Polskie Górnictwo Naftowe i Gazownictwo S.A.

INTERIM REPORT
for the three months
ended September 30th 2018

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

Financial highlights

Key data from the interim condensed consolidated financial statements	PLNm		EURm	
	9 months ended Sep 30 2018	9 months ended Sep 30 2017	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Revenue	28,481	24,892	6,696	5,848
Operating profit before depreciation and amortisation (EBITDA)	5,769	5,256	1,356	1,235
Operating profit (EBIT)	3,800	3,260	893	766
Profit before tax	3,887	3,312	914	778
Net profit attributable to owners of the parent	2,824	2,465	664	579
Net profit	2,822	2,465	663	579
Total comprehensive income attributable to owners of the parent	2,593	2,337	610	549
Total comprehensive income	2,591	2,337	609	549
Net cash from operating activities	4,498	3,672	1,057	863
Net cash from investing activities	(2,621)	(2,979)	(616)	(700)
Net cash from financing activities	(1,700)	(4,993)	(400)	(1,173)
Net cash flows	177	(4,300)	42	(1,010)
Basic and diluted earnings per share (PLN and EUR)	0.49	0.43	0.11	0.10
	As at Sep 30 2018	As at Dec 31 2017	As at Sep 30 2018	As at Dec 31 2017
Total assets	50,935	48,203	11,925	11,557
Total liabilities	14,950	14,576	3,500	3,495
Total non-current liabilities	6,928	7,004	1,622	1,679
Total current liabilities	8,022	7,572	1,878	1,816
Total equity	35,985	33,627	8,425	8,062
Share capital	5,778	5,778	1,353	1,385
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778
Book value per share and diluted book value per share (PLN/EUR)	6.23	5.82	1.46	1.40
Dividend per share declared or paid (PLN and EUR)	-	0.20	-	0.05

Key data from the interim condensed separate financial statements	PLNm		EURm	
	9 months ended Sep 30 2018	9 months ended Sep 30 2017	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Net revenue	15,209	12,981	3,576	3,050
Operating profit before depreciation and amortisation (EBITDA)	2,097	1,561	493	367
Operating profit (EBIT)	1,508	997	355	234
Profit before tax	3,258	2,225	766	523
Net profit	2,955	1,983	695	466
Total comprehensive income	2,717	1,902	639	447
Net cash from operating activities	462	(214)	108	(50)
Net cash from investing activities	1,143	23	269	5
Net cash from financing activities	(1,221)	(4,730)	(287)	(1,111)
Net cash flows	384	(4,921)	90	(1,156)
Earnings and diluted earnings per share attributable to holders of ordinary shares (PLN and EUR)	0.51	0.34	0.12	0.08
	As at Sep 30 2018	As at Dec 31 2017	As at Sep 30 2018	As at Dec 31 2017
Total assets	35,652	33,447	8,347	8,020
Total liabilities	7,166	7,414	1,678	1,778
Total non-current liabilities	2,571	2,288	602	549
Total current liabilities	4,595	5,126	1,076	1,229
Equity	28,486	26,033	6,669	6,242
Share capital and share premium	7,518	7,518	1,760	1,802
Weighted average number of shares (million) in the period	5,778	5,778	5,778	5,778
Book value per share and diluted book value per share (PLN/EUR)	4.93	4.51	1.15	1.08
Dividend per share declared or paid (PLN/EUR)	-	0.20	-	0.05

Average EUR/PLN exchange rates quoted by the NBP	Sep 30 2018	Sep 30 2017	Dec 31 2017
Average exchange rate in period	4.2535	4.2566	4.2447
Exchange rate at end of period	4.2714	4.3091	4.1709

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

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Interim condensed consolidated financial statements

Consolidated statement of profit or loss	3 months ended Sep 30 2018	9 months ended Sep 30 2018	3 months ended Sep 30 2017	9 months ended Sep 30 2017	
	unaudited	unaudited	unaudited	unaudited	
Revenue from sale of gas	5,304	20,058	4,776	19,825	*Note 3.4*
Other revenue	2,291	8,423	1,299	5,067	*Note 3.4*
Revenue	**7,595**	**28,481**	**6,075**	**24,892**	
Cost of gas sold	(4,129)	(16,410)	(3,073)	(13,615)	*Note 3.5*
Other raw materials and consumables used	(430)	(1,768)	(527)	(1,704)	*Note 3.5*
Employee benefits expense	(626)	(2,018)	(590)	(1,902)	*Note 3.5*
Transmission services	(249)	(777)	(283)	(840)	
Other services	(463)	(1,300)	(426)	(1,198)	*Note 3.5*
Taxes and charges	(109)	(707)	(103)	(670)	
Other income and expenses	(327)	(329)	(200)	(278)	*Note 3.6*
Work performed by the entity and capitalised	233	687	219	607	
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	(26)	(90)	(13)	(36)	*Note 3.5*
Operating profit before depreciation and amortisation (EBITDA)	**1,469**	**5,769**	**1,079**	**5,256**	
Depreciation and amortisation expense	(643)	(1,969)	(661)	(1,996)	
Operating profit (EBIT)	**826**	**3,800**	**418**	**3,260**	
Net finance costs	(41)	10	22	31	*Note 3.7*
Profit/(loss) from equity-accounted investees	15	77	13	21	
Profit before tax	**800**	**3,887**	**453**	**3,312**	
Income tax	(248)	(1,065)	(86)	(847)	*Note 3.8*
Net profit	**552**	**2,822**	**367**	**2,465**	
Net profit attributable to:					
Owners of the parent	554	2,824	367	2,465	
Non-controlling interests	(2)	(2)	-	-	
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778	
Basic and diluted earnings per share (PLN)	0.10	0.49	0.06	0.43	

Consolidated statement of comprehensive income	3 months ended Sep 30 2018	9 months ended Sep 30 2018	3 months ended Sep 30 2017	9 months ended Sep 30 2017
	unaudited	unaudited	unaudited	unaudited
Net profit	**552**	**2,822**	**367**	**2,465**
Exchange differences on translating foreign operations	(15)	11	(14)	(42)
Hedge accounting	(304)	(319)	42	(92)
Revaluation of financial assets available for sale	-	-	(1)	(1)
Deferred tax	75	84	(8)	17
Share of other comprehensive income of equity-accounted investees	(1)	3	-	-
Other comprehensive income subject to reclassification to profit or loss	**(245)**	**(221)**	**19**	**(118)**
Actuarial losses on employee benefits	-	(14)	-	(13)
Deferred tax	-	3	-	2
Share of other comprehensive income of equity-accounted investees	-	1	-	1
Other comprehensive income not subject to reclassification to profit or loss	**-**	**(10)**	**-**	**(10)**
Other comprehensive income, net	**(245)**	**(231)**	**19**	**(128)**
Total comprehensive income	**307**	**2,591**	**386**	**2,337**
Total comprehensive income attributable to:				
Owners of the parent	309	2,593	386	2,337
Non-controlling interests	(2)	(2)	-	-

