Polskie Górnictwo Naftowe i Gazownictwo S.A.

INTERIM REPORT
for Q1
ended March 31st 2018

prepared in accordance with International Financial Reporting Standards

as endorsed by the European Union

PGNiG

Financial highlights

Key financial data – interim condensed consolidated financial statements	PLN million		EUR million	
	3 months ended March 31st 2018	3 months ended March 31st 2017	3 months ended March 31st 2018	3 months ended March 31st 2017
Revenue	13,247	11,652	3,170	2,717
Operating profit before depreciation and amortisation (EBITDA)	2,674	2,769	640	646
Operating profit (EBIT)	2,005	2,074	480	484
Profit before tax	2,080	2,105	498	491
Net profit attributable to owners of the parent	1,566	1,599	375	373
Net profit	1,566	1,599	375	373
Total comprehensive income attributable to owners of the parent	1,516	1,472	363	343
Total comprehensive income	1,516	1,472	363	343
Net cash from operating activities	3,528	2,965	844	691
Net cash from investing activities	(1,050)	(1,191)	(251)	(278)
Net cash from financing activities	(1,695)	(2,281)	(406)	(532)
Net cash flows	783	(507)	187	(118)
Basic and diluted earnings per share (PLN)	0.27	0.28	0.06	0.06
	As at March 31st 2018	As at December 31st 2017	As at March 31st 2018	As at December 31st 2017
Total assets	48,640	48,203	11,558	11,557
Total liabilities	13,592	14,576	3,230	3,495
Total non-current liabilities	6,867	7,004	1,632	1,679
Total current liabilities	6,725	7,572	1,598	1,816
Total equity	35,048	33,627	8,328	8,062
Share capital	5,778	5,778	1,373	1,385
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778
Book value per share and diluted book value per share (PLN and EUR)	6.07	5.82	1.44	1.40
Dividend per share declared or paid (PLN and EUR)	-	0.20	-	0.05

Key data from the interim condensed separate financial statements	PLN million		EUR million	
	3 months ended March 31st 2018	3 months ended March 31st 2017	3 months ended March 31st 2018	3 months ended March 31st 2017
Net revenue	6,893	5,997	1,650	1,398
Profit before tax	1,037	851	248	198
Net profit	825	681	197	159
Total comprehensive income	775	578	185	135
Net cash from operating activities	2,404	1,580	575	368
Net cash from investing activities	(319)	(483)	(76)	(113)
Net cash from financing activities	(1,456)	(1,679)	(348)	(391)
Net cash flows	629	(582)	151	(136)
Earnings and diluted earnings per share attributable to holders of ordinary shares (PLN and EUR)	0.14	0.12	0.03	0.03
	As at March 31st 2018	As at December 31st 2017	As at March 31st 2018	As at December 31st 2017
Total assets	33,193	33,447	7,887	8,020
Total liabilities	6,510	7,414	1,547	1,778
Total non-current liabilities	2,285	2,288	543	549
Total current liabilities	4,225	5,126	1,004	1,229
Equity	26,683	26,033	6,340	6,242
Share capital and share premium	7,518	7,518	1,786	1,802
Weighted average number of shares (million) in the period	5,778	5,778	5,778	5,778
Book value per share and diluted book value per share (PLN and EUR)	4.62	4.51	1.10	1.08
Dividend per share declared or paid (PLN/EUR)	-	0.20	-	0.05

Average EUR/PLN exchange rates quoted by the NBP	March 31st 2018	March 31st 2017	December 31st 2017
Average exchange rate in period	4.1784	4.2891	4.2447
Exchange rate at end of period	4.2085	4.2198	4.1709

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

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Interim condensed consolidated financial statements

Consolidated statement of profit or loss	3 months ended March 31st 2018	3 months ended March 31st 2017	
	unaudited	unaudited	
Revenue from sales of gas	9,562	9,468	*Note 3.4*
Other revenue	3,685	2,184	*Note 3.4*
Revenue	**13,247**	**11,652**	
Cost of gas sold	(8,215)	(6,749)	*Note 3.5*
Other raw materials and consumables	(793)	(643)	*Note 3.5*
Employee benefits expense	(669)	(640)	*Note 3.5*
Transmission services	(269)	(294)	
Other services	(392)	(361)	*Note 3.5*
Taxes and charges	(557)	(524)	
Other income and expenses	112	167	*Note 3.6*
Work performed by the entity and capitalised	214	159	
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	(4)	2	*Note 3.5*
Operating profit before depreciation and amortisation (EBITDA)	**2,674**	**2,769**	
Depreciation and amortisation	(669)	(695)	
Operating profit (EBIT)	**2,005**	**2,074**	
Net finance costs	40	19	*Note 3.7*
Profit/(loss) from equity-accounted investees	35	12	
Profit before tax	**2,080**	**2,105**	
Income tax	(514)	(506)	*Note 3.8*
Net profit	**1,566**	**1,599**	
Net profit attributable to:			
owners of the parent	1,566	1,599	
non-controlling interests	-	-	
Weighted average number of ordinary shares (million)	5,778	5,778	
Basic and diluted earnings per share (PLN)	0.27	0.28	

Consolidated statement of comprehensive income	3 months ended March 31st 2018	3 months ended March 31st 2017
	unaudited	unaudited
Net profit	**1,566**	**1,599**
Exchange differences on translating foreign operations	(4)	(27)
Hedge accounting	(58)	(127)
Revaluation of financial assets available for sale	-	4
Deferred tax	8	23
Share of other comprehensive income of equity-accounted investees	4	-
Other comprehensive income subject to reclassification to profit or loss	**(50)**	**(127)**
Other comprehensive income, net	**(50)**	**(127)**
Total comprehensive income	**1,516**	**1,472**
Total comprehensive income attributable to:		
owners of the parent	1,516	1,472
non-controlling interests	-	-

(in PLN million, unless stated otherwise)

Consolidated statement of cash flows	3 months ended March 31st 2018	3 months ended March 31st 2017
	unaudited	unaudited
Cash flows from operating activities		
Net profit	1,566	1,599
Depreciation and amortisation	669	695
Current tax expense	514	506
Net gain/(loss) on investing activities	(187)	(17)
Other non-cash adjustments	280	181
Income tax paid	(488)	(303)
Movements in working capital	1,174	304
Net cash from operating activities	**3,528**	**2,965**
Cash flows from investing activities		
Payments for acquisition of tangible exploration and evaluation assets under construction	(200)	(127)
Payments for other items of property, plant and equipment and intangible assets	(723)	(626)
Payments for shares in related entities	(90)	(137)
Other items, net	(37)	(301)
Net cash from investing activities	**(1,050)**	**(1,191)**
Cash flows from financing activities		
Increase in debt	402	7
Proceeds from derivative financial instruments	-	165
Decrease in debt	(2,097)	(2,440)
Payments for derivative financial instruments	-	(20)
Other items, net	-	7
Net cash from financing activities	**(1,695)**	**(2,281)**
Net cash flows	**783**	**(507)**
Cash and cash equivalents at beginning of period	2,581	5,832
Foreign exchange differences on cash and cash equivalents	5	(23)
Cash and cash equivalents at end of period	**3,364**	**5,325**

(in PLN million, unless stated otherwise)

Consolidated statement of financial position	As at March 31st 2018	As at December 31st 2017	
	unaudited	audited	
ASSETS			
Property, plant and equipment	32,539	32,452	*Note 3.9*
Intangible assets	1,058	1,115	
Deferred tax assets	125	141	
Equity-accounted investees	1,729	1,601	
Other assets	1,332	1,055	
Non-current assets	**36,783**	**36,364**	
Inventories	1,831	2,748	
Receivables	5,566	5,781	
Derivative financial instruments	456	450	*Note 3.10*
Other assets	577	216	
Cash and cash equivalents	3,365	2,578	
Assets held for sale	62	66	
Current assets	**11,857**	**11,839**	
TOTAL ASSETS	**48,640**	**48,203**	
EQUITY AND LIABILITIES			
Share capital and share premium	7,518	7,518	
Accumulated other comprehensive income	(190)	(158)	
Retained earnings	27,719	26,266	
Equity attributable to owners of the parent	35,047	33,626	
Equity attributable to non-controlling interests	1	1	
TOTAL EQUITY	**35,048**	**33,627**	
Financing liabilities	851	951	
Employee benefit obligations	724	725	
Provision for well decommissioning costs	1,738	1,717	*Note 3.3*
Other provisions	178	181	*Note 3.3*
Grants	754	767	
Deferred tax liabilities	1,992	2,019	
Other liabilities	630	644	
Non-current liabilities	**6,867**	**7,004**	
Financing liabilities	471	2,055	
Derivative financial instruments	533	322	*Note 3.10*
Trade and tax payables*	3,626	3,249	
Employee benefit obligations	402	371	
Provision for well decommissioning costs	53	53	*Note 3.3*
Other provisions	699	621	*Note 3.3*
Other liabilities	941	901	
Current liabilities	**6,725**	**7,572**	
TOTAL LIABILITIES	**13,592**	**14,576**	
TOTAL EQUITY AND LIABILITIES	**48,640**	**48,203**	

*Including income tax of PLN 261m (2017: PLN 217m)

(in PLN million, unless stated otherwise)

