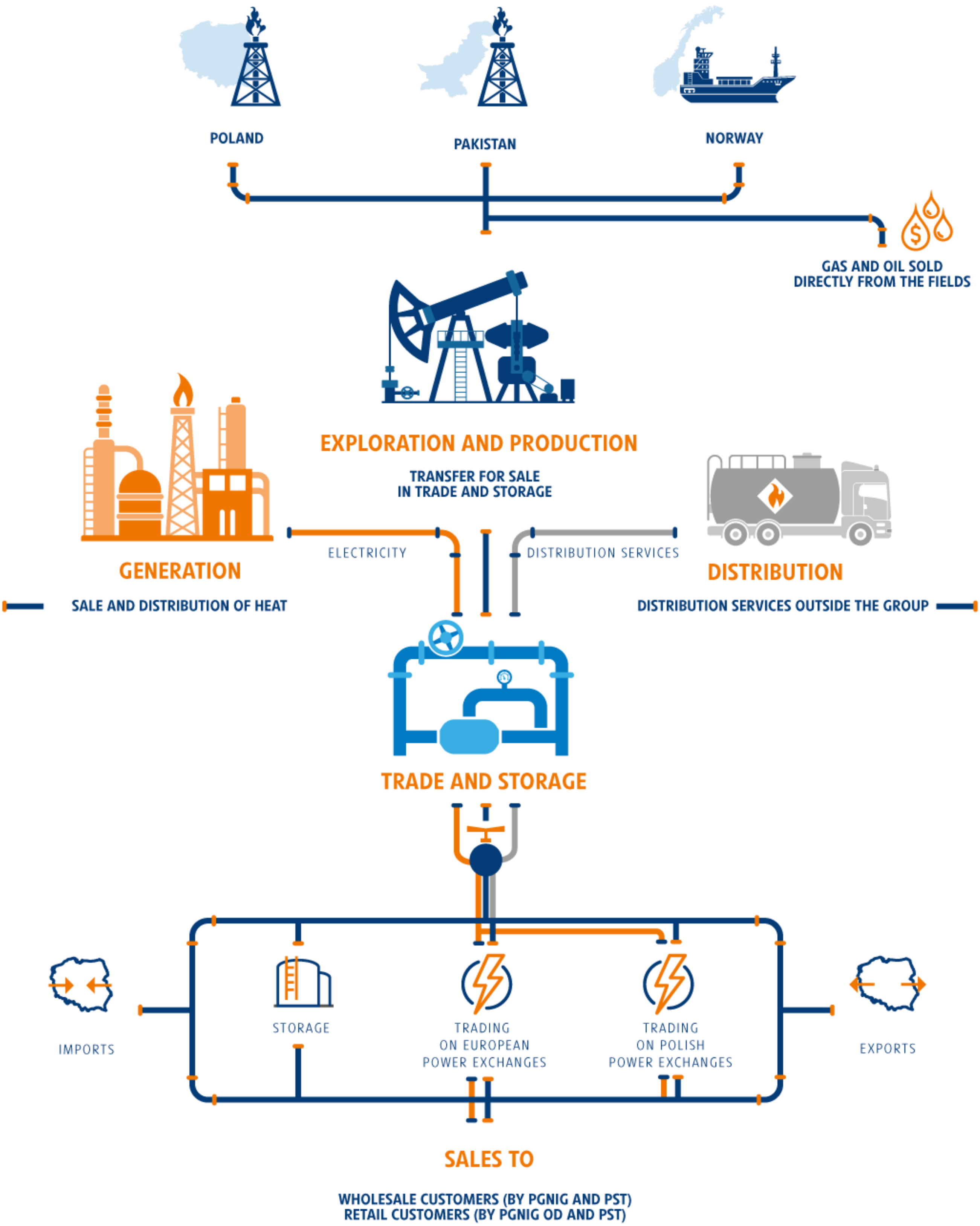
1. Business model and organisation of the PGNiG Group

1.1 PGNiG Group's business and the business model

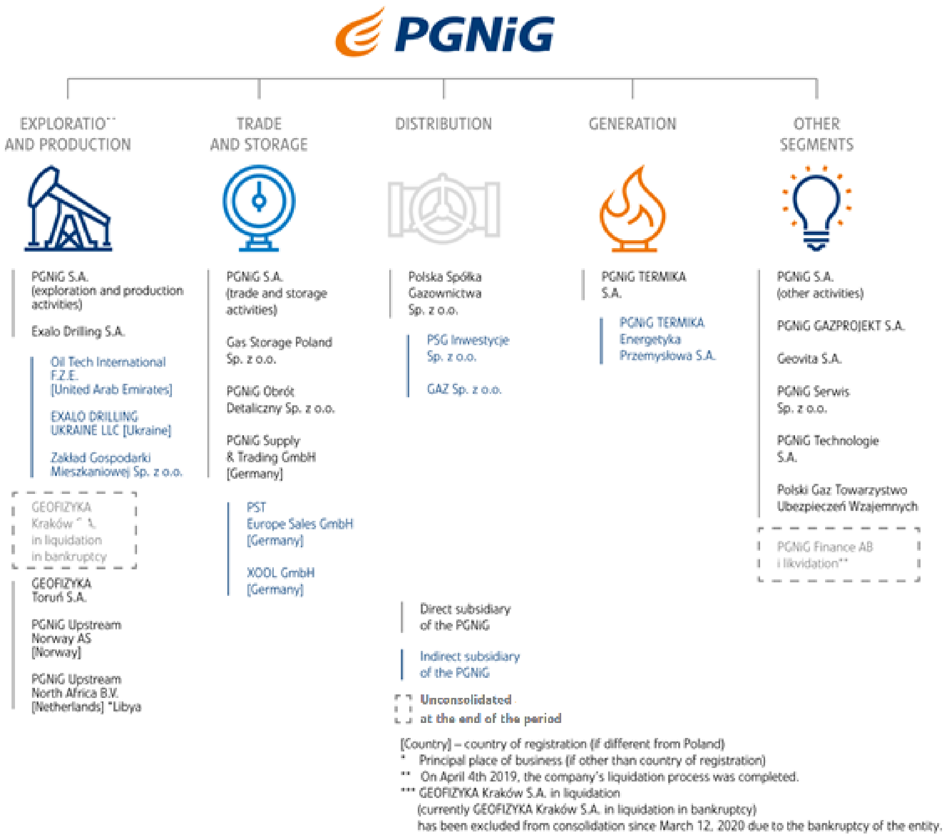
Figure 1 PGNiG Group's business model



1.2 Organisation of the PGNiG Group

In H1 2020, PGNiG as the parent and 23 subsidiaries (including Geofizyka Kraków until March 11th 2020) were fully consolidated. PGNiG comprises the Wholesale Trading Branch, Geology and Hydrocarbon Production Branch (Sanok Branch, Zielona Góra Branch, Odolanów Branch), Central Measurement and Research Laboratory, Well Mining Rescue Station, and Foreign Branches (the Operator Branch in Pakistan and the UAE Branch).

Figure 2 Fully consolidated companies of the PGNiG Group



2. Strategy of the PGNiG Group

2.1 Mission and vision

Mission statement We are a trustworthy supplier of energy for households and businesses	**Trustworthy** – the customers can depend on premium quality and reliability of our services **Energy supplier**– our customers are offered a full range of energy products (gas + electricity + heat + other/services) **Households and businesses** – we care for and value all our customers: households, businesses, and institutions
Vision We are a responsible and effective provider of innovative energy solutions	**Responsibly** – we act transparently, in line with the principles of corporate social responsibility **Effectively** – we have implemented process and cost optimisation measures **Innovative solutions** – we are an innovation leader in the energy sector
Primary objective Increase the PGNiG Group's value and ensure its financial stability	**Value growth** – our primary ambition is to create added value for our shareholders and customers **Financial stability** – we seek to secure long-term financial stability and creditworthiness

2.2 PGNiG Group Strategy for 2017−2022 with an Outlook until 2026

In response to the changing internal and external environment, the Group developed the new PGNiG Group Strategy for 2017−2022 with an Outlook until 2026, which was approved by the PGNiG Supervisory Board on March 13th 2017. The pursuit of sustainable development as the Group's priority will be driven by parallel investments in riskier business areas yielding relatively high rates of return (upstream) and in regulated areas offering considerable safety of the investments (gas distribution, power and heat generation). The PGNiG Group has embarked on an ambitious capital investment programme that is to lay the foundations for long-term sustainable value growth.

2.3 Investments in renewable energy sources

In June 2020, the Management Board of PGNiG adopted a directional action plan for future investments in the sector of renewable energy sources (RES), which will enable the Group to establish a dedicated competence area for RES.

The aim of gaining exposure to RES is to ensure safe conditions for the Group's growth in the long term by stabilising its revenue in the rapidly changing macroeconomic and regulatory environment. In building its RES operations, the PGNiG Group will mainly focus on:

- acquiring projects and gradually building its own development capabilities in wind power and photovoltaics,
- developing a franchise model for biomethane projects,
- research, development and innovation projects in hydrogen and energy storage.

Based on its analyses and strategic model simulations, the PGNiG Management Board decided to allocate up to PLN 4bn over a period beyond PGNiG's strategic 2022 time horizon to the implementation and acquisition of projects related, among other things, to RES generation.
The ultimate scope of strategic objectives within this segment of the PGNiG Group's business and the level of capital expenditure expected to be made will be analysed and modelled as part of an update of the PGNiG Group's Strategy for 2017–2022, with an outlook until 2026 (for more information, see Section 4.6.2).

2.4 Capital expenditure in 2020

Exploration and Production

Working towards its strategic objective of increasing total hydrocarbon production, PGNiG will continue to tie in wells in Poland at the Zielona Góra and Sanok Branches. In 2020, 25 wells are planned to be tied in.

The appraisal and production work planned in Pakistan for 2020 includes completion of drilling, testing and tying in of the Rizq-3 production well and drilling of the Rehman-7 production well. In parallel with the drilling campaign, work will be carried out to expand the capacity of the production infrastructure and tie in new wells: Rehman-6, Rehman-7 and Rizq-3 for commercial production.

PGNiG UN will continue to produce, as a partner, hydrocarbons from the Skarv, Morvin, Vilje, Vale, and Gina Krog fields and will proceed with the development of the Skogul, Ærfugl and Duva fields. Development of the Tommeliten Alpha and King Lear fields is at the concept preparation phase.

Trade and Storage

In the long term, PGNiG will focus on the performance of obligations under its long-term contracts with respect to minimum offtake volumes (Yamal contract) and contracted LNG volumes.

PST will continue to develop wholesale trading in energy commodities. Commercial activities are planned to be undertaken in the Slovak and Hungarian markets in 2020. PST Polish Branch began to supply gas to industrial customers in Poland (formerly OOH customers) in January 2020.

New products will be added to the retail offering in 2020:

- Construction and operation of gas-fired cogeneration units combined with sale of their electricity and heat output,
- with respect to CNG and LNG:
  - Operation of refuelling stations where no other seller will be selected,
  - LNG bunkering – the ship bunkering segment is an attractive sale market for LNG,
  - Increasing the share of LNG sales in the B2B segment by developing solutions to sell LNG to customers and construct regasification stations in the B2B formula,
- New business involving photovoltaic products – launch of products for retail customers in 2020.

In 2020, GSP will work on the construction of the Kosakowo CUGSF, comprising five chambers in Cluster B, which are to be filled with gas and put into operation by 2021.

Distribution

70,000 new gas service lines are expected to be built in 2020. Capital expenditure on gas grid upgrades is made in order to meet growing requirements related to the need to ensure security of gas supplies and operation of the gas grid, including gas pipelines, gas service lines and gas service points, complexes and stations. Compared with 2019, when a total of approximately 600 km of the grid was upgraded, the scale of upgrades will range from 770 km in 2020 to 1,000 km in 2022.

Generation

The PGNiG TERMIKA Group will proceed with its strategic initiatives and acquisitions commenced in 2019, and intends to markedly scale up the volume of electricity sales by implementing projects aimed at building new, cost-effective generation capacities and upgrading existing sources using low-carbon technologies.

Additionally, in 2020 the Generation segment will work on securing heat supplies to the city of Rybnik, connecting the Zofiówka and Pniówek CHP plants' heat systems, launching a programme to develop the hot domestic water market (initially in Jastrzębie Zdrój) and drilling additional gas wells at the Krupiński coal mine. Work is in progress on the projects to build an off-grid heating system in Warsaw and a complex of eight local gas-fired boiler units in Toruń.

3. Regulatory environment

3.1 Regulatory environment in Poland

The table presents the Polish laws of key importance to the PGNiG Group's operations.

Table 4 Changes in Polish regulations and their impact on the PGNiG Group

	Overview of changes in H1 2020	Effect of the changes on the PGNiG Group
Energy Law	• Laws adapting the Energy Law to changes made to the support system for renewable energy sources related to prosumer power generation, as well as laws limiting the possibility of building individual gas-fired heat sources, came into force. • Amendments to the Energy Law were also adopted to reduce the negative consequences of COVID-19 by restricting the possibility of suspending gas fuel supplies to households and to entities whose operations had to be limited due to the epidemic in Poland. • The first half of 2020 also saw the implementation into Polish law of Directive (EU) 2019/692 of the European Parliament and of the Council of 17 April 2019 amending Directive 2009/73/EC concerning	The effect of the changes is neutral to the PGNiG Group, with the exception of the regulations limiting the possibility of building individual gas-fired heat sources, which have a negative effect.
Act on Electromobility	• The provisions of the Act on Electromobility were amended in connection with the legislative package designed to mitigate the negative consequences of COVID-19. The deadline for construction of CNG refuelling points was postponed from December 31st 2020 to March 31st 2021, and the gas distribution system operator was allowed to include the points already built in a given municipality in the total number of refuelling points.	The effect of the amendments is favourable for the PGNiG Group.
Act on the Promotion of Electricity from High-Efficiency Cogeneration	• The formal requirements relating to the request for support were amended.	The effect of the amendment is neutral to the PGNiG Group.

3.2 European regulatory environment

The table presents the European laws of key importance to the PGNiG Group's operations.