(in PLN million, unless stated otherwise)

Consolidated statement of cash flows	9 months ended Sep 30 2018	9 months ended Sep 30 2017
	unaudited	unaudited
Cash flows from operating activities		
Net profit	2,822	2,465
Depreciation and amortisation expense	1,969	1,996
Current tax expense	1,065	847
Net gain/(loss) on investing activities	(407)	(103)
Other non-monetary adjustments	673	56
Income tax paid	(805)	(665)
Movements in working capital	(819)	(924)
Net cash from operating activities	**4,498**	**3,672**
Cash flows from investing activities		
Expenditure for acquisition of tangible exploration and evaluation assets under construction	(620)	(492)
Payments for other property, plant and equipment and intangible assets	(1,867)	(1,824)
Payments for shares in related entities	(90)	(347)
Other items, net	(44)	(316)
Net cash from investing activities	**(2,621)**	**(2,979)**
Cash flows from financing activities		
Increase in debt	800	1,382
Proceeds from derivative financial instruments	-	165
Decrease in debt	(2,494)	(5,366)
Dividends paid	-	(1,156)
Payments for derivative financial instruments	-	(20)
Other items, net	(6)	2
Net cash from financing activities	**(1,700)**	**(4,993)**
Net cash flows	**177**	**(4,300)**
Cash and cash equivalents at beginning of period	2,581	5,832
Foreign exchange differences on cash and cash equivalents	6	-
Cash and cash equivalents at end of period	**2,758**	**1,532**

(in PLN million, unless stated otherwise)

Consolidated statement of financial position	As at Sep 30 2018	As at Dec 31 2017	
	unaudited	audited	
ASSETS			
Property, plant and equipment	33,008	32,452	*Note 3.9*
Intangible assets	1,047	1,115	
Deferred tax	186	141	
Equity-accounted investees	1,772	1,601	
Derivative financial instruments	137	-	
Other assets	1,373	1,055	
Non-current assets	**37,523**	**36,364**	
Inventories	4,151	2,748	
Receivables	4,665	5,781	
Derivative financial instruments	1,503	450	*Note 3.10*
Other assets	307	216	
Cash and cash equivalents	2,760	2,578	
Assets held for sale	26	66	
Current assets	**13,412**	**11,839**	
TOTAL ASSETS	**50,935**	**48,203**	
EQUITY AND LIABILITIES			
Share capital and share premium	7,518	7,518	
Hedging reserve	(351)	7	
Accumulated other comprehensive income	(158)	(165)	
Retained earnings	28,977	26,266	
Equity attributable to owners of the parent	35,986	33,626	
Equity attributable to non-controlling interests	(1)	1	
TOTAL EQUITY	**35,985**	**33,627**	
Financing liabilities	500	951	
Derivative financial instruments	245	-	
Employee benefit obligations	776	725	
Provision for well decommissioning costs	1,799	1,717	*Note 3.3*
Other provisions	179	181	*Note 3.3*
Grants	729	767	
Deferred tax liabilities	2,121	2,019	
Other liabilities	579	644	
Non-current liabilities	**6,928**	**7,004**	
Financing liabilities	865	2,055	
Derivative financial instruments	1,935	322	*Note 3.10*
Trade and tax payables*	3,048	3,249	
Employee benefit obligations	330	371	
Provision for well decommissioning costs	58	53	*Note 3.3*
Other provisions	610	621	*Note 3.3*
Other liabilities	1,176	901	
Current liabilities	**8,022**	**7,572**	
TOTAL LIABILITIES	**14,950**	**14,576**	
TOTAL EQUITY AND LIABILITIES	**50,935**	**48,203**	

*Including income tax of PLN 467m (2017: PLN 217m)

(in PLN million, unless stated otherwise)

Consolidated statement of changes in equity

	Equity attributable to owners of the parent											
	Share capital and share premium, including:			Accumulated other comprehensive income:								
	Share capital	Share premium	Hedging reserve	Exchange differences on translating foreign operations	Revaluation of financial assets available for sale	Actuarial gains/(losses) on employee benefits	Share of other comprehensive income of equity-accounted investees	Retained earnings	Total	Equity attributable to non-controlling interests	Total equity
As at Jan 1 2017 (audited)	**5,778**	**1,740**	**69**	**(28)**	**2**	**(45)**	**(2)**	**24,499**	**32,013**	**3**	**32,016**
Net profit	-	-	-	-	-	-	-	2,465	**2,465**	-	**2,465**
Other comprehensive income, net	-	-	(75)	(42)	(1)	(11)	1	-	**(128)**	-	**(128)**
Total comprehensive income	**-**	**-**	**(75)**	**(42)**	**(1)**	**(11)**	**1**	**2,465**	**2,337**	**-**	**2,337**
Dividend	-	-	-	-	-	-	-	(1,156)	**(1,156)**	-	**(1,156)**
As at Sep 30 2017 (unaudited)	**5,778**	**1,740**	**(6)**	**(70)**	**1**	**(56)**	**(1)**	**25,808**	**33,194**	**3**	**33,197**
As at Jan 1 2018 (audited)	**5,778**	**1,740**	**7**	**(93)**	**(3)**	**(64)**	**(5)**	**26,266**	**33,626**	**1**	**33,627**
Effect of amended IFRS 9	-	-	-	-	3	-	-	(113)	(110)	-	(110)
Net profit	-	-	-	-	-	-	-	2,824	**2,824**	(2)	**2,822**
Other comprehensive income, net	-	-	(235)	11	-	(11)	4	-	**(231)**	-	**(231)**
Total comprehensive income	**-**	**-**	**(235)**	**11**	**-**	**(11)**	**4**	**2,824**	**2,593**	**(2)**	**2,591**
Change in equity recognised in inventories	-	-	(123)	-	-	-	-	-	**(123)**	-	**(123)**
As at Sep 30 2018 (unaudited)	**5,778**	**1,740**	**(351)**	**(82)**	**-**	**(75)**	**(1)**	**28,977**	**35,986**	**(1)**	**35,985**

(in PLN million, unless stated otherwise)

1. General information

1.1. Basic information about the Group

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

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

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

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

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

*As at June 30th 2018.
**As at September 30th 2018.