Consolidated statement of changes in equity

	Equity attributable to owners of the parent											
	Share capital and share premium, including:		Accumulated other comprehensive income:									
	Share capital	Share premium	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	Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
As at Jan 1 2017 (audited)	**5,778**	**1,740**	**(28)**	**69**	**2**	**(45)**	**(2)**	**24,499**	**32,013**	**3**	**32,016**
Net profit	-	-	-	-	-	-	-	1,599	**1,599**	-	**1,599**
Other comprehensive income, net	-	-	(27)	(103)	3	-	-	-	**(127)**	-	**(127)**
Total comprehensive income	**-**	**-**	**(27)**	**(103)**	**3**	**-**	**-**	**1,599**	**1,472**	**-**	**1,472**
As at Mar 31 2017 (unaudited)	**5,778**	**1,740**	**(55)**	**(34)**	**5**	**(45)**	**(2)**	**26,098**	**33,485**	**3**	**33,488**
At Jan 1 2018 (audited)	**5,778**	**1,740**	**(93)**	**7**	**(3)**	**(64)**	**(5)**	**26,266**	**33,626**	**1**	**33,627**
Effect of amended IFRS 9	-	-	-	-	3	-	-	(113)	(110)	-	(110)
Net profit	-	-	-	-	-	-	-	1,566	**1,566**	-	**1,566**
Other comprehensive income, net	-	-	(4)	(50)	-	-	4	-	**(50)**	-	**(50)**
Total comprehensive income	**-**	**-**	**(4)**	**(50)**	**-**	**-**	**4**	**1,566**	**1,516**	**-**	**1,516**
Change in equity recognised in inventories	-	-	-	15	-	-	-	-	**15**	-	**15**
As at Mar 31 2018 (unaudited)	**5,778**	**1,740**	**(97)**	**(28)**	**-**	**(64)**	**(1)**	**27,719**	**35,047**	**1**	**35,048**

(in PLN million, unless stated otherwise)

1. General information

1.1. The Group

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

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

As at the date of issue of this interim report for Q1 2018, 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. as at the date of this report is presented below:

Shareholder	Number of shares at the date of issue of the previous interim report*	% share in total voting rights at the date of issue of the previous interim report*	% change in the period	% share in total voting rights at the date of issue of this report**	Number of shares at the date of issue of this report**
State Treasury	4,153,706,157	71.88%	0.00%	71.88%	4,153,706,157
Other shareholders	1,624,608,700	28.12%	0.00%	28.12%	1,624,608,700
Total	**5,778,314,857**	**100.00%**	**0.00%**	**100.00%**	**5,778,314,857**

*As at Dec 31 2017
**As at Mar 31 2018

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

For further information on the Group's operating segments and consolidated entities, see **Note 2**.

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

These interim condensed consolidated financial statements and interim condensed separate financial statements for Q1 2018 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as endorsed by the European Union and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (consolidated text: Dz.U. of 2018, item 757).

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

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

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

This interim report for Q1 2018 was signed and authorised for issue by the Parent's Management Board on May 23rd 2018.

1.3. Significant accounting policies

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

Presentation changes are described in **Note 1.4** to the financial statements.

1.4. Presentation changes in the financial statements

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

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

1.4.1. IFRS 15 *Revenue from Contracts with Customers*

The basic principle of IFRS 15 *Revenue from Contracts with Customers* is the recognition of revenue when (or as) the performance obligation is satisfied by transferring the promised good or service, in an amount equal to the transaction price. The Group applies IFRS 15 based on the five-step model:

1. Identifying the contract;
2. Identifying the performance obligations in the contract;
3. Determining the transaction price (consideration);
4. Allocating the transaction price to each performance obligation;
5. Recognising revenue when (or as) a contractual performance obligation is satisfied.

In accordance with IFRS 15, when a third party is involved in providing goods or services to the customer, the nature of the relationship with the customer should be determined: whether that entity is a principal or an agent. The main criterion for identifying the performance obligations is the assessment of the role that a Group company plays in the performance. The role (whether a principal or an agent) is assessed based e.g. on an analysis of who controls the promised goods or services before their final transfer to the customer. The Group companies assessed whether they were principals or agents with respect to particular goods or services by determining who controlled them before their transfer to the customer. Any Group company which identified its role with respect to specific goods or services as that of an agent, changed the manner of presentation of relevant revenue. Revenue is presented in the net amount of the consideration which the entity retains having paid to the other party the consideration in exchange for the goods or services to be provided by that party.

In respect of gas transmission and electricity distribution services, the Group has no control over the main features or price of such services, acting solely as an agent.

(in PLN million, unless stated otherwise)

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

Consolidated statement of profit or loss	Period ended March 31st 2018 in accordance with IAS 18 and IAS 11	Impact of transition from IAS 18 and IAS 11 to IFRS 15	Period ended March 31st 2018 in accordance with IFRS 15
Revenue	**13,297**	**(50)**	**13,247**
including:			
Revenue from sales of gas	10,853	(1,291)	9,562
Other revenue	2,444	1,241	3,685
Operating expenses (excl. D&A)	**(10,623)**	**50**	**(10,573)**
including:			
Transmission services	(311)	42	(269)
Other services	(400)	8	(392)
Operating profit before depreciation and amortisation (EBITDA)	**2,674**	**-**	**2,674**
Operating profit (EBIT)	**2,005**	**-**	**2,005**
Profit before tax	**2,080**	**-**	**2,080**
Net profit	**1,566**	**-**	**1,566**

3 months ended Mar 31 2018	Sales to external customers	Inter-segment sales	Total revenue	EBITDA	Depreciation and amortisation	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Equity-accounted investees	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce
Trade and storage in accordance with IAS 18 and IAS 11	**11,310**	**196**	**11,506**	**179**	**(46)**	**133**	**-**	**-**	**(9)**	**3,291**	**2,984**
Impact of transition from IAS 18 and IAS 11 to IFRS 15	(1,297)	-	(1,297)	-	-	-	-	-	-	-	-
Trade and storage in accordance with IFRS 15	**10,013**	**196**	**10,209**	**179**	**(46)**	**133**	**-**	**-**	**(9)**	**3,291**	**2,984**
Distribution in accordance with IAS 18 and IAS 11	**294**	**1,257**	**1,551**	**763**	**(226)**	**537**	**-**	**-**	**(474)**	**13,164**	**11,230**
Impact of transition from IAS 18 and IAS 11 to IFRS 15	1,247	(1,247)	-	-	-	-	-	-	-	-	-
Distribution in accordance with IFRS 15	**1,541**	**10**	**1,551**	**763**	**(226)**	**537**	**-**	**-**	**(474)**	**13,164**	**11,230**
Reconciliation with consolidated data in accordance with IAS 18 and IAS 11			**(2,771)**	**8**	**-**	**8**	**-**	**-**	**2**	**(192)**	**-**
Impact of transition from IAS 18 and IAS 11 to IFRS 15			1,247	-	-	-	-	-	-	-	-
Reconciliation with consolidated data in accordance with IFRS 15			**(1,524)**	**8**	**-**	**8**	**-**	**-**	**2**	**(192)**	**-**

1.4.2. IFRS 9 *Financial Instruments*

Key changes introduced under new IFRS 9 Financial Instruments relate to the rules of classification and measurement of financial assets, a new model for determining expected credit losses and hedge accounting requirements.

IFRS 9 *Financial Instruments* introduces new rules of classification and measurement of financial assets. The standard defines three measurement categories for financial instruments:

1. at amortised cost calculated using the effective interest rate,
2. at fair value through other comprehensive income, and
3. at fair value through profit or loss.

The Group companies classify financial assets based on:

- the Group's business model of financial asset management. The model concerns the way in which the entity manages its financial assets in order to generate cash flows. A business model may provide for holding assets in order to collect their contractual cash flows (the ‘hold’ model); the objective may be both to collect cash flows and sell financial assets (the ‘hold and sell’ model); or the Group may manage financial assets in order to generate cash flows through the their sale (the ‘sell’ model),
- assessment of the profile of contractual cash flows (‘solely payments of principal and interest on the principal amount’ – ‘SPPI’ test). At the time of initial recognition of a financial asset, a Group company determines whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, and are thus consistent with the underlying loan agreement. Interest may include consideration for the time value of money, credit risk, other basic risks, as well as costs and profit margin.

The SPPI test is met if the cash flows from holding a given financial asset are solely payments of principal and interest (taking into account, in accordance with the provisions of IFRS 9, solely consideration for the time value of money, credit risk and other risks). If the time value of money is modified, a Group company carries out a qualitative or quantitative assessment (benchmark test). If the benchmark test identifies no significant difference (i.e. a difference over 10% in cash flows for a single reporting period or cumulatively over the life of the instrument) for the model instrument, such instrument may continue to be measured at amortised cost. In accordance with IFRS 9, the benchmark test should be carried out in more than one scenario.

IFRS 9 introduces a new methodology of estimating impairment losses on financial assets. The impairment model is based on the calculation of expected losses, as opposed to the previously applied model (under IAS 39) based on the concept of incurred losses. The standard provides for a three-stage classification of financial assets in terms of impairment:

Stage 1 – for balances of receivables for which credit risk has not increased significantly since initial recognition, in which case 12-month expected credit loss are recognised based on the probability of default.

Stage 2 – for balances of receivables for which credit risk has increased significantly since initial recognition, in which case lifetime expected credit losses are recognised based on the probability of default.

Stage 3 – for balances of credit impaired financial assets.

The Group companies employ either the statistical or case-by-case method to determine impairment. In accordance with the statistical approach, the Group recognises impairment losses on receivables for a large number of relatively low-amount short-term receivables (a ‘homogenous portfolio’). The impairment losses are determined based on the analysis of historical data on payment of past due receivables in particular ageing groups.

The results of the analysis are then used to calculate recovery ratios on the basis of which the amounts of impairment losses on receivables in each ageing group are determined.