Table 5 Changes in European regulations and their impact on the PGNiG Group

	Overview of changes in H1 2020	Effect of the changes on the PGNiG Group
European funds in the 2021–2027 financial framework	• work was continued on legal acts defining the framework for investing European funds during the 2021–2027 financial framework, including on the draft Regulation on the European Regional Development Fund and the Cohesion Fund, most important for the PGNiG Group. • in response to the crisis caused by the coronavirus pandemic, in May 2020 the Commission presented a series of draft amendments to the multiyear financial frameworks for 2014-2020 and 2021-2027 – the recovery plan for Europe. The strengthening of the EU budget is intended to help address the problem of direct economic and social damage caused by the pandemic.	At the current stage, there are risks related to the potential ineligibility of gas infrastructure investments for financing from the European Regional Development Fund and the Cohesion Fund.
The European Green Deal Communication	• in March 2020, the European Commission presented a proposal for a regulation establishing a framework for achieving climate neutrality – European Climate Law [2020/0036 (COD)]. The Commission proposed to set the objective for the EU to become climate-neutral by 2050. In addition, the Commission is to examine the possibility of increasing the EU's greenhouse gas emission reduction target for 2030 to at least 50% and towards 55% (from the current 40%) compared with 1990 levels. Work is under way in the European Parliament on a report on the European Climate Law. The lead Committee is ENVI, which in the draft report proposed to increase the 2030 reduction target to 65%. In addition, ENVI proposes that the EC examine the possibility of introducing a reduction target of 80–85% for 2040. • in May 2020, the European Commission published the Biodiversity Strategy. The Strategy provides for covering 30% of the EU land and sea areas with EU funds for protected areas, including 'no-take' areas, establishing natural capital accounting and reporting standards by 2025, and developing global accounting standards for environmental management and biodiversity for supply chain management. • The European Commission is reviewing Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure (TEN-E Regulation). The draft review is expected to be published in 2020. The TEN-E review is to guarantee that the updated	The legislative acts proposed by the European Commission are likely to pose challenges for the PGNiG Group.

	framework of the guidelines is a factor that will ensure the participation of trans-European energy infrastructure in achieving the EU's energy and climate objectives for 2030, its long-term commitment to decarbonisation, sector and market integration, security of supply, competition and energy efficiency. The European Commission may also propose transitional eligibility guidelines for projects of common interest (PCI). • The European Commission conducted public consultations on the carbon border adjustment mechanism. The purpose of the mechanism is to reduce the risk of carbon leakage and to more accurately reflect the emissions associated with imports of non-EU products. • The European Commission also conducted public consultations on the initial assessment of the effects of the revision of the Industrial Emissions Directive – IED [2010/75/EU].	
Sustainable Finance Package	• Regulation (EU) of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment (the "Taxonomy Regulation") was adopted on June 18th 2020. The purpose of the Regulation is to establish the criteria and framework for the creation of a single classification system for environmentally sustainable economic activities. It is intended to provide the legal framework for orienting investments towards sustainable economic activities and preventing 'greenwashing'. Assessment of investments for the purpose of qualifying them for the sustainable financing scheme will be based on appropriate technical criteria and standards. In view of the complexity and scale of the challenges involved in the pursuit of the objectives of the European Green Deal, especially in terms of CO_2 emission reduction targets, maintaining the categories of transition activities in the taxonomy is of key importance for Poland's meeting EU energy and climate policy requirements.	At this stage, the effect of the regulations on the PGNiG Group's operations is assessed as neutral.
Clean Energy for all Europeans package	• no changes were made to the Clean Energy for All Europeans package. Achievement of the objectives defined in the European Green Deal Communication is likely to require a revision of the objectives set out in the package.	Any revision of the Clean Energy for All Europeans package may pose challenges for the PGNiG Group.

4. Operating activities in H1 2020

4.1 Exploration and Production

The segment's operations involves exploring for and extracting natural gas and crude oil from deposits, and includes geological surveys, analysis of geophysical data, drilling, and development of and production of hydrocarbons from gas and oil fields. Its core business is conducted in Poland, Pakistan and on the Norwegian Continental Shelf, while supporting activities are carried out worldwide. The segment also relies on storage capacities available at the Bonikowo and Daszewo UGSFs.

4.1.1 Key operating metrics

Table 6 Volume of PGNiG Group's natural gas production by country

mcm	H1 2020	H1 2019	2019	2018	2017	2016
Poland	1,855	1,870	3,815	3,808	3,839	3,881
high-methane gas (E)	679	653	1,337	1,296	1,315	1,400
nitrogen-rich gas (Ls/Lw as E equivalent)	1,176	1,217	2,478	2,512	2,524	2,481
Other countries	332	351	674	738	698	576
Norway (high-methane gas (E))	207	263	481	538	548	517
PGNiG Pakistan Branch (nitrogen-rich gas (Ls/Lw as E equivalent))	125	88	193	200	150	59
TOTAL (measured as E equivalent)	2,187	2,221	4,489	4,546	4,537	4,458

Table 7 Volumes of E&P segment's natural gas sales to non-PGNiG Group customers by country

mcm	H1 2020	H1 2019	2019	2018	2017	2016
Poland	325	325	679	684	676	707
high-methane gas (E)	14	13	25	26	30	53
nitrogen-rich gas (Ls/Lw as E equivalent)	311	312	654	658	646	645
Other countries	124	88	192	199	149	58
Norway (high-methane gas (E))	-	-	-	-	-	24
PGNiG Pakistan Branch (nitrogen-rich gas (Ls/Lw as E equivalent))	124	88	192	199	149	58
TOTAL (measured as E equivalent)	449	413	871	883	825	780

Table 8 Crude oil production and sales volumes* at the PGNiG Group (including condensate and NGL)

thousand tonnes	H1 2020	H1 2019	2019	2018	2017	2016
Crude oil production*	656	614	1,216	1,345	1,257	1,318
in Poland	367	385	776	818	787	763
in Norway	289	229	440	527	470	555
Crude oil sales*	646	554	1,210	1,410	1,270	1,347
including oil produced in Poland	369	387	771	817	791	753
including oil produced in Norway	277	167	439	593	479	593

** Including condensate and NGL.*

Table 9 Production volumes for other products

thousand tonnes	H1 2020	H1 2019	2019	2018	2017	2016
Propane-butane	17	20	39	39	37	37
LNG	9	10	20	21	22	26
mcm						
Helium	2	2	3	3	3	3

Table 10 Sales volumes for other products

thousand tonnes	H1 2020	H1 2019	2019	2018	2017	2016
Propane-butane	17	20	39	39	37	37
LNG	9	10	14	21	17	22
mcm						
Helium	2	2	3	3	3	3

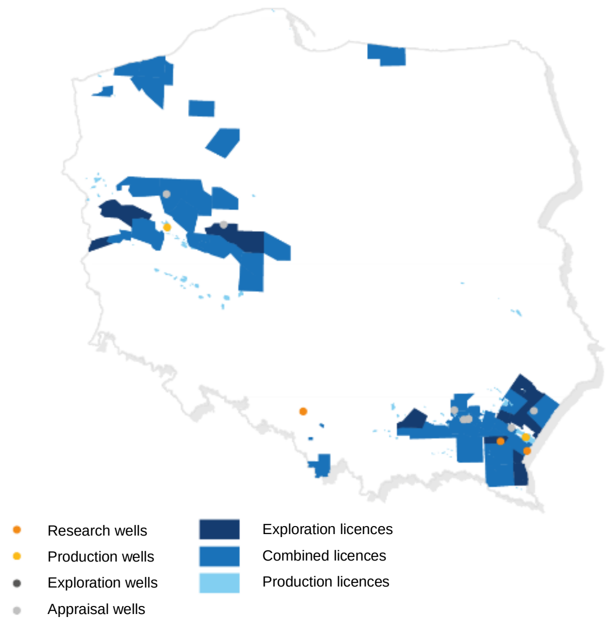
4.1.2 Operations in Poland

Licences in Poland

As at June 30th 2020, PGNiG held 48 licences: 12 licences for exploration for and appraisal of oil and gas deposits and 36 combined licences (for exploration, appraisal and production). Until June 30th 2020, the licensing authority issued amending decisions for six licence areas (including the transformation of one licence area) and approved (expressed no objection to) 12 additions or plans of geological operations. Currently, 26 administrative procedures are pending concerning licence changes, approval of additions to plans of geological operations and applications for new licence areas for PGNiG.

As at June 30th 2020, PGNiG held 191 production licences, three underground waste storage licences and nine underground gas storage licences. In H1 2020, PGNiG was granted two new production licences (Połęcko and Potok Górny), three licences were amended, one was terminated, and proceedings were pending in respect of nine licences.

Figure 3 PGNiG's licences and wells in H1 2020



Source: In-house analysis.

In the first half of 2020, out of the 14 wells 10 reached their target depth (one test, six appraisal and three production wells). As at the end of June 2020, formation test results were obtained from eight boreholes (five appraisal and three production wells). The eight wells with known formation test results included six positive wells (including three appraisal and three production wells) and two dry appraisal wells which failed to yield commercial hydrocarbon flows. In addition, for technical reasons, one appraisal well was abandoned.

New wells brought on stream in the Sanok Branch's area of operation in the first half of 2020 include two wells in the Przeworsk field (Przeworsk-26 and Przeworsk-27k) and one well in the Mirocin field (Mirocin-65), each in the process of long-term test production.

Recoverable reserves

As at June 30th 2020, recoverable reserves were 15 million tonnes of crude oil and 84.5 bcm of natural gas (high-methane gas equivalent), net of resources included in geological prospecting documentation and deposit usage documentation.

4.1.3 Foreign operations

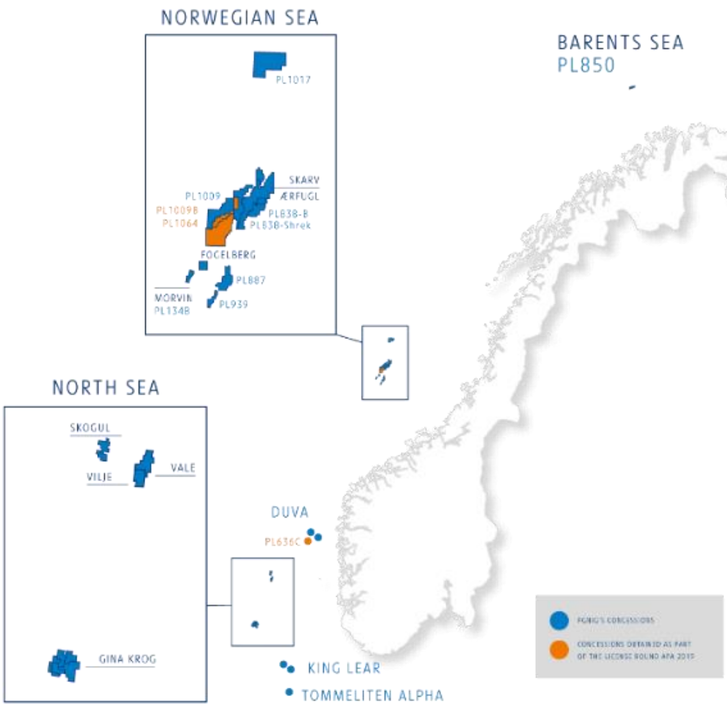
Norway

As at June 30th 2020, PGNiG UN held interests in 28 exploration and production licences on the Norwegian Continental Shelf, in two of them as the operator.

Table 11 PGNiG UN producing fields

No.	Field	PGNiG UN reserves as at June 30th 2020	Planned activities
1.	**Skarv**	approximately 15.9 mboe, including 9.6 mboe of natural gas and 4.3 mboe of crude oil and NGL	Currently producing
2.	**Gina Krog**	approximately 18.9 mboe, including 8.7 mboe of natural gas and 7.4 mboe of crude oil and NGL	Currently producing Number of wells increased to 14
3.	**Vilje**	approximately 3.1 mboe of crude oil	Currently producing
4.	**Vale**	approximately 1.2 mboe, including 0.8 mboe of natural gas and 0.4 mboe of crude oil	Currently producing
5.	**Morvin**	approximately 0.8 mboe, including 0.2 mboe of natural gas and 0.4 mboe of crude oil	Currently producing
6.	**Skogul**	approximately 2.9 mboe, including 0.2 mboe of natural gas and 2.6 mboe of crude oil	Producing since March 2020
7.	**Ærfugl and Snadd Outer**	Ærfugl reserves: approximately 26.4 mboe, including 19 mboe of natural gas and 3.1 mboe of crude oil and NGL Snadd Outer reserves: approximately 5.8 mboe, including 4.4 mboe of natural gas and 0.5 mboe of crude oil and NGL	Producing since April 2020, from the first well; six wells are planned to be drilled, of which three are to be launched in the second half of 2020.

Figure 4 PGNiG UN licences and fields



Source: In-house analysis.

In January 2020, following approval by Norwegian government authorities, PGNiG finalised the agreement with Pandion Energy to purchase an additional 10% interest in the Duva project (the agreement was concluded in November 2019).

In February 2020, PGNiG UN entered into an agreement with Aker BP to purchase an interest in the Alve Nord field and to increase its interest in the Gina Krog field. Following the transaction, PGNiG UN's interest in the Gina Krog field rose by 3.3pp, to 11.3%. In exchange, PGNiG UN transferred to Aker BP a 5% interest in the Shrek field it discovered recently in the PL838 licence area, together with the field operator role for the development phase. On the basis of the same agreement, PGNiG UN also purchased an 11.92% interest in the PL127C licence, covering the Alve Nord field where production operations are yet to start.

Table 12 PGNiG UN fields under development

No.	Field	PGNiG UN reserves as at June 30th 2020	Planned activities
1.	**Tommeliten Alpha**	approximately 55.5 mboe, including 37.6 mboe of natural gas and 15.6 mboe of crude oil and NGL	Production planned to start in 2024
2.	**Duva**	approximately 27.3 mboe, including 15.4 mboe of natural gas and 8.3 mboe of crude oil and NGL	Development plan approved in 2019, four production wells planned
3.	**King Lear**	approximately 22.9 mboe, including 13.6 mboe of natural gas and 9.3 mboe of crude oil and NGL	Investment process planned for 2021–2024, and production to be launched in 2025
4.	**Alve Nord**	approximately 5.1 mboe, including 3.4 mboe of natural gas and 1 mboe of crude oil and NGL	A review of development options is underway and exploration activities are ongoing. The investment decision to develop the field will be made before the end of 2022.

The Fogelberg and Shrek fields are in the exploration/appraisal phase. In the case of the Fogelberg field, in the first half of 2020 analyses of the development potential of the field were ongoing, focusing mainly on its productivity and on the determination of recoverable reserves. The Shrek field was proven using the exploration well drilled in 2019 and operated by PGNiG UN. According to the preliminary calculations by the Norwegian Petroleum Directorate, the field has recoverable reserves (licence PL838) of approximately 25 mboe.

In January 2020, another APA 2019 (Awards in Pre-defined Areas) round was concluded, as a result of which PGNiG UN obtained interests in three further exploration licences. Jointly with its partners, PGNiG UN also continued work in other exploration licence areas. In the first half of 2020, preparatory work was carried out for the drilling of two exploration wells under licence PL1009 (Warka exploration project) and licence PL127C (Alve North East exploration project).

Pakistan

Table 13 Producing fields in Pakistan

No.	Field	PGNiG reserves as at June 30th 2020	Planned activities
1.	**Rehman**	approximately 4.99 bcm (32.1 mboe)	Formation tests in progress on Rehman-7 well (commenced in February 2020)
2.	**Rizq**	approximately 1.82 bcm (11.8 mboe)	Positive results were obtained from the Rizq-3 production well (work commenced in July 2019).

4.1.4 Growth prospects and future challenges

Poland

The work planned to be carried out in 2020 in the area of operations of the Sanok Production Branch includes development and tying-in of the following wells: Gilowice 3K and Gilowice 4H, Królewska Góra 1 – KGZ Czarna Sędziszowska, Królewska Góra 2K (temporary tie-in), Palikówka 10K and 13K – KGZ Krasne, Mirocin 66, 67, 68 and 69 – KGZ Jodłówka (temporary tie-in), Kraczkowa 3 – KGZ Krasne, Przemyśl 287K, 289K and 290K – KGZ Przemyśl Zachód, Przeworsk 28 and 29, Jastrzębiec 2K, 3 – KGZ Tarnogród, Tuligłowy 35 (after reconstruction), Jaksmanice 213 and Jaksmanice 221 (after reconstruction). The work to be carried out at the Zielona Góra Branch includes development and tying-in the 11K Dzieduszyce well.

PGNiG also engages in other investment projects in the areas of its operations, focusing mainly on maintaining or ramping up hydrocarbon production. Such projects include, for instance, work related to the installation of gas compressors or upgrade of flowline systems or gas pipelines.

Other countries

Norway

In response to the plunge in hydrocarbon prices, in June 2020 the Norwegian Parliament approved temporary amendments to the tax law to support the oil industry and introduce incentives to invest on the Norwegian Continental Shelf.