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

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

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

These interim condensed consolidated financial statements and interim condensed separate financial statements for the three months ended September 30th 2018 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as endorsed by the European Union, and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (consolidated text: Dz.U. of 2018, item 757).

This interim report has been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future, with the exception of two subsidiaries: Geofizyka Kraków S.A. w likwidacji and PGNiG Finance

AB i likvidation, which have been placed in liquidation. As at the date of authorisation of these financial statements for issue, no circumstances were identified which would indicate any threat to the Group's continuing as a going concern.

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

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

This interim report for the three months ended September 30th 2018 was signed and authorised for issue by the Parent's Management Board on November 21st 2018.

1.3. Applied accounting policies

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

The Group has applied the requirements of the standards using a modified retrospective method, with effect as of January 1st 2018. For detailed information, see the interim report of the PGNiG Group for Q1 2018. Presentation changes are described in **Note 1.5** to the financial statements.

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

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

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

(in PLN million, unless stated otherwise)

1.5. Presentation changes in the financial statements

The Group has applied the requirements of new IFRS 9 and IFRS 15 using a modified retrospective method, with effect as of January 1st 2018 (without restating the comparative period figures). As at the date of the first application, the Group did not identify any adjustments of the initial balance of retained earnings to be recognised following the implementation of IFRS 15. The impact of the application of IFRS 15 on the consolidated financial statements of the Group for the reporting period is presented in the tables below.

Consolidated statement of profit or loss	Period ended Sep 30 2018 in accordance with IAS 18 and IAS 11	Impact of transition from IAS 18 and IAS 11 to IFRS 15	Period ended Sep 30 2018 in accordance with IFRS 15
Revenue including:	**28,619**	**(138)**	**28,481**
Revenue from sale of gas	22,795	(2,737)	20,058
Other revenue	5,824	2,599	8,423
Operating expenses (excl. D&A) including:	**(22,850)**	**138**	**(22,712)**
Transmission services	(894)	117	(777)
Other services	(1,321)	21	(1,300)
Operating profit before depreciation and amortisation (EBITDA)	**5,769**	**-**	**5,769**
Operating profit (EBIT)	**3,800**	**-**	**3,800**
Profit before tax	**3,887**	**-**	**3,887**
Net profit	**2,822**	**-**	**2,822**

9 months ended Sep 30 2018	Sales to external customers	Inter-segment sales	Total revenue	EBITDA	Depreciation and amortisation	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce
Trade and storage in accordance with IAS 18 and IAS 11	**23,805**	**272**	**24,077**	**(498)**	**(141)**	**(639)**	**-**	**(33)**	**3,238**	**3,004**
Impact of transition from IAS 18 and IAS 11 to IFRS 15	(2,755)	-	(2,755)	-	-	-	-	-	-	-
Trade and storage in accordance with IFRS 15	**21,050**	**272**	**21,322**	**(498)**	**(141)**	**(639)**	**-**	**(33)**	**3,238**	**3,004**
Distribution in accordance with IAS 18 and IAS 11	**813**	**2,958**	**3,771**	**1,963**	**(688)**	**1,275**	**1**	**(1,174)**	**13,546**	**11,592**
Impact of transition from IAS 18 and IAS 11 to IFRS 15	2,617	(2,617)	-	-	-	-	-	-	-	-
Distribution in accordance with IFRS 15	**3,430**	**341**	**3,771**	**1,963**	**(688)**	**1,275**	**1**	**(1,174)**	**13,546**	**11,592**
Reconciliation with consolidated data in accordance with IAS 18 and IAS 11	**-**	**-**	**(6,676)**	**(8)**	**1**	**(7)**	**-**	**(3)**	**(228)**	**-**
Impact of transition from IAS 18 and IAS 11 to IFRS 15	-	-	2,617	-	-	-	-	-	-	-
Reconciliation with consolidated data in accordance with IFRS 15	**-**	**-**	**(4,059)**	**(8)**	**1**	**(7)**	**-**	**(3)**	**(228)**	**-**

(in PLN million, unless stated otherwise)

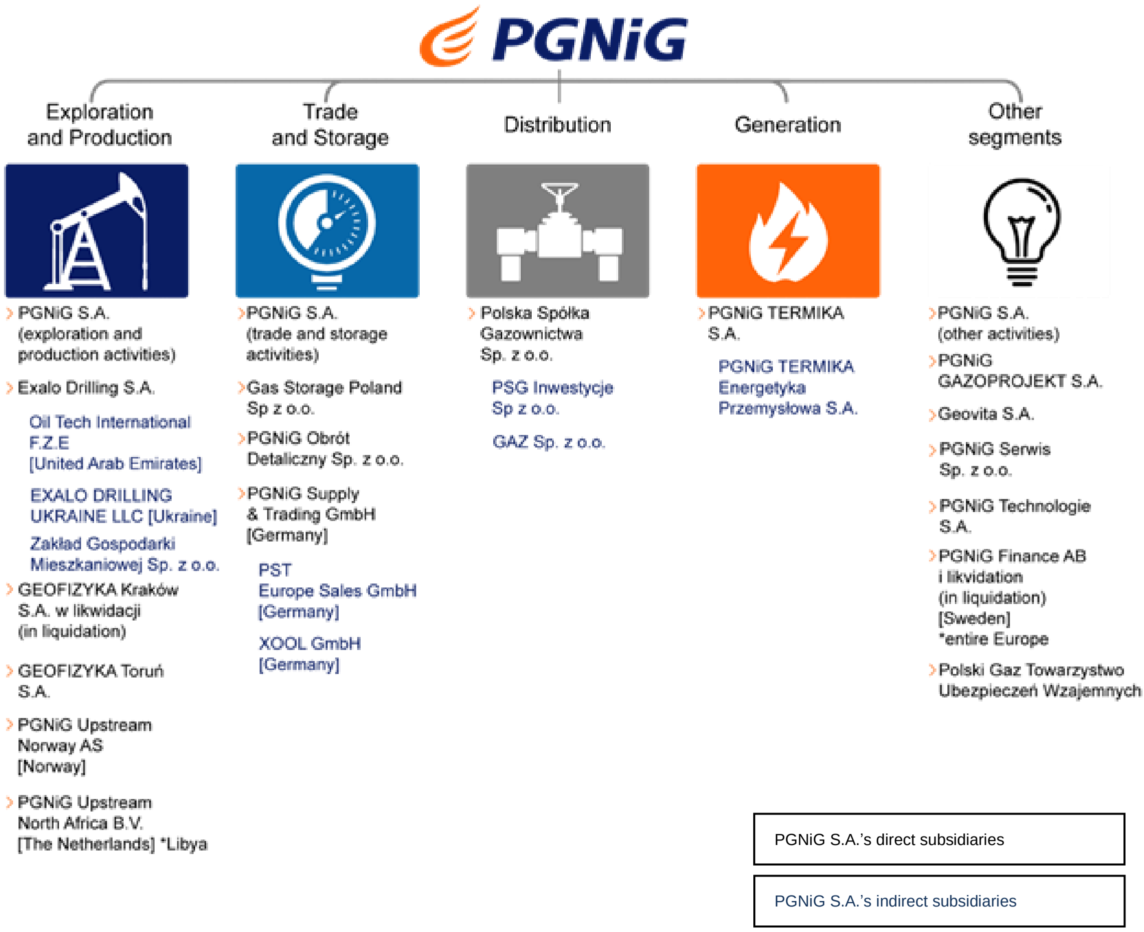
The impact of IFRS 9 adoption is presented below:

