

Polskie Górnictwo Naftowe i Gazownictwo S.A.

INTERIM REPORT
for the three months
ended September 30th 2019



Financial highlights

Key data from the interim condensed consolidated financial statements	PLNm		EURm	
	9 months ended Sep 30 2019	9 months ended Sep 30 2018	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Revenue	29,653	28,481	6,882	6,696
Operating profit before depreciation and amortisation (EBITDA)	3,929	5,769	912	1,356
Operating profit (EBIT)	1,816	3,800	421	893
Profit before tax	1,814	3,887	421	914
Net profit attributable to owners of the parent	1,342	2,824	311	664
Net profit	1,341	2,822	311	663
Total comprehensive income attributable to owners of the parent	1,717	2,593	399	610
Total comprehensive income	1,716	2,591	398	609
Net cash from operating activities	4,203	4,498	975	1,057
Net cash from investing activities	(3,718)	(2,621)	(863)	(616)
Net cash from financing activities	(1,613)	(1,700)	(374)	(400)
Net cash flows	(1,128)	177	(262)	42
Basic and diluted earnings per share (in PLN and EUR, respectively)	0.23	0.49	0.05	0.11
	As at Sep 30 2019	As at Dec 31 2018	As at Sep 30 2019	As at Dec 31 2018
Total assets	54,012	53,271	12,350	12,389
Total liabilities	16,257	16,639	3,717	3,870
Total non-current liabilities	8,549	7,255	1,955	1,687
Total current liabilities	7,708	9,384	1,762	2,183
Total equity	37,755	36,632	8,633	8,519
Share capital	5,778	5,778	1,321	1,344
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778
Book value per share and diluted book value per share (PLN/EUR)	6.53	6.34	1.49	1.47
Dividend per share declared and paid (PLN/EUR)	0.18	-	0.04	-

Key data from the interim condensed separate financial statements	PLNm		EURm	
	9 months ended Sep 30 2019	9 months ended Sep 30 2018	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Revenue	15,632	15,209	3,628	3,576
Operating profit before depreciation and amortisation (EBITDA)	1,050	2,097	244	493
Operating profit (EBIT)	424	1,508	98	355
Profit before tax	2,004	3,258	465	766
Net profit	1,867	2,955	433	695
Total comprehensive income	2,231	2,717	518	639
Net cash from operating activities	693	462	161	108
Net cash from investing activities	(1,447)	1,143	(336)	269
Net cash from financing activities	(1,430)	(1,221)	(332)	(287)
Net cash flows	(2,184)	384	(507)	90
Earnings and diluted earnings per share attributable to holders of ordinary shares (PLN and EUR)	0.32	0.51	0.07	0.12
	As at Sep 30 2019	As at Dec 31 2018	As at Sep 30 2019	As at Dec 31 2018
Total assets	37,367	36,993	8,544	8,603
Total liabilities	6,996	8,160	1,600	1,898
Total non-current liabilities	3,068	2,551	701	593
Total current liabilities	3,928	5,609	899	1,304
Equity	30,371	28,833	6,944	6,705
Share capital and share premium	7,518	7,518	1,719	1,748
Weighted average number of shares (million) in the period	5,778	5,778	5,778	5,778
Book value per share and diluted book value per share (PLN/EUR)	5.26	4.99	1.20	1.16
Dividend per share declared and paid (PLN/EUR)	0.18	-	0.04	-

Average EUR/PLN exchange rates quoted by the NBP	Sep 30 2019	Sep 30 2018	Dec 31 2018
Average exchange rate for period	4.3086	4.2535	4.2669
Exchange rate at end of period	4.3736	4.2714	4.3000

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 rate for EUR/PLN quoted by the NBP at the end of the reporting period.

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Interim condensed consolidated financial statements

Consolidated statement of profit or loss	3 months ended Sep 30 2019	9 months ended Sep 30 2019	3 months ended Sep 30 2018	9 months ended Sep 30 2018	
	unaudited	unaudited	unaudited	unaudited	
Revenue from sale of gas	4,749	21,574	5,304	20,058	Note 3.4.1.
Other revenue	2,280	8,079	2,291	8,423	Note 3.4.1.
Revenue	7,029	29,653	7,595	28,481	
Cost of gas sold	(4,099)	(18,876)	(4,129)	(16,410)	Note 3.5
Other raw materials and consumables used	(615)	(2,042)	(430)	(1,768)	Note 3.5
Employee benefits expense	(697)	(2,244)	(626)	(2,018)	Note 3.5
Transmission services	(269)	(788)	(249)	(777)	
Other services	(470)	(1,319)	(463)	(1,300)	Note 3.5
Taxes and charges	(103)	(702)	(109)	(707)	
Other income and expenses	(194)	(211)	(327)	(329)	Note 3.6
Work performed by the entity and capitalised	263	746	233	687	
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	(42)	(288)	(26)	(90)	Note 3.5
Operating profit before depreciation and amortisation (EBITDA)	803	3,929	1,469	5,769	
Depreciation and amortisation expense	(662)	(2,113)	(643)	(1,969)	
Operating profit (EBIT)	141	1,816	826	3,800	
Net finance costs	(68)	(37)	(41)	10	Note 3.7
Profit/(loss) on equity-accounted investees	9	35	15	77	
Profit before tax	82	1,814	800	3,887	
Income tax	(52)	(473)	(248)	(1,065)	Note 3.8
Net profit	30	1,341	552	2,822	
Net profit attributable to:					
Owners of the parent	30	1,342	554	2,824	
Non-controlling interests	-	(1)	(2)	(2)	
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778	
Basic and diluted earnings per share (PLN)	0.01	0.23	0.10	0.49	
Consolidated statement of comprehensive income	3 months ended Sep 30 2019	9 months ended Sep 30 2019	3 months ended Sep 30 2018	9 months ended Sep 30 2018	
	unaudited	unaudited	unaudited	unaudited	
Net profit	30	1,341	552	2,822	
Exchange differences on translating foreign operations	18	20	(15)	11	
Hedge accounting	92	437	(304)	(319)	
Deferred tax	(23)	(68)	75	84	
Share of other comprehensive income of equity-accounted investees	-	-	(1)	3	
Other comprehensive income subject to reclassification to profit or loss	87	389	(245)	(221)	
Actuarial losses on employee benefits	-	(15)	-	(14)	
Deferred tax	-	3	-	3	
Share of other comprehensive income of equity-accounted investees	-	(2)	-	1	
Other comprehensive income not subject to reclassification to profit or loss	-	(14)	-	(10)	
Other comprehensive income, net	87	375	(245)	(231)	
Total comprehensive income	117	1,716	307	2,591	
Total comprehensive income attributable to:					
Owners of the parent	117	1,717	309	2,593	
Non-controlling interests	-	(1)	(2)	(2)	

Consolidated statement of cash flows	9 months ended Sep 30 2019	9 months ended Sep 30 2018
	unaudited	unaudited
Cash flows from operating activities		
Net profit	1,341	2,822
Depreciation and amortisation expense	2,113	1,969
Current tax expense	473	1,065
Net gain/(loss) on investing activities	222	(407)
Other non-monetary adjustments	(59)	673
Income tax paid	(529)	(805)
Movements in working capital	642	(819)
Net cash from operating activities	4,203	4,498
Cash flows from investing activities		
Payments for acquisition of tangible exploration and evaluation assets under construction	(721)	(620)
Payments for other property, plant and equipment and intangible assets	(2,916)	(1,867)
Payments for shares in related entities	-	(90)
Other items, net	(81)	(44)
Net cash from investing activities	(3,718)	(2,621)
Cash flows from financing activities		
Increase in debt	1,755	800
Decrease in debt	(2,735)	(2,494)
Dividends paid	(636)	-
Other items, net	3	(6)
Net cash from financing activities	(1,613)	(1,700)
Net cash flows	(1,128)	177
Cash and cash equivalents at beginning of period	3,928	2,581
Foreign exchange differences on cash and cash equivalents	6	6
Cash and cash equivalents at end of period	2,800	2,758

Consolidated statement of financial position	As at	As at	
	Sep 30 2019	Dec 31 2018	
	unaudited	audited	
ASSETS			
Property, plant and equipment	37,673	34,236	Note 3.9
Intangible assets	459	1,173	
Deferred tax assets	35	94	
Equity-accounted investees	1,840	1,806	
Derivative financial instruments	140	226	
Other assets	1,357	1,363	
Non-current assets	41,504	38,898	
Inventories	4,494	3,364	
Receivables	3,537	5,742	
Derivative financial instruments	1,228	1,092	Note 3.10
Other assets	431	204	
Cash and cash equivalents	2,803	3,925	
Assets held for sale	15	46	
Current assets	12,508	14,373	
TOTAL ASSETS	54,012	53,271	
EQUITY AND LIABILITIES			
Share capital and share premium	7,518	7,518	
Hedging reserve	364	73	
Accumulated other comprehensive income	(193)	(203)	
Retained earnings	30,068	29,246	
Equity attributable to owners of the parent	37,757	36,634	
Equity attributable to non-controlling interests	(2)	(2)	
TOTAL EQUITY	37,755	36,632	
Financing liabilities	2,130	1,178	
Derivative financial instruments	78	105	
Employee benefit obligations	860	808	
Provision for well decommissioning costs	2,111	1,917	Note 3.3
Other provisions	204	197	Note 3.3
Grants	698	720	
Deferred tax liabilities	2,245	2,066	
Other liabilities	223	264	
Non-current liabilities	8,549	7,255	
Financing liabilities	1,831	2,524	
Derivative financial instruments	639	1,055	Note 3.10
Trade and tax payables*	2,893	3,748	
Employee benefit obligations	359	347	
Provision for well decommissioning costs	59	91	Note 3.3
Other provisions	809	675	Note 3.3
Other liabilities	1,118	944	
Current liabilities	7,708	9,384	
TOTAL LIABILITIES	16,257	16,639	
TOTAL EQUITY AND LIABILITIES	54,012	53,271	

*Including income tax of PLN 286m (2018: PLN 418m).

Consolidated statement of changes in equity

	Equity attributable to owners of the parent										Equity attributable to non-controlling interests	Total equity
	Share capital and share premium, including:		Hedging reserve	Accumulated other comprehensive income:				Retained earnings	Total			
	Share capital	Share premium		Translation reserve	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 2018 (audited)	5,778	1,740	7	(93)	(3)	(64)	(5)	26,266	33,626	1	33,627	
Impact of IFRS 9 and IFRS 15*	-	-	-	-	3	-	-	172	175	-	175	
Net profit	-	-	-	-	-	-	-	2,824	2,824	(2)	2,822	
Other comprehensive income, net	-	-	(235)	11	-	(11)	4	-	(231)	-	(231)	
Total comprehensive income	-	-	(235)	11	-	(11)	4	2,824	2,593	(2)	2,591	
Change in equity recognised in inventories	-	-	(123)	-	-	-	-	-	(123)	-	(123)	
As at Sep 30 2018 (unaudited)	5,778	1,740	(351)	(82)	-	(75)	(1)	29,262	36,271	(1)	36,270	
As at Jan 1 2019 (audited)	5,778	1,740	73	(112)	-	(91)	-	29,246	36,634	(2)	36,632	
Impact of IFRS 16	-	-	-	-	-	-	-	120	120	-	120	
Net profit	-	-	-	-	-	-	-	1,342	1,342	(1)	1,341	
Other comprehensive income, net	-	-	369	20	-	(12)	(2)	-	375	-	375	
Total comprehensive income	-	-	369	20	-	(12)	(2)	1,342	1,717	(1)	1,716	
Change in equity recognised in inventories	-	-	(78)	-	-	-	-	-	(78)	-	(78)	
Dividend	-	-	-	-	-	-	-	(636)	(636)	-	(636)	
Changes in the Group	-	-	-	4	-	-	-	(4)	-	1	1	
As at Sep 30 2019 (unaudited)	5,778	1,740	364	(88)	-	(103)	(2)	30,068	37,757	(2)	37,755	

*Retained earnings changed following a review, performed at the end of 2018, of the impact of the implementation of IFRS 15 as of January 1st 2018 (retained earnings before the change: -113).

1. General information

1.1. Basic information about the Group

Parent's 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, 12th Commercial Division of the National Court Register
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 is exploration for and production of crude oil and natural gas; import, storage and sale of gas and liquid fuels; and trade in electricity.

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna is the Parent of the PGNiG Group (the "PGNiG Group", the "Group"). The shares of PGNiG S.A. („PGNiG”, the „Company”, the „Parent”) have been listed on the Warsaw Stock Exchange (WSE) since September 2005.

As at the date of issue of this interim report for Q3 2019, the State Treasury, represented by the Minister of Energy, was the only shareholder holding 5% or more of total voting rights at the Company's General Meeting.

The shareholding structure of PGNiG S.A. as at the date of this report is presented below:

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

*As at Jun 30 2019

**As at Sep 30 2019

The PGNiG Group is the only vertically integrated company in the Polish gas sector, holding the leading position in all segments of the country's gas industry. It is also a significant domestic producer of heat and electricity. The 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 Polish gas market.

