Polskie Górnictwo Naftowe i Gazownictwo S.A.

Interim Report of the PGNiG Group

for the six months ended June 30th 2018

CONSOLIDATED INTERIM REPORT OF THE PGNIG GROUP

FOR THE SIX MONTHS ENDED JUNE 30TH 2018 CONTAINS:

1. AUDITOR'S REVIEW REPORT OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR SIX MONTHS ENDED JUNE 30TH 2018.
2. AUDITOR'S REVIEW REPORT OF INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS OF PGNiG S.A. FOR SIX MONTHS ENDED JUNE 30TH 2018.
3. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE PGNIG GROUP AND INTERIM CONDENSED FINANCIAL STATEMENTS OF PGNIG S.A. FOR SIX MONTHS ENDED JUNE 30TH 2018.
4. DIRECTORS' REPORT ON THE OPERATIONS OF PGNIG S.A. AND THE PGNIG GROUP FOR SIX MONTHS ENDED JUNE 30TH 2018.

Deloitte.

Deloitte Audyt
spółka z ograniczoną odpowiedzialnością sp. k.
z siedzibą w Warszawie
Al. Jana Pawła II 22
00-133 Warszawa
Polska

Tel.: +48 22 511 08 11, 511 08 12
Fax: +48 22 511 08 13
www.deloitte.com/pl

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo S.A.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of PGNiG Group (hereinafter: the "Group"), for which Polskie Górnictwo Naftowe i Gazownictwo S.A. with its registered office in Warsaw, Marcina Kasprzaka 25 is the Parent (hereinafter: the "Parent"), comprising: the condensed consolidated statement of financial position prepared as at 30 June 2018, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows for the period from 1 January 2018 to 30 June 2018 and selected explanatory notes ("interim condensed consolidated financial statements").

The Management Board of the Parent is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* announced in the form of Commission Regulations.

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with National Standard on Review Engagements 2410 in line with the wording of International Standard on Review Engagements 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* adopted by Resolution No. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018.

A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing in line with the wording of International Standards on Auditing adopted by Resolution No. 2041/37a/2018 of the National Council of Statutory Auditors of 5 March 2018 and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* announced in the form of Commission Regulations.

Auditor conducting the review on behalf of Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. — entity entered under number 73 on the list of auditors kept by the National Council of Statutory Auditors:

Piotr Sokołowski
Certified auditor
No. 9752

Warsaw, 28 August 2018

This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

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spółka z ograniczoną odpowiedzialnością sp. k.
z siedzibą w Warszawie
Al. Jana Pawła II 22
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Polska

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Polskie Górnictwo Naftowe i Gazownictwo S.A.

INTERIM REPORT
for the six months
ended June 30th 2018

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

PGNiG

Financial highlights

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

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

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

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

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1. Interim condensed consolidated financial statements

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

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

(in PLN million, unless stated otherwise)

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

(in PLN million, unless stated otherwise)

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

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

(in PLN million, unless stated otherwise)

Consolidated statement of changes in equity

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

2. General information

2.1. The Group

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

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

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

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

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

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

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

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

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

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

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

(in PLN million, unless stated otherwise)

2.3. Significant accounting policies

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

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

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

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

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

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

2.5. Presentation changes in the financial statements

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

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

(in PLN million, unless stated otherwise)

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

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

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

(in PLN million, unless stated otherwise)

The impact of IFRS 9 adoption is presented below:

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

3. The Group and its reporting segments

The Group identifies five reporting segments.

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

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

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

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

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

(in PLN million, unless stated otherwise)

3.1. Key data on the reporting segments

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

*Excluding employees of equity-accounted investees.

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

*Excluding employees of equity-accounted investees.

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

(in PLN million, unless stated otherwise)

4. Notes to the interim condensed consolidated financial statements

4.1. Deferred tax

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

4.2. Impairment losses/write-downs

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

(in PLN million, unless stated otherwise)

4.3. Provisions

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

(in PLN million, unless stated otherwise)

4.4. Revenue

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

4.5. Operating expenses

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

(in PLN million, unless stated otherwise)

4.6. Other income and expenses

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

4.7. Net finance income/(costs)

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

(in PLN million, unless stated otherwise)

4.8. Income tax

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

Tax group

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

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

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

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

4.9. Property, plant and equipment

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

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

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

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

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

(in PLN million, unless stated otherwise)

4.10. Derivative financial instruments

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

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

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

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

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

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

(in PLN million, unless stated otherwise)

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

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

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

(in PLN million, unless stated otherwise)

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

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

(in PLN million, unless stated otherwise)

4.11. Contingent assets and liabilities

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

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

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

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

4.12. Fair value hierarchy

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

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

4.13. Classification of financial assets

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

(in PLN million, unless stated otherwise)

5. Supplementary information to the report

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

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

		In the opinion of the PGNiG Management Board, the agreed terms and conditions of the agreements, including the competitive price of LNG, are satisfactory in the context of the PNGiG Group's strategy for developing its global LNG trading activities. The deliveries from Port Arthur LNG, LLC will be made through its liquefaction unit in Jefferson County, Texas, which is currently under construction and which is planned for commissioning in 2023. The deliveries from Venture Global LNG, Inc. will be made through export facilities in Louisiana (Calcasieu Pass LNG in Calcasieu Parish and Plaquemines LNG in Plaquemines Parish), which are currently under construction and which are planned to be completed in 2022 and 2023, respectively. The signed agreements do not constitute PGNiG's obligation to sign final LNG purchase contracts.
June 29th 2018	PGNiG S.A.	The Arbitration Court issued an ad hoc partial award in the arbitration proceedings initiated by PGNiG against PAO Gazprom and OOO Gazprom Export (Gazprom) to reduce the contract price for the gas supplied by Gazprom under a contract for the sale of natural gas to the Republic of Poland, dated September 25th 1996 (the Yamal Contract). Under the partial award, the Arbitration Court: 1) found that in November 2014 PGNiG filed a valid and effective request for renegotiation of the contract price; 2) confirmed the satisfaction of the condition set forth in the Yamal Contract which entitles PGNiG to demand a reduction of the contract price for the gas supplied by Gazprom under the Yamal Contract, thus confirming that, in principle, PGNiG's request to determine a new, lower contract price is justified; and 3) found, contrary to Gazprom's claims, that it has the right to change the contract price within the limits of the claim; the Court also decided that the Company's initial demand regarding the new price formula is too far-reaching; the Court also determined ad hoc that the new contract price would be determined later on in the proceedings. Under the Yamal Contract, the new contract price determined ad hoc by the Arbitration Court should apply with retroactive force as of November 1st 2014, i.e. the date of PGNiG's request for renegotiation of the contract price. The ad hoc issuance by the Arbitration Court of a partial award does not rule out the possibility of the parties to the Yamal Contract reaching an agreement on changing the price terms.

5.2. Dividend paid (declared)

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

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

5.3. Issue, redemption, and repayment of debt securities

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

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

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

5.4. Seasonality

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

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

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

5.5. Settlements from court proceedings

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

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

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

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

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

(in PLN million, unless stated otherwise)

5.8. Events subsequent to the reporting date

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

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

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

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

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

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

(in PLN million, unless stated otherwise)

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

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

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

(in PLN million, unless stated otherwise)

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

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

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

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

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

(in PLN million, unless stated otherwise)

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

(in PLN million, unless stated otherwise)

Statement of changes in equity

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

(in PLN million, unless stated otherwise)

7. Notes to the interim condensed separate financial statements

7.1. Presentation changes in the financial statements

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

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

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

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

(in PLN million, unless stated otherwise)

The impact of IFRS 9 adoption is presented below:

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

(in PLN million, unless stated otherwise)

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

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

(in PLN million, unless stated otherwise)

7.2. Deferred tax

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

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

(in PLN million, unless stated otherwise)

7.3. Impairment losses/write-downs

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

(in PLN million, unless stated otherwise)

7.4. Provisions

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

(in PLN million, unless stated otherwise)

7.5. Revenue

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

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

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

(in PLN million, unless stated otherwise)

7.6. Operating expenses

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

7.7. Other income and expenses

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

(in PLN million, unless stated otherwise)

7.8. Finance income and costs

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

7.9. Income tax

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

7.10. Property, plant and equipment

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

(in PLN million, unless stated otherwise)

7.11. Derivative financial instruments

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

(in PLN million, unless stated otherwise)

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

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

8. MANAGEMENT REPRESENTATIONS

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

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

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

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

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

PGNiG Management Board:

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

Warsaw, August 28th 2018

Polskie Górnictwo Naftowe i Gazownictwo S.A.

Directors' Report on the Operations of PGNiG S.A. and the PGNiG Group

in the first half of 2018

PGNiG

Definitions

Whenever any of the following acronyms and terms appear in this Directors' Report on the Operations of PGNiG and the PGNiG Group and nothing to the contrary is stated herein, these acronyms and terms should be interpreted as follows:

Proper names of companies and branches **PGNiG, Company or Issuer** – PGNiG S.A. as the parent of the group; **PGNiG Group**, **Group** – the PGNiG Group, which includes PGNiG S.A. as the parent and the subsidiaries; **CLPB** – Oddział Centralne Laboratorium Pomiarowo-Badawcze PGNiG S.A.; **ECSW** – Elektrociepłownia Stalowa Wola S.A.; **EXALO** – EXALO Drilling S.A.; **Gazoprojekt** – PGNiG Gazoprojekt S.A.; **GEOFIZYKA Kraków –** GEOFIZYKA Kraków S.A. w likwidacji (in liquidation); **GEOFIZYKA Toruń** – GEOFIZYKA Toruń S.A.; **GEOVITA** – GEOVITA S.A.; **GSP** – Gas Storage Poland Sp. z o.o.; **PGNiG OD** – PGNiG Obrót Detaliczny Sp. z o.o.; **PGNiG Technologie** – PGNiG Technologie S.A.; **PGNiG TERMIKA** – PGNiG TERMIKA S.A.; **PGNiG TERMIKA EP** – PGNiG TERMIKA Energetyka Przemysłowa S.A.; **PGNiG UN** – PGNiG Upstream Norway AS; **PGNiG UNA** – PGNiG UPSTREAM NORTH AFRICA B.V.; **PGG** – Polska Grupa Górnicza S.A; **PSG** – Polska Spółka Gazownictwa Sp. z o.o.; **PST** – PGNiG Supply & Trading GmbH; **PST ES** – PST Europe Sales GmbH.

Names of institutions, capital market entities and energy markets: **EEX** – European Energy Exchange (an energy exchange in Germany); **GASPOOL** – GASPOOL Balancing Services GmbH (a hub in Germany); **GAZ-SYSTEM** – Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.; **WSE –** Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.); **National Court Register** – National Court Register; **NCG** – NetConnect Germany GmbH & Co. KG (a hub in Germany); **NBP** – National Balancing Point (a hub in the UK); **LNG Terminal** – the President Lech Kaczyński LNG Terminal in Świnoujście; **PPX** – Towarowa Giełda Energii S.A. (Polish Power Exchange); **TTF** – Title Transfer Facility (hub in Holland); **URE** – Energy Regulatory Office;

With respect to units: **bbl** – one barrel of crude oil; **boe** – barrel of oil equivalent; **LNG** – liquefied natural gas; **NGL** – gas composed of molecules heavier than methane: ethane, propane, butane, isobutane, etc. (natural gas liquids); **PJ –** 1 petajoule; **TWh** – 1 terawatt hour.

With respect to economic and financial ratios: **EBIT** – earnings before interest and taxes; **EBITDA** – earnings before interest, taxes, depreciation and amortisation; **EV** – enterprise value; **P/BV** – price/book value; **P/E** – price/earnings; **ROA** – return on assets; **ROE** – return on equity.

Other abbreviations: **HP** – heat plant; **CHPP** – combined heat and power plant; **SFG** – Storage Facilities Group; **SF** − storage facilities; **CGSF** – Cavern gas storage facility; **EGM** – Extraordinary General Meeting; **UGSF** – Underground gas storage facilities; **GM** – General Meeting.

With respect to currencies: amounts expressed in the złoty are designated with the acronym **PLN**; amounts expressed in the euro are designated with the acronym **EUR**; amounts expressed in the US dollars are designated with the acronym **USD**; amounts expressed in the Norwegian crown are designated with the acronym **NOK**; amounts expressed in the Swedish crown are designated with the acronym **SEK**; amounts expressed in the Ukrainian hryvnia are designated with the acronym **UAH**; amounts expressed in the Omani rial are designated with the acronym **OMR.**

Converters

Converters	1 bcm of natural gas	1m tonnes of crude oil	1m tonnes of LNG	1 PJ	1 mboe	1 TWh
1 bcm of natural gas	1	0.90	0.73	38	6.45	10.972
1m tonnes of crude oil	1.113	1	0.81	41.86	7.5 - 7,8*	11.65
1m tonnes of LNG	1.38	1.23	1	55	8.68	14.34
1 PJ	0.026	0,023	0,019	1	0.1635	0.28
1 mboe	0.16	0.128 - 0.133*	0.12	6.118	1	1.70
1 TWh	0.091	0.086	0.07	3.6	0.59	1

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

CONTENT

1. The PGNiG Group in the first half of 2018

1.1. Key financial and operating metrics

PLN 20.9bn Revenue	PLN 4.3bn EBITDA	PLN 3.0bn EBIT	PLN 2.3bn Net profit	PLN 48.6bn Total assets
5. largest company listed on the WSE*	PLN 33bn Market capitalisation	24.8 thousand Number of employees	6.3% ROE	4.7% ROA
7.1 EV/EBITDA	14.5 P/E	0.9 P/BV	PLN 22.6m Average daily trading value	

0.7m tonnes
Production of crude oil, condensate, and NGL

2.3 bcm
Production of natural gas

0.4 bcm
Sales of natural gas by the Exploration and Production segment

204
Number of production licences

54
Number of oil and gas production facilities in Poland

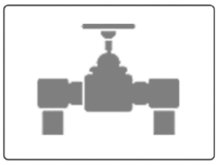
47
Number of hydrocarbon exploration and appraisal licences

14.9 bcm
Sales of natural gas by the Trade and Storage segment

3.0 bcm
Gas storage capacities

5.5 bcm
Volume of gas sold on energy exchanges

7.3 bcm
Volume of imported gas



7m
Number of customers

184 thousand km
Length of gas distribution network, including service lines

1,482
Number of municipalities connected to the gas grid

6.4 bcm
Volume of distributed gas

23.5 PJ
Heat output

2.1 TWh
Electricity output

5.3 GW
Thermal power

1.1 GW
Electric power

*In terms of market capitalisation as at June 30th 2018.

1.2. Calendar of events

January 2018

- On January 19th, an agreement was concluded with GAZ-SYSTEM, and on January 29th – with the Danish transmission system operator Energinet, for the provision of gas transmission services from October 1st 2022 until September 30th 2037, as part of the 2017 Open Season procedure of the Baltic Pipe project, concerning gas transmission from Norway to Poland via Denmark. The total amount of the commitment under the transmission agreements is estimated at PLN 8.1bn.
- On January 25th, the President of URE approved new Tariff No. 6 for gas fuel distribution and liquefied natural gas regasification services provided by PSG, reducing the prices and rates of network fees for all tariff groups by 7.37% on average.

February 2018

- A gas field was discovered in the Lubliniec-Cieszanów licence area with an annual production capacity of 20 mcm.

March 2018

- On March 2nd, a contract was concluded with Naftohaz of Ukraine for the supply of over 60 mcm of gas until the end of March 2018 following the suspension of gas deliveries to Ukraine by Gazprom.
- On March 8th, a PLN 900m loan agreement was concluded by ECSW with Bank Gospodarstwa Krajowego and PGNiG (PLN 450m from each lender) for the refinancing of ECSW's debt to PGNiG and Tauron Polska Energia SA, totalling PLN 600m, and PLN 300m to finance ECSW's further capital expenditure. The loan is due to be finally repaid on June 14th 2030.
- On March 14th, the President of URE approved amendments to PGNiG OD Gas Fuel Trading Tariff No. 6, increasing the prices for all tariff groups by 1% on average.
- On March 19th, an agreement was signed with Mari Petroleum Company Ltd on the strategic partnership in the upstream segment within and outside of Pakistan.

April 2018

- On April 19th, subsidiaries of PGNiG and LOTOS signed a cooperation agreement for the provision of services involving LNG bunkering of ships.

May 2018

- On May 9th, the Norwegian Ministry of Petroleum and Energy approved development plans for the Ærfugl and Skogul fields.
- Commercial gas flows were obtained from the borehole located in Budy Głogowskie, Rzeszów county.

June 2018

- On June 26th, an agreement was signed with Port Arthur LNG and Venture Global LNG of the US for deliveries totalling 4 million tonnes of LNG annually.
- On June 29th, the Arbitration Court issued, on an ad hoc basis, a partial award favourable for PGNiG as part of the arbitration proceedings against Gazprom concerning reduction of the contract price for the gas supplied under the Yamal Contract. ›For more information, see Section 5.2.3

1.3. Events subsequent to the reporting date

July 2018

- On July 20th, the Annual General Meeting of PGNiG passed a resolution to allocate the 2017 net profit to capital reserves and statutory reserve funds. ›For more information, see Section 7.2.
- On July 25th, the President of URE approved Amendment No. 2 to PGNiG OD Gas Fuel Trading Tariff No. 6, increasing the prices for all tariff groups by 5.9% on average.

1.4. Companies of the PGNiG Group

The Group's fully-consolidated entities as at June 30th 2018: PGNiG as the parent and 24 subsidiaries, including 17 consolidated direct subsidiaries and 7 consolidated indirect subsidiaries.

Fig. 1 Fully-consolidated companies of the PGNiG Group

Company name – PGNiG's indirect subsidiary.
[country] – country of registration (if different from Poland).
**Principal place of business (if other than country of registration).*

2. Strategy of the PGNiG Group

2.1. Mission, vision, overriding objective

Mission statement: We are a trusted supplier of energy for households and businesses.

Vision: We deliver innovative energy solutions in a responsible and efficient manner.

Overriding objective: Increase the PGNiG Group's value and ensure its financial stability.

2.2. Challenges

The PGNiG Group's activities largely depend on external factors. The key challenges facing the PGNiG Group include:

- developments in the global fuel and energy markets, especially **fluctuations in oil and gas prices,** the weakening correlation between market prices of gas and petroleum products as well as the dynamic **development of the LNG market** driven by rapid expansion of LNG infrastructure globally, which creates an oversupply in global LNG markets, leading to price declines;
- **further deregulation**, particularly with respect to contracts with customers, procedures for switching gas suppliers, and the exchange sale requirement (i.e. the requirement to sell high-methane gas on commodity exchanges or other regulated markets) pose a risk of significant customer loss and reduced revenue from storage operations;
- **the need to change the mix of gas import sources** and to diversify supply sources considering the expiry of the Yamal contract after 2022;
- **policy and legislative changes**, particularly with respect to taxation of hydrocarbon production, fulfilment of the exchange sale requirement, and uncertainty surrounding the support model for gas-fired cogeneration, all of which may adversely affect the PGNiG Group's revenues.

2.3. PGNiG Group Strategy

The Strategy defines the overriding goal of the PGNiG Group, which is to increase the Group's value and ensure its financial stability. It will be pursued through sustainable development of the Group driven by parallel investments in riskier business areas yielding relatively high rates of return (upstream projects – ca. 45% of total planned capex) and in regulated areas offering considerable safety of the investments (gas distribution, power and heat generation – ca. 42% of total capex). Additionally, ca. PLN 4bn of capex will be allocated to other growth projects, primarily in distribution, trading, power and heat generation.

The total capex has been assumed to exceed PLN 34bn 2017−2022. The investment programme should deliver cumulative 2017−2022 EBITDA of ca. PLN 33.7bn, driving long-term growth of the Group's EBITDA in 2023−2026 to the annual average of ca. PLN 9.2bn. At the same time, the net debt to EBITDA ratio should stay below 2.0 over the Strategy term, with the current dividend policy providing for distribution of up to 50% of the Group's consolidated net profit upheld.