The aid package is to cover the years 2020 and 2021. The new tax regulations provide for a one-off increased tax incentive relating to expenditure incurred by upstream companies on the Norwegian Continental Shelf in 2020 and 2021. Additional benefits may be brought by the change in the method of calculating depreciation charges (for existing and new projects) and earlier refund of overpaid taxes by the Norwegian tax authorities.

Tax-related changes may thus improve liquidity and increase the profitability of investment projects carried out by upstream companies, including PGNiG UN, on the Norwegian Continental Shelf.

Pakistan

As regards appraisal and production work, plans for the second half of 2020 include completion of testing and bringing on stream of the Rehman-7 production well. In parallel to the drilling campaign, the Pakistan Branch intends to continue exploration work and in this respect it plans to complete advanced processing of 3D seismic imaging in the W1 prospect and 2D seismic imaging in the W2 prospect, as well as to start final interpretation of the two images.

Other directions

As regards seismic services, work planned for 2020 includes 3D seismic data acquisitions in Poland (mainly for PGNiG) and abroad, including in Germany, the Netherlands, Bulgaria, Croatia, and the United Arab Emirates, as well as 2D seismic data acquisition in Mozambique.

4.2 Trade and Storage

In Poland, where the PGNiG Group is the largest natural gas supplier, the segment sells natural gas produced from domestic fields as well as imported gas. Through PST (wholesale) and PST Europe Sales GmbH (retail sale), the PGNiG Group is developing its international business mainly in Germany, the Netherlands and Austria. The segment also trades in electricity, certificates of origin for electricity, and CO_2 emission allowances.

4.2.1 Key operating metrics

Table 14 Volumes of natural gas sales to non-PGNiG Group customers in the Trade and Storage segment (in Poland and abroad)

mcm	H1 2020	H1 2019	2019	2018	2017	2016
High-methane gas (E)	16,061	15,134	29,031	27,440	25,261	22,818
Nitrogen-rich gas (Ls/Lw as E equivalent)	388	401	751	721	701	671
TOTAL (measured as E equivalent)	16,449	15,535	29,782	28,161	25,962	23,489
including:						
PGNiG – Wholesale	*9,660*	*8,689*	*16,726*	*16,364*	*16,159*	*13,734*
PGNiG OD – Retail sale	*4,496*	*4,395*	*7,815*	*7,868*	*7,617*	*7,245*
PST – Wholesale/retail sale	*2,293*	*2,451*	*5,242*	*3,929*	*2,186*	*2,510*

Table 15 PGNiG Group's gas customer base in the Trade and Storage segment in Poland

mcm	H1 2020	H1 2019	2019	2018
Households	2,474	2,408	4,152	4,107
Other industrial customers	1,528	1,152	1,597	1,859
Retail, services, wholesale	830	1,314	2,272	2,325
Nitrogen processing plants	1,309	1,169	1,927	1,836
Power and heat plants	715	1,096	2,020	2,111
Refineries and petrochemical plants	1,167	875	2,968	2,741
Exchange	5,233	4,764	9,061	8,802
Exports from Poland	900	306	544	451
PST in Poland	343	28	214	0
TOTAL T&S sales to non-PGNiG Group customers in Poland	14,499	13,112	24,754	24,232

Table 16 Volumes of natural gas sold abroad to non-PGNiG Group customers (excluding gas exports from Poland)

mcm	H1 2020	H1 2019	2019	2018	2017	2016
High-methane gas (E)	1,950	2,423	5,028	3,929	2,186	2,384
TOTAL (measured as E equivalent), including:	1,950	2,423	5,028	3,929	2,186	2,384
PST - Wholesale/retail sale	1,950	2,423	5,028	3,929	2,186	2,384

Table17 PST's natural gas customer base abroad

mcm	H1 2020		H1 2019	
	mcm	Share (%)	mcm	Share (%)
Households	17	1%	20	0.5%
Other industrial customers	8	0.5%	10	1.5%
Retail, services, wholesale	902	46%	1,290	53%
Exchange	1,023	52.5%	1,103	45%
Total sales to non-PGNiG Group customers	1,950	100%	2,423	100%

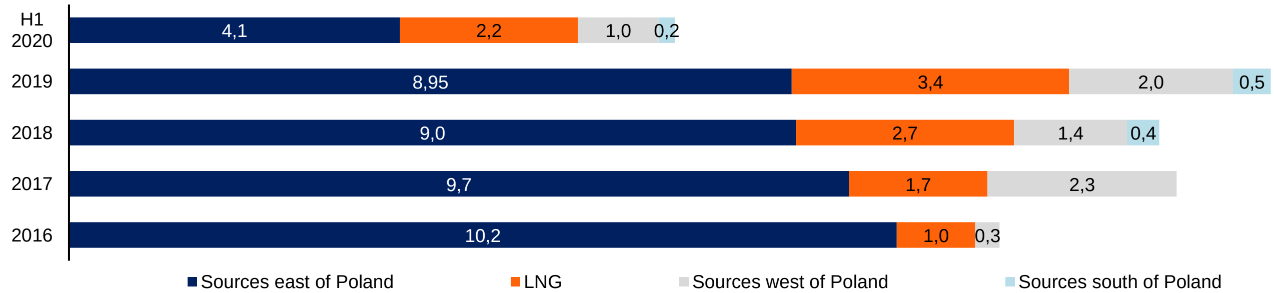
4.2.2 Wholesale business

Operations in Poland

Gas imports

In H1 2020, the imported gas volume was 82.1 TWh (7.5 bcm). LNG deliveries rose significantly, from 19.4 TWh (1.8 bcm) in H1 2019 to 24.1 TWh (2.2 bcm) in H1 2020. However, supplies from countries west of Poland fell from 14.9 TWh (1.4 bcm) in H1 2019 to 10.5 TWh (1.0 bcm) in H1 2020.

Chart 1 Imports of natural gas to Poland in 2015–2019 and in H1 2020 (bcm)



On May 29th 2020, PGNiG and Polskie LNG of the GAZ-SYSTEM Group signed an agreement to book additional regasification capacities made available under the Open Season procedure. The capacities will be available following completion of the expansion of the President Lech Kaczyński LNG Terminal in Świnoujście. Under the agreement, the Company booked an additional capacity of approximately 1.2 bcm annually (1,592,724 kWh/h) in 2022–2023 (transitional service) and approximately 3.3 bcm annually (4,208,612 kWh/h) in 2024–2038 (basic regasification service). Thus, together with the previously booked capacity, the regasification capacities will amount to 6.2 bcm and 8.3 bcm of gas annually, respectively.

Renegotiation of price terms under the contract with OOO Gazprom Export

On March 30th 2020, the Arbitration Court of Stockholm issued a final arbitration award whereby the pricing formula for the gas supplied by PAO Gazprom/OOO Gazprom Export under the Yamal contract was changed, including through its significant and direct linking to the prices of natural gas on the European energy market. Pursuant to the Yamal contract and the final award, the new contract price is applicable to gas supplies made from November 1st 2014, i.e. the date PGNiG requested that the contract price be renegotiated. The refund due to PGNiG under the final award, for the period from November 1st 2014 to February 29th 2020, amounted to approximately USD 1.5bn net.

On June 5th 2020, an annex to the Yamal contract was signed between PGNiG and OOO Gazprom Export. In the annex, the parties confirmed the rules of applying the pricing formula for gas supplied under the Yamal contract as specified in the final award. In addition, the annex set out the terms of mutual settlement between the parties of the financial consequences of applying the new pricing formula retroactively as of November 1st 2014, whereby Gazprom was obliged to pay approximately USD 1.6bn and PGNiG – approximately USD 90m, resulting in net amount of approximately USD 1.5bn due to PGNiG.

On July 1st 2020, PGNiG received from Gazprom approximately USD 1.6bn as a refund of the overpayments for gas supplied in 2014-2020. On July 2nd 2020, PGNiG made a payment of approximately USD 90m to Gazprom. The prices under the Yamal contract may continue to change as both PGNiG and Gazprom filed requests for their renegotiation in November and December 2017, respectively. PGNiG stays in touch with the supplier regarding this matters. On May 29th 2020, Gazprom filed a petition with the Stockholm Court of Appeals for the reversal of the final award issued by the Arbitration Court. The cases are pending.

LNG supplies

In H1 2020, PGNiG received a total of 21 LNG shipments to Poland, with a total volume of 1.58m tonnes, which is approximately 24.08 TWh of natural gas after regasification, including:

- 9 shipments under long-term contracts with Qatargas, with the volume of LNG imports from Qatar totalling 0.82m tonnes, i.e. approximately 12.55 TWh of natural gas after regasification;
- 8 shipments under spot contracts – their total volume in the period was 7.50 TWh, and the LNG was delivered from the US, Norway, and Trinidad and Tobago;
- 2 shipments under the PGNiG Group's medium-term contract with Centrica;
- 2 shipments under a long-term contract with Cheniere.

Sale of gas by PGNiG

In H1 2020, PGNiG's sales of high-methane grid gas in Poland amounted to 95.36 TWh (8.7 bcm). Year on year, the sales volume grew by 5.2%, from 90.64 TWh (8.3 bcm).

In June 2020, an annex was signed to the Individual Contract with PKN Orlen S.A. whereby PGNiG is to supply natural gas to the ORLEN Group until December 31st 2022, with the possibility to extend the supplies until December 31st 2023. The value of the contract in the period from October 1st 2021 to December 31st 2023 is estimated at approximately PLN 5.5bn.

Sale of gas by PST in Poland

In H1 2020, PST supplied gas fuel to 21 customers (42 delivery points in Poland). The customers of the Polish Branch of PST are businesses operating in the steelmaking, glassmaking, ceramics and food industries and receiving gas fuel for their own needs at physical delivery points, as well as wholesale customers receiving gas fuel at virtual delivery points for further resale. In H1 2020, Poland was PST's largest sales market (accounting for 53% of the total sales volume).

Exports

In H1 2020, PGNiG continued to sell natural gas to the Ukrainian market, in cooperation with the ERU Group of Ukraine. In the period, the Company sold approximately 0.9 bcm of natural gas to Ukraine, both through the Polish-Ukrainian border and using the Ukrainian gas storage system.

Gas sold by PGNiG on the POLPX

As at the end of H1 2020, the volume of gas contracted by PGNiG on the POLPX for delivery in 2020 was 87.6 TWh. In H1 2019, the volume was 81.4 TWh.

Small-scale LNG sales

1,556 tanker trucks were loaded with LNG at the Świnoujście LNG Terminal in H1 2020, compared with 2,306, 1,794 and 1,523 in H1 2019, 2018, and 2017, respectively. PGNiG placed 36,200 tonnes of LNG on the market, including 27,000 tonnes of LNG from Świnoujście and 9,200 tonnes of LNG from the Odolanów and Grodzisk Wielkopolski nitrogen rejection units. In H1 2019, PGNiG placed 27,000 tonnes of LNG on the market, of which 16,800 tonnes from Świnoujście and 10,200 tonnes from Odolanów and Grodzisk.

Sales of electricity

On the electricity market, PGNiG is engaged primarily in wholesale trading. Total sales of electricity to trading companies and on the Polish Power Exchange accounted for more than 90% of the Company's total electricity sales in H1 2020.

Capacity market

As part of additional auctions, PGNiG entered into contracts for quarterly supplies for Q1 2021 (net capacity of 301 MW) and Q4 2021 (net capacity of 140 MW). In March 2020, four additional auctions were held for supplies in Q1–Q4 2021. These were the first such auctions conducted by Polskie Sieci Energetyczne. The closing price for all additional auctions was the same (PLN 286.01/kW/year) and it was the highest price in all auctions held to date.

Wholesale business abroad

Product sales and operations in H1 2020

In H1 2020, in exchange and OTC transactions PST sold a total of 38.3 TWh of gas delivered by pipelines (including 5.8 TWh of gas from the NCS produced by PUN and LOTOS), 8.5 TWh of LNG, and 1.6 TWh of electricity. In foreign markets, the largest sales were made on the German and Dutch markets (24% and 19%, respectively, of the total sales volume).

In H1 2020, PST carried out nine deliveries of liquefied gas to the LNG Terminal. The volume of gas received under PST's gas sale agreement with LOTOS Norge was 3.5 TWh.

PST's development prospects abroad

In the coming years, PST plans to further expand its ex-ship and free-on-board delivery activities on the LNG market. For the purposes of long-term free-on-board delivery contracts, PST commenced a tender procedure to charter two gas carriers capable of receiving and transporting the purchased LNG. The tender is expected to be completed by the end of Q3 2020. In the second quarter of 2020, a three-year contract was signed with a new trading partner (Aker BP) for the market access service, with supplies starting in the fourth quarter of 2020. PST is involved in the dispatch and sale of these gas volumes at various European gas hubs, thus increasing its presence on the European market.

Development prospects abroad - PGNiG

In November 2019, PGNiG signed a five-year exclusive contract for the use of the low-scale LNG handling wharf station in Klaipėda. The contract with Klaipedos Nafta took effect on April 1st 2020. From the beginning of April to June 30th 2020, more than 60 tanker trucks with a total volume of more than 1,000 tonnes of LNG already left Klaipedos Nafta.

4.2.3 Retail business

Retail business in Poland

Sales of gas

PGNiG OD's customer base includes consumers and non-consumers (small and medium enterprises). Customers are classified into tariff groups based on the type of gas fuel received (high-methane gas or nitrogen-rich gas); Contractual capacity; Annual volume of gas taken: for customers receiving up to 110 kWh/h of gas fuel; Billing system – as per the billing frequency applicable to customers with a contractual capacity of not more than 110 kWh/h.

In the first half of 2020, PGNiG OD applied the following gas fuel trading tariffs:

- Tariff No. 8 in the period from January 1st to June 30th 2020 – gas fuel prices down by 2.9% relative to the previous tariff.

By a decision of June 16th 2020, the President of URE approved PGNiG OD's new Tariff No. 9 for the period July 1st − December 31st 2020. Relative to the previous tariff, the gas fuel price was reduced by 10.6%.

In H1 2020, PGNiG OD acquired over 59,600 new retail accounts in tariff groups 1–4 (both high-methane and nitrogen-rich gas).

Sales of other hydrocarbons

In H1 2020, contracts were concluded with LG Electronics of Biskupice Podgórne for the supply of LNG together with infrastructure, as well as with Miejskie Zakłady Autobusowe of Warsaw for the sale of LNG. CNG supply contracts were signed with urban sanitation companies (MPO) of Kraków and Warsaw, and the CNG supply contract with Miejskie Przedsiębiorstwo Komunikacyjne (municipal transport company) of Rzeszów was extended for another 10 years.

Business-to-customer sales policy (B2C)

H1 2020 saw the launch of sale of the 'Na Zdrowie' package, offering easy and prompt access to medical services. Legal insurance packages ('Legal Counsel for You' and 'Legal Counsel for Your Company') were also prepared.

Business-to-business sales policy (B2B)

In H1 2020, the sale of the following products was launched:

- modified 'Gaz Comfort Bezpieczny' product – designed to ensure higher margins, sold in particular through mailing campaigns;
- 'Contract Transfer' product extended to include an option to fully or partially deconsolidate or consolidate a gas supply contract(s) with multiple customers, irrespective of their type;
- 'Consolidation Product II' and 'Suspending Agreement' designed to support customers whose business has suffered as a result of the coronavirus epidemic.

