

Polskie Górnictwo Naftowe i Gazownictwo S.A.

# INTERIM REPORT for Q1 ended March 31st 2017

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



## POLISH FINANCIAL SUPERVISION AUTHORITY

### Consolidated Quarterly Report QSr 1 / 2017

quarter / year

(pursuant to Par. 82.2 and Par. 83.1 of the Regulation of the Minister of Finance of February 19th 2009 –  
consolidated text: Dz.U. of 2014, item 133, as amended)

**for issuers of securities in the manufacturing, construction, trade, and services sectors**

for the first quarter of the 2017 financial year, covering the period from January 1st to March 31st 2017, containing interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards in the Polish zloty (PLN), and interim condensed separate financial statements prepared in accordance with International Financial Reporting Standards in the Polish zloty (PLN).

May 25th 2017

(filing date)

**POLSKIE GÓRNICTWO NAFTOWE i GAZOWNICTWO SPÓŁKA AKCYJNA**

(company name)

**PGNiG**

(abbreviated name)

**Fuels industry (pal)**

(sector according to the WSE classification)

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**Financial highlights**

Interim condensed consolidated financial data	PLNm		EURm	
	3 months ended Mar 31 2017	3 months ended Mar 31 2016	3 months ended Mar 31 2017	3 months ended Mar 31 2016
Revenue	11,652	10,980	2,717	2,521
Operating profit before depreciation and amortisation (EBITDA)	2,769	2,393	646	549
Operating profit (EBIT)	2,074	1,721	484	395
Profit before tax	2,105	1,769	491	406
Net profit attributable to owners of the parent	1,599	1,386	373	318
Net profit	1,599	1,386	373	318
Total comprehensive income attributable to owners of the parent	1,472	1,362	343	313
Total comprehensive income	1,472	1,362	343	313
Cash flows from operating activities	2,965	2,819	691	647
Net cash from investing activities	(1,191)	(768)	(278)	(176)
Cash flows from financing activities	(2,281)	16	(532)	4
Net cash flows	(507)	2,067	(118)	475
Basic and diluted earnings per share (PLN)	0.28	0.23	0.06	0.05
	As at Mar 31 2017	As at Dec 31 2016	As at Mar 31 2017	As at Dec 31 2016
Total assets	48,400	49,672	11,470	11,228
Total liabilities	14,912	17,656	3,534	3,991
Total non-current liabilities	7,127	7,303	1,689	1,651
Total current liabilities	7,785	10,353	1,845	2,340
Total equity	33,488	32,016	7,936	7,237
Share capital	5,778	5,778	1,369	1,306
Weighted average number of ordinary shares (million)	5,778	5,867	5,778	5,867
Book value per share and diluted book value per share (in PLN and EUR)	5.80	5.46	1.37	1.23
Dividend per share declared or paid (in PLN and EUR)*	-	0.18	-	0.04

\*Dividend paid in the period.

PGNiG S.A.'s quarterly financial data	PLNm		EURm	
	3 months ended Mar 31 2017	3 months ended Mar 31 2016	3 months ended Mar 31 2017	3 months ended Mar 31 2016
Net revenue	5,997	5,596	1,398	1,285
Profit before tax	851	901	198	207
Net profit	681	729	159	167
Total comprehensive income	578	718	135	165
Cash flows from operating activities	1,580	1,782	368	409
Net cash from investing activities	(483)	(447)	(113)	(103)
Cash flows from financing activities	(1,679)	424	(391)	97
Net increase/(decrease) in cash and cash equivalents	(582)	1,759	(136)	404
Earnings and diluted earnings per share attributable to holders of ordinary shares (in PLN and EUR)	0.12	0.12	0.03	0.03
	As at Mar 31 2017	As at Dec 31 2016	As at Mar 31 2017	As at Dec 31 2016
Total assets	34,524	35,769	8,181	8,085
Total liabilities	8,718	10,541	2,066	2,383
Total non-current liabilities	2,135	2,144	506	485
Total current liabilities	6,583	8,397	1,560	1,898
Equity	25,806	25,228	6,115	5,703
Share capital and share premium	7,518	7,518	1,782	1,699
Weighted average number of shares (million)	5,778	5,778	5,778	5,778
Book value per share and diluted book value per share (in PLN and EUR)	4.47	4.37	1.06	0.99
Dividend per share declared or paid (PLN/EUR)	-	0.18	-	0.04

Average EUR/PLN exchange rates quoted by the NBP	Mar 31 2017	Mar 31 2016	Dec 31 2016
Average exchange rate in period	4.2891	4.3559	4.3757
Exchange rate at end of period	4.2198	4.2684	4.4240

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



## TABLE OF CONTENTS

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<b>Interim condensed consolidated financial statements .....</b>	<b>5</b>
<b>1. General information .....</b>	<b>9</b>
1.1. KEY INFORMATION ABOUT THE GROUP .....	9
1.2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS CONTAINED IN THIS REPORT .....	9
1.3. APPLIED ACCOUNTING POLICIES .....	10
1.4. EFFECT OF NEW STANDARDS ON THE FINANCIAL STATEMENTS OF THE PGNiG GROUP .....	10
1.5. PRESENTATION CHANGES IN THE FINANCIAL STATEMENTS .....	11
<b>2. Information on the Group and its reporting segments .....</b>	<b>14</b>
2.1. CHANGES IN THE GROUP STRUCTURE .....	16
2.2. EQUITY-ACCOUNTED INVESTEEES .....	16
2.3. REPORTING SEGMENTS IN FIGURES .....	17
2.4. OVERVIEW OF FINANCIAL RESULTS OF INDIVIDUAL REPORTING SEGMENTS .....	18
2.5. FACTORS AND EVENTS THAT MAY AFFECT FUTURE PERFORMANCE OF THE PGNiG GROUP .....	19
<b>3. Notes to the interim condensed consolidated financial statements .....</b>	<b>20</b>
3.1. DEFERRED TAX .....	20
3.2. IMPAIRMENT LOSSES/WRITE-DOWNS .....	20
3.3. PROVISIONS .....	21
3.4. REVENUE .....	22
3.5. OPERATING EXPENSES .....	22
3.6. OTHER INCOME AND EXPENSES .....	23
3.7. NET FINANCE INCOME/(COSTS) .....	23
3.8. INCOME TAX .....	23
3.9. PROPERTY, PLANT AND EQUIPMENT .....	24
3.10. DERIVATIVE FINANCIAL INSTRUMENTS .....	25
3.11. CONTINGENT ASSETS AND LIABILITIES .....	28
<b>4. Supplementary information to the report .....</b>	<b>29</b>
4.1. KEY EVENTS RELATED TO THE ISSUER IN THE REPORTING PERIOD .....	29
4.2. SHARES HELD BY MANAGEMENT AND SUPERVISORY PERSONNEL .....	31
4.3. DIVIDEND PAID (DECLARED) .....	31
4.4. ISSUE, REDEMPTION, AND REPAYMENT OF DEBT SECURITIES .....	31
4.5. SEASONALITY OF OPERATIONS .....	32
4.6. MATERIAL COURT, ARBITRATION AND ADMINISTRATIVE PROCEEDINGS .....	32
4.7. SETTLEMENTS UNDER COURT PROCEEDINGS .....	34
4.8. CHANGES IN THE ECONOMIC ENVIRONMENT AND TRADING CONDITIONS WITH A MATERIAL BEARING ON THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES .....	34
4.9. DEFAULT UNDER LOANS OR BREACH OF ANY MATERIAL TERMS OF LOAN AGREEMENTS, WITH RESPECT TO WHICH NO REMEDIAL ACTION HAD BEEN TAKEN BY THE END OF THE REPORTING PERIOD .....	35
4.10. RELATED-PARTY TRANSACTIONS .....	35
4.11. MANAGEMENT BOARD'S POSITION ON THE FEASIBILITY OF MEETING PUBLISHED FORECASTS FOR A GIVEN YEAR .....	35
4.12. EVENTS SUBSEQUENT TO THE REPORTING DATE .....	35
4.13. OTHER INFORMATION MATERIAL TO THE ASSESSMENT OF HUMAN RESOURCES, ASSETS, FINANCIAL CONDITION AND PERFORMANCE, AS WELL AS TO THE ASSESSMENT OF ABILITY TO FULFIL OBLIGATIONS .....	35
<b>5. Quarterly financial information of PGNiG S.A. ....</b>	<b>36</b>
5.1. BASIC FINANCIAL STATEMENTS .....	36
5.2. NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS .....	41

## Interim condensed consolidated financial statements

Consolidated statement of profit or loss	3 months ended Mar 31 2017	3 months ended Mar 31 2016	
	unaudited	unaudited	
Revenue from sale of gas	9,468	9,218	Note 3.4
Other revenue	2,184	1,762	Note 3.4
<b>Revenue</b>	<b>11,652</b>	<b>10,980</b>	
Cost of gas sold	(6,749)	(6,993)	Note 3.5
Other raw materials and consumables used	(643)	(643)	Note 3.5
Employee benefits expense	(640)	(545)	Note 3.5
Transmission services	(294)	(239)	
Other services	(361)	(236)	Note 3.5
Taxes and charges	(524)	(448)	
Other income and expenses	167	351	Note 3.6
Work performed by the entity and capitalised	159	163	
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	2	3	Note 3.5
<b>Operating profit before depreciation and amortisation (EBITDA)</b>	<b>2,769</b>	<b>2,393</b>	
Depreciation and amortisation expense	(695)	(672)	
<b>Operating profit (EBIT)</b>	<b>2,074</b>	<b>1,721</b>	
Net finance costs	19	48	Note 3.7
Profit/(loss) from equity-accounted investees	12	-	
<b>Profit before tax</b>	<b>2,105</b>	<b>1,769</b>	
Income tax	(506)	(383)	Note 3.8
<b>Net profit</b>	<b>1,599</b>	<b>1,386</b>	
Net profit attributable to:			
Owners of the parent	1,599	1,386	
Non-controlling interests	-	-	
Weighted average number of ordinary shares (million)	5,778	5,900	
Basic and diluted earnings per share (PLN)	0.28	0.23	

Consolidated statement of comprehensive income	3 months ended Mar 31 2017	3 months ended Mar 31 2016	
	unaudited	unaudited	
<b>Net profit</b>	<b>1,599</b>	<b>1,386</b>	
Exchange differences on translating foreign operations	(27)	(23)	
Hedge accounting	(127)	(1)	
Revaluation of financial assets available for sale	4	-	
Deferred tax	23	-	
<b>Other comprehensive income subject to reclassification to profit or loss</b>	<b>(127)</b>	<b>(24)</b>	
<b>Other comprehensive income, net</b>	<b>(127)</b>	<b>(24)</b>	
<b>Total comprehensive income</b>	<b>1,472</b>	<b>1,362</b>	
Total comprehensive income attributable to:			
Owners of the parent	1,472	1,362	
Non-controlling interests	-	-	

Consolidated statement of cash flows	3 months ended Mar 31 2017	3 months ended Mar 31 2016
	unaudited	unaudited
<b>Cash flows from operating activities</b>		
Net profit	1,599	1,386
Depreciation and amortisation expense	695	672
Current tax expense	506	383
Net gain/(loss) on investing activities	(17)	(45)
Other non-monetary adjustments	181	(11)
Income tax paid	(303)	(155)
Movements in working capital	304	589
<b>Cash flows from operating activities</b>	<b>2,965</b>	<b>2,819</b>
<b>Cash flows from investing activities</b>		
Payments for acquisition of tangible exploration and evaluation assets under construction	(127)	(161)
Payments for other property, plant and equipment and intangible assets	(626)	(617)
Payments for shares in related entities	(137)	-
Other items, net	(301)	10
<b>Net cash from investing activities</b>	<b>(1,191)</b>	<b>(768)</b>
<b>Cash flows from financing activities</b>		
Increase in debt	7	198
Proceeds from derivative financial instruments	165	89
Decrease in debt	(2,440)	(252)
Dividends paid	-	-
Payments for derivative financial instruments	(20)	(20)
Other items, net	7	1
<b>Cash flows from financing activities</b>	<b>(2,281)</b>	<b>16</b>
<b>Net cash flows</b>	<b>(507)</b>	<b>2,067</b>
Cash and cash equivalents at beginning of period	5,832	6,021
Foreign exchange differences on cash and cash equivalents	(23)	(8)
<b>Cash and cash equivalents at end of period</b>	<b>5,325</b>	<b>8,088</b>