The new Strategy identifies seven key business areas, with the following strategic objectives and ambitions for 2017−2022:

1. Exploration and Production – increase the current base of documented hydrocarbon reserves by ca. 35%, increase hydrocarbon production by ca. 41%, significantly reduce unit costs of exploration for and appraisal of deposits, and maintain unit cost of field development and hydrocarbon production;
2. Wholesale – build a diversified and competitive gas supply portfolio beyond 2022 and increase the overall volume of natural gas sales by ca. 7%;
3. Retail – maximise retail margins, while maintaining the total volume of retail gas sales at ca. 67–69 TWh/year;
4. Storage – secure access to storage capacities adjusted to actual demand and improve storage efficiency;
5. Distribution – build more than 300 thousand new service lines and increase gas distribution volume by ca. 16%;
6. Power and Heat Generation – increase power and heat sales volumes by ca. 20%;
7. Corporate Centre – increase involvement in and effective execution of R&D&I projects (target outlay of ca. PLN 680m), improve operational efficiency across the PGNiG Group and enhance the Group's image.

For further information on the strategic objectives in the individual business areas and a review of their implementation in the reporting period, see ›Sections 465.1–5.4

2.4. Risks

In the first half of 2018, there were no material changes in the nature, magnitude or probability of materialization of the risks affecting the operations of the PGNiG Group. For further information on the risks affecting the individual segments, see Section 8 of the Directors' Report on the operations of PGNiG and the PGNiG Group in 2017. ›www.pgnig.pl

The PGNiG Group monitors and assesses its risk exposures on an ongoing basis and takes steps to minimise their effect on its financial position. The key financial risks to which the PGNiG Group is exposed include:

- market risk: commodity price risk, currency risk and interest rate risk,
- credit risk,
- liquidity risk.

For a detailed description of the above risk, see Section 7.3 of the PGNiG Group's consolidated financial statements for 2017. › www.pgnig.pl

PGNiG's market risk is hedged by by entering into relevant derivative contracts.

Currency risk hedges and hedge accounting

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 EUR or USD 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 EUR or USD 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 and hedge accounting

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.

For a detailed information about concluded derivative instruments see Section 4.10 and 7.11 of the Interim Report for the first half of 2018.

2.5. Research and development

In H1 2018, PGNiG continued its research, development and innovation projects. The first competition under the INGA programme was completed, with 64 competition applications submitted (including 34 for PGNIG S.A.) for a total amount of PLN 390m. 12 research institutions submitted 36 new R&D offers. The *Geo-Metan* project, designed to obtain a new source of gas (coal bed methane) was continued. In connection with obtaining energy efficiency certificates, applications for over PLN 68m were filed. Cooperation with start-ups intensified both as part of the existing programmes and the programmes to be carried out under a new format. PGNiG took the first prize in the 'Breakthrough Solution' category of the 'Polish Radio Business Awards' contest in recognition for its InnVento start-up centre.

The key achievements in the R&D&I area in H1 2018 include:

- INGA – formal launch of the programme, acceptance and evaluation of competition applications: 64 applications submitted, including 34 for PGNIG S.A. The best applications are planned to be selected and contracts signed with the winners in Q3 and Q4 2018. The INGA programme will cover the following research areas: hydrocarbon exploration and production as well as production of gas fuels; coal bed methane extraction; materials for the construction and operation of gas networks; gas networks; use, trading and new applications of LNG and CNG; hydrogen technologies and gas fuels; technologies for cooperation with customers; environmental protection;
- 36 R&D offers for over PLN 46m were obtained from 12 research institutions. Concurrently, seven new agreements for R&D work were signed, totalling PLN 3.7m;
- An R&D Portfolio Board was established within PGNiG, responsible for the R&D project portfolio selection and management policy and for coordinating cooperation in this area within the PGNiG Group;
- ELIZA – launch of a project focusing on hydrogen theory and technologies to foster new competencies and business opportunities with regard to hydrogen production, storage and transport as well as to increase gas volumes on the Polish market;
- Helium-3 isotope – commencement of work on the technology for obtaining the Helium-3 isotope from liquid helium; The Helium-3 isotope is a highly sought-after material used in safety systems, medical diagnostics and nuclear power generation;
- Launch of the LNG Technical Competence Centre at the PGNiG Central Measurement and Testing Laboratory (CLPB);
- SMOK – commercialisation of the LNG settlement system based on dynamic methods of direct measurement, the SMOK methods – for refuelling and (ultimately) bunkering of LNG at the Baltic Sea and inland ports;
- LNG Sampling – start of commercialisation of mobile LNG sampling systems at regasification stations which will allow further improvement in the accuracy of LNG settlements on any scale;
- Development and implementation of the Intellectual Property Protection Model in the R&D area, being a set of principles and guidelines (such as best practice) which cover protection and management of R&D intellectual property. The model will also be used for the purposes of PGNiG's innovation projects;
- 'Low-power turboexpander' and 'MiniDrill – Technology for small-diameter waterjet drilling' – completion of research and development phases of R&D&I projects and commencement of work to launch further stages of implementation of the above projects in order to reach the commercialisation phase;
- FORESIGHT – recommendations on directing the stream of project funding in the research, development and innovation portfolio based on expert surveys conducted at PGNiG concerning the assessment of key issues of long-term significance relating to the Company's objects of interest in the R&D&I area;

- Energy efficiency – implementation of energy efficiency improvement projects. In 2018, applications were submitted for the issuance of energy efficiency certificates for a total volume of 45.5 thousand toe, with an estimated value of PLN 68,216,000;
- Monitoring of the implementation of 86 innovation projects at the PGNiG Group financed from the Companies' budgets and 14 projects financed from the innovation budget;
- Completion of four innovation projects: 'Energy Efficiency', 'Energy Management System', 'Crowdsourcing Platform' and 'VORTEX';
- Geo-Metan – continuation of the project to enable the use the considerable methane reserves in coal basins; once completed, the project is likely to markedly improve the safety of mining operations and profitability of mines and to reduce methane emissions. The following steps, among others, were taken:
  - signing of letters of intent to establish cooperation with the three coal companies which are owners of the mines designated for testing (Tauron, JSW, and PGG);
  - preparation and delivery to the coal companies of a document entitled 'Criteria for selecting drilling locations';
  - requesting the Minister of Energy to recommend the project for funding from the National Fund for Environmental Protection and Water Management;
  - applying to the Chief Geologist for the classification of pre-mining coal bed methane extraction.
  - commencement of the study entitled 'Evaluation of the effect of well stimulation as part of the Geo-Metan II project on the safety of underground mining operations';
- MIT Enterprise Forum Poland – 4th round of acceleration where PGNiG is a partner of the Energy Track. 250 applications with start-up ideas. The first part of an acceleration programme, comprising six workshop modules, was completed;
- Poland Prize – selection by the Polish Agency for Enterprise Development (PARP) of the 'The Prize' acceleration programme in a competition which is part of the 'Start in Poland' programme and which is run by the Polish Agency for Enterprise Development. 'The Prize' is operated by the Startup Hub Poland Foundation, with which PGNiG has signed a letter of intent on a strategic partnership. The purpose of the programme is to enable foreign start-ups to start their business in Poland and to make Poland the country of first choice with regard to conducting business in Central and Eastern Europe. The programme received co-financing of PLN 4,998,440;
- 'Early start-up' – development of the concept of a project enabling cooperation with start-ups offering projects with a low technology readiness level, with Polish science and research institutions included in cooperation and incubation.

3. Regulatory and market environment

3.1. Regulatory environment

Except as discussed below, there were no significant changes in the regulatory environment of the PGNiG Group in the first half of 2018. A detailed description of the regulatory environment is presented in Section 4.1 of the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in 2017. › www.pgnig.pl

3.1.1. Changes in the regulatory environment in Poland

Energy Law

In the first half of 2018, the Capacity Market Act of December 8th 2017 (Dz.U. of 2018, item 9) came into effect, which amended the Energy Law where it applies to the rules of determination and amounts of licence fees, increased the portion of electricity required to be sold on public market to 30%, and clarified the definition of the end user. In the first half of 2018, the Energy Law was amended by the Act on Electromobility and Alternative Fuels of January 11th 2018, which is to drive the growth of the alternative fuel market, and by the Act Amending the Act on Trading in Financial Instruments and Certain Other Acts of March 1st 2018 (Dz.U. of 2018, item 685). The purpose of the amendments was to align the regulations governing the exchange sale requirement with the new model of operation of the commodity forward instruments market in Poland. Except for the planned increase in licence fees, the other changes have a positive effect on the PGNiG Group's business.

Act on Emergency Stocks

In H1 2018, the Act was modified to bring it in line with the systemic changes made in the Polish business legislation following the adoption of the Sole Trader Law of March 8th 2018 (Dz.U. of 2018, item 646) and the Law of March 8th 2018 Implementing the Sole Trader Law and Other Business Legislation (Dz.U. of 2018, item 650). None of the above changes will affect the PGNiG Group's business.

Act on Electromobility and Alternative Fuels

In the first half of 2018, Polish lawmakers passed the Act on Electromobility and Alternative Fuels of January 11th 2018 (Dz.U. of 2018, item 317), thereby implementing Directive 2014/94/EU of the European Parliament and of the Council of 22 October 2014 on the deployment of alternative fuels infrastructure (OJ EU L 307 of 28 October 2014). The legislation is intended to establish a regulatory framework to promote the use of alternative fuels in transport, in particular liquefied natural gas (LNG) and compressed natural gas (CNG), including by laying down the rules for deployment and operation of alternative fuels infrastructure as well as by defining the tasks of state-owned companies as role models for the private sector. The Act has also introduced a range of incentives and tax exemptions for owners of vehicles run on alternative fuels.

Furthermore, it requires the PGNiG Group companies to take steps to promote the use of natural gas in transport: PSG will be tasked with setting up a network of natural gas filling stations, while PGNiG OD with operating them if no other operator is selected by way of a tender. The new legislation is favourable for the PGNiG Group, as it will lead to increased consumption of LNG and CNG for transport purposes.

Energy Efficiency Act

In H1 2018, it was modified to bring it in line with the systemic changes made in the Polish business legislation following the adoption of the Sole Trader Law of March 8th 2018 (Dz.U. of 2018, item 646) and the Law of March 8th 2018 Implementing the Sole Trader Law and Other Business Legislation (Dz.U. of 2018, item 650). The modifications will not affect the PGNiG Group's business.

Act on Special Hydrocarbon Tax

In H1 2018, the Act was modified to bring it in line with the definition of a financial instrument as amended by the Act Amending the Act on Trading in Financial Instruments and Certain Other Acts of March 1st 2018 (Dz.U. of 2018, item 685). The modifications will not affect the PGNiG Group's business.

Geological and Mining Law

In the first half of 2018, the Minister of the Environment continued the work on drafting another amendment to the Mining and Geological Law with respect to the matters excluded from the scope of the 2016 bill amending the Mining and Geological Law and implementing into the Polish legal system Directive 2013/30/EU of the European Parliament and of the Council of June 12th 2013 on safety of offshore oil and gas operations and amending Directive 2004/35/EC (OJ L 178 of June 28th 2013, p. 66). On June 15th 2018, the draft amendment to the Geological and Mining Law of September 15th 2017 was submitted to the President of Poland and the Senate. The purpose of the new law is to simplify the regulations applicable to administrative proceedings with regard to exploration, appraisal and extraction of hydrocarbons.

Capacity Market Act

In the first half of 2018, the Capacity Market Act of December 8th 2017 (Dz.U. of 2018, item 9) came into effect, which defines the organisation of the capacity market and sets out the rules of provision of the service consisting in remaining on standby to supply electricity to the power system. The Act aims to ensure the security of electricity supplies to end consumers by establishing a dedicated support system.

Tariff Regulation

In the first half of 2018, a new gas fuel tariff regulation was promulgated, i.e. the Regulation of the Minister of Energy of March 15th 2018 on detailed rules for determining and calculating tariffs for gas fuels and on settlement of transactions in gas fuels trade (Dz. U., item 640). The new regulation was necessitated by the transitional provisions of the Energy Efficiency Act, which extinguished the previous Tariff Regulation as of March 31st 2018. In addition to incorporating prior well-proven solutions for determining tariffs for gas fuels, calculating prices and rates, and settlements with consumers and between energy companies, the new legislation has also introduced a range of regulatory changes to help promote gas fuels and thus drive growth in the gas fuel market. The changes have a positive effect on the PGNiG Group's business.

In the first half of 2018, PGNiG OD applied the following tariffs:

- from January 1st to March 31st 2018 – PGNiG Obrót Detaliczny Sp. z o.o. Gas Fuel Trading Tariff No. 6, approved by the President of URE on December 14th 2017; in relation to the previous tariff (Tariff No. 5) the prices and subscription fees did not change;
- from April 1st 2018 – PGNiG Obrót Detaliczny Sp. z o.o. Gas Fuel Trading Tariff No. 6, approved by the President of URE on March 14th 2018 for a period ending December 31st 2018; the amended Tariff No. 6 increased gas fuel prices by 1.0% for all tariff groups relative to the previous tariff of PGNiG OD; under the amended Tariff No. 6, subscription fees remained unchanged.

Furthermore, on July 26th 2018 the President of URE approved amendment no. 2 to PGNiG Obrót Detaliczny Sp. z o.o. Gas Fuel Trading Tariff No. 6, for a period until December 31st 2018. Relative to the previous amendment to the PGNiG OD Tariff, amendment no. 2 to Tariff No. 6 increased gas fuel prices by an average of 5.9% for all tariff groups. Subscription fees remained unchanged.

In the first half of 2018, GSP applied the following tariffs:

- until May 26th 2018 – Gas Fuel Storage Tariff No. 1/2017, approved by the President of URE on April 18th 2017 for a period until March 31st 2018, lowering the average rate for the provision of storage services relative to Tariff No. 1/2016 by 0.3%;
- from May 27th 2018 – Gas Fuel Storage Tariff No. 1/2018, approved by the President of URE on April 13th 2018 for a period until March 31st 2019, lowering the average rate for the provision of storage services relative to Tariff No. 1/2017 by 0.25%;

Furthermore, on July 26th 2018 the President of URE approved an amendment to Gas Fuel Storage Tariff No. 1/2018 for a period until March 31st 2019, increasing the average rate for the provision of storage services relative to Tariff No. 1/2018 by 0.4%.

In the first half of 2018, PSG applied the following tariffs:

- until February 28th 2018 – Tariff No. 3 for Gas Fuel Distribution Services and LNG Regasification Services, approved on December 17th 2014 (as amended with effect as of January 1st 2016 and July 1st 2016, respectively);
- from March 1st 2018 – Tariff No. 6 for Gas Fuel Distribution Services and LNG Regasification Services, approved on January 25th 2018; the average reduction of prices and rates of network fees used for settlements with customers in relation to the current tariff of PSG for all tariff groups is 7.37%; the new Distribution Tariff expires on December 31st 2018.

In the first half of 2018, the tariffs applied by PGNiG TERMIKA included:

- from March 17th 2017 to August 31st 2018 – a tariff for heat generated at PGNiG TERMIKA's heat generating sources: the Żerań CHP plant, Siekierki CHP plant, Pruszków CHP plant, Wola HP and Kawęczyn HP, and for transmission and distribution of heat via the heating networks in the Pruszków area (supplied from the company's own heat generating source: Pruszków CHP plant) and in the Annopol, Chełmżyńska, Jana Kazimierza, Marsa Park and Marynarska areas, approved by the President of URE on January 25th 2017; the introduction of this tariff resulted in a decrease of the average prices applied by the company by 0.26%;

On July 27th 2018, the President of URE issued a decision to approve the new tariff for heat generated by PGNiG TERMIKA's assets listed above. The introduction of this tariff will result in an increase of the average prices applied by TERMIKA by 0.58%. The new tariff will become effective on September 1st 2018.

In the first half of 2018, the tariffs applied by PGNiG TERMIKA EP included:

- until March 30th 2018 – a tariff for heat generated at PGNiG TERMIKA EP's heat generating sources, approved by the President of URE on October 10th 2016 (two separate ones, i.e. one for Spółka Energetyczna Jastrzębie S.A. and one for Przedsiębiorstwo Energetyki Cieplnej S.A.);
- from April 1st 2018 − a single tariff applied by the merged company for heat generated at PGNiG TERMIKA EP's heat generating sources and distribution services; the amended tariff resulted in an average increase of 0.89% and 1.18% in heat generation and distribution rates respectively, relative to previous tariffs; the tariff is to remain effective until March 31st 2019;
- from November 1st 2017 to October 31st 2018 – a tariff for PGNiG TERMIKA EP's electricity distribution services approved by the President of URE on October 17th 2017 applies;
- from February 1st 2018 – the amended electricity tariff, approved on December 6th 2017, which increased the rates by 3.3%; the tariff is to remain effective until January 31st 2019.

Draft bills

In the first half of 2018, Polish lawmakers commenced drafting bills with far-reaching implications for the development of the Polish natural gas market, namely:

- Draft Act on Promoting Electricity from High-Efficiency Cogeneration, which is intended to establish a new system of aid for high-efficiency cogeneration units. The existing system, based on certificates of origin, will continue only until the end of 2018. The new law is aimed at reducing the environmental footprint of heat and electricity generation while ensuring the continuity of their supplies.
- A package of bills proposed as part of the government's STOP SMOG programme (draft act amending the Act on Aid for Thermal Insulation and Refurbishment Projects, Act on Packaging and Packaging Waste Management, and the Personal Income Tax Act) to curb low-stack emissions, i.e. emission of solid, liquid and gaseous fuels combustion related particles into the atmosphere from sources located at height not grater than 40 meters.
- A draft act amending the Act on Investment Projects for the Świnoujście LNG Regasification Terminal and certain other acts, which is intended to support the implementation of the government's policy to diversify gas supplies to Poland.

If enacted, all of the proposed bills will have a positive impact on the PGNiG Group's business.

3.1.2. Changes in the European regulatory environment

Third Energy Package

In the first half of 2018, interinstitutional negotiations were commenced between representatives of the European Parliament and of the Council (trilogue negotiations) to agree the text of certain legislative proposals in the Clean Energy for All Europeans package, i.e. the Regulation on the Governance of the Energy Union, ACER Regulation, Regulation on Risk-Preparedness in the Electricity Sector, RES Directive, Energy Efficiency Directive, and Directive on Energy Performance in Buildings. The negotiators were able to agree on the text of all of the above legislative proposals, except the ACER Regulation. Currently, the legislation is pending formal enactment by the European Parliament and the Council. Work on two other legislative proposals, i.e. the Regulation and Directive on Internal Market in Electricity, is less advanced, that is they are being drafted by the Council's Working Party on Energy (WP ENER).

In parallel to the negotiations on the Clean Energy for All Europeans package, work was under way on the European Commission's legislative proposal to review the Gas Directive. The proposed amendments to the Gas Directive are intended to extend the Third Energy Package to expressly cover the EU import gas pipelines. The Industry, Transport, Research and Energy (ITRE) Committee of the European Parliament adopted a report presenting the Committee's position on the European Commission's legislative proposal. Also, the European Committee of the Regions and European Economic and Social Committee adopted positions on the proposal. At present, the proposal is being reviewed by the Council. At the end of the first half of 2018, the proposal was submitted to the Committee of Permanent Representatives in the European Union (COREPER), which decided that further work was required on the technical aspects of the proposal and returned it to the Working Party on Energy. Austria, which has been presiding over the Council since July 2018, has not included further work on the review of the Gas Directive in its presidency agenda.

Directive on the Promotion of Clean and Energy Efficient Road Transport Vehicles

In the first half of 2018, work was continued on the legislative proposal approved by the European Commission in November 2017 and concerning a revision of the Directive on the Promotion of Clean and Energy Efficient Road Transport Vehicles. The European Commission's proposal is to increase the share of vehicles running on alternative fuels in the European Union, and consequently to support the Member States' efforts to reduce the overall emission intensity of the European economy. The PGNiG Group has submitted its position as part of the official public consultations conducted by the European Commission. The Committee on the Environment, Public Health and Food Safety was selected the leading committee of the European Parliament. The committee has announced a draft report on the proposal. Along with the work of the European Parliament, work on the subject is carried out by a Working Group at the Council of the European Union.

In April 2018, the European Economic and Social Committee adopted its opinion on the European Commission's legislative proposal, and in the second half of 2018 the European Committee of the Regions is expected to adopt its position.

SoS Regulation

In the first half of 2018, work was underway to harmonise the Polish legislation and procedures in place within the PGNiG Group with the requirements of the SoS Regulation. The PGNiG Group carried out work on harmonising the procedure to be followed in the event of gas supply disruptions.

NC CAM Regulation

In the first half of 2018, the European Network of Transmission System Operators for Gas (ENTSO-g) conducted consultations on the template of Rules of Procedure for Transmission System Operators, a document which ENTSO-g is obliged to adopt under Article 19 of the NC CAM Regulation. The PGNiG Group submitted its comments through the International Association of Oil & Gas Producers (IOGP).