Gas fuel sales under emergency / standby / last resort supplier procedures

In 2020, PGNiG OD acts as a 'standby supplier' and 'last resort supplier'. In H1 2020, following discontinuation of gas fuel supplies by E2 Energia Sp. z o.o., PGNiG OD ensured uninterrupted supply of gas fuel to the company's customers.

Sales of electricity

As at the end of H1 2020, PGNiG OD had approximately 96,000 customers on dual fuel (electricity and gas) plans, including 92% consumer accounts and 8% non-consumer (SME) accounts. In the first half of 2020, the electricity supply offering for businesses was modified both for larger customers (tranche product) and customers interested in simpler offers (fixed price under fixed-term price lists).

Development prospects in Poland

PGNiG OD takes measures aimed at developing its business in the following sectors: heating for single-family housing, gas-fired heat and electricity cogeneration, industry (including energy for technological process purposes), and road and maritime transport. The company also continues to develop a new business line: photovoltaics for business customers.

Retail business abroad

The number of PST ES's retail customers decreased to 39,000 customers (as at June 30th 2020). As at June 30th 2019, the company had approximately 41,900 customers.

Development prospects abroad

Together with its subsidiary XOOL GmbH, PST ES is currently undergoing a restructuring process, which began in 2019 with a view to selling the retail business. The plan is to sell both subsidiaries' customer portfolios to the best bidder by spinning off the portfolios into a special purpose vehicle. The potential buyer has been selected and the transaction is expected to close in Q3 2020.

4.2.4 Storage business

As part of its business, GSP holds a licence to store gas fuel in storage facilities. Settlements of gas fuel storage services with storage service customers are based on the following tariffs:

- Tariff No. 1/2019, effective from April 15th 2019 – in relation to the previous tariff (No. 1/2018), the average storage fee rate was reduced by 6.3%;
- Tariff No. 1/2020, effective from June 1st 2020 – in relation to the previous tariff (No. 1/2019), the average storage fee rate was reduced by 1.2%.

As at June 30th 2020, under long-term storage service agreements (SSA), GSP provided a total of 172,000 long-term storage capacity packages, including 70,000 packages of storage services provided on a firm basis, and 100,000 packages on an interruptible basis. As part of short-term storage services provided on an interruptible basis as at June 30th 2020, GSP allocated 137 storage capacity flexible packages.

Third-party access (TPA) storage capacities

As at June 30th 2020, GSP had a total working storage capacity of 3,174.8 mcm, of which a total of 3,139.59 mcm was made available, on a TPA basis and to GAZ-SYSTEM, as part of long-term services; 5 mcm, out of 30 mcm, of working capacity was made available as part of short-term services, on an interruptible basis, due to technical conditions. In addition, GSP allocated approximately 5 mcm of working capacity for the needs of the Mogilno CUGSF's and Kosakowo CUGSF's technological units.

Growth prospects and future challenges in the storage area

In accordance with the schedule for the 'Kosakowo CGSF – Construction of Five Caverns, Cluster B' project, in H2 2020 and in 2021 the construction of the K-7 and K-10 chambers at the Kosakowo CGSF will be continued to expand the storage capacities. The contract for the project provides for the completion of all the works in 2021. After the construction of cluster B is completed, the working capacity of the Kosakowo CGSF will be increased to ca. 300 mcm.

4.3 Distribution

The segment's principal business activity consists in the delivery of high-methane and nitrogen-rich gas, as well as of small amounts of coke-oven gas, over the distribution network to retail and corporate customers. The segment is also engaged in extending and upgrading the gas network and connecting new customers. Natural gas distribution is the responsibility of PSG. As the Distribution System Operator, the company operates in all regions of Poland.

4.3.1 Key operating metrics

Table 18 Volume of distributed gas (high-methane, nitrogen-rich, propane-butane, and coke gas)

mcm	H1 2020	H1 2019	2019	2018	2017	2016
Total volume of distributed gas	6,192	6,314	11,531	11,747	11,645	10,858
- including high-methane gas	5,460	5,495	9,976	9,918	9,797	9,301
- including nitrogen-rich gas	560	568	1,048	971	989	836

Table 19 Length of distribution networks

thousand km	H1 2020	2019	2018	2017	2016
Length of distribution networks	192.5	191	186	183	180

In H1 2020, 16 new municipalities were connected to the gas grid. Thus, the geographical coverage in terms of the number of municipalities connected reached 65.04% (1,611 out of 2,477).

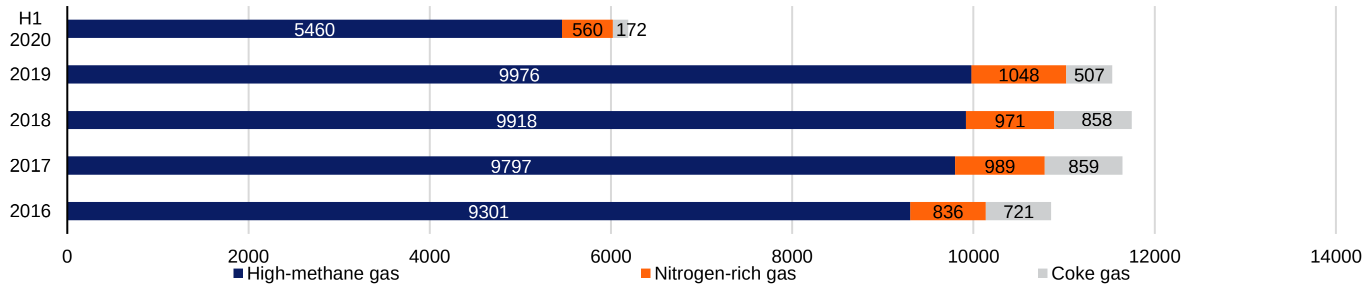
4.3.2 Operations in 2019

In H1 2020, PSG executed one distribution agreement. In the same period, about 23,600 customers switched to another seller. PSG's activities resulted in the execution of over 59,000 connection contracts in H1 2020, providing for 65,500 new connections to the gas grid. Over 113,000 decisions defining the terms of connection were issued and over 51,000 service lines with a total length of 513 km were built in the first half of 2020.

LNG regasification stations

As at the end of the first half of 2020, PSG operated 39 LNG regasification stations licensed by the President of URE. Commissioning reports were issued for 12 regasification stations. As at the end of the first half of 2020, PSG supplied (via its LNG regasification stations and supplementary supply stations) approximately 83 GWh of gas fuel to end users in off-grid areas, which means a year-on-year increase of ca. 53% in the LNG distribution volumes. As at the end of the first half of 2020, the number of gas customers in off-grid systems was 21,049.

Chart 2 Volume of gas transmitted via the distribution system (mcm)



In the first half of 2020, gas supply volumes were approximately 120 mcm lower year on year, with average temperatures broadly flat (the average temperature for the first half of 2020 was only 0.3 °C lower year on year). As at June 30th 2020, the length of networks operated by PGS (including service lines) was 192.5 thousand km, and the number of customers was over 7m.

An important event with a bearing on the performance of PSG's operator obligations was the conclusion of comprehensive gas supply contracts with the last resort supplier for and on behalf of 535 end users following the termination of gas fuel supply by E2 Energia Sp. z o .o. Another important event with a bearing on the performance of PSG's operator obligations was the update of the template of the gas fuel distribution service contract, which was adopted for use at PSG on the basis of Order No. 43 issued by the President of the PSG Management Board on May 6th 2020. In the second half of May 2020, annexes introducing the new contractual provisions in accordance with the updated contract template were delivered to distribution service customers.

PSG's operations are extensively regulated through the licensing of activities related to the distribution of gas fuels and provision of the liquefied natural gas regasification service, and through distribution service tariffs that are subject to regulatory approval. In the first half of 2020, the following tariffs were in effect:

- Tariff No. 7, effective until April 2nd 2020, resulting in a 5% reduction of the average distribution fee relative to the previous tariff.
- Tariff No. 8, effective from April 3rd 2020, resulting in a 3.5% increase in the average distribution fee relative to the previous tariff.
- Amendment to Tariff No. 8 of May 15th 2020 – correction of definitions (not applicable to rates).

4.3.3 Growth prospects and future challenges

In the second half of 2020, PSG will continue the activities relating to investments in the gas network (construction of gas networks, also with the use of LNG technologies, connection of new customers, network upgrades) and other projects fostering growth of the gas market.

The company intends to identify and pursue new opportunities allowing it to:

- Increase natural gas utilisation;
- Stimulate the development of R&D&I activities and infrastructure to facilitate growth in the volumes of transported gases (including 'renewable' gases);
- Meet the growing demand for natural gas from large and medium-sized customers (in particular cogeneration producers, manufacturing and industrial plants, service centres), and foster the development of the power generation sector;
- Roll out the gas distribution network and connect new customers in the regions of Poland where the gas network is not sufficiently developed.

PSG will also work on a project basis on obtaining organisational and technical capacity for economically viable distribution of biomethane, with volumes estimated at 1 bcm, starting from 2025.

4.4 Generation

The segment's principal business consists in the production of heat and electricity, distribution of heat, and delivery of large natural gas-fired projects in the power sector. In this field, the PGNiG Termika Group acts as the competence centre for the PGNiG Group.

4.4.1 Key operating metrics

Table 20 Volumes of heat (TJ) and electricity (GWh) sold to non-PGNiG Group customers

(TJ)	H1 2020	H1 2019	2019	2018	2017	2016
Total heat sales volumes from own generation sources	22,837	23,010	39,263	40,659	42,611	39,527
at PGNiG TERMIKA	21,412	21,561	36,880	38,290	40,037	38,780
at PGNiG TERMIKA EP*	1,425	1,449	2,383	2,369	2,574	747
(GWh)						
Total electricity sales volumes from own generation sources	2,019	2,257	3,948	3,974	3,882	3,604
at PGNiG TERMIKA	1,855	1,993	3,493	3,535	3,593	3,466
at PGNiG TERMIKA EP*	164	264	455	439	289	138

** The data for 2016 represents the sales volumes generated by PEC and SEJ. As of 2017, the data represents the sales volumes generated by PGNiG TERMIKA EP (which comprises PEC and SEJ).*

4.4.2 Operations in the first half of 2020

In the first half of 2020, an additional capacity market auction was held for electricity to be delivered in the individual quarters of 2021. Following four additional auctions held by Polskie Sieci Energetyczne S.A., PGNiG TERMIKA and PGNiG TERMIKA EP executed the following contracts:

- Żerań CHP plant: net capacity of 140 MW for the first and fourth quarters of 2021;
- Unit 7 at the Siekierki CHP plant: net capacity of 18 MW for the first and fourth quarters of 2021 (an annual contract for 70 MW has already been signed);
- Unit 8 at the Siekierki CHP plant: Net capacity of 25 MW for the first and fourth quarters of 2021 (an annual contract for 70 MW has already been signed);
- Unit 9 at the Siekierki CHP plant: net capacity 86 MW for the first quarter of 2021;
- Unit 10 at the Siekierki CHP plant: Net capacity 85 MW for the first quarter of 2021;
- CFB unit at the Zofiówka CHPP: net capacity of 65 MW for all quarters of 2021.

PGNiG TERMIKA holds licences for electricity generation, heat generation, heat transmission, and electricity trading. In 2020, PGNiG TERMIKA applied the following tariffs for heat generated at the Żerań CHP plant, Siekierki CHP plant, Pruszków CHP plant, Wola heating plant and Kawęczyn heating plant, and for transmission and distribution of heat via the heating networks in the Pruszków area (supplied from Pruszków CHP plant's own heat generating source), as well as in the Annopol, Chełmżyńska, Jana Kazimierza, Marsa Park and Marynarska areas. The following tariffs apply in 2020:

- Tariff effective from September 1st 2019 to August 31st 2020, resulting in a 7.29% increase in average prices charged by PGNiG TERMIKA S.A.;
- an amendment to the heat tariff effective from July 1st to August 31st 2020, resulting in a 12.97% increase in average generation prices in PGNiG TERMIKA's cogeneration sources (generation prices in peak-load sources and transmission prices are charged according to the heat tariff).

PGNiG TERMIKA EP holds licences for electricity generation, electricity distribution, electricity trading, heat generation, heat transmission, and heat trading. Among tariffs effective in the first half of 2020 were:

- a tariff effective from July 1st 2019 to June 30th 2020 for heat from generating sources, resulting in a 3.51% increase in average prices charged by PGNiG TERMIKA EP, and for distribution services, resulting in a 2.29% increase in average prices. The tariff remained in effect until June 30th 2020;
- a new tariff effective from July 1st 2020 for heat from generating sources, resulting in an 11.64% increase in average prices charged by PGNiG TERMIKA EP, and for distribution services, resulting in a 3.64% increase in average prices, adding up to a total increase in prices and rates of 8.98%. The tariff will apply until June 30th 2021;
- a tariff effective from May 1st 2019 to June 30th 2020 for PGNiG TERMIKA EP's electricity distribution services.
- a new tariff applicable to PGNiG TERMIKA EP's electricity distribution services as of July 1st 2020. The tariff will apply until June 30th 2021.

Equity investment in Polska Grupa Górnicza S.A. (PGG)

In response to certain events occurring in the first half of 2020 (pay rises agreed on with social partners in February 2020, and strong uncertainty over future inflows driven by the SARS-CoV-2 pandemic), the PGNiG Group tested PGG shares for impairment as at June 30th 2020. The test showed that the value of PGNiG Termika's holding was PLN 389m. For more information about the impairment test of PGG shares, see Section 4.2 of the PGNiG Group's financial statements for the first half of 2020. › www.pgnig.pl

4.4.3 Growth prospects and future challenges

In 2020, the PGNiG TERMIKA Group will continue work on projects to build a CCGT unit at the Żerań CHP plant, a CCGT unit at the Stalowa Wola CHP plant, a peak-load boiler house at the Żerań CHP plant, and a 75 MWe multi-fuel unit at the Siekierki CHP plant, and will make preparations for the construction of a CCGT unit at the Siekierki CHP plant. Capital expenditure planned for 2020 for environmental initiatives includes expenditure on a programme to adapt fluidised boilers at the Żerań CHP plant to the BAT Conclusions, a programme to adapt Emitter 5 at the Siekierki CHP plant to new dust emission requirements (the programme covers the installation of a bag filter on the K11 boiler and upgrade of absorbers 1 and 2), adaptation of the Kawęczyn heat plant to the BAT conclusions, installation of an SCR unit for the K16 boiler at the Siekierki CHP plant, and upgrade of the Pruszków CHP plant.

PGNiG TERMIKA EP will also seek to reinforce its leading position in Poland with respect to the commercial use of methane in cogeneration systems. The tasks that the company will face in 2020 include continued implementation of the project to secure heat supplies to the city of Rybnik, and the task related to the combination of the Zofiówka and Pniówek branches' heating systems.

4.5 Other segments

The PGNiG Group conducts operations allocated to the other business segments through its corporate centre and support companies. The Corporate Centre comprises the PGNiG Head Office, comprising 16 Departments, 2 Offices, and the Central Measurement and Testing Laboratory.The support companies, which also carry out the Group's non-core business operations, include PGNiG Technologie, PGNiG Serwis, Gazoprojekt, Geovita, Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych (Polski Gaz TUW).

4.6 Research, development and innovation

4.6.1 Research and development

The progress of one programme and 133 (EOP) research and innovation projects with a total budget of ca. PLN 670m was supervised at the PGNiG Group in the first half of 2020. 18 projects were completed. More than PLN 71m was spent on research and innovation projects implemented at the PGNiG Group as at June 30th 2020.