For further information on the Group's operating segments and consolidated entities, see [Note 2](#).

1.2. Basis for preparation of the financial statements included in the report

These interim condensed consolidated financial statements and interim condensed separate financial statements for Q3 2019 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 March 29th 2018 (consolidated text: Dz.U. of 2018, item 757).

These financial statements have been prepared on the assumption that the Parent and the Group will continue as going concerns in the foreseeable future. As at the date of authorisation of these financial statements for issue, no circumstances were identified which would indicate any threat to the Group's continuing as a going concern.

The Polish złoty (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 2018, issued on March 14th 2019.

Unless otherwise stated, all amounts in this report are given in millions of Polish złoty.

The issue date of this interim report for Q3 2019 is November 14th 2019.

1.3. Applied accounting policies

The accounting policies applied in preparing these interim condensed consolidated and separate financial statements were consistent with the policies applied to prepare the consolidated financial statements for 2018, except for the accounting policies arising from the application of the new standard IFRS 16 Leases.

The Group applied the requirements of the new standard using a modified retrospective method, with effect as of January 1st 2019. The impact of the amendments to IFRS 16 on the consolidated financial statements is presented in [Note 1.5](#).

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

In these financial statements, the Group did not opt to early apply any standards, interpretations or amendments to the existing standards which have been issued.

1.5. Presentation changes in the financial statements

The Group applied the new IFRS 16 in accordance with the principles set out in paragraph C5.b), i.e. retrospectively with the cumulative effect of the initial application of the standard recognised as at January 1st 2019, as an adjustment to the opening balance of retained earnings. In line with the selected implementation option, the Group did not restate the comparative data.

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.

The Group as a lessee

The key changes resulting from the application of IFRS 16 at the PGNiG Group are those relating to records of land and perpetual usufruct rights to land. Starting from January 1st 2019, perpetual usufruct rights acquired free of charge are initially recognised by the Group at the present value of lease payments outstanding at the date of initial application of IFRS 16. Perpetual usufruct rights acquired for consideration are measured on initial recognition at the present value of lease payments outstanding as at January 1st 2019, increased by:

- The excess of the first payment over the annual perpetual usufruct charge in the case of perpetual usufruct agreements made with the State Treasury or a local government unit;
- The cost of acquisition of the perpetual usufruct rights to land if the agreement was made with an entity other than the State Treasury or a local government unit.

As at January 1st 2019, the Group applied IFRS 16 to contracts previously classified as operating leases under IAS 17, in the amount equal to the present value of the lease liability adjusted for any prepaid or accrued lease payments that were recognised in the statement of financial position as at December 31st 2018. The lease liability was measured at the present value of the lease payments outstanding as at January 1st 2019, discounted using the lessee's incremental borrowing rate as at January 1st 2019. The incremental borrowing rate is the interest rate at inception of the lease which the lessee would have to pay to borrow funds necessary to purchase a given asset over a similar term and with a similar security. Depending on the lease term, the Group applies an incremental borrowing rate ranging from 0.9% to 5.5%.

In the case of leases previously classified as finance leases under IAS 17, the Group recognises the right-of-use asset and the lease liability at the carrying amount of the leased asset and the lease liability directly before the day of their measurement in accordance with IAS 17.

The Group as a lessor

In accordance with IFRS 16, the Group did not make any changes to the existing and recognised operating and finance leases in which it was a lessor as at January 1st 2019.

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.

Group companies applied the following exemptions and did not apply IFRS 16 to the measurement of the lease liability and the right-of-use asset with respect to:

- Leases of intangible assets;
- Short-term leases (with a term below 12 months);

- Leases where the underlying asset is of a low value and is not sub-leased. New assets whose initial value, regardless of the age of the leased asset, does not exceed PLN 20,000 are considered as low-value assets (even if their aggregated value is material).

Furthermore, the Group did not recognise any lease contracts or lease decisions related to underground infrastructure. Since no uniform market practice has been established in this respect, the presentation may change during the year. According to the Group's estimates, if leases had been recognised under those contracts, liabilities and assets (rights of use) would have increased by approximately PLN 809m as at September 30th 2019.

The effect of application of the standard on the Group's consolidated financial statements for the reporting period is presented below.

Consolidated statement of financial position	As at Dec 31 2018 before restatement	Effect of IFRS 16 on consolidated statement of financial position	As at Jan 1 2019 after restatement
ASSETS			
Non-current assets including:	38,898	1,159	40,057
Property, plant and equipment	34,236	1,783	36,019
Intangible assets *	1,173	(624)	549
Deferred tax assets	94	(5)	89
Other assets	1,363	5	1,368
Current assets including:	14,373	1	14,374
Assets held for sale	46	1	47
TOTAL ASSETS	53,271	1,160	54,431
EQUITY AND LIABILITIES			
TOTAL EQUITY including:	36,632	120	36,752
Retained earnings	29,246	120	29,366
		-	-
Non-current liabilities including:	7,255	792	8,047
Financing liabilities	1,178	786	1,964
Other provisions	197	(17)	180
Deferred tax liabilities	2,066	23	2,089
Current liabilities including:	9,384	248	9,632
Financing liabilities	2,524	250	2,774
Other provisions	675	(2)	673
TOTAL LIABILITIES	16,639	1,040	17,679
TOTAL EQUITY AND LIABILITIES	53,271	1,160	54,431

*The effect of IFRS 16, i.e. a decrease in intangible assets, is related to the transfer of perpetual usufruct rights to land to property, plant and equipment (as right-of-use assets).

In the period ended September 30th 2019, the Group adjusted the effect of the implementation of IFRS 16, particularly with respect to the recognised amounts of property, plant and equipment and finance lease liabilities.

2. The Group and its reporting segments

The Group identifies five reporting segments.

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








[] - Country of registration (if other than Poland).

* Principal place of business (if other than country of registration).

** On April 4th 2019, the company's liquidation process was completed.

Figure 1 Group structure by reportable segments (as at September 30th 2019)

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 	<p>The segment's business focuses on extracting hydrocarbons from deposits and preparing them for sale. It involves the process of exploration for and production of natural gas and crude oil, from geological surveys and geophysical research, through to drilling, development of gas and oil fields, and production of hydrocarbons. The segment sells natural gas to customers outside the Group and to other segments of the PGNiG Group. It also sells crude oil and other products in Poland and abroad.</p>	<p>This reporting segment comprises the following operating segments: exploration and production business of PGNiG S.A. as well as the Group companies specified in Figure 1.</p> <p>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).</p>
Trade and Storage 	<p>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 Swarzędów), and electricity trading.</p>	<p>This reporting segment comprises the following operating segments: PGNiG S.A.'s gas fuel and electricity trading business as well as the Group companies specified in Figure 1.</p> <p>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.</p>
Distribution 	<p>The segment's principal business activity consists in distribution of natural gas via distribution networks to retail, industrial and wholesale customers, as well as operation, maintenance (repairs) and expansion of gas distribution networks.</p>	<p>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.</p>
Generation 	<p>The segment's principal business activities consist in generation and sale of electricity and heat.</p>	<p>This reporting segment comprises the following operating segments: PGNiG TERMIKA S.A. and its subsidiary PGNiG TERMIKA Energetyka Przemysłowa S.A.</p> <p>The key aggregation criteria were similarity of products and services, similarity of the customer base, and similar economic characteristics.</p>
Other Activities 	<p>This segment comprises operations which cannot be classified into any of the segments listed above, i.e. the functions performed by the PGNiG Corporate Centre, engineering design and construction of structures, machinery and equipment for the extraction and energy sectors, as well as catering and hospitality and insurance services.</p>	<p>This reporting segment comprises the following operating segments: PGNiG S.A.'s activities related to corporate support for other reporting segments, and the Group entities which do not qualify for inclusion in the other reporting segments, specified under Other Activities in Figure 1.</p>

2.1. Changes in the Group structure

Date	Company	Event
Jan 1 2019	CIFL Sp. z o.o. w likwidacji (in liquidation)	On January 1st 2019, a resolution to dissolve the company, passed by the CIFL Sp. z o.o.'s General Meeting on December 21st 2018, came into force.
Apr 4 2019	PGNiG Finance AB i likwidation	On April 4th 2019, the liquidation of PGNiG Finance AB i likwidation was closed.
Jun 10 2019	PGNiG S.A. PGNiG Gazoprojekt S.A.	Pursuant to the PGNiG Management Board's decision of June 10th 2019, the process of acquisition of shares in PGNiG Gazoprojekt S.A. from its minority shareholders was launched in order to enable PGNiG to acquire full control of PGNiG Gazoprojekt S.A. The process was initiated by submitting an offer to the minority shareholders, which was published on the websites of PGNiG and PGNiG Gazoprojekt S.A., as well as at PGNiG Gazoprojekt S.A.'s registered office. As at September 30th 2019, 7,490 PGNiG Gazoprojekt S.A. shares were acquired, with a total par value of PLN 749,000, representing 18.73% of the company's share capital.

2.2. Equity-accounted investees

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

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

Equity-accounted investees as at September 30th 2019

No.	Company name	Share capital	Value of shares held by PGNiG	PGNiG Group's ownership interest (% direct and indirect holdings)
1	Elektrociepłownia Stalowa Wola S.A.	28,200,000	14,100,000	50% ¹⁾
2	SGT EUROPOL GAZ S.A.	80,000,000	38,400,000	51.18% ²⁾
3	Polimex-Mostostal S.A.	473,237,604	78,000,048	16.48% ³⁾
4	Polska Grupa Górnicza S.A.	3,916,718,200	800,000,000	20.43% ¹⁾

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

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

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

2.3. Key data on the reporting segments

9 months ended Sep 30 2019	Sales to external customers	Inter- segment sales	Total revenue	EBITDA	Depreciation and amortisation expense	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Profit/(loss) on equity-accounted investees	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce*
Exploration and Production	2,374	1,862	4,236	2,666	(802)	1,864	(256)	33	(1,135)	13,691	6,617
Trade and Storage	22,809	225	23,034	(454)	(150)	(604)	(2)	-	(58)	3,179	3,052
Distribution	3,305	128	3,433	1,485	(723)	762	6	-	(1,641)	15,136	11,598
Generation	1,075	645	1,720	443	(391)	52	-	-	(702)	5,114	1,844
Other segments	90	231	321	(212)	(47)	(259)	(36)	2	(106)	788	1,647
Total	29,653	3,091	32,744	3,928	(2,113)	1,815	(288)	35	(3,642)	37,908	24,758
Reconciliation with consolidated data			(3,091)	1	-	1	-	-	5	(235)	
Total			29,653	3,929	(2,113)	1,816	(288)	35	(3,637)	37,673	

*Excluding employees of equity-accounted investees.

9 months ended Sep 30 2018	Sales to external customers	Inter- segment sales	Total revenue	EBITDA	Depreciation and amortisation expense	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Profit/(loss) on equity-accounted investees	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce*
Exploration and Production	2,776	2,738	5,514	3,943	(775)	3,168	(99)	81	(924)	12,504	6,872
Trade and Storage	21,050	272	21,322	(498)	(141)	(639)	-	-	(33)	3,238	3,004
Distribution	3,430	341	3,771	1,963	(688)	1,275	1	-	(1,174)	13,546	11,592
Generation	1,084	483	1,567	501	(314)	187	-	-	(276)	3,487	1,807
Other segments	141	225	366	(132)	(52)	(184)	8	(4)	(77)	461	1,531
Total	28,481	4,059	32,540	5,777	(1,970)	3,807	(90)	77	(2,484)	33,236	24,806
Reconciliation with consolidated data			(4,059)	(8)	1	(7)	-	-	(3)	(228)	
Total			28,481	5,769	(1,969)	3,800	(90)	77	(2,487)	33,008	

*Excluding employees of equity-accounted investees.

2.4. Segments' financial results

In Q1–Q3 2019, the PGNiG Group generated revenue of PLN 29,653m, that is PLN 1,172m (4%) more than in the same period of the previous year. A PLN 2,466m (15%) year-on-year increase in the cost of gas sold, led by higher volumes and rising prices of crude oil and natural gas, was the key factor behind the amount of consolidated EBIT, which came in at PLN 1,816m, down PLN 1,983m year on year.