In the first half of 2018, ACER also ran consultations on the selection of a single auction platform for the Poland-Germany interconnection point. The platform will be selected based on feedback from market participants. The case was referred to ACER as at the earlier stage of discussions transmission system operators and then regulatory authorities failed to reach an agreement.

3.2. Fuel prices and currency exchange rates

3.2.1. Gas market trends

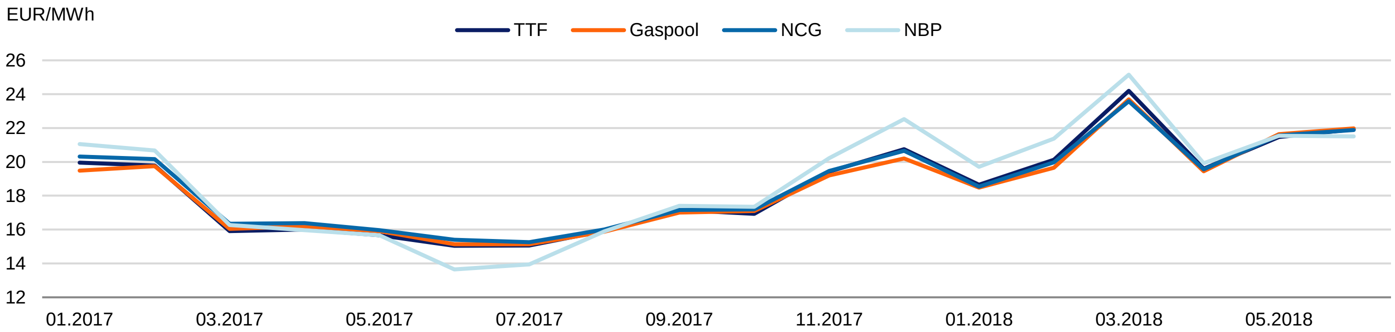
In the first half of 2018, natural gas prices increased on European markets, as evidenced by a 17% year-on-year increase in the average price of month ahead contracts on the TTF hub. This was due to exceptionally frosty weather in the second half of the first quarter, when the daily temperature was even 6°C lower than the seasonal standard. At the end of March, weather conditions were again typical of the season, which stabilised gas demand. In Q2 2018, the prices were gradually growing – in that period, extensive maintenance work was carried out at the production facilities in the Norwegian Sea. In early June, the Dutch Minister of Economy announced that annual production from the largest European gas field in Europe, Groningen, would be reduced to 12 bcm in 2020. According to previously published plans, that production volume was to be achieved only in 2022. The announcement brought about a brief increase in gas prices.

Global natural gas prices in H1 2018

In H1 2018, natural gas prices increased on average by 22% year on year. The highest growth rate (25% yoy) was recorded at the UK NBP hub, while the smallest growth (approximately 20% yoy) among the observed markets was reported at the German NCG hub. The average price of gas on key European markets was EUR 21.31/MWh, compared with EUR 17.46/MWh a year before. The beginning of 2018 saw gas prices grow significantly on the back of exceptionally low temperatures.

Cold winter boosted demand for LNG in Eastern Asia (Japan, South Korea, China), leading to a significant increase in prices on the spot market, even up to approximately USD 12/MMBtu in January 2018. In Europe, high prices of gas at the hubs and price competition from Asia drove up the spot prices of LNG to approximately USD 9/MMBtu in January. In April, prices in those regions fell to USD 7 and USD 6.7 per MMBtu, respectively. However, this trend did not last long and in mid-June LNG hub prices returned to the levels seen in early 2018. LNG price hikes occurred despite the fact that between January 2017 and March 2018 approximately 32m tonnes of new LNG production capacities came on stream, especially in the US, Australia, Russia and Malaysia. This was chiefly due to increased demand for LNG from Asian importers, in particular China. In the first half of 2018, on the back of increased exports of LNG from the US to Asia, for the first time supplies from the Atlantic Basin to the Pacific Region exceeded the trade volume within the Atlantic Basin alone. The price spread between LNG prices in Asia and Europe made it profitable again to reload LNG at European terminals for re-export to Asia. The increase in demand for LNG prompted a number of decisions to build new liquefaction terminals and execute long-term contracts, including for LNG supplies from the US.

Average monthly spot prices of natural gas at selected European hubs



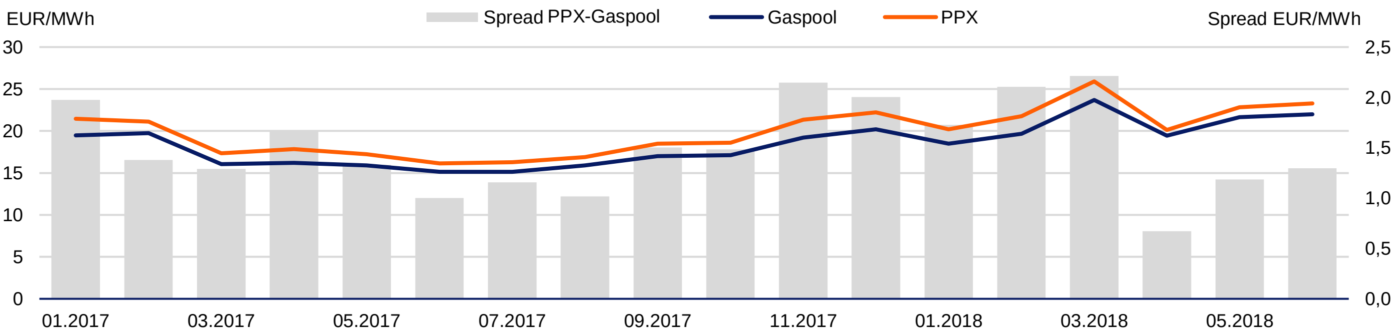
Source: ICE – Intercontinental Exchange, EEX – European Energy Exchange.

Polish gas market

Year on year, consumption of high-methane grid gas grew in H1 2018 to approximately 8.6 bcm (excluding gas fuel supplied on the OTC and PPX markets), that is by 4.5%, mainly on the back of low temperatures. In Poland, consumption of gas increased in February and March.

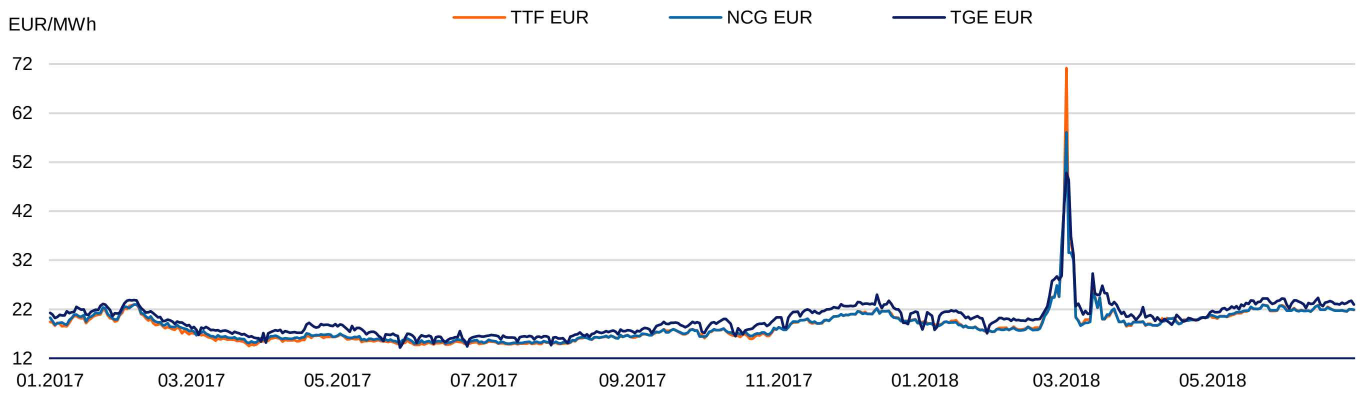
In H1 2018, the average spot price of gas in Poland was PLN 94.37/MWh, up 19% year on year. Gas prices in Poland were correlated with those in other European markets. The spread between spot prices on the PPX and the GASPOOL hub increased from EUR 1.43/MWh in H1 2017 to EUR 1.54/MWh in H1 2018, on the back of, *inter alia*, appreciation of the PLN against the EUR and increased injection rate to underground storage facilities in Germany, compared to the average rates in the first halves of 2017 and 2018. The Polish currency has recently depreciated, reducing the price spread between the PPX and GASPOOL.

Average monthly natural gas spot prices in Poland and Germany



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

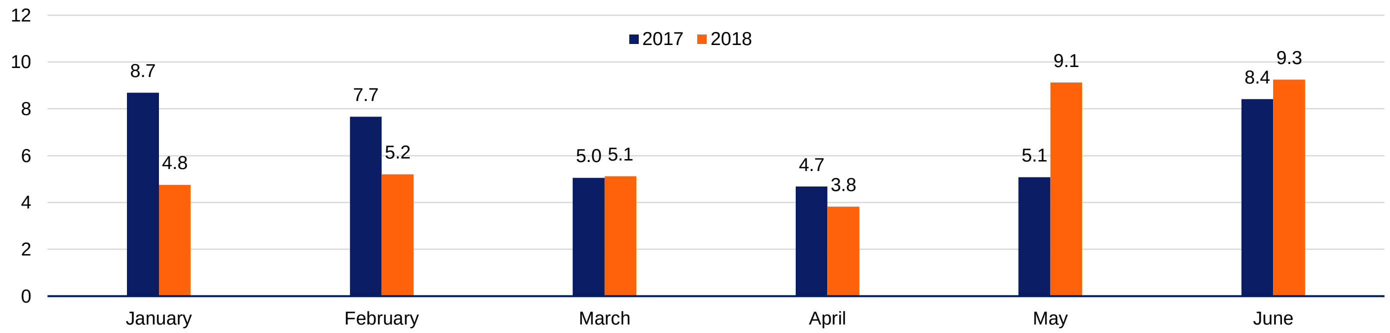
Spot price of gas at PPX, TTF and NCG in 2017 and H1 2018



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

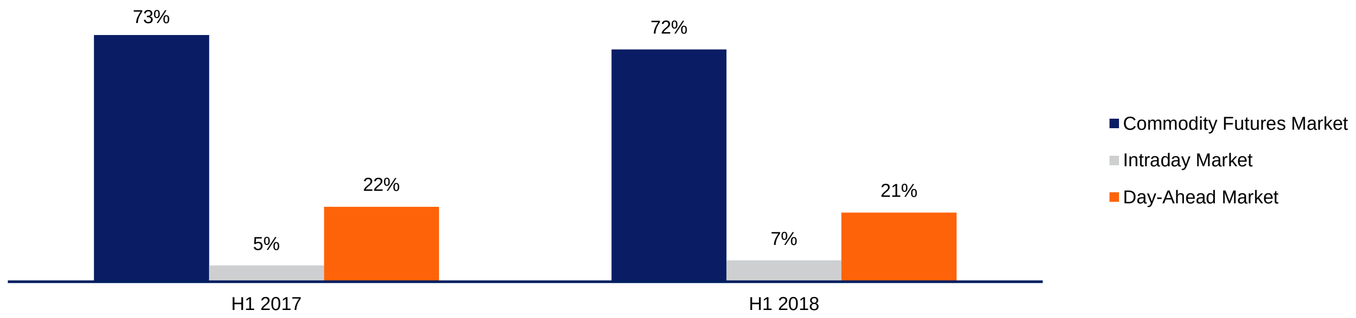
PGNiG is the leader of gas trading on the PPX. According to PPX data, in H1 2018 the total gas trading volume was 51.8 TWh, compared with PLN 54.3 TW in the comparative period. The volume of gas traded on the Day-Ahead Market and Intraday Market (spot contracts) was 14.5 TWh, compared with 14.7 TWh in H1 2017. On the Commodity Forward Instruments Market, the trading volume was 37.3 TWh, down 5.9% year on year. This means that almost 72% of gas trades in the first six months of 2018 were executed under annual, seasonal, quarterly, monthly, and weekly contracts. The share of spot contracts reached 28% and was slightly higher than in H1 2017.

Trading volume in forward contracts (Commodity Forward Instruments Market) on the PPX in H1 2017 and H1 2018 (TWh)



Source: In-house analysis based on PPX data.

Contracts traded on the PPX in H1 2017 and H1 2018



Source: In-house analysis based on PPX data.

Gas storage facilities

The cold winter resulted in higher than planned gas outflows from the underground storage facilities. As at June 30th 2018, gas volumes stored in European storage facilities accounted for 50% of their capacity. The average gas storage level in Western European countries went down year on year, e.g. in the United Kingdom – by 11pp, in the Netherlands – by 7pp, and in Germany – by 4pp. In Poland, the gas storage level rose by 12pp year on year, to 69%.

Progress in implementing infrastructural projects on the European gas market

Baltic Pipe and transmission system in Poland

The Baltic Pipe project is a strategic infrastructure project aimed at creating a new gas supply corridor on the European market. It is to enable the transmission of gas, with a transmission capacity of up to 10 bcm, from deposits located in Norway to markets in Denmark and Poland, as well as to consumers in the neighbouring countries. The progress of work on the Baltic Pipe project was as follows:

- In January 2018, PGNiG entered into a 15-year agreement with the Polish operator GAZ-SYSTEM and the Danish operator Energinet, concerning reservation of transmission capacity of the planned gas pipeline in the period from October 1st 2022 to September 30th 2037.
- In June 2018, GAZ-SYSTEM approved the recommended subsea route of the Baltic Pipe through the Baltic Sea. The selected route crosses the Swedish Exclusive Economic Zone and the Polish and Danish offshore areas.

In 2018, agreements with contractors are to be signed, which will be equivalent to a final investment decision.

In April, the gas transmission system operators from Poland and Slovakia concluded an agreement providing for the implementation of the Poland – Slovakia gas interconnector project. Construction works are scheduled to start in the second half of 2018 and will continue until the end of 2021. The maximum annual transmission capacity is planned at 5 bcm.

Nord Stream 2 and Turkish Stream

At the beginning of 2018, the Russian environmental protection authority (Rosprirodnadzor) agreed for the route of the planned Nord Stream 2 gas pipeline to run through the Kurgalsky nature reserve in the Leningrad Oblast. In March 2018, the US Secretary of the Treasury received a letter from 39 US Senate members, Republicans and Democrats, who declared their objection against the construction of Nord Stream 2. Following the publication of the letter, the spokesperson of the State Department announced that the United States is against building the pipeline and foreign companies involved in the project may be targeted by US sanctions.

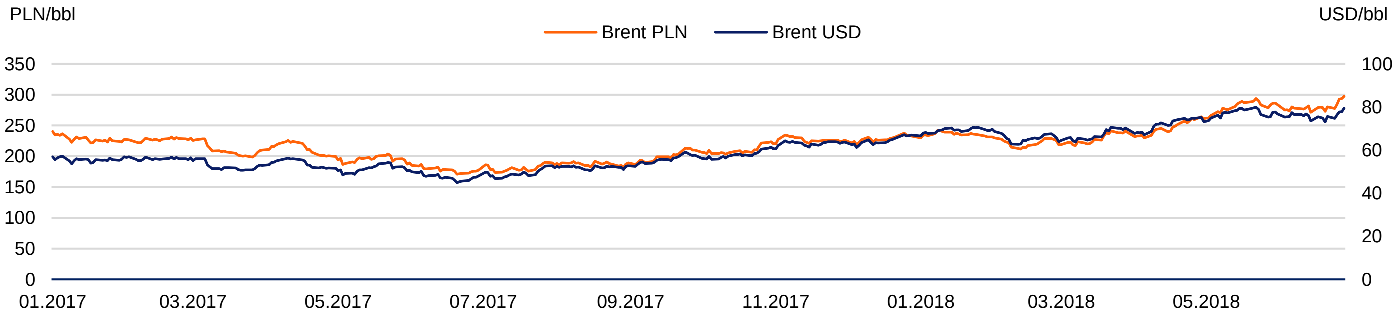
In May 2018, the Polish Competition and Consumer Protection Office instigated proceedings against the parties financing the construction of Nord Stream 2, i.e. Gazprom, Engie, Uniper, OMV, Shell, and Wintershall. The proceedings concern concentration between Gazprom and other companies in financing Nord Stream 2. The companies were charged with violation of the antitrust law, and may be liable to a fine of up to 10% of their respective annual turnover. Also in May, Nord Stream 2 announced the start of construction of the second line of the gas pipeline in Germany. In June 2018, the Swedish government approved the construction of the pipeline through the Swedish Exclusive Economic Zone on the Baltic Sea. Germany and Finland had already granted their permissions.

In April 2018, Gazoprom announced that once the construction of two planned pipelines, Nord Stream 2 and Turkish Stream, is completed, gas transit via Ukraine will be maintained, although its annual volume will fall to even as little as 10-15 bcm. In 2017, the annual transit through Ukraine was at 90 bcm. The CEO also announced that at in early May the company will complete the construction of the first pipeline of Turkish Stream, which will supply gas for Turkey's internal needs. The second pipeline will support exports of gas to southern EU countries.

3.2.2. Trends on the crude oil market

The first half of 2018 saw an increase in prices of crude oil and petroleum products. The average Brent oil price in H1 2018 went up by 35% year on year, jumping to a three-year high of 79 USD/bbl in June. The main factor supporting the steady rise in prices was OPEC's decision to cut crude output. OPEC countries curbed their outputs, producing even below the agreed limits. The market was also significantly influenced by the political and economic situation in Iran and Venezuela. In view of the low global supply, at the end of H1 2018 OPEC agreed to increase daily oil production by 1 million barrels, that is by 1% of the global supply.

Brent oil price in 2017 and H1 2018 (USD and PLN, month ahead contract)



Source: ICE – Intercontinental Exchange.

In early 2018, prices of crude oil remained stable, with the growth rate similar to that recorded in H2 2017. The key driver behind the steady price increase was reduced oil production by both OPEC and non-OPEC countries (e.g. Russia). At the beginning of February, crude oil prices declined as a result of investors' aversion to risk assets as well as data from the US market concerning a steadily growing number of active drilling rigs. In February, the price hit its H1 low of USD 62.72/bbl. Afterwards, it grew steadily to reach a new high of USD 79.80/bbl in mid-May and continued at a similar level at the end of H1 2018.

In 2018, the average demand for crude oil rose by 1.76% compared with the previous year, to 99.7 million barrels per day. Among the world's largest consumers outside the OECD, the most pronounced increase, of 3.6%, was observed in China. Other Asian countries also recorded a demand increase, on average by 4.2%. The global oil supply rose in 2018 by 2.2% year on year. The strongest oil output increase was recorded in the United States – by 12.1%, or 1.8 million barrels per day. Canada also recorded an increase, by 3.8%, or 0.2 million barrels per day. A slight output increase by 110 thousand barrels per day was also recorded in OPEC countries on the back of stronger output from Nigeria.

3.2.3. Outlook for crude oil and natural gas market

The decline in oil stocks in the US shows that the market reacted quickly to high prices. The growing number of wells in North America indicates that exploration and production projects have been resumed in recent years. In the near future, further growth in oil production is expected both in North America and in the OPEC countries. Analysts believe that in the short term this could lead to a decline in oil prices, but the growing supply will eventually balance demand and stabilise the prices. Capital expenditure in the upstream sector will be gradually growing. In three to four years, oil supply may exceed demand, driving down prices.

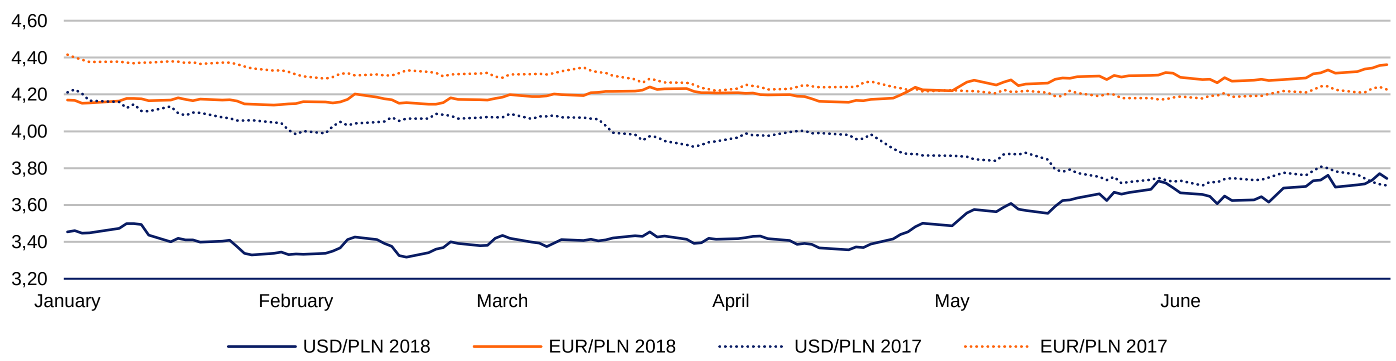
According to analysts, natural gas prices in Europe will be gradually falling in the coming years due to oversupply of LNG on global markets, which will result from growing shale gas output in North America and Australia and launch of new units for liquefying natural gas. The strongest growth in demand for LNG will be seen in Asia, while Europe will become a balancing market with steadily growing demand.