Consolidated statement of financial position	As at Mar 31 2017	As at Dec 31 2016
	unaudited	audited
<b>ASSETS</b>		
Property, plant and equipment	32,838	33,149 <i>Note 3.9</i>
Intangible assets	1,035	1,079
Deferred tax assets	121	100
Equity-accounted investees	1,378	1,229
Other assets	696	679
<b>Non-current assets</b>	<b>36,068</b>	<b>36,236</b>
Inventories	1,480	2,510
Receivables	4,687	4,288
Derivative financial instruments	283	623 <i>Note 3.10</i>
Other assets	522	129
Cash and cash equivalents	5,299	5,829
Assets held for sale	61	57
<b>Current assets</b>	<b>12,332</b>	<b>13,436</b>
<b>TOTAL ASSETS</b>	<b>48,400</b>	<b>49,672</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital and share premium	7,518	7,518
Accumulated other comprehensive income	(131)	(4)
Retained earnings	26,098	24,499
Equity attributable to owners of the parent	33,485	32,013
Equity attributable to non-controlling interests	3	3
<b>TOTAL EQUITY</b>	<b>33,488</b>	<b>32,016</b>
Financing liabilities	1,168	1,346
Employee benefit obligations	699	702
Provision for well decommissioning costs	1,629	1,641 <i>Note 3.3</i>
Other provisions	194	198 <i>Note 3.3</i>
Grants	802	815
Deferred tax liabilities	1,987	1,932
Other liabilities	648	669
<b>Non-current liabilities</b>	<b>7,127</b>	<b>7,303</b>
Financing liabilities	2,676	5,006
Derivative financial instruments	245	346 <i>Note 3.10</i>
Trade and tax payables*	3,131	3,179
Employee benefit obligations	371	334
Provision for well decommissioning costs	20	20 <i>Note 3.3</i>
Other provisions	552	560 <i>Note 3.3</i>
Other liabilities	790	908
<b>Current liabilities</b>	<b>7,785</b>	<b>10,353</b>
<b>TOTAL LIABILITIES</b>	<b>14,912</b>	<b>17,656</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>48,400</b>	<b>49,672</b>

\* Including income tax of PLN 406m (2016: PLN 180m)

Consolidated statement of changes in equity

	Share capital and share premium, including:		Equity attributable to owners of the parent							Equity attributable to non-controlling interests	Total equity
			Accumulated other comprehensive income:					Retained earnings	Total		
			Exchange differences on translating foreign operations	Hedging reserve	Revaluation of financial assets available for sale	Actuarial gains/(losses) on employee benefits	Share of other comprehensive income of equity-accounted investees				
	Share capital	Share premium									
<b>As at Jan 1 2016 (audited)</b>	<b>5,900</b>	<b>1,740</b>	<b>(51)</b>	<b>(565)</b>	<b>-</b>	<b>(21)</b>	<b>-</b>	<b>23,733</b>	<b>30,736</b>	<b>5</b>	<b>30,741</b>
Net profit	-	-	-	-	-	-	-	1,386	<b>1,386</b>	-	<b>1,386</b>
Other comprehensive income, net	-	-	(23)	(1)	-	-	-	-	<b>(24)</b>	-	<b>(24)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(23)</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,386</b>	<b>1,362</b>	<b>-</b>	<b>1,362</b>
<b>As at Mar 31 2016 (unaudited)</b>	<b>5,900</b>	<b>1,740</b>	<b>(74)</b>	<b>(566)</b>	<b>-</b>	<b>(21)</b>	<b>-</b>	<b>25,119</b>	<b>32,098</b>	<b>5</b>	<b>32,103</b>
<b>As at Jan 1 2017 (audited)</b>	<b>5,778</b>	<b>1,740</b>	<b>(28)</b>	<b>69</b>	<b>2</b>	<b>(45)</b>	<b>(2)</b>	<b>24,499</b>	<b>32,013</b>	<b>3</b>	<b>32,016</b>
Net profit	-	-	-	-	-	-	-	1,599	<b>1,599</b>	-	<b>1,599</b>
Other comprehensive income, net	-	-	(27)	(103)	3	-	-	-	<b>(127)</b>	-	<b>(127)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(27)</b>	<b>(103)</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>1,599</b>	<b>1,472</b>	<b>-</b>	<b>1,472</b>
<b>As at Mar 31 2017 (unaudited)</b>	<b>5,778</b>	<b>1,740</b>	<b>(55)</b>	<b>(34)</b>	<b>5</b>	<b>(45)</b>	<b>(2)</b>	<b>26,098</b>	<b>33,485</b>	<b>3</b>	<b>33,488</b>



## 1. General information

### 1.1. Key information about the Group

<b>Name</b>	Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna
<b>Registered office</b>	ul. Marcina Kasprzaka 25, 01-224 Warsaw, Poland
<b>Court of registration</b>	District Court for the Capital City of Warsaw, 16th Commercial Division
<b>National Court Register (KRS) No.</b>	0000059492
<b>Industry Identification Number (REGON)</b>	012216736
<b>Tax Identification Number (NIP)</b>	525-000-80-28
<b>Description of business</b>	The Company's principal business activity includes exploration for and production of crude oil and natural gas, import, storage and sale of gas fuels, as well as trade in electricity.

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

As at the date of issue of this interim report for Q1 2017, the State Treasury, represented by the Minister of Energy, was the only shareholder holding 5% or more of the Company's share capital.

The shareholding structure of PGNiG S.A. was as follows:

Shareholder	Number of shares as at the date of issue of the previous interim report*	% share in total voting rights as at the date of issue of the previous interim report*	% change in the period	% share in total voting rights at GM as at the date of issue of this report**	Number of shares as at the date of issue of this report**
State Treasury	4,153,706,157	71.884%	0.000%	71.884%	4,153,706,157
Other shareholders	1,624,608,700	28.116%	0.000%	28.116%	1,624,608,700
<b>Total</b>	<b>5,778,314,857</b>	<b>100.00%</b>	<b>0.00%</b>	<b>100.00%</b>	<b>5,778,314,857</b>

\*As at December 31st 2016

\*\*As at March 31st 2017

The PGNiG Group is the only vertically integrated company in the Polish gas sector, holding the leading position in all segments of the country's gas industry. It is also a significant domestic producer of heat and electricity. The scope of the PGNiG Group's business comprises exploration for hydrocarbon deposits, oil and gas exploration and production, import, storage and distribution of and trade in gas fuels. The PGNiG Group imports gas fuel from Russia and Germany, and is the main producer of natural gas from Polish deposits. The Group's upstream operations are one of the key contributors to PGNiG's competitive position on the liberalised gas market in Poland.

For detailed information on the business segments and consolidated entities, see [Note 2](#).

### 1.2. Basis of preparation of the financial statements contained in this report

These interim condensed consolidated financial statements and interim condensed separate financial statements for Q1 2017 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as endorsed by the European Union and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (consolidated text: Dz.U. of 2014, item 133, as amended).

This interim report has been prepared on the assumption that the Group companies, except for Geofizyka Kraków S.A. w likwidacji (in liquidation), will continue as going concerns in the foreseeable future. As at the date of authorisation of these financial statements for issue, no circumstances were identified which would indicate any threat to other Group companies' continuing as going concerns.

The functional currency of PGNiG S.A. and the presentation currency of these consolidated financial statements is the Polish zloty (PLN). The method of translation of items denominated in foreign currencies is presented in the full-year consolidated financial statements for the period ended December 31st 2016, issued on March 8th 2017.

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

This interim report for Q1 2017 has been signed and authorised for issue by the Parent's Management Board on May 25th 2017.

### 1.3. Applied accounting policies

The policies used in the preparation of the interim condensed consolidated and interim condensed separate financial statements were consistent with those applied to prepare the consolidated financial statements for 2016, except for the presentation changes described in [Note 1.5.1](#).

### 1.4. Effect of new standards on the financial statements of the PGNiG Group

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

Standard	Description	Estimated effect	Effective date
IFRS 9 <i>Financial Instruments</i>	<p>The standard introduces a model based on the following classification categories for financial assets: measured at fair value through profit or loss (FVTPL), at fair value through other comprehensive income (FVTOCI), and at amortised cost. Assets are classified on initial recognition depending on an entity's financial instrument management model and the characteristics of contractual cash flows from such instruments.</p> <p>IFRS 9 introduces a new impairment recognition model based on expected credit losses.</p> <p>The majority of the requirements under IAS 39 concerning classification and measurement of financial liabilities were incorporated into IFRS 9 unchanged. The key change is the new requirement that entities present in other comprehensive income the effect of changes in their own credit risk related to financial liabilities designated as at fair value through profit or loss.</p> <p>Changes were also made to the hedge accounting model to factor in risk management.</p>	<p>The Group is currently analysing the effects of IFRS 9 on its consolidated financial statements. Based on a preliminary analysis, it has been assumed that IFRS 9 may have an effect on the consolidated financial statements with respect to hedge accounting and recognition of impairment losses on receivables based on expected credit losses; the latter is expected to have an effect on the Group's statement of financial position by increasing the opening balance of impairment losses. However, the amount of impairment losses on receivables is not expected to change considerably. The Group assumes that the hedging instruments currently designated for hedge accounting will not change. The Group does not expect any changes with respect to fair value measurement.</p>	January 1st 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	<p>IFRS 15 will apply to all contracts giving rise to revenue. The core principle of the new standard is that revenue is to be recognised upon transfer of goods or services to a customer, at the transaction price. Any goods or services that are sold in bundles and are distinct within the bundle should be recognised separately, and any discounts and rebates on the transaction price should be allocated to the specific bundle items. Where a contract contains elements of variable consideration, under the new standard such variable consideration is recognised as revenue only if it is highly probable that its remeasurement will not result in a revenue reversal in the future. Furthermore, in accordance with IFRS 15, the cost of obtaining and securing a contract with a customer should be capitalised and amortised over the period in which the contract's benefits are consumed.</p>	<p>The Group is currently analysing the effects of IFRS 15 on its consolidated financial statements. It is expected that the amendments will have no significant effect on the consolidated financial statements when first adopted.</p>	January 1st 2018

Standard	Description	Estimated effect	Effective date
IFRS 16 <i>Leases</i>	<p>The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions result in the lessee acquiring a right-of-use asset and incurring a lease liability. Thus, IFRS 16 abolishes the operating and finance lease classification under IFRS 17 and provides a single lessee accounting model, requiring lessees to recognise (a) assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value and (b) amortisation of the leased asset separately from interest on lease liability in the statement of profit or loss.</p> <p>IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. Lessors continue to classify leases as operating or finance leases, with each of them subject to different accounting treatment.</p>	Based on preliminary assessment, IFRS 16 may potentially have an effect on the Company's financial statements mainly due to the fact that the Company is a holder of perpetual usufruct rights to land. The Group has not yet analysed the potential effect of the new standard on its financial statements. A detailed analysis will be carried out in 2018–2019.	January 1st 2019

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

## 1.5. Presentation changes in the financial statements

### 1.5.1. Changes in reporting segment presentation

In Q1 2017, the Group made significant changes in segment reporting, involving in particular:

- For the purposes of transferring gas produced in Poland between the Exploration and Production segment and the Trade and Storage segment, the following methodology was applied to determine the settlement price: transfer of gas from the Exploration and Production segment to the Trade and Storage segment is made at a price calculated as the average monthly price quoted on the POLPX Day-Ahead Market, less a discount enabling the Trade and Storage segment to cover an appropriate position of costs of high-methane gas storage plus margin. The settlement price used for gas transfers between other segments, in particular for own consumption, also changed and was set as the average monthly price quoted on the POLPX Day-Ahead Market.
- In addition, reclassifications were also made between other items of operating expenses based on the type of operations.
- PGNiG S.A.'s corporate centre and the company PGNiG Finance AB have been separated from the Trade and Storage segment and are now disclosed under Other Segments. The PGNiG Management Board resolved to adjust the financial results of the Trade and Storage segment for the revenue, costs and expenses generated by PGNiG S.A.'s Head Office and PGNiG Finance AB, which perform support functions for the other segments of the PGNiG Group.

As the above changes were applied retrospectively, the table below shows restated data as at March 31st 2016.

