PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR Q3 ENDED SEPTEMBER 30TH 2016

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Quarterly Report QSr III / 2016

quarter / year

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

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

for the third quarter of the 2016 financial year, covering the period from **January 1st** to **September 30th 2016**, containing interim condensed consolidated financial statements prepared in accordance with International Financial Reporting Standards in the Polish zloty (PLN), and interim condensed separate financial statements prepared in accordance with International Financial Reporting Standards in the Polish zloty (PLN).

November 9th 2016
(filing date)

POLSKIE GÓRNICTWO NAFTOWE i GAZOWNICTWO SPÓŁKA AKCYJNA
(company name)

PGNiG (abbreviated name)	**Fuels industry (pal)** (sector according to the WSE classification)
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525–000–80–28 (NIP)	**012216736** (REGON – Industry Identification Number)

FINANCIAL HIGHLIGHTS

Interim condensed consolidated financial data	PLNm		EURm	
	9 months ended Sep 30 2016	9 months ended Sep 30 2015	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Revenue	23,050	26,695	5,276	6,419
Operating profit/(loss)	2,313	3,236	529	778
Profit/(loss) before tax	2,240	3,031	513	729
Net profit/(loss) attributable to owners of the parent	1,629	2,155	373	518
Net profit/(loss)	1,628	2,157	373	519
Comprehensive income attributable to owners of the parent	1,988	2,042	455	491
Total comprehensive income	1,987	2,044	455	492
Net cash (used in)/generated by operating activities	4,152	4,915	950	1,182
Net cash (used in)/generated by investing activities	(2,880)	(2,291)	(659)	(551)
Net cash (used in)/generated by financing activities	(1,949)	(795)	(446)	(191)
Net increase/(decrease) in cash and cash equivalents	(677)	1,829	(155)	440
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (in PLN and EUR)	0.28	0.37	0.06	0.09
	As at Sep 30 2016	As at Dec 31 2015	As at Sep 30 2016	As at Dec 31 2015
Total assets	48,823	49,825	11,323	11,692
Total liabilities	17,657	19,084	4,095	4,478
Total non-current liabilities	8,418	12,795	1,952	3,002
Total current liabilities	9,239	6,289	2,143	1,476
Total equity	31,166	30,741	7,228	7,214
Share capital	5,900	5,900	1,368	1,384
Weighted average number of shares (million)	5,900	5,900	5,900	5,900
Book value per share and diluted book value per share (in PLN and EUR)	5.28	5.21	1.23	1.22
Dividend per share declared or paid (in PLN and EUR)	0.18	0.20	0.04	0.05

Interim condensed separate financial data	PLNm		EURm	
	9 months ended Sep 30 2016	9 months ended Sep 30 2015	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Revenue	11,996	13,399	2,746	3,222
Operating profit/(loss)	711	1,134	163	273
Profit/(loss) before tax	2,284	1,985	523	477
Net profit/(loss)	2,127	1,763	487	424
Total comprehensive income	2,487	1,661	569	399
Net cash (used in)/generated by operating activities	687	173	157	42
Net cash (used in)/generated by investing activities	110	2,558	25	615
Net cash (used in)/generated by financing activities	(1,990)	(1,595)	(456)	(384)
Net increase/(decrease) in cash and cash equivalents	(1,193)	1,136	(273)	273
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares (in PLN and EUR)	0.36	0.30	0.08	0.07
	As at Sep 30 2016	As at Dec 31 2015	As at Sep 30 2016	As at Dec 31 2015
Total assets	34,933	35,027	8,102	8,219
Total liabilities	10,270	11,289	2,382	2,649
Total non-current liabilities	2,587	7,205	600	1,691
Total current liabilities	7,683	4,084	1,782	958
Equity	24,663	23,738	5,720	5,570
Share capital	5,900	5,900	1,368	1,384
Weighted average number of shares (million)	5,900	5,900	5,900	5,900
Book value per share and diluted book value per share (in PLN and EUR)	4.18	4.02	0.97	0.94
Dividend per share declared or paid (in PLN and EUR)	0.18	0.20	0.04	0.05

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

Items of the statement of financial position were translated at the average EUR/PLN exchange rate quoted by the NBP at the end of a given period.

Average EUR/PLN exchange rates quoted by the NBP

	Sep 30 2016	Sep 30 2015	Dec 31 2015
Average exchange rate in period	4.3688	4.1585	4.1848
Exchange rate at end of period	4.3120	4.2386	4.2615

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I. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	3 months ended Sep 30 2016	9 months ended Sep 30 2016	3 months ended Sep 30 2015	9 months ended Sep 30 2015
		unaudited	unaudited	unaudited	unaudited
Revenue	**4**	**5,701**	**23,050**	**6,305**	**26,695**
Raw materials and consumables used	5.1	(3,281)	(14,537)	(3,770)	(17,494)
Employee benefits expense		(611)	(1,795)	(525)	(1,806)
Depreciation and amortisation		(619)	(1,956)	(686)	(2,073)
Services	5.2	(639)	(1,780)	(583)	(1,861)
Work performed by the entity and capitalised		202	526	206	641
Other income and expenses	5.3	(234)	(1,195)	(320)	(866)
Total operating expenses	**10**	**(5,182)**	**(20,737)**	**(5,678)**	**(23,459)**
Operating profit/(loss)		**519**	**2,313**	**627**	**3,236**
Finance income	6	20	156	9	59
Finance costs	6	(13)	(169)	(105)	(213)
Share in net profit/(loss) of equity-accounted entities		(19)	(60)	(51)	(51)
Profit/(loss) before tax		**507**	**2,240**	**480**	**3,031**
Income tax	7	(150)	(612)	(188)	(874)
Net profit/(loss)		**357**	**1,628**	**292**	**2,157**
Attributable to:					
Owners of the parent		358	1,629	291	2,155
Non-controlling interests		(1)	(1)	1	2
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (PLN)		0.06	0.28	0.05	0.37

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended Sep 30 2016	9 months ended Sep 30 2016	3 months ended Sep 30 2015	9 months ended Sep 30 2015
	unaudited	unaudited	unaudited	unaudited
Net profit/(loss)	**357**	**1,628**	**292**	**2,157**
Other comprehensive income that will be reclassified to profit or loss if specific conditions are met, relating to:	**47**	**367**	**(318)**	**(126)**
Exchange differences on translating foreign operations	-	5	(40)	(1)
Hedge accounting	59	448	(343)	(154)
Revaluation of financial assets available for sale	(1)	(1)	-	-
Deferred tax	(11)	(85)	65	29
Other comprehensive income that will not be reclassified to profit or loss, relating to:	**7**	**(8)**	**1**	**13**
Actuarial gains/(losses) on employee benefits	9	(10)	6	21
Deferred tax	(2)	2	(5)	(8)
Other comprehensive income, net	**54**	**359**	**(317)**	**(113)**
Total comprehensive income	**411**	**1,987**	**(25)**	**2,044**
Attributable to:				
Owners of the parent	412	1,988	(26)	2,042
Non-controlling interests	(1)	(1)	1	2

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at Sep 30 2016	As at Dec 31 2015
		unaudited	audited
ASSETS			
Non-current assets			
Property, plant and equipment	8	33,209	32,967
Investment property		11	12
Intangible assets		1,041	1,138
Investments in equity-accounted entities		1,142	840
Other financial assets		309	275
Deferred tax assets	1	1,310	1,575
Other non-current assets		146	152
Total non-current assets		**37,168**	**36,959**
Current assets			
Inventories		2,891	2,229
Trade and other receivables		2,264	3,372
Current tax assets		28	7
Other assets		302	146
Derivative financial instrument assets	9	455	709
Cash and cash equivalents		5,553	6,239
Assets held for sale		162	164
Total current assets		**11,655**	**12,866**
Total assets		**48,823**	**49,825**
EQUITY AND LIABILITIES			
Equity			
Share capital		5,900	5,900
Share premium		1,740	1,740
Treasury shares		(500)	-
Accumulated other comprehensive income		(278)	(637)
Retained earnings/(deficit)		24,300	23,733
Equity attributable to owners of the parent		**31,162**	**30,736**
Equity attributable to non-controlling interests		4	5
Total equity		**31,166**	**30,741**
Non-current liabilities			
Borrowings and other debt instruments		1,383	5,799
Employee benefit obligations		653	565
Provisions	3	1,757	1,728
Deferred revenue		1,466	1,511
Deferred tax liabilities	1	3,100	3,090
Other non-current liabilities		59	102
Total non-current liabilities		**8,418**	**12,795**
Current liabilities			
Trade and other payables		2,481	3,288
Borrowings and other debt instruments		5,021	583
Derivative financial instrument liabilities	9	552	1,165
Current tax liabilities		85	53
Employee benefit obligations		364	352
Provisions	3	579	694
Deferred revenue		157	154
Total current liabilities		**9,239**	**6,289**
Total liabilities		**17,657**	**19,084**
Total equity and liabilities		**48,823**	**49,825**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
	unaudited	unaudited
Cash flows from operating activities		
Net profit/(loss)	1,628	2,157
Adjustments:		
Share in net profit/(loss) of equity-accounted entities	60	51
Depreciation and amortisation	1,956	2,073
Net foreign exchange gains/(losses)	33	11
Net interest and dividend	127	89
Gain/(loss) on investing activities	728	145
Current tax expense	612	874
Other items, net	(150)	284
Income tax paid	(456)	(678)
Cash flows from operating activities before movements in working capital	**4,538**	**5,006**
Movements in working capital:		
Change in receivables	1,242	1,408
Change in inventories	(645)	(313)
Change in employee benefit obligations	68	(37)
Change in provisions	(112)	(124)
Change in current liabilities	(718)	(729)
Change in other assets	(146)	(170)
Change in deferred revenue	(75)	(126)
Net cash (used in)/generated by operating activities	**4,152**	**4,915**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment and intangible assets	27	48
Proceeds from disposal of shares in non-related entities	4	-
Payments for property, plant and equipment and intangible assets	(2,121)	(2,290)
Payments for shares in related entities	(923)	(57)
Payments for shares in other entities	(31)	-
Dividends received	-	2
Other items, net	164	6
Net cash (used in)/generated by investing activities	**(2,880)**	**(2,291)**
Cash flows from financing activities		
Payments for treasury shares	(500)	-
Proceeds from borrowings	184	1,547
Proceeds from issue of debt securities	160	199
Repayment of borrowings	(399)	(808)
Repayment of debt securities	(170)	(390)
Payment of finance lease liabilities	(30)	(29)
Proceeds from derivative financial instruments	89	84
Payment for derivative financial instruments	(58)	(61)
Dividends paid	(1,062)	(1,180)
Interest paid	(163)	(156)
Other items, net	-	(1)
Net cash (used in)/generated by financing activities	**(1,949)**	**(795)**
Net increase/(decrease) in cash and cash equivalents	**(677)**	**1,829**
Effects of exchange rate changes on the balance of cash held in foreign currencies	(9)	3
Cash and cash equivalents at beginning of period	**6,238**	**2,956**
Cash and cash equivalents at end of period	**5,561**	**4,785**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity (attributable to owners of the parent)									Equity (attributable to non-controlling interests)	Total equity
				Accumulated other comprehensive income, including:							
	Share capital	Share premium	Treasury shares	Exchange differences on translating foreign operations	Hedging reserve	Revaluation of financial assets available for sale	Actuarial gains/(losses) on employee benefits	Retained earnings/ (deficit)	**Total**		
As at Jan 1 2016 (audited)	**5,900**	**1,740**	**-**	**(51)**	**(565)**	**-**	**(21)**	**23,733**	**30,736**	**5**	**30,741**
Dividend	-	-	-	-	-	-	-	(1,062)	**(1,062)**	-	**(1,062)**
Acquisition of treasury shares	-	-	(500)	-	-	-	-	-	**(500)**	-	**(500)**
Total comprehensive income	**-**	**-**	**-**	**5**	**363**	**(1)**	**(8)**	**1,629**	**1,988**	**(1)**	**1,987**
Net profit/(loss)	-	-	-	-	-	-	-	1,629	**1,629**	(1)	**1,628**
Other comprehensive income, net	-	-	-	5	363	(1)	(8)	-	**359**	-	**359**
As at Sep 30 2016 (unaudited)	**5,900**	**1,740**	**(500)**	**(46)**	**(202)**	**(1)**	**(29)**	**24,300**	**31,162**	**4**	**31,166**
As at Jan 1 2015 (audited)	**5,900**	**1,740**	**-**	**(66)**	**(216)**	**-**	**12**	**22,794**	**30,164**	**5**	**30,169**
Dividend	-	-	-	-	-	-	-	(1,180)	**(1,180)**	-	**(1,180)**
Purchase of shares from non-controlling interests	-	-	-	-	-	-	-	-	**-**	(2)	**(2)**
Changes in the Group – deconsolidation	-	-	-	-	-	-	-	(15)	**(15)**	-	**(15)**
Total comprehensive income	**-**	**-**	**-**	**(1)**	**(125)**	**-**	**13**	**2,155**	**2,042**	**2**	**2,044**
Net profit/(loss)	-	-	-	-	-	-	-	2,155	**2,155**	2	**2,157**
Other comprehensive income, net	-	-	-	(1)	(125)	-	13	-	**(113)**	-	**(113)**
As at Sep 30 2015 (unaudited)	**5,900**	**1,740**	**-**	**(67)**	**(341)**	**-**	**25**	**23,754**	**31,011**	**5**	**31,016**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Deferred tax