3.2.4. EUR/PLN and USD/PLN exchange rates

In the first half of 2018, the Polish złoty depreciated against the euro and the US dollar. The appreciation of the US dollar was particularly strong in Q2 2018, when the USD/PLN exchange rate rose by almost 10% In the first half of 2018, the Polish currency depreciated by 7.6% against the euro and by 4.6% against the US dollar. Analysts believe that the decline in the value of the Polish currency and the currencies of other developing countries is partly attributable to higher commodity prices, in particular crude oil prices. The US dollar was supported by the announcement of tariffs on goods imported by the US.

In the second half of 2018, the main factor driving currency values will be the US trade policy. Market analysts believe that the trade restrictions imposed by the US will be more severe for their partners. The value of the euro in the coming months may be affected by the European Central Bank's announcement from June 2018 concerning limitation and discontinuation by the end of 2018 of the asset purchase programme and the interest rate hikes in the second half of 2019. Negative signals from foreign markets may be conducive to further weakening of the złoty despite the strong performance of the Polish economy.

EUR/PLN and USD/PLN exchange rates in H1 2018 and H1 2017



Source: National Bank of Poland.

4. Financial results for H1 2018

Summary information on the financial performance of the PGNiG Group and the Parent in the first half of 2018 is presented below.

4.1. Financial highlights of PGNiG

Financial highlights of PGNiG (PLNm)

	H1 2018	H1 2017	Change
Revenue	10,915	9,645	1,270
Total operating expenses, including:	(9,666)	(8,786)	(881)
Depreciation and amortisation	(388)	(374)	(14)
Operating profit (EBIT)	1,249	859	390
Profit before tax	3,080	2,033	1,047
Net profit	2,791	1,827	964
Net cash from operating activities	1,279	689	590
Net cash flows from investing activities	(575)	(942)	367
Net cash from financing activities	(1,563)	(4,399)	2,836
Net cash flows	(859)	(4,652)	3,793
	Jun 30 2018	**Dec 31 2017**	
Total assets	35,328	33,447	1,881
Non-current assets	24,699	24,234	465
Current assets, including:	10,629	9,213	1,416
Inventories	2,220	2,231	(11)
Other assets	102	41	61
Total equity and liabilities	35,328	33,447	1,881
Total equity	28,644	26,033	2,611
Total non-current liabilities	2,473	2,288	185
Total current liabilities	4,211	5,126	(915)
Total liabilities	6,684	7,414	(730)

Profitability

	Jun 30 2018	Jun 30 2017*	Dec 31 2017
EBIT operating profit	1,249	859	1,094
EBITDA operating profit + depreciation/amortisation	1,637	1,233	1,860
ROE net profit to equity at end of period	9.7%	7.1%	7.8%
Net margin net profit to revenue	25.6%	18.9%	10.7%
ROA net profit to assets at end of period	7.9%	5.5%	6.1%

**reported data*

Liquidity

	Jun 30 2018	Jun 30 2017*	Dec 31 2017
Current ratio current assets to current liabilities (net of employee benefit obligations, provisions and deferred revenue)	2.8	1.5	2.0
Quick ratio current assets less inventories to current liabilities (net of employee benefit obligations, provisions and deferred revenue)	2.2	1.1	1.5

**reported data*

Debt

	Jun 30 2018	Jun 30 2017*	Dec 31 2017
Debt ratio total liabilities to total equity and liabilities	18.9%	22.7%	22.2%
Debt to equity ratio total liabilities to equity	23.3%	29.3%	28.5%

**reported data*

Financial performance of PGNiG

In H1 2018, PGNiG S.A.'s operating profit (EBIT) came in at PLN 1,249m, up by PLN 390m year on year.

Changes in EBIT between H1 2017 and H1 2018

**Including the provision for certificates of origin and energy efficiency certificates.*

The year-on-year increase in EBIT came primarily as a result of:

- higher margin on sales of crude oil driven by higher average oil prices; the difference between the average Brent oil prices in H1 2017 and H1 2018 was +33%;
- higher margin on services;
- slight increase in margin on sales of other products, including electricity, helium, LPG and sulfur;
- higher reversal of impairment losses on tangible exploration and evaluation assets under construction;
- recognition of impairment losses on gas stocks in 2017 and reversal of the impairment losses on LNG stocks in 2018;
- recognition of lower operating reserves in H1 2018.

The margin increase was offset in part by:

- lower margin on sales of high-methane gas, resulting from a higher purchase price of imported gas;
- lower margins on sales of nitrogen-rich gas, mainly due to higher exploration expenditure allocated to distribution costs.

In the first half of 2018, net finance income rose by PLN 658m year on year as a result of a PLN 529m increase in dividends income from subsidiaries.

4.2. Financial highlights of the PGNiG Group

Financial highlights of the PGNiG Group (PLNm)

	H1 2018	H1 2017	Change
Revenue	20,886	18,817	2,069
Total operating expenses, including:	(17,912)	(15,975)	(1,937)
Depreciation and amortisation	(1,326)	(1,335)	9
Operating profit (EBIT)	2,974	2,842	132
Profit before tax	3,087	2,859	228
Net profit	2,270	2,098	172
Net cash from operating activities	4,596	3,932	664
Net cash flows from investing activities	(1,741)	(2,076)	335
Net cash from financing activities	(2,376)	(4,976)	2,600
Net cash flows	479	(3,120)	3,599
	Jun 30 2018	**Dec 31 2017**	
Total assets	48,622	48,203	419
Non-current assets	37,217	36,364	853
Current assets, including:	11,405	11,839	(434)
Inventories	2,748	2,748	0
Other assets	447	216	231
Total equity and liabilities	48,622	48,203	419
Total equity	35,769	33,627	2,142
Total non-current liabilities	6,968	7,004	(36)
Total current liabilities	5,885	7,572	(1,687)
Total liabilities	12,853	14,576	(1,723)

Profitability

	Jun 30 2018	Jun 30 2017*	Dec 31 2017
EBIT operating profit	2,974	2,842	3,910
EBITDA operating profit + depreciation/amortisation	4,300	4,177	6,579
Adjusted EBITDA operating profit + depreciation/amortisation + impairment losses on property, plant and equipment	3,988	4,101	7,012
ROE net profit to equity at end of period	6.3%	6.4%	8.7%
Net margin net profit to revenue	10.9%	11.1%	8.2%
ROA net profit to assets at end of period	4.7%	4.7%	6.1%

**reported data*

Liquidity

	Jun 30 2018	Jun 30 2017*	Dec 31 2017
Current ratio current assets to current liabilities (net of employee benefit obligations, provisions and deferred revenue)	2.43	2.14	1.88
Quick ratio current assets less inventories to current liabilities (net of employee benefit obligations, provisions and deferred revenue)	1.85	1.63	1.44

**reported data*

Debt

	Jun 30 2018	Jun 30 2017*	Dec 31 2017
Debt ratio total liabilities to total equity and liabilities	26.4%	27.2%	30.2%
Debt to equity ratio total liabilities to equity	35.9%	37.4%	43.3%

**reported data*

4.3. Financial performance of the PGNiG Group

Change in presentation of the PGNiG Group's financial data

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

1. IFRS 15 Revenue from Contracts with Customers:
   - The Group companies which identified their role with respect to specific goods or services as that of an agent changed the manner of presentation of relevant revenue and expenses. Revenue is recognised in the amount of net consideration.
   - 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. Revenue from sales of gas distribution services is recognised in an amount equal to the full value of such services provided to customers from outside the PGNiG Group.
   - Effect on segments:
     - the Trade and Storage segment acts as a agent with respect to gas distribution, gas transmission and electricity distribution services. Therefore, revenue and expenses are recognised in net amounts;
     - in the Distribution segment, the presentation change consists in the recognition of revenue from sales of distribution services provided to customers from outside the PGNiG Group as sales to external customers.
2. IFRS 9 Financial Instruments:
   - Changes to the rules for classification and measurement of financial assets;
   - Introduction of a new model for determining expected credit losses; and
   - Changes in hedge accounting requirements.

Effect of IFRS 15 on the consolidated statement of profit or loss

2017	H1 before change	effect	H1 after change
Revenue, including:	18,817	(74)	18,743
Revenue from sales of gas	15,049	(2,107)	12,942
Other revenue	3,768	2,033	5,801
Operating expenses (excl. D&A), including:	(14,640)	74	(14,566)
Transmission services	(557)	68	(489)
Other services	(772)	6	(766)

2018	H1 before change	effect	H1 after change
Revenue, including:	20,982	(96)	20,886
Revenue from sales of gas	16,796	(2,042)	14,754
Other revenue	4,186	1,946	6,132
Operating expenses (excl. D&A), including:	(16,682)	96	(16,586)
Transmission services	(608)	80	(528)
Other services	(853)	16	(837)

Effect of IFRS 15 on segments

Without presentation changes under IFRS 15	H1 2017	H1 2018
Trade and Storage		
Revenue	15,819	17,823
Operating expenses (excl. D&A)	(15,730)	(17,852)
Distribution		
Revenue	2,610	2,687
Sales to external customers	554	590
Inter-segment sales	2,056	2,097
Operating expenses (excl. D&A)	(1,227)	(1,303)

Effect of IFRS 15	H1 2017	H1 2018
Trade and Storage		
Revenue	(2,110)	(2,053)
Operating expenses (excl. D&A)	2,110	2,053
Distribution		
Revenue	0	0
Sales to external customers	2,036	1,957
Inter-segment sales	(2,036)	(1,957)
Operating expenses (excl. D&A)	0	0

New manner of presentation under IFRS 15	H1 2017	H1 2018
Trade and Storage		
Revenue	13,709	15,770
Operating expenses (excl. D&A)	(13,620)	(15,799)
Distribution		
Revenue	2,610	2,687
Sales to external customers	2,590	2,547
Inter-segment sales	20	140
Operating expenses (excl. D&A)	(1,227)	(1,303)

New manner of presentation under IFRS 15 by segment

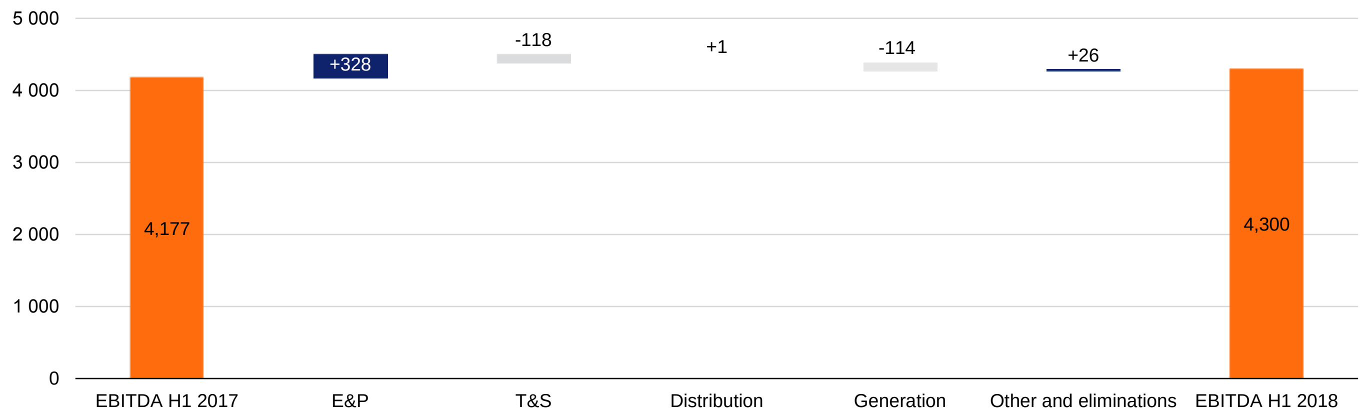
H1 2017	Revenue	Operating expenses	EBITDA	Depreciation and amortisation	EBIT
Exploration and Production	3,146	(1,456)	2,239	(549)	1,690
Trade and Storage	13,709	(13,722)	89	(102)	(13)
Distribution	2,610	(1,687)	1,383	(460)	923
Generation	1,267	(885)	580	(198)	382
Other segments	160	(306)	(120)	(26)	(146)

H1 2018	Revenue	Operating expenses	EBITDA	Depreciation and amortisation	EBIT
Exploration and Production	3,660	(1,614)	2,567	(521)	2,046
Trade and Storage	15,770	(15,892)	(29)	(93)	(122)
Distribution	2,687	(1,760)	1,384	(457)	927
Generation	1,265	(1,019)	466	(220)	246
Other segments	243	(358)	(80)	(35)	(115)

In H1 2018, the PGNiG Group posted revenue of PLN 20,886m, up by PLN 2,143m (11.4%) on the corresponding period of the previous year, when revenue was at PLN 18,743m (after presentation changes under IFRS 15). With operating expenses up 12.6% to PLN 17,912m, the Group earned consolidated operating profit (EBIT) of PLN 2,974m (up 4.6). Operating profit before depreciation and amortisation (EBITDA) came in at PLN 4,300m, which represents an increase of 123m (2.9%) on the previous year. Net profit, which amounted to PLN 2,270m, was higher by PLN 172m (8.2%) year on year.

The result was achieved against the backdrop of growing prices of crude oil on global markets, low prices of natural gas in Central Europe, and the ongoing deregulation of the Polish gas market. The combination of sales efforts and higher temperatures compared with the previous year (up by 0.9^{O}C) drove the gas volumes sold by the PGNiG Group up from 14.2 bcm in H1 2017 to 15.3 bcm in H1 2018.

EBITDA bridge from H1 2017 to H1 2018 (PLNm)



Exploration and Production (E&P)

At the end of H1 2018, the Exploration and Production segment reported an operating profit of PLN 2,046m, up by PLN 356m year on year. At PLN 2,567m, EBITDA was also higher than the year before, by PLN 328m (14.6%). The segment's revenue rose by PLN 514m (up 16.3%) year on year, to PLN 3,660m.

In H1 2018, higher volumes of crude oil were sold (up 2% year on year), which translated into a PLN 224m (22%) increase in revenue from sale of crude oil in the E&P segment. The revenue was also significantly boosted by higher oil prices in global markets (in the Polish złoty, the average quarterly price of Brent oil was approximately 20% higher year on year). Production volumes in Poland went up and the output in Norway was at a stable level.

The segment's operating expenses rose by PLN 158m (11% year on year), to PLN 1,614m as a result of increase costs of dry wells and seismic surveys written-off by PLN 279m to PLN -376m, while impairments reversal amounted to PLN +311m (PLN +83m in H1 2017), with over/underlift production position (oil, NGLs and natural gas combined) in relation to sales in Norway, at the level of PLN -92m.

Trade and Storage (T&S)

In H1 2018, the Trade and Storage segment reported an operating loss of PLN -122m. The loss in H1 2017 was PLN 109m lowe year on year. At the EBITDA level, the segment recorded a loss of PLN -29m, a result lower by PLN 118m on H1 2017, when the Group generated an EBITDA of PLN +89m. The segment's revenue reached PLN 15,770m, having increased by PLN 2,061m year on year (reflecting the effect of changes resulting from the application of IRFS 15 on the 2017 results).

Following the increase in the cost of imported gas in H1 2018 and taking into account the presentation changes under IFRS 15, the segment's operating expenses grew by PLN 2,171m to PLN 15,892m (up 15.8% year on year). In H1 2018, the segment's performance rose by PLN 32m following a reversal of gas inventory write-downs, while in the corresponding period of 2017 the recognition of write-downs drove down the segment's performance by nearly PLN 57m.

Distribution

In H1 2018, the Distribution segment's operating profit fell by PLN 4m year on year to PLN 927m, while EBITDA came in at PLN 1,384m, up by PLN 1m year on year.

In H1 2018, the segment's revenue went up by PLN 77m, while revenue from distribution services went down by PLN 71m, or -3% year on year, with the distribution volume staying flat at 6.4 bcm. Expenses incurred in H1 2018 rose slightly (by PLN 73m, or 4%) year on year, primarily due to higher raw materials and consumables used, labour costs, and other services.

Generation

The segment's operating profit for H1 2018 came in at PLN 246m, down by PLN 136m year on year. EBITDA was reported at PLN 466m, down by PLN 114m, or 19.7%, year on year. Revenue amounted to PLN 1,265m, down by PLN 2m on the first half of 2017. Higher temperatures, especially in the second quarter of 2018 when the average temperature was 2.9°C higher year on year, resulted in an almost 6% year-on-year drop in revenue from heat sales. An increase in coal consumption costs by 14% year on year to PLN 432m (caused by rising coal prices on global markets) drove up the segment's operating costs by PLN 134m.

For more information of the segments' financial results and volume figures, see Sections 465.1-5.4.

Statement of financial position

As at June 30th 2018, total assets were PLN 48,622m, having increased slightly on the end of 2017 (up PLN 419m or 0.9%).

Assets

Property, plant and equipment represent the largest item of the PGNiG Group's assets. As at the end of H1 2018, the value of property, plant and equipment amounted to PLN 32,810m, up by PLN 358m (1.1%) relative to December 31st 2017. The highest increase in non-current assets, of PLN 157m (9.8%), was reported for equity-accounted investees, and came as a result of acquisition of further shares at PGG.

As at the end of H1 2018, the Group's current assets were PLN 11,405m, down by PLN 434m (3.6%) relative to the end of 2017. Receivables were the largest contributing item, having decreased by PLN 1,712m (29.6%) from the end of 2017 due to the seasonal nature of sales of gaseous fuels (the highest sales volumes are reported in the winter season). The financial performance of the Group companies in H1 2018 was driven by a 19.4% increase in cash and cash equivalents (up by PLN 500m) from the level reported at the end of December 2017.

Equity and liabilities

Equity is the main source of financing of the PGNiG Group's assets. At the end of H1 2018, the Group's equity was PLN 35,769m, up by PLN 2,142m (6.4%) relative to the end of 2017. The change in equity was attributable, among others, to the net profit of PLN 2,270m earned in the reporting period. As at June 30th 2018, non-current liabilities were PLN 6,968m, remaining largely flat on the end of 2017, when they amounted to PLN 7,004m (down 0.5%). As at June 30th 2018, the Group reported current liabilities of PLN 5,885m, down by PLN 1,687m (22.3%) relative to the end of 2017. The decrease was attributable to PGNiG's repayment in 2017 of its liabilities under fixed-coupon eurobonds (the Company did not contract any new debt through the issue of eurobonds).

Given that current liabilities decreased, while equity increased and non-current liabilities remained largely unchanged, the Group saw an improvement in its debt to equity and debt ratios, which fell from 30.2% to 26.4% and from 43.3% to 35.9%, respectively.

The decrease in current liabilities (significantly larger than decrease in current assets which determine the level of liquidity ratios) resulted in the improvement of the following liquidity ratios: the current ratio rose to 2.43, from 1.88 at the end of December 2017, and the quick ratio was 1.85 in the reporting period, compared with 1.44 at the end of the previous year.

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

In the reporting period, the Group did not execute any material transactions to purchase or sell items of property, plant and equipment other than on arm's length terms.

Group's ability to deliver forecast results

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

Guarantees and sureties

In the reporting period, the Group companies did not execute any material suretyship agreements relating to bank and non-bank borrowings or guarantees.

Investments in H1 2018

In H1 2018, the PGNiG Group's capital expenditure on property, plant and equipment and intangible assets was PLN 1.4bn, having gone up by 20% year on year. The tables below present the Company's and the Group's expenditure in each segment.