Operating data	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Production of natural gas by the PGNiG Group (mcm)*		
High-methane gas (E)	1,367	1,361
Nitrogen-rich gas (Ls/Lw as E equivalent)	1,950	1,990
Total (as E equivalent)	3,317	3,351
Sales of natural gas by the PGNiG Group (mcm)*		
High-methane gas (E)	20,322	19,325
Nitrogen-rich gas (Ls/Lw as E equivalent)	1,151	1,136
Total (as E equivalent)	21,473	20,461
Volume of distributed gas (mcm)**		
high-methane gas, nitrogen-rich gas, propane-butane, coke gas	8,239	8,309
Crude oil, condensate and NGL ('000 tonnes)		
Production	888	992
Sale	850	1,032
Heat and electricity (from own generation sources)		
Heat sales outside the PGNiG Group (TJ) ***	26,284	26,414
Sales of electricity from own generation sources (TWh)	2,682	2,661

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

** In natural units.

*** The volume of heat sold in the comparative period was revised to reflect the volume of non-regulated heat sales.

Exploration and Production

In Q3 2019, the segment's operating profit was PLN 1,864m, i.e. PLN 1,304m (41.2%) less than in the same period of the year before. The key contributing factors included:

- PLN 1,278m (23.2%) year-on-year decrease in revenue, lead mainly by:
 - PLN 875m (26.9%) decrease in revenue from gas sales, attributable to lower prices of domestically produced gas at which gas was transferred from the Exploration and Production segment to the Trade and Storage segment; The lower prices were a direct effect of the average year-on-year drop in prices quoted on the POLPX (down 33% in Q1–Q3 2019), by reference to which the transfer price in transactions between the segments is set;
 - PLN 403m (22.4%) decrease in revenue from crude oil sales, due mainly to a 22.6% decline in the volume of crude oil produced from Norwegian fields in the first three quarters of 2019 relative to the corresponding period of the year before, with the average price of Brent crude in PLN for the first nine months down 4% (relative to the corresponding period of the year before);
- PLN 25m (1.1%) year-on-year drop in operating expenses, which included the following major developments:
 - a positive PLN 62m effect on net profit of underlift balance measured at market prices. If crude oil output exceeds sales (underlift), the company recognises receivables in the statement of financial position and revenue in the statement of profit or loss. If sales exceed output (overlift), the company recognises a liability and expense (PLN 94m in Q1–Q3 2018). The underlift position follows from the nature of settlements of the joint ventures of the subsidiary PGNiG Upstream Norway AS. The sales volume may differ from the volume of crude oil and gas output assigned to a company under the contract;
 - in Q1–Q3 2019, expenditure of PLN 114m on dry wells and seismic surveys was written off (Q1–Q3 2018: PLN 541m), and impairment losses on non-current assets of PLN 142m were recognised (Q1–Q3 2018: impairment losses on property, plant and equipment of PLN 442m were reversed).

Trade and Storage

In Q1–Q3 2019, the Trade and Storage segment reported an operating loss of PLN 604m, down by PLN 35m year on year. The segment's revenue reached PLN 23,034m, having increased by PLN 1,712m (8%) year on year. Its operating expenses were PLN 11,813m, up by PLN 1,737m (8%) year on year.

The key contributing factors included:

- 5% increase in the volume of gas sold outside the Group, to 20.8 bcm, and higher selling prices. Revenue from gas sales outside the Group in Q1–Q3 2019 grew by 7% year on year;
- Higher cost of gas in the segment due to higher sales volumes and rising prices of crude oil and natural gas;
- Lower gas prices on the POLPX, reflected in the value of domestically produced gas transferred from the Exploration and Production segment to the Trade and Storage segment;
- President of URE's decision of January 25th 2019 to approve Gas Fuel Trading Tariff No. 7 for PGNiG Obrót Detaliczny Sp. z o.o. for the period until December 31st 2019, which led to a 2.5% rise in the average price of gas fuel from February 15th 2019;
- PLN 383m net gain on realised hedging instruments designated for hedge accounting reported in Q1–Q3 2019 (PLN -407m in Q1–Q3 2018).

Distribution

In Q1–Q3 2019, the Distribution segment's operating profit fell by PLN 513m (40%) year on year, to PLN 762m, while EBITDA came in at PLN 1,485m, down by PLN 478m year on year. The segment's operating result was driven by:

- PLN 338m (9%) year-on-year decrease in total revenue, driven by lower revenue from sales of distribution services, reflecting the President of URE's decision of January 25th 2019 to approve new Gas Fuel Distribution Tariff No. 7, effective until December 31st 2019, which reduced the tariff rates by 5% as of February 15th 2019, coupled with lower revenue from the gas system balancing;
- PLN 170m (7%) increase in total operating expenses relative to the corresponding period of 2018, due mainly to higher employee benefits expense and costs of transmission services.

Generation

In Q3 2019, the segment's operating profit was PLN 52m, down by PLN 135m (72%) year on year. EBITDA came in at PLN 443m, down 12% on the end of Q3 2018.

A provision for CO₂ emission allowances (of PLN 85m) had a material effect on the segment's results. The provision was recognised in net other expenses and subsequent redemption of purchased emission allowances will be charged to depreciation and amortisation. The segment's depreciation and amortisation was PLN 391m, up 25% year on year. EBITDA adjusted for the provision for CO₂ emission allowances was PLN 528m, up PLN 28m (6%) year on year.

Despite a slightly higher average temperature over the period (up 1.9°C year on year), revenue from heat sales rose by PLN 14m (2%) year on year, with the volume of heat sold largely unchanged. A 33% increase in the average selling prices of electricity (PLN 241 vs PLN 181/MWh) lifted revenue from electricity sales by PLN 151m (30%), to PLN 659m. The rising purchase prices of coal (+14%), biomass (+19%) and fuel oil (+11%) had a significant effect on the segment's operating expenses (driving them up by PLN 87m).

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

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

- Conditions prevailing on the currency markets, commodity markets (prices of crude oil and petroleum products), energy markets (prices of electricity and gas), as well as fluctuations in the market prices of certificates of origin and CO₂ emission allowances;
- Regulations governing support programmes for electricity from high-efficiency co-generation and renewable sources;
- Processes connected with the continued deregulation of the gas market in Poland;
- Position of the President of URE on gas fuel sale and distribution tariffs and heat sale tariffs;
- weather conditions.

In future periods, in line with the PGNiG Group Strategy for 2017–2022 with an outlook until 2026, the principal objective will be 'to increase the PGNiG Group's value and ensure its financial stability'. It will be pursued through sustainable development of the Group driven by parallel investments in riskier business areas yielding relatively high rates of return (exploration and production) and in regulated areas offering considerable safety of the investments (gas distribution, power and heat generation).

3. Notes to the interim condensed consolidated financial statements

3.1. Deferred tax

	Deferred tax assets	Deferred tax liabilities	Set-off of assets and liabilities	Assets after set-off	Liabilities after set-off	Net effect of changes in the period
As at Jan 1 2018	1,001	2,879	(860)	141	2,019	
Impact of IFRS 9 and IFRS 15	(44)	-				(44)
Increase	167	155				12
Decrease	(199)	(138)				(61)
Currency translation differences	5	31				(26)
Other changes	-	(25)				25
As at Dec 31 2018	930	2,902	(836)	94	2,066	(94)
As at Jan 1 2019	930	2,902	(836)	94	2,066	
Impact of IFRS 16	(5)	24				(29)
Increase	82	213				(131)
Decrease	(72)	(13)				(59)
Currency translation differences	-	22				(22)
Other changes	-	(3)				3
As at Sep 30 2019	935	3,145	(900)	35	2,245	(238)

3.2. Impairment losses/write-downs

	Property, plant and equipment	Intangible assets	Assets held for sale	Equity-accounted investees	Other (non-current) assets	Inventories	Receivables	Other (current) assets	Total
As at Jan 1 2018	4,038	84	17	844	30	191	759	-	5,963
Impact of IFRS 9	-	-	-	-	-	-	68	-	68
Recognised provision taken to profit or loss	743	8	4	49	-	136	466	1	1,407
Provision reversal taken to profit or loss	(969)	(10)	-	-	-	(125)	(339)	-	(1,443)
Used	(32)	(1)	-	-	-	(2)	(31)	-	(66)
Transferred	-	-	(15)	-	25	-	(10)	-	-
Other changes	18	3	(1)	-	7	-	(3)	-	24
As at Dec 31 2018	3,798	84	5	893	62	200	910	1	5,953
As at Jan 1 2019	3,798	84	5	893	62	200	910	1	5,953
Impact of IFRS 16	21	(21)	-	-	-	-	-	-	-
Recognised provision taken to profit or loss	486	8	-	30	-	46	192	-	762
Provision reversal taken to profit or loss	(319)	(1)	-	-	-	(120)	(168)	-	(608)
Used	(44)	-	(1)	-	-	(1)	(35)	-	(81)
Other changes	21	2	-	-	-	-	21	-	44
As at Sep 30 2019	3,963	72	4	923	62	125	920	1	6,070

3.3. Provisions

	Provision for well decommissioning costs	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provisions for environmental liabilities	Provision for UOKiK fine	Provision for claims under extra-contractual use of land	Other provisions	Total
As at Jan 1 2018	1,770	155	163	124	10	31	319	2,572
Impact of IFRS 9	-	-	-	-	-	-	18	18
Recognised provision capitalised in cost of property, plant and equipment	237	-	-	-	-	-	-	237
Recognised provision taken to profit or loss	55	134	-	5	-	4	178	376
Provision reversal taken to profit or loss	(35)	(54)	-	(14)	-	(12)	(107)	(222)
Used	(28)	(114)	-	-	(10)	-	(3)	(155)
Other changes	9	30	12	-	-	-	3	54
As at Dec 31 2018	2,008	151	175	115	-	23	408	2,880
As at Jan 1 2019	2,008	151	175	115	-	23	408	2,880
Impact of IFRS 16	-	-	-	(19)	-	-	-	(19)
Recognised provision capitalised in cost of property, plant and equipment	188	-	-	-	-	-	-	188
Recognised provision taken to profit or loss	34	198	-	21	6	2	190	451
Provision reversal taken to profit or loss	(45)	(42)	-	(8)	-	(4)	(79)	(178)
Used	(23)	(123)	-	-	-	-	(11)	(157)
Other changes	8	(19)	12	-	-	-	17	18
As at Sep 30 2019	2,170	165	187	109	6	21	525	3,183

Note 3.6

Note 3.6

3.4. Revenue

The Group's revenue comes primarily from trade in high-methane and nitrogen-rich natural gas, generation and sale of electricity and heat, as well as sale of produced crude oil.

The Group's business includes services, such as distribution of gas fuels, storage of gas fuels, geophysical and geological services, gas service connection, drilling and oilfield services, and other services.

The Group sells its products to both retail and business customers.

3.4.1. Revenue by product

	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Revenue from sale of gas, including:	21,574	20,058
High-methane gas	19,995	19,320
Nitrogen-rich gas	1,063	1,024
LNG	56	56
CNG	31	26
Propane-butane gas	47	51
Adjustment of gas sales related to hedging transactions	382	(419)
Other revenue, including:	8,079	8,423
Crude oil and natural gasoline	1,398	1,802
NGL	70	88
Sale of heat	891	878
Sale of electricity	1,695	1,409
Revenue from rendering of services:		
- drilling and oilfield services	86	128
- geophysical and geological services	87	63
- construction and assembly services	54	110
- distribution services	3,086	3,235
- connection charge	138	121
- other	219	271
Other	355	318
Total revenue	29,653	28,481

3.4.2. Revenue by segment

9 months ended Sep 30 2019	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Reconciliation with consolidated data	Total
Revenue from sale of gas, including:	2,403	21,167	-	-	-	(1,996)	21,574
High-methane gas	1,464	20,089	-	-	-	(1,558)	19,995
Nitrogen-rich gas	869	625	-	-	-	(431)	1,063
LNG	23	40	-	-	-	(7)	56
CNG	-	31	-	-	-	-	31
Propane-butane gas	47	-	-	-	-	-	47
Adjustment to gas sales due to hedging transactions	-	382	-	-	-	-	382
Other revenue, including:	1,833	1,867	3,433	1,720	321	(1,095)	8,079
Crude oil and natural gasoline	1,398	-	-	-	-	-	1,398
NGL	70	-	-	-	-	-	70
Sale of heat	-	-	1	890	-	-	891
Sale of electricity	-	1,717	-	659	-	(681)	1,695
Revenue from rendering of services:							
- drilling and oilfield services	87	-	-	-	-	(1)	86
- geophysical and geological services	87	-	-	-	-	-	87
- construction and assembly services	37	-	-	-	65	(48)	54
- distribution services	-	-	3,059	52	-	(25)	3,086
- connection charge	-	-	138	-	-	-	138
- other	17	117	18	30	239	(202)	219
Other	137	33	217	89	17	(138)	355
Total revenue	4,236	23,034	3,433	1,720	321	(3,091)	29,653

9 months ended Sep 30 2018	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Reconciliation with consolidated data	Total
Revenue from sale of gas, including:	3,281	19,710	-	-	-	(2,933)	20,058
High-methane gas	2,230	19,443	-	-	-	(2,353)	19,320
Nitrogen-rich gas	974	625	-	-	-	(575)	1,024
LNG	26	35	-	-	-	(5)	56
CNG	-	26	-	-	-	-	26
Propane-butane gas	51	-	-	-	-	-	51
Adjustment to gas sales due to hedging transactions	-	(419)	-	-	-	-	(419)
Other revenue, including:	2,233	1,612	3,771	1,567	366	(1,126)	8,423
Crude oil and natural gasoline	1,802	-	-	-	-	-	1,802
NGL	88	-	-	-	-	-	88
Sale of heat	-	-	1	877	-	-	878
Sale of electricity	-	1,418	-	507	-	(516)	1,409
Revenue from rendering of services:							
- drilling and oilfield services	136	-	-	-	-	(8)	128
- geophysical and geological services	64	-	-	-	-	(1)	63
- construction and assembly services	40	-	-	-	104	(34)	110
- distribution services	-	-	3,198	51	-	(14)	3,235
- connection charge	-	-	121	-	-	-	121
- other	23	159	27	28	245	(211)	271
Other	80	35	424	104	17	(342)	318
Total revenue:	5,514	21,322	3,771	1,567	366	(4,059)	28,481