(in PLN million, unless stated otherwise)

In accordance with the case-by-case approach, the Group companies estimate the expected credit losses for those items that could not be classified into a homogenous portfolio. Further, in line with this method, the Group companies review as at each reporting date whether credit risk has increased significantly for assets classified into the non-homogenous group, which requires the recognition of expected credit losses over the lifetime of a given instrument and its transfer from the first-stage risk group to the second-stage one. A significant increase in credit risk may be driven by various factors, including:

- termination of the credit facility agreement by the bank,
- loss of a significant market/trading partner,
- material pending litigation,
- legislative changes adversely affecting business activities,
- natural disasters,
- significant changes in sales and supply markets (including exchange rate fluctuations).

In the reporting period, the Parent has also applied the requirements of IFRS 9 related to hedge accounting.

The key changes resulting from their application are as follows:

- The Parent has updated the effectiveness testing methodologies in accordance with the requirements of IFRS 9. It will no longer assess whether the effectiveness of hedging relationships is within the 80–125% range as defined in IAS 39; instead, the Company will verify the existence of an economic relationship, impact of credit risk on the relationship effectiveness and compliance of the hedge ratio.
- For cash flow hedges, the Company has changed its policy for the settlement of terminated relationships and transfer to profit or loss of amounts accumulated in other comprehensive income. For relationships that result in the recognition of a non-financial asset, amounts transferred from other comprehensive income adjust the initial value of that asset.

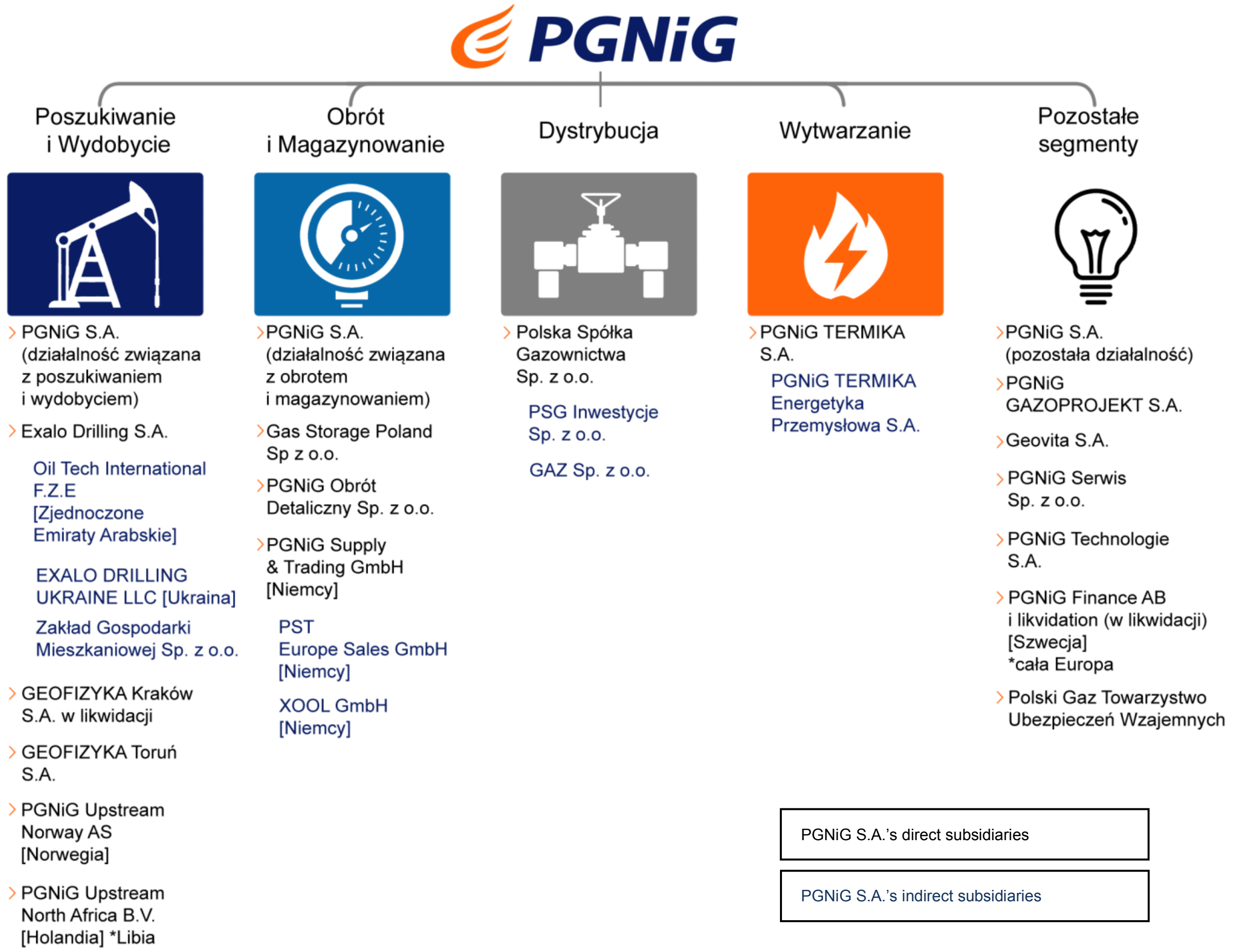
The standard was implemented using a modified retrospective method, namely the cumulative effect of changes was recognised in the opening balance of retained earnings.

Consolidated statement of financial position	As at Dec 31 2017 – before restatement	Effect of IFRS 9 on the consolidated statement of financial position	As at Jan 1 2018 – after restatement
ASSETS			
Non-current assets including:	**36,364**	**(17)**	**36,347**
Deferred tax assets	141	4	145
Other assets	1,055	(21)	1,034
Current assets including:	**11,839**	**(66)**	**11,773**
Receivables	5,781	(66)	5,715
TOTAL ASSETS	**48,203**	**(83)**	**48,120**
EQUITY AND LIABILITIES			
TOTAL EQUITY including:	**33,627**	**(110)**	**33,517**
Accumulated other comprehensive income	(158)	3	(155)
Retained earnings	26,266	(113)	26,153
Non-current liabilities including:	**7,004**	**3**	**7,007**
Other liabilities	644	3	647
Current liabilities including:	**7,572**	**24**	**7,596**
Other provisions	621	18	639
Other liabilities	901	6	907
TOTAL LIABILITIES	**14,576**	**27**	**14,603**
TOTAL EQUITY AND LIABILITIES	**48,203**	**(83)**	**48,120**

2. The Group and its reporting segments

The Group identifies five reporting segments.

The Group's fully-consolidated entities are presented below, by reporting segment.



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

Figure 1 ***Group structure by reporting segment***

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

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

(in PLN million, unless stated otherwise)

2.1. Changes in the Group structure

Date	Company	Event
January 15th 2018	PGNiG Finance AB i likvidation	The resolution on liquidation of PGNiG Finance AB of Stockholm was registered. As of January 15th 2018, the company's name is PGNiG Finance AB i likvidation

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 entities as an investment and accounts for the investment with the equity method.

The PGNiG Group applies the equity method to account for the interests held in the following jointly-controlled entities or entities over which it has significant influence:

Equity-accounted investees as at March 31st 2018

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%[1)]
2	SGT EUROPOL GAZ S.A.	80,000,000	38,400,000	51.18%[2)]
3	Polimex-Mostostal S.A.	473,237,604	78,000,048	16.48%[3)]
4	Polska Grupa Górnicza Sp. z o.o.	3,916,718,200	800,000,000	20.43%[1)]

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.

(in PLN million, unless stated otherwise)

2.3. Key data on the reporting segments

3 months ended March 31st 2018	Sales to external customers	Inter-segment sales	Total revenue	EBITDA	Depreciation and amortisation	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Profit/(loss) from equity-accounted investees	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce*
Exploration and Production	992	987	1,979	1,380	(252)	1,128	(4)	28	(299)	12,346	6,912
Trade and Storage	10,013	196	10,209	179	(46)	133	-	-	(9)	3,291	2,984
Distribution	1,541	10	1,551	763	(226)	537	-	-	(474)	13,164	11,230
Generation	660	258	918	401	(127)	274	-	-	(128)	3,485	1,787
Other Segments	41	73	114	(57)	(18)	(75)	-	7	(15)	445	1,810
Total	**13,247**	**1,524**	**14,771**	**2,666**	**(669)**	**1,997**	**(4)**	**35**	**(925)**	**32,731**	**24,723**
Reconciliation with consolidated data			(1,524)	8	-	8	-	-	2	(192)	
Total			**13,247**	**2,674**	**(669)**	**2,005**	**(4)**	**35**	**(923)**	**32,539**	

* Excluding employees of equity-accounted investees.

3 months ended March 31st 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
Total	**11,652**	**2,531**	**14,183**	**2,769**	**(695)**	**2,074**	**2**	**12**	**(739)**	**33,045**	**25,031**
Reconciliation with consolidated data			(2,531)	-	-	-	-	-	(14)	(207)	
Total			**11,652**	**2,769**	**(695)**	**2,074**	**2**	**12**	**(753)**	**32,838**	

* Excluding employees of equity-accounted investees.

2.4. Segments' financial results

In Q1 2018, the PGNiG Group's revenue came in at PLN 13,247m, an increase of PLN 1,595m (or 14%) on the corresponding period of the previous year (PLN 11,652m). Operating expenses amounted to PLN 11,242m (up 17% year on year), as a result of which the Group's consolidated operating profit for Q1 2018 was PLN 69m (or 3%) lower than in the same period of 2017. EBITDA was PLN 2,674m, down 3% year on year.