Capital expenditure* on property, plant and equipment made by PGNiG in H1 2018		H1 2018	H1 2017	Performance vs CAPEX plan H1 2018
I.	Exploration and Production, including:	384	334	39%
1	Exploration	279	186	
	including expenditure on dry wells	*11*	*38*	
2	Production	105	148	
II.	Trade and Storage	65	81	44%
1	Trade	37	65	
2	Storage facilities used by the Trade and Storage segment	28	16	
III.	Total capital expenditure (I+II+III)	449	415	40%

**Including capitalised borrowing costs.*

	Capital expenditure* on property, plant and equipment made by the PGNiG Group in H1 2018	H1 2018	H1 2017	Performance vs updated CAPEX plan H1 2018
I.	Exploration and Production, including:	560	533	53%
1	Norway	142	152	73%
2	Pakistan	30	48	34%
3	Libya	4	6	109%
II.	Trade and Storage	32	21	58%
III.	Distribution	609	396	121%
IV.	Generation	165	157	79%
V.	Other Segments	39	68	58%
VI.	Total capital expenditure (I-V)	1,405	1,175	74%

*Including capitalised borrowing costs.

4.4. Expected future financial condition

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

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

On the other hand, in view of the fact that the prices of gas purchased by PGNiG under the Yamal and Qatar contracts are linked to prices of crude oil, the effect of rising oil prices on the performance of the Trade and Storage segment is opposite to the effect that rising oil prices have on the performance of the Exploration and Production segment. Any increase of crude oil prices translates into higher cost of gas purchased by PGNiG. This correlation may change following a ruling by the Stockholm Arbitration Tribunal regarding the price formula used in the Yamal contract. ›For more information, see Section 5.4.5

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

The PGNiG Group's financial results will also be affected by the President of URE's position regarding the level of gas fuel sale and distribution tariffs and heat sale tariffs. In addition, the progressing deregulation of the gas market in Poland will continue to put pressure on the performance of the PGNiG Group's Trade and Storage companies engaged in the provision of gas sale services. Competition for customers has prompted the launch of a number of discount schemes dedicated to customers buying gas from the Group and the change in pricing terms to reflect market prices. These factors may have an adverse effect on the profitability of the Trade and Storage segment by eroding its margins.

However, the PGNiG Group companies have put in place a number of initiatives to improve efficiency. These initiatives focus, among other things, on optimisation of the cost base and are expected to have a positive effect on the PGNiG Group's financial results. In the Generation segment, financial results will also be considerably affected by the support programmes for electricity produced from high-efficiency cogeneration sources and renewable sources. Legislative changes in this area and fluctuations in market prices of certificates of origin (both red and green) will have a bearing on the segment's financial position. Another key factor affecting the segment's performance are prices of the fuels used to produce heat and electricity.

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

5. Operating activities in H1 2018

Operating data	Jun 30 2018	Jun 30 2017
Production of natural gas by the PGNiG Group (mcm)*		
High-methane gas (E)	925	943
Nitrogen-rich gas (Ls/Lw as E equivalent)	1,330	1,279
Total (as E equivalent)	2,255	2,222
Sales of natural gas by the PGNiG Group (mcm)*		
High-methane gas (E)	14,548	13,390
Nitrogen-rich gas (Ls/Lw as E equivalent)	799	781
Total (as E equivalent)	15,347	14,171
Volume of distributed gas (mcm)**		
High-methane gas, nitrogen-rich gas, propane-butane, coke gas	6,356	6,382
Crude oil, condensate and NGL ('000 tonnes)		
Production	673	615
Sale	723	706
Heat and electricity (from own generation sources)		
Heat sales outside the PGNiG Group (TJ)	23,463	24,936
Sales of electricity from own generation sources (TWh)	2,137	2,194

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

5.1. Exploration and Production

The segment's business focuses on extracting hydrocarbons from deposits and preparing them for sale. This involves exploring for and extracting natural gas and crude oil from deposits, and includes geological surveys, geophysical research, drilling, and development of and production of hydrocarbons from gas and oil fields. The work is conducted by the segment on its own or jointly with partners, under joint operations agreements. The segment also relies on storage capacities available at the Bonikowo and Daszewo UGSFs.

5.1.1. Segment's strategy

Exploration and Production – the Group is delivering a strategy focused on increasing its existing base of proven hydrocarbon reserves by ca. 35%, increasing hydrocarbon production by ca. 41% by 2022, significantly reducing unit costs of exploration for and appraisal of deposits, and maintaining unit costs of field development and hydrocarbon production in order to improve profitability of its exploration and production operations. This objective will be achieved mainly by:

- expanding the base of proven reserves and increasing annual hydrocarbon production volumes in Poland by carrying out investment plans relating to work on exploration and appraisal wells and cooperation under licences with other entities;
- more intensive hydrocarbon exploration work in Poland, including through partnership with the Polish Geological Institute – National Research Institute under the Geo-Metan research project to use the fracturing technology to extract coal bed methane in Gilowice;
- increasing the base of proven reserves and doubling the annual production volume abroad, as well as increasing production in Norway to 2.5 bcm per annum for the Norwegian Corridor.
- accelerating exploration for and acquisition of hydrocarbon deposits abroad.

5.1.2. Segment's key data

Financial highlights	H1 2018	H1 2017	2017	2016	2015	2014
Total revenue	3,660	3,146	6,118	5,289	4,855	6,071
Revenue from sales outside the Group, including:	1,831	1,637	3,092	2,776	3,148	4,346
- high-methane and nitrogen-rich gas,	311	281	602	517	553	573
- crude oil, condensate, and NGL	1,256	1,032	1,862	1,606	1,945	2,654
- geophysical, geological and drilling services	122	200	358	429	382	761
Inter-segment revenue	1,829	1,509	3,026	2,513	1,707	1,725
EBITDA	2,567	2,239	3,865	2,206	2,426	3,143

Natural gas production by the PGNiG Group mcm	H1 2018	H1 2017	2017	2016	2015	2014
High-methane gas (E)	925	943	1,863	1,918	2,027	1,876
in Poland	637	655	1,315	1,401	1,454	1,457
in Norway*	288	288	548	517	573	419
Nitrogen-rich gas (Ls/Lw as E equivalent)	1,330	1,279	2,674	2,540	2,564	2,628
in Poland	1,232	1,213	2,524	2,481	2,513	2,570
in Pakistan − PGNiG Pakistan Branch	98	66	150	59	52	58
TOTAL (measured as E equivalent)	2,255	2,222	4,537	4,458	4,591	4,504

*Converted to gas with a calorific value of 39.5 mJ/cm.

Segment's sale of natural gas outside the PGNiG Group mcm	H1 2018	H1 2017	2017	2016	2015	2014
High-methane gas (E)	14	18	31	77	54	33
in Poland	14	18	31	53	52	33
in Norway	-	-	-	24	1	-
Nitrogen-rich gas (Ls/Lw as E equivalent)	416	385	795	703	684	738
in Poland	319	320	646	645	633	682
in Pakistan − PGNiG Pakistan Branch	97	65	149	58	51	56
TOTAL (measured as E equivalent)	430	403	825	780	738	771

Crude oil* at the PGNiG Group thousand tonnes	H1 2018	H1 2017	2017	2016	2015	2014
Crude oil production*	673	615	1,257	1,318	1,428	1,207
in Poland	398	364	787	763	765	789
in Norway	275	251	470	555	664	418
Sale of crude oil*	723	706	1,269	1,347	1,391	1,169
including oil produced in Poland	398	379	791	754	772	780
including oil produced in Norway	325	327	479	593	619	389

*Including condensate and NGL.

Production of other products thousand tonnes	H1 2018	H1 2017	2017	2016	2015	2014
Propane-butane	19	17	38	37	35	32
LNG	11	11	22	26	25	30
mcm						
Helium	2	2	3	3	3	3

5.1.3. Segment's activities in Poland

Licences in Poland

As at January 1st 2018, PGNiG held 48 licences for exploration and appraisal of crude oil and natural gas deposits, vs 47 licences as at June 30th 2018, including:

- 25 combined licences for exploration for and appraisal of oil and gas deposits and for oil and gas production;
- 21 licences for exploration for and appraisal of oil and gas deposits;
- 1 licence suspended due to incomplete transformation procedure.

21 proceedings to approve additions to plans of geological operations were closed, and 11 licences were approved or extended. As at June 30th 2018, proceedings were pending at the Ministry of Environment to transform three licence areas, and 17 proceedings are pending to approve additions to plans of geological operations and to change the licence.

As at June 30th 2018, PGNiG held a total of 204 production licences in Poland, down by 9 compared with the end of 2017. In H1 2018, no new licences were granted to PGNiG, 27 licences were amended, and 9 licences expired, while 16 licences were the subject of proceedings relating to licence grant, amendment, or expiry. The number of licences for storage of gas in underground gas storage facilities (9) and licences for storage of waste (3) remained unchanged.

As at June 30th 2018, recoverable reserves in Poland amounted to 17,193 thousand tonnes of crude oil (133 mmboe) and 81,751 mcm of natural gas, measured as high-methane gas equivalent (527 mmboe).

Work performed

In the first half of 2018, PGNiG was involved in oil and gas exploration and appraisal projects in the Carpathian Mountains, Carpathian Foothills, Upper Silesian Coal Basin, Przedsudecka Monocline, and Szczecin Synclinorium, both on its own and jointly with partners. Drilling work in PGNiG's licence areas in Poland was performed on 23 boreholes with a total depth of 38,599 linear metres, including nine exploration, six appraisal and five production wells. To compare, in the first half of 2017, drilling work was performed on 15 boreholes with a total depth of 26,707 linear metres.

Out of the 23 boreholes, 16 (one research, eight exploration, three appraisal and four production wells) reached their target depth. As at the end of June 2018, formation test results were obtained from 12 boreholes (six exploration, two appraisal and four production wells). Positive results were reported for: four exploration, two appraisal and four production wells. Two exploration wells failed to yield a commercial flow of hydrocarbons and were abandoned.

In total, the following four wells were brought on stream: Palikówka-10K, Przemyśl-289K, Palikówka-13K and Międzychód-8H. In the first half of 2018, 616.5 km^2 of 3D seismic surveys were carried out, up from 172.5 km^2 in the corresponding period of the previous year.

Exploration, appraisal and extraction of coal bed methane

As part of the *Geo-Metan* project (exploration, appraisal and extraction of coalbed methane), in the first half of 2018 the Gilowice 3k intersection test borehole was drilled, and preparatory work was completed on the Międzyrzecze 4 borehole to enable drilling. Currently, the Gilowice 4H borehole is being drilled, and preparatory work is underway to enable drilling of the Międzyrzeche 4 well. As part of the *Geo-Methane II* project, meetings are being held with representatives of coal mining companies (JSW, Tauron Wydobycie, PGG) to designate drilling sites.

5.1.4. Segment's activities abroad

Norway

Jointly with partners, PGNiG UN extracts hydrocarbons from the Skarv, Morvin, Vilje, Vale and Gina Krog fields and working on the development of the Ærfugl, Skogul and Gina Krog fields. In the first half of 2018, the company produced a total of 275 thousand tonnes of crude oil with condensate and NGL (measured as tonnes of crude oil equivalent) and 285 mcm of natural gas from the Skarv, Morvin, Vilje, Vale, and Gina Krog fields, i.e. more than was planned and up 5% year on year. Production was driven by new wells brought on stream on the Gina Krog field, resumed extraction from two wells on the Skarv field, and regular output from the Vilje and Morvin fields. As at June 30th 2018, PGNiG UN held interests in 20 exploration and production licences on the Norwegian Continental Shelf, in two of them as the operator.

In the first half of 2018, the Norwegian Ministry of Petroleum and Energy approved development plans for the Ærfugl i Skogul fields, in which PGNiG UN is a licence partner. Ærfugl (formerly Snadd) is a gas and condensate field located adjacent to the Skarv oil and gas field in the Norwegian Sea. Ærfugl's total recoverable reserves are 31.3 bcm of natural gas, 6 mcm of condensate, and 3.5 million tonnes of NGL. PGNiG holds an 11.9175% interest in the Ærfugl field. Skuroul (formerly Storklakken) is primarily an oil field located in the North Sea, close to the Vilje oil field. The recoverable reserves in the Skogul field are 8.93m barrels of crude oil and 170 mcm of associated gas. PGNiG SA holds a 35% interest in the Skogul field. Drilling of production wells and installation of downhole equipment in both fields is planned for 2019/2020. Both fields, operated by Aker BP, are expected to commence producing hydrocarbons in 2020.

In March 2018, PGNiG UN finalised a contract to purchase a 20% interest in the PL433 licence, which covers the Fogelberg condensate and gas field. The operator for the PL433 licence is Spirit Energy (formerly Centrica). Licence holders jointly decided to drill an appraisal well in 2018, based on which a decision is to be made whether to proceed with field development. As a result, pre-production tests are currently being performed on the field. According to their most recent results, Fogelberg's recoverable gas reserves are estimated at 7–14 bcm.

In January 2018, another APA 2017 round (Awards in Pre-defined Areas) was concluded, with PGNiG UN awarded interests in two further new exploration licences – PL939 and PL941:

- A 30% interest as a partner in the PL939 licence area (Egyptian Vulture) in the Norwegian Sea. The licence area is located close to the Åsgard field and is operated by Equinor (formerly Statoil), which holds a 70% interest in the licence;
- A 20% interest as a partner in the PL941 licence area (Grønnlifjellet) in the Norwegian Sea. The licence area is located close to the Skarv field and is operated by Aker BP (holding a 50% interest). The remaining 30% interest is held by Wellesley.

Within two years, the licence partners are to carry out necessary geological and geophysical surveys to precisely estimate the oil production potential of the licence areas. After that period, drill-or-drop decisions will be made. Among other works, PGNiG UN also evaluated the potential of the PL839, PL850, and PL838 (operator) licence areas. Based on the results of geological and economic analyses, PGNiG UN and its partners decided to relinquish the PL850 licence, with no wells drilled.

As of January 2018, the corporate tax rate in Norway was reduced from 24% to 23%. At the same time, the lower tax rate was offset by an increase in the special petroleum tax from 54% to 55% and a reduction of the uplift tax incentive from 22% to 21.2%. The marginal tax rate on production activities remains at 78%, thus the changes have only a minor impact on the company's business.

Licences held as at the end of June 2018

Licence	Operator	Interest	Type	Planned activities
PL029C (Gina Krog)	Equinor	29.63% (8% interest in the project)	Exploration/Development	Development (production since June 30th 2017)/exploration
PL036D (Vilje)	AkerBP	24.243 %	Production	Production
PL036 (Vale) **PL249 (Vale)**	Spirit	24.243 %	Exploration/Production	Production
PL134B (Morvin) **PL134C (Morvin)**	Equinor	6%	Production	Production
PL212 (Skarv) **PL212B (Skarv)** **PL262 (Skarv)**	AkerBP	15% (11.9175% interest in the project)	Exploration/Development/Production	Production, Ærfugl field development, production to commence in 2020
PL212E (Snadd Outer)	AkerBP	15%	Exploration	Possible tie-back to Snadd
PL433 (Fogelberg)	Spirit	20%	Exploration	Review of production testing results, launch of development possible
PL460 (Skogul)	AkerBP	35%	Development	Development (production scheduled to start in 2020)
PL813 (Elli)	Equinor	8%	Exploration	Drill or Drop (DoD) decision: February 2019
Op. PL838 (Tunfisk/Shrek)	PGNiG	40%	Exploration	DoD: August 2018
PL839 (Nise/Storkobbe)	AkerBP	11.9175%	Exploration	Seismic data interpretation
PL850 (Ulv)	Edison	20%	Exploration	DoD: February 2019
PL887 (Novus East)	PGNiG	40%	Exploration	DoD: February 2019
PL891 (Tunfisk South)	ConocoPhilips	30%	Exploration	DoD: February 2019
PL939	Equinor	30%	Exploration	DoD: February 2020
PL941	AkerBP	20%	Exploration	DoD: February 2020

Pakistan

PGNiG conducts exploration work in Pakistan under an agreement for hydrocarbon exploration and production in the Kirthar licence area. The work is conducted jointly with Pakistan Petroleum Ltd. (PPL), with production and expenses shared proportionately to the parties' interests in the licence: PGNiG (operator) – 70%, PPL – 30%. So far, two gas fields, Rehman and Rizq, have been discovered in the licence area.

In the first half of 2018, appraisal and production operations included brining the Rizq-2 well on stream and completing the drilling work on the Rehman-4 production well and also bringing it on stream. Under the renewed Kirthar exploration licence, the Pakistani Branch began drilling of the Roshan-1 exploration well.

Libya

In the first half of 2018, the company was focused on taking measures to contain a force majeure situation affecting the project, in line with prior arrangements made with NOC. Its efforts included an analysis of seismic data on the Ordovician formation as well as a review of the geological prospects of the LC113 licence and the prospects of it producing usable hydrocarbons. In addition, efforts were made to secure assets accumulated in Libya.

5.1.5. Development prospects

Poland

In 2018 and 2019, PGNiG plans to produce 3.8 bcm of natural gas per year (measured as high-methane gas equivalent), whereas the planned volume of crude oil and condensate production is, respectively, 820 thousand tonnes in 2018 and 784 thousand tonnes in 2019. By the end of 2018, the company plans to develop at least six wells and bring at least eight on stream (mainly in the area of the Sanok Branch's operations). In addition, work will be carried out to upgrade and expand the existing infrastructure, including to ensure supplies to the Wierzchowice UGSF for its own use from the Odolanów area.

In the second half of 2018, the *Geo-Metan* project, which is focused on coal-bed methane extraction through fracking, will be continued. As part of the *Geo-Methane II* project, meetings will held with representatives of coal mining companies to designate new drilling sites.

Norway

In H2 2018, on the Norwegian Continental Shelf, PGNiG UN, as a project partner, will continue to produce hydrocarbons from the Skarv, Morvin, Vilje, Vale, and Gina Krog fields and will proceed with the development of the Skogul and Ærfugl fields. PGNiG UN will also work towards ensuring stable, predictable and long-term gas supplies to Poland. These efforts will include analysis of infrastructure scenarios for transmission of Norwegian gas to Poland, but also potential acquisitions of gas fields in Norway. One development direction is hydrocarbon exploration, including as a drilling operator (PL838). The near future will see an analysis of the results of production testing performed on the Fogelberg field and a possible preparation of a field development plan if the test results prove positive.

PGNiG UN also intends to acquire new licence areas by participating in annual APA licence rounds and in regular licence rounds held every two to three years. The company may seek to acquire new licence areas through purchase of interests from other companies to ensure strategic supplies of gas from the countries north of Poland.

PGNiG UN holds a diversified portfolio of production and exploration licences in the North Sea, the Norwegian Sea, and the Barents Sea, and maintaining this diversification is perceived as an important element of project portfolio management.

Pakistan

Another Rehman–5 production well is planned to be drilled in the second half of 2018. Concurrently, drilling work will commence on further production wells (Rizq-3 and Rehman-6) to expand the capacity of the production installations and bring more wells on stream. In addition, 2D and 3D seismic work will start on the Roshan-1 field. 2D and 3D seismic surveys are planned to be carried out on the Roshan-1 field concerning two prospects (W1 and W2). Further drilling of those wells is scheduled for 2020 and 2021 following completion of the seismic work.

5.2. Trade and Storage

The principal activity of the segment is trade in natural gas. In Poland, where the PGNiG Group is the largest natural gas supplier, the segment sells natural gas produced from domestic fields as well as imported gas. Through PGNiG Supply and Trading GmbH (wholesale) and PST Europe Sales GmbH (retail sale), the PGNiG Group is also developing its natural gas business (both wholesale and sales to end users) in Germany and Austria. The segment also trades in electricity, certificates of origin for electricity, and CO_2 emission allowances. The segment operates seven underground gas storage facilities (Brzeźnica, Husów, Mogilno, Strachocina, Swarzów, Wierzchowice and Kosakowo) and provides a ticketing service for gas storage for external customers.

5.2.1. Segment's strategy

In the Trade and Storage segment, the PGNiG Group is implementing a strategy covering three key areas: wholesale, retail trade, and storage.

Wholesale – the primary ambition is to build a diversified gas supply portfolio beyond 2022 and to increase the overall volume of gas sales by 7% by 2022, to be achieved through:

- Active interest and participation in infrastructure projects in order to diversify gas imports in view of the near expiry (in 2022) of the contract for gas supplies from east of Poland;
- Increased utilisation of the Świnoujście LNG Terminal capacity and development of trading presence on the global LNG market through a trading office in London;
- A significant increase in the overall volume of gas sales abroad (in particular on neighbouring markets) and maximising the volume of gas sales to strategic end users in Poland.