3.5. Operating expenses

	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Cost of gas sold	(18,876)	(16,410)
Gas fuel	(18,877)	(16,421)
Cost of transactions hedging gas prices	1	11
Other raw materials and consumables used	(2,042)	(1,768)
Fuels for electricity and heat generation	(648)	(562)
Electricity for trading purposes	(1,020)	(871)
Other raw materials and consumables used	(374)	(335)
Employee benefits expense	(2,244)	(2,018)
Salaries and wages	(1,688)	(1,551)
Social security contributions	(377)	(340)
Cost of long-term employee benefits	(25)	17
Other employee benefits expense	(154)	(144)
Other services	(1,319)	(1,300)
Regasification services	(273)	(273)
Repair and construction services	(164)	(176)
Mineral resources production services	(141)	(179)
Rental services	(57)	(85)
Other services	(684)	(587)
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	(288)	(90)
Cost of exploration and evaluation assets written-off	(114)	(541)
Impairment losses on property, plant and equipment	(167)	451
Impairment losses on intangible assets	(7)	-
Total	(24,769)	(21,586)

3.6. Other income and expenses

	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Compensation, penalties, and fines received	29	30
Exchange differences related to operating activities	10	67
Measurement and exercise of derivative financial instruments	78	(137)
Change in inventory write-downs	74	45
Change in impairment losses on trade and other receivables	(24)	(51)
Change in provision for well decommissioning costs	11	(7)
Change in provision for certificates of origin and energy efficiency certificates	(156)	(46)
Provision for CO ₂ emission allowances	(85)	-
Change in other provisions	(43)	(25)
Change in products	71	73
Change in underlift/ overlift	62	(94)
Other income and expenses	(238)	(184)
Total other income and expenses	(211)	(329)

3.7. Net finance income/(costs)

	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Interest on debt (including fees)	(52)	(33)
Foreign exchange differences	(35)	29
Measurement and exercise of derivative financial instruments not designated for hedge accounting	(6)	(10)
Fair value measurement of financial assets	(1)	20
Other net finance costs (income)	57	4
Total net finance costs	(37)	10

3.8. Income tax

Reconciliation of effective tax rate	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Profit before tax	1,814	3,887
Corporate income tax at the 19% statutory rate applicable in Poland	(345)	(739)
Deductible temporary differences with respect to which no deferred tax was recognised	(128)	(326)
Income tax expense disclosed in the statement of profit or loss	(473)	(1,065)
Including:		
Current tax expense	(348)	(970)
Deferred tax expense	(125)	(95)
Effective tax rate	26%	27%

Tax group

PGNiG S.A. is the company representing the PGNiG Tax Group with respect to its obligations under the Act on Corporate Income Tax and the Tax Ordinance Act.

The PGNiG Tax Group was established under an agreement of September 19th 2016 for a period 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.

In accordance with applicable tax laws, the 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 allows corporate income tax to be calculated 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,
- CIT settlement by one entity only.

3.9. Property, plant and equipment

	As at Sep 30 2019	As at Dec 31 2018
Land	1,543	106
Buildings and structures	19,530	19,040
Plant and equipment	8,425	8,557
Vehicles and other	1,252	1,209
Total tangible assets	30,750	28,912
Tangible exploration and evaluation assets under construction	2,377	2,008
Other tangible assets under construction	4,546	3,316
Total property, plant and equipment	37,673	34,236

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

In the reporting period, the Group did not execute any individually material transactions to purchase or sell items of property, plant and equipment. The most substantial expenditure was incurred by the Group to construct a CCGT unit at the Żerań CHP Plant (total transactions in the period of approximately PLN 670m) and to develop deposits in the Norwegian and North Seas (total transactions in the period of approximately PLN 300m).

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

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

3.10. Derivative financial instruments

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

In the nine months to September 30th 2019, the Parent accounted for all eligible transactions using cash-flow 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 reporting period, in its trading activity, the Parent entered into transactions within the approved limits. The aggregate amount of 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 measurement 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			9 months ended Sep 30 2019		9 months ended Sep 30 2018	
Item of statement of profit or loss and statement of comprehensive income	Item referenced in Note / additional explanations	Notes	Derivative financial instruments not designated for hedge accounting	Derivative financial instruments designated for cash flow hedge accounting	Derivative financial instruments not designated for hedge accounting	Derivative financial instruments designated for cash flow hedge accounting
Effect on statement of profit or loss						
Net finance costs	Measurement and exercise of derivative financial instruments not designated for hedge accounting	Note 3.7	(6)	-	(10)	-
Other income and expenses	Measurement and exercise of derivative financial instruments not designated for hedge accounting	Note 3.6	78	-	(137)	-
Revenue	Reclassification from other comprehensive income	Note 3.4.1.	-	382	-	(419)
Cost of gas sold	Reclassification from other comprehensive income	Note 3.5	-	1	-	11
			72	383	(147)	(408)
Effect on other comprehensive income						
Gains/(losses) on measurement of derivative instruments designated for cash flow hedge accounting [effective portion]				820	(727)	
Reclassification of derivative instruments measurement to profit or loss upon exercise (cash flow hedges)				(383)	408	
					437	(319)
Effect on comprehensive income			72	820	(147)	(727)
Change in equity recognised in inventories					(78)	(123)

The tables below present derivative instruments held by the Group companies as at September 30th 2019.

Derivative instruments designated for hedge accounting	As at Sep 30 2019					As at Dec 31 2018			
	Type of derivative instrument	Notional amount (million)	Period when 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 (million)	Period when 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 and sale contracts									
Forwards									
USD	789 USD	up to 3 years	3,34-4,00	3.73	211	901 USD	up to 3 years		216
USD	10 USD	1–3 months	4,01-4,01	4.01	-	77 USD	1–3 months		(1)
EUR	679 EUR	up to 3 years	4,33-4,54	4.45	21	1,354 EUR	up to 3 years		50
EUR	519 EUR	up to 3 years	4,38-4,48	4.44	(24)	438 EUR	up to 3 years		(18)
EUR/USD	42 EUR	up to 3 years	1,15-1,18	1.16	5	-	-		-
					213				247
Derivative instruments used to hedge gas purchase and selling prices									
TTF swap MA	3 MWh	1–3 months	9.8	9.80	-	-	-		-
TTF swap DA	34 MWh	up to 3 years	13,15-21,71	18.51	217	9 MWh	up to 3 years		67
TTF swap MA	4 MWh	1–3 months	13.17	13.17	(7)	2 MWh	1–3 months		(9)
TTF swap DA	17 MWh	up to 3 years	16,69-19,75	18.29	(47)	3 MWh	up to 3 years		(54)
GASPOOL swap DA	6 MWh	up to 3 years	20,95-21,98	21.43	84	6 MWh	up to 3 years		57
GASPOOL swap DA	3 MWh	up to 3 years	15,97-16,40	16.19	(26)	16 MWh	up to 3 years		(276)
HH NYMEX	1 MMBTU	up to 3 years	2,35-2,40	2.40	-	-	-		-
HH NYMEX	14 MMBTU	up to 3 years	2,35-2,66	2.48	(9)	-	-		-
					212				(215)
				Total	425		Total		32
			Including:	Assets	539	Including:	Assets		390
				Liabilities	114		Liabilities		358

TTF – Natural Gas at the Title Transfer Facility

IRS – Interest Rate Swap

MA – month-ahead; DA – day-ahead

MMBTU - a million of international British Thermal Units

Derivative instruments not designated for hedge accounting	As at Sep 30 2019		As at Dec 31 2018	
	Notional amount (million)	Fair value of instruments not designated for hedge accounting	Notional amount (million)	Fair value of instruments not designated for hedge accounting
Derivative instruments hedging interest rate risk and currency risk				
CCIRS				
NOK	2,318 NOK	80	2,318 NOK	94
Forwards				
EUR	948 EUR	39	573 EUR	16
EUR	93 EUR	5	97 EUR	(8)
EUR	-	-	336 EUR	(15)
EUR	338 EUR	(6)	-	-
EUR	19 EUR	-	-	-
EUR	1 EUR	-	-	-
EUR	8 EUR	-	-	-
		118		87
Derivative instruments used as economic hedges of electricity purchase prices				
Forwards				
Electricity	8 MWh	(3)	-	-
Electricity	2 MWh	(2)	-	-
electricity – POLPX	-	-	0.3 MWh	12
electricity – POLPX	-	-	8 MWh	(7)
electricity – OTC	1 MWh	29	1 MWh	75
electricity – OTC	1 MWh	(36)	2 MWh	(97)
Futures				
electricity – EEX AG	3 MWh	83	5 MWh	203
electricity – EEX AG	3 MWh	(75)	5 MWh	(180)
		(4)		6
Derivative instruments used to hedge gas purchase and selling prices				
Forwards				
Gas	-	-	30 MWh	305
gas - TGE	-	-	33 MWh	(342)
gas – OTC	19 MWh	271	-	-
gas – OTC	16 MWh	(227)	-	-
Futures				
gas - TGE	1 MWh	2	-	-
gas - TGE	2 MWh	(18)	-	-
gas – ICE ENDEX B.V.	5 MWh	71	7 MWh	85
gas – ICE ENDEX B.V.	4 MWh	(66)	5 MWh	(63)
gas – POWERNEXT SA	3 MWh	32	6 MWh	74
gas – POWERNEXT SA	4 MWh	(51)	6 MWh	(59)
GASPOOL DA	8 MWh	85	-	-
GASPOOL DA	4 MWh	(48)	-	-
TTF swap MA	-	-	1 MWh	2
TTF swap DA	14 MWh	126	5 MWh	37
TTF swap MA	4 MWh	(3)	1 MWh	(11)
TTF swap DA	4 MWh	(69)	2 MWh	(7)
		105		21
Derivative instruments used to hedge oil prices				
Futures				
Crude oil – ICE Futures Europe	0.1 Bbl	2	0.3 Bbl	11
Crude oil – ICE Futures Europe	0.1 Bbl	(2)	0.3 Bbl	(11)
		-		-
Derivative instruments used to hedge purchase prices of CO₂ emission allowances				
Forwards				
Forwards	-	-	2 EUR	-
Forwards	-	-	16 EUR	-
Futures	10 t	1	16 EUR	-
Futures	0.13 t	-	1 t	-
		1		-

Derivative instruments used to hedge share purchase prices

	As at Sep 30 2019		As at Dec 31 2018	
Options	9.125 million shares	6	9.125 million shares	12
Total		226	Total	126
Including:			Including:	
Assets		829	Assets	928
Liabilities		603	Liabilities	802

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

3.11. Contingent assets and liabilities

Contingent asset	As at Sep 30 2019		As at Dec 31 2018	
	Estimated amount			
Promissory notes received		-		1
Grants awarded*		212		218
Other contingent assets		14		14
Total		226		233

* Under EU funding agreements executed by Polska Spółka Gazownictwa Sp. z o.o.

The slight decrease of contingent assets in the reporting period reflected partial accounting for EU funding agreements executed by Polska Spółka Gazownictwa Sp. z o.o.

Contingent liabilities	As at Sep 30 2019		As at Dec 31 2018	
	Estimated amount			
Guarantees and sureties		3,996		3,504
Promissory notes		481		784
Other		11		8
Total		4,488		4,296

The increase of contingent liabilities under sureties and guarantees granted in the reporting period was principally due to new guarantees issued as security for gas supplies, totalling EUR 120m (PLN 525m at the exchange rate quoted by the NBP for September 30th 2019), while the decrease of contingent liabilities under promissory notes issued reflected mainly an analysis of the probability of contingent liabilities materialising.