Reporting segments	Sales to external customers	Inter-segment sales	Total revenue	EBITDA	Depreciation and amortisation	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce*
<b>Exploration and Production before restatement</b>	<b>678</b>	<b>367</b>	<b>1,045</b>	<b>619</b>	<b>(286)</b>	<b>333</b>	<b>7</b>	<b>(294)</b>	<b>13,470</b>	<b>8,347</b>
Change of rules of calculating revenue from inter-segment sales of domestically produced gas in the Exploration and Production segment	-	297	297	298	-	298	-	-	-	-
Other reallocation of revenue and operating expenses at PGNiG S.A.	-	9	9	(38)	(1)	(39)	-	-	-	-
<b>Exploration and Production after restatement</b>	<b>678</b>	<b>673</b>	<b>1,351</b>	<b>879</b>	<b>(287)</b>	<b>592</b>	<b>7</b>	<b>(294)</b>	<b>13,470</b>	<b>8,347</b>
<b>Trade and Storage before restatement</b>	<b>9,526</b>	<b>93</b>	<b>9,619</b>	<b>660</b>	<b>(61)</b>	<b>599</b>	<b>-</b>	<b>(26)</b>	<b>4,246</b>	<b>3,470</b>
Change of rules of calculating revenue from inter-segment sales of gas produced in Poland in the Exploration and Production segment	-	-	-	(298)	-	(298)	-	-	-	-
Other reallocation of revenue and operating expenses at PGNiG S.A.	-	-	-	38	1	39	-	-	-	-
Presentation changes with respect to the corporate centre	(2)	3	1	23	12	35	-	4	(370)	(692)
<b>Trade and Storage after restatement</b>	<b>9,524</b>	<b>96</b>	<b>9,620</b>	<b>423</b>	<b>(48)</b>	<b>375</b>	<b>-</b>	<b>(22)</b>	<b>3,876</b>	<b>2,778</b>
<b>Other Segments before restatement</b>	<b>22</b>	<b>25</b>	<b>47</b>	<b>(10)</b>	<b>(4)</b>	<b>(14)</b>	<b>-</b>	<b>(2)</b>	<b>132</b>	<b>1,290</b>
Corporate centre presentation change	2	31	33	(23)	(12)	(35)	-	(4)	370	692
<b>Other Segments after restatement</b>	<b>24</b>	<b>56</b>	<b>80</b>	<b>(33)</b>	<b>(16)</b>	<b>(49)</b>	<b>-</b>	<b>(6)</b>	<b>502</b>	<b>1,982</b>
<b>Reconciliation with consolidated data before restatement</b>			<b>(1,870)</b>	<b>4</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>11</b>	<b>(240)</b>	<b>-</b>
Change of rules of calculating revenue from inter-segment sales of gas produced in Poland in the Exploration and Production segment			(297)	-	-	-	-	-	-	-
Other reallocation of revenue and operating expenses at PGNiG SA			(9)	-	-	-	-	-	-	-
Corporate centre presentation change			(34)	-	-	-	-	-	-	-
<b>Reconciliation with consolidated data after restatement</b>			<b>(2,210)</b>	<b>4</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>11</b>	<b>(240)</b>	<b>-</b>

\*Excluding the workforce of equity-accounted investees.

### 1.5.2. Reclassification of cash related to the Extraction Facilities Decommissioning Fund

The Group made a detailed analysis of the Extraction Facilities Decommissioning Fund's cash, as a result of which as of 2016 a transfer from cash and cash equivalents to other assets (under non-current assets) was made.

As the change was applied retrospectively, the table below shows restated data as at March 31st 2016.

Consolidated statement of cash flows	As at Mar 31 2016 – before restatement	Reclassification of long-term restricted cash	As at Mar 31 2016 – after restatement
<b>Cash flows from operating activities including:</b>	<b>2,806</b>	<b>13</b>	<b>2,819</b>
Movements in working capital	576	13	589
<b>Net cash from investing activities</b>	<b>(768)</b>	<b>-</b>	<b>(768)</b>
<b>Cash flows from financing activities</b>	<b>16</b>	<b>-</b>	<b>16</b>
<b>Net cash flows</b>	<b>2,054</b>	<b>13</b>	<b>2,067</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>6,238</b>	<b>(217)</b>	<b>6,021</b>
<b>Cash and cash equivalents at end of period</b>	<b>8,292</b>	<b>(204)</b>	<b>8,088</b>



## 2. Information on the Group and its reporting segments

The Group identifies five reporting segments.






Below is presented a classification of the Group's fully-consolidated entities by reporting segment.



[ ] - Country of registration (if different from Poland).  
\* Principal place of business (if different from country of registration)

Figure 1 Group structure by reporting segment

The reporting segments have been identified based on the type of business conducted by the Group companies. The individual operating segments have been aggregated into reporting segments according to the aggregation criteria given in the table below. The Management Board of the Parent is the chief operating decision maker (CODM).

Segment	Description of the segment	Operating segments and aggregation criteria
<b>Exploration and Production</b> 	<p>The segment's business focuses on extracting hydrocarbons from deposits and preparing products for sale. The segment covers the process of exploring for and extracting natural gas and crude oil from deposits, including geological surveys, geophysical research, drilling, and development of and production from gas and oil fields. The segment sells natural gas to customers outside the Group and to other segments of the PGNiG Group. It also sells crude oil and other products in Poland and abroad.</p>	<p>The operating segments included in this reporting segment are the operations of PGNiG SA related to the hydrocarbon exploration and production business, as well as the Group companies listed under Exploration and Production in <a href="#">Figure 1</a>.</p> <p>The key criteria for aggregation of the operating segments into the reporting segment included similarity of products and services, similar characteristics of the production process and of the target customer base, as well as economic similarities (exposure to the same market risks, as reflected in the correlation of performance (margins) generated by the individual operating segments included in the reporting segment).</p>
<b>Trade and Storage</b> 	<p>The segment's activities consist in sale of natural gas (imported, produced or purchased on natural gas exchanges), operation of underground gas storage facilities for trading purposes (including the UGSFs located in Mogilno, Wierzychowice, Kosakowo, Husów, Brzeźnica, Strachocina and Swarzów), and electricity trading.</p>	<p>The operating segments included in this reporting segment are the operations of PGNiG S.A. related to the gas fuel and electricity trading business, as well as the Group companies listed under Trade and Storage in <a href="#">Figure 1</a>.</p> <p>The segment operates seven underground gas storage facilities to ensure Poland's energy security and build a gas portfolio that meets the demand, which is subject to seasonal fluctuations.</p> <p>The key criteria for aggregation of the operating segments into the reporting segment included similarity of products and services, similarity of target customer groups purchasing the segment's products/services, and similar economic characteristics.</p>
<b>Distribution</b> 	<p>The segment's principal business activity consists in distribution of natural gas via distribution networks to retail, industrial and wholesale customers, as well as operation, maintenance (repairs) and expansion of gas distribution networks.</p>	<p>In this case, the operating segment is also a reporting segment, comprising Polska Spółka Gazownictwa Sp. z o.o. and its subsidiaries.</p>
<b>Generation</b> 	<p>The segment's activities consist in generation and sale of electricity and heat.</p>	<p>The operating segments making up this reporting segment include PGNiG TERMIKA S.A. and its subsidiaries shown in <a href="#">Figure 1</a>.</p> <p>The key criteria for aggregation of the operating segments into the reporting segment included similarity of products and services, similarity of target customer groups purchasing the segment's products/services, and similar economic characteristics.</p>
<b>Other segments</b> 	<p>This segment comprises operations which cannot be classified into any of the segments listed above, i.e. operations of PGNiG SA's corporate centre, financial services provided to PGNiG SA, engineering design and construction of structures, machinery and equipment for the extraction and energy sectors, as well as catering and hospitality services.</p>	<p>In this reporting segment, the operating segments are represented by PGNiG S.A., with respect to corporate support provided to the other reporting segments, and by the individual Group companies which do not qualify for inclusion in any of the other reporting segments, as listed under Other Segments in <a href="#">Figure 1</a>.</p>

## 2.1. Changes in the Group structure

Date	Company	Event
March 10th 2017	PSG Inwestycje Sp. z o.o.	The Extraordinary General Meeting of Powiśle Park Sp. z o.o. passed a resolution to change the company's name from Powiśle Park Sp. z o.o. to PSG Inwestycje Sp. z o.o. The change was entered in the National Court Register on March 20th 2017.
March 18th 2017	PGNiG Upstream Norway AS	The change of name of PGNiG Upstream International AS to PGNiG Upstream Norway AS was entered in the Norwegian register of commercial companies

## 2.2. Equity-accounted investees

As a partner in a joint venture or a major investor in a company, in the consolidated financial statements the Group recognises its interest in such entity as an investment and accounts for the investment with the equity method.

The PGNiG Group applies the equity method to determine the value of interests held in the following jointly-controlled entities or entities over which it has significant influence.

### Equity-accounted investees as at March 31st 2017

No.	Name	Share capital	Value of shares held by PGNiG	PGNiG Group's ownership interest (% , direct and indirect holdings)
1	Elektrociepłownia Stalowa Wola S.A.	28,200,000	14,100,000	50% <sup>1)</sup>
2	SGT EUROPOL GAZ S.A.	80,000,000	38,400,000	51.18% <sup>2)</sup>
3	Polimex-Mostostal S.A.	473,237,604	78,000,000	16.48% <sup>3)</sup>
4	Polska Grupa Górnicza Sp. z o.o.	2,916,718,000	500,000,000	17.14% <sup>1)</sup>

1) PGNiG's interest held indirectly through PGNiG TERMIKA S.A.

2) PGNiG's direct interest is 48.00%, with a 3.18% interest held indirectly through GAS-TRADING S.A.

3) PGNiG's interest held indirectly through PGNiG Technologie S.A.

### 2.3. Reporting segments in figures

3 months ended Mar 31 2017	Sales to external customers	Inter- segment sales	Total revenue	EBITDA	Depreciation and amortisation	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Profit/(loss) from equity- accounted investees	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce*
Exploration and Production	963	888	1,851	1,376	(292)	1,084	(12)	9	(249)	12,618	7,369
Trade and Storage	9,763	169	9,932	358	(50)	308	-	-	(59)	3,835	2,922
Distribution	260	1,209	1,469	692	(231)	461	-	-	(332)	12,697	10,991
Generation	642	217	859	409	(108)	301	-	-	(81)	3,398	1,844
Other segments	24	48	72	(66)	(14)	(80)	14	3	(18)	497	1,905
<b>Total</b>	<b>11,652</b>	<b>2,531</b>	<b>14,183</b>	<b>2,769</b>	<b>(695)</b>	<b>2,074</b>	<b>2</b>	<b>12</b>	<b>(739)</b>	<b>33,045</b>	<b>25,031</b>
Reconciliation with consolidated data			(2,531)	-	-	-	-	-	(14)	(207)	
<b>Total</b>			<b>11,652</b>	<b>2,769</b>	<b>(695)</b>	<b>2,074</b>	<b>2</b>	<b>12</b>	<b>(753)</b>	<b>32,838</b>	

\*Excluding the workforce of equity-accounted investees.

3 months ended Mar 31 2016	Sales to external customers	Inter- segment sales	Total revenue	EBITDA	Depreciation and amortisation	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Profit/(loss) from equity- accounted investees	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce*
Exploration and Production	678	673	1,351	879	(287)	592	7	-	(294)	13,470	8,347
Trade and Storage	9,524	96	9,620	423	(48)	375	-	-	(22)	3,876	2,778
Distribution	244	1,153	1,397	758	(225)	533	-	-	(362)	12,533	10,661
Generation	510	232	742	362	(96)	266	(4)	-	(105)	2,804	1,077
Other segments	24	56	80	(33)	(16)	(49)	-	-	(6)	502	1,982
<b>Total</b>	<b>10,980</b>	<b>2,210</b>	<b>13,190</b>	<b>2,389</b>	<b>(672)</b>	<b>1,717</b>	<b>3</b>	<b>-</b>	<b>(789)</b>	<b>33,185</b>	<b>24,845</b>
Reconciliation with consolidated data			(2,210)	4	-	4	-	-	11	(240)	
<b>Total</b>			<b>10,980</b>	<b>2,393</b>	<b>(672)</b>	<b>1,721</b>	<b>3</b>	<b>-</b>	<b>(778)</b>	<b>32,945</b>	

\*Excluding the workforce of equity-accounted investees.

## 2.4. Overview of financial results of individual reporting segments

In Q1 2017, the PGNiG Group's revenue came it at PLN 11,652m and was higher by PLN 672m (6%) than in the corresponding period of the previous year (PLN 10,980m). Operating expenses amounted to PLN 9,578m (up 3% year on year), as a result of which in Q1 2017 the Group recorded a consolidated operating profit of PLN 2,074m, up by PLN 353m (or 21%) on the same period of 2016. At PLN 2,769m, EBITDA grew 16% year on year.