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

2. The Group and its reporting segments

The Group identifies five reporting segments.

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



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

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

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

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

(in PLN million, unless stated otherwise)

2.1. Changes in the Group structure

Date	Company	Event
January 15th 2018	PGNiG Finance AB i likvidation	The resolution on liquidation of PGNiG Finance AB of Stockholm was registered. As of January 15th 2018, the company's name is PGNiG Finance AB I likvidation
March 16th 2018	CIFL Sp. z o.o.	The change of company name Gas Assets Management Sp. z o.o. to CIFL Sp. Z o.o. was entered in the National Court Register.

2.2. Equity-accounted investees

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

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

Equity-accounted investees as at September 30th 2018

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

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

(in PLN million, unless stated otherwise)

2.3. Key data on the reporting segments

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

*Excluding employees of equity-accounted investees.

9 months ended Sep 30 2017	Sales to external customers	Inter-segment sales	Total revenue	EBITDA	Depreciation and amortisation expense	EBIT (operating profit)	Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	Profit/(loss) from equity-accounted investees	Expenditure on acquisition of property, plant and equipment and intangible assets	Property, plant and equipment	Workforce*
Exploration and Production	2,268	2,148	4,416	3,037	(807)	2,230	(35)	13	(825)	12,735	7,015
Trade and Storage	20,657	213	20,870	(190)	(154)	(344)	-	-	(70)	3,735	2,965
Distribution	736	2,959	3,695	1,964	(688)	1,276	(1)	-	(842)	12,801	11,206
Generation	1,140	389	1,529	602	(308)	294	6	-	(469)	3,409	1,801
Other Segments	91	167	258	(163)	(40)	(203)	(6)	8	(75)	447	1,853
Total	**24,892**	**5,876**	**30,768**	**5,250**	**(1,997)**	**3,253**	**(36)**	**21**	**(2,281)**	**33,127**	**24,840**
Reconciliation with consolidated data			(5,876)	6	1	7	-	-	(35)	(198)	
Total			**24,892**	**5,256**	**(1,996)**	**3,260**	**(36)**	**21**	**(2,316)**	**32,929**	

*Excluding employees of equity-accounted investees.

2.4. Segments' financial results

After the first nine months of 2018 (following the presentation changes introduced as of January 1st 2018 in connection with IFRS 15) the PGNiG Group posted revenue of PLN 28,481m, up by PLN 3,589m (14%) on the corresponding period of the previous year, when revenue was at PLN 24,892m. After the first nine months of 2018, the PGNiG Group's consolidated operating profit (EBIT) increased by PLN 540m (17%) year on year despite higher operating expenses, which amounted to PLN 24,681m (up by 14% year on year).

Operating data	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Production of natural gas by the PGNiG Group (mcm)*		
High-methane gas (E)	1,361	1,402
Nitrogen-rich gas (Ls/Lw as E equivalent)	1,990	1,943
Total (as E equivalent)	3,351	3,345
Sales of natural gas by the PGNiG Group (mcm)*		
High-methane gas (E)	19,325	17,688
Nitrogen-rich gas (Ls/Lw as E equivalent)	1,136	1,077
Total (as E equivalent)	20,461	18,765
Volume of distributed gas (mcm)**		
High-methane gas, nitrogen-rich gas, propane-butane, coke gas	8,309	8,351
Crude oil, condensate and NGL ('000 tonnes)		
Production	992	928
Sale	1,032	957
Heat and electricity (from own generation sources)		
Heat sales outside the PGNiG Group (TJ)	26,410	28,418
Sales of electricity from own generation sources (TWh)	2,661	2,602

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

Exploration and Production

After Q3 2018, the segment's operating profit was PLN 3,168m, up by PLN 938m (42%) year on year. The segment's operating result was mainly driven by:

- PLN 1,098m (25%) year-on-year increase in revenue, including:
  - from the sale of gas produced by the segment (up PLN 642m), mainly on higher price of gas produced in Poland and transferred from the Exploration and Production segment to the Trade and Storage segment – the average price of gas sold in Q1–Q3 2018 was 31% higher than in the same period a year before (the average price was calculated as the nine-month average weighted by the volume of gas produced in Poland and transferred to the Trade and Storage segment for sale). The increase in the price of domestically produced gas transferred between the segments follows directly from the fact that the price is based on gas prices quoted on the PPX, where the average price increase for the first three quarters of 2018 was 31%;
  - from the sale of crude oil, condensate and NGL (up 38%), attributable to a year-on-year increase in the sales volumes of these products in 2018 (up 8%) and a 34% increase in the average price of Brent crude in PLN during the first nine months of the year;
- A PLN 160m (7%) year-on-year increase in operating expenses;
- The increase in expenses followed mainly from:
  - written off expenditure on dry wells totalling PLN -541m (PLN -150m in the first nine months of 2017) with a simultaneous reversal of impairment losses on property, plant and equipment of PLN +442m (PLN +117m in 2017);
  - the recognition in the reporting period of PLN 94m on market pricing of oil and gas overlift. The overlift follows from the nature of settlements of the joint ventures of the subsidiary PGNiG Upstream Norway AS. The sales volume may differ from the volume of crude oil and gas output assigned to a company under the contract. If output exceeds sale (underlift), the company recognises receivables in the statement of financial position

and revenue in the statement of profit or loss. If sale exceeds output (overlift), the company recognises a liability and expense.