Operating data	3 months ended March 31st 2018	3 months ended March 31st 2017
Production of natural gas by the PGNiG Group (mcm)*		
High-methane gas (E)	464	474
Nitrogen-rich gas (Ls/Lw as E equivalent)	719	712
Total (as E equivalent)	1,183	1,186
Sales of natural gas by the PGNiG Group (mcm)*		
High-methane gas (E)	9,414	8,311
Nitrogen-rich gas (Ls/Lw as E equivalent)	491	469
Total (as E equivalent)	9,905	8,780
Volume of distributed gas (mcm)**		
High-methane gas, nitrogen-rich gas, propane-butane, coke gas	4,220	3,941
Crude oil, condensate and NGL ('000 tonnes)		
Production	348	346
Sale	429	390
Heat and electricity (from own generation sources)		
Heat sales outside the PGNiG Group (TJ)	19,037	18,088
Sales of electricity from own generation sources (TWh)	1,539	1,458

* Converted to gas with a calorific value of 39.5 mJ/m^3.
** In natural units.

Exploration and Production

In Q1 2018, the segment's operating profit was PLN 1,128m, i.e. PLN 44m (4%) more year on year. The key contributing factors included:

- A PLN 128m (7%) year-on-year rise in revenue, driven mainly by:
  - Higher price of gas produced in Poland and transferred from the Exploration and Production segment to the Trade and Storage segment – the average price of gas sold in Q1 2018 was 9.5% 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 the quarter weighted by the volume of gas produced in Poland and transferred to the Trade and Storage segment for sale).
  - Higher revenue from the sale of crude oil, condensate and NGL (up 14%), on a year-on-year increase in the volume of these products sold in Q1 2018 (up 10%) and the 4% increase in the average price of Brent crude in złoty-terms during the quarter;
- A PLN 84m (11%) year-on-year rise in operating expenses, Due mainly to:
  - Recognition in the first quarter of a PLN 139m mark-to-market valuation of the overlift of oil and gas sold in relation to the Group's contractual interests in licences in Norway, with a simultaneous reduction of depreciation and amortisation and other expenses by PLN 40m and PLN 15m, respectively;
  - Lower (by PLN 236m) costs on account of reversal of impairment losses on property, plant and equipment and intangible assets in relation to Q1 2017. In Q1 2018, the positive amount of impairment losses on non-current assets was PLN 241m (Q1 2017: PLN 5m);
  - Increase in the cost of dry wells written off to PLN 244m (Q1 2017: PLN 17m).

Trade and Storage

In the three months to March 31st 2018, the Trade and Storage segment earned operating profit of PLN 133m, i.e. PLN 175m less year on year. The change was driven by higher operating expenses incurred by the segment (up by PLN

452m, or 5%, compared with the corresponding period of the previous year), offset by an increase of PLN 277m, or 3% year on year, in its revenue.

The key contributing factors included:

- A 13% increase in the volume of gas sold by the segment, to 9.7 bcm. The most significant increase was recorded in sales to PGNiG's largest industrial customers. Revenue from gas sales outside the Group in Q1 2018 grew by PLN 85m year on year;
- Higher price of domestically produced gas transferred from the Exploration and Production segment (for description of the causes of the increase, see the section on the Exploration and Production segment);
- Adoption of amended IFRS 15 (for more information, see Note 1.4.1).

Distribution

In Q1 2018, the Distribution segment's operating profit rose by PLN 76m, or 16%, year on year, to PLN 537m, while EBITDA came in at PLN 763m, up by PLN 71m year on year.

The key contributing factors included:

- A PLN 82m (6%) year-on-year rise in revenue, mainly an effect of higher volumes of distributed gas fuel, which went up by approximately 7% (the average air temperature being lower in Q1 2018 than in Q1 2017 by 1.1 °C), offset by the introduction of a lower distribution tariff from March 1st 2018;
- An increase in revenue from connection charges by approximately PLN 9.8m year on year, to PLN 32m;
- Costs of transmission services, which were similar as in the corresponding period of 2017 (up by PLN 1m, or 0.5%). Despite an increase in sales of distribution services, the costs of transmission services remained largely unchanged as a result of new tariff rates charged by OGP Gaz-System S.A. from January 1st 2018.

Generation

The segment's operating profit earned in Q1 2018 was PLN 274m, having decreased PLN 27m year on year, while EBITDA reached PLN 401m, down 2% on Q1 2017.

The key factors contributing to the segment's result included:

- Increase in sales volumes of heat (by 5%) and electricity (by 6%) in Q1 2018, caused by lower average air temperatures compared with Q1 2017, with higher average selling prices of heat and electricity (up by 2% and 7%, respectively);
- Increase in the cost of coal, the main feedstock for heat production, by 23% year on year.

2.5. Factors and events which may affect future results of the PGNiG Group

The following factors will have a significant impact on the PGNiG Group's financial condition 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 market in Poland,
- Position of the President of the Energy Regulatory Office on gas fuel sale and distribution tariffs and heat sale tariffs,
- Weather conditions.

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 and in regulated areas offering considerable safety of the investments (gas distribution, power and heat generation).

(in PLN million, unless stated otherwise)

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
As at Jan 1 2017	**1,281**	**3,113**	**(1,181)**	**100**	**1,932**	
Increase	75	52				**23**
Decrease	(325)	(124)				**(201)**
Currency translation differences	(30)	(161)				**131**
Other changes	-	(1)				**1**
As at Dec 31 2017	**1,001**	**2,879**	**(860)**	**141**	**2,019**	**(46)**
As at Jan 1 2018	**1,001**	**2,879**	**(860)**	**141**	**2,019**	
Effect of amended IFRS 9	4	-		4	-	
Increase	55	42				**13**
Decrease	(110)	(120)				**10**
Currency translation differences	1	36				**(35)**
Other changes	-	(19)				**19**
As at Mar 31 2018	**951**	**2,818**	**(826)**	**125**	**1,992**	**7**

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
As at Jan 1 2017	**3,758**	**88**	**19**	**879**	**32**	**128**	**772**	**-**	**5,676**
Recognised impairment loss/write-down taken to profit or loss	1,226	6	-	-	1	127	124	-	**1,484**
Impairment loss/write-down reversal taken to profit or loss	(794)	(3)	(2)	(35)	-	(59)	(123)	-	**(1,016)**
Use	(63)	-	(3)	-	(1)	(1)	(146)	-	**(214)**
Transfers	(1)	-	3	-	(2)	-	-	-	**-**
Other changes	(88)	(7)	-	-	-	(4)	132	-	**33**
As at Dec 31 2017	**4,038**	**84**	**17**	**844**	**30**	**191**	**759**	**-**	**5,963**
As at Jan 1 2018	**4,038**	**84**	**17**	**844**	**30**	**191**	**759**	**-**	**5,963**
Effect of amended IFRS 9	**-**	**-**	**-**	**-**	**-**	**-**	**65**	**-**	**65**
Recognised impairment loss/write-down taken to profit or loss	5	-	-	-	72	53	170	-	**300**
Impairment loss/write-down reversal taken to profit or loss	(245)	-	-	(9)	-	(116)	(134)	-	**(504)**
Use	(6)	-	-	-	-	-	(1)	-	**(7)**
Transfers	-	-	(4)	-	6	-	(2)	-	**-**

(in PLN million, unless stated otherwise)

Other changes	(6)	(1)	(1)	-	-	-	(54)	-	**(62)**
As at Mar 31 2018	**3,786**	**83**	**12**	**835**	**108**	**128**	**803**	**-**	**5,755**

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	
As at Jan 1 2017	**1,661**	**143**	**194**	**117**	**10**	**36**	**258**	**2,419**	
Recognised provision capitalised in the cost of property, plant and equipment	184	-	-	-	-	-	-	**184**	
Recognised provision taken to profit or loss	73	160	-	24	-	7	148	**412**	*Note 3.5*
Provision reversal taken to profit or loss	(64)	(13)	-	(17)	-	(12)	(59)	**(165)**	*Note 3.5*
Used provision	(34)	(133)	-	-	-	-	(28)	**(195)**	
Other changes	(50)	(2)	(31)	-	-	-	-	**(83)**	
As at Dec 31 2017	**1,770**	**155**	**163**	**124**	**10**	**31**	**319**	**2,572**	
As at Jan 1 2018	**1,770**	**155**	**163**	**124**	**10**	**31**	**319**	**2,572**	
Effect of amended IFRS 9	**-**	**-**	**-**	**-**	**-**	**-**	**18**	**18**	
Recognised provision capitalised in the cost of property, plant and equipment	13	-	-	-	-	-	-	**13**	
Recognised provision taken to profit or loss	5	48	-	-	-	2	54	**109**	*Note 3.5*
Provision reversal taken to profit or loss	(4)	(5)	-	(1)	-	(3)	(43)	**(56)**	*Note 3.5*
Used provision	(3)	-	-	-	-	-	-	**(3)**	
Other changes	10	(1)	(3)	-	-	-	9	**15**	
As at Mar 31 2018	**1,791**	**197**	**160**	**123**	**10**	**30**	**357**	**2,668**	

(in PLN million, unless stated otherwise)

3.4. Revenue

	3 months ended March 31st 2018	3 months ended March 31st 2017
Revenue from sales of gas, including:	**9,562**	**9,468**
High-methane gas	9,233	8,932
Nitrogen-rich gas	455	484
LNG	23	24
CNG	8	8
Propane-butane gas	16	20
Gas sales adjustment on account of hedging transactions	(173)	-
Other revenue, including:	**3,685**	**2,184**
Sale of crude oil and natural gasoline	667	581
Sale of NGL	25	27
Sales of heat	571	549
Sale of electricity	593	494
Revenue from rendering of services:		
- drilling and oilfield services	43	46
- geophysical and geological services	10	74
- construction and assembly services	26	14
- distribution services	1,528	253
- connection charge	32	22
- other	107	48
Other	83	76
Total revenue	**13,247**	**11,652**