	Deferred tax assets	Deferred tax liabilities
As at Jan 1 2016	**1,575**	**3,090**
Increase	22	86
Decrease	(336)	(175)
Exchange differences on translating deferred tax attributable to foreign operations	38	96
Changes in the Group	11	3
As at Sep 30 2016	**1,310**	**3,100**
As at Jan 1 2015	**1,783**	**3,250**
Increase	248	152
Decrease	(379)	(184)
Exchange differences on translating deferred tax attributable to foreign operations	(38)	(75)
Tax relating to investment tax credit (Norway)	-	(14)
Reclassification of deferred tax assets and liabilities	(39)	(39)
As at Dec 31 2015	**1,575**	**3,090**

2. Impairment losses/write-downs

	Property, plant and equipment	Intangible assets	Assets held for sale	Other financial assets	Investments in equity-accounted entities	Inventories	Current receivables	Current portion of non-current loans	Other current assets	**Total**
As at Jan 1 2016	**2,942**	**74**	**22**	**34**	**813**	**309**	**742**	**48**	**1**	**4,985**
Increase	975	6	-	-	15	81	341	2	-	**1,420**
Used/reversed	(299)	(1)	-	-	-	(261)	(378)	-	-	**(939)**
Currency translation differences	(3)	-	-	-	-	-	-	-	-	**(3)**
Changes in the Group	21	-	-	-	-	-	3	-	-	**24**
As at Sep 30 2016	**3,636**	**79**	**22**	**34**	**828**	**129**	**708**	**50**	**1**	**5,487**
As at Jan 1 2015	**2,406**	**57**	**8**	**42**	**725**	**113**	**786**	**39**	**1**	**4,177**
Increase	1,053	27	1	1	88	269	242	9	-	**1,690**
Transfers	(6)	(2)	16	(8)	-	-	-	-	-	**-**
Used/reversed	(546)	(12)	(3)	(1)	-	(73)	(285)	-	-	**(920)**
Currency translation differences	35	4	-	-	-	-	(1)	-	-	**38**
As at Dec 31 2015	**2,942**	**74**	**22**	**34**	**813**	**309**	**742**	**48**	**1**	**4,985**

3. Provisions

	Provision for well decommissioning costs	Provision for UOKiK fine	Provision for environmental liabilities	Provision for claims under extra-contractual use of land	Provision for liabilities associated with exploration work abroad	Provision for certificates of origin and energy efficiency certificates	Other provisions	**Total**
As at Jan 1 2016	**1,573**	**65**	**98**	**46**	**182**	**215**	**243**	**2,422**
Increase	36	-	1	6	-	105	73	**221**
Used/reversed	(20)	-	(16)	(17)	(2)	(221)	(62)	**(338)**
Currency translation differences	23	-	-	-	-	-	-	**23**
Changes in the Group	-	-	-	-	-	-	8	**8**
As at Sep 30 2016	**1,612**	**65**	**83**	**35**	**180**	**99**	**262**	**2,336**
As at Jan 1 2015	**1,608**	**60**	**94**	**87**	**164**	**228**	**282**	**2,523**
Increase	193	11	4	18	18	214	71	**529**
Used/reversed	(210)	(6)	-	(59)	-	(227)	(111)	**(613)**
Currency translation differences	(18)	-	-	-	-	-	1	**(17)**
As at Dec 31 2015	**1,573**	**65**	**98**	**46**	**182**	**215**	**243**	**2,422**

4. Revenue

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
High-methane gas	17,310	21,096
Nitrogen-rich gas	968	1,048
LNG	170	27
Crude oil and natural gasoline	1,091	1,510
Helium	54	55
NGL	61	64
Electricity	1,276	1,095
Heat	804	738
Geophysical and geological services	129	77
Drilling and well services	149	186
Construction and installation services	66	109
Distribution services	528	206
Connection charge	81	78
Other sales	363	406
Total	**23,050**	**26,695**

5. Operating expenses

5.1. Raw materials and consumables used

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Cost of gas sold	(12,873)	(15,915)
Fuels for electricity and heat generation	(456)	(469)
Electricity for trading	(843)	(670)
Other raw materials and consumables used	(365)	(440)
Total	**(14,537)**	**(17,494)**

5.2. Services

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Transmission services	(774)	(795)
Cost of written-off exploration and evaluation assets	(82)	(202)
Repair and construction services	(136)	(146)
Mineral resources production services	(129)	(129)
Rental services	(65)	(61)
Other services	(594)	(528)
Total	**(1,780)**	**(1,861)**

5.3. Other income and expenses

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Compensations, penalties, fines received	48	22
Gain from bargain purchase	73	-
Other income	134	108
Net exchange differences related to operating activities	107	(75)
Net gain/(loss) on derivative instruments related to operating activities	(117)	28
Change in products	(7)	(53)
Change in impairment losses	(539)	(114)
Change in provisions	(58)	38
Taxes and charges	(633)	(546)
Other expenses	(203)	(274)
Total	**(1,195)**	**(866)**

6. Finance income and costs

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Finance income	**156**	**59**
Gain on measurement and realisation of derivative financial instruments	6	-
Interest income	79	56
Foreign exchange gains	69	-
Gain on disposal of investments	1	-
Dividends and other profit distributions	-	2
Other finance income	1	1
Finance costs	**(169)**	**(213)**
Loss on measurement and realisation of derivative financial instruments	-	(39)
Interest expense	(149)	(101)
Foreign exchange losses	-	(45)
Loss on disposal of investments	-	(4)
Commission fees paid on bank borrowings	(13)	(14)
Cost of guarantees	(2)	(2)
Other finance costs	(5)	(8)
Net finance income/(costs)	**(13)**	**(154)**

7. Income tax

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Profit/(loss) before tax	2,240	3,031
Tax rate applicable in period	19%	19%
Tax calculated at the applicable tax rate	(426)	(576)
Permanent differences between profit/(loss) before tax and taxable income and the difference in tax rates	(186)	(298)
Tax expense in the consolidated statement of profit or loss	**(612)**	**(874)**
Current tax expense	(469)	(530)
Deferred tax expense	(143)	(344)
Effective tax rate	27%	29%

In the current reporting period, certain PGNiG companies operated as part of the PGNiG Tax Group. In accordance with the agreement of February 24th 2014, the PGNiG Tax Group commenced its operations on April 1st 2014 and will discontinue them on December 31st 2016.

It comprises the following companies: PGNiG S.A. (as the Representative Company), PGNiG Obrót Detaliczny Sp. z o.o., PSG Sp. z o.o., PGNiG TERMIKA S.A., OSM Sp. z o.o., PGNiG SPV 5 Sp. z o.o., PGNiG SPV 6 Sp. z o.o. and PGNiG SPV 7 Sp. z o.o.

The other Group companies are separate CIT taxpayers.

On September 19th 2016, the PGNiG Group companies signed a new agreement to establish the PGNiG Tax Group for 2017–2020, which will replace the existing agreement. The PGNiG Tax Group for 2017−2020 will comprise the following companies: PGNiG S.A. (as the Representative Company), PGNiG Obrót Detaliczny Sp. z o.o., PSG Sp. z o.o., PGNiG TERMIKA S.A., OSM 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.

8. Property, plant and equipment by category

	As at Sep 30 2016	As at Dec 31 2015
Land	71	67
Buildings and structures	17,917	18,055
Plant and equipment	8,548	8,518
Vehicles and other	1,112	1,181
Total tangible assets	**27,648**	**27,821**
Tangible exploration and evaluation assets under construction	2,529	2,237
Other tangible assets under construction	3,032	2,909
Total property, plant and equipment	**33,209**	**32,967**

9. Derivative financial instruments

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

In the case of the Parent, all eligible transactions in the period January 1st–September 30th 2016 were accounted for using cash flow or fair value hedge accounting. In the period, the Company was party to CCIRS transactions, entered into in previous periods. They are excluded from hedge accounting, as the valuation of both the hedged item and the hedge (the derivative transaction) is recognised in profit or loss, which produces the same effect as if hedge accounting was applied.

In Q3 2016, as part of its trading activity, the Parent entered into transactions within the approved limits. The volume of hedging transactions does not exceed the amount of the hedged items.

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

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

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Net gain/(loss) on valuation of derivative financial instruments – unrealised	(116)	13
Net gain/(loss) on valuation of derivative financial instruments – realised	(579)	(167)
Total net gain/(loss) on valuation of derivative financial instruments recognised in profit or loss	**(695)**	**(154)**
including:		
recognised in raw materials and consumables used	(584)	(143)
recognised in other income and expenses	(117)	28
recognised in finance income or costs	6	(39)
Net gain/(loss) on valuation of derivative financial instruments recognised in other comprehensive income -– unrealised	**448**	**(154)**
Total net gain/(loss) on valuation of derivative financial instruments – recognised in equity	**(247)**	**(308)**

The table below presents the Group companies' open derivative transactions as at September 30th 2016.

Hedged item	Nominal value of hedged item (m)	Currency / asset	Maturity date	Exercise price (exercise price range)	Exercise price (exercise price range) designation	Measurement at fair value As at Sep 30 2016	Measurement at fair value As at Dec 31 2015	Hedged risk
Cross Currency Interest Rate Swap								
Euronotes	500	EUR	3-12 months	4.1580	PLN (3M WIBOR)/ EUR (fixed rate)	137	159	currency exchange rate and interest rate
loan	2,318	NOK	3-12 months	0.5048	PLN (3M WIBOR)/ NOK (3M OIBOR)	38	-	currency exchange rate and interest rate
loan	2,940	NOK	1-3 years	0.5049	PLN (3M WIBOR)/ NOK (3M OIBOR)	-	144	currency exchange rate and interest rate
						175	**303**	
Interest Rate Swap								
loan	1,500	PLN	1-3 years	1	PLN (fixed rate)/ PLN (3M WIBOR)	(60)	(83)	interest rate
notes	143	PLN	0-12 months	1	PLN (fixed rate)/ PLN (6M WIBOR)	(1)	-	interest rate
						(61)	**(83)**	
Forward								
CO_2 emission allowances	19	EUR	1-3 months	4.4145	EUR/PLN	(2)	-	currency exchange rate
trading activities	4	electricity (MWh)	1-3 months	161.4682	PLN/MWh	12	-	price
trading activities	1	electricity (MWh)	1-3 months	163.0623	PLN/MWh	(10)	-	price
trading activities	4	electricity (MWh)	3-12 months	156.7496	PLN/MWh	3	-	price
trading activities	1	electricity (MWh)	3-12 months	155.9100	PLN/MWh	(2)	-	price
trading activities	2	electricity (MWh)	1-3 years	157.0143	PLN/MWh	1	-	price
trading activities	-	CO_2 emission allowances (mt)	1-3 months	26.9228	PLN/mt	18	-	price
trading activities	-	CO_2 emission allowances (mt)	1-3 months	21.7882	PLN/mt	(4)	-	price