Trade and Storage

After the first nine months of 2018, the Trade and Storage segment incurred an operating loss of PLN -639m, down by PLN 295m year on year. The segment's revenue reached PLN 21,322m, having increased by PLN 3,319m (18%) year on year (reflecting the effect of changes resulting from the application of IRFS 15 on the Q1–Q3 results). The segment's operating expenses stood at PLN 21,820m, having increased by PLN 3,627m year on year.

The key contributing factors included:

- a 9% increase in the volume of gas sold, to 19.8 bcm, and higher selling prices. The most significant increase in the volume of gas was recorded in sales to PGNiG's largest industrial customers. Revenue from gas sales outside the Group after Q3 2018 grew by 18% year on year (reflecting the effect of changes resulting from the application of IRFS 15 on the Q1–Q3 results);
- Higher price of domestically produced gas transferred from the Exploration and Production segment (for a description of the causes of the increase, see the section on the Exploration and Production segment).

Distribution

The Distribution segment's operating profit in the nine months ended September 30th 2018 remained relatively unchanged year on year, at PLN 1,275m (a decrease of PLN 1m), with EBITDA of PLN 1,963m (PLN 1m less on the previous year). The segment's operating result was driven by:

- a PLN 76m (2%) increase in total revenue on the same period of the previous year, attributable to higher revenue from sale of other products and services (including net revenue from system balancing), with a simultaneous decrease in revenue from sale of distribution services. The decrease was mainly attributable to reduced tariff rates of network fees used for settlements with customers in the Distribution Tariff approved by the Energy Regulatory Office;
- a PLN 77m (3%) increase in costs incurred in the first nine months of 2018 relative to the same period of the previous year, resulting from higher employee benefits expense and costs of other services, with a slight decrease in the costs of transmission services, directly following from a lower volume of distributed gas (-0.5%), as well as a change (as of January 1st 2018) of the tariff rates charged by OGP Gaz System S.A.

Generation

The segment's operating profit earned in Q1–Q3 2018 was PLN 187m, having decreased by 36% year on year, while EBITDA reached PLN 501m, down 17% year on year.

The segment's result was mainly driven by:

- lower sales volumes of heat (down by 7%) in Q3 2018, caused by higher (by 0.9^{o}C) year-on-year average air temperatures compared with Q3 2017;
- increase in the cost of coal (including transport costs), the main feedstock for heat and electricity production, by 19% year on year.

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

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

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

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

(in PLN million, unless stated otherwise)

3. Notes to the interim condensed consolidated financial statements

3.1. Deferred tax

	Deferred tax	Deferred tax liabilities	Set-off of assets and liabilities	Assets after set-off	Liabilities after set-off	Net effect of changes in the period
As at Jan 1 2017	**1,281**	**3,113**	**(1,181)**	**100**	**1,932**	
Increase	75	52				**23**
Decrease	(325)	(124)				**(201)**
Currency translation differences	(30)	(161)				**131**
Other changes	-	(1)				**1**
As at Dec 31 2017	**1,001**	**2,879**	**(860)**	**141**	**2,019**	**(46)**
As at Jan 1 2018	**1,001**	**2,879**	**(860)**	**141**	**2,019**	
Effect of amended IFRS 9	4	-		4	-	
Increase	538	485				**53**
Decrease	(155)	(94)				**(61)**
Currency translation differences	5	77				**(72)**
Other changes	-	(19)				**19**
As at Sep 30 2018	**1,393**	**3,328**	**(1,207)**	**186**	**2,121**	**(61)**

3.2. Impairment losses/write-downs

	Property, plant and equipment	Intangible assets	Assets held for sale	Equity-accounted investees	Other (non-current) assets	Inventories	Receivables	Total
As at Jan 1 2017	**3,758**	**88**	**19**	**879**	**32**	**128**	**772**	**5,676**
Increase taken to profit or loss	1,226	6	-	-	1	127	124	**1,484**
Decrease taken to profit or loss	(794)	(3)	(2)	(35)	-	(59)	(123)	**(1,016)**
Used	(63)	-	(3)	-	(1)	(1)	(146)	**(214)**
Transfers	(1)	-	3	-	(2)	-	-	**-**
Other changes	(88)	(7)	-	-	-	(4)	132	**33**
As at Dec 31 2017	**4,038**	**84**	**17**	**844**	**30**	**191**	**759**	**5,963**
As at Jan 1 2018	**4,038**	**84**	**17**	**844**	**30**	**191**	**759**	**5,963**
Effect of amended IFRS 9	**-**	**-**	**-**	**-**	**-**	**-**	**65**	**65**
Increase taken to profit or loss	254	1	4	57	-	76	314	**706**
Decrease taken to profit or loss	(709)	(1)	-	-	-	(121)	(263)	**(1,094)**
Used	(23)	(1)	-	-	-	(1)	(8)	**(33)**
Transfers	-	-	(7)	-	20	-	(13)	**-**
Other changes	15	2	(1)	-	-	-	(11)	**5**
As at Sep 30 2018	**3,575**	**85**	**13**	**901**	**50**	**145**	**843**	**5,612**

(in PLN million, unless stated otherwise)

3.3. Provisions

	Provision for well decommissioning costs	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provision for environmental liabilities	Provision for UOKiK fine	Provision for claims under extra-contractual use of land	Other provisions	Total	
As at Jan 1 2017	**1,661**	**143**	**194**	**117**	**10**	**36**	**258**	**2,419**	
Recognised provision capitalised in the cost of property, plant and equipment	184	-	-	-	-	-	-	**184**	
Recognised provision taken to profit or loss	73	160	-	24	-	7	148	**412**	
Provision reversal taken to profit or loss	(64)	(13)	-	(17)	-	(12)	(59)	**(165)**	
Used provision	(34)	(133)	-	-	-	-	(28)	**(195)**	
Other changes	(50)	(2)	(31)	-	-	-	-	**(83)**	
As at Dec 31 2017	**1,770**	**155**	**163**	**124**	**10**	**31**	**319**	**2,572**	
As at Jan 1 2018	**1,770**	**155**	**163**	**124**	**10**	**31**	**319**	**2,572**	
Effect of amended IFRS 9	**-**	**-**	**-**	**-**	**-**	**-**	**18**	**18**	
Recognised provision capitalised in cost of property, plant and equipment	73	-	-	-	-	-	-	**73**	
Increase taken to profit or loss	26	103	-	1	-	3	115	**248**	*Note 3.6*
Decrease taken to profit or loss	(19)	(57)	-	(13)	-	(7)	(87)	**(183)**	*Note 3.6*
Used	(16)	(114)	-	-	(10)	-	(3)	**(143)**	
Other changes	23	29	8	-	-	-	1	**61**	
As at Sep 30 2018	**1,857**	**116**	**171**	**112**	**-**	**27**	**363**	**2,646**	