Operating data	3 months ended Mar 31 2017	3 months ended Mar 31 2016
<b>Production of natural gas at the PGNiG Group (mcm)</b>		
High-methane gas (E)	474	509
Nitrogen-rich gas (Ls/Lw as E equivalent)	712	670
Total (as E equivalent)	1,186	1,179
<b>Sale of natural gas by the PGNiG Group (mcm)</b>		
High-methane gas (E)	8,396	7,560
Nitrogen-rich gas (Ls/Lw as E equivalent)	469	412
Total (as E equivalent)	8,855	7,972
<b>Volume of distributed gas (in natural units - mcm)</b>		
high-methane gas, nitrogen-rich gas, propane-butane, coke gas	3,941	3,488
<b>Crude oil, condensate and NGL ('000 tonnes)</b>		
Production	346	348
Sale	390	398
<b>Heat and electricity</b>		
Volume of heat sold outside the PGNiG Group (TJ)	17,669	16,152
Production of electricity, net, secondary generation (for sale) (GWh)	1,458	1,390

### Exploration and Production

The Exploration and Production segment's operating profit for Q1 2017 was PLN 1,084m, and was PLN 492m (83%) higher than in the same period of the previous year. The improvement was mainly attributable to stronger revenue, which amounted to PLN 1,851m in Q1 2017, having increased by PLN 500m (or 37%) compared with the corresponding period of the previous year, with operating expenses relatively flat (up 1% to PLN 767m in Q1 2017). The increase in the segment's revenue in the period was mainly attributable to:

- higher price of transferring gas produced in Poland from the Exploration and Production segment to the Trade and Storage segment – the average price of gas sold in Q1 2017 was 35% higher than in the same period a year before (the average price for the quarter was calculated as the average for the three months of Q1 2017, weighted by the volume of gas produced in Poland and transferred to the Trade and Storage segment for sale). The increase in the price of domestically produced gas transferred between the segments follows directly from the fact that the price is based on POLPX gas prices, which grew on average by 33% in Q1 2017;
- higher revenue from sale of crude oil, condensate and NGL recorded by the segment; although the volume of these products sold in Q1 2017 was slightly lower than in the corresponding period of the previous year (down 2%), revenue soared by 66% (the average quarterly price of Brent crude in PLN grew in Q1 2017 by 61% relative to the same period of the previous year).

### Trade and Storage

The segment's operating profit as at the end of Q1 2017 was PLN 308m, down by PLN 67m (or 18%) year on year. The change was driven by higher revenue posted by the segment (up by PLN 312m, or 3%, compared with the corresponding period of the previous year), offset by an increase of PLN 379m (up 4% year on year) in its operating expenses. The changes were due to the following factors:

- an 11% increase in the volume of gas sold through the segment by the PGNiG Group, to 8.9 bcm, with the largest increase in sales to the largest industrial customers of PGNiG S.A. The Trade and Storage segment's revenue from gas sales outside the PGNiG Group in Q1 2017 was PLN 239m higher year on year;
- higher price of domestically produced gas transferred from the Exploration and Production segment (for a description of the price increase drivers, see the section on the Exploration and Production segment).



## Distribution

In Q1 2017, the Distribution segment's operating profit dropped by PLN 72m, or 14%, year on year, to PLN 461m, while EBITDA came in at PLN 692m, down by PLN 66m year on year. The segment's operating result was mainly driven by the following:

- A PLN 72m (5%) year-on-year rise in revenue, mainly due to an increase in the volume of distributed gas fuel (the average air temperature was lower in Q1 2017 than in Q1 2016 by 1.8 °C);
- Higher employee benefit obligations. The 3% increase in average employment in the Distribution segment is mainly due to the change in the organisational structure of Polska Spółka Gazownictwa Sp. z o.o., which now comprises the head office, 17 gas distribution branches, 172 local gas utilities and 59 service points. It is expected that the new organisational structure will make it possible to achieve the strategic objectives to step up gas network rollout in new areas and attract new customers;
- Increase in transmission service costs by PLN 47m relative to the corresponding period of the previous year, directly attributable to stronger sales of gas fuel distribution services, which improved by 13% over Q1 2016, as well as a change in 2016 of tariff rates charged by OGP Gaz-System S.A.

## Generation

The segment's operating profit for Q1 2017 amounted to PLN 301m, a PLN 35m increase on the previous year. EBITDA was PLN 409m, an improvement of 13% year on year. The segment's result was driven by the following:

- combined EBITDA of PLN 40m, with revenue of PLN 116m, generated by PEC and SEJ, acquired in April and August 2016, respectively;
- higher revenue from sale of heat, mainly attributable to higher sales volumes (due to lower average air temperatures);
- lower costs of coal, the main fuel for heat production, posted by PGNiG TERMIKA S.A. (the average price of coal in Q1 2017 was 5.6% lower than in the same period of the previous year).

## 2.5. Factors and events that may affect future performance of the PGNiG Group

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The following factors will have a significant impact on the PGNiG Group's financial situation in future periods:

- conditions prevailing on the currency markets, commodity markets (prices of crude oil and petroleum products), energy markets (prices of electricity and gas), as well as fluctuations in market prices of certificates of origin,
- regulations governing support programmes for electricity from high-efficiency co-generation and renewable sources,
- processes connected with the continued deregulation of the gas trade market in Poland,
- the position of the President of the Energy Regulatory Office on gas fuel sale and distribution tariffs and heat sale tariffs,
- delivery of LNG supplies under the Qatar contract.

In future periods, in line with the new Strategy for the PGNiG Group, the principal objective will be „to increase the PGNiG Group's value and ensure its financial stability". It will be pursued through sustainable development of the Group driven by parallel investments in riskier business areas yielding relatively high rates of return (upstream projects – ca. 45% of total planned capex) and in regulated areas offering considerable investment safety (gas distribution, power and heat generation – ca. 42% of total capex).

### 3. Notes to the interim condensed consolidated financial statements

#### 3.1. Deferred tax

	Deferred tax assets	Deferred tax liabilities	Set-off of assets and liabilities	Assets after set-off	Liabilities after set-off	Net effect of changes in the period
<b>As at Jan 1 2016</b>	<b>1,575</b>	<b>3,090</b>	<b>(1,533)</b>	<b>42</b>	<b>1,557</b>	
Increase	63	1,020				(957)
Decrease	(456)	(1,120)				664
Currency translation differences	46	115				(69)
Other changes	53	8				45
<b>As at Dec 31 2016</b>	<b>1,281</b>	<b>3,113</b>	<b>(1,181)</b>	<b>100</b>	<b>1,932</b>	<b>(317)</b>
<b>As at Jan 1 2017</b>	<b>1,281</b>	<b>3,113</b>	<b>(1,181)</b>	<b>100</b>	<b>1,932</b>	
Increase	18	2				16
Decrease	(210)	(102)				(108)
Currency translation differences	(15)	(73)				58
<b>As at Mar 31 2017</b>	<b>1,074</b>	<b>2,940</b>	<b>(953)</b>	<b>121</b>	<b>1,987</b>	<b>(34)</b>

#### 3.2. Impairment losses/write-downs

	Property, plant and equipment	Intangible assets	Assets held for sale	Equity-accounted investees	Other (non-current) assets	Inventories	Receivables	Other (current) assets	Total
<b>As at Jan 1 2016</b>	<b>2,942</b>	<b>74</b>	<b>22</b>	<b>813</b>	<b>34</b>	<b>309</b>	<b>790</b>	<b>1</b>	<b>4,985</b>
Recognised provision taken to profit or loss	1,347	14	2	62	1	82	118	-	1,626
Provision reversal taken to profit or loss	(521)	(3)	(3)	-	-	(264)	(98)	-	(889)
Used provision	(51)	-	(1)	-	-	(1)	(45)	-	(98)
Changes in the Group	21	-	-	4	(4)	-	3	-	24
Transfers	-	-	(1)	-	1	-	-	-	-
Other changes	20	3	-	-	-	2	4	(1)	28
<b>As at Dec 31 2016</b>	<b>3,758</b>	<b>88</b>	<b>19</b>	<b>879</b>	<b>32</b>	<b>128</b>	<b>772</b>	<b>-</b>	<b>5,676</b>
<b>As at Jan 1 2017</b>	<b>3,758</b>	<b>88</b>	<b>19</b>	<b>879</b>	<b>32</b>	<b>128</b>	<b>772</b>	<b>-</b>	<b>5,676</b>
Recognised provision taken to profit or loss	1	-	-	-	-	77	22	-	100
Provision reversal taken to profit or loss	(18)	-	(2)	(18)	-	(58)	(29)	-	(125)
Used provision	(7)	-	(1)	-	-	-	(4)	-	(12)
Transfers	(1)	-	1	-	-	-	-	-	-
Other changes	(39)	(3)	-	-	-	(1)	8	-	(35)
<b>As at Mar 31 2017</b>	<b>3,694</b>	<b>85</b>	<b>17</b>	<b>861</b>	<b>32</b>	<b>146</b>	<b>769</b>	<b>-</b>	<b>5,604</b>

### 3.3. Provisions

	Provision for well decommissioning costs	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provision for environmental liabilities	Provision for UOKiK fine	Provision for claims under extra-contractual use of land	Other provisions	Total	
<b>As at Jan 1 2016</b>	<b>1,573</b>	<b>215</b>	<b>182</b>	<b>98</b>	<b>65</b>	<b>46</b>	<b>243</b>	<b>2,422</b>	
Recognised provision capitalised in the cost of property, plant and equipment	62	-	-	-	-	-	-	62	
Recognised provision taken to profit or loss	37	150	12	31	-	8	119	357	<i>Note 3.5</i>
Provision reversal taken to profit or loss	(23)	(38)	-	(18)	(55)	(19)	(76)	(229)	<i>Note 3.5</i>
Used provision	(20)	(184)	-	-	-	-	(33)	(237)	
Changes in the Group	-	-	-	-	-	-	8	8	
Other changes	32	-	-	6	-	1	(3)	36	
<b>As at Dec 31 2016</b>	<b>1,661</b>	<b>143</b>	<b>194</b>	<b>117</b>	<b>10</b>	<b>36</b>	<b>258</b>	<b>2,419</b>	
<b>As at Jan 1 2017</b>	<b>1,661</b>	<b>143</b>	<b>194</b>	<b>117</b>	<b>10</b>	<b>36</b>	<b>258</b>	<b>2,419</b>	
Recognised provision capitalised in the cost of property, plant and equipment	9	-	-	-	-	-	-	9	
Recognised provision taken to profit or loss	4	85	-	-	-	2	18	109	<i>Note 3.5</i>
Provision reversal taken to profit or loss	(1)	(3)	-	-	-	(5)	(8)	(17)	<i>Note 3.5</i>
Used provision	(3)	(92)	-	-	-	-	(3)	(98)	
Other changes	(21)	(2)	(10)	-	-	-	6	(27)	
<b>As at Mar 31 2017</b>	<b>1,649</b>	<b>131</b>	<b>184</b>	<b>117</b>	<b>10</b>	<b>33</b>	<b>271</b>	<b>2,395</b>	

### 3.4. Revenue

	3 months ended Mar 31 2017	3 months ended Mar 31 2016
<b>Revenue from sale of gas, including:</b>	<b>9,468</b>	<b>9,218</b>
High-methane gas	8,932	8,605
Nitrogen-rich gas	484	441
LNG	24	152
CNG	8	8
Propane-butane gas	20	12
<b>Other revenue, including:</b>	<b>2,184</b>	<b>1,762</b>
Crude oil and natural gasoline	581	335
NGL	27	31
Sales of heat	534	485
Sales of electricity	494	475
Revenue from rendering of services:		
- drilling and oilfield services	46	58
- geophysical and geological services	74	37
- construction and assembly services	14	12
- distribution services	253	197
- connection charge	22	23
- other	48	48
Other	91	61
<b>Total revenue</b>	<b>11,652</b>	<b>10,980</b>

### 3.5. Operating expenses

	3 months ended Mar 31 2017	3 months ended Mar 31 2016
<b>Cost of gas sold</b>	<b>(6,749)</b>	<b>(6,993)</b>
Gas fuel	(6,794)	(6,745)
Cost of transactions hedging gas prices	45	(248)
<b>Other raw materials and consumables used</b>	<b>(643)</b>	<b>(643)</b>
Fuels for electricity and heat generation	(293)	(282)
Electricity for trading	(227)	(249)
Other raw materials and consumables used	(123)	(112)
<b>Employee benefits expense</b>	<b>(640)</b>	<b>(545)</b>
Salaries and wages	(438)	(419)
Social security contributions	(97)	(92)
Cost of long-term employee benefits	(22)	40
Other employee benefits expense	(83)	(74)
<b>Other services</b>	<b>(361)</b>	<b>(236)</b>
Repair and construction services	(24)	(29)
Mineral resources production services	(37)	(50)
Rental services	(28)	(20)
Other services	(272)	(137)
<b>Recognition and reversal of impairment losses on property, plant and equipment and intangible assets</b>	<b>2</b>	<b>3</b>
Cost of exploration and evaluation assets written-off	(17)	(46)
Impairment losses on property, plant and equipment	19	49
<b>Total</b>	<b>(8,391)</b>	<b>(8,414)</b>

### 3.6. Other income and expenses

	3 months ended Mar 31 2017	3 months ended Mar 31 2016
Compensations, penalties, and fines received	9	11
Exchange differences related to operating activities	(74)	20
Measurement and exercise of derivative financial instruments	53	(45)
Change in inventory write-downs	(19)	170
Change in impairment losses on trade and other receivables	7	(13)
Change in provision for well decommissioning costs	(3)	(1)
Change in provision for certificates of origin and energy efficiency certificates	(82)	(20)
Change in other provisions	(7)	23
Change in products	322	215
Other income and costs	(39)	(9)
<b>Total other income and expenses</b>	<b>167</b>	<b>351</b>

### 3.7. Net finance income/(costs)

	3 months ended Mar 31 2017	3 months ended Mar 31 2016
Interest on debt [including fees]	(50)	(50)
Foreign exchange differences	58	80
Measurement and exercise of derivative financial instruments not designated for hedge accounting	(7)	(3)
Other net finance costs	18	21
<b>Total net finance costs</b>	<b>19</b>	<b>48</b>

### 3.8. Income tax

Reconciliation of effective tax rate	3 months ended Mar 31 2017	3 months ended Mar 31 2016
Profit before tax	2,105	1,769
Corporate income tax at the 19% statutory rate applicable in Poland	(400)	(336)
Deductible temporary differences in respect of which no deferred tax was recognised	(106)	(47)
<b>Income tax expense disclosed in the statement of profit or loss</b>	<b>(506)</b>	<b>(383)</b>
Including:		
Current tax expense	(391)	(242)
Deferred tax expense	(115)	(141)
Effective tax rate	24%	22%



### 3.9. Property, plant and equipment

	As at Mar 31 2017	As at Dec 31 2016
Land	79	80
Buildings and structures	17,948	18,134
Plant and equipment	8,241	8,601
Vehicles and other	1,105	1,139
<b>Total tangible assets</b>	<b>27,373</b>	<b>27,954</b>
Tangible exploration and evaluation assets under construction	2,264	2,152
Other tangible assets under construction	3,201	3,043
<b>Total property, plant and equipment</b>	<b>32,838</b>	<b>33,149</b>

#### 3.9.1. Material purchase and sale transactions on property, plant and equipment

In the reporting period, the Group entities did not execute any material purchase or sale transactions on property, plant and equipment.