Retail – the primary objective is to maximise retail margins and maintain the total volume of retail gas sales at ca. 67–69 TWh/year from 2022 onwards, to be achieved through:

- Maximising the volume of retail gas sales while maintaining attractive margins and optimising costs of retail operations;
- Adapting the pricing policy to market expectations and competition environment;
- Offering new products and services in order to increase added value for customers and improve satisfaction and loyalty among the Group's existing customers;

Storage – the crucial issue is to secure storage capacities in keeping with actual demand and to improve storage efficiency, to be achieved through:

- Continued work on extending the Kosakowo CUGSF and implementing the model of long-term planning for storage infrastructure development, to be able to respond to changes in market demand;
- Streamlining the organisational model for the storage area and optimising the operating costs of regulated activities;
- Securing new revenue sources from non-regulated activities.

5.2.2. Segment's key data

Financial highlights	H1 2018	H1 2017	H1 2017*	2017	2016	2015	2014
Total revenue	15,770	15,819	13,709	30,495	28,180	31,742	28,825
Revenue from sales outside the Group, including:	15,528	15,630	13,520	30,000	27,733	31,274	28,367
- high-methane and nitrogen-rich gas,	14,357	14,681	12,574	27,813	25,615	29,413	26,555
Inter-segment revenue	242	189	189	3,956	454	468	458
EBITDA	(29)	89	89	(435)	614	623	764

*Data reflecting the potential impact of IFRS 15.

Natural gas sales in T&S segment outside the PGNiG Group (including gas exports from Poland) mcm	**H1 2018**	**H1 2017**	**2017**	**2016**	**2015**	**2014**
High-methane gas (E)	14,534	13,373	25,261	22,818	21,596	17,289
Nitrogen-rich gas (Ls/Lw as E equivalent)	383	396	701	671	611	514
TOTAL (measured as E equivalent)	14,917	13,769	25,962	23,489	22,207	17,803
including:						
PGNiG	*8,825*	*8,349*	*16,159*	*13,734*	*12,415*	*12,834*
PGNiG OD	*4,378*	*4,289*	*7,617*	*7,245*	*7,753*	*3,209*
PST	*1,714*	*1,131*	*2,186*	*2,510*	*2,039*	*1,760*

PGNiG Group's companies gas customer base in T&S segment mcm	**H1 2018**	**H1 2017**	**2017**	**2016**
Households	2,349	2,356	4,065	3,912
Other industrial customers	1,570	1,549	1,764	1,450
Retail, services, wholesale	1,888	1,716	1,981	1,798
Nitrogen processing plants	1,253	1,258	900	607
Power and heat plants	954	611	2,795	1,337
Refineries and petrochemical plants	1,133	819	3,028	2,492
Exchange	5,549	5,169	8,515	9,140
Exports from Poland	221	291	728	370
TOTAL sales in T&S segment outside the Group	14,917	13,769	23,776	21,106

5.2.3. Segment's trading activities in Poland

The segment's principal activity is trade in natural gas in Poland. In Poland, where the PGNiG Group is the largest natural gas supplier, the segment sells natural gas produced from domestic fields as well as imported gas. On August 1st 2014, there was a change in the PGNiG Group's structure: retail sales were separated from the wholesale gas business, the latter remaining with PGNiG. The retail business was transferred to PGNiG OD.

Natural gas sales in T&S segment in Poland outside the PGNiG Group (including gas exports from Poland) mcm	**H1 2018**	**H1 2017**	**2017**	**2016**	**2015**	**2014**
High-methane gas (E)	12,820	12,242	23,075	20,435	19,557	15,543
Nitrogen-rich gas (Ls/Lw as E equivalent)	383	396	701	671	611	514
TOTAL (measured as E equivalent)	13,203	12,638	23,776	21,106	20,168	16,057
including:						
PGNiG	*8,825*	*8,349*	*16,159*	*13,734*	*12,415*	*12,834*
PGNiG OD	*4,378*	*4,289*	*7,617*	*7,245*	*7,481*	*3,209*
PST	-	-	-	*127*	*272*	*14*

Wholesale market

Gas imports

In H1 2018, the volume of gas imported to Poland by PGNiG reached 79.6 TWh, up 7.7 TWh year on year. Gas imports from countries east of Poland rose by 7% year on year, while gas imports from the EU fell by 24% year on year. Gas flows to Ukraine dropped 24% year on year. LNG supplies rose 53% year on year.

Gas flows at Polish borders (TWh)

Entry/exit point (in TWh)	**H1 2018**	**H1 2017**	**Change y/y**
Supplies from EU	3.87	5.09	-24%
including Lasów, Gubin (GCP)	0.04	0.66	-94%
including Cieszyn	2.11	0	
including Mallnow	1.71	4.44	-61%
Supplies from across Poland's eastern border	61.26	57.35	7%
including Drozdovitse	24.66	25.08	-2%
including Teterovka	0.50	0.49	2%
including Kondratki	16.23	14.83	9%
including Vysokoye	19.87	16.95	17%
LNG regasification	14.49	9.46	53%
Exports to Ukraine (mainly Hermanowice)	2.42	3.20	-24%
Total flow	82.04	75.10	9%

Źródło: GAZ-SYSTEM.

In the first half of 2018, PGNiG purchased natural gas mainly under the long-term agreements and contracts specified below:

- Contract with OOO Gazprom Export for the sale of natural gas to the Republic of Poland, dated September 25th 1996, effective until 2022 (the Yamal Contract);
- Contract with Qatar Liquefied Gas Company Limited (3) for the sale of liquefied natural gas, dated June 29th 2009, effective until 2034 (the Qatar Contract).

Gas was also supplied under medium- and short-term contracts for LNG and grid deliveries.

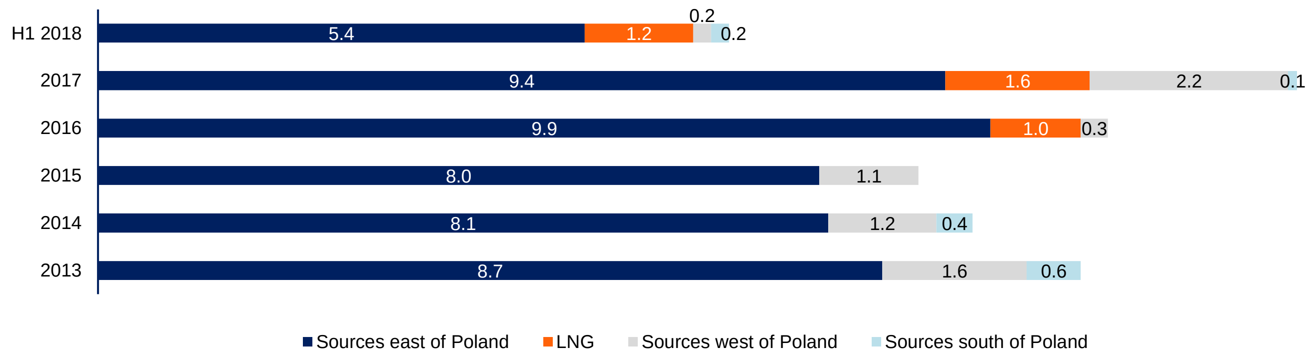
LNG supplies and purchase

In H1 2018, PGNiG received eleven LNG shipments totalling approximately 2.2 mcm of LNG (ca. 14.5 TWh), Which is more by 53% on H1 2017. Following the execution, on March 14th 2017, of an additional agreement with Qatar Liquefied Gas Company Limited, the volume of LNG supplied from Qatar to the Świnoujście Terminal has been increased as of 2018. The company continues to purchase LNG under spot contracts through the trading office opened in London in February 2017. The first spot cargo was received in May 2018. Approximately 140 tcm of LNG (over 80 mcm of natural gas after regasification) was supplied from Norway to Świnoujście by the Arctic Princess tanker.

In the performance of the five-year contract executed in November 2017 through the London office with Centrica LNG Company Limited, in June 2018 the Arctic Voyager tanker supplied nearly 140 tcm of LNG to the terminal in Świnoujście.

In the period under review, PGNiG took further significant steps to diversify its gas supply sources and build its LNG trading portfolio. On June 26th 2018, heads of agreements were signed with Port Arthur LNG and Venture Global LNG. Both companies are pursuing projects to construct terminals for liquefying natural gas on the coast of the Gulf of Mexico, USA. The terminals are scheduled to be placed in service in 2022 and 2023. At present, the company is carrying out detailed legal and technical analyses of the projects and holding talks on the terms of LNG purchase contracts under which PGNiG plans to receive 2 million tonnes of LNG annually from each of its US partners, which, after regasification, would produce a total of approximately 5.5 bcm of natural gas. Under the contracts, LNG will be purchased on the FOB basis, which means that the buyer assumes responsibility for the cargo and its transport once the cargo is loaded on board at the port of shipment. Such terms of procurement give PGNiG, as the buyer, flexibility and ability to trade in LNG cargoes on a global scale.

Imports of natural gas to Poland in 2013–2017 and in H1 2018 (bcm, Polish standard)



Source: In-house analysis.

Renegotiation of price terms under the contract with OOO Gazprom Export

In the first half of 2018, PGNiG continued its efforts to change the price terms under the Yamal Contract as part of the procedure formally launched on November 1st 2014. On June 29th 2018, the Arbitration Court issued a partial award in the arbitration proceedings instigated by PGNiG against PAO Gazprom and OOO Gazprom Eksport. In the partial award, issued on an ad hoc basis, the Arbitration Court:

- Found that in November 2014 PGNiG filed a valid and effective request to renegotiate the contract price;
- Confirmed the satisfaction of the condition set forth in the Yamal Contract which entitles PGNiG to demand a reduction of the contract price for the gas supplied by Gazprom under the Yamal Contract, thus confirming that, in principle, PGNiG's request to determine a new, lower contract price is justified; and
- Found, contrary to Gazprom's claims, that PGNiG has the right to change the contract price within the limits of the claim, also declaring that PGNiG's initial demand regarding the new price formula is too far-reaching; the Court also decided ad hoc that the new contract price would be determined later on in the proceedings.

Under the Yamal Contract, the new contract price determined ad hoc by the Arbitration Court should apply with retroactive force as of November 1st 2014, i.e. the date of PGNiG's request for renegotiation of the contract price. The ad hoc issuance by the Arbitration Court of a partial award does not rule out the possibility of the parties to the Yamal Contract reaching an agreement on changing the price terms.

On November 1st 2017, PGNiG again requested PAO Gazprom/OOO Gazprom Eksport to renegotiate the price terms of gas supplies. The Russians submitted their own renegotiation request on December 7th 2017, which the Company believes was groundless and ineffective as it failed to meet the formal requirements set out in the Yamal Contract. So far, the parties have not reached an agreement on the terms of supply.

Sale of gas

Customers buy gas from PGNiG at market prices, in line with the formulas and mechanisms set out in the agreements concluded with them. The pricing formulas offered are based on exchange indices. PGNiG customers may also pay fixed prices for gas supplies, determined on the basis of the agreements. The Company applies an individual approach to each customer, i.e. it sets prices based on an objective pricing mechanism which guarantees equal treatment of all customers. The largest amounts of gas in Poland were sold to industrial customers. The largest Polish customers in this group include Grupa Azoty and its subsidiaries, PKN Orlen S.A. and its subsidiaries, Grupa Lotos, Polska Grupa Energetyczna, Arcelor Mittal Poland S.A., and KGHM Polska Miedź S.A.

In the first half of 2018, nearly 14,000 tonnes (774 road tankers) of small-scale LNG were sold. Based on arrangements signed under framework agreements, nearly 27,000 tonnes of LNG are to be sold in 2018. At the beginning of the year, the Company began replacing its cargo handling infrastructure with iso tank containers and tank trucks to increase sales. LNG was supplied to end-users in Poland, the Czech Republic, Germany and Austria.

Sale of oil

As regards trading in crude oil, in 2018 PGNiG continues its trading sales policy by cooperating with the largest fuel sector players in Poland and abroad. Rail deliveries of crude oil were made to the LOTOS Group refinery in Gdańsk and to Orlen Południe's Trzebinia Production Plant (the ORLEN Group). In 2018, crude oil was also delivered by road to Orlen Południe's Jedlicze Production Plant, and via the PERN pipeline − to TOTSA TOTAL Oil Trading S.A.

Competition

Natural gas supplies to wholesale customers were made through entities operating on the Polish market, based on independent purchases of gas fuel on the PPX and from foreign suppliers, at entry points to the Polish transmission system, located on the Polish border. PGNiG's main competitors operating directly on the Polish market include: PKN Orlen S.A., Hermes Energy Group S.A., DUON Dystrybucja Sp. z o.o. (Fortum Holdings), Tauron Polska Energia S.A., innogy Polska S.A., Alpiq Energy SE, and PGE S.A.

Gas exports

PGNiG has been selling gas fuel to Ukraine since August 2016. In the first half of 2018, as part of cooperation with the ERU Group and NAK Naftogaz of Ukraine, the Company sold over 210 mcm (Polish standard) of gas on the Ukrainian market. Moreover, in March 2018 PGNiG made emergency supplies of gas fuel to NAK Naftogaz of Ukraine after Gazprom refused to start deliveries to Ukraine. PGNiG is also examining the possibilities of stepping up its gas trading activities in Western Europe as well as in Central and Eastern European markets, particularly in countries neighbouring Poland.

Sale of electricity

On the electricity market, PGNiG is engaged primarily in wholesale trading. Total sales of electricity to trading companies and on the PPX accounted for more than 90% of total electricity sales in the six months to June 2018.

Sales of electricity by PGNiG	GWh	%
End customers	0.1	0.0
Trading companies	959.2	28.0
Balancing market	289.8	8.5
Exchange	2,169.7	63.5
TOTAL	3,418.8	100.0

In the first half of 2018, PGNiG was engaged in wholesale trading in electricity and related products in Poland and Germany. In Poland, the Company traded on the OTC market and on the PPX. In Germany, PGNiG traded in spot contracts on the European Power Exchange (EPEX SPOT SE) as part of cross-border electricity trading. PGNIG also provided services under commercial balancing agreements to PGNiG OD, PGNiG TERMIKA and companies of the PGNiG TERMIKA Group, i.e. PGNiG TERMIKA Energetyka Przemysłowa and PGNiG TERMIKA Energetyka Rozproszona.

Retail market

The focus of PGNiG OD's business is sale of natural gas (high-methane and nitrogen-rich gas), electricity, compressed natural gas (CNG), and liquefied natural gas (LNG) to retail clients.

Gas purchase

High-methane gas is procured from three main sources: PPX, under a contract with PGNiG for delivery of gas to a virtual trading point in the transmission network operated by GAZ-SYSTEM, and under a contract with PGNiG for delivery of gas to a physical trading point in Słubice. The PPX accounts for the largest share in the volumes of high-methane gas purchases by PGNiG OD. Nitrogen-rich gas and LNG are purchased under an agreement with PGNiG.

Sale of gas

In the first half of 2018, PGNiG OD continued its strategy to expand the gas fuel portfolio and improve its margin management. In the first half of 2018, retail sales of gas were partially tariff-regulated for business customers purchasing gas both for technological purposes and for heating. As at the end of June 2018, the volume of sales to all end-users was 45.9 TWh of gas, of which 42.9 TWh was high-methane gas. From January to May 2018, close to 31,000 new accounts in tariff groups 1–4 were added to the retail customer base.

Trading policy

As part of its Strategy, the Company actively monitors the retail market and develops its gas offering, taking into account customers' expectations regarding competitive terms of gas sale, as well as flexibility and security of supplies. In the first half of 2018, PGNiG OD launched a number of promotional campaigns which stimulated customers' interest in its offering and increased added value for customers. Some of the campaigns were:

- 'Subsidy of up to PLN 3,000', offering financial support to consumers who plan to switch from solid fuel to gas fuel in their heating systems;
- 'Switch to Gas', where PGNiG joined forces with local authorities to actively reduce smog by offering people easier access to environmentally-friendly gas fuel;
- 'Gazek – Keeping Your Home Safe, in which insurance products (insurance of home appliances and consumer electronics as well as assistance insurance) were added to the offering;
- 'Low Price All the Time, 2nd Edition' – return of the offer targeted at business customers, ensuring protection against fluctuations in gas prices.

Sale of LNG

The Company supplies LNG to its satellite regasification stations and to several commercial customers. In June 2018, a letter of intent was signed between PGNiG OD, Gas-Trading S.A. and Zarząd Morskiego Portu Gdynia S.A. concerning the use of LNG for marine purposes. The project involves using LNG to create a mobile truck-to-ship bunkering point, ship-to-ship bunkering, and development and implementation of the process manual for LNG bunkering operations. The project will be implemented under the INNOSHIP programme of the National Centre for Research and Development.

Sale of CNG

The key CNG customers are public transport companies (ca. 70% of all customers), which rolled out their fleets of CNG buses. The balance are customers in the utility vehicle market (ca. 15%) and retail customers (ca. 15%).

Sale of electricity

In H1 2018, electricity sales to end users totalled 204 TWh. As at the end of June 2018, PGNiG OD's base of retail customers on dual fuel (electricity and gas) plans comprised consumer accounts (89%) and non-consumer accounts (11%). According to the Energy Regulatory Office data, approximately 39.9 thousand customers in Poland changed their electricity suppliers between January and June 2018, including 31.2 thousand households (G tariff groups).

Competition

Based on PGNiG OD estimates, in the first half of 2018 there were over 40 gas suppliers on the market who actively competed for domestic and business customers. On the retail market, the most active competitors included in particular three operators. In the business segment, the company identified ten most active competitors in the first half of 2018. On the LNG market, there are five particularly active operators. The number of entities holding licences to trade in gas fuels increased from 196 at the end of 2016 to 200 at the end of 2017, while 108 entities actively participated in natural gas trading.

5.2.4. Segment's trading activities abroad

Through PGNiG Supply and Trading GmbH (wholesale) and PST Europe Sales GmbH (retail sale), the PGNiG Group is also developing its natural gas business (both wholesale and sales to end users) in Germany and Austria.

Natural gas foreign sales in T&S segment outside the PGNiG Group (excluding gas exports from Poland) mcm	**H1 2018**	**H1 2017**	**2017**	**2016**	**2015**	**2014**
High-methane gas (E)	1,714	1,131	2,186	2,384	2,039	1,745
Nitrogen-rich gas (Ls/Lw as E equivalent)	-	-	-	-	-	-

TOTAL (measured as E equivalent), including:	1,714	1,131	2,186	2,384	2,039	1,745
PST	1,714	1,131	2,186	2,384	2,039	1,745

Customer base

PST's natural gas customer base mcm	H1 2018	H1 2017	2017	2016
Households	23	30	48	51
Other industrial customers	15	15	35	57
Retail, services, wholesale	1,009	690	1,303	1,460
Exchange	668	396	800	816
TOTAL sales outside the Group	1,714	1,131	2,186	2,384

Exchange and OTC wholesale trading

In the first half of 2018, PST sold a total of 22.6 TWh of gas and 3.3 TWh of electricity in exchange transactions (51% of the volume). The shares of sales on the Dutch and Polish markets were 33% and 16%, respectively. In the first half of 2018, the trading office in London delivered two spot cargoes from the terminal in Hammerfest, Norway. In May, an LNG shipment was received from Endesa SA, and in June an LNG cargo arrived at the LNG Terminal in Świnoujście under a contract with Centrica.

Retail sales

The number of end users rose by 6%, to almost 47 thousand as at June 30th 2018, from 44.5 thousand at the end of 2017. In the first half of 2018, PST signed more than 11 thousand new contracts, of which almost 44% were successfully added to the PST customer portfolio, with physical deliveries starting in 2018 and onwards. Under its strategy, PST is examining the possibilities of stepping up the PGNiG Group's gas trading activities in Western as well as Central and Eastern Europe, particularly in countries neighbouring Poland.