(in PLN million, unless stated otherwise)

3.4. Revenue

	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Revenue	**20,058**	**19,825**
High-methane gas	19,320	18,615
Nitrogen-rich gas	1,024	1,087
LNG	56	52
CNG	26	25
Propane-butane gas	51	46
Adjustment to gas sales due to hedging transactions	(419)	-
Other revenue, including:	**8,423**	**5,067**
Crude oil and natural gasoline	1,802	1,303
NGL	88	64
Sale of heat	878	935
Sale of electricity	1,409	1,312
Revenue from rendering of services:		
- drilling and oilfield services	128	122
- geophysical and geological services	63	156
- construction and assembly services	110	61
- distribution services	3,235	606
- connection charge	121	96
- other	271	170
Other	318	242
Total revenue	**28,481**	**24,892**

3.5. Operating expenses

	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Cost of gas sold	**(16,410)**	**(13,615)**
Gas fuel	(16,421)	(13,616)
Cost of transactions hedging gas prices	11	1
Other raw materials and consumables used	**(1,768)**	**(1,704)**
Fuels for electricity and heat generation	(562)	(489)
Electricity for trading purposes	(871)	(840)
Other raw materials and consumables used	(335)	(375)
Employee benefits expense	**(2,018)**	**(1,902)**
Salaries and wages	(1,551)	(1,450)
Social security contributions	(340)	(317)
Cost of long-term employee benefits	17	6
Other employee benefits expense	(144)	(141)
Other services	**(1,300)**	**(1,198)**
Regasification services	(273)	(266)
Repair and construction services	(176)	(130)
Mineral resources production services	(179)	(115)
Rental services	(85)	(98)
Other services	(587)	(589)
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	**(90)**	**(36)**
Cost of exploration and evaluation assets written-off	(541)	(151)
Impairment losses on property, plant and equipment	451	116
Impairment losses on intangible assets	-	(1)
Total	**(21,586)**	**(18,455)**

(in PLN million, unless stated otherwise)

3.6. Other income and expenses

	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Compensations, penalties, and fines received	30	50
Exchange differences related to operating activities	67	(47)
Measurement and exercise of derivative financial instruments	(137)	65
Change in inventory write-downs	45	(34)
Change in impairment losses on trade and other receivables	(51)	(20)
Change in provision for well decommissioning costs	(7)	(11)
Change in provision for certificates of origin and energy efficiency certificates	(46)	(163)
Change in other provisions	(25)	(92)
Change in products	73	107
Change in hydrocarbon production surplus/shortage compared with that specified in contract	(94)	-
Other income and expenses	(184)	(133)
Total other income and expenses	**(329)**	**(278)**

3.7. Net finance income/(costs)

	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Interest on debt [including fees]	(33)	(63)
Foreign exchange differences	29	74
Measurement and exercise of derivative financial instruments not designated for hedge accounting	(10)	(32)
Fair value measurement of financial assets	20	-
Other net finance costs (income)	4	52
Total net finance costs	**10**	**31**

(in PLN million, unless stated otherwise)

3.8. Income tax

Reconciliation of effective tax rate	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Profit before tax	3,887	3,312
Corporate income tax at the 19% statutory rate applicable in Poland	(739)	(629)
Deductible temporary differences with respect to which no deferred tax was recognised	(326)	(218)
Income tax expense disclosed in the statement of profit or loss	**(1,065)**	**(847)**
Including:		
Current tax expense	(970)	(595)
Deferred tax expense	(95)	(252)
Effective tax rate	27%	26%

Tax group

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

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

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

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

3.9. Property, plant and equipment

	As at Sep 30 2018	As at Dec 31 2017
Land	106	101
Buildings and structures	18,640	18,302
Plant and equipment	8,523	8,612
Vehicles and other	1,163	1,127
Total tangible assets	**28,432**	**28,142**
Tangible exploration and evaluation assets under construction	2,162	2,154
Other tangible assets under construction	2,414	2,156
Total property, plant and equipment	**33,008**	**32,452**

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

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

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

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

(in PLN million, unless stated otherwise)

3.10. Derivative financial instruments

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

In the nine months to September 30th 2018, the Parent accounted for all eligible transactions using cash-flow or fair-value hedge accounting. The Company was party to CCIRS transactions, which are not designated for hedge accounting, as the valuation of both the hedged item and the hedge (the derivative transaction) is recognised in profit or loss, which produces the same effect as if hedge accounting was applied.

In the current reporting period, in its trading activity, the Parent entered into transactions within the approved limits. The aggregate amount of hedging transactions does not exceed the amount of the hedged items.

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

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

Income and expenses related to assets and liabilities under derivative financial instruments			9 months ended Sep 30 2018		9 months ended Sep 30 2017	
Item of statement of profit or loss and statement of comprehensive income	**Item referenced in Note / additional explanations**	**Notes**	**Derivative financial instruments not designated for hedge accounting**	**Derivative financial instruments designated for cash flow hedge accounting**	**Derivative financial instruments**	**Derivative financial instruments designated for cash flow hedge accounting**
Effect on statement of profit or loss						
Net finance costs	Measurement and exercise of derivative financial instruments not designated for hedge accounting	*Note 3.7*	(10)	-	(32)	-
Other income and expenses	Measurement and exercise of derivative financial instruments not designated for hedge accounting	*Note 3.6*	(137)	-	65	-
Revenue	Reclassification from other comprehensive income	*Note 3.4*	-	(419)	-	-
Cost of gas sold	Reclassification from other comprehensive income	*Note 3.5*	-	11	-	1
			(147)	**(408)**	**33**	**1**
Effect on other comprehensive income						
Gains/(losses) on measurement of derivative instruments designated for cash flow hedge accounting [effective portion]				(727)		(91)
Reclassification of derivative instruments valuation to profit or loss upon exercise (cash flow hedges)				408		(1)
				(319)		**(92)**
Effect on comprehensive income			**(147)**	**(727)**	**33**	**(91)**

The tables below present derivative instruments held by the Group companies as at September 30th 2018.