trading activities	-	gas OTC (MWh)	more than 3 years	15.8800	EUR/MWh	(3)	-	price
trading activities	2	gas OTC (MWh)	1-3 years	17.2700	EUR/MWh	(70)	-	price
trading activities	3	gas OTC (MWh)	6-12 months	16.4700	EUR/MWh	(23)	-	price
trading activities	2	gas OTC (MWh)	3-6 months	18.4800	EUR/MWh	(29)	-	price
trading activities	1	gas OTC (MWh)	1-3 months	12.7800	EUR/MWh	(4)	-	price
trading activities	-	gas OTC (MWh)	more than 3 years	15.7800	EUR/MWh	2	-	price
trading activities	3	gas OTC (MWh)	1-3 years	17.4900	EUR/MWh	77	-	price
trading activities	2	gas OTC (MWh)	6-12 months	16.2100	EUR/MWh	19	-	price
trading activities	2	gas OTC (MWh)	3-6 months	19.0800	EUR/MWh	35	-	price
trading activities	1	gas OTC (MWh)	1-3 months	13.9100	EUR/MWh	7	-	price
trading activities	-	electricity OTC (MWh)	more than 3 years	25.6000	EUR/MWh	(2)	-	price
trading activities	-	electricity OTC (MWh)	1-3 years	28.0500	EUR/MWh	(15)	-	price
trading activities	-	electricity OTC (MWh)	6-12 months	25.5600	EUR/MWh	(5)	-	price
trading activities	0.22	electricity OTC (MWh)	3-6 months	32.4100	EUR/MWh	(5)	-	price
trading activities	0.03	electricity OTC (MWh)	1-3 months	27.3700	EUR/MWh	(1)	-	price
trading activities	-	electricity OTC (MWh)	more than 3 years	25.0400	EUR/MWh	1	-	price
trading activities	0.32	electricity OTC (MWh)	1-3 years	28.4600	EUR/MWh	18	-	price
trading activities	-	electricity OTC (MWh)	6-12 months	25.9600	EUR/MWh	1	-	price
trading activities	-	electricity OTC (MWh)	3-6 months	31.0000	EUR/MWh	6	-	price
trading activities	-	electricity OTC (MWh)	1-3 months	29.5500	EUR/MWh	1	-	price
CO_2 emission allowances	9	EUR	3-12 months	4.3849	EUR/PLN	-	(1)	currency exchange rate
payments for gas	40	USD	1-3 months	3.9530	USD/PLN	-	2	currency exchange rate
payments for gas	70	USD	3-12 months	3.7112	USD/PLN	-	14	currency exchange rate
trading activities	103	electricity (MWh)	1-3 months	157.9198	PLN/MWh	-	4	price
trading activities	510	electricity (MWh)	1-3 months	164.8958	PLN/MWh	-	(4)	price
trading activities	1,072	electricity (MWh)	3-12 months	164.7299	PLN/MWh	-	10	price
trading activities	395	electricity (MWh)	3-12 months	164.2402	PLN/MWh	-	(9)	price
trading activities	161	electricity (MWh)	1-3 years	164.1005	PLN/MWh	-	5	price
trading activities	230	electricity (MWh)	1-3 years	165.9836	PLN/MWh	-	(5)	price
trading activities	0.15	gas OTC (MWh)	more than 3 years	15.6068	EUR/MWh	-	(1)	price
trading activities	7	gas OTC (MWh)	1-3 years	21.8953	EUR/MWh	-	(176)	price
trading activities	1	gas OTC (MWh)	6-12 months	17.9978	EUR/MWh	-	(16)	price
trading activities	2	gas OTC (MWh)	3-6 months	21.7167	EUR/MWh	-	(61)	price
trading activities	0.5	gas OTC (MWh)	1-3 months	16.2471	EUR/MWh	-	(3)	price
trading activities	7	gas OTC (MWh)	1-3 years	22.1167	EUR/MWh	-	197	price
trading activities	1	gas OTC (MWh)	6-12 months	19.3960	EUR/MWh	-	20	price
trading activities	2	gas OTC (MWh)	3-6 months	21.2013	EUR/MWh	-	57	price
trading activities	1	gas OTC (MWh)	1-3 months	16.8227	EUR/MWh	-	8	price
trading activities	1	electricity OTC (MWh)	1-3 years	33.5467	EUR/MWh	-	(18)	price
trading activities	0.03	electricity OTC (MWh)	3-6 months	36.4040	EUR/MWh	-	(1)	price

trading activities	1	electricity OTC (MWh)	1-3 years	33.8782	EUR/MWh	-	28	price
trading activities	0.04	electricity OTC (MWh)	6-12 months	30.7475	EUR/MWh	-	1	price
trading activities	0.05	electricity OTC (MWh)	3-6 months	36.4039	EUR/MWh	-	1	price
						26	**52**	
			Futures					
trading activities	0.01	CO_2 emission allowances (mt)	1-3 months	23.2926	PLN/mt	(11)	-	price
trading activities	0.02	gas – EEX AG (MWh)	3-6 months	20.9500	EUR/MWh	(1)	-	price
trading activities	0.16	gas – ICE ENDEX B.V. (MWh)	1-3 years	15.5000	EUR/MWh	(1)	-	price
trading activities	0.37	gas – ICE ENDEX B.V. (MWh)	6-12 months	17.0500	EUR/MWh	(3)	-	price
trading activities	0.41	gas – ICE ENDEX B.V. (MWh)	3-6 months	16.3700	EUR/MWh	(3)	-	price
trading activities	0.22	gas – ICE ENDEX B.V. (MWh)	1-3 years	15.7300	EUR/MWh	2	-	price
trading activities	0.41	gas – ICE ENDEX B.V. (MWh)	6-12 months	16.2200	EUR/MWh	2	-	price
trading activities	0.48	gas – ICE ENDEX B.V. (MWh)	3-6 months	15.8900	EUR/MWh	3	-	price
trading activities	-	gas – POWERNEXT SA (MWh)	more than 3 years	15.6900	EUR/MWh	1	-	price
trading activities	0.37	gas – POWERNEXT SA (MWh)	1-3 years	15.4600	EUR/MWh	4	-	price
trading activities	0.06	gas – POWERNEXT SA (MWh)	6-12 months	17.9500	EUR/MWh	1	-	price
trading activities	0.17	gas – POWERNEXT SA (MWh)	3-6 months	18.7300	EUR/MWh	3	-	price
trading activities	0.43	gas – POWERNEXT SA (MWh)	1-3 years	16.7100	EUR/MWh	(8)	-	price
trading activities	0.07	gas – POWERNEXT SA (MWh)	6-12 months	17.5600	EUR/MWh	(1)	-	price
trading activities	0.20	gas – POWERNEXT SA (MWh)	3-6 months	19.0600	EUR/MWh	(4)	-	price
trading activities	1	electricity – EEX AG (MWh)	1-3 years	26.1400	EUR/MWh	(22)	-	price
trading activities	0.11	electricity – EEX AG (MWh)	3-6 months	29.7600	EUR/MWh	(3)	-	price
trading activities	0.03	electricity – EEX AG (MWh)	1-3 months	30.7300	EUR/MWh	(1)	-	price
trading activities	1	electricity – EEX AG (MWh)	1-3 years	25.4500	EUR/MWh	24	-	price
trading activities	0.07	electricity – EEX AG (MWh)	6-12 months	25.9900	EUR/MWh	2	-	price
trading activities	0.12	electricity – EEX AG (MWh)	3-6 months	32.3700	EUR/MWh	2	-	price
trading activities	26	CO_2 emission allowances (t)	3-12 months	37.1285	PLN/t	-	1	price
trading activities	26	CO_2 emission allowances (t)	3-12 months	37.1413	PLN/t	-	(1)	price
trading activities	0.10	gas – EEX AG (MWh)	1-3 years	20.9545	EUR/MWh	-	(3)	price
trading activities	0.04	gas – EEX AG (MWh)	6-12 months	20.2500	EUR/MWh	-	(1)	price
trading activities	0.05	gas – EEX AG (MWh)	1-3 years	20.6333	EUR/MWh	-	1	price
trading activities	0.21	gas – ICE ENDEX B.V. (MWh)	1-3 years	19.2164	EUR/MWh	-	(3)	price
trading activities	1	gas – ICE ENDEX B.V. (MWh)	6-12 months	17.2111	EUR/MWh	-	(6)	price
trading activities	1	gas – ICE ENDEX B.V. (MWh)	3-6 months	19.3634	EUR/MWh	-	(16)	price
trading activities	0.09	gas – ICE ENDEX B.V. (MWh)	1-3 months	16.2659	EUR/MWh	-	(1)	price
trading activities	0.13	gas – ICE ENDEX B.V. (MWh)	1-3 years	19.0103	EUR/MWh	-	2	price
trading activities	1	gas – ICE ENDEX B.V. (MWh)	6-12 months	17.8396	EUR/MWh	-	7	price
trading activities	1	gas – ICE ENDEX B.V. (MWh)	3-6 months	19.7822	EUR/MWh	-	14	price
trading activities	0.07	gas – ICE ENDEX B.V. (MWh)	1-3 months	16.5040	EUR/MWh	-	1	price
trading activities	1	gas – POWERNEXT SA (MWh)	1-3 years	19.3753	EUR/MWh	-	11	price

trading activities	0.12	gas – POWERNEXT SA (MWh)	6-12 months	17.9809	EUR/MWh	-	2	price
trading activities	0.38	gas – POWERNEXT SA (MWh)	3-6 months	19.7383	EUR/MWh	-	8	price
trading activities	0.13	gas – POWERNEXT SA (MWh)	1-3 months	16.1546	EUR/MWh	-	1	price
trading activities	1	gas – POWERNEXT SA (MWh)	1-3 years	19.8459	EUR/MWh	-	(19)	price
trading activities	0.07	gas – POWERNEXT SA (MWh)	6-12 months	18.2438	EUR/MWh	-	(1)	price
trading activities	0.39	gas – POWERNEXT SA (MWh)	3-6 months	20.5228	EUR/MWh	-	(9)	price
trading activities	0.12	gas – POWERNEXT SA (MWh)	1-3 months	16.4669	EUR/MWh	-	(1)	price
trading activities	1	electricity – EEX AG (MWh)	1-3 years	32.9545	EUR/MWh	-	(14)	price
trading activities	0.02	electricity – EEX AG (MWh)	3-6 months	38.2955	EUR/MWh	-	(1)	price
trading activities	0.23	electricity – EEX AG (MWh)	1-3 years	32.1423	EUR/MWh	-	4	price
						(14)	**(24)**	
			Call options					
payments for gas	12	EUR	1-3 months	4.5334	EUR/PLN	-	-	currency exchange rate
payments for gas	90	USD	1-3 months	4.0478	USD/PLN	1	-	currency exchange rate
payments for gas	70	USD	3-12 months	3.9757	USD/PLN	4	-	currency exchange rate
payments for gas	9	EUR	1-3 months	4.4600	EUR/PLN	-	-	currency exchange rate
payments for gas	36	EUR	3–12 months	4.5068	EUR/PLN	-	1	currency exchange rate
payments for gas	70	USD	1-3 months	3.8857	USD/PLN	-	5	currency exchange rate
payments for gas	40	USD	3-12 months	4.2350	USD/PLN	-	2	currency exchange rate
						5	**8**	
			Commodity call options					
payments for gas	1	TTF (MWh)	1-3 months	21.23	EUR/MWh	-	-	price
payments for gas	7	TTF (MWh)	3-12 months	16.66	EUR/MWh	15	-	price
payments for gas	1	TTF (MWh)	1-3 years	17.18	EUR/MWh	4	-	price
payments for gas	4	TTF (MWh)	1-3 months	21.07	EUR/MWh	-	-	price
payments for gas	3	TTF (MWh)	3-12 months	21.89	EUR/MWh	-	-	price
						19	**-**	
			Put commodity options					
payments for gas	0.17	TTF (MWh)	3-12 months	19.00	EUR/MWh	(4)	-	price

payments for gas	0.09	TTF (MWh)	1-3 years	19.00	EUR/MWh	(2)	-	price
payments for gas	0.26	TTF (MWh)	1-3 years	19.00	EUR/MWh	-	(6)	price
						(6)	**(6)**	
			Commodity swap					
payments for gas	0.2	TTF (MWh)	1-3 months	14.44	EUR/MWh	1	-	price
payments for gas	5	TTF (MWh)	1-3 months	20.47	EUR/MWh	(130)	-	price
payments for gas	0.5	TTF (MWh)	3-12 months	14.56	EUR/MWh	3	-	price
payments for gas	6	TTF (MWh)	3-12 months	19.08	EUR/MWh	(97)	-	price
payments for gas	1	TTF (MWh)	1-3 years	14.29	EUR/MWh	5	-	price
payments for gas	2	TTF (MWh)	1-3 years	19.13	EUR/MWh	(23)	-	price
payments for gas	8	TTF (MWh)	1-3 months	20.49	EUR/MWh	-	(161)	price
payments for gas	15	TTF (MWh)	3-12 months	20.56	EUR/MWh	-	(358)	price
payments for gas	8	TTF (MWh)	1-3 years	19.00	EUR/MWh	-	(110)	price
payments for gas	0.11	FO (MT)	1-3 months	312.77	USD/MT	-	(39)	price
payments for gas	0.04	FO (MT)	3-12 months	315.70	USD/MT	-	(20)	price
payments for gas	0.02	GO (MT)	1-3 months	552.13	USD/MT	-	(10)	price
payments for gas	0.02	GO (MT)	3-12 months	516.27	USD/MT	-	(8)	price
						(241)	**(706)**	
				Total		**(97)**	**(456)**	
		including:	- positive valuation (assets)			**455**	**709**	
			- negative valuation (liabilities)			(552)	(1,165)	

GO – Gasoil
FO – Fuel Oil
TTF – Natural Gas at the Title Transfer Facility
mt - megatonne
MT - metric ton

10. Financial information by operating segments

The type of conducted activities is the basic criterion for the division of the PGNiG Group into operating segments. The tables below present selected data of the Group's individual reporting segments for the periods ended September 30th 2016 and September 30th 2015.