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

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

### 3.10. Derivative financial instruments

The derivative transactions entered into by the Group are used to hedge commodity, currency and interest rate risk exposures.

In the case of the Parent, all eligible transactions in the period from January 1st to March 31st 2017 were accounted for using cash flow or fair value hedge accounting. In the period, the Company was party to CCIRS transactions, which are excluded from hedge accounting, as the valuation of both the hedged item and the hedge (the derivative transaction) is recognised in profit or loss, which produces the same effect as if hedge accounting was applied.

In Q1 2017, as part of its trading activity, the Parent entered into transactions within the approved limits. The volume of hedging transactions does not exceed the amount of the hedged items.

Derivative transactions entered into by the Parent are based on the ISDA (International Swap & Derivatives Association) standards or Polish Master Agreements prepared in accordance with the guidelines of the Polish Banks Association (PMA).

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

Items of income and expenses related to assets and liabilities under derivative financial instruments			3 months ended Mar 31 2017		3 months ended Mar 31 2016	
Item of statement of profit or loss and statement of comprehensive income	Item referenced in Note / supplementary clarifications	Notes	Derivative financial instruments not designated for hedge accounting	Derivative financial instruments designated cash flow hedge accounting	Derivative financial instruments not designated for hedge accounting	Derivative financial instruments designated cash flow hedge accounting
<b>Effect on statement of profit or loss</b>						
Net finance income/(costs)	Measurement and exercise of derivative financial instruments not designated for hedge accounting	<i>Note 3.7</i>	(7)	-	(3)	-
Other income and expenses	Measurement and exercise of derivative financial instruments not designated for hedge accounting	<i>Note 3.6</i>	53	-	(47)	-
	Reclassification from other comprehensive income	<i>Note 3.6</i>	-	-	-	2
Raw materials and consumables used	Reclassification from other comprehensive income	<i>Note 3.5</i>	-	45	-	(248)
			<b>46</b>	<b>45</b>	<b>(50)</b>	<b>(246)</b>
<b>Effect on other comprehensive income</b>						
	Gains/(losses) on measurement of derivative instruments in cash flow hedge accounting [effective portion]			(82)		(247)
	Reclassification of derivative instruments valuation to profit or loss upon exercise (cash flow hedges)			(45)		246
				<b>(127)</b>		<b>(1)</b>
<b>Effect on comprehensive income</b>			<b>46</b>	<b>(82)</b>	<b>(50)</b>	<b>(247)</b>

The tables below present the Group companies' derivative transactions as at March 31st 2017.

Hedging derivatives covered by hedge accounting	As at Mar 31 2017					As at Dec 31 2016			
	Type of derivative instrument	Notional amount	Period over which cash flow will occur and affect the financial result	Exercise price (exercise price range)	Weighted average exercise price	Fair value of instruments covered by cash flow hedge accounting	Notional amount	Period over which cash flow will occur and affect the financial result	Fair value of instruments covered by cash flow hedge accounting
<b>Derivatives used to hedge currency risk in gas purchase contracts</b>									
Forwards									
USD	USD 60	Up to 3 months	3.9943-4.0224	4.01	(4)	-	-	-	
Call options									
USD	-	-	-	-	-	USD 70	1-3 months	15	
					(4)			15	
<b>Derivatives used as hedges of gas purchase prices</b>									
TTF call options	4 MWh	up to 3 years	15.8-22.0	16.98	18	8 MWh	up to 3 years	83	
TTF put options	0.22 MWh	up to 12 months	19	19.00	(2)	0.26 MWh	up to 3 years	(2)	
TTF swap	1 MWh	up to 3 years	13.59-18.1	15.22	11	4 MWh	up to 3 years	42	
TTF swap	5 MWh	up to 12 months	15.87-20.92	19.19	(63)	5 MWh	up to 3 years	(44)	
					(36)			79	
<b>Derivative instruments hedging interest rate risk</b>									
IRS	143 PLN	3 months-3.3 years	1.84%-2.46%	2.06%	-	143 PLN	from 6 months to 3.5 years	-	
IRS	PLN 1,500	up to 3 years	3.65%-4.07%	3.92%	(39)	PLN 1,500	1-3 years	(46)	
				<b>Total</b>	<b>(79)</b>			<b>Total</b>	<b>48</b>
			Including:	Assets	29	Including:	Assets	140	
				Liabilities	108		Liabilities	92	

TTF - Natural Gas at the Title Transfer Facility  
IRS - Interest Rate Swap

Derivative instruments not designated for hedge accounting	As at Mar 31 2017		As at Dec 31 2016	
Type of derivative instrument	Notional amount	Fair value of instruments not covered by hedge accounting	Notional amount	Fair value of instruments not covered by hedge accounting
<b>Derivative instruments hedging interest rate risk and currency risk</b>				
CCIRS				
EUR	-	-	EUR 500	204
NOK	NOK 2.318	48	NOK 2.318	14
		<b>48</b>		<b>218</b>
<b>Derivative instruments used as economic hedges of electricity purchase prices</b>				
Forwards				
Electricity	2 MWh	8	-	-
Electricity	6 MWh	(6)	-	-
electricity – PPX	-	-	3 MWh	12
electricity – PPX	-	-	7 MWh	(7)
electricity – OTC	1 MWh	19	1 MWh	22
electricity – OTC	1 MWh	(24)	1 MWh	(39)
Futures				
electricity – EEX AG	2 MWh	38	2 MWh	67
electricity – EEX AG	2 MWh	(30)	1 MWh	(48)
		<b>5</b>		<b>7</b>
<b>Derivatives used as hedges of gas purchase prices</b>				
Forwards				
gas – OTC	11 MWh	65	11 MWh	130
gas – OTC	11 MWh	(61)	11 MWh	(133)
Futures				
gas – EEX AG	-	-	-	-
gas – EEX AG	-	-	-	-
gas – ICE ENDEX B.V.	1 MWh	6	1 MWh	13
gas – ICE ENDEX B.V.	1 MWh	(5)	1 MWh	(12)
gas – POWERNEXT SA	1 MWh	5	1 MWh	16
gas – POWERNEXT SA	1 MWh	(9)	1 MWh	(15)
		<b>1</b>		<b>(1)</b>
<b>Derivatives used as hedges of purchase prices of CO<sub>2</sub> emission allowances</b>				
Forwards	EUR 3	(1)	EUR 3	-
Futures	3 t	4	2 t	5
<b>Derivatives used as hedges of share purchase prices</b>				
Options	9	60	-	-
	<b>Total</b>	<b>117</b>	<b>Total</b>	<b>229</b>
	Including:		Including:	
	Assets	254	Assets	483
	Liabilities	137	Liabilities	254

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

### 3.11. Contingent assets and liabilities

Contingent liability	As at Mar 31 2017	As at Dec 31 2016
	<b>Estimated amount</b>	
Guarantees and sureties	3,869	8,006
Promissory notes	706	708
Other	27	28
<b>Total</b>	<b>4,602</b>	<b>8,742</b>

The decrease in contingent liabilities under guarantees and sureties issued in the reporting period is primarily attributable to the expiry of a guarantee securing the performance of PGNiG Finance AB's obligations towards bondholders under the Eurobond programme (for more information, see [Note 4.4.](#)).

As at March 31st 2017, the PGNiG Group's contingent assets did not represent a material item.

## 4. Supplementary information to the report

### 4.1. Key events related to the issuer in the reporting period

Date	Company	Event
January 4th 2017	PGNiG Obrót Detaliczny Sp. z o.o.	<p>The President of the Energy Regulatory Office approved the new gas fuel trading tariff (Retail Tariff).</p> <p>The amended Retail Tariff provides for a 7.0% average reduction in gas fuel prices for all tariff groups relative to the previous Tariff of PGNiG Obrót Detaliczny Sp. z o.o.</p> <p>Term of the new Tariff: from February 18th to March 31st 2017.</p>
January 18th 2017	PGNiG Technologie S.A.	<p>Investment agreement with respect to investment in Polimex-Mostostal S.A. (Polimex) and other agreements under the same transaction were executed.</p> <p>The President of Polish Office for Competition and Consumer Protection's approved the business concentration involving the acquisition of joint control of Polimex by the Investors.</p>
January 20th 2017	PGNiG Technologie S.A.	<p>Following the fulfilment of conditions precedent stipulated in the Investment Agreement of January 18th 2017 ("Investment Agreement"), PGNiG Technologie S.A., PGNiG's subsidiary, accepted the Polimex-Mostostal S.A. Management Board's invitation to acquire, in a private subscription, 37,500,000 Series T ordinary bearer shares in Polimex, with a par value of PLN 2 per share, for the issue price of PLN 2 per share and aggregate issue price of PLN 75,000,000.</p> <p>In the performance of the agreement concluded with SPV Operator sp. z o.o. ("SPV Operator"), PGNiG Technologie S.A. also acquired 1,500,000 Polimex shares from SPV Operator in OTC block transactions.</p> <p>Under the Investment Agreement, investors have the power to direct Polimex's financial and operating policies. This power is exercised by the Supervisory Board. The Agreement provides that the Supervisory Board will be composed of three members designated by the Investors.</p> <p>Moreover, the Investors signed an agreement concerning investment in Polimex ("Agreement"). The Agreement was executed to ensure increased control over Polimex by Investors who jointly hold the majority (66%) of votes at its General Meeting. The Agreement provides, inter alia, for reaching by voting a common position when making key decisions on matters falling within the powers of the General Meeting and the Supervisory Board of Polimex, including on the composition of the Polimex Management Board.</p> <p>In view of the Investors' right referred to above, which gives them significant influence over Polimex, the interest in Polimex has been classified as an associate accounted for in the consolidated financial statements of the PGNiG Group with the equity method.</p> <p>Based in Warsaw, Polimex is an engineering and construction company which provides a wide range of general contractor services. Polimex is listed on the Warsaw Stock Exchange.</p> <p>The Group is in the process of allocating the purchase price of Polimex.</p>
January 27th 2017	PGNiG TERMIKA S.A.	<p>PGNiG Termika S.A., together with PGE Polska Grupa Energetyczna S.A., ENEA S.A. and Energa S.A. (Business Partners) signed a Memorandum of Understanding with EDF, relating to negotiating the purchase of EDF assets in Poland (the „Transaction”) and the related due diligence process.</p> <p>On March 15th 2017, PGNiG TERMIKA S.A. submitted a notice of withdrawal from the Transaction.</p>
February 14th 2017	PGNiG Finance AB	PGNiG Finance AB redeemed Eurobonds with a nominal value of EUR 500m and paid due interest.
March 2nd 2017	PGNiG S.A.	The District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, decided to approve share cancellation, register the reduction of PGNiG's share capital, and register amendments to the PGNiG Articles of Association.
March 3rd 2017	PGNiG S.A.	Ms Magdalena Zegarska resigned from the position of PGNiG Supervisory Board Member, with effect from March 5th 2017.
March 6th 2017	PGNiG S.A.	The Supervisory Board of PGNiG S.A. removed Mr Waldemar Wójcik from the Management Board and appointed Ms Magdalena Zegarska as the Management Board Member elected by PGNiG S.A.'s employees.