3.12. Fair value hierarchy

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

	As at Sep 30 2019		As at Dec 31 2018	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Derivative instruments	505	863	763	555
	505	863	763	555
Financial liabilities				
Derivative instruments	476	241	819	341
	476	241	819	341

3.13. Classification of financial assets

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

4. Supplementary information to the report

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

Date	Company	Event
Jan 16 2019	PGNiG S.A.	The PGNiG Supervisory Board passed a resolution to remove Mr Radosław Bartosik from the position of Vice President of the PGNiG Management Board, Chief Operating Officer.
Jan 25 2019	Polska Spółka Gazownictwa sp. z o.o.	<p>By a decision of January 25th 2019, the President of the Energy Regulatory Office ("President of URE") approved new Tariff No. 7 for gas fuel distribution and liquefied natural gas regasification services provided by Polska Spółka Gazownictwa sp. z o.o. (the "Distribution Tariff").</p> <p>The prices and rates of network fees used for settlements with customers, provided in the Distribution Tariff were reduced by an average of 5% in relation to the current tariff of Polska Spółka Gazownictwa sp. o.o. for all tariff groups with the exception of coke gas.</p> <p>The Distribution Tariff will be effective from February 15th to December 31st 2019.</p> <p>For detailed information on the approved Distribution Tariff, see www.ure.gov.pl and <i>Biuletyn Branżowy URE – Paliwa gazowe</i> (the URE official gazette – Gas fuels).</p>
Jan 25 2019	PGNiG Obrót Detaliczny Sp. z o.o.	<p>On January 25th 2019, the President of URE approved new Gas Fuel Trading Tariff No. 7 of PGNiG Obrót Detaliczny Sp. z o.o. (the "Retail Tariff").</p> <p>The new Retail Tariff provides for a 2.5% increase in gas fuel prices for all tariff groups relative to the previous tariff of PGNiG Obrót Detaliczny Sp. z o.o. Subscription fees were adjusted in tariff groups 2.2 (reduced by 1.3%) and 3.6 (increased by 0.3%), while in the other tariff groups they remained unchanged. Furthermore, new Retail Tariff groups were introduced for customers using prepaid metering systems. The Retail Tariff applies only to household consumers of gas fuels.</p> <p>The Retail Tariff will be effective from February 15th to December 31st 2019.</p> <p>For detailed information on the approved tariffs, see www.ure.gov.pl and <i>Biuletyn Branżowy URE – Paliwa gazowe</i> (the URE official gazette – Gas fuels).</p>
Mar 11 2019	PGNiG S.A. PGNiG TERMIKA S.A.	On March 11th 2019, the President of the Office of Competition and Consumer Protection ("President of UOKiK") announced the launch of antitrust proceedings with Veolia Energia Warszawa S.A., Veolia Energia Polska S.A., PGNiG TERMIKA and PGNiG as parties (for more information, see Note 4.6.2).
Mar 14 2019	PGNiG S.A.	The PGNiG Supervisory Board passed a resolution to appoint Robert Perkowski as a member of the PGNiG Management Board, Chief Operating Officer, with effect as of March 18th 2019.
Apr 1 2019	PGNiG S.A.	On April 1st 2019, PBG S.A. ("PBG") submitted a counterclaim against PGNiG with the Regional Court in Warsaw, 20th Commercial Division (for more information, see Note 4.6.1).
Apr 12 2019	PGNiG S.A.	On April 12th 2019, an agreement was signed with PKF Consult Sp. z o.o. Sp.k. for the audit of consolidated and separate financial statements of selected PGNiG Group companies for 2019–2020.
Apr 25 2019	Elektrociepłownia Stalowa Wola S.A. (entity jointly controlled by PGNiG (indirectly) – 50% owned by PGNiG TERMIKA S.A.)	The Court of Arbitration at the Polish Chamber of Commerce in Warsaw issued an award in the case brought by Abener Energía S.A. of Campus Palmas Altas, Seville, ("Abener Energía") against Elektrociepłownia Stalowa Wola S.A. of Stalowa Wola (for more information, see Note 4.6.1).

May 23 2019	PGNiG S.A.	<p>Further to Current Report No. 31/2016 of April 13th 2016 and Current Report No. 52/2017 of June 21st 2017 concerning the conclusion of Individual Contracts with the Grupa Azoty Group, PGNiG received from five Grupa Azoty Group companies, namely Grupa Azoty S.A. of Tarnów, Grupa Azoty Zakłady Azotowe Puławy S.A., Grupa Azoty Zakłady Chemiczne Police S.A., Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., and Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. ("Customers"), statements confirming the extension by the Grupa Azoty Group companies of the term of the Individual Contracts executed under the Framework Agreement on sale of gas fuel of April 13th 2016 ("Individual Contracts").</p> <p>As a result of the extension, PGNiG will remain the strategic supplier of gas to the Grupa Azoty Group companies listed above until September 30th 2022.</p> <p>The aggregate amount of the Individual Contracts may exceed PLN 8bn over the four years of the Contracts' term. The applied pricing formula is based on gas market price indices.</p>
Jun 7 2019	PGNiG Upstream Norway AS	<p>PGNiG Upstream Norway AS ("PUN") concluded an agreement for the purchase of interests in licences on the Norwegian Continental Shelf from Total E&P Norge AS (the "Agreement").</p> <p>The Agreement provides for the acquisition from Total E&P Norge AS of a 22.2% interest in licence areas PL146 and PL333 (the "Licences"), including the King Lear gas field. The field operator is AkerBP, which holds a 77.8% interest purchased in 2018 from Equinor Energy AS.</p> <p>King Lear is an gas and oil field located in the North Sea. According to the Norwegian Petroleum Directorate data, the field has recoverable reserves of 9.2 bcm of natural gas and 6.5 mcm of crude oil. The parties agreed to treat the transaction value as a trade secret.</p> <p>Currently, work is under way on the field development concept for the Licence areas. The investment process is planned to span from 2021 to 2024 and production is to start in 2025. Based on the operator's current data, after the field goes on stream, gas production attributable to PUN is expected to be 0.25 bcm per annum.</p> <p>The Licences were purchased under the PGNiG Group Strategy for 2017–2022 (with an outlook until 2026).</p> <p>The Agreement provides for conditions precedent, including obtaining the required administrative approvals in Norway.</p> <p>On September 30th 2019, the required administrative approvals in Norway were obtained, which satisfied the first of the conditions precedent under the Agreement.</p>
Jun 12 2019	PGNiG S.A.	<p>On June 12th 2019, PGNiG executed an annex to the long-term contract of September 28th 2018 (the "Annex") for the supply of liquefied natural gas (LNG) signed with Venture Global Plaquemines LNG, LLC.</p> <p>The Annex provides for an increase in the volume of LNG deliveries to PGNiG from the planned Plaquemines LNG liquefaction terminal in Plaquemines Parish, US from 1m tonnes to 2.5m tonnes per year, which corresponds to a total volume of nearly 3.4 bcm of natural gas after regasification. Following the execution of the Annex, the total volume of LNG deliveries to be made by Venture Global Plaquemines LNG, LLC and Venture Global Calcasieu Pass, LLC in 2023-2043 to PGNiG may reach 3.5 million tonnes of LNG per year, i.e. over 4.7 bcm of natural gas after regasification per year. The deliveries will be made on a free-on-board basis.</p>
Jun 26 2019	PGNiG S.A.	<p>On June 26th 2019, Moody's Investors Service ("Moody's", the "Agency") announced an upgrade of PGNiG's credit rating from Baa3 to Baa2 with a stable outlook.</p> <p>Moody's rating opinion emphasises PGNiG's current, significant financial flexibility, allowing it to absorb increased debt levels and maintain its conservative financial and dividend policy. According to Moody's, the key reasons for the rating upgrade are the Company's dominant position in the domestic gas market and the ability to retain its strong financial metrics over the next years despite substantial investments which are focused on the Exploration and Production segment, also taking into account the adverse effect of macroeconomic factors expected by the credit rating agency on future financial performance in the Exploration and Production and Trade and Storage segments.</p> <p>The stable rating outlook reflects Moody's expectation that PGNiG will be able to retain its strong liquidity profile despite substantial investments and will continue to build a sustainable hydrocarbon reserve base in Poland and Norway.</p>

	<p>At the same time, the Agency points out that the Company's rating is constrained by the following factors: (1) uncertainties regarding development of European gas market in terms of supply volumes and prices over the next years, (2) investment and execution risk in the E&P segment, and (3) potential pressure from the European Union to accelerate liberalisation and increase competition in the Polish gas market.</p>
<p>July 12 2019</p>	<p>PGNiG Upstream Norway AS</p> <p>On July 12th 2019, PGNiG Upstream Norway AS ("PUN") concluded an agreement for the purchase of interests in licences on the Norwegian Continental Shelf from Wellesley Petroleum AS ("Agreement").</p> <p>The Agreement provides for the acquisition of 20% interests in licences PL636 and PL636B ("Licences") from Wellesley Petroleum AS, including the Duva field. The field operator is Neptune Energy Norge, which holds a 30% interest. The other partners are Idemitsu Petroleum Norge (30%) and Pandion Energy (20%). The parties agreed to treat the transaction value as a trade secret.</p> <p>Duva is a gas and oil field located in the North Sea, 6 km from the Gjøa field, operated by Neptune Energy Norge. The field is located within the PL636 licence area and its reserves were documented based on results of an exploration well in 2016. According to data of the Norwegian Petroleum Directorate, the recoverable reserves of the Duva field are approximately 8.4 bcm of gas, 3.7 mcm of crude oil and 1m tonnes of NGL.</p> <p>Currently, the Duva field is in the pre-production phase. The Plan for Development and Operation of the field was approved by the Norwegian Ministry of Petroleum and Energy in June 2019. It assumes the drilling of at least three production wells and their connection to the Gjøa platform. The tie-in to existing production facilities will significantly reduce costs and shorten the project work, to be continued in 2019–2020. The launch of production is expected towards the end of 2020. According to the field operator's current data, maximum production is expected to reach 30,000 barrels of oil and gas equivalent. Gas production attributable to PUN is expected to be 0.13 bcm per annum.</p> <p>The Licences were purchased under the PGNiG Group Strategy for 2017–2022 (with an outlook until 2026), as announced in Current Report No. 19/2017.</p> <p>The Agreement provides for conditions precedent, including obtaining the required corporate approvals and administrative approvals in Norway.</p> <p>On July 22nd 2019, the first of the conditions precedent to the purchase was fulfilled when the PUN General Meeting approved the steps to be taken in order to enter into the Agreement.</p> <p>On October 18th 2019, the required administrative approvals in Norway were obtained, which satisfied another condition precedent under the Agreement.</p>
<p>Aug 22 2019</p>	<p>PGNiG S.A.</p> <p>On August 22nd 2019, the State Treasury (as the Company's shareholder) appointed Mr Roman Gabrowski to the PGNiG Supervisory Board, acting pursuant to Art. 35.1 of the Company's Articles of Association, which entitles the State Treasury to appoint and remove one member of the Supervisory Board.</p>

4.2. Shares held by management and supervisory personnel

The holdings of PGNiG shares by the management and supervisory personnel have not changed since the date of issue of the consolidated full-year report for 2018.

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

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

4.3. Dividend paid (declared)

On October 29th 2018, the Management Board of PGNiG S.A. resolved to distribute an interim dividend of PLN 404m from profit for 2018, with December 3rd 2018 set as the payment date.

On June 27th 2019, the Annual General Meeting of PGNiG S.A. passed a resolution to distribute PGNiG's net profit for 2018 and allocate PLN 1,040m (PLN 0.18 per share) to dividend payment.

Following payment in 2018 of the interim dividend for 2018 of PLN 404m, i.e. PLN 0.07 per share, the outstanding balance of the dividend for 2018, amounting to PLN 636m, i.e. PLN 0.11 per share, was paid on August 7th 2019.

No dividend was paid for 2017. On July 20th 2018, the PGNiG Annual General Meeting passed a resolution, based on a draft resolution proposed by a shareholder, to allocate PLN 867m from the net profit for 2017 to the capital reserve to be used for financing the expansion and upgrade of the Polish gas distribution network, and PLN 1,167m to increase the Company's statutory reserve funds.

4.4. Issue, redemption, and repayment of debt securities

In the reporting period, PGNiG S.A. redeemed PLN 2.3bn worth of domestic notes as part of the following programme:

Start date	End date	Programme	Participating banks as at the reporting date	Limit	Utilisation (%) as at		Outstanding debt (PLN bn) as at	
					Sep 30 2019	Sep 30 2019	Sep 30 2019	Dec 31 2018
Jun 10 2010	Jul 31 2020 early termination in accordance with an agreement of June 24th 2019	Note 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	-	-	-	2.3

On June 24th 2019, the Company entered into an agreement terminating the PLN 7bn and PLN 1bn Note Programmes, replacing them with a PLN 10bn syndicated loan agreement with a five-year availability period. The agreement was concluded with a syndicate of nine banks, comprising: Bank Gospodarstwa Krajowego, Bank Polska Kasa Opieki S.A., BNP Paribas Bank Polska S.A., Caixa Bank SA Branch in Poland, ING Bank Śląski S.A., Intesa Sanpaolo SpA S.A. Branch in Poland, Powszechna Kasa Oszczędności Bank Polski S.A., Santander Bank Polska S.A., and Société Générale S.A.

The loan replaces the financing in the form of two note programmes with a PLN 8bn underwriting commitment. The funds made available under the loan are used by the Company e.g. to finance the day-to-day operations and capital expenditure of PGNiG and the PGNiG Group companies.

As at September 30th 2019, the outstanding debt under the loan agreement was PLN 1.6bn.