Period ended Sep 30 2016	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Statement of profit or loss							
Sales to external customers	1,981	19,376	677	913	103	-	23,050
Inter-segment sales	1,114	233	2,822	526	82	(4,777)	-
Segment's total revenue	3,095	19,609	3,499	1,439	185	(4,777)	23,050
Depreciation and amortisation	(811)	(189)	(687)	(259)	(10)	-	(1,956)
Other costs	(2,105)	(18,848)	(1,534)	(879)	(205)	4,790	(18,781)
Segment's total costs	(2,916)	(19,037)	(2,221)	(1,138)	(215)	4,790	(20,737)
Operating profit/(loss)	**179**	**572**	**1,278**	**301**	**(30)**	**13**	**2,313**
Net finance costs							(13)
Share in net profit/(loss) of equity-accounted entities	(60)	-	-	-	-	-	(60)
Profit/(loss) before tax							**2,240**
Income tax							(612)
Net profit/(loss)							**1,628**
STATEMENT OF FINANCIAL POSITION							
Segment's assets	14,291	17,120	14,103	5,197	290	(5,165)	45,836
Investments in equity-accounted entities	302	840	-	-	-	-	1,142
Unallocated assets							535
Deferred tax assets							1,310
Total assets							**48,823**
Total equity							31,166
Segment's liabilities	4,105	3,668	2,237	2,086	212	(4,795)	7,513
Unallocated liabilities							7,044
Deferred tax liabilities							3,100
Total equity and liabilities							**48,823**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(929)	(82)	(801)	(298)	(6)	(5)	**(2,121)**
Impairment losses on assets	(3,754)	(1,460)	(126)	(84)	(17)	1	**(5,440)**
Impairment losses on unallocated assets							**(47)**

Period ended Sep 30 2015	**Exploration and Production**	**Trade and Storage**	**Distribution**	**Generation**	**Other segments**	**Eliminations**	**Total**
Statement of profit or loss							
Sales to external customers	2,437	22,901	404	805	148	-	26,695
Inter-segment sales	1,275	219	3,020	465	102	(5,081)	-
Segment's total revenue	3,712	23,120	3,424	1,270	250	(5,081)	26,695
Depreciation and amortisation	(1,037)	(126)	(662)	(235)	(13)	-	(2,073)
Other costs	(1,403)	(22,362)	(1,610)	(853)	(232)	5,074	(21,386)
Segment's total costs	(2,440)	(22,488)	(2,272)	(1,088)	(245)	5,074	(23,459)
Operating profit/(loss)	**1,272**	**632**	**1,152**	**182**	**5**	**(7)**	**3,236**
Net finance costs							(154)
Share in net profit/(loss) of equity-accounted entities	-	(51)	-	-	-	-	(51)
Profit/(loss) before tax							**3,031**
Income tax							(874)
Net profit/(loss)							**2,157**
STATEMENT OF FINANCIAL POSITION							
Segment's assets	14,922	17,716	13,885	3,953	301	(4,857)	45,920
Investments in equity-accounted entities	-	840	-	-	-	-	840
Unallocated assets							619
Deferred tax assets							1,360
Total assets							**48,739**
Total equity							31,016
Segment's liabilities	3,680	3,945	2,285	1,946	146	(4,557)	7,445
Unallocated liabilities							7,176
Deferred tax liabilities							3,102
Total equity and liabilities							**48,739**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(1,116)	(120)	(853)	(230)	(5)	34	**(2,290)**
Impairment losses on assets	(2,543)	(1,624)	(117)	(33)	(18)	-	**(4,335)**
Impairment losses on unallocated assets							**(47)**

II. INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

CONDENSED SEPARATE STATEMENT OF PROFIT OR LOSS

	3 months ended Sep 30 2016	9 months ended Sep 30 2016	3 months ended Sep 30 2015	9 months ended Sep 30 2015
	unaudited	unaudited	unaudited	unaudited
Revenue	**3,132**	**11,996**	**3,176**	**13,399**
Raw materials and consumables used	(1,997)	(8,353)	(2,157)	(9,642)
Employee benefits expense	(132)	(462)	(151)	(432)
Depreciation and amortisation	(188)	(584)	(184)	(543)
Services	(437)	(1,213)	(401)	(1,324)
Work performed by the entity and capitalised	2	5	2	8
Other income and expenses	(114)	(678)	(186)	(332)
Total operating expenses	**(2,866)**	**(11,285)**	**(3,077)**	**(12,265)**
Operating profit/(loss)	**266**	**711**	**99**	**1,134**
Finance income	122	1,931	98	1,106
Finance costs	(184)	(358)	(124)	(255)
Profit/(loss) before tax	**204**	**2,284**	**73**	**1,985**
Income tax	(51)	(157)	(13)	(222)
Net profit/(loss)	**153**	**2,127**	**60**	**1,763**
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares (PLN)	0.03	0.36	0.01	0.30

CONDENSED SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	3 months ended Sep 30 2016	9 months ended Sep 30 2016	3 months ended Sep 30 2015	9 months ended Sep 30 2015
	unaudited	unaudited	unaudited	unaudited
Net profit/(loss)	**153**	**2,127**	**60**	**1,763**
Other comprehensive income that will be reclassified to profit or loss if specific conditions are met, relating to:	**48**	**363**	**(275)**	**(106)**
Exchange differences on translating foreign operations	-	-	3	19
Hedge accounting	59	448	(343)	(154)
Deferred tax	(11)	(85)	65	29
Other comprehensive income that will not be reclassified to profit or loss, relating to:	**-**	**(3)**	**-**	**4**
Actuarial gains/(losses) on employee benefits	-	(4)	-	5
Deferred tax	-	1	-	(1)
Other comprehensive income, net	**48**	**360**	**(275)**	**(102)**
Total comprehensive income	**201**	**2,487**	**(215)**	**1,661**

CONDENSED SEPARATE STATEMENT OF FINANCIAL POSITION

	As at Sep 30 2016 unaudited	As at Dec 31 2015 audited
ASSETS		
Non-current assets		
Property, plant and equipment	12,649	13,234
Investment property	1	-
Intangible assets	169	213
Shares	9,470	8,623
Other financial assets	3,297	3,321
Deferred tax assets	512	624
Other non-current assets	116	122
Total non-current assets	**26,214**	**26,137**
Current assets		
Inventories	2,258	1,638
Trade and other receivables	1,122	1,329
Other assets	55	18
Current financial assets	512	364
Derivative financial instrument assets	242	346
Cash and cash equivalents	4,525	5,190
Non-current assets held for sale	**5**	**5**
Total current assets	**8,719**	**8,890**
Total assets	**34,933**	**35,027**
EQUITY AND LIABILITIES		
Equity		
Share capital	5,900	5,900
Share premium	1,740	1,740
Treasury shares	(500)	-
Accumulated other comprehensive income	(158)	(518)
Retained earnings/(deficit)	17,681	16,616
Total equity	**24,663**	**23,738**
Non-current liabilities		
Borrowings and other debt instruments	-	4,513
Employee benefit obligations	199	159
Provisions	1,308	1,303
Deferred revenue	603	641
Deferred tax liabilities	454	538
Other non-current liabilities	23	51
Total non-current liabilities	**2,587**	**7,205**
Current liabilities		
Trade and other payables	2,088	2,209
Borrowings and other debt instruments	4,730	469
Derivative financial instrument liabilities	346	814
Current tax liabilities	70	50
Employee benefit obligations	88	110
Provisions	321	396
Deferred revenue	40	36
Total current liabilities	**7,683**	**4,084**
Total liabilities	**10,270**	**11,289**
Total equity and liabilities	**34,933**	**35,027**

CONDENSED SEPARATE STATEMENT OF CASH FLOWS

	9 months ended Sep 30 2016 unaudited	9 months ended Sep 30 2015 unaudited
Cash flows from operating activities		
Net profit/(loss)	2,127	1,763
Adjustments:		
Depreciation and amortisation	584	543
Net foreign exchange gains/(losses)	(70)	(6)
Net interest and dividend	(1,633)	(861)
Gain/(loss) on investing activities	774	156
Current tax expense	157	222
Other items, net	172	1
Income tax paid	(207)	(268)
Cash flows from operating activities before movements in working capital	**1,904**	**1,550**
Movements in working capital:		
Change in receivables	61	(102)
Change in inventories	(621)	(400)
Change in employee benefit obligations	18	16
Change in provisions	(88)	(92)
Change in current liabilities	(544)	(747)
Change in other assets	(34)	(32)
Change in deferred revenue	(9)	(20)
Net cash (used in)/generated by operating activities	**687**	**173**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment and intangible assets	8	10
Proceeds from disposal of shares in related entities	4	-
Proceeds from disposal of short-term securities	-	989
Purchase of property, plant and equipment and intangible assets	(247)	(177)
Payments for tangible exploration and evaluation assets under construction	(429)	(747)
Payments for shares in related entities	(906)	(59)
Repayment of loans advanced	422	2,009
Loans advanced	(343)	(414)
Proceeds from derivative financial instruments	80	156
Payment for derivative financial instruments	(94)	(147)
Interest received	12	103
Dividends received	1,629	834
Proceeds from finance leases	12	12
Other items, net	(38)	(11)
Net cash (used in)/generated by investing activities	**110**	**2,558**
Cash flows from financing activities		
Payments for treasury shares	(500)	-
Proceeds from issue of debt securities	-	180
Repayment of debt securities	(309)	(474)
Proceeds from derivative financial instruments	89	84
Payment for derivative financial instruments	(58)	(61)
Dividends paid	(1,062)	(1,180)
Interest paid	(153)	(148)
Other items, net	3	4
Net cash (used in)/generated by financing activities	**(1,990)**	**(1,595)**
Net increase/(decrease) in cash and cash equivalents	**(1,193)**	**1,136**
Cash and cash equivalents at beginning of period	**4,839**	**1,673**
Cash and cash equivalents at end of period	**3,646**	**2,809**

On July 16th 2014, a cash pooling agreement was executed for an indefinite term between Bank Pekao S.A. and the companies of the PGNiG Group. The objective of the agreement is to manage the Group's current liquidity.

As at September 30th 2016, the following companies participated in the cash pooling agreement, with subsequent annexes: PGNiG S.A., Polska Spółka Gazownictwa Sp. z o.o., Exalo Driling S.A., PGNiG Technologie S.A., GEOFIZYKA Kraków S.A. w likwidacji (in liquidation), GEOFIZYKA Toruń S.A., Operator Systemu Magazynowego Sp. z o.o., PGNiG Serwis Sp. z o.o., PGNiG TERMIKA S.A., PGNiG Obrót Detaliczny Sp. z o.o. and Geovita S.A.

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

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

Reconciliation of cash and cash equivalents as presented in the statement of cash flows with cash and cash equivalents as presented in the statement of financial position.