March 13th 2017	PGNiG SA	<p>The Supervisory Board of PGNiG S.A. approved the new PGNiG Group Strategy for 2017–2022 with an outlook until 2026.</p>
March 14th 2017	PGNiG SA.	<p>PGNiG S.A. and Qatar Liquefied Gas Company Limited (Qatargas) executed a supplementary agreement (the „Supplementary Agreement”) to the Long-Term Agreement of June 29th 2009.</p> <p>Under the Supplementary Agreement, Qatargas will supply an additional amount of liquefied natural gas (LNG) to the President Lech Kaczyński LNG Terminal in Świnoujście. The Supplementary Agreement will be effective from the beginning of 2018 to June 2034.</p>
March 17th 2017	PGNiG S.A. PGNiG Obrót Detaliczny Sp. z o.o.	<p>The President of the Energy Regulatory Office (President of URE) approved new PGNiG Gas Fuel Supply Tariff No. 14/2017 (the Largest Industrial Customers Tariff) and amendments to PGNiG Obrót Detaliczny Gas Fuel Trading Tariff No. 5 (the Amended Retail Tariff).</p> <p>The new Largest Industrial Customers Tariff is effective for the period from April 1st 2017 to June 30th 2017. According to the tariff, the average price of gas fuel went up by 8.0% in the case of high-methane gas and by 7.9% in the case of nitrogen-rich gas.</p> <p>The Amended Retail Tariff provides for a 1.6% increase in gas fuel prices relative to the current prices. Subscription fees remained unchanged. The Amended Retail Tariff is effective for the period from April 1st 2017 to December 31st 2017.</p>
March 31st 2017	PGNiG TERMIKA S.A.	<p>PGNiG TERMIKA S.A. signed an investment agreement (the „Investment Agreement”) setting out the terms of financial investment in Polska Grupa Górnicza sp. z o.o. (PGG).</p> <p>The parties to the Investment Agreement are PGNiG TERMIKA S.A., ENERGIA Kogeneracja sp. z o.o., PGE Górnictwo i Energetyka Konwencjonalna S.A., Enea S.A., Węglkokoks S.A., Towarzystwo Finansowe Silesia Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (the Investors), and PGG.</p> <p>The new Investment Agreement changes and supplements the terms of investment in PGG as laid down in the first investment agreement concluded between the previous shareholders and the company on April 28th 2016. Under the Investment Agreement, PGG will acquire selected mining assets from Katowicki Holding Węglowy S.A. and will receive, in three tranches, a capital contribution totalling PLN 1bn from the Investors (excluding Węglkokoks S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw):</p> <ul style="list-style-type: none"> <li>a) as part of the first tranche, in April 2017, the company took up new PGG shares for a cash contribution of PLN 150m – the payment was made on April 5th 2017;</li> <li>b) as part of the second tranche, in June 2017, the company will take up new PGG shares for a cash contribution of PLN 60m;</li> <li>c) as part of the third tranche, in January 2018, the company will take up new PGG shares for a cash contribution of PLN 90m.</li> </ul> <p>Following the transaction, PGNiG TERMIKA S.A. will hold 20.43% of the PGG share capital.</p>
March 31st 2017	Elektrociepłownia Stalowa Wola S.A.	<p>Elektrociepłownia Stalowa Wola S.A. (ECSW) repaid all liabilities towards the financial institutions which had financed ECSW (i.e. the European Investment Bank, the European Bank for Reconstruction and Development, and Bank Polska Kasa Opieki S.A.). Thus, the conditions precedent under the agreement signed on October 27th 2016 by PGNiG, TAURON Polska Energia S.A., and ECSW, defining the terms of continued construction of a CCGT Unit at Elektrociepłowni Stalowa Wola S.A., were met.</p>



#### 4.2. Shares held by management and supervisory personnel

The holdings of PGNiG shares by the management and supervisory personnel have not changed since the date of issue of the 2016 full-year consolidated report.

As at the date of this report, Mr Ryszard Wąsowicz, Member of the PGNiG Supervisory Board, held 19,500 shares in PGNiG S.A.

No Company shares were held by the other members of the Supervisory or Management Boards as at the date of this report.

#### 4.3. Dividend paid (declared)

No decision concerning distribution of the Company's 2016 profit had been made by the date of this report.

The dividend for 2015 was paid on August 2nd 2016. In accordance with a decision of the Annual General Meeting of PGNiG S.A., the dividend was PLN 1,062m (PLN 0.18 per share), and the dividend record date was July 20th 2016.

#### 4.4. Issue, redemption, and repayment of debt securities

As at March 31st 2017, the Group operated the following debt security issue programmes:

Issue agreement date	Agreement valid until	Subject matter	Banks participating in the issue as at the reporting date	Issue limit	Utilisation (%) as at March 31st 2017	Outstanding debt as at March 31st 2017
<b>Authorised issuer: PGNiG S.A.</b>						
Jun 10 2010	Jul 31 2020	Note issuance programme for short-term discount notes and coupon-bearing notes with maturities from one to twelve months	Bank Pekao S.A., ING Bank Śląski S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A., Societe Generale S.A., BGŻ BNP Paribas S.A. Polish Branch, mBank S.A. and Bank Zachodni WBK S.A.	PLN 7bn	-	-
May 22 2012	May 22 2017	Note issuance programme	Bank Pekao S.A. and ING Bank Śląski S.A.	PLN 4.5bn	55.6 %	PLN 2.5bn
Oct 2 2014	Sep 30 2024	Note issuance programme for notes with maturities of at least 12 months <sup>1</sup>	Bank Gospodarstwa Krajowego	PLN 1bn	-	-
<b>Authorised issuer: PGNiG TERMIKA S.A.</b>						
Jul 4 2012	Dec 29 2019 <sup>2</sup>	Note issuance programme for coupon-bearing notes or discount notes	ING Bank Śląski S.A., PKO Bank Polski S.A., Nordea Bank Polska S.A. and Bank Zachodni WBK S.A.	PLN 1.5bn	-	-
<b>Authorised issuer: Spółka Energetyczna Jastrzębie S.A. (currently PGNiG TERMIKA Energetyka Przemysłowa S.A.)</b>						
Oct 17 2013	Dec 20 2017 <sup>3</sup> Sep 20 2017 <sup>3</sup>	Note issuance programme	Bank Gospodarstwa Krajowego, Alior Bank S.A.	PLN 0.42bn	34.1 %	PLN 0.14bn

1. In accordance with the agreement, the note issue proceeds may only be used to finance capital expenditure, including on maintaining producing capacities, diversification of gas supply sources, oil and gas exploration and appraisal, development of the power segment and ongoing projects involving the construction of storage infrastructure.

2. May be extended until December 29th 2021.

3. The Programme provides for multiple note issues in two tranches:

- Tranche A, worth up to PLN 369m, with proceeds allocated to the financing of the Investment Programme, including by transferring the proceeds to the issuer's group companies carrying out the Investment Programme, and to the refinancing of capital expenditure incurred by the issuer or its group companies to carry out the Investment Programme;
- Tranche B, worth up to PLN 51m, with proceeds allocated to the financing of the objectives of Tranche A and working capital needs (including redemption of Tranche B notes).

On February 14th 2017, PGNiG Finance AB redeemed Eurobonds with a nominal value of EUR 500m and paid due interest. The Eurobonds were redeemed in accordance with the agreement of August 25th 2011 signed by PGNiG S.A., the subsidiary PGNiG Finance AB, and Societe Generale S.A., BGŻ BNP Paribas S.A., and Unicredit Bank AG.

#### 4.5. Seasonality of operations

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

Revenue from sale of natural gas and heat in the winter season (Q1 and Q4) is substantially higher than in summer (Q2 and Q3). This is due to the seasonal changes in weather conditions in Poland, and the extent of the fluctuations is determined by temperatures – low in winter and higher in summer. Revenue from gas and heat sales is subject to much greater seasonal changes in the case of households, where gas and heat are used for heating, than in the case of industrial customers.

In order to ensure uninterrupted gas supplies in periods of peak demand and to maintain the security of gas supplies, it is necessary to replenish the gas stocks of underground gas storage facilities in summer, and to reserve higher transmission and distribution system capacities for winter.

#### 4.6. Material court, arbitration and administrative proceedings

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##### 4.6.1. Pending court proceedings

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###### *Proceedings with respect to the obligation of public sale of natural gas*

The Act Amending the Energy Law and Certain Other Acts, dated July 26th 2013 (Dz.U. of 2013, item 984), imposed on energy companies meeting certain criteria the obligation of public sale of no less than 55% of high-methane gas volume (exchange sale requirement) introduced into the transmission network in a given year:

- At entry points to the Polish transmission system, at interconnections with transmission systems of other countries, or
- Via a network of production site pipelines, or
- Through liquefied natural gas terminals.

Pursuant to the transitional provisions of the Act, the volume of gas covered by the public sale obligation from the effective date of the amendment to December 31st 2013 was 30%; from January 1st 2014 to December 31st 2014: 40%; and as from January 1st 2015: 55%.

On January 13th 2015, the President of URE instigated proceedings to impose a financial penalty on PGNiG for its failure to meet the obligation to sell gas through the exchange market in 2013. After PGNiG had filed an appeal with the Competition and Consumer Protection Court at the Regional Court of Warsaw against one of the interlocutory decisions made by the President of URE, the administrative proceedings were suspended. On April 15th 2016, the Competition and Consumer Protection Court at the Regional Court of Warsaw dismissed the appeal. On May 25th 2016, the President of URE instigated ex officio proceedings to impose a financial penalty on PGNiG for its failure to meet the exchange sale requirement in 2013. On June 17th 2016, acting under Art. 56.6a of the Energy Law, the Company filed a request that the President of URE refrain from imposing a penalty. As at the date of this Report, the proceedings instigated by the President of URE were pending.

On October 28th 2015, the President of URE instigated proceedings to impose a financial penalty on PGNiG for its failure to meet the obligation to sell gas through the exchange market in 2014. Having considered the evidence, on April 20th 2016, PGNiG filed a request under Art. 56.6a of the Energy Act that the President of URE refrain from imposing a penalty. By decision of May 9th 2016, the President of the Energy Regulatory Office imposed on the Company a fine of PLN 15m for its failure to meet the exchange sale requirement in 2014. PGNiG appealed against the decision. By the date of this Report, the Competition and Consumer Protection Court at the Regional Court of Warsaw had not notified PGNiG of a hearing date.

##### 4.6.2. Proceedings before the President of the Office of Competition and Consumer Protection (UOKiK)

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###### *Anti-trust proceedings instigated on December 28th 2010*

On December 28th 2010, the President of the Office of Competition and Consumer Protection ('UOKiK') instigated ex officio anti-trust proceedings concerning 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, i.e. NowyGaz Sp. z o.o. of Warsaw. In its decision of July 5th 2012, the President of UOKiK found these actions to be anti-competitive practices, concluded that PGNiG had discontinued them as of November 30th 2010, and imposed on the Company a fine of PLN 60m. On July 24th 2012, PGNiG appealed against the decision to the Competition and Consumer Protection Court at the Regional Court of Warsaw. In the judgement of May 12th 2014, the Regional Court of Warsaw dismissed the appeal. On June 4th 2014, PGNiG appealed against the decision to the Warsaw Court of Appeals. In the judgment of May 29th 2015, the Court of Appeals amended the decision of the President of UOKiK where it referred to the amount of the fine by reducing the fine

to PLN 5.5m. The judgment is final. On June 12th 2015, PGNiG paid the penalty imposed by the judgment of the Warsaw Court of Appeals. Both PGNiG and the President of UOKiK filed cassation complaints against the Court of Appeals' judgment to the Supreme Court. PGNiG's cassation complaint seeks to challenge the finding of competition law infringement, whereas the President of UOKiK's cassation complaint seeks to question the Court of Appeals' decision to reduce the penalty imposed on PGNiG.

On January 10th 2017, the Supreme Court reversed the Court of Appeals' judgment concerning PGNiG's cassation complaint and remanded the case to the Court of Appeals for re-examination and decision on the costs of the cassation procedure. At the same time, the Supreme Court dismissed the President of UOKiK's cassation complaint and ordered the President of UOKiK to reimburse the costs of the cassation proceedings to PGNiG.

#### ***Anti-trust proceedings instigated on April 3rd 2013***

On April 3rd 2013, the President of UOKiK instigated anti-trust proceedings concerning alleged abuse by PGNiG of its dominant position on the domestic wholesale and retail natural gas market, which consisted in impeding the development of market conditions necessary for the emergence or development of competition by:

- Limiting the ability of business customers to reduce the contracted volumes of gas fuel and capacity,
- Limiting the ability of business customers to resell gas fuel,
- Requiring that business customers define the maximum volume of gas fuel purchased for resale in the contract,
- Refusing to grant wholesale customers the right to a partial change of supplier.