Under the INGA (INnovative GAs) joint venture, implemented in partnership with the National Centre for Research and Development and GAZ-SYSTEM, work continued on the execution of research and development projects selected in the first competition round. The total budget of the projects funded under the programme is PLN 82m. Applications in INGA's second competition round can be submitted as of the first quarter of 2020, with the budget for the projects to be implemented for the PGNiG Group in the second round amounting to PLN 184m.

Key activities in the first half of 2020:

- Monitoring of the implementation of 133 (EOP) research, development and innovation projects. The key benefits of R&D & I projects include the ability to enter into new development areas related to renewable energy sources (hydrogen, photovoltaic, dimethyl ether) and to optimise process costs in key business areas;
- Launch of the Hydrogen – Clean Fuel for the Future programme to build hydrogen capabilities at the PGNiG Group. Hydrogen – Clean Fuel for the Future is PGNiG's new comprehensive hydrogen programme consisting of several projects ranging from 'green hydrogen' production, through hydrogen storage and distribution, to applications in industrial power generation. The programme encompasses work on projects seeking to use hydrogen in the power generation and automotive sectors and to explore the possibilities of storing and transporting hydrogen via the gas network;
- Step-up of efforts aimed at raising external financing for development projects.

The key achievements of PGNiG Group companies in research, development and innovation:

- Gas Trading – implementation of a smart LNG inventory management system and a sales system dedicated to small-scale LNG in the form of an electronic portal for customers, enabling more efficient procurement and settlement of LNG.

- Geofizyka Toruń – work on the Innovative Data Acquisition Method for multichannel seismic images (IMAS 2). The project will enable the company to expand its offering by adding large-volume 3D seismic imaging acquisition in Poland and abroad, also in urban and hard-to-access areas.
- PGNiG Termika - in partnership with the Wrocław University of Technology, PGNiG Termika implemented an R&D project to increase electricity output in CCGT power and CHP plants. The expected increase in output could reach approximately 9%–10%;
- PSG – EU funds were secured under the 2014–2020 Smart Growth Operational Programme for an R&D project to develop a technology based on non-destructive testing methods, including acoustic emission and GPR testing, that would locate and identify potential damage to gas infrastructure. The project will be implemented in partnership with the Kielce University of Technology;
- PSG – continued efforts to develop the requirements for injecting combustible dopant gases into the PSG network. To this end, the available knowledge and results of research into the impact of hydrogen dopant on the operation of gas network components were collected.

4.6.2 Business development

In the first half of 2020, 17 innovation and development projects were underway, involving gradual expansion of competencies in three key areas:

Renewable Energy Sources (RES)

In the first half of 2020, the Fotowoltaika Biznes (Photovoltaic Business) project was set up, as part of which analytical work was commenced to develop a long-term business development plan for the PGNiG Group's photovoltaic business. The Fotowoltaika Instalacje (Photovoltaic Units) project was set up at the same time, as part of which work related to installing photovoltaic systems on PGNiG's properties was initiated.

The WIND-Farmy wiatrowe (Wind Farms) project was also launched, focused on efforts to generate economic benefits and diversify the Group's revenue by entering into a new business segment (RES) by developing and acquiring onshore and offshore wind farm projects.

Alternative fuels

The PGNiG Group looks for new business development directions in the area of alternative fuels, with particular focus on the use of LNG, Bio-LNG and CNG:

- PGNiG launched the Magellan project to develop a business model with a view to selecting an organisational unit with exclusive competencies within the PGNiG Group to provide LNG bunkering services, and to equip the unit with the necessary tools and resources, including purchase by the unit of MTTS (Multi Truck to Ship) equipment and infrastructure;
- Work was commenced on the launch of the Gepard (Cheetah) project, which provides for expanding PGNiG's LNG sale offering to include sale of LNG for heavy duty vehicles;
- The bioLNG TANK project was launched to develop a plan to implement an innovative Bio-LNG production concept.

In the first half of 2020, work was continued on the Geo-Metan II project. A decision was made to close the Bielszowice stream, and the activities were focused on the location in the KWK Budryk coalmine, owned by Jastrzębska Spółka Węglowa (JSW). In the course of the work, material project risks were identified and it was decided to discontinue the work in the Budryk stream. Following a negative assessment of the feasibility of the project on the premises of JSW's KWK Knurów-Szczygłowice Ruch Szczygłowice and KWK Pniówek coalmines, a decision was made to take steps with a view to terminating the project.

Energy Efficiency

Work was commenced to develop a business concept encompassing possible models of the PGNiG Group's entry into individual market segments and to implement the concept with respect to solutions and products for the market of energy sector-related services (in particular energy management solutions) for the PGNiG Group's existing and potential customers. Further, the BMP (Building Management Platform) project was launched to prepare and implement the concept of a platform for monitoring and systematic energy management at the Company's Head Office facilities.

In March 2020, PGNiG received a certificate for the ISO:50001 Energy Management System it has implemented. Systemic solutions were launched, with the expected effect of improving the energy performance. Dębno 4.0, a new project which provides for the implementation of a utilities management system at the Dębno Oil and Gas Production Facility, fits closely with these objectives.

4.6.3 PGNIG Ventures

At the beginning of 2020 PGNiG Ventures Sp. z o.o. commenced operations, focusing mainly on investing in projects offering medium- and long-term gains from capital growth. The Group is interested in investing in selected new tech companies from the industrial or services sectors, whose new technologies could be applied in the energy sector, including in the oil & gas industry. In the first half of 2020, the project acquisition process and active search for entities meeting the investment requirements were commenced.

4.6.4 R&D&I prospects

R&D

The activities to be undertaken in the short term (until the end of 2021) include strengthening the PGNiG Group's position in the hydrogen technology area, transferring further R&D projects for commercialisation, and streamlining the organisational model of R&D&I activities at the PGNiG Group by updating the existing documentation.

For the second half of the year, the Group companies' plans include:

- GSP – measures to expand its energy storage business, in particular storage of hydrogen and liquid fuels with a view to expanding the customer base and securing new revenue sources.
- PGNiG OD – further work on developing photovoltaic and RES products, and continued efforts to develop gas mobility in Poland in the area of CNG/LNG offering for transport.
- PGNiG Technologie – tests of the EkoGłowica wellhead designed at the company on a real borehole.

Business development

In the second half of 2020, work will continue on RES business development, in particular analytical work to develop a photovoltaic business development plan in the prosumer and large-scale segments. The construction of the first photovoltaic system at the PGNiG Head Office and preparation of designs for the construction of large-scale photovoltaic systems will also commence. As regards wind farms, the Group will actively participate in acquisition processes.

In the second half of 2020, in addition to developing the LNG bunkering services, steps will be taken to sell LNG for road transport vehicles and develop a model for entering the Bio-LNG production market. Another area of interest is cold recovery during LNG regasification.

PGNiG Ventures

In the coming years, PGNiG Ventures will invest both in Poland and abroad. In June 2020, investment processes were commenced with respect to three companies, and four investments are planned to be completed by the end of 2020.

5. Financial position of the PGNiG Group and PGNiG in H1 2020

5.1 Macroeconomic environment

5.1.1 Exchange rates

In H1 2020, the average USD/PLN exchange rate was 4.01, up 6% year on year (H1 2019: USD 3.80/PLN). In H1 2020, the average EUR/PLN exchange rate was 4.41, also up year on year (H1 2019: EUR 4.29/PLN).

The USD and EUR exchange rates are a significant indicator for the PGNiG Group, mainly because of their impact on revenue and expenses in the Exploration and Production and Trade and Storage segments.

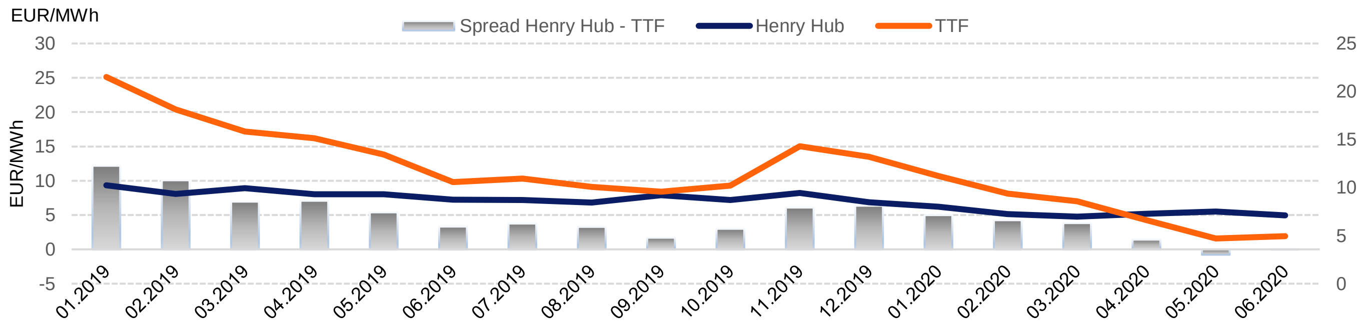
5.1.1 Trends in the natural gas market

Gas prices in Europe and globally

In the first half of 2020, prices in Europe fell to unprecedented lows. At the end of May, the spot price on the Dutch market fell to EUR 3.57/MWh. In Germany's GASPOOL hub, the price was EUR 3.02/MWh at that time. The low prices in the first half of 2020 were attributable to the oversupply of gas on the European market continuing since 2019, the decline in demand due to the economic downturn caused by the epidemic (March to June), weather conditions, and producers' fight for share in the European gas market.

In the reporting period, the average spot price of natural gas in the Dutch TTF was EUR 5.29/MWh, down 36% year on year. The spot price on the Henry Hub fell by 52% in the first half of 2020 to an average of EUR 7.57/MWh. As a result, the spread between the two markets shrank from EUR 4.99/MWh in January to EUR -0.8/MWh in May. The negative spread reduced the profitability of LNG supplies from the US to North-Western Europe.

Chart 3 Average monthly natural gas front month at Henry Hub and TTF

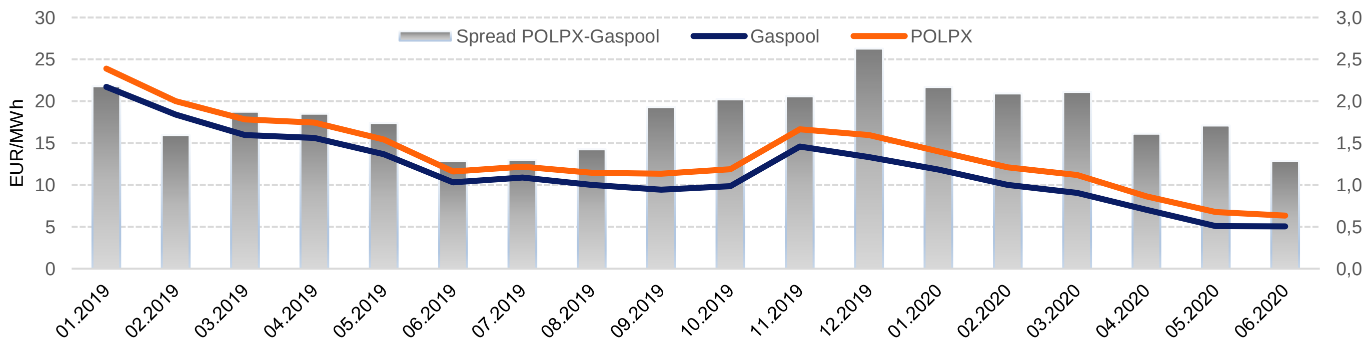


Source: In-house analysis based on NYMEX and ICE data. Front-month contract - contract with the delivery date in the following month.

Gas prices in Poland

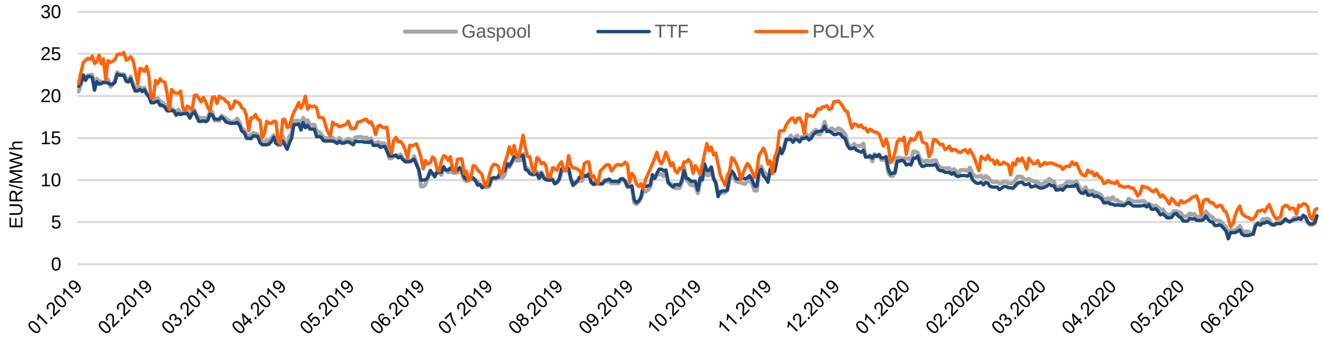
In the first half of 2020, the weighted average spot price on the Polish Power Exchange (POLPX) was PLN 44.99/MWh, down 45% year on year. At the same time, the price of gas on the Gaspool market fell by 50%. Gas prices on both markets remained still strongly correlated. The average spread between the spot prices (for Day Ahead product) on the POLPX and GASPOOL in the first half of 2020 was EUR 1.83/MWh.

Chart 4 Average monthly natural gas spot prices in Poland and Germany in 2019 and H1 2020



Source: In-house analysis based on POLPX and EEX data.

Chart 5 Spot price of gas on POLPX, TTF and GPL in 2019 and H1 2020



Source: In-house analysis based on POLPX and EEX data.

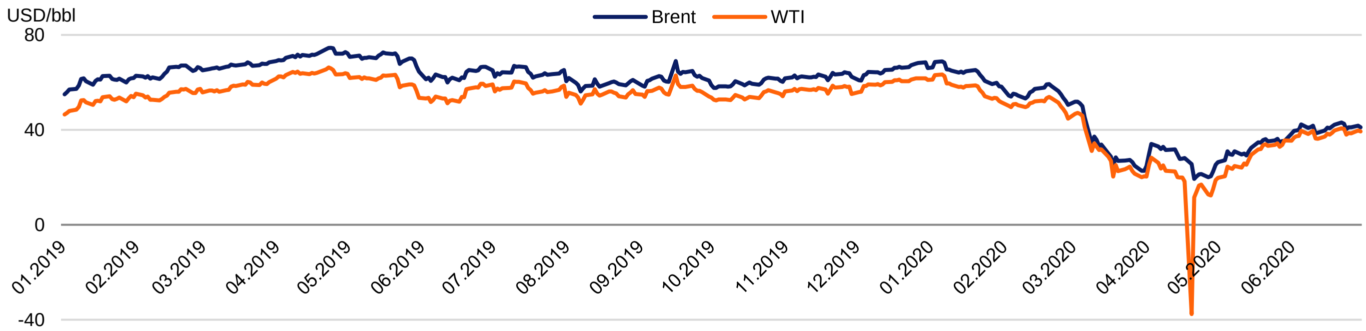
The situation on the natural gas market in Europe and globally has a bearing on the Group's financial performance, mainly due to its impact on the Exploration and Production and Trade and Storage segments, both in terms of revenues and expenses.