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Cash and cash equivalents at end of period in the statement of cash flows	**3,646**	**2,809**
Opening balance of net foreign exchange gains/(losses)	1	1
Opening balance of inflows/outflows of cash under cash pooling arrangement	350	268
Net foreign exchange differences for the reporting period	(9)	5
Inflows/(outflows) of cash under cash pooling arrangement in the reporting period	537	1,137
Cash and cash equivalents at end of period in the statement of financial position	**4,525**	**4,220**

CONDENSED SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Treasury shares	Accumulated other comprehensive income, including:			Retained earnings/(deficit)	**Total equity**
				Exchange differences on translating foreign operations	Hedging reserve	Actuarial gains/(losses) on employee benefits		
As at Jan 1 2016 (audited)	**5,900**	**1,740**	**-**	**41**	**(564)**	**4**	**16,616**	**23,738**
Dividend	-	-	-	-	-	-	(1,062)	**(1,062)**
Acquisition of treasury shares	-	-	(500)	-	-	-	-	**(500)**
Total comprehensive income	**-**	**-**	-	**-**	**363**	**(3)**	**2,127**	**2,487**
Net profit/(loss) for Q3 2016	-	-	-	-	-	-	2,127	**2,127**
Other comprehensive income, net, for Q3 2016	-	-	-	-	363	(3)	-	**360**
As at Sep 30 2016 (unaudited)	**5,900**	**1,740**	**(500)**	**41**	**(201)**	**1**	**17,681**	**24,663**
As at Jan 1 2015 (audited)	**5,900**	**1,740**	**-**	**16**	**(215)**	**13**	**16,325**	**23,780**
Dividend	-	-	-	-	-	-	(1,180)	**(1,180)**
Total comprehensive income	**-**	**-**	-	**19**	**(125)**	**4**	**1,763**	**1,661**
Net profit/(loss) for Q3 2015	-	-	-	-	-	-	1,763	**1,763**
Other comprehensive income, net, for Q3 2015	-	-	-	19	(125)	4	-	**(102)**
As at Sep 30 2015 (unaudited)	**5,900**	**1,740**	**-**	**35**	**(340)**	**17**	**16,908**	**24,260**

NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

1. Deferred tax

	Deferred tax assets	Deferred tax liabilities
As at Jan 1 2016	**624**	**538**
Increase	9	105
Decrease	(121)	(189)
As at Sep 30 2016	**512**	**454**
As at Jan 1 2015	**469**	**580**
Increase	189	82
Decrease	(34)	(124)
As at Dec 31 2015	**624**	**538**

2. Impairment losses/write-downs

	Property, plant and equipment and intangible assets	Non-current assets held for sale	Shares	Inventories	Current receivables	Loans advanced	Current financial assets	Total
As at Jan 1 2016	**2,526**	**13**	**2,508**	**264**	**319**	**48**	**-**	**5,678**
Increase	923	-	60	70	198	2	40	**1,293**
Used/reversed	(282)	(1)	-	(259)	(206)	-	-	**(748)**
As at Sep 30 2016	**3,167**	**12**	**2,568**	**75**	**311**	**50**	**40**	**6,223**
As at Jan 1 2015	**2,037**	**4**	**2,477**	**73**	**323**	**40**	**-**	**4,954**
Increase	1,017	-	43	260	38	8	-	**1,366**
Transfers	-	12	(12)	-	-	-	-	**-**
Used/reversed	(528)	(3)	-	(69)	(42)	-	-	**(642)**
As at Dec 31 2015	**2,526**	**13**	**2,508**	**264**	**319**	**48**	**-**	**5,678**

3. Provisions

	Provision for well decommissioning costs	Provision for UOKiK fine	Provision for environmental liabilities	Provision for claims under extra-contractual use of land	Provision for liabilities associated with exploration work abroad	Provision for certificates of origin and energy efficiency certificates	Other provisions	**Total**
As at Jan 1 2016	**1,293**	**65**	**41**	**18**	**182**	**76**	**24**	**1,699**
Increase	35	-	-	2	-	24	15	**76**
Used/reversed	(19)	-	(15)	(12)	(2)	(80)	(18)	**(146)**
As at Sep 30 2016	**1,309**	**65**	**26**	**8**	**180**	**20**	**21**	**1,629**
As at Jan 1 2015	**1,393**	**60**	**41**	**18**	**164**	**167**	**43**	**1,886**
Increase	111	10	-	2	18	75	22	**238**
Used/reversed	(211)	(5)	-	(2)	-	(166)	(41)	**(425)**
As at Dec 31 2015	**1,293**	**65**	**41**	**18**	**182**	**76**	**24**	**1,699**

4. Revenue

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
High-methane gas	8,687	10,207
Nitrogen-rich gas	740	863
Crude oil and natural gasoline	625	804
Helium	54	55
Propane-butane gas	32	37
LNG	174	33
Electricity	1,094	748
Right to administer storage facilities	431	480
Other sales of products and services	159	172
Total	**11,996**	**13,399**

5. Operating expenses

5.1. Raw materials and consumables used

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Cost of gas sold	(7,175)	(8,810)
Electricity for trading	(1,066)	(724)
Other raw materials and consumables used	(112)	(108)
Total	**(8,353)**	**(9,642)**

5.2. Services

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Purchase of transmission, distribution, and storage services	(794)	(853)
Regasification services	(89)	-
Cost of wells written off	(72)	(153)
Costs of seismic surveys written off	(9)	(47)
Other services	(249)	(271)
Total	**(1,213)**	**(1,324)**

5.3. Other income and expenses

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Change in impairment losses	(497)	(111)
Change in provisions	21	84
Taxes and charges	(208)	(159)
Net exchange differences related to operating activities	14	42
Net gain/(loss) on derivative instruments related to operating activities	(17)	(106)
Compensation, penalties, fines, etc. received	10	5
Other	(1)	(87)
Total	**(678)**	**(332)**

6. Finance income and costs

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Finance income	**1,931**	**1,106**
Gain on measurement and realisation of derivative financial instruments	-	93
Interest income	230	176
Foreign exchange gains	68	-
Gain on disposal of investments	1	-
Dividends and other profit distributions	1,629	834
Other finance income	3	3
Finance costs	**(358)**	**(255)**
Loss on measurement and realisation of derivative financial instruments	(89)	-
Interest expense	(152)	(101)
Foreign exchange losses	-	(120)
Revaluation of investments	(100)	(9)
Loss on disposal of investments	-	(4)
Commission fees paid on bank borrowings	(13)	(14)
Costs of guarantees received	(1)	(2)
Other finance costs	(3)	(5)
Net finance income/(costs)	**1,573**	**851**

7. Income tax

	9 months ended Sep 30 2016	9 months ended Sep 30 2015
Profit/(loss) before tax	2,284	1,985
Tax rate applicable in period	19%	19%
Tax calculated at the applicable tax rate	(434)	(377)
Permanent differences between profit/(loss) before tax and taxable profit	277	155
Tax expense in the statement of profit or loss	**(157)**	**(222)**
Current tax expense	(213)	(201)
Deferred tax expense	56	(21)
Effective tax rate	7%	11%

Dividends received, which in the current period amounted to PLN 1,629m (PLN 834m in the corresponding period of the previous year), was the main factor contributing to the effective tax rate of 7% in the period ended September 30th 2016 (11% in the period ended September 30th 2015).

8. Property, plant and equipment by category

	As at Sep 30 2016	As at Dec 31 2015
Land	21	24
Buildings and structures	6,741	7,202
Plant and equipment	2,739	2,873
Vehicles and other	116	136
Total tangible assets	**9,617**	**10,235**
Tangible exploration and evaluation assets under construction	2,361	2,186
Other tangible assets under construction	671	813
Total property, plant and equipment	**12,649**	**13,234**

III. SUPPLEMENTARY INFORMATION TO THE REPORT

1. Basis of preparation and format of the financial statements contained in this report

These interim condensed consolidated financial statements and interim condensed separate financial statements for Q3 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (consolidated text: Dz.U. of 2014, item 133, as amended).

This report presents the financial condition of the PGNiG Group as at September 30th 2016 and its financial performance for the period January 1st–September 30th 2016, and the comparative data for the corresponding periods of 2015.

The financial data is stated in the Polish zloty (PLN), and all amounts, unless indicated otherwise, are stated in millions of the zloty. Differences, if any, between the totals and the sum of particular items are due to rounding off.

These financial statements of the PGNiG Group have been prepared based on the assumption that the Group will continue as a going concern for at least 12 months subsequent to the balance-sheet date. As at the date of approval of these financial statements, no facts and circumstances were identified which would indicate any threat to the Group's continuing as a going concern.

This interim report for Q3 2016 has been authorised for issue by the Parent's Management Board on November 9th 2016.

1.1 Functional and reporting currency

The Polish zloty (PLN) is the functional currency (measurement currency) and the reporting currency of all companies of the PGNiG Group with the exception of:

- Polish Oil And Gas Company – Libya B.V. – US dollar (USD),
- PGNiG Upstream International AS – Norwegian krone (NOK),
- GK PGNiG Supply & Trading – euro (EUR),
- PGNiG Finance AB – Swedish krona (SEK).

The method of translation of items denominated in foreign currencies is presented in the full-year consolidated financial statements for the period ended December 31st 2015.

2. Applied accounting policies

The policies applied to prepare these interim condensed consolidated financial statements and interim condensed separate financial statements are consistent with the general policies applied to draw up the full-year consolidated financial statements for the year ended December 31st 2015, issued on March 4th 2016, except that the following amendments to financial reporting standards and new interpretations effective for annual periods beginning on or after January 1st 2016 have been applied:

- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities*: Applying the Consolidation Exception – effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IAS 27 *Equity Method in Separate Financial Statements* – effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IAS 1 *Disclosure Initiative* – effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IFRS (2012-2014) – changes in the procedure of introducing annual amendments to IFRS – effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IAS 16 *Property, Plant and Equipment*, and IAS 38 *Intangible Assets*: Clarification of Acceptable Methods of Depreciation and Amortisation – effective for reporting periods beginning on or after January 1st 2016;

- Amendments to IFRS 11 *Joint Arrangements*: Accounting for Acquisitions of Interests in Joint Operations – effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IAS 16 *Property, Plant and Equipment* and to IAS 41 *Agriculture* – effective for reporting periods beginning on or after January 1st 2016.

Application of the above amendments to standards has not caused any material changes in the accounting policies of the Group or in the presentation of data in its financial statements.

3. Effect of new standards and interpretations on the Group's financial statements

Standards and interpretations adopted by the International Accounting Standards Board, which as at September 30th 2016 were not endorsed for use by the European Commission (EC) and therefore have not been applied in these financial statements:

- IFRS 9 *Financial Instruments* – effective for reporting periods beginning on or after January 1st 2018;
- IFRS 14 *Regulatory Deferral Accounts* – the European Commission has decided to postpone the endorsement process of this standard until work on its final version is completed;
- IFRS 15 *Revenue from Contracts with Customers* – effective for reporting periods beginning on or after January 1st 2018;
- IFRS 16 *Leasing* – effective for reporting periods beginning on or after January 1st 2019;
- Amendments to IFRS 10 and IAS 28 *Sales or Contributions of Assets between an Investor and Its Associate/Joint Venture* – the effective date has been postponed for an indefinite period;
- Amendments to IAS 12 *Income Taxes*: Recognition of Deferred Tax Assets for Unrealised Losses – effective for reporting periods beginning on or after January 1st 2017;
- Amendments to IAS 7 *Statement of Cash Flows*: Disclosure Initiative – effective for reporting periods beginning on or after January 1st 2017;
- Amendments to IAS 7 *Statement of Cash Flows*: Amendments to disclosures and changes in disclosures related to changes in liabilities arising from financing activities – effective for reporting periods beginning on or after January 1st 2017;
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* – effective for reporting periods beginning on or after January 1st 2018;
- Amendments to IFRS 2: *Share-based Payment* − effective for reporting periods beginning on or after January 1st 2018;
- Amendments to IFRS 4 *Insurance Contracts*: Amendments intended to address the issues raised for the insurance industry by the application of IFRS 9 – effective for reporting periods beginning on or after January 1st 2018.

The Group estimates that the above standards and amendments to standards would not have had a material effect on the financial statements if they had been applied by the Group as at the end of the reporting period.

4. Brief description of significant achievements or failures in the reporting period, including identification of key events

- Pursuant to a Resolution of the Extraordinary General Meeting of Polska Grupa Górnicza Sp. z o.o. (PGG) dated April 29th 2016, an increase in that company's share capital from PLN 500,050,000 to PLN 2,305,607,200 was registered with the National Court Register on July 25th 2016.

  The company's share capital was increased through the issuance of 18,055,572 new shares with a par value of PLN 100 per share. As part of the increase, PGNiG TERMIKA S.A. acquired shares with a total par value of PLN 361,111,100, which represents 15.66% of PGG's share capital and total voting rights.

- On July 27th, the PGNiG Supervisory Board appointed Bartłomiej Nowak, formerly a Member of the Supervisory Board, as its Chairman.

- On September 7th 2016, PGNiG S.A. acquired 92,764,327 its own book-entry ordinary bearer shares with a par value of PLN 1.00 (one) per share (Treasury Shares).

The total par value of the acquired Treasury Shares is PLN 92,764,327, which represents 1.57% of the Company's share capital. The Treasury Shares confer the rights to an aggregate of 1.57% of votes, or 1.57% of total voting rights, at the Company's General Meeting, but, pursuant to Art. 364.2 of the Commercial Companies Code, the Company does not exercise voting rights in respect of its Treasury Shares. The Treasury Shares were acquired for the uniform price of PLN 5.39 per share, and for the total price of PLN 499,999,722.53 for all the shares.

Apart from the Treasury Shares, the Company holds no other shares issued by the Company.

The Treasury Shares were acquired in accordance with Art. 362.1.5 of the Commercial Companies Code and the authorisation to buy back the Company's own shares for cancellation, granted by the Extraordinary General Meeting to the PGNiG Management Board on August 25th 2016.

- On September 16th 2016, PGNiG TERMIKA S.A. together with Enea S.A., Energa S.A., and PGE S.A. (Business Partners) jointly submitted to EDF International SAS (EDF) a preliminary, non-binding offer to acquire shares in companies owned by EDF in Poland, which hold conventional generating assets and provide services.

  These assets include in particular: CHP plant in Rybnik, CHP plant in Kraków, CHP plant in Gdańsk, CHP plant in Gdynia, CHP plant and heating network in Toruń; CHP plants and heating network in the Wrocław agglomeration, CHP plant and heating network in Zielona Góra (owned by Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A. and its subsidiary Elektrociepłownia Zielona Góra S.A.), and gas-fired co-generation unit project in Toruń (within EDF Gaz Toruń sp. z o.o.).