PST's customer base PST (gas and electricity combined)

Customers by country	Jun 30 2018	Dec 31 2017	Dec 31 2016	Dec 31 2015
Germany	46,707	44,168	31,432	39,960
Austria	264	303	580	763
TOTAL	46,971	44,471	32,012	40,723

Customers by market segment	Jun 30 2018	Dec 31 2017	Dec 31 2016	Dec 31 2015
Households	43,682	41,698	28,572	34,256
B2B	17	13	10	23
SMEs	3,272	2,760	3,430	6,444
TOTAL	46,971	44,471	32,012	40,723

5.2.5. Storage

The Trade and Storage segment uses for its own needs the working capacities of the Wierzchowice, Husów, Strachocina, Swarzów and Brzeźnica underground gas storage facilities, as well as the Mogilno and Kosakowo underground cavern facilities. A part of the working capacity of the Mogilno facility which was made available to GAZ-SYSTEM is not a storage facility within the meaning of the Polish Energy Law. The capacities of gas storage facilities are managed by Gas Storage Poland, conducting activities in the following two core areas:

- Regulated activities comprising the provision of gaseous fuel storage services at storage facilities owned by PGNiG, as well as operation of the Mogilno and Kosakowo underground gas storage caverns;
- Non-regulated activities comprising the provision of services related to design, construction and extension of underground gas storage facilities.

Under an outsourcing agreement, GSP provides storage services at underground high-methane gas storage facilities owned by PGNiG. To ensure equal treatment of storage service users, standard storage service agreements are concluded based on GSP's Rules of Storage Services and the gas fuel storage tariff. GSP's services are provided using the following Storage Facilities (SF) and Groups of Storage Facilities (GSF):

- Kawerna GSF (comprising the Mogilno CUGSF and Kosakowo CUGSF, located in worked-out salt caverns),
- Sanok GSF (comprising the Husów UGSF, Strachocina UGSF, Swarzów UGSF and Brzeźnica UGSF, located in partly depleted gas reservoirs),
- SFG (comprising Wierzchowice UGSF).

In the first half of 2018, the construction (leaching) of K-6, K-8 and K-9 caverns of the Kosakowo CUGSF was continued. A project to upgrade the control room building at the Mogilno CUGSF was completed.

The average volume of gas withdrawal from Polish storage sites in the first quarter of 2018 was 156 GWh/day, with no significant change from the previous year. In the second quarter of 2018, the average withdrawal was 0.5 TWh, having decreased by 16.8 TWh year on year. As at June 30th 2018, the PGNiG Group's underground gas storage working capacities totalled 2,985.35 mcm of group E high-methane gas.

Third-party access (TPA) storage capacities

As at June 30th 2018, GSP made available a total of 2,942.85 mcm of working storage capacities for third party access and for the gas transmission system operator under long-term services contracts. 37.19 mcm of Kawerna SFG's working capacity was made available on an interruptible basis under short-term services contracts. In addition, the Company allocated 5.23 mcm of working capacity for the needs of Mogilno CUGSF's and Kosakowo CUGSF's technological units.

Total working capacities and TPA working capacities

	Working storage capacities (mcm)		TPA working storage capacities (mcm)		TPA working storage capacities (GWh)*	
	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017
Kawerna SFG	735	735	730	730	13,166	13,166
Wierzchowice UGSF	1,200	1,200	1,200	1,200	8,011	8,011
Sanok SFG	1,050	1,050	1,050	1,050	11,520	11,520
Total	2,985	2,985	2,980	2,980	32,697	32,697

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

Ticketing service

In response to market expectations, in early February 2017 PGNiG added to its offering a ticketing service which allows gas importers and traders to meet their gas-stocking obligations in accordance with the applicable Polish regulations. In H1 2018, PGNiG continued to provide the ticketing service to 11 entities with whom it concluded ticketing service contracts in 2017. The total volume of gas stocks maintained by PGNiG for other entities is close to 370 GWh (approximately 33 mcm). PGNiG intends to continue to provide the ticketing service in the next gas year (2018/2019).

The ticketing service offered by PGNiG is an alternative to purchasing gas storage services from GSP or to holding gas stocks abroad to satisfy the statutory gas stockholding obligations.

5.2.6. Segment's prospects

Import strategy

In the coming years, PGNiG will meet its obligations under the long-term contracts with Gazprom Export and Qatargas with respect to the minimum offtake volumes. If an unforeseen increase in demand occurs, the Company will purchase natural gas under short-term contracts from the neighbouring countries or on the LNG market, wherever more favourable prices are available. PGNiG also pursues its strategy of active participation in the international LNG market by entering into spot transactions to secure deliveries to the Świnoujście Terminal and by trading in LNG on the global market.

In the long term, with the near expiry (in 2022) of the Yamal contract and the expected rise in gas import capacities in mind, PGNiG will have the possibility of diversifying its gas sources. The elements essential for real diversification of gas supplies to Poland include further use of the LNG terminal in Świnoujście and building of the Norwegian Corridor. Therefore, the second half of 2018 will see the continuation of efforts to implement the Baltic Pipe project as well as commercial efforts to execute favourable contracts with gas producers and suppliers from countries north of Poland.

In H2 2018, the Company will receive LNG deliveries planned under an annual delivery schedule. The LNG Terminal in Świnoujście may also receive spot cargoes if any additional demand arises. Efforts to develop competencies and strengthen the Company's presence on the global LNG market, including an analysis of the possibility of entering into contracts for LNG imports from new directions (e.g. from North America or Africa), the possibility of optimising supplies, as well as acquiring new competencies in LNG transport by sea, will be continued.

Retail sales in Poland

In the second half of 2018, the company intends to implement strategic initiatives aimed at enhancing operational efficiency and customer service quality as well as further optimisation of processes and tools designed to reduce operating expenses.

In the second half of 2018, PGNiG OD intends to further enhance its product offering and improve customer satisfaction by focusing on continuous improvement and streamlining of customer service, maintaining long-term relationship with customers and by building new and developing the existing customer access channels. Seeking the opportunities to expand a supplementary offering for electricity and natural gas in cooperation with a large group of external partners offering solutions complementary to PGNiG OD's core business remains a vital element of the company's strategy. In addition, to fight off growing competition, PGNiG OD will continue the efforts aimed at keeping up the natural gas sales volumes by offering customers dedicated discount plans and tailor-made plans. With regard to business customers, marketing efforts will mainly focus on securing gas supply contracts for 2019.

More trade contracts are planned to be concluded with CNG and LNG customers, which will eventually boost the sales volumes. Steps designed to promote and develop the regasification infrastructure are also planned to be made.

With regard to purchase of electricity, PGNiG OD took steps to diversify its asset sources by increasing its participation in OTC trading.

Foreign operations

In the coming years, PST intends to continue stable acquisitions of customers through traditional sales channels, such as telemarketing and door-to-door sales. Consistent customer acquisition will be based both on maintaining relationships with the existing trading partners and finding new ones. The Company will develop exclusive sales channels to further improve the quality of its portfolio and pursue sustainable development.

As part of its trading activity, besides being an active player in OTC and exchange markets, PST intends to develop a business model based on cooperation with municipal companies as well as companies selling gas and electricity to end customers, by offering them standard and structured commercial products and auxiliary services related to trading (e.g. balancing services). Additionally, PST remains interested in the Dutch market as it is an attractive market for the purposes of further price securing. PST intends to use the LNG terminal in Świnoujście as a certain source of LNG supply in the development of a 'small scale LNG' solution, i.e. the use of LNG as a fuel for lorries on the German market.

Storage

With respect to non-regulated activities, work will continue on the construction of five Cluster B chambers at the Kosakowo CUSGF. The efforts will include assembly and connection of the gas section, site development, testing the leached caverns for tightness, and initial gas pumping into the caverns. All this will enable timely completion of the project. The contractual deadline for completion of all works related to the construction of the Cluster B chambers falls in 2021.

With regard to regulated activities related to storage services, a procedure will be carried out in H2 2018 in connection with surveying market expectations regarding the launch of new products and services (in particular, a market survey will be performed to gauge the demand for gas storage services).

5.3. Distribution

The segment's principal business activity consists in the transmission of high-methane and nitrogen-rich gas, as well as of small amounts of coke-oven gas, over the distribution network to retail and corporate customers. The segment is also engaged in extending and upgrading the gas network and connecting new customers. PSG is responsible for natural gas distribution. As the Distribution System Operator, the company operates in all regions of Poland. Being the owner of the majority of Poland's gas distribution network and gas service lines, PSG enjoys a dominant market share.

5.3.1. Segment's key data

Financial highlights	H1 2018	H1 2017	H1 2017*	2017	2016	2015	2014
Total revenue, including:	2,687	2,610	2,610	4,937	4,915	4,585	4,283
- external sales of distribution services	2,371	403	2,439	788	729	363	67
- intra-group sales of distribution services	9	2,048	9	3,807	3,657	3,748	3,868
EBITDA	1,384	1,383	1,383	2,493	2,559	2,339	2,002

*Data reflecting the potential impact of IFRS 15.

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

	H1 2018	H1 2017	2017	2016	2015	2014
Total volume of distributed gas, including:	6,356	6,382	11,645	10,858	9,823	9,586
- high-methane gas	5,420	5,369	9,797	9,301	8,646	8,495
- nitrogen-rich gas	504	580	989	836	643	568
including outside the PGNiG Group	*1,644*	*1,616*	*3,110*	*3,081*	*1,793*	*804*

5.3.2. Segment's strategy

In the Distribution Segment, the PGNiG Group is implementing a strategy designed to accelerate the development of the distribution system and increase the rate of connecting new customers to the grid. One of the key objectives is to increase the rate of connecting new customers to the distribution network from about 47 thousand new connections in 2017 to about 55 thousand new connections per year as a result of optimised connection processes and improved customer service quality. The higher rate of connecting new premises to the gas network will enable PSG to increase the volume of natural gas distributed, from the 2017 target of approximately 10.6 bcm (117.8 TWh) to approximately 12.3 bcm (136.7 TWh) in 2022.

The increase in the volume of distributed gas will be achieved by connecting new customers to the existing distribution network, expanding the distribution network into unserved areas, and delivering gas to customers lacking access to the gas transmission and distribution network through roll-out local gas delivery solutions.

5.3.3. Segment's activities

The efforts undertaken by PSG in H1 2018 resulted in the execution of over 39.1 thousand connection contracts with customers and the supply of 6.4 bcm of gas to customers. Three new municipalities (Dominowo, Miedziechowo and Żarnowiec) were connected to the gas grid. The gas network roll-out in Poland is 59.8%. By the end of June 2018, more than 100 thousand decisions defining the terms of connection were issued (up by 28% year on year) and 25.4 thousand service lines with a total length of 273.8 km were built.

The expansion of the distribution network into unserved areas continued, as did delivering gas to customers lacking access to the gas transmission and distribution network through roll-out of local LNG gas delivery solutions based on the satellite roll-out model. At the end of April 2018, the construction of one LNG station had been completed and five LNG stations were under construction.

In January 2018, the Energy Regulatory Office approved a new tariff valid until December 31st 2018. According to new Tariff No. 6, the average reduction of prices and network fees used for settlements with customers in the Distribution Tariff in relation to PSG's previous tariff is 7.37% for all tariff groups.

In April 2018, a project to acquire gas infrastructure from GAZ-SYSTEM was approved for execution. The project, consistent with the "PSG Strategy for 2016–2022", will serve to fulfil the following objectives:

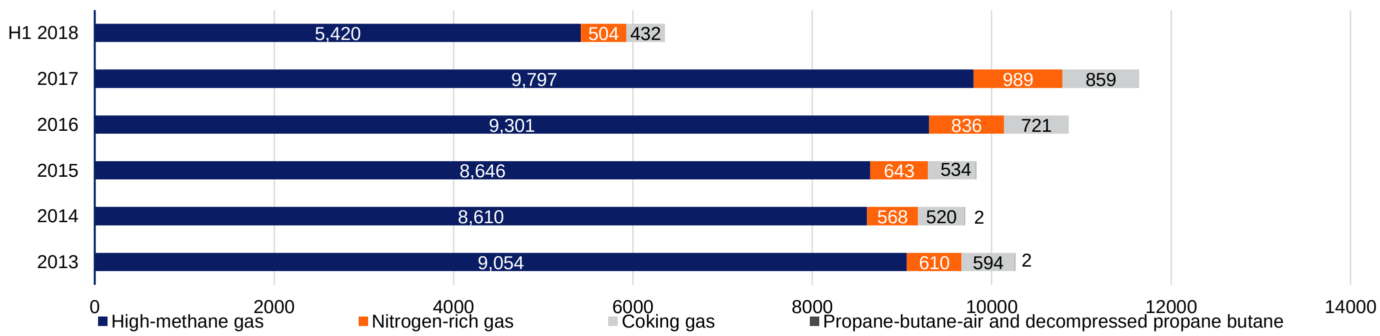
- building additional capacity in gas distribution infrastructure;
- enhancing the ability to participate in innovative technological solutions;
- facilitating quick action to increase network density in unserved or poorly served areas through which gas transmission pipelines run;
- building new service lines to the acquired network for customers with demand below 45 thousand m^3/h;
- acquiring GAZ-SYSTEM's existing customers.

In July 2018, PSG and GAZ-SYSTEM S.A. signed a dispositive and obliging agreement for a total amount of approximately PLN 70m.

On April 1st 2018, the company opened a new branch: the Investment and Repair Branch in Krosno, which will be responsible for investment and repair projects at PSG. In 2018–2020, PSG plans to implement an investment programme providing for network expansion and modernisation, with a total capex of PLN 5.8bn. Project implementation with the company's own resources will reduce time to completion, improve performance vs CAPEX plan and accelerate the implementation of tasks.

In the first half of 2018, there was a slight year-on-year decrease in the volume of gas distributed by the segment.

Volume of gas transmitted via the distribution system (mcm) in 2013–2017 and in H1 2018 (natural units)



The 20 mcm decrease in the volume of supplied gas was mainly attributable to atmospheric factors, i.e. the average temperatures higher by 0.9°C in H1 2018 and 2.9°C in Q1 2018 year on year.

As at June 30th 2018, the length of the PGS network (including service lines) was 184 thousand km, and the number of customers was 7m.

5.3.4. Segment's prospects

In the second half of 2018, PSG will continue to pursue projects to connect new customers under framework agreements for the construction of gas service lines from the existing network. Such approach will streamline the contract award process. In 2018, more than 50 thousand new service lines are to be built and over 12 bcm of gas are to be supplied.

There are plans to implement an investment model which will promote growth in the volume of transported gas and accelerate the implementation of key investment projects. In order to carry out these plans, PSG intends to rely on external funding available under EU programmes covered by the EU's new financial framework 2014−2020. Focus will be placed in particular on acquiring new customers, improving the reliability of gas networks, and security of gas supplies. Based on the Development Strategy for the PSG Distribution Network in 2017−2026, currently being prepared, PSG will continue to pursue gas network construction and expansion projects, including projects with large-scale application of the LNG technology. In 2018, a total of 20 LNG stations are scheduled for completion.

Strategic investment projects will also be continued. With respect to such projects, in 2017 and 2018 PSG concluded with the Oil and Gas Institute – National Research Institute agreements for co-financing (as part of Measure 7.1. – *Development of intelligent storage, transmission and distribution systems*, Priority axis VII – *Improvement of energy security*) of the Infrastructure and Environment Operational Programme 2014–2020, providing for the implementation of gas network roll-out and pipeline construction projects.

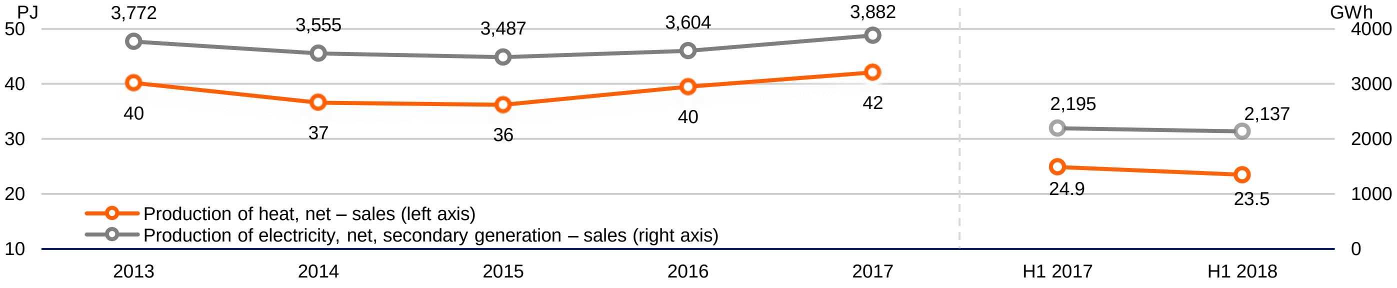
5.4. Generation

The segment's principal business consists in the production of heat and electricity, distribution of heat, and execution of large natural gas-fired projects in the power sector. PGNiG TERMIKA is the Group's competence centre for heat and electricity generation as well as execution of heat and power projects. PGNiG TERMIKA EP is a member of the PGNiG TERMIKA Group.

5.4.1. Segment's key data

Financial highlights	H1 2018	H1 2017	2017	2016	2015	2014
Total revenue	1,265	1,267	2,251	2,195	1,887	1,943
Revenue from sales outside the Group, including:	888	943	1,655	1,472	1,215	1,149
- heat	743	787	1,346	1,262	1,126	1,079
- electricity	16	32	50	36	8	7
Inter-segment revenue	377	324	596	723	672	794
EBITDA	466	580	843	759	679	463

Heat and electricity sales volumes from own generation sources



5.4.2. Segment's strategy

The PGNiG Group's strategy for the generation business is to expand its share in the heat generation and distribution market. In terms of electricity and heat generation, the Group's strategic ambition is to increase the electricity and heat sales volume from approximately 15 TWh in 2017 to around 18 TWh in 2022. This objective will be achieved mainly through:

- upgrades to and development of the existing production facilities (new CCGT unit at the Żerań CHP plant);
- completion of integration of acquired heating assets within the PGNiG TERMIKA Group, and an increase in electricity and heat production volumes at PGNiG TERMIKA EP following the launch of a new unit at the Zofiówka CHP plant;
- further acquisitions of local heating systems.

5.4.3. Segment's activities

In H1 2018, PGNiG TERMIKA carried out two major strategic investment projects:

- construction of a 496 MWe CCGT unit at the Żerań CHP plant, and
- construction of a co-generation unit at the Zofiówka CHP plant owned by PGNIG TERMIKA EP.

In the course of construction of the CCGT unit at the Żerań CHP plant, a contract with the owner's engineer was signed and reinforcement and concrete work on the unit's main facilities was underway. Contractors for associated works (thermal power output, modernisation of the water preparation station, deepening of the water canal from the Vistula river, construction of the cooling water pipeline) were selected in line with the schedule. The construction is scheduled for completion in 2020.

The construction of the unit at the Zofiówka CHP plant is due for completion in H2 2018. The percentage of completion is approximately 98%. The main tasks included start-up of the unit's equipment and facilities, as well as finishing work and final assembly work. As part of the start-up process, the unit was in continuous operation and the electricity it generated was supplied to the national grid on a 24x7 basis. All scheduled adjustment run tests were performed, including a 72-hour reliability test of the unit. As at the date of this report, all tests and trials envisaged in the adjustment run had been completed. Also, work on adaptation of the generation assets to environmental requirements stipulated in the Best Available Techniques (BAT) conclusions and the Medium Combustion Plant Directive was continued at the Zofiówka CHP plant.

Another strategic project is the construction of a gas-fired water boiler house at the Żerań CHP Plant. As part of the strategic project 'Adaptation of the Pruszków CHP Plant to operation after 2022', Phase 1 of upgrading the existing steam generators No. 12 and 13 and the coal feeding system commenced. The strategic project to launch a multi-fuel unit at the Siekierki CHP Plant is in the process of obtaining the environmental permit. The project is included in the draft *Waste Management Plan for the Warsaw Province 2024*, approved on June 12th 2018 by the Government of the Warsaw Province.

In H1 2018, the special purpose vehicle ECSW carried out the construction of a ca. 450 MW CCGT unit at the Stalowa Wola CHP plant. In March 2018, the EGM of ECSW passed a resolution concerning the company's continued existence and approved the execution of a PLN 900m credit facility agreement with Bank Gospodarstwa Krajowego and PGNiG to be applied towards restructuring of the existing financing of the project and ensuring funds necessary for completion of the CCGT unit. The funds thus raised will allow the company to convert the existing short-term financing to long-term financing.

As part of its support to regulatory work concerning the heat generation and cogeneration sector, PGNiG TERMIKA was actively involved in consultations on the Capacity Market Act. The Act was passed in December 2017 and approved by the European Commission in February 2018, thus enabling cogeneration units to participate in auctions. PGNiG TERMIKA actively participated in providing opinion and consultations on the capacity market operating rules, published in March 2018. In May 2018, as part of the general certification process, the PGNiG TERMIKA Group submitted its generating units for participation in the capacity market. Work is under way on the secondary legislation (regulations) to the Capacity Market Act.