3.5. Operating expenses

	3 months ended March 31st 2018	3 months ended March 31st 2017
Cost of gas sold	**(8,215)**	**(6,749)**
Gas fuel	(8,219)	(6,794)
Cost of transactions hedging gas prices	4	45
Other raw materials and consumables used	**(793)**	**(643)**
Fuels for electricity and heat generation	(355)	(293)
Electricity for trading	(330)	(227)
Other raw materials and consumables used	(108)	(123)
Employee benefits expense	**(669)**	**(640)**
Salaries and wages	(468)	(438)
Social security contributions	(106)	(97)
Cost of long-term employee benefits	(23)	(22)
Other employee benefits expense	(72)	(83)
Other services	**(392)**	**(361)**
Regasification services	(89)	-
Repair and construction services	(42)	(24)
Mineral resources production services	(50)	(37)
Rental services	(25)	(28)
Other services	(186)	(272)
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	**(4)**	**2**
Cost of exploration and evaluation assets written-off	(244)	(17)
Impairment losses on property, plant and equipment	240	19
Total	**(10,073)**	**(8,391)**

(in PLN million, unless stated otherwise)

3.6. Other income and expenses

	3 months ended March 31st 2018	3 months ended March 31st 2017
Compensation, penalties, and fines received	10	9
Exchange differences related to operating activities	52	(74)
Measurement and exercise of derivative financial instruments	(43)	53
Change in inventory write-downs	63	(19)
Change in impairment losses on trade and other receivables	(36)	7
Change in provision for well decommissioning costs	(1)	(3)
Change in provision for certificates of origin and energy efficiency certificates	(43)	(82)
Change in other provisions	(19)	(7)
Change in products	319	322
Change in hydrocarbon production surplus/shortage compared with that specified in contract	(139)	-
Other income and expenses	(51)	(39)
Total other income and expenses	**112**	**167**

3.7. Net finance income/(costs)

	3 months ended March 31st 2018	3 months ended March 31st 2017
Debt-related interest expense [including fees]	(17)	(50)
Foreign exchange differences	24	58
Measurement and exercise of derivative financial instruments not designated for hedge accounting	(3)	(7)
Fair value measurement of financial assets	23	-
Other net finance costs/(income)	13	18
Total net finance costs	**40**	**19**

(in PLN million, unless stated otherwise)

3.8. Income tax

Reconciliation of effective tax rate	3 months ended March 31st 2018	3 months ended March 31st 2017
Profit before tax	2,080	2,105
Corporate income tax at the 19% statutory rate applicable in Poland	(395)	(400)
Deductible temporary differences in respect of which no deferred tax was recognised	(119)	(106)
Income tax expense disclosed in the statement of profit or loss	**(514)**	**(506)**
Including:		
Current tax expense	(528)	(391)
Deferred tax expense	14	(115)
Effective tax rate	25%	24%

Tax group

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

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

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

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

3.9. Property, plant and equipment

	As at March 31st 2018	As at December 31st 2017
Land	106	101
Buildings and structures	18,315	18,302
Plant and equipment	8,724	8,612
Vehicles and other	1,120	1,127
Total tangible assets	**28,265**	**28,142**
Tangible exploration and evaluation assets under construction	2,277	2,154
Other tangible assets under construction	1,997	2,156
Total property, plant and equipment	**32,539**	**32,452**

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

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

(in PLN million, unless stated otherwise)

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

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

3.10. Derivative financial instruments

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 January 1st–March 31st 2018 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 2018, as part of its trading activity, the Parent entered into transactions within the approved limits. The aggregate amount of the hedging transactions does not exceed the amount of the hedged items.

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

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

Income and expenses related to assets and liabilities under derivative financial instruments			**3 months ended March 31st 2018**		**3 months ended March 31st 2017**	
Item of statement of profit or loss and statement of comprehensive income	**Item referenced in Note / additional explanations**	**Notes**	**Derivative financial instruments not designated for hedge accounting**	**Derivative financial instruments designated for cash flow hedge accounting**	**Derivative financial instruments not designated for hedge accounting**	**Derivative financial instruments designated for cash flow hedge accounting**
Effect on statement of profit or loss						
Net finance costs	Measurement and exercise of derivative financial instruments not designated for hedge accounting	*Note 3.7*	(3)	-	(7)	-
Other income and expenses	Measurement and exercise of derivative financial instruments not designated for hedge accounting	*Note 3.6*	(43)	-	53	-
Revenue	Reclassification from other comprehensive income	*Note 3.4*	-	(173)	-	-
Raw materials and consumables used	Reclassification from other comprehensive income	*Note 3.5*	-	4	-	45
			(46)	**(169)**	**46**	**45**
Effect on other comprehensive income						
Gains/(losses) on measurement of derivative instruments designated for cash flow hedge accounting [effective portion]				(227)		(82)
Reclassification of derivative instruments valuation to profit or loss upon exercise (cash flow hedges)				169		(45)
				(58)		**(127)**
Effect on comprehensive income			**(46)**	**(227)**	**46**	**(82)**

(in PLN million, unless stated otherwise)

The tables below present the Group companies' derivative transactions as at March 31st 2018.

Derivative instruments designated for hedge accounting	As at March 31st 2018					As at December 31st 2017		
Type of derivative instrument	Notional amount	Period over which cash flow will occur and affect the financial result	Exercise price (exercise price range)	Weighted average exercise price	Fair value of instruments for which cash flow hedge accounting is applied	Notional amount	Period over which cash flow will occur and affect the financial result	Fair value of instruments for which cash flow hedge accounting is applied
Derivative instruments used to hedge currency risk in gas purchase contracts								
Forward								
USD	561 USD	up to 3 years	3.43 – 3.41	3.38	6	70 USD	1–3 months	(8)
USD	-	-	-	-	(3)	-	-	-
					3			**(8)**
Derivative instruments used to hedge gas purchase prices								
TTF call options	-	-	-	-	-	2 MWh	1–12 months	13
TTF swap	16 MWh	up to 3 years	15.97 - 18.7	17.43	41	1 MWh	1–12 months	12
TTF swap	29 MWh	up to 3 years	15.97 - 18.3	16.87	(243)	0.13 MWh	1–3 months	(1)
FO swap	0.6 Bbl	up to 12 months	62,23-62,29	62.50	11	-	-	-
					(191)			**24**
Derivative instruments used to hedge interest rate risk								
IRS	1,500 PLN	1–3 years	3.65%-4.07%	3.92%	(8)	1,500 PLN	1–3 years	(16)
				Total	**(196)**		**Total**	**-**
			Including:	Assets	58	Including:	Assets	25
				Liabilities	254		Liabilities	25

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

(in PLN million, unless stated otherwise)

Derivative instruments not designated for hedge accounting	As at Mar 31 2018		As at Dec 31 2017	
Type of derivative instrument	Notional amount	Fair value of instruments not designated for hedge accounting	Notional amount	Fair value of instruments not designated for hedge accounting
Derivative instruments used to hedge interest rate risk and currency risk				
CCIRS				
NOK	2,318 NOK	109	2,318 NOK	114
Forward				
EUR	-	-	98 EUR	(12)
		109		**102**
Derivative instruments used as economic hedges of electricity purchase prices				
Forward				
electricity – POLPX	329 MWh	58	476 MWh	36
electricity – POLPX	928 MWh	(66)	882 MWh	(34)
electricity – OTC	1 MWh	33	1 MWh	40
electricity – OTC	2 MWh	(50)	2 MWh	(64)
Futures				
electricity – EEX AG	3 MWh	59	2 MWh	71
electricity – EEX AG	2 MWh	(43)	2 MWh	(47)
		(9)		**2**
Derivative instruments used to hedge gas purchase prices				
Forward				
gas – POLPX	-	-	3 MWh	-
gas – OTC	14 MWh	64	15 MWh	94
gas – OTC	16 MWh	(75)	17 MWh	(113)
Futures				
gas – ICE ENDEX B.V.	2 MWh	11	2 MWh	16
gas – ICE ENDEX B.V.	2 MWh	(7)	2 MWh	(9)
gas – POWERNEXT SA	5 MWh	24	4 MWh	28
gas – POWERNEXT SA	4 MWh	(16)	3 MWh	(17)
TTF swap	0.4 MWh	8		
		9		**(1)**
Derivative instruments used to hedge purchase prices of CO_2 emission allowances				
Forward	-	-	7 EUR	-
Forward	105 EUR	(11)	-	-
Forward	13 t	(10)	12 t	(1)
Futures	19 t	9	11 t	1
		(12)		**-**
Derivative instruments used to hedge prices of property rights to certificates of energy origin – RES				
Forward	0.13 MWh	-	0.86 MWh	1
		-		**1**
Derivative instruments used to hedge share purchase prices				
Options	9.125 million shares	22	9.125 million shares	24
	Total	**119**	**Total**	**128**
	Including:		Including:	
	Assets	398	Assets	425
	Liabilities	279	Liabilities	297

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

(in PLN million, unless stated otherwise)

3.11. Contingent assets and liabilities

Contingent asset	As at March 31st 2018	As at December 31st 2017
	Estimated amount	
Promissory notes received	2	3
Grants awarded	220	172
Other contingent assets	15	15
Total	**237**	**190**

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

Contingent liability	As at March 31st 2018	As at December 31st 2017
	Estimated amount	
Guarantees and sureties	4,025	3,537
Promissory notes	830	702
Other	11	11
Total	**4,866**	**4,250**

The increase in contingent liabilities under sureties and guarantees granted in the reporting period was principally due to new guarantees issued as security for gas supplies, totalling EUR 74.8m (PLN 315m at the exchange rate quoted by the NBP for March 31st 2018).