  Detailed due diligence, conducted together with the Business Partners, will serve as a basis for further decisions, including whether to place a binding bid after the required corporate approvals are obtained.

- On September 28th 2016, the Management Board of Polski Koncern Naftowy ORLEN S.A. (PKN ORLEN) approved the execution of an individual contract for gas fuel supplies to the ORLEN Group in Poland (Individual Contract).

  The Individual Contract provides for supplies of gas fuel from October 1st 2016 to September 30th 2021 (five gas years). Following the execution of the Individual Contract, PGNiG will become a strategic supplier of gas fuel to the ORLEN Group in Poland, including to the ORLEN Group's CCGT units. The total value of the Individual Contract over its five-year term is estimated at more than PLN 7bn.

  The Individual Contract will terminate the contract executed by PGNiG and PKN ORLEN on June 2nd 1997 for natural gas supplies to the Płock Production Plant, which was to expire at the end of the gas day on September 30th 2017.

  Execution of the Individual Contract was contingent upon fulfilment of the following conditions: the Company's Supervisory Board approval granted to the PGNiG Management Board, and termination, by mutual consent, of the contract between Anwil S.A. and PGNiG S.A. for sales of natural gas, effective from January 14th 1999 for an indefinite term.

  As all the conditions precedent were satisfied, the Individual Contract for gas fuel supplies to the ORLEN Group in Poland was concluded on September 29th 2016.

5. Factors and events, particularly of a non-recurring nature, with a material effect on financial performance

In Q1−Q3 2016, the PGNiG Group's revenue was PLN 23,050m, that is PLN 3,645m (or 14%) less than the year before, when revenue was reported at PLN 26,695m. Operating expenses came in at PLN 20,737m (down 12% year on year), as a result of which in Q1−Q3 2016 the Group recorded a consolidated operating profit of PLN 2,313m, which was lower by PLN 923m (or 29%) than in the same period of 2015. EBITDA was PLN 4,269m, down 20% year on year.

Exploration and Production

In Q1−Q3 2016, operating profit of the Exploration and Production segment was PLN 179m, down by PLN 1,093m (86%) year on year. At PLN 990m, EBITDA was also lower than the year before – by PLN 1,319m (57%).

The segment's performance in Q1−Q3 2016 was driven, among other factors, by:

- a PLN 617m (or 17%) decrease in revenue, to PLN 3,095m, relative to the corresponding period of the previous year, due to:
  - a 5% decline in oil sales volume,
  - a fall in crude oil prices (in Polish zloty terms, the average price of Brent in Q1−Q3 2016 was approximately 20% lower than in Q1−Q3 2015);
- a PLN 476m (or 19.5%) increase in the segment's operating expenses, caused by:
  - higher impairment losses on non-current assets, which in Q1−Q3 2016 amounted to PLN 692m, compared with PLN 136m a year earlier,
  - an increase in the provision for wells and pits decommissioning and the Extraction Facility Decommissioning Fund, to PLN 12m, while in the corresponding period of the previous year a reversal of the provision reduced costs by PLN 129m,
  - a decrease in depreciation and amortisation to PLN 811m in Q1−Q3 2016, from PLN 1,037m in the corresponding period of the previous year, resulting from the revaluation of reserves on the Norwegian Continental Shelf, which reduced depreciation rates applied to production assets.

Trade and Storage

The segment's revenue amounted to PLN 19,376m in Q1−Q3 2016, down by PLN 3,511m (or 15.2%) year on year. With the operating expenses reduced by PLN 3,451m (or 15.3%), the segment's operating result was PLN 572m, down by PLN 60m (or 9.5%). At PLN 761m, EBITDA for Q1−Q3 2016 remained relatively flat on the previous year, when it came in at PLN 758m.

The segment's performance was mainly driven by:

- advancing deregulation of the natural gas market in Poland, as a result of which both PGNiG Obrót Detaliczny Sp. z o.o. and PGNiG S.A. reduced their gas fuel tariffs several times over the past year;
- discount schemes for business customers introduced by the two companies to improve their competitiveness, which significantly reduced revenues;
- net write-downs on gas stocks, which fell PLN 159m year on year, boosting the segment's results.

Stocks of gas in underground storage facilities totalled approximately 2.8 bcm as at September 30th 2016, i.e. slightly (3.7%) more than the year before (2.7 bcm).

Distribution

The Distribution segment's operating profit in Q1−Q3 2016 grew 11% year on year, to PLN 1,278m, while EBITDA came in at PLN 1,965m, up by PLN 151m year on year.

The improvement resulted from both lower expenses and stronger revenue streams:

- The decline in the segment's expenses by PLN 51m (or 2%) in Q1−Q3 2016 was primarily attributable to a significant reduction of employee benefits expense following the 2015 workforce streamlining as part of the Voluntary Redundancy Programme. The reduction in employee benefits in Q1−Q3 2016 relative to the same period of the year before resulted from the fact that in Q1−Q3 2015 employee benefits included a PLN 96m cost of workforce streamlining and the Voluntary Redundancy Programme;
- Higher revenue, which grew by PLN 75m (or 2%) year on year, was mainly an effect of increased volume of distributed natural gas (the average air temperature in Q1 and Q3 2016 was lower than in Q1 and Q3 2015 by 0.2°C and 1.6°C, respectively; demand for gas for heating purposes rises in these periods).

Generation

The segment's operating profit for Q1−Q3 2016 amounted to PLN 301m, a PLN 119m increase on the previous year. EBITDA was PLN 560m, an improvement of 34% year on year. The following factors contributed to the improvement:

- higher revenues from sales of heat, resulting mainly from a higher heat tariff (the tariff was changed in August 2015 − the rates rose by an average of 5.3%);
- lower procurement costs of coal, the segment's main fuel for heat production (the average price of coal in Q1−Q3 2016 was 7.4% lower than in the same period of the previous year);
- recognition in the segment's operating profit of a PLN 73m gain on the bargain purchase of SEJ.

6. Seasonality or cyclicality in the Company's business during the reporting period

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

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

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

7. Material purchase and sale transactions on property, plant and equipment

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

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

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

9. Material settlements under court proceedings

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

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

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.

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

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

12. Related-party transactions, concluded by the Company or any of its subsidiaries, which are individually or jointly material and were concluded on non-arms' length terms

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

13. Issuance, redemption and repayment of equity and non-equity securities

In order to secure financial liquidity, companies of the PGNiG Group carry out debt issue programmes. In the period covered by this report, the Group companies carried out programmes under the following agreements:

- Note Issuance Programme Agreement executed by the Parent on June 10th 2010, under which the Company may issue discount or coupon notes maturing in one to twelve months, for an aggregate amount of up to PLN 7bn. The Note Issuance Programme Agreement was signed by the following banks: Bank Pekao S.A., ING Bank Śląski S.A., PKO Bank Polski S.A., Bank Handlowy w Warszawie S.A., Societe Generale S.A., BGŻ BNP Paribas S.A. Polish Branch, Bank Zachodni WBK S.A. and mBank S.A. Its term expires on July 31st 2020. As at September 30th 2016, no debt was outstanding under the agreement.
- Documentation for a Medium-Term Euronotes Programme, signed on August 25th 2011 by the Parent and PGNiG Finance AB with Societe Generale S.A., BGŻ BNP Paribas S.A. and Unicredit Bank AG, pursuant to which PGNiG Finance AB may issue notes with maturities of up to ten years, up to an aggregate amount of EUR 1.2bn. As at September 30th 2016, nominal debt outstanding under the Euronotes was PLN 2.16bn (translated at the mid rate quoted by the National Bank of Poland for September 30th 2016). Due to the maturity date of the outstanding notes (February 2017), the item was recognised under current liabilities;
- On May 22nd 2012, the Parent executed a PLN 4.5bn Note Issuance Programme agreement with Bank Pekao S.A. and ING Bank Śląski S.A. In the period covered by these financial statements, PGNiG did not issue any notes under the Programme. As at September 30th 2016, the nominal debt outstanding under the Programme was PLN 2.5bn.Due to the maturity date of the outstanding notes (June 2017), the item was recognised under current liabilities;
- Note Issuance Programme Agreement for up to PLN 1bn, signed on October 2nd 2014 between the Parent and Bank Gospodarstwa Krajowego. The agreement expires on September 30th 2024. Under the Programme, PGNiG may issue notes with maturities of at least 12 months. In accordance with the agreement, the proceeds from the Programme may only be used to finance capital expenditure on, among other things, maintaining producing capacities, diversification of gas supply sources, oil and gas exploration and appraisal, development of the power segment and ongoing projects involving the construction of storage infrastructure. In the period covered by these financial statements, PGNiG did not issue any notes under the Programme. As at September 30th 2016, no debt was outstanding under the agreement;
- Note Issuance Programme signed on July 4th 2012 between PGNiG TERMIKA S.A. and the following banks: ING Bank Śląski S.A., PKO Bank Polski S.A., Nordea Bank Polska S.A. and Bank Zachodni WBK S.A. On November 1st 2014, there was a merger between two of the issue underwriters, PKO Bank Polski S.A. and Nordea Bank Polska S.A. The Programme is to expire on December 29th 2019, though it may be extended for two years, i.e. until December 29th 2021. Under the Programme, PGNiG TERMIKA S.A. may issue coupon or discount notes for up to PLN 1.5bn.

  In the reporting period PGNiG TERMIKA S.A. issued PLN 160m worth of notes and redeemed notes for PLN 170m (including PLN 110m worth of notes issued in Q4 2015).

  As at September 30th 2016, the nominal debt outstanding under the Programme was PLN 100m.
- Note Issuance Programme Agreement signed on October 17th 2013 between Spółka Energetyczna Jastrzębie S.A., Bank Gospodarstwa Krajowego and Alior Bank S.A. The maximum amount of

guarantees of Bank Gospodarstwa Krajowego and Alior Bank S.A. may not exceed PLN 280m and PLN 140m, respectively.

The Programme provides for multiple note issues in two tranches:

- Tranche A, worth up to PLN 369m, with proceeds allocated to the financing of an Investment Programme, including by transferring the proceeds to the issuer's group companies carrying out the Investment Programme, and to the refinancing of capital expenditure incurred by the issuer or its group companies to carry out the Investment Programme, including by redeeming Tranche B Notes issued to finance the Investment Programme and paying fees and commissions. Tranche A is available until December 20th 2017 and its ultimate maturity date is December 20th 2022;
- Tranche B, worth up to PLN 51m, with proceeds allocated to the financing of the objectives of Tranche A and also working capital needs (including redemption of Tranche B notes). Tranche B is available until September 20th 2017 and its maturity date is December 20th 2017.

As at September 30th 2016, the Company had a non-current liability of PLN 143.4m under Tranche A notes and a current liability of PLN 51m under Tranche B notes issued on September 29th 2016 and maturing on December 29th 2016.

Because Tranche B notes are revolving, in accordance with their terms and conditions, on the issue date, i.e. September 29th 2016, amounts due to the issuer from the noteholders as payment of the issue price for new series notes were set off against the issuer's liability towards the noteholders under payment of the redemption amount of the previous series of Tranche B notes, in the same amount.

14. Dividends paid or declared

On June 28th 2016, the Annual General Meeting of PGNiG S.A. passed a resolution on distribution of the Company's 2015 net profit and decided to allocate PLN 1,062m to dividend (PLN 0.18 per share). The dividend for 2015 was paid on August 2nd 2016, with July 20th 2016 as the dividend record date.

The dividend for 2014 was paid on August 4th 2015. In accordance with a decision of the Annual General Meeting of PGNiG S.A., the dividend was PLN 1,180m (PLN 0.20 per share), and the dividend record date was July 15th 2015.

15. Events subsequent to the date of the condensed financial statements, undisclosed in the financial statements but potentially significant to the Company's future financial performance

The following events with a potential bearing on the PGNiG Group's future financial performance took place subsequent to September 30th 2016:

- On October 17th 2016, the President of the Energy Regulatory Office (URE) approved new Gas Fuel Supply Tariff No. 12/2016 of PGNiG S.A. (Largest Customers Tariff).

  Due to higher prices of crude oil compared with earlier this year and an increase in natural gas prices across wholesale markets in north-western Europe for Q4 2016, PGNiG S.A.'s total gas procurement cost rose above the cost assumed for the purpose of determining the existing tariff.

  Therefore, the average price of gas fuel went up by 4.0% in the case of high-methane gas and by 3.9% in the case of nitrogen-rich gas.

  Furthermore, after PGNiG was exempted from the obligation to seek the URE President's approval of tariffs for the sale of high-methane natural gas to wholesale customers and gas system operators, the new tariff − insofar as it concerns the use of high-methane gas − applies to end users only. Until October 31st 2016, wholesale customers and gas system operators will be charged according to the existing tariff.