PGNiG S.A. has also entered into an agreement on a debt securities programme (up to PLN 5bn). The agreement was not performed in the reporting period. For detailed information, see the full-year consolidated financial statements for the period ended December 31st 2018.

4.5. Seasonality

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

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

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

4.6. Material court, arbitration and administrative proceedings

For a detailed description of all material court, arbitration, or administrative proceedings, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in 2018.

Changes that took place in the reporting period are described below.

4.6.1. Pending court proceedings

Legal action concerning claims of PBG S.A. (PBG)

On April 1st 2019, PBG submitted a counterclaim against PGNiG with the Regional Court in Warsaw, 20th Commercial Division. In the counterclaim, PBG lodged claims against PGNiG in connection with the following contracts:

- The contract signed with PGNiG on November 19th 2008 to implement the project 'Construction of the Wierchowice Underground Gas Storage Facility, phase 3.5bn nm³, sub-phase 1.2bn nm³'. PBG seeks the payment by PGNiG of the balance of remuneration due to the Consortium (PBG, Tecnimont S.P.A., TCM FR S.A., Plynostav Pardubice Holding a.s. and Plynostav-Regulace Plynu a.s.) under the contract.
- The contract signed with PGNiG on August 11th 2008 to implement the 'LMG Project – Central Facility, Well Areas, Pipelines and Other Infrastructure'. PBG demands that PGNiG return PBG the security deposit securing warranty claims, which was offset under the contract against PGNiG's disputed receivables from the consortium, related to the contract.

The claims total PLN 118.1m, together with default interest accrued from the claim filing date to the payment date. After a review of the counterclaim and having analysed the relevant facts, PGNiG decided to contest the claim and filed its response. To date, the Company has not identified any reasons for recognising a provision for the cost of the claim.

Call for arbitration submitted by Abener Energia S.A. (Abener Energia)

On March 14th 2019, Elektrociepłownia Stalowa Wola S.A. (ECSW) of Stalowa Wola (an entity jointly controlled by PGNiG (indirectly)) received a call for arbitration submitted by Abener Energia with the Arbitration Court at the Polish Chamber of Commerce. The call concerns the amounts of PLN 147.2m and EUR 536 thousand, which represent compensation payable to it for having groundlessly demanded and obtained, at Abener Energia's expense, payment from the insurance guarantee provided as a performance bond or, alternatively, the return of unjust enrichment obtained by ECSW. In March 2019, ECSW prepared the defendant's response to the call for arbitration.

On April 25th 2019, an award was issued in the case, whereby ECSW was obliged to pay Abener Energia PLN 334m plus statutory default interest and costs of the arbitration. An arbitration award is legally equivalent to a court ruling or settlement made before the court only after it has been recognised by the court or after the court has determined its enforceability.

On May 9th 2019, ECSW lodged a complaint against the award of the Arbitration Court at the Polish Chamber of Commerce dated April 25th 2019, and on May 14th 2019 ECSW submitted a request to exclude the arbitrators. On June 24th 2019, ECSW submitted with the Rzeszów Court of Appeals a complaint requesting that the Arbitration Court's award be reversed and its execution be stayed.

On August 5th 2019, the Court of Appeals in Rzeszów issued a decision to postpone the examination of Abener Energia's application for a statement of enforceability of the award of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw until ECSW's appeal for reversal of the award is examined. As a result of that decision, ECSW's liability to pay Abener Energia PLN 334m plus statutory default interest and costs of the arbitration is postponed until the case for reversal of the arbitration court's award is examined.

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

Proceedings instigated on April 3rd 2010

In the reporting period, there were no material developments in the antitrust proceedings commenced on April 3rd 2010.

Proceedings instigated on December 28th 2010

On December 28th 2010, the President of the Office of Competition and Consumer Protection ('UOKiK') instigated ex officio antitrust proceedings concerning alleged abuse by PGNiG of its dominant position on the domestic natural gas wholesale market, which consisted in inhibiting trade in natural gas against the interests of trading partners or consumers and in impeding the development of market conditions necessary for the emergence or development of competition by refusing to sell gas fuel under a comprehensive supply contract to a business entity that intended to resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw.

By its judgment of October 10th 2019, the Competition and Consumer Protection Court amended the President of UOKiK's decision appealed against by the Company so that a fine of PLN 5.5m was imposed on PGNiG in place of the former fine of PLN 60m, but otherwise dismissing the appeal, collected half the costs of preparing a court expert's written opinion and cancelled the other costs of the proceedings between the parties. Upon receipt of a written statement of reasons, the Company will consider bringing an appeal against the Regional Court's ruling.

For a detailed description of the proceedings, refer to the Directors' Report on the operations of PGNiG and the PGNiG Group in 2018.

Proceedings instigated on April 3rd 2013

On April 3rd 2013, the President of the Office for Competition and Consumer Protection ("President of UOKiK") instigated antitrust proceedings concerning an alleged abuse by PGNiG of its dominant position on the domestic wholesale and retail natural gas market, which consisted in impeding the development of market conditions necessary for the emergence or development of competition by:

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

On September 20th 2018, PGNiG filed a cassation complaint in connection with its appeal first dismissed by the Regional Court and then by the Appellate Court concerning a fine of PLN 10.4m imposed on the Company by the President of UOKiK. By way of the Supreme Court's decision of September 24th 2019, the cassation complaint was admitted for examination.

For a detailed description of the proceedings, refer to the Directors' Report on the operations of PGNiG and the PGNiG Group in 2018.

Antitrust proceedings initiated on March 11th 2019

On March 11th 2019, the President of UOKiK issued a notification to the effect that antitrust proceedings had been opened in the case of a suspected breach of the prohibitions laid down in Art. 6.1.1, 6.1.3 and 6.1.7 of the Act on Competition and Consumer Protection and Art. 101(1)(a) and (c) of the Treaty on the Functioning of the European Union regarding fixing heat prices, sharing the heat market and fixing bids in procurement procedures for the sale and delivery of heat, with Veolia Energia Warszawa S.A., Veolia Energia Polska S.A., PGNiG TERMIKA and PGNiG as parties to the proceedings. The breach of the prohibitions referred to above was to take place as a result of an agreement that had allegedly been made in 2014.

4.6.3. Renegotiation of price terms under the contract with OOO Gazprom Export

In 2018, PGNiG continued its efforts to revise the price terms under the Yamal contract as part of the procedure formally launched on November 1st 2014. Since no agreement was reached with the supplier within the time limit provided for in the contract, on May 13th 2015 PGNiG instigated arbitration proceedings, in accordance with the contract. The subject matter of the dispute is a revision of the price terms under the contract for gas supply to Poland. In the course of the arbitration proceedings, on February 1st 2016 PGNiG filed with the Arbitration Court a claim against PAO Gazprom and OOO Gazprom Export. The arbitration proceedings are expected to end in the second half of 2019. The fact that the dispute was referred to arbitration does not preclude commercial negotiations and an amicable settlement with the supplier. Additionally, on November 1st 2017 PGNiG, PAO Gazprom and OOO Gazprom Export entered into another round of negotiations on the gas prices. On June 30th 2018, the Arbitration Institute of the Stockholm Chamber of Commerce ruled in a partial award that the contractual condition for the Company to demand a change in the price of gas supplied to Poland under the Yamal contract had been met.

So far, the parties have not reached an agreement on the terms of supply.

4.6.4. 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.

The complaint and the request for injunctive relief filed with the General Court of the European Union are against the European Commission's decision of October 28th 2016 whereby the Commission allowed a revision to the exemption of the OPAL pipeline from the common gas market regulations (especially with respect to the Third Party Access (TPA) rule), in accordance with the text of the administrative decision issued by the German regulator – Federal Network Agency (Bundesnetzagentur), subject to modifications referred to in the Commission's decision. The complaint and the application for injunctive relief were submitted by PST. On December 23rd 2016, the President of the General Court of the European Union stayed execution of the challenged decision of the European Commission, temporarily granting PST's request for injunctive relief. The parties exchanged pleadings. No further decisions were issued on the case. On March 13th 2017, PST supplemented its complaint and request for injunctive relief due to the fact that the European Commission's decision had not been published until January 3rd 2017, while the complaint and the request were dated December 4th 2016. On May 29th 2017, PST filed its position on the plea of inadmissibility of the complaint raised by the European Commission.

A complaint against the Commission's decision together with a request for injunctive relief were also filed by PGNiG on March 1st 2017. On August 21st 2017, PGNiG replied to the plea of inadmissibility raised by the European Commission. On July 6th 2017, an application was filed to admit PGNiG as an intervener supporting the Ukrainian company Naftogaz in the case against the decision of the European Commission. On March 9th 2018, the General Court of the European Union issued a decision to declare inadmissibility of the complaint lodged by Naftogaz. On July 5th 2017, the President of the General Court of the European Union held hearings regarding the injunctive relief in the cases instigated by PST and PGNiG. 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 and March 15th 2018, the General Court of the European Union rejected complaints lodged by PST and PGNiG, respectively, on the grounds of inadmissibility and awarded the costs of the proceedings against the complaining parties. These were formal decisions, which were not based on examination of the validity of claims made in the complaint against the European Commission's decision. Two appeals were submitted to the Court of Justice of the European Union against the decision of December 14th 2017 concerning PST's complaint. Appeals were lodged by PST on February 13th 2018 and by the Republic of Poland on March 5th 2018. As regards PGNiG, an appeal was lodged on May 24th 2018.

The complaint and the request for an injunctive relief filed with the Higher Regional Court of Düsseldorf are primarily against the administrative settlement between the German regulator, OPAL Gastransport GmbH & Co. KG, OAO Gazprom and OOO Gazprom Export, specifying the revised conditions for exemption of the OPAL pipeline from the common gas market regulations. On December 30th 2016, the Higher Regional Court of Düsseldorf issued an injunction whereby it obliged the German regulator to suspend the effects of the disputed administrative settlement by prohibiting OPAL Gastransport GmbH & Co. KG from holding any further daily, weekly, monthly and annual capacity auctions for the OPAL pipeline. Following the Court's ruling, on the same day the German regulator issued an immediately enforceable decision whereby it prohibited OPAL Gastransport GmbH & Co. KG from conducting such auctions.

On January 20th 2017, PGNiG and PST extended the earlier complaint by lodging a complaint against a decision of the German regulator – Federal Network Agency (Bundesnetzagentur), dated December 20th 2016, whereby the regulator refused to instigate formal administrative proceedings concerning revised conditions for the pipeline's exemption from the common gas market regulations and allow the applicants, i.e. PGNiG and PST, to join the proceedings. The companies also extended the list of arguments contained in their earlier pleading. On March 31st 2017, a statement of reasons for the complaint against the administrative settlement was filed with the Higher Regional Court, containing an in-depth legal argument as a condition to pursuing any further legal remedies.

As no further rulings were issued on the case, the Court's decision of December 30th 2016 remains in force. After an exchange of pleadings, the Higher Regional Court in Düsseldorf, by a decision of July 27th 2017, revoked its decision of December 30th 2016, thus cancelling the previously granted injunctive relief. After a further exchange of pleadings, the Court dismissed the application for an injunctive relief during a hearing on October 11th 2017. A decision to dismiss the application, accompanied by a statement of reasons, was delivered on October 23rd 2017. On June 4th 2018, the companies filed their pleadings.

On January 9th 2019, the German Federal Network Agency resumed proceedings concerning a decision issued in 2009 on the terms of the regulatory exemption of the Opal gas pipeline, and at the same time it suspended the proceedings. On January 28th 2019, PGNiG and PST filed a request to join the proceedings. In its reply of February 25th 2019, the German regulatory authority stated that the request would be examined after the pending court proceedings had been closed.

On September 10th 2019, the Court of Justice of the European Union, acting on an application from the governments of Poland, Lithuania and Latvia, annulled the European Commission's Decision No. C(2016) 6950 of October 28th 2016 on the exemption of the OPAL gas pipeline from the requirements on third party access. The Court found that *'the contested decision was adopted in breach of the principle of energy solidarity'*. It confirmed Poland's arguments that, when issuing its decision, the European Commission infringed the European Union's regulations by failing to examine its impact on Poland's energy security.

The judgment of September 10th 2019 does not end the proceedings before the Court of Justice of the European Union, because it may be appealed against by the European Commission. However, as the judgment is immediately enforceable, the European Commission's Decision on OPAL was annulled as of September 10th 2019.

4.6.5. Proceedings before the President of the Energy Regulatory Office (URE)

In the reporting period, there were no material developments in the proceedings related to the obligation to sell gas on the exchange market, commenced on January 13th 2015 and October 28th 2015.

4.6.6. Other proceedings

Shareholder's action to void/repeal the General Meeting's resolution

In the reporting period, proceedings were pending to declare the following resolutions void/repealed:

- Resolution No. 1/IX/2017 of the Extraordinary General Meeting of PGNiG of September 13th 2017 – on June 26th 2019, the court of first instance issued a judgment dismissing the claim in its entirety;
- Resolution No. 7/VI/2016 of the Annual General Meeting of PGNiG of June 28th 2016 not to grant discharge to Mr Jarosław Bauc, member of the PGNiG Management Board, in respect of performance of his duties in the financial year 2015: on August 29th 2019, the Regional Court of Warsaw announced a decision repealing the resolution. The ruling is not final. Upon receipt of a written statement of reasons, the Company will make a decision whether to appeal against it.