3.12. Fair value hierarchy

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

	As at Mar 31 2018		As at Dec 31 2017	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Derivative instruments	191	265	249	201
	191	**265**	**249**	**201**
Financial liabilities				
Derivative instruments	192	341	249	73
	192	**341**	**249**	**73**

3.13. Classification of financial assets

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

(in PLN million, unless stated otherwise)

4. Supplementary information to the report

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

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

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 consolidated full-year report for 2017.

As at the date of this report, the following members of the Supervisory Board held shares in PGNiG S.A.: Mr Mieczysław Kawecki (9,500 shares) and Mr Sławomir Sieradzki (17,225 shares).

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)

As at the date of the financial statements, no decision was made regarding payment of dividend for 2017.

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

4.4. Issue, redemption, and repayment of debt securities

In Q1 2018, PGNiG S.A. redeemed PLN 1.5bn of domestic bonds as part of the following programme:

					Utilisation (%) as at	Outstanding debt (PLNbn) at	
Start date	**End date**	**Issuance Programme**	**Participating banks as at the reporting date**	**Limit**	**March 31st 2018**	**Mar 31 2018**	**December 31st 2017**
Jun 10 2010	July 31st 2020	Bond issuance programme	Bank Pekao S.A., ING Bank Śląski S.A., PKO BP S.A., Bank Handlowy w Warszawie, BNP Paribas S.A. Oddział w Polsce, Societe Generale S.A., Bank Zachodni WBK S.A., mBank S.A.	PLN 7bn	5.71%	0.4	1.9

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

4.5. Seasonality

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

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

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

4.6. Material court, arbitration and administrative proceedings

In Q1 2018, there were no changes with respect to any material court, arbitration, or administrative proceedings pending, as compared with their status presented in the Directors' Report on the Operations of PGNiG S.A. and the PGNiG Group in 2017.

4.7. Settlements from court proceedings

In the 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 material bearing on fair value of financial assets and liabilities

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

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

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

4.10. Related-party transactions

In the reporting period, no transactions were concluded on non-arm's length terms between companies of the PGNiG Group.

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

The PGNiG Management Board has not published any forecasts of the PGNiG Group's results for 2018.

4.12. Events subsequent to the reporting date

Between the reporting date and the date of the financial statements, there were no events material to the PGNiG Group.

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

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

5. Quarterly financial data of PGNiG S.A.

5.1. Financial statements

Separate statement of profit or loss	3 months ended March 31st 2018	3 months ended March 31st 2017
Revenue from sales of gas	5,910	5,128
Other revenue	983	869
Revenue	**6,893**	**5,997**
Cost of gas sold	(4,683)	(3,831)
Other raw materials and consumables used	(384)	(360)
Employee benefits expense	(160)	(142)
Transmission, distribution and storage services	(239)	(281)
Other services	(406)	(187)
Depreciation and amortisation	(192)	(186)
Taxes and charges	(133)	(126)
Other income and expenses	38	(20)
Work performed by the entity and capitalised	1	2
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	243	-
Finance income	112	48
Finance costs	(53)	(63)
Total	**(5,856)**	**(5,146)**
Profit before tax	**1,037**	**851**
Income tax	(212)	(170)
Net profit	**825**	**681**
Weighted average number of ordinary shares (million)	5,778	5,778
Basic and diluted earnings per share (PLN)	0.14	0.12

Separate statement of comprehensive income	3 months ended March 31st 2018	3 months ended March 31st 2017
Net profit	**825**	**681**
Hedge accounting	(58)	(127)
Deferred tax	8	24
Other comprehensive income subject to reclassification to profit or loss	**(50)**	**(103)**
Other comprehensive income, net	**(50)**	**(103)**
Total comprehensive income	**775**	**578**

(in PLN million, unless stated otherwise)

Separate statement of cash flows	3 months ended March 31st 2018	3 months ended March 31st 2017
Cash flows from operating activities		
Net profit	825	681
Depreciation and amortisation	192	186
Interest and dividends	(32)	(25)
Net gain/(loss) on investing activities	(171)	(1)
Other non-cash adjustments	355	194
Income tax paid	(275)	(39)
Current tax expense	212	170
Movements in working capital	1,298	414
Net cash from operating activities	**2,404**	**1,580**
Cash flows from investing activities		
Payments for tangible exploration and evaluation assets	(199)	(142)
Payments for intangible assets and other property, plant and equipment	(77)	(124)
Loans advanced	(90)	(295)
Payments for derivative financial instruments	(47)	(52)
Payments for shares in related entities	-	(100)
Other cash used in investing activities	(3)	(3)
Repayments of loans advanced	11	12
Proceeds from sale of short-term securities	-	100
Proceeds from derivative financial instruments	17	67
Interest received	59	49
Other cash generated by financing activities	10	5
Net cash from investing activities	**(319)**	**(483)**
Cash flows from financing activities		
Proceeds from issue of debt securities	549	659
Proceeds from derivative financial instruments	-	165
Other cash generated by financing activities	1	3
Repayment of borrowings	-	(2,151)
Redemption of debt securities	(1,996)	(200)
Interest paid	(10)	(135)
Payments for derivative financial instruments	-	(20)
Net cash from financing activities	**(1,456)**	**(1,679)**
Net cash flows	**629**	**(582)**
Cash and cash equivalents at beginning of period	1,680	4,923
Cash and cash equivalents at end of period	**2,309**	**4,341**

In the reporting period, selected PGNiG Group companies (PGNiG S.A., Polska Spółka Gazownictwa Sp. z o.o., Exalo Driling S.A., PGNiG Technologie S.A., Geofizyka Kraków S.A. w likwidacji (in liquidation), Geofizyka Toruń S.A., Gas Storage Poland Sp. z o.o., PGNiG Serwis Sp. z o.o., PGNiG TERMIKA S.A., PGNiG Obrót Detaliczny Sp. z o.o., 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 of December 22nd 2016 between PKO BP SA and Group companies, effective as of March 1st 2017.

(in PLN million, unless stated otherwise)

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

Therefore, cash flows under the cash pooling arrangement as well as exchange differences on translating cash and cash equivalents are presented in the statement of financial position under cash and cash equivalents, and as an adjustment to cash and cash equivalents in the statement of cash flows. As at March 31st 2018 and March 31st 2017, the fair value of the Company's financial assets and liabilities measured at amortised cost did not materially differ from their carrying amounts.

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

Reconciliation of cash and cash equivalents disclosed in the statement of cash flows with cash and cash equivalents disclosed in the statement of financial position	**3 months ended March 31st 2018**	**3 months ended March 31st 2017**
Cash and cash equivalents at end of period in the statement of cash flows	**2,309**	**4,341**
Opening balance of net exchange differences	(2)	(1)
Opening balance of inflows/outflows of cash under cash pooling arrangement	306	210
Net exchange differences in period	3	(23)
Inflows/(outflows) of cash under cash pooling arrangement in period	76	217
Cash at end of period in the statement of financial position	**2,692**	**4,744**

(in PLN million, unless stated otherwise)

Separate statement of financial position	As at March 31st 2018	As at December 31st 2017
Assets		
Property, plant and equipment	12,044	12,021
Licences, mining rights and rights to geological information	51	54
Deferred tax assets*	71	79
Shares	9,803	9,800
Loans advanced	1,870	1,553
Other assets	686	727
Non-current assets	**24,525**	**24,234**
Inventories	1,272	2,231
Receivables	2,161	2,442
Cash pooling receivables	436	284
Derivative financial instruments	253	189
Loans advanced	1,718	2,042
Other assets	136	41
Cash and cash equivalents	2,692	1,984
Current assets	**8,668**	**9,213**
TOTAL ASSETS	**33,193**	**33,447**
Equity and liabilities		
Share capital and share premium	7,518	7,518
Accumulated other comprehensive income	(5)	30
Retained earnings	19,170	18,485
Total equity	**26,683**	**26,033**
Employee benefit obligations	222	222
Provision for well decommissioning costs	1,386	1,376
Other provisions	28	28
Grants	546	554
Other liabilities	103	108
Non-current liabilities	**2,285**	**2,288**
Financing liabilities	549	1,998
Derivative financial instruments	340	72
Trade and tax payables	1,999	2,002
Cash pooling liabilities	853	622
Employee benefit obligations	113	98
Provision for well decommissioning costs	53	53
Other provisions	266	229
Other liabilities	52	52
Current liabilities	**4,225**	**5,126**
TOTAL LIABILITIES	**6,510**	**7,414**
TOTAL EQUITY AND LIABILITIES	**33,193**	**33,447**

(in PLN million, unless stated otherwise)

Statement of changes in equity

	Share capital and share premium	Hedging reserve	Other	Retained earnings (deficit)	Total equity
As at Jan 1 2017	**7,518**	**69**	**34**	**17,607**	**25,228**
Net profit	-	-	-	681	681
Other comprehensive income, net	-	(103)	-	-	(103)
Total comprehensive income	**-**	**(103)**	**-**	**681**	**578**
As at Mar 31 2017	**7,518**	**(34)**	**34**	**18,288**	**25,806**
As at Jan 1 2018	**7,518**	**7**	**23**	**18,485**	**26,033**
Effect of IFRS 9	-	-	-	(140)	(140)
As at Jan 1 2018 (restated)	**7,518**	**7**	**23**	**18,345**	**25,893**
Net profit	-	-	-	825	825
Other comprehensive income, net	-	(50)	-	-	(50)
Total comprehensive income	**-**	**(50)**	**-**	**825**	**775**
Change in equity recognised in inventories	-	15	-	-	15
As at Mar 31 2018	**7,518**	**(28)**	**23**	**19,170**	**26,683**

(in PLN million, unless stated otherwise)

5.2. Presentation changes in the financial statements

PGNiG S.A. has adopted amended IFRS 9 and IFRS 15 starting from January 1st 2018 (for more information, see **Note 1.4.**).