In the course of the proceedings, PGNiG submitted a request to the President of UOKiK for a commitment decision, in which it voluntarily agreed to revise certain provisions in its contracts with non-household customers. By virtue of Decision No. DOK-8/2013 of December 31st 2013, the President of UOKiK resolved not to impose a fine on PGNiG and obliged it to fulfil its commitment. PGNiG performed its obligations set out in the President of UOKiK's commitment decision within the deadlines specified therein.

On August 1st 2014, PGNiG OD took over the existing retail gas trading business from PGNiG and assumed all rights and obligations arising from the decisions issued by the President of UOKiK under the Act on Competition and Consumer Protection in respect of agreements to which PGNiG OD became a party.

On October 17th 2014, the President of UOKiK commenced administrative proceedings to impose a fine under Art. 107 of the Act on Competition and Consumer Protection of February 16th 2007 (Dz.U. No. 50, item 331, as amended) on PGNiG and PGNiG OD for alleged delay in complying with the President of UOKiK's decision of December 31st 2013 where it relates to optional reduction by business customers of gas fuel quantities and capacity contracted for future years. In their response, PGNiG and PGNiG OD presented grounds for their actions and stated that by taking such actions they duly complied with the decision. On September 24th 2015, the President of UOKiK issued decision No. DOK-3/2015 to impose a financial penalty of PLN 10.4m on PGNiG for its delay in compliance with the decision. The President of UOKiK also decided to discontinue the proceedings against PGNiG OD as the company had fulfilled the commitment under the decision of December 31st 2013.

On November 2nd 2015, PGNiG filed an appeal against the decision of the President of UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw. The first hearing was held on March 14th 2017. By judgment of March 21st 2017, whose copy with a statement of reasons were delivered on April 3rd 2017, the Regional Court dismissed the appeal filed by PGNiG and ordered the Company to reimburse the costs of the proceedings (PLN 360) to the President of UOKiK. The judgment is not final. On April 18th 2017, the Company appeal against the judgment in whole.

#### **4.6.3. Proceedings before the Arbitration Court**

On May 13th 2015, PGNiG S.A. called PAO Gazprom and OOO Gazprom Export to arbitration proceedings before the Arbitration Court in Stockholm. The dispute relates to change of the price terms of the long-term gas supply contract of September 25th 1996 (the Yamal Contract).

In the course of the arbitration proceedings, on February 1st 2016 PGNiG filed with the Arbitration Court a claim against PAO Gazprom and OOO Gazprom Eksport. The arbitration proceedings are expected to conclude in 2017.

The fact of referring the dispute to the Arbitration Court does not preclude commercial negotiations and earlier amicable settlement with the supplier.

#### 4.6.4. Proceedings concerning the OPAL pipeline

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Proceedings concerning the OPAL pipeline are pending before:

- the General Court of the European Union:
  - a complaint and a request for injunctive relief filed by PGNiG Supply&Trading (PST) on December 3rd 2016,
  - a complaint filed by PGNiG S.A. on March 1st 2017,
- the Higher Regional Court of Düsseldorf (Oberlandesgericht Düsseldorf), with which a complaint and a request for injunctive relief (application of injunctive measures) were filed by PGNiG and PST on December 15th 2016, and subsequently extended on January 20th 2017.

The complaint and the request for injunctive relief filed with the General Court of the European Union are 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) rule), in accordance with text of the administrative decision issued by the German regulator – Federal Network Agency (Bundesnetzagentur), subject to modifications referred to in the Commission's decision. The complaint and the request for the application of injunctive measures were lodged by PST. By decision of December 23rd 2016, the President of the General Court of the European Union stayed the implementation of the European Commission's challenged decision, temporarily granting PST's request for injunctive relief. At present, given the European Commission's decision, pleadings are being exchanged between the parties and other participants (interveners) in all pending proceedings. No further decisions have been issued on the case.

The complaint and the request to apply injunctive measures filed with the Higher Regional Court of 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. On December 30th 2016, the Higher Regional Court of Düsseldorf issued an injunction whereby it obliged the German regulator to suspend the effects of the disputed administrative settlement by prohibiting OPAL Gastransport GmbH & Co. KG from conducting any further daily, weekly, monthly and annual capacity auctions for the OPAL pipeline. Following the Court's ruling, on the same day the German regulator issued an immediately enforceable decision whereby it prohibited OPAL Gastransport GmbH & Co. KG from conducting such auctions.

The OPAL gas pipeline operator sold the capacities requested by Gazprom during the auction held on December 19th 2016, which almost doubled the use of the pipeline capacity in January. In February 2017, the Court's and the German operator's decision was fully complied with and the use of the pipeline's transmission capacities was reduced to the level from before December 2016. On January 20th 2017, PGNiG and PST extended the earlier complaint by lodging a complaint against a decision of the German regulator – Federal Network Agency (Bundesnetzagentur), dated December 20th 2016, whereunder the regulator refused to instigate formal administrative proceedings concerning revised conditions for the pipeline's exemption from the common gas market regulations and allow the applicants, i.e. PGNiG and PST, to join the proceedings. The companies also extended the list of arguments contained in their earlier pleading. As no further rulings were issued on the case, the Court's decision of December 30th 2016 remains in force.

On March 1st 2017, PGNiG S.A. filed a complaint against the controversial decision concerning change of the terms of use of the OPAL pipeline and a request for injunctive relief. The complaint was accepted by the Court for consideration. At present, pleadings are being exchanged between the parties and the interested participants' applications to intervene are being accepted.

#### 4.6.5. Other proceedings

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##### *Proceedings with a value equal to 10% or more of the Company's equity*

In Q1 2017, neither PGNiG nor its subsidiaries were engaged in any proceedings before a court, arbitration court or administrative authority concerning liabilities or claims whose value (whether in any single case or in two or more cases jointly) would represent at least 10% of the PGNiG Group's equity.

#### 4.7. Settlements under court proceedings

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

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

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

**4.9. Default under loans or breach of any material terms of loan agreements, with respect to which no remedial action had been taken by the end of the reporting period**

In the current reporting period, there were no breaches of any material terms of loan agreements to which the Parent or its subsidiaries are parties.

**4.10. Related-party transactions**

In the period covered by this report, no transactions were concluded on non-arms' length terms between related entities of the PGNiG Group.

**4.11. Management Board's position on the feasibility of meeting published forecasts for a given year**

The Management Board of PGNiG has not published any forecasts of the PGNiG Group's performance for 2017.

**4.12. Events subsequent to the reporting date**

Date	Company	Event
April 12th 2017	PGNiG TERMIKA Energetyka Przemysłowa S.A.	The District Court of Gliwice registered change of company name from Spółka Energetyczna Jastrzębie S.A. to PGNiG TERMIKA Energetyka Przemysłowa S.A.
April 20th 2017	PGNiG S.A.	Fitch Ratings (Fitch) assigned PGNiG S.A. Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) of 'BBB-' with Stable Outlooks and a foreign currency senior unsecured rating of BBB-. In addition, Fitch assigned PGNiG SA the National Long-Term rating of A(pol) with a stable outlook.
May 15th 2017	PGNiG S.A.	Moody's affirmed the Baa3 rating with stable outlooks, assigned earlier to PGNiG S.A. Moody's pointed to the PGNiG Group's strong financial position, stable cash flows generated by the Distribution and Storage segments, as well as the Group's leading position on the Polish natural gas market.

**4.13. Other information material to the assessment of human resources, assets, financial condition and performance, as well as to the assessment of ability to fulfil obligations**

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

## 5. Quarterly financial information of PGNiG S.A.

### 5.1. Basic financial statements

Separate statement of profit or loss	3 months ended	3 months ended
	Mar 31 2017	Mar 31 2016
	unaudited	unaudited
Revenue from sale of gas	5,128	4,832
Other revenue	869	764
<b>Revenue</b>	<b>5,997</b>	<b>5,596</b>
Cost of gas sold	(3,831)	(3,791)
Other raw materials and consumables used	(360)	(408)
Employee benefits expense	(142)	(133)
Transmission, distribution and storage services	(281)	(253)
Other services	(187)	(110)
Depreciation and amortisation expense	(186)	(196)
Taxes and charges	(126)	(122)
Other income and expenses	(20)	275
Work performed by the entity and capitalised	2	2
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	-	51
Finance income	48	74
Finance costs	(63)	(84)
<b>Total</b>	<b>(5,146)</b>	<b>(4,695)</b>
<b>Profit before tax</b>	<b>851</b>	<b>901</b>
Income tax	(170)	(172)
<b>Net profit</b>	<b>681</b>	<b>729</b>
Weighted average number of ordinary shares (million)	5,778	5,900
Basic and diluted earnings per share (PLN)	0.12	0.12

Separate statement of comprehensive income	3 months ended	3 months ended
	Mar 31 2017	Mar 31 2016
	unaudited	unaudited
<b>Net profit</b>	<b>681</b>	<b>729</b>
Exchange differences on translating foreign operations	-	(10)
Hedge accounting	(127)	(1)
Deferred tax	24	-
<b>Other comprehensive income subject to reclassification to profit or loss</b>	<b>(103)</b>	<b>(11)</b>
<b>Other comprehensive income not subject to reclassification to profit or loss</b>	<b>-</b>	<b>-</b>
<b>Other comprehensive income, net</b>	<b>(103)</b>	<b>(11)</b>
<b>Total comprehensive income</b>	<b>578</b>	<b>718</b>

**Statement of changes in equity**

	Accumulated other comprehensive income:				Total equity
	Share capital and share premium	Hedging reserve	Other	Retained earnings	
<b>As at Jan 1 2016 (audited)</b>	7,640	(564)	46	16,616	23,738
Net profit for period	-	-	-	729	729
Other comprehensive income, net, for period	-	(1)	(10)	-	(11)
<b>Total comprehensive income</b>	-	(1)	(10)	729	718
<b>As at Mar 31 2016 (unaudited)</b>	7,640	(565)	36	17,345	24,456
<b>As at Jan 1 2017 (audited)</b>	7,518	69	34	17,607	25,228
Net profit for period	-	-	-	681	681
Other comprehensive income, net, for period	-	(103)	-	-	(103)
<b>Total comprehensive income</b>	-	(103)	-	681	578
<b>As at Mar 31 2017 (unaudited)</b>	7,518	(34)	34	18,288	25,806



Separate statement of cash flows	3 months ended Mar 31 2017	3 months ended Mar 31 2016
	unaudited	unaudited
<b>Cash flows from operating activities</b>		
Net profit	681	729
Depreciation and amortisation expense	186	196
Interest and dividends	(25)	21
Net gain/(loss) on investing activities	(1)	(48)
Other non-monetary adjustments	194	83
Income tax paid	(39)	(48)
Current tax expense	170	172
Movements in working capital	414	677
<b>Cash flows from operating activities</b>	<b>1,580</b>	<b>1,782</b>
<b>Cash flows from investing activities</b>		
Payments for tangible exploration and evaluation assets	(142)	(167)
Payments for intangible assets and other property, plant and equipment	(124)	(80)
Loans advanced	(295)	(6)
Payments for derivative financial instruments	(52)	(48)
Payments for short-term securities	-	(397)
Payments for shares in related entities	(100)	-
Other cash used in investing activities	(3)	(10)
Repayments of loans advanced	12	221
Proceeds from sale of short-term securities	100	-
Proceeds from derivative financial instruments	67	32
Interest received	49	3
Other cash generated by financing activities	5	5
<b>Net cash from investing activities</b>	<b>(483)</b>	<b>(447)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of debt securities	659	758
Proceeds from derivative financial instruments	165	89
Other cash generated by financing activities	3	2
Repayment of borrowings	(2,151)	-
Payment for redemption of debt securities	(200)	(309)
Interest paid	(135)	(96)
Payments for derivative financial instruments	(20)	(20)
<b>Cash flows from financing activities</b>	<b>(1,679)</b>	<b>424</b>
<b>Net cash flows</b>	<b>(582)</b>	<b>1,759</b>
Cash and cash equivalents at beginning of period	4,923	4,622
<b>Cash and cash equivalents at end of period</b>	<b>4,341</b>	<b>6,381</b>

In the current reporting period, selected PGNiG Group companies (PGNiG S.A., Polska Spółka Gazownictwa Sp. z o.o., Exalo Drilling S.A., PGNiG Technologie S.A., Geofizyka Kraków S.A. w likwidacji (in liquidation), Geofizyka Toruń S.A., Gas Storage Poland Sp. z o.o., PGNiG Serwis Sp. z o.o., PGNiG TERMIKA S.A., PGNiG Obrót Detaliczny Sp. z o.o., and Geovita S.A.) were parties to the following cash pooling agreements:

- A cash pooling agreement between Bank Pekao S.A. and Group companies, dated July 16th 2014;
- A cash pooling agreement between PKO BP S.A. and Group companies, dated March 1st 2017.