  The new Largest Customers Tariff will remain valid until December 31st 2016.

- On October 4th 2016, PGNiG S.A. obtained the Polish Financial Supervision Authority's approval for the establishment of mutual insurance company Towarzystwo Ubezpieczeń Wzajemnych − Polski Gaz TUW.

The purpose of a mutual insurance company is to provide mutual insurance coverage for its members. Polski Gaz TUW will insure the PGNiG Group's assets and all the Group companies will be its members. The entire portfolio of the Group's existing insurance policies will ultimately be taken over by the new insurer.

Polski Gaz TUW was registered in the National Court Register on October 22nd 2016.

- On November 3rd 2016, the Extraordinary General Meeting of PGG passed a resolution to increase the company's share capital by PLN 366,667,000, i.e. to PLN 2,672,274,200, through the issue of 3,666,670 new shares with a par value of PLN 100 per share. 833,333 new shares with a par value of PLN 100 per share and a total par value of PLN 83,333,300 in the increased share capital of PGG were acquired by PGNiG TERMIKA S.A., in return for a cash contribution of PLN 83,333,300. After the share capital increase, PGNiG TERMIKA S.A. holds 4,444,444 shares in PGG, with a par value of PLN 100 per share and a total par value of PLN 444,444,400, which corresponds to 16.63% of the share capital and total voting rights at the General Meeting of PGG.

  As at the date of these financial statements, the share capital increase had not been registered in the National Court Register.

- On November 4th 2016, acting under Art. 362.1.5 of the Commercial Companies Code, the Management Board of PGNiG S.A. resolved to purchase 37,105,802 Company shares for cancellation.

  The price per share (PLN 5.00) was determined based on the arithmetic mean of the closing prices of Company stock on five business days preceding the date of the Management Board's resolution.

  The expected date of acquisition of the shares in block transactions outside of organised trading is November 10th 2016, while the expected date of transferring the shares to the Company and settling the transactions is November 14th 2016.

16. Changes in contingent liabilities or assets subsequent to the end of the previous financial year

Contingent receivables

	As at Sep 30 2016	As at Dec 31 2015
Total contingent receivables from related entities	-	-
From other entities:		
guarantees and sureties received	-	6
promissory notes received	2	14
other contingent assets	2	31
Total contingent receivables from other entities	**4**	**51**
Total contingent assets	**4**	**51**

Contingent liabilities

	As at Sep 30 2016	As at Dec 31 2015
Total contingent liabilities to related entities	-	-
To other entities		
guarantees and sureties issued	8,095	7,711
promissory notes issued	1,375	1,435
other contingent liabilities	31	27
Total contingent liabilities to other entities	**9,501**	**9,173**
Total contingent liabilities	**9,501**	**9,173**

The decrease in contingent receivables under sureties and guarantees received recorded in the period is primarily attributable to the expiry of bank guarantees and performance bonds. As for the decrease in contingent receivables under promissory notes received and other contingent assets, it is mostly due to an analysis of the probability of consumption of economic benefits performed as at the reporting date.

The increase in contingent liabilities towards other entities under sureties and guarantees granted as at September 30th 2016 is principally due to new guarantees issued as security for gas supplies, which increased contingent liabilities by a total of EUR 65m (PLN 279m at the exchange rate quoted by the NBP for September 30th 2016).

17. Other information the Company believes to be material to the assessment of its human resources, assets, financial standing and performance, or changes in any of the foregoing, and information which is material to the assessment of the Company's ability to fulfil its obligations

In Q3 2016, the Group companies continued to implement the Efficiency Improvement Programme. The Programme is part of an effort to improve the Group's cost and organisational efficiency pursued under the PGNiG Group's Strategy for 2014-2022 adopted in 2014.

Apart from the information disclosed in this report, the PGNiG Group is not aware of any information which could be material to the assessment of its staffing levels, assets, financial standing and performance, or changes in any of the foregoing, or information which could be material to the assessment of the Company's ability to fulfil its obligations.

IV. ADDITIONAL INFORMATION

1. General information on the Company and its Group

The parent of the PGNiG Group is Polskie Górnictwo Naftowe i Gazownictwo S.A.

PGNiG shares are listed on the Warsaw Stock Exchange (WSE).

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. The PGNiG Group's business profile includes:

- oil and gas exploration and production,
- import, storage of, trade in and distribution of gaseous fuels,
- generation of and trade in electricity,
- generation and distribution of heat.

The duration of the Parent and of its subsidiaries is unlimited, except for GEOFIZYKA Kraków S.A. w likwidacji (in liquidation), in respect of which a decision was made to dissolve the company.

2. Organisation of the PGNiG Group and its consolidated entities

As at September 30th 2016, the Group comprised PGNiG S.A. (the Parent), and 33 production and service companies, including:

- 19 direct subsidiaries of PGNiG S.A., and
- 14 indirect subsidiaries of PGNiG S.A.

Moreover, the PGNiG Group holds interests accounted for using the equity method in the following entities:

Equity-accounted joint ventures

No.	Company name	Country	% ownership interest	
			Sep 30 2016	Sep 30 2015
1.	Polska Grupa Górnicza Sp. z o.o. [1)]	Poland	15.66%	-
2.	SGT EUROPOL GAZ S.A. [2)]	Poland	51.18%	51.18%

1) Indirect interest held through PGNiG TERMIKA S.A., which is entitled to appoint one member of the Supervisory Board and can block material decisions.

2) Including a 48.00% direct interest and a 3.18% interest held indirectly through GAS-TRADING S.A.

The list of the PGNiG Group companies as at September 30th 2016 is presented in the table below.

No.	Company name	Country	The Group's % ownership interest as at		Consolidation method as at	
	PGNiG S.A.'s direct subsidiaries		Sep 30 2016	Sep 30 2015	Sep 30 2016	Sep 30 2015
1	BSiPG Gazoprojekt S.A.	Poland	75%[1)]	75%[1)]	full	full
2	Exalo Drilling S.A.	Poland	100%	100%	full	full
3	GEOFIZYKA Kraków S.A. w likwidacji (in liquidation)	Poland	100%	100%	full	full
4	GEOFIZYKA Toruń S.A.	Poland	100%	100%	full	full
5	Geovita S.A.	Poland	100%	100%	full	full
6	Operator Systemu Magazynowania Sp. z o.o. (currently Gas Storage Poland Sp. z o.o.)	Poland	100%	100%	full	full
7	PGNiG Obrót Detaliczny Sp. z o.o.	Poland	100%	100%	full	full
8	PGNiG Serwis Sp. z o.o.	Poland	100%	100%	full	full
9	PGNiG Technologie S.A.	Poland	100%	100%	full	full
10	PGNiG TERMIKA S.A.	Poland	100%	100%	full	full
11	Polska Spółka Gazownictwa Sp. z o.o.	Poland	100%	100%	full	full
12	PGNiG Finance AB	Sweden	100%	100%	full	full
13	PGNiG Supply & Trading GmbH	Germany	100%	100%	full	full
14	PGNiG Upstream International AS	Norway	100%	100%	full	full
15	Polish Oil and Gas Company - Libya B.V.	The Netherlands	100%	100%	full	full
16	GAS-TRADING S.A.	Poland	79.58%[2)]	79.58%[2)]	-	-
17	PGNiG SPV 5 Sp. z o.o.	Poland	100%	100%	-	-
18	PGNiG SPV 6 Sp. z o.o.	Poland	100%	100%	-	-
19	PGNiG SPV 7 Sp. z o.o.	Poland	100%	100%	-	-
	PGNiG S.A.'s indirect subsidiaries					
20	CHEMKOP Sp. z o.o.	Poland	85.51%[3)]	85.51%[3)]	-	-
21	Gas Assets Management Sp. z o.o.	Poland	100%[4)]	100%[4)]	-	-
22	Gas-Trading Podkarpacie Sp. z o.o.	Poland	78.82%[5)]	78.82%[5)]	-	-
23	GAZ Sp. z o.o.	Poland	100%[6)]	100%[6)]	full	full
24	NYSAGAZ Sp. z o.o.	Poland	100%[7)]	66.28%	-	-
25	Powiśle Park Sp. z o.o.	Poland	100%[6)]	100%[6)]	full	full
26	Przedsiębiorstwo Energetyki Cieplnej S.A.	Poland	100%[7)]	-	full	-
27	Spółka Energetyczna Jastrzębie S.A.	Poland	100%[7)]	-	full	-
28	SEJ-Serwis Sp. z o.o.	Poland	100%[8)]	-	-	-
29	Zakład Gospodarki Mieszkaniowej Sp. z o.o.	Poland	100%[9)]	100%[9)]	-	-
30	Oil Tech International F.Z.E.	United Arab Emirates	100%[9)]	100%[9)]	full	full
31	Poltava Services LLC	Ukraine	100%[9)]	99%[9)]	full	full
32	PST Europe Sales GmbH	Germany	100%[10)]	100%[10)]	full	full
33	XOOL GmbH	Germany	100%[11)]	100%[11)]	full	full
	Companies which were not PGNiG's subsidiaries as at June 30th 2016 but were PGNiG's subsidiaries in the comparative period					
34	BUD-GAZ P.P.U.H. Sp. z o.o. w likwidacji (in liquidation) [12)]	Poland	-	100%	-	-

1) PGNiG's direct interest is 22.5%, with a 52.5% interest held indirectly through PGNiG Technologie S.A. PGNiG S.A. has the right to appoint the majority of the company's Supervisory Board members.

2) PGNiG's direct interest is 43.41%, with a 36.17% interest held indirectly through PGNiG SPV 6 Sp. z o.o.

3) PGNiG's interest held indirectly through Operator Systemu Magazynowania Sp. z o.o. (currently Gas Storage Poland Sp. z o.o.).

4) PGNiG S.A.'s indirect interest in the company is 100%, with 99.98% held through PGNiG SPV 6 Sp. z o.o. and 0.02% held through PGNiG SPV 5 Sp. z o.o.

5) PGNiG's interest held indirectly through GAS-TRADING S.A.

6) PGNiG's interest held indirectly through Polska Spółka Gazownictwa Sp. z o.o.

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

8) PGNiG's interest held indirectly through Przedsiębiorstwo Energetyki Cieplnej S.A. (45%) and Spółka Energetyczna Jastrzębie S.A. (55%), subsidiaries of PGNiG TERMIKA S.A.

9) PGNiG's interest held indirectly through Exalo Drilling S.A.

10) PGNiG's interest held indirectly through PGNiG Supply & Trading GmbH.

11) PGNiG's interest held indirectly through PST Europe Sales GmbH.

12) On December 30th 2015, the company was removed from the National Court Register.

3. Changes in the Group's structure, including changes resulting from mergers, acquisitions or disposals of Group entities, as well as long-term investments, demergers, restructuring or discontinuation of operations

Changes in the structure of the PGNiG Group in Q3 2016 were as follows:

- On July 29th 2016, the Extraordinary General Meeting of PGNiG Upstream International AS (PUI) of Sandnes, Norway, passed a resolution to increase the company's share capital by NOK 8m by way of issue of 8,000 new shares with a par value of NOK 1,000 per share and a subscription price of NOK 37,500 per share, i.e. a total subscription price of NOK 300m. All the new shares were subscribed for by PGNiG S.A.

  The share capital increase was registered on September 13th 2016.

- On August 1st 2016, the Extraordinary General Meeting of GEOFIZYKA Kraków S.A. passed a resolution to dissolve the company, thus commencing its liquidation.

- On August 11th 2016, PGNiG TERMIKA S.A. purchased from Jastrzębska Spółka Węglowa S.A. (JSW) 2,882,333 shares with a par value of PLN 100.00 per share, representing 100% of the share capital of Spółka Energetyczna Jastrzębie S.A. of Jastrzębie-Zdrój (SEJ).

  SEJ's business consists in generation of electricity and heat for JSW's mines and other industrial customers, and generation of heat for households, which is distributed by Przedsiębiorstwo Energetyki Cieplnej S.A. of Jastrzębie-Zdrój (PEC). The amount of heat delivered by SEJ to PEC is about 0.9 PJ per year, which represents 60% of SEJ's total heat output. In addition, SEJ is involved in the generation of compressed air and cold for JSW's mines.

  As part of the transaction, the parties agreed on long-term conditions of purchases of coal and methane by SEJ from JSW, and sales of heat, electricity, cold and compressed air to JSW.

  As at September 30th 2016, on accounting for the purchase of shares in SEJ, a PLN 72.8m gain from bargain purchase was disclosed under 'Other income and expenses' in the consolidated statement of profit or loss of the PGNiG Group. This amount was calculated as the excess of the fair value of the company's identifiable assets and assumed liabilities (PLN 444.6m) over the fair value of consideration transferred (PLN 371.8m).