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

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

	3 months ended Mar 31 2018, in accordance with IAS 18 and IAS 11	Impact of transition from IAS 18 and IAS 11 to IFRS 15	3 months ended Mar 31 2018, in accordance with IFRS 15
Statement of profit or loss			
Revenue from sales of gas	5,977	(67)	5,910
Other revenue	983	-	983
Revenue	**6,960**	**(67)**	**6,893**
Cost of gas sold	(4,683)	-	(4,683)
Other raw materials and consumables used	(384)	-	(384)
Employee benefits expense	(160)	-	(160)
Transmission, distribution and storage services	(306)	67	(239)
Other services	(406)	-	(406)
Depreciation and amortisation	(192)	-	(192)
Taxes and charges	(133)	-	(133)
Other income and expenses	38	-	38
Work performed by the entity and capitalised	1	-	1
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	243	-	243
Finance income	112	-	112
Finance costs	(53)	-	(53)
Total	**(5,923)**	**67**	**(5,856)**
Profit before tax	**1,037**	**-**	**1,037**
Income tax	(212)		(212)
Net profit	**825**	-	**825**

(in PLN million, unless stated otherwise)

The impact of IFRS 9 adoption is presented below:

Assets	Carrying amount as at December 31st 2017	Effect of IFRS 9 on the statement of financial position	Carrying amount as at January 1st 2018
Property, plant and equipment	12,021	-	12,021
Licences, mining rights and rights to geological information	54	-	54
Deferred tax assets	79	4	83
Shares	9,800	-	9,800
Loans advanced	1,553	(22)	1,531
Other assets	727	-	727
Non-current assets	**24,234**	**(18)**	**24,216**
Inventories	2,231	-	2,231
Receivables	2,442	(13)	2,429
Cash pooling receivables	284	(6)	278
Derivative financial instruments	189	-	189
Loans advanced	2,042	(81)	1,961
Other assets	41	-	41
Cash and cash equivalents	1,984	-	1,984
Current assets	**9,213**	**(100)**	**9,113**
TOTAL ASSETS	**33,447**	**(118)**	**33,329**
Equity and liabilities			
Share capital and share premium	7,518	-	7,518
Accumulated other comprehensive income	30	-	30
Retained earnings	18,485	(140)	18,345
Total equity	**26,033**	**(140)**	**25,893**
Employee benefit obligations	222	-	222
Provision for well decommissioning costs	1,376	-	1,376
Other provisions	28	-	28
Grants	554	-	554
Other liabilities	108	3	111
Non-current liabilities	**2,288**	**3**	**2,291**
Financing liabilities	1,998	-	1,998
Derivative financial instruments	72	-	72
Trade and tax payables	2,002	-	2,002
Cash pooling liabilities	622	-	622
Employee benefit obligations	98	-	98
Provision for well decommissioning costs	53	-	53
Other provisions	229	18	247
Other liabilities	52	1	53
Current liabilities	**5,126**	**19**	**5,145**
TOTAL LIABILITIES	**7,414**	**22**	**7,436**
TOTAL EQUITY AND LIABILITIES	**33,447**	**(118)**	**33,329**

(in PLN million, unless stated otherwise)

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

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

(in PLN million, unless stated otherwise)

5.3. Notes to the interim condensed separate financial statements

Deferred tax

	As at January 1st 2017	Credited/Charged: Net profit/(loss)	Credited/Charged: Other comprehensive income	As at December 31st 2017	Effect of IFRS 9	Credited/Charged: Net profit/(loss)	Credited/Charged: Other comprehensive income	As at March 31st 2018
Deferred tax assets								
Employee benefit obligations	47	(1)	3	49	-	(1)	-	48
Provision for well decommissioning costs	141	14	-	155	-	1	-	156
Other provisions	22	4	-	26	-	15	-	41
Valuation of derivatives	18	(5)	-	13	-	51	-	64
Impairment of property, plant and equipment	214	(40)	-	174	-	(46)	-	128
Other	37	(11)	-	26	-	(8)	-	18
Total	**479**	**(39)**	**3**	**443**	**-**	**12**	**-**	**455**
Deferred tax liabilities								
Difference between depreciation rates for property, plant and equipment	359	(67)	-	292	-	15	-	307
Valuation of derivatives	65	(17)	(14)	34	-	22	(8)	48
Other	59	(21)	-	38	(4)	(5)	-	29
Total	**483**	**(105)**	**(14)**	**364**	**(4)**	**32**	**(8)**	**384**
Set-off of assets and liabilities	(479)	-	-	(364)		-	-	(384)
After set-off	-	-	-	-	-	-	-	-
Assets	-	-	-	79	-	-	-	71
Liabilities	4	-	-	-	-	-	-	-
Net effect of changes in the period		**66**	**17**		**4**	**(20)**	**8**	

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

(in PLN million, unless stated otherwise)

Impairment losses/write-downs

	Property, plant and equipment, licences, mining rights and rights to geological information	Other assets	Loans advanced	Shares	Inventories	Receivables	Cash pooling receivables	Current financial assets	Total
As at Jan 1 2017	**3,231**	**18**	**56**	**2,567**	**72**	**309**	**-**	**40**	**6,293**
Recognised impairment loss/write-down taken to profit or loss	1,203	-	4	104	88	222	-	-	1,621
Transfers	-	2	-	(2)	-	-	-	-	-
Impairment loss/write-down reversal taken to profit or loss	(837)	-	(10)	-	(57)	(212)	-	-	(1,116)
As at Dec 31 2017	**3,597**	**20**	**50**	**2,669**	**103**	**319**	**-**	**40**	**6,798**
Effect of IFRS 9	-	-	81	-	-	13	6	-	100
As at Jan 1 2018 (restated)	**3,597**	**20**	**131**	**2,669**	**103**	**332**	**6**	**40**	**6,898**
Recognised impairment loss/write-down taken to profit or loss	2	-	74	-	39	158	-	-	273
Transfers	-	(2)	-	4	-	(2)	-	-	-
Impairment loss/write-down reversal taken to profit or loss	(251)	(1)	(67)	-	(80)	(122)	(3)	-	(524)
As at Mar 31 2018	**3,348**	**17**	**138**	**2,673**	**62**	**366**	**3**	**40**	**6,647**

Provisions

	Provision for well decommissioning costs	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provision for environmental liabilities	Provision for UOKiK fine	Provision for claims under extra-contractual use of land	Provision for financial guarantees	Other provisions	Total
As at Jan 1 2017	**1,272**	**29**	**194**	**26**	**10**	**8**	**-**	**9**	**1,548**
Recognised provision capitalised in the cost of property, plant and equipment	192	-	-	-	-	-	-	-	192
Recognised provision taken to profit or loss	63	29	-	-	-	-	-	12	104
Used provision	(34)	(18)	-	-	-	-	-	-	(52)
Provision reversal taken to profit or loss	(64)	(2)	(32)	-	-	(2)	-	(6)	(106)
As at Dec 31 2017	**1,429**	**38**	**162**	**26**	**10**	**6**	**-**	**15**	**1,686**
Effect of IFRS 9	-	-	-	-	-	-	18	-	18
As at Jan 1 2018 (restated)	**1,429**	**38**	**162**	**26**	**10**	**6**	**18**	**15**	**1,704**
Recognised provision capitalised in the cost of property, plant and equipment	13	-	-	-	-	-	-	-	13
Recognised provision taken to profit or loss	5	9	-	-	-	1	-	20	35
Used provision	(4)	-	-	-	-	-	-	-	(4)
Provision reversal taken to profit or loss	(4)	-	(3)	-	-	(1)	(10)	-	(18)
Other changes	-	-	-	-	-	-	3	-	3
As at Mar 31 2018	**1,439**	**47**	**159**	**26**	**10**	**6**	**11**	**35**	**1,733**

(in PLN million, unless stated otherwise)

Revenue

	Total		Domestic sales		Export sales	
	3 months ended Mar 31 2018	3 months ended Mar 31 2017	3 months ended Mar 31 2018	3 months ended Mar 31 2017	3 months ended Mar 31 2018	3 months ended Mar 31 2017
Revenue from sales of gas, including:	**5,910**	**5,128**	**5,670**	**4,940**	**240**	**188**
High-methane gas	5,566	4,662	5,370	4,508	196	154
Nitrogen-rich gas	451	399	427	382	24	17
Propane-butane gas	16	20	16	20	-	-
LNG	27	27	27	27	-	-
Helium	23	20	3	3	20	17
Gas sales adjustment on account of hedging transactions	(173)	-	(173)	-	-	-
Other revenue, including:	**983**	**869**	**792**	**741**	**191**	**128**
Sale of crude oil and natural gasoline	350	345	250	241	100	104
Sale of electricity	370	333	324	311	46	22
Right to use storage facilities	143	144	143	144	-	-
Other	120	47	75	45	45	2
Total revenue	**6,893**	**5,997**	**6,462**	**5,681**	**431**	**316**

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

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

(in PLN million, unless stated otherwise)

Operating expenses

	3 months ended March 31st 2018	3 months ended March 31st 2017
Cost of gas sold	**(4,683)**	**(3,831)**
Gas fuel	(4,687)	(3,876)
Net gain/(loss) on transactions hedging gas prices	4	45
Other raw materials and consumables used	**(384)**	**(360)**
Electricity for trading	(361)	(328)
Other raw materials and consumables	(23)	(32)
Employee benefits expense	**(160)**	**(142)**
Salaries and wages	(97)	(90)
Social security contributions	(25)	(22)
Other employee benefits expense	(30)	(26)
Employee benefit obligations	(8)	(4)
Transmission, distribution and storage services	**(239)**	**(281)**
Other services	**(406)**	**(187)**
Regasification services	(89)	(87)
Cost of dry wells written off	(234)	(17)
Repair and construction services	(4)	-
Geological and exploration services	(3)	(16)
Mineral resources production services	(4)	(6)
Well abandonment services	(2)	-
Other services	(70)	(61)
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	**243**	**-**
Impairment losses on property, plant and equipment	243	-
Total	**(5,629)**	**(4,801)**