Neither PGNiG nor its subsidiaries were engaged in any other material proceedings before a court, arbitration court or administrative authority concerning liabilities or claims.

4.7. Settlements related to court proceedings

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

4.8. Changes in the economic environment and trading conditions with 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.

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

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

4.10. Related-party transactions

In the reporting period, no transactions were concluded on non-arm's length terms between the PGNiG Group and its related parties.

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

The PGNiG Management Board has not published any forecasts of the PGNiG Group's financial results for 2019.

4.12. Events subsequent to the reporting date

<p>November 7th 2019</p>	<p>PGNiG Upstream Norway AS</p>	<p>On November 7th 2019, PGNiG Upstream Norway AS, a subsidiary, executed an agreement to purchase an additional 10% interest in the PL636 and PL636B licences, including the Duva field, from Pondion Energy. As a result, PUN's interest in those licences increased from 20% to 30%.</p> <p>The Agreement provides for conditions precedent, including obtaining the administrative approvals in Norway.</p>
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4.13. Other information material to the assessment of assets, financial condition and results

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

5. Quarterly financial data of PGNiG S.A.

5.1. Interim condensed separate financial statements

Separate statement of profit or loss	3 months ended Sep 30 2019	9 months ended Sep 30 2019	3 months ended Sep 30 2018	9 months ended Sep 30 2018
Revenue from sale of gas	2,673	12,605	3,430	12,534
Other revenue	924	3,027	864	2,675
Revenue	3,597	15,632	4,294	15,209
Cost of gas sold	(2,418)	(10,955)	(2,715)	(9,938)
Other raw materials and consumables used	(392)	(1,349)	(243)	(892)
Employee benefits expense	(152)	(492)	(140)	(465)
Transmission, distribution and storage services	(251)	(715)	(245)	(728)
Other services	(339)	(754)	(361)	(1,084)
Depreciation and amortisation expense	(211)	(627)	(201)	(589)
Taxes and charges	(79)	(214)	(79)	(221)
Other income and expenses	172	62	(175)	(168)
Work performed by the entity and capitalised	3	9	1	4
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	43	(184)	140	460
Dividends	-	1,344	-	1,726
Finance income	91	116	(17)	102
Interest income calculated using the effective interest rate	60	173	(15)	81
Finance costs	(18)	(62)	20	(88)
Gain/(loss) on derecognition of financial assets measured at amortised cost	9	19	(113)	(113)
Revaluation of financial assets	(6)	1	27	(38)
Total	(3,488)	(13,628)	(4,116)	(11,951)
Profit before tax	109	2,004	178	3,258
Income tax	(14)	(137)	(14)	(303)
Net profit	95	1,867	164	2,955
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778
Basic and diluted earnings per share (PLN)	0.02	0.32	0.03	0.51

Separate statement of comprehensive income	3 months ended Sep 30 2019	9 months ended Sep 30 2019	3 months ended Sep 30 2018	9 months ended Sep 30 2018
Net profit	95	1,867	164	2,955
Hedge accounting	92	437	(304)	(319)
Deferred tax	(23)	(68)	75	84
Other comprehensive income subject to reclassification to profit or loss	69	369	(229)	(235)
Actuarial losses on employee benefits	-	(6)	-	(4)
Deferred tax	-	1	-	1
Other comprehensive income not subject to reclassification to profit or loss	-	(5)	-	(3)
Other comprehensive income, net	69	364	(229)	(238)
Total comprehensive income	164	2,231	(65)	2,717

Separate statement of cash flows	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Cash flows from operating activities		
Net profit	1,867	2,955
Depreciation and amortisation expense	627	589
Interest and dividends	(1,450)	(1,757)
Net gain/(loss) on investing activities	97	(331)
Other non-monetary adjustments	57	706
Income tax paid	(145)	(371)
Current tax expense	137	303
Movements in working capital	(497)	(1,632)
Net cash from operating activities	693	462
Cash flows from investing activities		
Payments for tangible exploration and evaluation assets	(688)	(582)
Payments for other property, plant and equipment and intangible assets	(192)	(243)
Loans advanced	(1,786)	(460)
Payments for derivative financial instruments	(34)	(46)
Payments for shares in related entities	(446)	(4)
Other cash used in investing activities	(22)	(14)
Repayments of loans advanced	179	594
Proceeds from derivative financial instruments	31	44
Interest received	116	101
Dividends received	1,344	1,726
Proceeds from sale of property, plant and equipment and intangible assets	45	17
Lease proceeds	6	10
Net cash from investing activities	(1,447)	1,143
Cash flows from financing activities		
Proceeds from borrowings	1,600	-
Proceeds from issue of debt securities	-	798
Other cash generated by financing activities	-	2
Dividends paid	(636)	-
Redemption of debt securities	(2,295)	(1,996)
Interest paid	(77)	(25)
Payment of principal and interest under lease liabilities	(22)	-
Net cash from financing activities	(1,430)	(1,221)
Net cash flows	(2,184)	384
Cash and cash equivalents at beginning of period	4,844	1,680
Cash and cash equivalents at end of period	2,660	2,064

In the reporting period, selected PGNiG Group companies were parties to cash pooling agreements:

- Agreement of July 16th 2014 between Bank Pekao S.A. and Group companies (PGNiG S.A., Polska Spółka Gazownictwa Sp. z o.o., Exalo Drilling S.A., Geofizyka Kraków S.A. w likwidacji, 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., PGNiG Gazoprojekt S.A., PGNiG Supply & Trading GmbH Sp. z o.o. Poland Branch and PGNiG Termika Energetyka Przemysłowa S.A.);
- Agreement of December 22nd 2016, effective from March 1st 2017, between PKO BP S.A. and Group companies: NiG 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 enhance the management of the Group's financial liquidity. The cash pooling arrangement facilitates liquidity planning within the PGNiG Group and has reduced dependency on borrowed funds. The improved and more efficient utilisation of free cash also enabled the Group to reduce its borrowing costs.

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.

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.	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Cash and cash equivalents at end of period in the statement of cash flows	2,660	2,064
Opening balance of net exchange differences	(3)	(2)
Opening balance of inflows/outflows of cash under cash pooling arrangement	(1,697)	306
Net exchange differences in period	6	4
Inflows/(outflows) of cash under cash pooling arrangement in period	280	(129)
Cash at end of period in the statement of financial position	1,246	2,243

Separate statement of financial position	As at Sep 30 2019	As at Dec 31 2018
Assets		
Property, plant and equipment	12,527	12,116
Licences, mining rights and rights to geological information	145	120
Deferred tax assets	-	45
Shares	10,284	9,846
Derivative financial instruments	139	214
Loans advanced	4,864	2,881
Other assets	497	520
Non-current assets	28,456	25,742
Inventories	3,737	2,691
Receivables	1,191	2,365
Cash pooling receivables	1,499	1,825
Current income tax	42	-
Derivative financial instruments	788	453
Loans advanced	335	592
Other assets	73	181
Cash and cash equivalents	1,246	3,144
Current assets	8,911	11,251
TOTAL ASSETS	37,367	36,993
Equity and liabilities		
Share capital and share premium	7,518	7,518
Capital reserve	1,867	867
Hedging reserve	363	72
Accumulated other comprehensive income	8	13
Retained earnings	20,615	20,363
Total equity	30,371	28,833
Lease liabilities	304	-
Derivative financial instruments	80	105
Employee benefit obligations	269	255
Provision for well decommissioning costs	1,759	1,569
Other provisions	11	28
Grants	493	519
Deferred tax liabilities	90	-
Other liabilities	62	75
Non-current liabilities	3,068	2,551
Financing liabilities	1,602	2,298
Lease liabilities	15	-
Derivative financial instruments	214	406
Trade and tax payables	1,526	2,194
Cash pooling liabilities	105	171
Employee benefit obligations	90	109
Provision for well decommissioning costs	59	91
Other provisions	266	287
Other liabilities	51	53
Current liabilities	3,928	5,609
TOTAL LIABILITIES	6,996	8,160
TOTAL EQUITY AND LIABILITIES	37,367	36,993

Statement of changes in equity

	Share capital and share premium	Capital reserve*	Hedging reserve	Accumulated other comprehensive income	Retained earnings (deficit)	Total equity
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	-	-	-	-	2,955	2,955
Other comprehensive income, net	-	-	(235)	(3)	-	(238)
Total comprehensive income	-	-	(235)	(3)	2,955	2,717
Transferred	-	867	-	-	(867)	-
Change in equity recognised in inventories	-	-	(124)	-	-	(124)
As at Sep 30 2018	7,518	867	(352)	20	20,433	28,486
As at Jan 1 2019	7,518	867	72	13	20,363	28,833
Effect of IFRS 16	-	-	-	-	21	21
As at Jan 1 2019 (restated)	7,518	867	72	13	20,384	28,854
Net profit	-	-	-	-	1,867	1,867
Other comprehensive income, net	-	-	369	(5)	-	364
Total comprehensive income	-	-	369	(5)	1,867	2,231
Transferred	-	1,000	-	-	(1,000)	-
Dividend	-	-	-	-	(636)	(636)
Change in equity recognised in inventories	-	-	(78)	-	-	(78)
As at Sep 30 2019	7,518	1,867	363	8	20,615	30,371

*On June 27th 2019, the Annual General Meeting of PGNiG S.A. passed Resolution No. 19/2019 to allocate PLN 1,000m to capital reserve to be used for the expansion and upgrade of the national gas distribution network. In 2018, by way of Resolution No. 28/2018 of July 20th 2018, the Annual General Meeting of PGNiG S.A. allocated PLN 867m to that purpose.

5.2. Presentation changes in the financial statements

PGNiG S.A. adopted the new IFRS 16 starting from January 1st 2019 (for more information, see [Note 1.5.](#)).

The impact of IFRS 16 on the financial statements is presented below.

	Carrying amount as at Dec 31 2018	Effect of IFRS 16 on the statement of financial position	Carrying amount as at Jan 1 2019
Assets			
Property, plant and equipment, including	12,116	368	12,484
land	38	(19)	19
Right-of-use assets, including:	-	387	387
land	-	349	349
buildings and structures	-	19	19
Plant and equipment	-	4	4
vehicles	-	15	15
Deferred tax on provision for environmental liabilities	5	(5)	-
Other assets, including:	520	(30)	490
perpetual usufruct rights to land	30	(30)	-
Non-current assets	25,742	333	26,075
TOTAL ASSETS	36,993	333	37,326
Equity and liabilities			
Retained earnings	20,363	21	20,384
Total equity	28,833	21	28,854
Other provisions, including	28	(17)	11
provisions for environmental liabilities	24	(17)	7
Finance lease liabilities	-	331	331
Non-current liabilities	2,551	314	2,865
Other provisions, including	287	(2)	285
provisions for environmental liabilities	2	(2)	-
Current liabilities	5,609	(2)	5,607
TOTAL LIABILITIES	8,160	312	8,472
TOTAL EQUITY AND LIABILITIES	36,993	333	37,326

In the period ended September 30th 2019, the Company made a PLN 41m adjustment to the effect of IFRS 16 with respect to the recognised amounts of property, plant and equipment and finance lease liabilities relative to the amounts shown in the separate financial statements for the year ended December 31st 2018 on account of IFRS 16.

5.3. Notes to the interim condensed separate financial statements

Deferred tax

	As at Jan 1 2018	Effect of IFRS 9 as at Jan 1 2018	Credited/Charged		As at Dec 31 2018	Effect of IFRS 16 as at Jan 1 2019	Credited/Charged		As at Sep 30 2019
			Net profit/(loss)	Other comprehensive income			Net profit/(loss)	Other comprehensive income	
Deferred tax assets									
Employee benefit obligation	49	-	4	2	55	-	(1)	1	55
Provision for well decommissioning costs	155	-	26	-	181	-	11	-	192
Other provisions	26	-	9	-	35	(5)	1	-	31
Measurement of derivatives	13	-	80	-	93	-	(48)	-	45
Useful lives of property, plant and equipment	174	-	(76)	-	98	-	(3)	-	95
Unused tax losses of the Pakistan Branch	-	-	50	-	50	-	37	-	87
Other	26	-	10	-	36	-	(9)	-	27
Total	443	-	103	2	548	(5)	(12)	1	532
Deferred tax liabilities									
Difference between depreciation rates for property, plant and equipment	292	-	86	-	378	-	43	-	421
Measurement of derivatives	34	-	58	15	107	-	(7)	68	168
Other	38	(4)	(16)	-	18	-	15	-	33
Total	364	(4)	128	15	503	-	51	68	622
Set-off of assets and liabilities	(364)	-	-	-	(503)	-	-	-	(532)
After set-off									
Assets	79	-	-	-	45	-	-	-	-
Liabilities	-	-	-	-	-	-	-	-	90
Net effect of changes in the period		4	(25)	(13)		(5)	(63)	(67)	

In the period ended September 30th 2019, the Company recognised the effect of IFRS 16 on deferred tax assets of PLN 5m. As deferred tax is presented in the statement of financial position on a net basis, the balance of deferred tax liabilities was adjusted by the identified amount of assets.