Derivative instruments designated for hedge accounting	As at Sep 30 2018					As at Dec 31 2017		
Type of derivative instrument	Notional amount (million)	Period when cash flow will occur and affect the financial result	Exercise price (exercise price range)	Weighted average exercise price	Fair value of instruments for which cash flow hedge accounting is applied	Notional amount (million)	Period when cash flow will occur and affect the financial result	Fair value of instruments for which cash flow hedge accounting is applied
Derivative instruments used to hedge currency risk in gas purchase and sale contracts								
Forward								
USD	USD 837	up to 3 years	3.34 - 3.66	3.41	201	USD 70	1–3 months	(8)
USD	USD 198	Up to 12 months	3.64 - 3.73	3.69	(4)	-	-	-
EUR	EUR 1,690	up to 3 years	4.29 - 4.50	4.38	54	-	-	-
EUR	EUR 367	up to 3 years	4.30 - 4.45	4.38	(25)	-	-	-
Derivative instruments used to hedge gas purchase and selling prices								
TTF call options	-	-	-	-	-	2 MWh	1–12 months	13
TTF swap MA	5 MWh	1–3 months	22.15 - 26.45	24.11	39	1 MWh	1–12 months	12
TTF swap DA	1 MWh	Up to 12 months	21.85 - 28.31	25.08	15	-	-	-
TTF swap MA	1 MWh	Up to 12 months	28.75 - 28.95	28.84	(8)	-	-	-
TTF swap DA	22 MWh	Up to 12 months	16.75 - 26.43	23.12	(402)	0.13 MWh	1–3 months	(1)
BRENT Swap	0.15 Bbl	1–3 months	62.23 - 62.23	62.23	10	-	-	-
GASPOOL Swap DA	15 MWh	up to 3 years	15.97 - 17.59	16.77	(485)	-	-	-
					(831)			**24**
Derivative instruments used to hedge interest rate risk								
IRS	-	-	-	-	-	PLN 1,500	1–3 years	(16)
				Total	**(605)**		**Total**	**-**
			Including:	Assets	320	Including:	Assets	25
				Liabilities	925		Liabilities	25

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

Derivative instruments not designated for hedge accounting	As at Sep 30 2018		As at Dec 31 2017	
Type of derivative instrument	Notional amount (million)	Fair value of instruments not designated for hedge accounting	Notional amount (million)	Fair value of instruments not designated for hedge accounting
Derivative instruments hedging interest rate risk and currency risk				
CCIRS				
NOK	NOK 2,318	58	NOK 2,318	114
Forward				
EUR	EUR 97	(9)	EUR 98	(12)
		49		**102**
Derivative instruments used as economic hedges of electricity purchase prices				
Forwards				
electricity – PPX	-	29	476 MWh	36
electricity – PPX	7 MWh	(27)	882 MWh	(34)
electricity – OTC	1 MWh	91	1 MWh	40
electricity – OTC	2 MWh	(129)	2 MWh	(64)
Futures				
electricity – EEX AG	4 MWh	226	2 MWh	71
electricity – EEX AG	4 MWh	(187)	2 MWh	(47)
		3		**2**
Derivative instruments used to hedge gas purchase and selling prices				
Forwards				
gas - TGE	-	-	3 MWh	-
gas – OTC	32 MWh	599	15 MWh	94
gas – OTC	39 MWh	(782)	17 MWh	(113)
Futures				
gas – ICE ENDEX B.V.	5 MWh	71	2 MWh	16
gas – ICE ENDEX B.V.	3 MWh	(40)	2 MWh	(9)
gas – POWERNEXT SA	10 MWh	217	4 MWh	28
gas – POWERNEXT SA	4 MWh	(74)	3 MWh	(17)
TTF swap MA	0.15 MWh	9		
		-		**(1)**
Derivative instruments used to hedge purchase prices of CO_2 emission allowances				
Forwards	EUR 3	-	EUR 7	-
Forwards	EUR 32	(2)	-	-
	-	-	12 t	(1)
Futures	3 t	-	11 t	1
		(2)		**-**
Derivative instruments used to hedge prices of property rights to certificates of energy origin – RES				
Forwards	-	-	0.86 MWh	1
		-		**1**
Derivative instruments used to hedge share purchase prices				
Options	9.12 million shares	15	9.12 million shares	24
	Total	**65**	**Total**	**128**
	Including:		Including:	
	Assets	1,320	Assets	425
	Liabilities	1,255	Liabilities	297

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

(in PLN million, unless stated otherwise)

3.11. Contingent assets and liabilities

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

In the reporting period, contingent assets increased mainly due to an agreement for EU funding executed by Polska Spółka Gazownictwa Sp. z o.o.

Contingent liabilities	As at Sep 30 2018	As at Dec 31 2017
	Estimated amount	
Guarantees and sureties	4,093	3,537
Promissory notes	843	702
Other	8	11
Total	**4,944**	**4,250**

The increase in contingent liabilities under sureties and guarantees granted in the reporting period was principally due to new guarantees issued as security for gas supplies, totalling EUR 78.1m (PLN 334m at the exchange rate quoted by the NBP for September 30th 2018).

3.12. Fair value hierarchy

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

	As at Sep 30 2018		As at Dec 31 2017	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Derivative instruments	1,285	355	249	201
	1,285	**355**	**249**	**201**
Financial liabilities				
Derivative instruments	1,412	768	249	73
	1,412	**768**	**249**	**73**

3.13. Classification of financial assets

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

(in PLN million, unless stated otherwise)

4. Supplementary information to the report

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

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

(in PLN million, unless stated otherwise)