Other income and expenses

	3 months ended March 31st 2018	3 months ended March 31st 2017
Measurement and exercise of derivative financial instruments not designated for hedge accounting	(16)	(8)
Change in inventory write-downs	41	(17)
Change in provision for well decommissioning costs	(1)	(3)
Change in provision for certificates of origin and energy efficiency certificates	(9)	(18)
Cost of merchandise and materials sold	(2)	-
Change in other provisions	(20)	(7)
Other	45	33
Total other income and expenses	**38**	**(20)**

(in PLN million, unless stated otherwise)

Finance income and costs

	3 months ended March 31st 2018	3 months ended March 31st 2017
Finance income		
Interest income	49	46
Foreign exchange gains	28	-
Fair value measurement of a loan	21	-
Other finance income	14	2
Total finance income	**112**	**48**
Finance costs		
Loss on measurement and exercise of forward contracts	(28)	(3)
Debt-related interest and fees	(12)	(50)
Foreign exchange losses	-	(10)
Other	(13)	-
Total finance costs	**(53)**	**(63)**

Income tax

Reconciliation of effective tax rate	3 months ended March 31st 2018	3 months ended March 31st 2017
Profit before tax	**1,037**	**851**
Corporate income tax at the applicable 19% statutory rate	(197)	(162)
Other income not recognised as taxable income	52	11
Non-tax deductible expenses	(67)	(19)
Corporate income tax at the effective tax rate	**(212)**	**(170)**
Current tax expense	(191)	(190)
Deferred tax expense	(21)	20
Effective tax rate	**20%**	**20%**

Property, plant and equipment

	As at March 31st 2018	As at December 31st 2017
Land	43	43
Buildings and structures	6,932	6,981
Plant and equipment	2,341	2,386
Vehicles and other	100	102
Total tangible assets	**9,416**	**9,512**
Tangible exploration and evaluation assets under construction	2,165	2,055
Other tangible assets under construction	463	454
Total property, plant and equipment	**12,044**	**12,021**

Derivative financial instruments

The Company applies cash flow hedge accounting with respect to:

- Currency risk arising in connection with future, highly probable cash flows associated with foreign-currency costs incurred by the Company to purchase gas and petroleum products; and
- Commodity price risk arising in connection with future, highly probable cash flows associated with purchase / sale of gas and petroleum products.

Currency risk hedges

As part of its risk management strategy, which consists in particular in managing the risk from a net open position in contracts to purchase or sell gas and petroleum products, the Company hedges the currency risk arising in connection with the costs of purchase of gas and petroleum products payable by it under contracts settled in foreign currencies by entering into appropriate foreign exchange derivatives.

The purpose of the Company's currency risk hedging activities is to lock in a specific złoty-expressed value of costs paid by the Company in the euro or the US dollar for gas and petroleum products purchased under long-term contracts.

The Company applies cash flow hedge accounting with respect to future, highly probable foreign-currency costs to purchase gas and petroleum products under contracts settled in the euro or the US dollar arising largely from concluded commodity risk hedges.

The hedges used by the Company include currency forwards for USD purchase or sale.

The Company determines whether there is an economic relationship between the hedged item and the hedging instrument by comparing the key terms of the hedged item and the hedge.

Given the perfect matching between the key contractual terms of the hedged item and the hedging instrument (the same amount of the same currency and the same settlement date), the Company believes that a hedge ratio other than 1: 1 would cause an imbalance in the hedging relationship rendering the hedge ineffective and would be inconsistent with the purpose of the hedging relationship and the Company's risk management strategy.

With respect to currency risk, the main sources of ineffectiveness in cash flow hedging relationships identified by the Company are:

- Credit risk of the hedging instrument,
- Credit risk of the counterparty to the derivative instrument used as a hedge of the commodity risk, which derivative instrument hedges the variable commodity price cash flows into fixed cash flows in the foreign currency.

Except as described above, the Company identifies no other sources of ineffectiveness with respect to the hedging relationships used to hedge its currency risk.

Commodity price risk hedges

As part of its risk management strategy, which consists in particular in managing the risk from a net open position in contracts to purchase or sell gas and petroleum products, the Company hedges the risk of natural gas and petroleum product prices by entering into relevant derivative contracts (basis swaps and swaps) for indices used in the pricing formulas of contracts for the purchase or sale of gas and petroleum products, arising from appropriate layers designated in projected revenue or costs, depending on which position predominates.

The strategy is pursued by the Company to achieve a fixed margin resulting from its purchase or sale of gas at prices determined using pricing formulas based on various indices originating from various markets.

The Company applies cash flow hedge accounting with respect to future, highly probable cash flows associated with the purchase / sale of gas and petroleum products.

The hedges used by the Company include:

- Basis swap contracts which swap a relevant monthly gas price index for a relevant daily gas price index;
- Swap contracts which swap a relevant gas price index (monthly or daily, from various markets) or a crude oil price index for a fixed price.

The Company determines whether there is an economic relationship between the hedged item, based on a given gas price index or petroleum product price index, and the hedging instrument, by comparing the key terms of the hedged item and the hedge.

With respect to hedging relationships in which the hedged item is based on a number of gas price indices taken together and the hedging instrument is based on different but correlated gas price indices, the Company determines whether there is an economic relationship between the hedged item and the hedging instrument based on:

- An analysis of the correlation coefficients between the relevant indices, and
- A numerical test performed using linear regression for the assumed scenarios of behaviour of relevant index levels.

Given the perfect matching between the key contractual terms of the hedged item (based on a single gas price or petroleum price index) and the hedging instrument, the Company believes that a hedge ratio other than 1: 1 would cause an imbalance in the hedging relationship rendering the hedge ineffective and would be inconsistent with the purpose of the hedging relationship and the Company's risk management strategy.

Given that the hedged item based on various gas price indices taken together is composed of gas contracts based on various indices, while the hedging instrument is based on other, but correlated indices, the hedge ratio is equal to the slope in the linear regression equation for a series of historical observations of all indices, taking into account the portfolio structure as at the measurement day.

With respect to commodity price risk, the main sources of ineffectiveness in cash flow hedging relationships identified by the Company are:

- Mismatch between the index of the hedged item and the index of the hedging instrument, in the case of a hedged item based on various gas price indices taken together;
- Incomplete volumetric matching;
- Credit risk of the hedging instrument.

Except as described above, the Company identifies no other sources of ineffectiveness with respect to the hedging relationships used to hedge its commodity risk.

Interest rate risk hedges

The Company applies fair value hedge accounting for IRS transactions hedging the loan advanced to its subsidiary PGNiG Termika S.A. Below are presented numerical disclosures regarding all hedging relationships used by the Company.

(in PLN million, unless stated otherwise)

Type of hedging instrument	Notional amount	Carrying amount		Name of item in statement of financial position which includes hedging instrument	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in given period	Hedging gains or losses for reporting period, recognised in other comprehensive income	Hedge ineffectiveness amount taken to profit or loss	Item of statement of comprehensive income (statement of profit or loss) in which ineffectiveness amount is included	Amount reclassified from cash flow hedging reserve to profit or loss as reclassification adjustment	Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included
		Assets	Liabilities							
CASH FLOW HEDGES										
CURRENCY RISK										
Forward contracts for currency purchase (USD)	3,587	6	(3)	Derivative financial instruments	3	3	-	Operating income / expenses	Not applicable	Not applicable
COMMODITY PRICE RISK										
Basis swap contracts for gas price indices	1,913	31	(137)	Derivative financial instruments	(106)	(106)	-	Operating income / expenses	97	Revenue from sales of gas / gas consumption costs
Swap contracts for gas price indices	1,712	10	(105)	Derivative financial instruments	(95)	(95)	-	Operating income / expenses	72	Revenue from sales of gas / gas consumption costs
Swap contracts for petroleum product price indices	144	11	-	Derivative financial instruments	11	11	-	Operating income / expenses	Not applicable	Not applicable
FAIR VALUE HEDGES										
Interest rate swap	1,500	-	(8)	Derivative financial instruments	(14)	Not applicable	Not applicable	Finance income / costs	Not applicable	Not applicable
Total	**8,856**	**58**	**(253)**	**-**	**(201)**	**(187)**	-	**-**	**169**	**-**

(in PLN million, unless stated otherwise)

Hedged items	Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	Balance of cash flow hedging reserve for continuing hedges	Balance remaining in cash flow hedging reserve in respect of all hedging relationships for which hedge accounting is no longer applied
CURRENCY RISK			
Cost of purchased gas (USD)	3	3	Not applicable
COMMODITY PRICE RISK			
Gas contracts indexed to monthly gas price indices	(107)	(9)	17
Gas contracts indexed to daily gas price indices	(95)	(56)	Not applicable
Gas contracts indexed to monthly petroleum product indices	11	11	Not applicable
TOTAL	**(188)**	**(51)**	**17**

	3 months ended March 31st 2018	3 months ended March 31st 2017
At beginning of period	8	84
CURRENCY RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	(4)	(9)
Part of loss taken to statement of profit or loss as hedged item was not expected to occur	-	-
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	Not applicable	(9)
Reclassified amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	15	-
COMMODITY PRICE RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	(224)	(73)
Part of loss taken to statement of profit or loss as hedged item was not expected to occur	-	-
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	169	(36)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	-	Not applicable
At end of period	(36)	(43)

PGNiG S.A. Management Board:

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

Warsaw, May 21st 2018