5.1.2 Trends on the crude oil market

In Q1 2020, the price of crude oil fell by almost two-thirds, from USD 66 per barrel of Brent crude on January 1st to less than USD 23 at the end of March. The coronavirus pandemic and the accompanying socioeconomic constraints triggered a steep decline in demand for crude oil, estimated at as much as 20m barrels per day at the end of March. In addition, OPEC+ countries' failure to agree on further supply cuts brought about a price war between Saudi Arabia and Russia, as a result of which the countries increased their oil sales, ultimately leading to a price collapse.

In Q2 2020, an agreement was reached by OPEC+ member states. The President of the United States, concerned about oil prices staying at a level at which US production would not be profitable, took the role of an active mediator in the case. Representatives of the oil exporting countries imposed a supply reduction of 9.7m barrels per day, which is almost 10% of global output. The cuts led to the strengthening of the oil price per barrel, which stabilised at close to USD 40 in June.

Chart 6 Month-ahead Brent and WTI oil prices

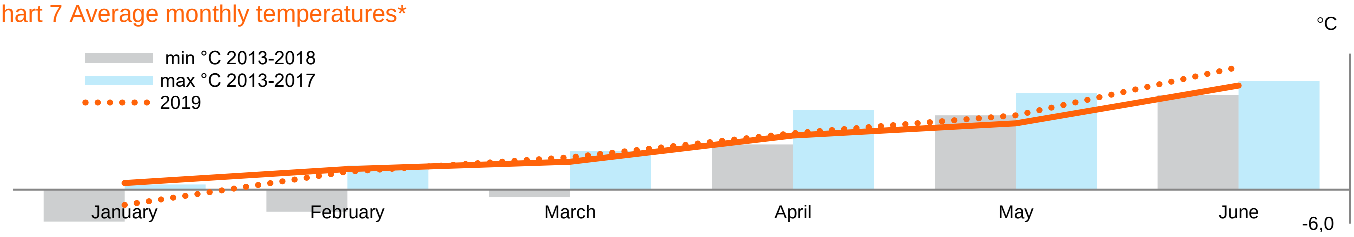


Source: In-house analysis based on ICE and NYMEX data. Month-ahead contract - contract with the delivery date in the following month.

5.1.3 Average monthly temperatures

In the first quarter of 2020, the average temperature was 1.1°C higher compared with the same period of 2019.° The second quarter of 2020 saw the average temperature approximately 1.7°C lower year on year.° Air temperatures are an important indicator for the Group given their impact on the operating performance of the Trade and Storage, Distribution and Generation segments.

Chart 7 Average monthly temperatures*



** Reference point for temperature measurement: Rzeszów.*

Source: In-house analysis.

5.2 Financial position of the PGNiG Group in H1 2020

5.2.1 Selected financial data of the PGNiG Group

Table 21 Financial highlights of the PGNiG Group

	H1 2020	H1 2019	Change yoy
Revenue	21,038	22,624	(1,586)
Total operating expenses, including	(13,382)	(20,910)	7,528
Depreciation and amortisation expense	(1,696)	(1,466)	(230)
Operating profit (EBIT)	7,656	1,714	5,942
Profit before tax	7,327	1,753	5,574
Net profit	5,920	1,332	4,588

Profitability

	June 30th 2020	June 30th 2019	December 31st 2019
EBIT operating profit	7,656	1,714	2,448
EBITDA operating profit + depreciation/amortisation	9,352	3,180	5,504
Adjusted EBITDA operating profit + depreciation/amortisation + impairment losses on property, plant and equipment	10,206	3,402	5,904
ROE net profit to equity at end of period	13.6%	3.5%	3.6%
Net margin net profit to revenue	28.1%	5.9%	3.3%
ROA net profit to assets at end of period	9.5%	2.5%	2.3%

Liquidity

	June 30th 2020	June 30th 2019	December 31st 2019
Current ratio current ratio current assets to current liabilities (net of employee benefit obligations, provisions and deferred revenue)	2.8	2.2	1.6
Quick ratio current assets less inventories to current liabilities (net of employee benefit obligations, provisions and deferred revenue)	2.4	1.6	1.2

Debt

	June 30th 2020	June 30th 2019	December 31st 2019
Debt ratio total liabilities to total equity and liabilities	30.1%	29.5%	35.6%
Debt to equity ratio total liabilities to equity	43.1%	41.8%	55.3%

5.2.2 Financial performance of the PGNiG Group

Change in presentation of the PGNiG Group's financial data

As of January 1st 2019, the PGNiG Group applies IFRS 16 to recognise, measure and present lease contracts. The Group applied the requirements of the standard using a modified retrospective method, with effect as of January 1st 2019 (without restating the comparative period figures).

For a detailed description of the effect of IFRS 16 on the PGNiG Group's consolidated financial statements, see Section 2.5 of the PGNiG Group's financial statements for the first half of 2020. > www.pgnig.pl

Financial performance of the PGNiG Group

In the first half of 2020, the PGNiG Group posted revenue of PLN 21,038m, down by PLN 1,586m (7%) on the corresponding period of the previous year, when revenue was PLN 22,624m. With operating expenses of PLN 13,382m (down 36%), the Group earned consolidated operating profit (EBIT) of PLN 7,656m, up by 347%. Operating profit before depreciation and amortisation (EBITDA) came in at PLN 9,352m, which represents an increase of 6,172m (194%) on the previous year. Net profit, which amounted to PLN 5,920m, was PLN 4,588m (344%) higher year on year.

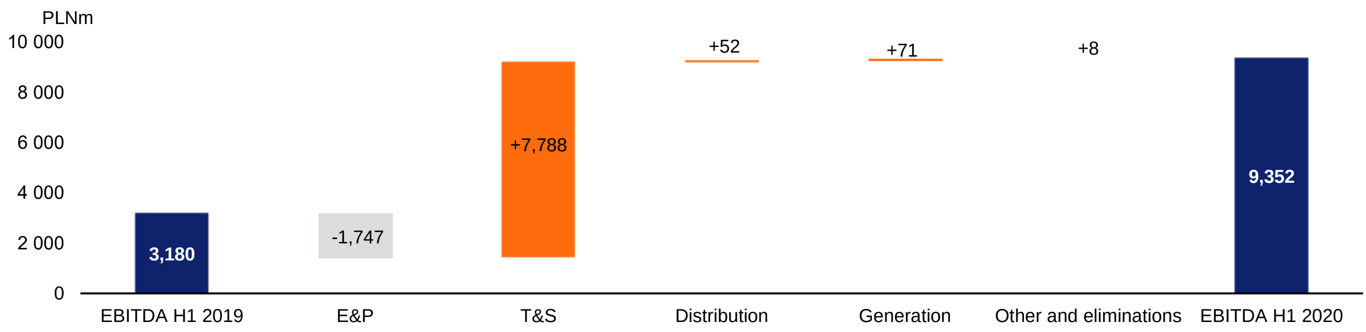
The implementation of the final award of the Arbitration Court of Stockholm in the second quarter of 2020 had a decisive impact on the Group's financial performance in the first half of 2020. In connection with the performance of the Award and the Annex to the Yamal Contract, in June 2020 the Company received correction invoices for gas supplies and recognised the effect of the settlement as follows:

- PLN 5,689m reduced operating expenses, including:
  - PLN 4,915m relating to costs of gas in 2014-2019;
  - PLN 774m relating to costs of gas in 2020.

- PLN 42m reduced the value of gas inventory;
- PLN 5m reduced the amount of property, plant and equipment.

In addition, the Q2 2020 financial results were affected by net exchange gains on the carrying amount of mutual settlements (approximately PLN 300m) and income tax. The PGNiG Group's corporate income tax advance for June 2020 was approximately PLN 1.1bn. For a detailed description of the effect of the final award on the PGNiG Group's consolidated financial statements, see Section 5.1.1 of the PGNiG Group's financial statements for the first half of 2020. › www.pgnig.pl

Chart 8 PGNiG Group's EBITDA bridge from H1 2019 to H1 2020 (PLNm)



As at June 30th 2020, total assets were PLN 62,174m, having increased on the end of 2019 by PLN 2,989m.

Exploration and Production

- Year-on-year drop in product prices, including a 38% drop in the half-year price of Brent crude in USD/bbl and a 44% drop in the price of gas
  on the Day-Ahead Market on the Polish Power Exchange relative to H1 2019;
- Oil production volumes in Norway up +26% year on year;
- Cost of dry wells and seismic surveys written off: PLN -79m in H1 2020 vs PLN -24m in H1 2019;
- Recognition of impairment losses on non-current assets: PLN -853m in H1 2020 vs PLN -189m in H1 2019;
- Overlift/underlift position in Norway – effect on profit or loss for H1 2020: PLN +43m. In the first half of 2019, the effect of on profit or loss was PLN +105m.

Trade and Storage

- PLN 5,689m reduction of operating expenses relating to gas following recognition of the effect of settlement for the period from 2014 to February 2020 under the annex to the Yamal contract, and net foreign exchange gains on measurement of the carrying amount of mutual settlements (approximately PLN 300m) - for more information, see Section 5.1.1 of the PGNiG Group's financial statements for H1 2020;
- Effect of payments, as of March 1st 2020, for the gas supplied under the Yamal contract in amounts resulting from the pricing formula based on the Arbitration Court's award;
- Major decline in gas prices on the POLPX, reflected in the price of domestically produced gas transferred to the Trade and Storage segment;
- A 2.9% decrease in the average price for gas fuel in the retail tariff effective from January 1st 2020;
- Effect of a PLN +363m reversal of gas inventory write-downs, compared with a write-down of PLN -115m recognised in Q1 2019;
- Gain/loss realised on hedging instruments designated for hedge accounting and recognised in revenue: PLN +990m (H1 2019: +280m).

Distribution

- A 3.5% increase in the tariff for gas distribution services, effective from April 3rd 2020;
- Lower average temperature in the first half of 2020 by 0.3°C year on year;
- Net income/cost of system balancing: PLN +17m in H1 2020, compared with PLN +50m in H1 2019.

Generation

- Revenue from sale of heat up 7% year on year, driven by higher prices, with stable heat output volumes;
- Revenue from sale of electricity generated by the segment's own sources down 6% year on year on lower sales volumes;
- Year-on-year drop in costs of coal for production.

Material related-party transactions on non-arm's length terms

In the reporting period, the Group companies did not execute any material sale or purchase transactions on non-arm's length terms.

Guarantees and sureties

In H1 2020 there has been a decisive change in contingent assets (due to co-funding received was attributable to the execution of a new agreement by Polska Spółka Gazownictwa Sp. z o.o. with partial settlement in the reporting period of the relevant agreements executed in prior periods). The change in contingent liabilities under sureties and guarantees issued in the reporting period was principally due to new guarantees issued as security for gas supplies, totalling PLN 751m (as translated at the exchange rate quoted by the NBP for June 30th 2020).

For more information, see Section 4.11 of the PGNiG Group's financial statements for H1 2020 > www.pgnig.pl

Capital expenditure in H1 2020

In the first half of 2020, the PGNiG Group's capital expenditure on property, plant and equipment and intangible assets was PLN 2.8bn, having gone up by 40% year on year. The tables below present the Company's and the Group's expenditure in each segment.

Table 22 Capital expenditure on non-current assets made by PGNiG in H1 2020

Capital expenditure[1] on property, plant and equipment made by PGNiG in H1 2020		H1 2020	H1 2019
I.	Exploration and Production, including:	452	474
1	Exploration *(including expenditure on dry wells)*	293	322
2	Production	159	152
II.	Trade and Storage and Other Segments	84	45
III.	Total capital expenditure (I+II)	536	519

1) Including capitalised borrowing costs.

Table 23 Capital expenditure on non-current assets made by the PGNiG Group in H1 2020

Capital expenditure[1] on property, plant and equipment made by the PGNiG Group in H1 2020		H1 2020	H1 2019
I.	Exploration and Production, including:	1,361	687
1	Norway	871	164
2	Pakistan	67	35
3	Libya	1	2
II.	Trade and Storage	47	37
III.	Distribution	1,170	904
IV.	Generation	149	374
V.	Other Segments	57	34
VI.	Total capital expenditure (I-V)	2,784	2,036

1) Including capitalised borrowing costs.

5.2.3 PGNiG Group's anticipated financial condition

In the coming periods, the financial standing of the PGNiG Group will be materially affected by changes in the prices of hydrocarbons on global commodity markets and fluctuations in foreign exchange rates. These factors will be a material driver of the PGNiG Group's performance in the Exploration and Production and Trade and Storage segments.

Any changes in hydrocarbon prices affect revenues of the Group entities engaged in production, and determine the demand for seismic and exploration services offered by the Group companies. Rising gas and crude oil prices have a positive effect on the performance of the Exploration and Production segment. Long-term forecasts of hydrocarbon prices strongly influence projected cash flows from production assets, and as a consequence entail the necessity of revaluation of property, plant and equipment.

On June 5th 2020, an annex to the Yamal Contract was signed between PGNiG and OOO Gazprom Export. In the annex, the parties confirmed the rules of applying the pricing formula for gas supplied under the Yamal contract, as specified in the final award issued by the Arbitration Court of Stockholm on March 30th 2020. The price of gas currently imported from eastern sources is more closely linked to gas prices in Western Europe, which is a fundamental change relative to the purchase terms applicable before the date on which the Arbitration Court of Stockholm defined a new pricing formula. Currently, a strong link to crude oil prices is present only in the Qatar Contract (this is, in principle, no longer the case in the Yamal Contract). > For more information, see 4.2.2

The PGNiG Group's financial results will also be influenced by the situation on the domestic currency market. Any strengthening of the złoty against foreign currencies (primarily the US dollar) will have a positive effect on the performance of the Trade and Storage segment by driving down PGNiG's gas procurement costs, although it must be noted that the effect of exchange rate fluctuations is mitigated by the PGNiG Group's hedging policy.

Another factor with a bearing on the PGNiG Group's financial condition is the President of URE's decisions on gas fuel sale and distribution tariffs and heat sale tariffs. In addition, the progressing deregulation of the gas market in Poland may continue to put pressure on the performance of the PGNiG Group's Trade and Storage companies selling gas. In view of the competition for customers, the Group offers discount schemes to customers and adjusts pricing terms to reflect market prices. These factors may have an adverse effect on the profitability of the Trade and Storage segment by eroding its margins.

In the Generation segment, financial results will also be considerably affected by electricity prices, prices of CO_2 emission allowances and the support programmes for electricity produced from high-efficiency cogeneration sources and renewable sources. Legislative changes in this area and fluctuations in market prices of certificates of origin (both red and green) will have a bearing on the segment's financial position. Prices of fuels used to produce heat and electricity will be another key factor impacting the segment's performance.

In the coming quarters, the Group intends to maintain a high level of capital expenditure, spending primarily on projects to maintain hydrocarbon production rates, exploration for and appraisal of crude oil and natural gas deposits, extension and modernisation of the gas distribution network, and investments in the power sector and RES.