  In accordance with IFRS 3 par. 45, the fair value of the acquired assets and assumed liabilities may be subject to change as the process of purchase price allocation was not completed in the reporting period covered by these financial statements.

  In connection with the acquisition of shares in SEJ, PGNiG TERMIKA S.A. indirectly acquired 55% of the shares in SEJ-Serwis Sp. z o.o.; this way, the PGNIG Group's overall indirect interest in that company increased to 100%.

- On September 21st 2016, the Extraordinary General Meeting of PGNiG TERMIKA S.A. passed a resolution to increase the company's share capital from PLN 1,240,324,950.00 to PLN 1,440,324,950.00, i.e. by PLN 200,000,000.00. The share capital was increased through the issue of PLN 20,000,000 Series G ordinary (non-preference) registered shares with a par value of PLN 10 per share. All the newly issued shares were subscribed for by PGNiG S.A. against a cash contribution of PLN 200,000,000.00. Until the date of these financial statements, the increase in the share capital of PGNiG TERMIKA S.A. had not been registered with the National Court Register.

After September 30th 2016, to the date of preparation of these financial statements, the following changes occurred in the structure of the PGNiG Group:

- On October 4th 2016, the change in the name of Operator Systemu Magazynowania Sp. z o.o. to Gas Storage Poland Sp. z o.o., in accordance with a resolution of the company's Extraordinary General Meeting of September 20th 2016, was registered with the National Court Register.

4. Management Board's position on the feasibility of meeting forecasts published for a given year in light of the results presented in the quarterly report

The Management Board of PGNiG has not published any forecasts of the PGNiG Group's performance for 2016.

5. Shareholders holding, directly or indirectly through subsidiaries, 5% or more of total voting rights at the General Meeting of the Company as at the date of publication of the quarterly report, including information on the number of shares held by those shareholders, their interests in the Company's share capital, the resulting number of votes at the General Meeting and their share in total voting rights at the General Meeting, and any changes in the ownership structure of major holdings of the Company shares after the publication of the previous quarterly report

As at the date of issue of the Q3 2016 report, the State Treasury was the only shareholder holding 5% or more of total voting rights at the General Meeting of PGNiG S.A.

The shareholding structure of PGNIG S.A. is as follows:

Shareholder	Number of shares as at the date of issue of the previous interim report*	% share in total voting rights as at the date of issue of the previous interim report*	% change in the period	% share in total voting rights at GM as at the date of issue of this report**	Number of shares as at the date of issue of this report**
State Treasury	4,153,706,157	70.402%	0.000%	70.402%	4,153,706,157
Treasury shares	-	0.000%	1.572%	1.572%	92,764,327
Other shareholders	1,746,293,843	29.598%	-1.572%	28.026%	1,653,529,516
Total	**5,900,000,000**	**100.00%**	**0.00%**	**100.00%**	**5,900,000,000**

*As at June 30th 2016.
**As at September 30th 2016.

On September 7th 2016, PGNiG S.A. acquired 92,764,327 its own shares (on the basis of Art. 362.1.5 of the Commercial Companies Code). For more information on the transaction, see Note III.4.

6. Number of Company shares and options for Company shares held by the management and supervisory staff as at the date of the quarterly report, as well as changes in the number of Company shares and options for Company shares held by the management and supervisory staff after issue of the previous quarterly report (data presented separately for each persons)

	Number of shares and share options as at the date of issue of the previous interim report*	Purchase	Increase due to change of composition	Disposal	Decrease due to change of composition	Number of shares and share options as at the date of issue of this report*
Management staff	-	-	-	-	-	-
Supervisory staff	**19,500**	-	-	-	-	**19,500**
Ryszard Wąsowicz	19,500	-	-	-	-	19,500

* As at the date of this interim report.

7. Court, arbitration or administrative proceedings for liabilities or debt claims of the Company or its subsidiaries

In the reporting period, the following proceedings concerning the Group's liabilities or debt claims were pending:

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

- Anti-trust proceedings instigated by the President of the Polish Office of Competition and Consumer Protection (UOKiK) on December 28th 2010, concerning alleged abuse of dominant position on the domestic natural gas wholesale market by PGNiG S.A., consisting in:
  - inhibiting sale of gas against the interest of trading partners or consumers and
  - impeding the development of market conditions necessary for the emergence or development of competition

  by refusing to sell gas fuel under a general gas supply contract to an entrepreneur that intended to resell the gas, i.e. Nowy Gaz Sp. z o.o. of Warsaw.

  The status of the proceedings did not change relative to that presented in the consolidated financial statements of the PGNiG Group (Note 40.1) for the period ended December 31st 2015, issued on March 4th 2016.

- Anti-trust proceedings instigated by the President of UOKiK on April 3rd 2013, concerning alleged abuse by PGNiG S.A. 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 ordered volumes of gas fuel and contractual 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.

  The status of the proceedings did not change relative to that presented in the consolidated financial statements of the PGNiG Group (Note 40.1) for the period ended December 31st 2015, issued on March 4th 2016.

Proceedings initiated by the President of the Energy Regulatory Office

- On January 7th 2016 and January 8th 2016 PGNiG S.A. received decisions of the President of the Energy Regulatory Office of December 30th 2015 and December 31st 2015, respectively, under which the President of the Energy Regulatory Office imposed on PGNiG S.A. fines of PLN 2m and PLN 4m, respectively, for PGNiG S.A.'s failure to comply with the requirement, provided for in the licence to trade in natural gas with foreign partners, to diversify gas supplies from foreign partners in 2009 and 2010. On January 21st 2016 and January 22nd 2016, PGNiG S.A. filed appeals against the decisions of the President of the Energy Regulatory Office with the Competition and Consumer Protection Court at the Regional Court of Warsaw.

  Despite PGNiG's appeals, on September 20th 2016, the President of the Energy Regulatory Office seized PLN 6m (together with interest) from the Company on account of its failure to diversify gas supplies from foreign partners in 2009 and 2010. Both the enforcement procedure and the imposition of the fine itself were challenged by PGNiG S.A. as inconsistent with the applicable laws. On September 27th 2016, the Company brought charges against the administrative enforcement process.

  As at the date of this report, the proceedings were pending.

- Proceedings concerning failure to comply with the obligation to diversify gas supplies in 2012, instituted by the President of the Energy Regulatory Office on April 28th 2014. In response to a request by the President of the Energy Regulatory Office, the Company provided all explanations (along with relevant documents) concerning the structure of its gas imports into Poland, particularly the volumes and countries of origin of the imported gas. The proceedings are currently pending.

Proceedings concerning performance of the obligation to sell gas through the exchange market

- On January 13th 2015, the President of the Energy Regulatory Office instigated proceedings to impose a financial penalty on PGNiG S.A. for its failure to meet the obligation to sell gas through the exchange market in 2013. On April 10th 2015, PGNiG S.A. filed an appeal with the Competition and Consumer Protection Court at the Regional Court of Warsaw against one of the interlocutory decisions made by the President of Energy Regulatory Office, refusing the Company's attorney the right to access the case file. Following the appeal, the President of the Energy Regulatory Office suspended the administrative proceedings on April 30th 2015. On April 15th 2016, the Competition and Consumer Protection Court at the Regional Court of Warsaw dismissed the appeal. On May 25th 2016, the President of the Energy Regulatory Office made a decision to resume, ex officio, the proceedings to impose a financial penalty on the Company. On June 17th 2016, PGNiG S.A. filed a request that the President of the Energy Regulatory Office refrain from imposing the penalty. As at the date of these financial statements, the President of the Energy Regulatory Office had not presented any position with respect to the Company's request.

- On October 28th 2015, the President of the Energy Regulatory Office instigated proceedings to impose a financial penalty on PGNiG S.A. for its failure to meet the obligation to sell gas through the exchange market in 2014. On April 12th 2016, the President of the Energy Regulatory Office notified the Company of the conclusion of evidentiary proceedings. Having considered the evidence gathered, on April 20th 2016, PGNiG S.A. filed a request – on the basis of Art. 56.6a of the Energy Act – that the President of the Energy Regulatory Office refrain from imposing a penalty.

  On May 9th 2016, the President of the Energy Regulatory Office imposed on the Company a fine of PLN 15m for its failure to meet the exchange sale requirement in 2014. On May 27th 2016, the Company filed an appeal against that decision of the President of the Energy Regulatory Office; by the date of these financial statements, the appeal had not been examined by the Competition and Consumer Protection Court at the Regional Court of Warsaw.

On October 6th 2016, the Company received a certified copy of the enforcement order and a notice (dated September 30th 2016) of attachment of funds in its bank account. Therefore, the attachment took place before the delivery of the notice and the enforcement order.

The Company paid the fine, and the attachment was lifted. At the moment, PGNiG S.A. is preparing charges concerning the administrative enforcement process.

Proceedings before the Arbitration Institute

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

Calling Gazprom to arbitration opens the arbitration procedure provided for under the Contract. The value of the claim or the date of resolution cannot be specified at this stage of the dispute.

The Company became entitled to initiate arbitration proceedings in early May 2015 following the expiry of six months from the date of the request to renegotiate the Contract price terms. The fact of referring the dispute to the Arbitration Institute does not preclude commercial negotiations and an amicable settlement with the supplier.

On February 1st 2016, the Company filed a claim against OAO Gazprom and OOO Gazprom Export in the arbitration proceedings instigated before the Arbitration Court in Stockholm on May 13th 2015. As at the date of preparation of this report, the proceedings before the Arbitration Court were pending.

The steps taken by PGNiG aim to bring the Contract terms in line with the current conditions on the European natural gas market.

Proceedings concerning claims which arose in connection with settlements related to the “Construction of the Wierzchowice Underground Gas Storage Facility, phase: 3.5bn m3, sub-phase: 1.2bn m3” project

On July 15th 2016, PGNiG S.A. brought an action against PBG S.A. w upadłości układowej (in company voluntary arrangement), Tecnimont S.p.A. and TCM FR S.A., for payment of a contractual penalty of PLN 133m, along with statutory interest of PLN 26m, imposed on the basis of the general contractor agreement of November 19th 2008 concerning the “Construction of the Wierzchowice Underground Gas Storage Facility, phase: 3.5bn m3, sub-phase: 1.2bn m3” project.

On September 19th, the Regional Court of Warsaw issued a ruling to discontinue the proceedings in respect of an amount of PLN 1m of interest accrued on the imposed contractual penalty. As a result, the claim was modified: at the moment PGNiG S.A. is seeking to be awarded PLN 133m jointly and severally from the defendants, along with statutory interest of PLN 25m.

As at the date of these financial statements, the proceedings were pending.

In the reporting period, there were no proceedings concerning liabilities or debt claims of the Company or its subsidiaries pending before any court, arbitration court or administrative authority whose value (in any one or a series of proceedings) would exceed 10% of PGNiG S.A.’s equity.

8. Loan sureties or guarantees issued by the Company or its subsidiary to an entity or its subsidiary where the total amount of outstanding sureties or guarantees issued to such entity or subsidiary represents 10% or more of the Company’s equity

In the period covered by this report, the Parent and its subsidiaries did not issue any sureties with respect to borrowings or guarantees, whose total amount would represent 10% or more of the Parent’s or the subsidiary’s equity.

9. Factors which, in the Company's opinion, will affect its performance in the next quarter or beyond

In the forthcoming quarters, the financial performance of the PGNiG Group will be driven by the following factors:

- conditions prevailing on the currency markets, commodity markets (prices of crude oil and petroleum products), energy markets (prices of electricity and gas), as well as fluctuations in market prices of certificates of origin,
- regulatory and organisational changes in the upstream and gas sectors, in particular changes related to the gas market deregulation and hydrocarbon production taxing,
- regulations governing support programmes for electricity from high-efficiency co-generation and renewable sources as well as legislative changes relating to the Energy Efficiency Act,
- processes connected with the continued deregulation of the gas trade market,
- the position of the President of the Energy Regulatory Office on gas fuel sale and distribution tariffs and heat sale tariffs,
- delivery of LNG supplies under the Quatar contract.

In the coming quarters, the Group intends to maintain a high level of capital expenditure. Spending will focus primarily on projects involving maintenance of hydrocarbon production rates, as well as on projects in the exploration for and appraisal of crude oil and natural gas deposits, and development of the power generation segment.

Any future acquisitions of production assets outside Poland will also play an important role in the development of the PGNiG Group's business.

PGNiG Management Board:

President of the Management Board	Piotr Woźniak	
Vice President of the Management Board	Janusz Kowalski	
Vice President of the Management Board	Łukasz Kroplewski	
Vice President of the Management Board	Bogusław Marzec	
Vice President of the Management Board	Maciej Woźniak	
Vice President of the Management Board	Waldemar Wójcik	

Warsaw, November 7th 2016