The main objective of these agreements is to improve the effectiveness of liquidity management at the Group. The cash pooling arrangement facilitates liquidity planning within the PGNiG Group and reduces dependence on borrowed funds. Thanks to more efficient use of free cash, the Group's borrowing costs fell as well.

Therefore, the cash flows under the cash pooling transactions as well as exchange differences on translating cash and cash equivalents are presented in the statement of financial position under 'Cash and cash equivalents', and as an adjustment to cash and cash equivalents in the statement of cash flows.

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

<b>Reconciliation of cash and cash equivalents as presented in the statement of cash flows with cash and cash equivalents as presented in the statement of financial position.</b>	<b>3 months ended Mar 31 2017</b>	<b>3 months ended Mar 31 2016</b>
<b>Cash and cash equivalents at end of period in the statement of cash flows</b>	<b>4,341</b>	<b>6,381</b>
Opening balance of net exchange differences	(1)	1
Opening balance of inflows/(outflows) of cash under cash pooling arrangement	210	350
Net exchange differences for reporting period	(23)	(7)
Inflows/(outflows) of cash under cash pooling arrangement in reporting period	217	443
<b>Cash at end of period in the statement of financial position</b>	<b>4,744</b>	<b>7,168</b>

Separate statement of financial position	As at Mar 31 2017	As at Dec 31 2016
	unaudited	audited
<b>ASSETS</b>		
Property, plant and equipment	12,479	12,476
Licences, mining rights and rights to geological information	52	54
Deferred tax assets	40	-
Shares	9,589	9,489
Loans advanced	3,069	3,162
Other assets	594	578
<b>Non-current assets</b>	<b>25,823</b>	<b>25,759</b>
Inventories	1,061	1,942
Receivables	1,598	1,474
Cash pooling receivables	354	524
Derivative financial instruments	90	375
Loans advanced	722	426
Other financial assets	132	137
Cash and cash equivalents	4,744	5,132
<b>Current assets</b>	<b>8,701</b>	<b>10,010</b>
<b>TOTAL ASSETS</b>	<b>34,524</b>	<b>35,769</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital and share premium	7,518	7,518
Accumulated other comprehensive income	-	103
Retained earnings	18,288	17,607
<b>TOTAL EQUITY</b>	<b>25,806</b>	<b>25,228</b>
Employee benefit obligations	208	208
Provision for well decommissioning costs	1,262	1,252
Other provisions	28	28
Grants	581	590
Deferred tax liabilities	-	4
Other liabilities	56	62
<b>Non-current liabilities</b>	<b>2,135</b>	<b>2,144</b>
Financing liabilities	3,181	4,993
Derivative financial instruments	115	99
Trade and tax payables	2,035	2,109
Cash pooling liabilities	805	759
Employee benefit obligations	96	87
Provision for well decommissioning costs	20	20
Other provisions	248	248
Other liabilities	83	82
<b>Current liabilities</b>	<b>6,583</b>	<b>8,397</b>
<b>TOTAL LIABILITIES</b>	<b>8,718</b>	<b>10,541</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>34,524</b>	<b>35,769</b>

## 5.2. Notes to the interim condensed separate financial statements

### Deferred tax

	Deferred tax assets	Deferred tax liabilities	Set-off of assets and liabilities	Assets after set-off	Liabilities after set-off	Net effect of changes in the period
<b>As at Jan 1 2016</b>	<b>624</b>	<b>538</b>	<b>(538)</b>	<b>86</b>	<b>-</b>	<b>-</b>
Increase	50	161	-	-	-	(111)
Decrease	(195)	(216)	-	-	-	21
<b>As at Dec 31 2016</b>	<b>479</b>	<b>483</b>	<b>(479)</b>	<b>-</b>	<b>4</b>	<b>-</b>
Increase	14	12	-	-	-	2
Decrease	(12)	(54)	-	-	-	42
<b>As at Mar 31 2017</b>	<b>481</b>	<b>441</b>	<b>(441)</b>	<b>40</b>	<b>-</b>	<b>-</b>

### Impairment losses/write-downs

	Property, plant and equipment and intangible assets	Non-current assets held for sale	Shares	Inventories	Short-term receivables	Loans advanced	Current financial assets	Total
<b>As at Jan 1 2016</b>	<b>2,526</b>	<b>13</b>	<b>2,507</b>	<b>264</b>	<b>319</b>	<b>48</b>	<b>-</b>	<b>5,677</b>
Recognised provision taken to profit or loss	1,249	-	60	69	200	8	40	1,626
Provision reversal taken to profit or loss	(542)	-	-	(261)	(210)	-	-	(1,013)
<b>As at Dec 31 2016</b>	<b>3,233</b>	<b>13</b>	<b>2,567</b>	<b>72</b>	<b>309</b>	<b>56</b>	<b>40</b>	<b>6,290</b>
Recognised provision taken to profit or loss	-	-	-	74	5	-	-	79
Provision reversal taken to profit or loss	(7)	-	-	(57)	(2)	(2)	-	(68)
<b>As at Mar 31 2017</b>	<b>3,226</b>	<b>13</b>	<b>2,567</b>	<b>89</b>	<b>312</b>	<b>54</b>	<b>40</b>	<b>6,301</b>

### Provisions

	Provision for well decommissioning costs	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provision for environmental liabilities	Provision for UOKiK fine	Provision for claims under extra-contractual use of land	Other provisions	Total
<b>As at Jan 1 2016</b>	<b>1,293</b>	<b>76</b>	<b>182</b>	<b>41</b>	<b>65</b>	<b>18</b>	<b>24</b>	<b>1,699</b>
Provision reversal taken to cost of property, plant and equipment	(7)	-	-	-	-	-	-	(7)
Recognised provision taken to profit or loss	29	33	12	-	-	2	50	126
Used provision	(20)	(47)	-	-	-	-	(21)	(88)
Provision reversal taken to profit or loss	(23)	(33)	-	(15)	(55)	(12)	(44)	(182)
<b>As at Dec 31 2016</b>	<b>1,272</b>	<b>29</b>	<b>194</b>	<b>26</b>	<b>10</b>	<b>8</b>	<b>9</b>	<b>1,548</b>
Recognised provision capitalised in the cost of property, plant and equipment	10	-	-	-	-	-	-	10
Recognised provision taken to profit or loss	4	21	-	-	-	-	7	32
Used provision	(3)	(14)	-	-	-	-	-	(17)
Provision reversal taken to profit or loss	(1)	(3)	(10)	-	-	-	(1)	(15)
<b>As at Mar 31 2017</b>	<b>1,282</b>	<b>33</b>	<b>184</b>	<b>26</b>	<b>10</b>	<b>8</b>	<b>15</b>	<b>1,558</b>

## Revenue

	3 months ended Mar 31 2017	3 months ended Mar 31 2016
<b>Revenue from sale of gas, including:</b>	<b>5,128</b>	<b>4,832</b>
High-methane gas	4,662	4,294
Nitrogen-rich gas	399	356
Propane-butane gas	20	12
LNG	27	154
Helium	20	16
<b>Other revenue, including:</b>	<b>869</b>	<b>764</b>
Crude oil and natural gasoline	345	186
Sales of electricity	333	382
Right to use storage facilities	144	141
Other	47	55
<b>Total revenue</b>	<b>5,997</b>	<b>5,596</b>

## Operating expenses

	3 months ended Mar 31 2017	3 months ended Mar 31 2016
<b>Cost of gas sold</b>	<b>(3,831)</b>	<b>(3,791)</b>
Gas fuel	(3,876)	(3,543)
Net gain/(loss) on transactions hedging gas prices	45	(248)
<b>Other raw materials and consumables used</b>	<b>(360)</b>	<b>(408)</b>
Electricity for trading	(328)	(374)
Other raw materials and consumables used	(32)	(34)
<b>Employee benefits expense</b>	<b>(142)</b>	<b>(133)</b>
Salaries and wages	(90)	(93)
Social security contributions	(22)	(24)
Other employee benefits expense	(26)	(31)
Employee benefit obligations	(4)	15
<b>Transmission, distribution and storage services</b>	<b>(281)</b>	<b>(253)</b>
<b>Other services</b>	<b>(187)</b>	<b>(110)</b>
Regasification services	(87)	-
Cost of dry wells written off	(17)	(46)
Geological and exploration services	(16)	(4)
Mineral resources production services	(6)	(4)
Other services	(61)	(56)
<b>Recognition and reversal of impairment losses on property, plant and equipment and intangible assets</b>	<b>-</b>	<b>51</b>
Impairment losses on property, plant and equipment	-	51

## Finance income and costs

	3 months ended Mar 31 2017	3 months ended Mar 31 2016
<b>Finance income</b>		
Interest income	46	46
Foreign exchange gains	-	27
Other finance income	2	1
<b>Total finance income</b>	<b>48</b>	<b>74</b>
<b>Finance costs</b>		
Loss on measurement and exercise of forward contracts	(3)	(35)
Interest on debt and fees	(50)	(49)
Foreign exchange losses	(10)	-
<b>Total finance costs</b>	<b>(63)</b>	<b>(84)</b>

## Income tax

Reconciliation of effective tax rate	3 months ended Mar 31 2017	3 months ended Mar 31 2016
<b>Profit before tax</b>	<b>851</b>	<b>901</b>
Corporate income tax at the applicable 19% statutory rate	(162)	(171)
Other income not recognised as taxable income	11	14
Non-tax deductible expenses	(19)	(15)
<b>Corporate income tax at the effective tax rate</b>	<b>(170)</b>	<b>(172)</b>
Current tax expense	(190)	(119)
Deferred tax expense	20	(53)
<b>Effective tax rate</b>	<b>20%</b>	<b>19%</b>

## Tax group

PGNiG S.A. is a representative of the PGNiG Tax Group which, under the agreement concluded on September 19th 2016, will exist until December 31st 2020.

The PGNiG Tax Group comprises PGNiG S.A., PGNiG Obrót Detaliczny Sp. z o.o., PSG Sp. z o.o., PGNiG TERMIKA S.A., Gas Storage Poland Sp. z o.o., PGNiG SPV 5 Sp. z o.o., PGNiG SPV 6 Sp. z o.o., PGNiG SPV 7 Sp. z o.o., GEOFIZYKA Toruń S.A., PGNiG Technologie S.A., and PGNiG Serwis Sp. z o.o.

The existing PGNiG Tax Group replaced the former PGNiG Tax Group, established for the period April 1st 2014–December 31st 2016, which comprised PGNiG S.A., PGNiG Obrót Detaliczny Sp. z o.o., PSG Sp. z o.o., PGNiG TERMIKA S.A., Gas Storage Poland Sp. z o.o., PGNiG SPV 5 Sp. z o.o., PGNiG SPV 6 Sp. z o.o., and PGNiG SPV 7 Sp. z o.o.

In accordance with applicable tax regulations, the companies included in the PGNiG Tax Group lost their separate status as CIT payers and such status was acquired by the PGNiG Tax Group, which allows CIT to be calculated jointly for the PGNiG Tax Group members. The PGNiG Tax Group is a separate entity exclusively for the purposes of corporate income tax, and it should not be viewed as a separate legal person. Also, its separate tax status does not extend to other taxes; in particular, each of the PGNiG Tax Group member companies is a separate payer of VAT and of tax on civil-law transactions, and a separate remitter of personal income tax withholdings. The other companies of the PGNiG Group are separate CIT taxpayers.

Establishment of the PGNiG Tax Group is a source of benefits to its members, including the following:

- Losses generated by companies included in the PGNiG Tax Group may be offset as they are incurred,
- Donations to other members of the PGNiG Tax Group qualify as tax deductible expenses,
- CIT settlements are handled by a single entity.

## Property, plant and equipment

	As at Mar 31 2017	As at Dec 31 2016
Land	22	22
Buildings and structures	6,831	6,868
Plant and equipment	2,752	2,786
Vehicles and other	110	111
<b>Total tangible assets</b>	<b>9,715</b>	<b>9,787</b>
Tangible exploration and evaluation assets under construction	2,160	2,055
Other tangible assets under construction	604	634
<b>Total property, plant and equipment</b>	<b>12,479</b>	<b>12,476</b>



## PGNiG Management Board:

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President of the  
Management Board

Piotr Woźniak

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Vice President of the  
Management Board

Radosław Bartosik

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Vice President of the  
Management Board

Łukasz Kroplewski

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Vice President of the  
Management Board

Michał Pietrzyk

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Vice President of the  
Management Board

Maciej Woźniak

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Vice President of the  
Management Board

Magdalena Zegarska

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Warsaw, May 23rd 2017