In the comparative period, the Company recognised the effect of IFRS 9 on deferred tax liabilities of PLN 4m. The balance of deferred tax assets was adjusted by the identified amount of liabilities.

Impairment losses/write-downs

	Property, plant and equipment, licences, mining rights and rights to geological information	Right-of-use assets	Other assets	Loans advanced	Shares	Inventories	Receivables	Cash pooling receivables	Current financial assets	Total
As at Jan 1 2018	3,597	N/A	20	50	2,669	103	320	-	39	6,798
Effect of IFRS 9	-	N/A	-	81	-	-	13	6	-	100
As at Jan 1 2018 (restated)	3,597	N/A	20	131	2,669	103	333	6	39	6,898
Recognised provision taken to profit or loss	690	N/A	1	106	77	108	461	10	-	1,453
Transferred	-	N/A	(14)	-	15	-	(1)	-	-	-
Provision reversal taken to profit or loss	(945)	N/A	(1)	(159)	(1)	(81)	(306)	(6)	-	(1,499)
Other changes	(94)	N/A	-	-	-	-	-	-	-	(94)
As at Dec 31 2018	3,248	N/A	6	78	2,760	130	487	10	39	6,758
Recognised provision taken to profit or loss	443	48	-	27	8	42	232	6	-	806
Transferred	-	-	(1)	-	-	-	1	-	-	-
Provision reversal taken to profit or loss	(307)	-	-	(15)	(1)	(108)	(239)	(9)	-	(679)
Other changes	(46)	-	-	-	-	-	-	-	-	(46)
As at Sep 30 2019	3,338	48	5	90	2,767	64	481	7	39	6,839

* N/A – non applicable; the items did not exist in 2018 and are a result of implementation of new IFRS 16 Leases.

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 2018	1,429	38	162	26	10	6	-	15	1,686
Effect of IFRS 9	-	-	-	-	-	-	18	-	18
As at Jan 1 2019 (restated)	1,429	38	162	26	10	6	18	15	1,704
Recognised provision capitalised in cost of property, plant and equipment	237	-	-	-	-	-	-	-	237
Recognised provision taken to profit or loss	56	34	13	-	-	1	-	15	119
Used	(28)	(1)	-	-	(10)	-	-	-	(39)
Provision reversal taken to profit or loss	(34)	(1)	-	-	-	(3)	(3)	(5)	(46)
As at Dec 31 2018	1,660	70	175	26	-	4	15	25	1,975
Effect of IFRS 16	-	-	-	(19)	-	-	-	-	(19)
As at Jan 1 2019 (restated)	1,660	70	175	7	-	4	15	25	1,956
Recognised provision capitalised in cost of property, plant and equipment	192	-	-	-	-	-	-	-	192
Recognised provision taken to profit or loss	32	32	11	-	6	-	11	9	101
Used	(22)	(48)	-	-	-	-	-	-	(70)
Provision reversal taken to profit or loss	(46)	(21)	-	-	-	-	(12)	(7)	(86)
Other changes	2	-	-	-	-	-	-	-	2
As at Sep 30 2019	1,818	33	186	7	6	4	14	27	2,095

Revenue

	Total		Domestic sales		Export sales	
	9 months ended Sep 30 2019	9 months ended Sep 30 2018	9 months ended Sep 30 2019	9 months ended Sep 30 2018	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Revenue from sale of gas, including:	12,605	12,534	12,117	11,840	488	694
Revenue from contracts with customers IFRS 15	12,223	12,953	11,735	12,259	488	694
High-methane gas	10,951	11,806	10,657	11,261	294	545
Nitrogen-rich gas	1,047	967	943	874	104	93
Propane-butane gas	47	51	47	51	-	-
LNG	64	61	64	61	-	-
Helium	114	68	24	12	90	56
Excluded from the scope of IFRS 15	382	(419)	382	(419)	-	-
Adjustment to gas sales due to hedging transactions - IFRS 9	382	(419)	382	(419)	-	-
Other revenue, including:	3,027	2,675	2,728	2,201	299	474
Revenue from contracts with customers IFRS 15	2,580	2,228	2,281	1,754	299	474
Crude oil and natural gasoline	1,042	1,114	780	797	262	317
Sale of electricity	1,323	854	1,321	759	2	95
CO ₂ emission allowances	17	9	17	9	-	-
Other	198	251	163	189	35	62
Excluded from the scope of IFRS 15	447	447	447	447	-	-
Right to use storage facilities - IFRS 16	434	429	434	429	-	-
Other income from operating leases - IFRS 16	13	18	13	18	-	-
Total revenue	15,632	15,209	14,845	14,041	787	1,168

Sales are made directly to business customers and via the Polish Power Exchange (POLPX). Generally, 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 the contract price and the quantity of goods received by the customer. The Company did not identify any significant financing component in its contracts nor did it incur any significant incremental cost of obtaining a contract.

'Adjustment to gas sales due to hedging transactions' presents the effective portion of the hedge under cash flow hedge accounting. The Company uses a net open position basis for hedging. In line with the adopted methodology and given the level of sales generated in Poland in relation to sales generated outside Poland, the Company discloses the aggregate effect of adjustment to gas sales due to hedging transactions as adjustment to revenue earned in Poland.

Operating expenses

	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Cost of gas sold	(10,955)	(9,938)
Gas fuel	(10,956)	(9,949)
Net gain/(loss) on gas price hedges	1	11
Other raw materials and consumables used	(1,349)	(892)
Electricity for trading	(1,265)	(814)
Other raw materials and consumables used	(84)	(78)
Employee benefits expense	(492)	(465)
Salaries and wages	(375)	(347)
Social security contributions	(90)	(85)
Other employee benefits expense	(46)	(43)
Employee benefit obligations	19	10
Transmission, distribution and storage services	(715)	(728)
Other services	(754)	(1,084)
Regasification services	(273)	(273)
Cost of dry wells written off	(113)	(531)
Repair and construction services	(42)	(28)
Geological and exploration services	(39)	(30)
Mineral resources production services	(17)	(16)
Well abandonment services	(18)	(11)
Other services	(252)	(195)
Depreciation and amortisation	(627)	(589)
Depreciation of non-leased assets	(615)	(589)
Depreciation of leased assets	(12)	N/A
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	(184)	460
Impairment losses on property, plant and equipment and rights-of-use assets	(177)	460
Impairment losses on intangible assets	(7)	-
Total	(15,076)	(13,236)

Other income and expenses

	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Measurement and exercise of derivative financial instruments	81	(79)
Change in inventory write-downs	66	14
Change in provision for well decommissioning costs	14	(7)
Change in provision for certificates of origin and energy efficiency certificates	(11)	(26)
Cost of merchandise and materials sold	(27)	(26)
Change in provision for UOKiK fine	(6)	-
Change in provision for claims under extra-contractual use of land	-	1
Change in other provisions	(2)	(25)
Other	(53)	(20)
Total other income and expenses	62	(168)

Finance income and costs

	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Finance income		
Foreign exchange gains	18	60
Fair value measurement of a loan	-	22
Gain on modification of financial assets	91	2
Other finance income	7	18
Total finance income	116	102
Finance costs		
Loss on measurement and exercise of forward contracts	(16)	(58)
Interest on debt, excluding leases, and commissions on debt	(34)	(28)
Interest on lease liabilities	(7)	N/A
Other	(5)	(2)
Total finance costs	(62)	(88)

Income tax

Reconciliation of effective tax rate	9 months ended Sep 30 2019	9 months ended Sep 30 2018
Profit before tax	2,004	3,258
Corporate income tax at the applicable 19% statutory rate	(381)	(619)
Dividends received	255	328
Other income not recognised as taxable income	22	87
Non-tax deductible expenses	(33)	(99)
Corporate income tax at the effective tax rate	(137)	(303)
Current tax expense	(74)	(271)
Deferred tax expense	(63)	(32)
Effective tax rate	7%	9%

Property, plant and equipment

	As at Sep 30 2019	As at Dec 31 2018
Land	19	38
Buildings and structures	6,992	7,130
Plant and equipment	2,189	2,306
Vehicles and other	99	104
Total tangible assets	9,299	9,578
Tangible exploration and evaluation assets under construction	2,314	1,974
Other tangible assets under construction	590	564
Total tangible assets under construction	2,904	2,538
Right-of-use asset – land	298	N/A
Right-of-use asset – buildings and structures	10	N/A
Right-of-use asset – machinery and equipment	4	N/A
Right-of-use asset – vehicles	12	N/A
Total right-of-use assets	324	N/A
Total property, plant and equipment	12,527	12,116

Hedge accounting

Type of hedging instrument	Notional amount	Carrying amount as at Sep 30 2019		Name of statement of financial position item 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	Statement of comprehensive income (statement of profit or loss) item in which ineffectiveness amount is included	Amount reclassified from cash flow hedging reserve to profit or loss as reclassification adjustment	Statement of comprehensive income (statement of profit or loss) item in which reclassification adjustment is included
		Assets	Liabilities							
CASH FLOW HEDGES										
CURRENCY RISK										
Forward contracts for currency purchase (USD/PLN)	3,195	211	-	Derivative financial instruments	211	246	-	Operating income / expenses	Not applicable	Not applicable
Forward contracts to purchase USD for EUR (EUR/USD)	196	5	-	Derivative financial instruments	5	5	-	Operating income / expenses	-	Revenue from sale of gas
Average rate forwards (EUR/PLN)	5,241	21	24	Derivative financial instruments	50	(5)	-	Operating income / expenses	9	Revenue from sale of gas
COMMODITY PRICE RISK										
Basis swap contracts for gas price indices	181	70	7	Derivative financial instruments	63	211	-	Operating income / expenses	(173)	Revenue from sale of gas
Swap contracts for gas price indices	2,381	232	74	Derivative financial instruments	640	371	(1)	Operating income / expenses	(219)	Revenue from sale of gas
Swap contracts for HH price indices	144	-	9	Derivative financial instruments	(20)	(8)	(1)	Operating income / expenses	Not applicable	Not applicable
Total	11,338	539	114	-	949	820	(2)	-	(383)	-
CASH FLOW HEDGES										
CURRENCY RISK										
Forward contracts for currency purchase (USD)	3,678	216	1	Derivative financial instruments	215	418	-	Operating income / expenses	Not applicable	Not applicable
Average rate forwards (EUR)	7,707	50	18	Derivative financial instruments	26	29	-	Operating income / expenses	(3)	Revenue from sale of gas
COMMODITY PRICE RISK										
Basis swap contracts for gas price indices	208	34	9	Derivative financial instruments	26	(192)	-	Operating income / expenses	217	Revenue from sale of gas
Swap contracts for gas price indices	3,081	90	330	Derivative financial instruments	(189)	(359)	(10)	Operating income / expenses	164	Revenue from sale of gas
Swap contracts for petroleum product price indices	-	-	-	Derivative financial instruments	-	28	-	Operating income / expenses	Not applicable	Not applicable
FAIR VALUE HEDGES										
Total	14,674	390	358	-	78	(76)	(10)	-	378	-

Hedged items as at Sep 30 2019	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			
Natural gas (USD/PLN)	(211)	211	-
Natural gas (EUR/USD)	(5)	5	-
Natural gas (EUR/PLN)	(50)	14	17
COMMODITY PRICE RISK			
Gas contracts indexed to monthly gas price indices	(63)	63	1
Gas contracts indexed to daily gas price indices	(716)	37	120
Gas contracts indexed to monthly petroleum product indices	23	(20)	-
TOTAL	(1,022)	310	138

Hedged items as at Dec 31 2018	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			
Natural gas (USD)	215	215	Not applicable
Natural gas (EUR)	(26)	31	(5)
COMMODITY PRICE RISK			
Gas contracts indexed to monthly gas price indices	(26)	25	1
Gas contracts indexed to daily gas price indices	179	(182)	2
Gas contracts indexed to monthly petroleum product indices	Not applicable	Not applicable	Not applicable
TOTAL	342	89	(2)

	As at Sep 30 2019	As at Dec 31 2018
At beginning of period	89	8
CURRENCY RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	246	448
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	9	(3)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(250)	(194)
COMMODITY PRICE RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	574	(523)
Part of loss taken to statement of profit or loss as hedged item was not expected to occur	-	(1)
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	(392)	381
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	173	(11)
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	(1)	(16)
At end of period	448	89

PGNiG Management Board:

President of the
Management Board

Piotr Woźniak

.....

Vice President of the
Management Board

Łukasz Kroplewski

.....

Vice President of the
Management Board

Robert Perkowski

.....

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, November 12th 2019

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