On July 6th 2018, a Multi-Year Contract for the Sale of Heat from PGNiG TERMIKA S.A. Generating Facilities ("MYC") was signed with Veolia Energia Warszawa S.A. To PGNiG TERMIKA, MYC is the main contract for the sale and supply of thermal capacity and heat to the Warsaw heating network, covering approximately 70% of the total demand for heat in the Capital City of Warsaw. The contract is effective until August 31th 2028, with an option to extend its validity for another 12 months unless both parties conclude a new contract to replace the MYC.

5.4.4. Segment's prospects

The PGNiG TERMIKA Group has been consistently pursuing its strategy for the power and heat generation business within the PGNiG Group. The second half of 2018 will see the continuation of the following projects:

- Environmental projects connected with adaptation of generating units to the requirements specified in the Best Available Techniques (BAT) conclusions and the Medium Combustion Plant Directive;
- Construction of new generating units in Warsaw and Jastrzębie-Zdrój;
- Preparation of an optimum strategy for participation in the Capacity Market.

The plans for H2 2018 include completion of construction of the CCGT unit at the Zofiówka CHP plant, selection of the contractor to construct a gas network on the premises of the Żerań CHP plant and execution of an annex to expand the scope of the master contract to include installation of an SCR unit (catalytic flue gas denitrification technology), redesigning of the control room building and installation of an additional cooling water measurement system. In addition to pursuing their investment projects, the TERMIKA Group companies cooperate with local government units to support the development of heat generation and cogeneration with a view to preventing low-stack emissions and improving local energy security.

5.4.5. Investment in PGG

On January 31st 2018, an EGM of PGG passed a resolution to increase the company's share capital by PLN 300m. In exchange for a cash contribution, PGNiG TERMIKA acquired 900 thousand new shares in PGG's increased share capital, with a total par value of PLN 90m, and holds a total of 8m shares in PGG, representing 20.43% of its share capital and the same percentage of voting rights at its General Meeting. The issue marks the end of share capital increase at PGG aimed at providing financing for the purchase and restructuring of mining assets acquired from Katowicki Holding Węglowy S.A. in 2017.

PGG has been consistently performing the actions provided for in the Investment Agreement of 2017 with a view to enabling the investors to exit the investment in the long term. As part of these actions, in November 2017 PGG was transformed into a joint-stock company.

In the first half of 2018, PGG stabilised its coal production and revenue from coal sales. As regards cost control, PGG has been consistently implementing the restructuring programme designed to permanently improve profitability.

6. Additional information on the PGNiG Group

6.1. Structure of the PGNiG Group

As at June 30th 2018, the PGNiG Group comprised PGNiG (the Parent), 34 production, trade and service companies, and a mutual insurance company, including:

- 20 direct subsidiaries of PGNiG
- 14 indirect subsidiaries of PGNiG.

The table below presents the PGNiG Group companies as at June 30th 2018:

PGNiG Group companies as at June 30th 2018

No.	Name	Share capital	Value of shares held by PGNiG	PGNiG's ownership interest (%, direct holdings)	PGNiG Group's ownership interest (%, direct and indirect holdings)
	Subsidiaries – first tier				
1	PGNiG GAZOPROJEKT S.A.	4,000,000	3,000,000	75%	75%
2	EXALO Drilling S.A.	981,500,000	981,500,000	100%	100%
3	GEOFIZYKA Kraków S.A. w likwidacji (in liquidation)	64,400,000	64,400,000	100%	100%
4	GEOFIZYKA Toruń S.A.	75,240,000	75,240,000	100%	100%
5	Geovita S.A.	86,139,000	86,139,000	100%	100%
6	Gas Storage Poland Sp. z o.o.	15,290,000	15,290,000	100%	100%
7	PGNiG Obrót Detaliczny Sp. z o.o.	600,050,000	600,050,000	100%	100%
8	PGNiG Serwis Sp. z o.o.	9,995,000	9,995,000	100%	100%
9	PGNiG Technologie S.A.	272,727,240	272,727,240	100%	100%
10	PGNiG TERMIKA S.A.	1,740,324,950	1,740,324,950	100%	100%
11	Polska Spółka Gazownictwa Sp. z o.o.	10,454,206,550	10,454,206,550	100%	100%
12	PGNiG Finance AB i likvidation	500,000 SEK	500,000 SEK	100%	100%
13	PGNiG Supply & Trading GmbH	10,000,000 EUR	10,000,000 EUR	100%	100%
14	PGNiG Upstream Norway AS	1,100,000,000 NOK	1,100,000,000 NOK	100%	100%
15	PGNiG Upstream North Africa B.V.	20,000 EUR	20,000 EUR	100%	100%
16	GAS-TRADING S.A.	2,975,000	1,291,350	43.41%	79.58%[2)]
17	PGNiG SPV 5 Sp. z o.o.	250,000	250,000	100%	100%
18	PGNiG SPV 6 Sp. z o.o.	51,381,000	51,381,000	100%	100%
19	PGNiG SPV 7 Sp. z o.o.	250,000	250,000	100%	100%
20	Polski Gaz Towarzystwo Ubezpieczeń Wzajemnych*	20,000,000	20,000,000	100%	100%
	Subsidiaries – second tier				
21	PGNiG TERMIKA Energetyka Przemysłowa S.A.	370,836,300	370,836,300	-	100%[9)]
22	GAZ Sp. z o.o.	300,000	300,000	-	100%[3)]
23	PSG Inwestycje Sp. z o.o.	81,131,000	81,131,000	-	100%[3)]
24	Oil Tech International F.Z.E.	20,000 USD	20,000 USD	-	100%[4)]
25	EXALO DRILLING UKRAINE LLC	20,000 EUR	20,000 EUR	-	100%[4)]
26	PST Europe Sales GmbH	1,000,000 EUR	1,000,000 EUR	-	100%[5)]
27	Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o.	3,000,000	2,565,350	-	85.51%[6)]
28	CIFL Sp. z o.o.	1,360,000	1,360,000	-	100%[7)]
29	Gas-Trading Podkarpacie Sp. z o.o.	6,670,627	5,257,523.51	-	78.82%[8)]
30	PGNiG Serwis Doradztwo Ubezpieczeniowe Sp. z o.o.	5,000	5,000	-	100%[1)]
31	PGNiG TERMIKA Energetyka Rozproszona Sp. z o.o.	13,550,000	13,550,000	-	100%[9)]
32	Zakład Gospodarki Mieszkaniowej Sp. z o.o.	1,806,500	1,806,500	-	100%[4)]
	Subsidiaries – third tier				
33	XOOL GmbH	500,000 EUR	500,000 EUR	-	100%[10)]
34	SEJ-Serwis Sp. z o.o.	200,000	200,000	-	100%[11)]

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

Changes in the Group structure in the six months to June 2018:

- On January 15th 2018, a resolution to liquidate PGNiG Finance AB of Stockholm was registered, following which the company's name was changed to PGNiG Finance AB i likvidation.
- On March 16th 2018, the change of company name Gas Assets Management Sp. z o.o. to CIFL Sp. z o.o. was entered in the National Court Register.

- On May 25th 2018, the EGM of Geovita increased the company's share capital from PLN 86,139,000.00 to PLN 102,176,575.00, i.e. by PLN 16,037,575.00, by way of issue of 16,037,575 Series B registered ordinary (non-preference) shares with a par value of PLN 1 per share. The share capital increase was covered with a non-cash contribution in the form of tourist and hotel facilities. The declaration of acquisition of new shares in the increased share capital was made on June 22nd 2018. As at the date of this Report, the increase had not been entered in the NCR.
- On June 22nd 2018, PSG's Extraordinary Shareholders Meeting resolved to increase company's share capital from PLN 10,454,206,550 to 10,488,917,050 PLN, i.e. by PLN 34,710,500.00 through the issue of 459,233 new shares with a par value of PLN 50.00 per share. The new shares were acquired by PGNIG S.A. and covered with a non-cash contribution in the form of ½ (one half) share in property situated at ul. Krucza 6/14, Warsaw with a total market value of PLN 34,710,521.50, and the excess of the value of the non-cash contribution of PLN 21.50, net, to be transferred to the statutory reserve funds of PSG. As at the date of this Report, the share capital increase had not been entered in the NCR.
- On August 9th 2018, the Extraordinary General Meeting of PGNiG OD resolved to increase the company's share capital from PLN 600,050,000.00 to PLN 625,307,815.00, i.e. by PLN 25,257,815.00, through the creation of 459,233 new, equal and indivisible shares with a par value of PLN 55.00 per share. The new shares were acquired by PGNIG S.A. and covered with a non-cash contribution (CNG assets) with a total value of PLN 25,257,842.00, VAT exclusive. The excess of the value of the non-cash contribution made to the company over the par value of the shares acquired, amounting to PLN 27.00, net, was transferred to the company's statutory reserve funds. The declaration of acquisition of the shares was submitted on the same day, i.e. August 9th 2018. As at the date of this Report, the share capital increase had not been entered in the NCR.

6.2. Other ownership interests and organisational links

The table below presents the PGNiG Group's associated companies as at June 30th 2018.

PGNiG Group's associated companies as at June 30th 2018

No.	Name	Share capital	Value of shares held by PGNiG	PGNiG's ownership interest (%, direct holdings)	PGNiG Group's ownership interest (%, direct and indirect holdings)
	Jointly-controlled and associated entities - first tier				
1	Sahara Petroleum Technology Llc w likwidacji (in liquidation)	OMR 150,000.00	OMR 73,500	49.00%	49.00%
2	SGT EUROPOL GAZ S.A.	80,000,000.00	38,400,000.00	48.00%	51.18%[1)]
3	PFK GASKON S.A.	13,061,325.00	6,000,000.00	45.94%	45.94%
4	ZWUG INTERGAZ Sp. z o.o.	4,700,000.00	1,800,000.00	38.30%	38.30%
5	Dewon PSA	UAH 11,146,800.00	UAH 4,055,205.84	36.38%	36.38%
	Jointly-controlled and associated entities - second tier				
6	Zakład Separacji Popiołów Siekierki Sp. z o.o.	10,000,000.00	7,000,000.00	-	70%[2)]
7	Elektrociepłownia Stalowa Wola S.A.	28,200,000.00	14,100,000.00	-	50%[2)]
8	Polska Grupa Górnicza S.A.	3,916,718,200.00	800,000,000.00	-	20.43%[2)]
9	Polimex-Mostostal S.A.	473,237,604.00	78,000,048.00	-	16.48%[3)]

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

Changes in other ownership interests within the PGNiG Group in H1 2018:

- On January 31st 2018, an EGM of PGG passed a resolution to increase the company's share capital by PLN 300m, to PLN 3,916,718,200, by way of issue of 3 million new Series B shares with a par value of PLN 100 per share. 900 thousand new shares with a total par value of PLN 90m were acquired by PGNiG TERMIKA S.A. for a cash contribution of PLN 90m. Following the share capital increase, PGNiG TERMIKA holds 8m shares in PGG, with a par value of PLN 100 per share and a total par value of PLN 800m, which corresponds to 20.43% of PGG's share capital and the same percentage of voting rights at its GM. The share capital increase was entered into the NCR on April 6th 2018.

6.3. Governing bodies

6.3.1. PGNiG Management Board

Composition of the PGNiG Management Board in the period January 1st – June 30th 2018:

- Piotr Woźniak − President of the Management Board
- Radosław Bartosik − Vice President, Chief Operating Officer
- Łukasz Kroplewski – Vice President, Development
- Michał Pietrzyk – Vice President, Finance
- Maciej Woźniak – Vice President, Trade
- Magdalena Zegarska – Vice President.

On July 20th 2018, the PGNiG AGM resolved to grant discharge to all members of the PGNiG Management Board who served on the Management Board in the financial year 2017.

6.3.2. PGNiG Supervisory Board

In the period January 1st – June 30th 2018, the composition of the PGNiG Supervisory Board was as follows:

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

On June 20th 2018, the PGNiG AGM resolved to grant discharge to all members of the PGNiG Supervisory Board who served on the Supevisory Board in the financial year 2017.

6.4. Court proceedings

6.4.1. Pending court proceedings

A detailed description of pending court proceedings is presented in Section 6.4.1 of the Directors' Report on the operations of PGNiG and the PGNiG Group in 2017. › www.pgnig.pl In the first half of 2018, the following changes occurred:

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

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

On October 28th 2015, the President of URE instigated proceedings to impose a financial penalty on PGNiG for its failure to meet the exchange sale requirement in 2014. On April 20th 2016, having considered the evidence, PGNiG filed a request for the President of URE to refrain from imposing the penalty. By decision of May 9th 2016, the President of URE imposed a fine of PLN 15m for PGNiG's failure to meet the exchange sale requirement in 2014. On May 27th 2016, the Company appealed against the decision in its entirety. On December 27th 2016, the President of URE replied to the appeal, requesting its dismissal. PGNiG filed its response on January 27th 2017. The first hearing is scheduled for September 2018.

Anti-trust proceedings instigated before the President of the Office of Competition and Consumer Protection (UOKiK) on December 28th 2010

Currently, anti-trust proceedings concerning an alleged abuse by PGNiG of its dominant position on the domestic natural gas wholesale market are pending before the Court of Competition and Consumer Protection.

Anti-trust proceedings instigated before the President of UOKiK on April 3rd 2013

On October 17th 2014, the President of UOKiK commenced administrative proceedings to impose a fine on PGNiG and PGNiG OD for an alleged delay in complying with the President of UOKiK's decision of December 31st 2013 where it relates to optional reduction by business customers of gas fuel quantities and capacity contracted for future years. On September 24th 2015, the President of UOKiK issued a decision to impose a financial penalty of PLN 10.4m on PGNiG for its delay in compliance with the decision of December 31st 2013. The President of UOKiK also decided to discontinue the proceedings against PGNiG OD. The President of UOKiK found that PGNiG OD had performed its obligations under the President of UOKiK's decision of December 31st 2013.

On November 2nd 2015, PGNiG filed an appeal against the decision of the President of UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw. On March 21st 2017, the Regional Court of Warsaw issued a ruling dismissing the appeal filed by PGNiG S.A. against the decision of the President of UOKiK, and ordered the Company to reimburse the costs of the proceedings to the President of UOKiK. On April 18th 2017, PGNIG appealed against the ruling in its entirety. On May 29th 2018, the Court of Appeals dismissed PGNiG S.A.'s appeal. The Court of Appeals' decision is final. On July 20th 2018, PGNiG S.A. received from the Court of Appeals a copy of the Court's decision with the statement of reasons. PGNiG has two months from that date to submit a cassation appeal.

Proceedings concerning the OPAL pipeline

Proceedings concerning the OPAL pipeline are pending before:

- The Court of Justice of the European Union – two appeals against the decision of the General Court of the European Union concerning inadmissibility of PST's complaint (PST submitted an appeal on February 13th 2018 and the Republic of Poland did so on March 5th 2018), and one appeal against the decision of the General Court of the European Union concerning inadmissibility of PGNiG's complaint, submitted on May 24th 2018;
- The Higher Regional Court in Düsseldorf (Oberlandesgericht Düsseldorf) where PGNiG and PST lodged complaints and requests for injunctive reliefs on December 15th 2016, subsequently extended on January 20th 2017.

On July 21st 2017, the President of the General Court of the European Union decided to revoke the injunctive relief in the PST case and dismiss the request for an injunctive relief filed by PGNiG in both cases. On December 14th 2017, the General Court of the European Union rejected PST's complaint on the grounds of inadmissibility and awarded the costs of the proceedings against PST. A similar decision was made in relation to PGNiG's complaint: on March 21st 2018 the General Court of the European Union rejected the complaint on the grounds of inadmissibility. They were formal decisions, not based on an analysis of validity of the claims made in the complaint.

Two appeals were submitted to the Court of Justice of the European Union against the decision of December 14th 2017 concerning PST's complaint. PST's appeal was lodged on February 13th 2018 and the Republic of Poland lodged its appeal on March 5th 2018. As regards PGNiG, an appeal was lodged on May 24th 2018.

The Higher Regional Court in Düsseldorf, by a decision of July 27th 2017, overturned its decision of December 30th 2016, thus cancelling the previously granted injunctive relief. The Court dismissed the application for an injunctive relief during a hearing held on October 11th 2017. A decision to dismiss the application, accompanied by a statement of reasons, was delivered on October 23rd 2017. No further hearings have been scheduled so far. In a letter dated March 6th 2018, Bundesnetzagentur notified the court of the decision of the General Court of the European Union of December 14th 2017 rejecting the complaint lodged by PST.

Other material proceedings related to liabilities and claims

In H1 2018, neither PGNiG nor its subsidiaries were engaged in any proceedings before a court, arbitration court or administrative authority concerning liabilities or claims whose value (whether in any single case or in two or more cases jointly) would have a material effect on the PGNiG Group's financial position.

7. Shareholding structure. PGNiG at WSE

7.1. Shareholding structure

As at June 30th 2018, the share capital of PGNiG was approximately PLN 5.78bn, and comprised 5,778,314,857 shares with a par value of PLN 1 per share. Series A shares were ordinary bearer shares and each share conferred the right to one vote at the General Meeting. The State Treasury remains PGNiG's majority shareholder.

On June 26th 2008, a disposal by the Minister of State Treasury of one PGNiG share in accordance with general rules triggered the eligible employees' rights to acquire for free a total of up to 750,000,000 PGNiG shares. First share transfer agreements were executed on April 6th 2009 and the eligible employees' rights to acquire PGNiG shares free of charge expired on October 1st 2010. As at June 30th 2018, nearly 60 thousand eligible employees acquired 728,294 thousand shares. The Company shares acquired by eligible employees free of charge were subject to a lock-up until July 1st 2010, while trading in shares acquired free of charge by members of the Company's Management Board was restricted until July 1st 2011.

Shareholding structure as at June 30th 2018

Shareholders	Number of shares/votes attached to the shares as at Jun 30 2018	Percentage of share capital/total voting rights at the GM as at Jun 30 2018
State Treasury	4,153,706,157	71.88%
Other shareholders	1,624,608,700	28.12%
TOTAL	5,778,314,857	100.00%

PGNiG shares and shares in PGNiG's related entities held by management and supervisory personnel

Full name	Position	Number of shares as at Dec 31 2017	Par value of shares as at Dec 31 2017 (PLN)	Number of shares as at Jun 30 2018	Par value of shares as at Jun 30 2018 (PLN)
Mieczysław Kawecki,	Member of the Supervisory Board	9,500	9,500	9,500	9,500
Stanisław Sieradzki	Member of the Supervisory Board	17,225	17,225	17,225	17,225

7.2. Dividend

The PGNiG Group's Strategy for 2017–2022 in effect as at the date of this Report provides for distribution of up to 50% of consolidated net profit as dividend, with the proviso that in recommending dividend payments the PGNiG Management Board must always take into account the PGNiG Group's current financial condition and investment plans. PGNiG recognises net profit of its subsidiaries in the consolidated accounts net of any dividends paid by the subsidiaries, which may result in such dividend payment being postponed by one year.

On May 28th 2018, the PGNiG Management Board resolved to recommend that the Annual General Meeting of PGNiG allocate PLN 866,747,228.55 from the 2017 net profit to dividend payment (PLN 0.15 per share). On July 20th 2018, the Annual General Meeting passed Resolution No. 28/2018 on allocation of the net profit for 2017, in line with the draft resolution submitted by a shareholder. Based on the resolution, the Company distributed the 2017 net profit of PLN 2,034,103,359.30 as follows: PLN 866,747,228.55 was allocated to capital reserve to be used to finance the extension and upgrade of the national gas distribution network and PLN 1,167,356,130.75 was allocated to the Company's statutory reserve funds. Following the resolution, the WSE Management Board decided to make, after the July 24th 2018 session, a special adjustment to the list of companies included in the WIGdiv index by deleting the PGNiG stock from the list.

Dividend from 2012–2017 net profit

	2017	2016	2015	2014	2013	2012
Dividend for financial year (PLNbn)	-	1.16	1.06	1.18	0.89	0.77
Dividend per share (PLN)	-	0.20	0.18	0.20	0.15	0.13
Average annualise share price (PLN)	-	5.16	5.94	4.85	5.83	4.06
Dividend yield	-	3.88%	3.03%	4.12%	2.57%	3.20%

8. Representation by the PGNiG Management Board

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

PGNiG Management Board:

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

Warsaw, August 28th 2018