5.2.4 Selected financial data of PGNiG

Table 24 Financial highlights of PGNiG (PLNm)

	H1 2020	H1 2019	Change yoy
Revenue	11,037	12,035	(998)
Total operating expenses, including	(4,672)	(11,588)	6,916
Depreciation and amortisation expense	(411)	(416)	5
Operating profit (EBIT)	6,365	447	5,918
Profit before tax	6,469	1,895	4,574
Net profit	5,230	1,772	3,458

Profitability

	June 30th 2020	June 30th 2019	December 31st 2019
EBIT operating profit	6,365	447	386
EBITDA operating profit + depreciation/amortisation	6776	864	1,241
ROE net profit to equity at end of period	14.8%	5.9%	5.7%
Net margin net profit to revenue	47.4%	14.7%	7.7%
ROA net profit to assets at end of period	11.9%	4.9%	4.3%

Liquidity

	June 30th 2020	June 30th 2019	December 31st 2019
Current ratio current ratio current assets to current liabilities (net of employee benefit obligations, provisions and deferred revenue)	3.2	3.2	1.8
Quick ratio current assets less inventories to current liabilities (net of employee benefit obligations, provisions and deferred revenue)	2.8	2.3	1.3

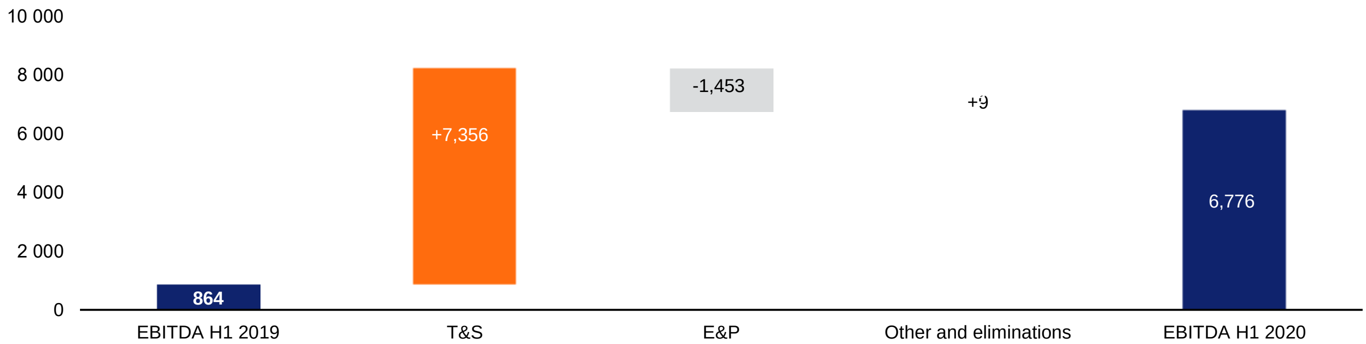
Debt

	June 30th 2020	June 30th 2019	December 31st 2019
Debt ratio total liabilities to total equity and liabilities	19.4%	17.2%	25.4%
Debt to equity ratio total liabilities to equity	24.1%	20.7%	34.1%

Financial performance of PGNiG

In the first half of 2020, PGNiG's operating profit (EBIT) came in at PLN 6,365, up PLN 5,918 year on year. PGNiG's EBITDA was PLN 6,776m, up by PLN 5,912m year on year.

Chart 9 PGNiG's EBITDA bridge from H1 2019 to H1 2020 (PLNm)



The EBITDA increase (PLN +7,356m) in the Trade and Storage segment was mainly attributable to PGNiG winning the arbitration proceedings before the Arbitration Court of Stockholm in the dispute with Gazprom concerning the price terms of the Yamal contract. The award issued in the proceedings obliged Gazprom to pay back to PGNiG the overpaid amounts for the purchase of high-methane gas in 2014−2020. The segment's EBITDA also benefited from a change in inventory write-downs.

The EBITDA decrease (PLN -1,453m) in the Exploration and Production segment was mainly attributable to a lower result on sales of gas and crude oil as a consequence of declines in unit selling prices caused by lower prices of exchange-traded commodities. The segment's EBITDA was also negatively affected by change in impairment losses on non-current assets.

5.2.5 Publication of financial and operating forecasts

The Company does not publish performance forecasts. In the strategy released in 2017, the Company announced its plans to generate cumulative Group EBITDA of approximately PLN 33.7bn in 2017–2022 thanks to an investment programme.

On July 31st 2019, PGNiG published its oil and gas production forecasts for 2019–2021.

Table 25 Natural gas production forecast for 2019–2021*

bcm	2019	2019 – actual	2020	2021
Poland	**3.9**	**3.8**	**3.9**	**4.0**
Other countries, including:	**0.7**	**0.7**	**0.9**	**1.2**
- Norway	*0.5*	*0.5*	*0.5*	*0.7*
- Pakistan	*0.2*	*0.2*	*0.4*	*0.5*
Total	**4.6**	**4.5**	**4.8**	**5.2**

* *Converted to gas with a calorific value of 39.5 MJ/m³.*

Table 26 Crude oil production forecast, including condensate and NGL, for 2019–2021

thousand tonnes	2019	2019 – actual	2020	2021
Poland	**778**	**776**	**747**	**733**
Other countries, including:	**475**	**440**	**611**	**671**
- Norway	*475*	*440*	*611*	*671*
Total	**1,253**	**1,216**	**1,358**	**1,404**

6. Additional information on the PGNiG Group

6.1 Management and supervisory bodies at PGNIG S.A. and their committees

6.1.1 Management Board

Composition of the PGNiG Management Board as at June 30th 2020:

- Jerzy Kwieciński – President
- Robert Perkowski – Vice President, Operations
- Arkadiusz Sekściński – Vice President, Development
- Przemysław Wacławski – Vice President, Finance
- Jarosław Wróbel – Vice President
- Magdalena Zegarska – Vice President.

6.1.2 Supervisory Board

Composition of the PGNIG S.A. Supervisory Board as at June 30th 2020:

- Bartłomiej Nowak – Chairman of the Supervisory Board
- Piotr Sprzączak – Deputy Chairman of the Supervisory Board
- Sławomir Borowiec – Secretary of the Supervisory Board
- Piotr Broda – Member of the Supervisory Board
- Roman Gabrowski – Member of the Supervisory Board
- Andrzej Gonet – Member of the Supervisory Board
- Mieczysław Kawecki – Member of the Supervisory Board
- Stanisław Sieradzki – Member of the Supervisory Board
- Grzegorz Tchorek – Member of the Supervisory Board.

6.2 Agreements executed by PGNiG Group companies

6.2.1 Agreements material to the operations of the PGNiG Group

The agreements material to the operations of the PGNiG Group, executed in H1 2020, included:

- PGNiG UN's acquisition of an interest in the Alve Nord field and an increase in the interest in the Gina Krog field under an agreement with Aker BP;
- Entry into force of the agreement between PGNiG and Klaipedos Nafta concerning PGNiG's exclusive right to use the LNG loading wharf station located at the Klaipėda sea port;
- The agreement signed with Polskie LNG of the GAZ-SYSTEM Group to book additional regasification capacities made available under the Open Season procedure. The capacities will be available upon completion of expansion of the LNG Terminal in Świnoujście (for more information, see Section 4.2.2);
- The annex signed between PGNiG and Gazprom, confirming the application of the new pricing formula defined in the arbitral award (for further information see Section 4.2.2);
- The annex to the individual contract under the framework agreement for gas fuel supplies to the PKN ORLEN Group signed in September 2016.

6.3 Court proceedings

Table 27 Court proceedings

Parties to the proceedings	Subject of the dispute	Description of the case
Proceedings with respect to the obligation to sell natural gas through commodity exchange Parties to the proceedings: PGNiG, President of URE	failure to meet the exchange sale requirement in 2013 and 2014	On May 25th 2016, the President of URE resumed ex officio the proceedings to impose a fine on PGNIG S.A.. for its failure to meet the exchange sale requirement in 2013. On June 17th 2016, pursuant to Art. 56.6a of the Energy Law, the Company filed a motion that the President of URE refrain from imposing a penalty. As at the date of this Report, the proceedings were not concluded by the President of URE. On October 10th 2018, the Competition and Consumer Protection Court granted PGNIG S.A.'s appeal and reduced the administrative fine for failure to meet the exchange sale requirement in 2014 from PLN 15m to PLN 5m, and also cancelled the costs of first instance proceedings between the parties. On December 11th 2018, the Company appealed against this judgment. In the proceedings concerning failure to meet the exchange sale requirement in 2013, on July 5th 2017 the President of URE refused PGNiG S.A. the right

		to read certain documents on the case file. The Company filed a complaint. By a decision of March 9th 2020, the Regional Court revoked the contested decision of the President of URE. The President of URE filed a complaint against the Court's decision.
Arbitration proceedings concerning reduction of contractual price of gas Parties to the proceedings: PGNiG, PAO Gazprom, OOO Gazprom Export	Reduction of the price of gas supplied by Gazprom under the contract for sale of natural gas to the Republic of Poland, dated September 25th 1996	On March 30th 2020, the Arbitration Court of Stockholm issued a final award. Pursuant to the final award, the Arbitration Court of Stockholm changed the pricing formula for the gas supplied by Gazprom under the Yamal Contract, including through its significant and direct linking to the prices of natural gas on the European energy market. The new contract price determined by the Arbitration Court of Stockholm is applicable to gas supplies made from November 1st 2014, i.e. the date PGNiG requested that the contract price be renegotiated. Gazprom filed a petition for reversal of the final award with the Stockholm Court of Appeals. In PGNiG's opinion, there are no grounds to reverse the final award. In the course of the proceedings, the Company will request that Gazprom's petition be dismissed as groundless.
Anti-trust proceedings instigated on December 28th 2010 Parties to the proceedings: PGNiG, President of UOKiK	alleged abuse by PGNiG of its dominant position on the domestic natural gas wholesale market, which consisted in inhibiting trade in natural gas against the interests of trading partners or consumers and in impeding the development of market conditions necessary for the emergence or development of competition by refusing to sell gas fuel under a comprehensive supply contract to a business entity that intended to resell the gas	On June 8th 2017, the Court of Appeals in Warsaw reversed the ruling of the Competition and Consumer Protection Court of May 12th 2014 and remanded the case for re-examination by that court. On October 10th 2019, the Competition and Consumer Protection Court again upheld the decision of the President of UOKiK and again imposed a fine on the Company, changing its amount to PLN 5,508,000. The Company filed an appeal with the Court of Appeals on November 28th 2019.
Proceedings concerning the OPAL pipeline Parties to the proceedings: PGNiG, General Court of the European Union PST, General Court of the European Union	inadmissibility of complaint; award of injunctive relief (administration of injunctive relief)	The complaint and the request for injunctive relief have been filed with the General Court of the European Union against the European Commission's decision of October 28th 2016 whereby the Commission allowed a revision to the exemption of the OPAL pipeline from the common gas market regulations (especially with respect to the Third Party Access (TPA) principle), in accordance with the text of the administrative decision issued by the German regulator – Federal Network Agency (Bundesnetzagentur), subject to modifications referred to in the Commission's decision. On December 4th 2019, the Court of Justice of the European Union dismissed the appeals lodged by PST and PGNiG, upholding the decision of the General Court of the EU and referring only to formal issues and not to the substantive analysis of the case. On December 4th 2019, the Court of Justice of the European Union also dismissed the appeal lodged by the Republic of Poland in the PST case, indicating that the decision of the General Court of the EU is irrelevant to the case initiated based on the Republic of Poland's complaint under Case No. T-883/16. The complaint and the request for injunctive relief filed with the Higher Regional Court of Düsseldorf (Oberlandesgericht Düsseldorf) are primarily against the administrative settlement between the German regulator, OPAL Gastransport GmbH & Co. KG, OAO Gazprom and OOO Gazprom Export, specifying the revised conditions for exemption of the OPAL pipeline from the common gas market regulations (in particular the TPA principle). On January 9th 2019, the German Federal Network Agency (Bundesnetzagentur) resumed proceedings concerning a previous decision issued in 2009 on the terms of the regulatory exemption of the Opal gas pipeline, and at the same time it suspended the proceedings. On January 28th 2019, PGNiG and PST filed a request to join in the proceedings. In its reply of February 25th 2019, the German regulatory authority stated that the request would be examined after the pending court proceedings had been closed. On September 13th 2019, the Federal Network Agency (Bundesnetzagentur) obliged the transmission system operator Opal Gastransport GmbH's to reduce gas flows in the Opal pipeline, thus responding to the judgment of the General Court of the EU of September 10th 2019 in Case No. T-883/16 initiated by the complaint of the Republic of Poland, declaring invalidity of the European Commission's decision of October 28th 2016 on the rules for using the Opal pipeline.
Anti-trust proceedings instigated on April 3rd 2013 Parties to the proceedings:	PGNiG's abuse of its dominant position on the domestic wholesale and retail gas fuel market, consisting in preventing the development of the conditions necessary for creation or growth of competition by: limiting business customers' ability to reduce contracted volumes of gas fuel and	On September 20th 2018, PGNiG filed a cassation appeal. In a letter dated October 10th 2018, the President of UOKiK replied to the cassation appeal. On January 22nd 2020, the Supreme Court dismissed the Company's cassation appeal relating to the imposition of a fine of PLN 10.4m and the costs of proceedings awarded to the President of UOKiK in the amount of PLN 360.

PGNiG, President of UOKiK	contractual capacity, limiting business customers' ability to resell gas fuel, requiring business customers to specify in the contract the maximum volume of gas fuel purchased by them for further resale, failure to grant wholesale customers the right to partially change sellers.

6.4 Detailed description of the PGNiG Group's structure and its changes

As at June 30th 2020, the PGNiG Group comprised 34 business entities, including:

- PGNiG as the parent,
- 31 production, trade and service companies and 2 mutual insurance companies, including:
  - 18 direct subsidiaries of PGNiG,
  - 15 indirect subsidiaries of PGNiG.

The parent

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 (currently the Company is entered in the Business Register maintained by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register)
NATIONAL COURT REGISTER (KRS) NO.	0000059492
Website	www.pgnig.pl
Investor Relations	ri@pgnig.pl

6.4.1 Detailed structure of the PGNiG Group

Table 28 List of the PGNiG Group subsidiaries as at June 30th 2020

No.	Company name	Share capital [in PLN, unless stated otherwise]	Value of shares held by PGNiG [in PLN, unless stated otherwise]	PGNiG's ownership interest (%, direct holdings)	PGNiG Group's ownership interest (%, direct and indirect holdings)
	Subsidiaries – first tier				
1	PGNiG GAZOPROJEKT S.A.	4,000,000	3,749,000	94%	94%
2	EXALO Drilling S.A.	981,500,000	981,500,000	100%	100%
3	GEOFIZYKA Toruń S.A.	75,240,000	75,240,000	100%	100%
4	Geovita S.A.	113,407,782	113,407,782	100%	100%
5	Gas Storage Poland Sp. z o.o.	15,290,000	15,290,000	100%	100%
6	PGNiG Obrót Detaliczny Sp. z o.o.	625,307,815	625,307,815	100%	100%
7	PGNiG Serwis Sp. z o.o.	9,995,000	9,995,000	100%	100%
8	PGNiG Technologie S.A.	272,727,240	272,227,240	100%	100%
9	PGNiG TERMIKA S.A.	1,740,324,950	1,740,324,950	100%	100%
10	Polska Spółka Gazownictwa Sp. z o.o.	10,488,917,050	10,488,917,050	100%	100%
11	PGNiG Supply & Trading GmbH	EUR 10,000,000	EUR 10,000,000	100%	100%
12	PGNiG Upstream Norway AS	NOK 1,110,000,000	NOK 1,110,000,000	100%	100%
13	PGNiG Upstream North Africa B.V.	EUR 20,000	EUR 20,000	100%	100%
14	GAS-TRADING S.A.	2,975,000	1,291,350	43.41%	79.58%[2)]
15	PGNiG Ventures Sp. z o.o.	1,240,000	1,240,000	100%	100%
16	PGNiG SPV 6 Sp. z o.o.	51,381,000	51,381,000	100%	100%
17	PGNiG SPV 7 Sp. z o.o.	250,000	250,000	100%	100%
18	Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych	40,000,000	40,000,000	100%	100%
	Subsidiaries – second tier				
19	PGNiG TERMIKA Energetyka Przemysłowa S.A.	370,836,300	370,836,300	-	100%[9)]
20	GAZ Sp. z o.o.	300,000	300,000	-	100%[3)]
21	PSG Inwestycje Sp. z o.o.	81,131,000	81,131,000	-	100%[3)]
22	Oil Tech International F.Z.E.	USD 20,000	USD 20,000	-	100%[4)]
23	EXALO DRILLING UKRAINE LLC	EUR 20,000	EUR 20,000	-	100%[4)]
24	PST Europe Sales GmbH	EUR 1,000,000	EUR 1,000,000	-	100%[5)]
25	Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o.	3,000,000	2,565,350	-	85.51%[6)]
26	CIFL Sp. z o.o.	1,360,000	1,360,000	-	100%[7)]
27	Gas-Trading Podkarpacie Sp. z o.o.	6,670,627	5,257,524	-	78.82%[8)]
28	PGNiG Serwis Doradztwo Ubezpieczeniowe Sp. z o.o.	5,000	5,000		100%[1)]
29	PGNiG TERMIKA Energetyka Rozproszona Sp. z o.o.	13,550,000	13,550,000		100%[9)]
30	Zakład Gospodarki Mieszkaniowej Sp. z o.o.	1,806,500	1,806,500	-	100%[4)]
31	Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych na Życie	20,000,000	20,000,000	100%	100%[12)]
	Subsidiaries – third tier				
32	XOOL GmbH	EUR 500,000	EUR 500,000	-	100%[10)]
33	SEJ-Serwis Sp. z o.o.	200,000	200,000	-	100%[11)]

1) PGNiG S.A.'s interest held indirectly through PGNiG Serwis Sp. z o.o.
2) PGNiG S.A.'s direct interest is 43.41%, with a 36.17% interest held indirectly through PGNiG SPV 6 Sp. z o.o.
3) PGNiG S.A.'s interest held indirectly through Polska Spółka Gazownictwa Sp. z o.o.
4) PGNiG S.A.'s interest held indirectly through EXALO Drilling S.A.
5) PGNiG S.A.'s interest held indirectly through PGNiG Supply & Trading GmbH.
6) PGNiG S.A.'s interest held indirectly through Gas Storage Poland Sp. z o.o.
7) PGNiG S.A.'s indirect interest is 100%: 99.98% is held through PGNiG SPV 6 Sp. z o.o. and 0.02% through PGNiG Ventures Sp. z o.o.
8) PGNiG S.A.'s interest held indirectly through GAS TRADING S.A.
9) PGNiG S.A.'s interest held indirectly through PGNiG TERMIKA S.A.
10) PGNiG S.A.'s interest held indirectly through PGNiG Supply & Trading GmbH and PST Europe Sales GmbH.
11) PGNiG S.A.'s interest held indirectly through PGNiG TERMIKA S.A. and PGNiG TERMIKA Energetyka Przemysłowa S.A. (100%).
12) PGNiG S.A.'s interest held indirectly through Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych.

On July 16th 2020, the General Meeting of Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych na Życie passed a resolution to increase the company's share capital by creating new 250,000 shares in the share capital with a total par value of PLN 5m. Following the increase, the share capital will amount to PLN 25m.

6.4.2 Other ownership interests and organisational links

Table 29 List of the PGNiG Group jointly controlled entities and associates as at June 30th 2020

No.	Company name	Share capital	Value of shares held by PGNiG	PGNiG's ownership interest (%, direct holdings)	PGNiG Group's ownership interest (%, direct and indirect holdings)
Jointly controlled entities and associates – first tier					
1	SGT EUROPOL GAZ S.A.	80,000,000	38,400,000	48.00%	51.18%[1)]
2	PFK GASKON S.A.	13,061,325	6,000,000	45.94%	45.94%
3	ZWUG INTERGAZ Sp. z o.o.	4,700,000	1,800,000	38.30%	38.30%
4	Dewon ZSA	UAH 11,146,800	UAH 4,055,205.84	36.38%	36.38%
Jointly controlled entities and associates – second tier					
5	Zakład Separacji Popiołów Siekierki Sp. z o.o.	10,000,000	7,000,000	-	70%[2)]
6	Elektrociepłownia Stalowa Wola S.A.	28,200,000	14,100,000	-	50%[2)]
7	Polska Grupa Górnicza S.A.	3,916,718,200	800,000,000	-	20.43%[2)]
8	Polimex-Mostostal S.A.	473,237,604	78,000,048	-	16.48%[3)]
Jointly controlled entities and associates– third and fourth tier					
9	Śląskie Centrum Usług Wspólnych Sp. z o.o.	10,835,000	2,213,591	-	20.43%[4)]
10	Gardia Broker Sp. z o.o.	55,000	11,237	-	20.43%[5)]

1) PGNiG S.A.'s direct interest is 48.00%, with an indirect interest held through GAS-TRADING S.A.
2) PGNiG S.A.'s interest held indirectly through PGNiG TERMIKA S.A.
3) PGNiG S.A.'s interest held indirectly through PGNiG Technologie S.A.
4) PGNiG S.A.'s interest held indirectly through PGNiG TERMIKA S.A. and Polska Grupa Górnicza S.A.
5) PGNiG S.A.'s interest held indirectly through PGNiG TERMIKA S.A., Polska Grupa Górnicza S.A. and Śląskie Centrum Usług Wspólnych Sp. z o.o.

Equity investments outside the group of related entities

In H1 2020, the PGNiG Group made no material equity investments outside the group of related entities. As at June 30th 2020, the total par value of PGNiG's equity interests held outside the group of related entities was PLN 85.7m. As at June 30th 2020, the total par value of the PGNiG Group's (PGNiG's and the PGNiG Group companies') equity interests held outside the group of related entities was PLN 115.8m.

6.4.3 Changes in the PGNiG Group structure

On March 12th 2020, Geofizyka Kraków S.A. w likwidacji (in liquidation) was declared bankrupt by the court, and on May 22nd 2020 Górnośląska Spółka Brokerska Sp. z o.o. changed its name to Gardia Broker Sp. z o.o.

6.5 Shareholding structure and PGNiG on the WSE

6.5.1 Shareholding structure

As at June 30th 2020, the share capital of PGNiG was approximately PLN 5.78bn.

Table 30 Shareholder structure as at the end of H1 2020

Shareholders	Number of shares/voting rights as at June 30th 2020	Percentage of share capital/voting rights at GM as at June 30th 2020
State Treasury	4,153,706,157	71.88%
Other shareholders	1,624,608,700	28.12%
Total	5,778,314,857	100.00%

6.5.2 Shares in PGNiG Group companies held by members of the management and supervisory bodies

Table 31 PGNiG shares held by members of the management and supervisory bodies as at June 30th 2020

Full name	Position	Number of shares/voting rights as at June 30th 2019	Par value of shares (PLN)	Number of shares/voting rights as at June 30th 2020	Par value of shares (PLN)
Mieczysław Kawecki	Member of the Supervisory Board	9,500	9,500	9,500	9,500
Stanisław Sieradzki	Member of the Supervisory Board	17,225	17,225	17,225	17,225

As at the date of this Report, PGNiG was not aware of any agreements which could lead to future material changes in the equity interests held in the Company by its existing shareholders.

6.5.3 Dividend policy

The PGNiG Group's Strategy for 2017–2022 provides for distribution of up to 50% of consolidated net profit as dividend, with the proviso that in recommending dividend payments the PGNiG Management Board must always take into account the PGNiG Group's current financial condition and investment plans.

On June 24th 2020, the Annual General Meeting resolved to allocate PLN 520,048,337.13 for dividend distribution. The dividend record date and the dividend payment date were set for July 20th 2019 and August 3rd 2019, respectively.

Table 32 Dividend from net profits for 2014–2019

	2019	2018	2017	2016	2015	2014
Dividend for financial year (PLNbn)	0.52	1.04	-	1.16	1.06	1.18
Dividend per share (PLN)	0.09	0.18	-	0.20	0.18	0.20
Average annualised share price (PLN)	5.59	6.12	6.33	5.16	5.94	4.85
Dividend yield	1.61%	2.94%	-	3.88%	3.03%	4.12%

6.6. Activities related to the SARS-CoV-2 pandemic

The PGNiG Group actively engages in efforts to combat the SARS-CoV-2 pandemic and to counteract its effects. The PGNiG Group companies' total costs incurred to implement epidemiological procedures (as at April 8th 2020) amounted to approximately PLN 10m.

For the duration of the epidemic, PGNiG has introduced internal safety procedures to minimise the risk of infection, while ensuring continuity of production and administrative processes. In addition, through the PGNiG Ignacy Łukasiewicz Foundation, the Company donated PLN 6.5m to aid Polish hospitals, in particular those located in the areas where PGNiG Branches operate.

PGNiG also supported other institutions engaged in fighting the COVID-19 pandemic, including the National Health Fund. PGNiG OD employees joined the National Health Fund's helpline team to ensure its smooth operation as the helpline was becoming more busy due to the spread of the coronavirus.

The PGNiG Ignacy Łukasiewicz Foundation and the Polish Association of the Deaf also launched a video helpline for deaf persons seeking information on SARS-CoV-2. It operates on a 24/7 basis to ensure uninterrupted access to support and assistance. PGNiG also supported education of children during the pandemic. The PGNiG Ignacy Łukasiewicz Foundation became the exclusive sponsor of the 'School with TVP' programme, which helped pupils and students to continue learning from home after the schools were closed in wake of the coronavirus epidemic.

PGNiG also helps local communities abroad. In cooperation with local authorities, PGNiG's Operator Branch in Pakistan provided 200 food packages to the most deprived families from the locations where it operates.

6.7. Events subsequent to the reporting date

July 2020
• July 15th – Receipt of a copy of Gazprom's petition for reversal of the final award issued in arbitration proceedings concerning reduction of the contractual price of gas supplied under the Yamal Contract • July 23rd – Execution of cooperation and confidentiality agreement with PKN Orlen with respect to notification of intended concentration and carrying out a due diligence proess • July 28th – Extension of the period of exclusive negotiations on the acquisition of Tauron Ciepło Sp. z o.o.

Definitions

Abbreviations and acronyms	Meaning
Proper names of companies and branches	
PGNiG, the Company, the Issuer	PGNiG S.A. as the parent of the group of companies
PGNiG Group	The PGNiG Group consisting of PGNiG S.A. as the parent and the subsidiaries
CLPB	PGNiG Central Measurement and Testing Laboratory Branch
ECSW	Elektrociepłownia Stalowa Wola S.A.
EXALO	EXALO Drilling S.A.
Gazoprojekt	PGNiG GAZOPROJEKT S.A.
Geofizyka Kraków	GEOFIZYKA Kraków Sp. z o.o. w likwidacji (in liquidation)
Geofizyka Toruń	GEOFIZYKA Toruń Sp. z o.o.
GEOVITA	GEOVITA S.A.
GSP	Gas Storage Poland Sp. z o.o.
OGiE	Geology and Hydrocarbon Production Branch of PGNiG
OOH	Wholesale Trading Branch of PGNiG
PGG	Polska Grupa Górnicza S.A.
PGNiG OD	PGNiG Obrót Detaliczny Sp. z o.o.
PGNiG Technologie	PGNiG Technologie Sp. z o.o.
PGNiG TERMIKA	PGNiG TERMIKA S.A.
PGNiG TERMIKA EP	PGNiG TERMIKA Energetyka Przemysłowa S.A.
PGNiG UN	PGNiG Upstream Norway AS
PGNiG UNA	PGNiG UPSTREAM NORTH AFRICA B.V.
Polski Gaz TUW	Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych
PSG	Polska Spółka Gazownictwa Sp. z o.o.
PST	PGNiG Supply & Trading GmbH
PST ES	PST Europe Sales GmbH
Names of institutions, capital market entities and energy markets	
EIA	*Energy Information Administration* (US)
EEX	*European Energy Exchange AG* (Germany)
Henry Hub	Hub /price area in the United States
GASPOOL	*GASPOOL Balancing Services GmbH* – hub/price area in Germany
GAZ-SYSTEM	Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.);
KRS	National Court Register
NCG	*NetConnect Germany GmbH & Co. KG* – hub/price area in Germany
NBP	*National Balancing Point* – hub/price area in the UK
LNG terminal	the President Lech Kaczyński LNG Terminal in Świnoujście
POLPX	Polish Power Exchange (Towarowa Giełda Energii S.A.)
TTF	*Title Transfer Facility* – hub/price area in the Netherlands
URE	Polish Energy Regulatory Office
Units of measure	
bbl	1 barrel of crude oil
boe	barrel of oil equivalent;
km	linear kilometre
LNG	liquefied natural gas
Nm^3	normal cubic meter of gas
MWt	1 megawatt thermal
MWe	1 megawatt electrical
NGL	natural gas liquids - gas composed of molecules heavier than methane: ethane, propane, butane, isobutane, etc.
PJ	1 petajoule
TWh	1 terawatt hour
Economic and financial metrics	
EBIT	earnings before interest and taxes
EBITDA	earnings before interest, taxes, depreciation and amortisation
Adjusted EBITDA	EBITDA adjusted for impairment losses on non-current assets
EV	enterprise value
P/BV	price/book value
P/E	price/earnings
ROA	return on assets
ROE	return on equity
Net margin	net profit to revenue
Other	
HP	heat plant
CHPP	CHP plant
SFG	Storage Facilities Group
SF	storage facilities
CGSF	cavern gas storage facility
NWZ	Extraordinary General Meeting (of a joint stock company)
NZW	Extraordinary General Meeting (of a limited liability company)
UGSF	underground gas storage facility
WZ	General Meeting of Shareholders (of a joint stock company)
ZW	General Meeting of Shareholders (of a limited liability company)
Currencies used	
PLN	amounts expressed in the Polish zloty
euro, EUR	amounts expressed in the euro
US dollar, USD	amounts expressed in the US dollar
NOK	amounts expressed in the Norwegian crown
SEK	amounts expressed in the Swedish crown
UAH	amounts expressed in the Ukrainian hryvnia

Converters

Converters	1 bcm of natural gas	1m tonnes of crude oil	1m tonnes of LNG	1 PJ	1 mboe	1 TWh
1 bcm of natural gas	1	0.90	0.73	38	6.45	10.972
1m tonnes of crude oil	1.113	1	0.81	42.7	7.5 - 7.8*	11.65
1m tonnes of LNG	1.38	1.23	1	55	8.68	14.34
1 PJ	0.026	0.23	0.019	1	0.17	0.28
1 mboe	0.16	0.128–0.133*	0.12	6.04	1	1.70
1 TWh	0.091	0.086	0.07	3.6	0.59	1

** The converter is different for crude oil produced in Poland and Norway.*

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7. Representation of the PGNiG Management Board and authorisation of the report

The Management Board of PGNiG represents that to the best of its knowledge this Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in the six months ended June 30th 2020 gives a fair view of the Company's and the Group's condition and includes a description of key threats and risks.

PGNiG S.A. Management Board:

President of the Management Board	Jerzy Kwieciński	*Signed with qualified digital signature*
Vice President of the Management Board	Robert Perkowski	*Signed with qualified digital signature*
Vice President of the Management Board	Arkadiusz Sekściński	*Signed with qualified digital signature*
Vice President of the Management Board	Przemysław Wacławski	*Signed with qualified digital signature*
Vice President of the Management Board	Jarosław Wróbel	*Signed with qualified digital signature*
Vice President of the Management Board	Magdalena Zegarska	*Signed with qualified digital signature*

Warsaw, August 19th 2020

This document is an English version of the original Polish version.

In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Qualified electronic signature on the Polish original