		Jefferson County, Texas, which is currently under construction and is planned for commissioning in 2023. Potential deliveries from Venture Global LNG, Inc. will be made through export facilities in Louisiana (Calcasieu Pass LNG in Calcasieu Parish and Plaquemines LNG in Plaquemines Parish), which are currently under construction and which are planned to be completed in 2022 and 2023, respectively. The signed agreements do not constitute PGNiG's obligation to sign final LNG purchase contracts.
July 25th 2018	PGNiG Obrót Detaliczny Sp. z o.o.	By virtue of a decision of the President of the Energy Regulatory Office dated July 25th 2018, Amendment No. 2 to Gas Fuel Trading Tariff No. 6 (amended Retail Tariff) of PGNiG Obrót Detaliczny was approved. The amended Retail Tariff provides for a 5.9% increase in gas fuel prices for all tariff groups relative to the previous tariff of PGNiG Obrót Detaliczny Sp. z o.o. Subscription fees remained unchanged. The retail tariff applies only to household consumers of gaseous fuels. The amended Retail Tariff will be effective from August 10th to December 31st 2018. For detailed information on the approved tariffs, see www.ure.gov.pl and Biuletyn Branżowy URE – Paliwa gazowe (the ERO official gazette – Gaseous fuels).
September 28th 2018	PGNiG S.A.	After the required corporate approvals have been obtained, two binding long-term contracts (the "Contracts") for the supply of liquefied natural gas ("LNG") were signed with Venture Global Calcasieu Pass, LLC, and Venture Global Plaquemines LNG, LLC. Each Contract provides for the purchase by PGNiG of approximately 1 million tonnes of LNG (i.e. approximately 1.35 bcm of natural gas after regasification) annually for 20 years. The deliveries may be further traded by the Company on international markets and will be made on a free-on-board basis. The deliveries from Venture Global Calcasieu Pass, LLC, and Venture Global Plaquemines LNG, LLC will be made through production facilities in Louisiana (Calcasieu Pass LNG in Calcasieu Parish and Plaquemines LNG in Plaquemines Parish), which are planned to be completed at the earliest in 2022 and 2023, respectively. In the opinion of the PGNiG Management Board, the terms and conditions of the Contracts are satisfactory in the context of the PNGiG Group's strategy to expand LNG trading on global markets. The price formula in the Contracts is based on the LNG price quoted based on the US Henry Hub index, including the liquefaction charge. The announcement of information on execution of the Contracts for LNG supplies with Venture Global Calcasieu Pass, LLC, and Venture Global Plaquemines LNG, LLC was delayed on September 24th 2018 until today pursuant to Article 17(4) of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of April 16th 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

4.2. Shares held by management and supervisory personnel

The holdings of PGNiG shares by the management and supervisory personnel have not changed since the date of issue of the consolidated full-year report for 2017.

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

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

4.3. Dividend paid (declared)

On May 28th 2018, the PGNiG Management Board resolved to recommend that the Annual General Meeting of PGNiG allocate PLN 867m from the 2017 net profit to dividend payment (PLN 0.15 per share).

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

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

4.4. Issue, redemption, and repayment of debt securities

In the reporting period, PGNiG S.A. redeemed domestic notes with the aggregate nominal value of:

- PLN 1.5bn – in the first quarter of the year,
- PLN 0.4bn – in the second quarter of the year,
- PLN 0.8bn – in the third quarter of the year.

The redemptions were made as part of the following programme:

					Utilisation (%) as at	Outstanding debt (PLNbn) as at	
Start date	**End date**	**Subject matter of agreement**	**Participating banks as at reporting date**	**Limit**	**Sep 30 2018**	**Sep 30 2018**	**Dec 31 2017**
Jun 10 2010	Jul 31 2020	Note issuance programme	Bank Pekao S.A., ING Bank Śląski S.A., PKO BP S.A., Bank Handlowy w Warszawie, BNP Paribas S.A. Oddział w Polsce, Societe Generale S.A., Bank Zachodni WBK S.A., mBank S.A.	PLN 7bn	11.4%	0.8	1.9

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

4.5. Seasonality

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

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

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

4.6. Material court, arbitration and administrative proceedings

For a detailed description of all material court, arbitration, or administrative proceedings, see the Directors' Report on the Operations of PGNiG S.A. and the PGNiG Group in 2017.

New developments in the reporting period are discussed below.

Proceedings with respect to the obligation to sell gas on the exchange market

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

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

Pursuant to the transitional provisions of the Act, from the effective date of the amendment to December 31st 2013 the volume of gas covered by the obligation to sell gas on the exchange market was 30%, from January 1st 2014 to December 31st 2014 – 40%, and as of January 1st 2015 – 55%.

On January 13th 2015, the President of the Energy Regulatory Office ("President of ERO") instigated proceedings to impose a financial penalty on PGNiG for its failure to meet the obligation to sell gas on the exchange market in 2013. PGNiG filed an appeal with the Competition and Consumer Protection Court at the Regional Court of Warsaw against one of the interlocutory decisions made by the President of ERO in the course of the proceedings. On April 15th 2016, the Competition and Consumer Protection Court at the Regional Court of Warsaw dismissed the appeal. On May 25th 2016, the President of ERO *ex officio* resumed the proceedings to impose a financial penalty on PGNiG for its failure to meet the exchange sale requirement in 2013. On June 17th 2016, acting under Art. 56.6a of the Energy Law, the Company filed a request with the President of ERO to refrain from imposing the penalty. In the course of the administrative proceedings, the President of ERO once again declined the request made by the Company's attorney to access the case files. On July 18th 2017, PGNiG filed a complaint against this decision and petitioned that the decision be revoked and costs of the proceedings be reimbursed to the Company. In a letter of April 23rd 2018, the President of ERO responded to the complaint requesting its dismissal and award of litigation costs. By the date of this report, the Competition and Consumer Protection Court at the Regional Court of Warsaw had not considered the Company's complaint.

On October 28th 2015, the President of ERO instigated proceedings to impose a financial penalty on PGNiG for its failure to meet the obligation to sell gas on the exchange market in 2014. On April 20th 2016, having considered the evidence, PGNiG filed, on the basis of Art. 56.6a of the Energy Law, a request that the President of ERO refrain from imposing the penalty. By decision of May 9th 2016, the President of ERO imposed a fine of PLN 15m for PGNiG's failure to meet the exchange sale obligation in 2014. On May 27th 2016, the Company appealed against the decision in its entirety. On December 27th 2016, the President of ERO replied to the appeal, requesting its dismissal. PGNiG filed its response on January 27th 2017, providing additional grounds for the request to present a legal question to the Constitutional Tribunal. On October 10th 2018, the Competition and Consumer Protection Court granted PGNiG S.A.'s appeal and reduced the administrative financial penalty from PLN 15m to PLN 5m, and also cancelled the costs of first instance proceedings between the parties. At the moment, the Company is awaiting delivery of the judgment along with a statement of reasons.

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

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

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

In the course of the proceedings, PGNiG submitted a request to the President of UOKiK for an obligation decision, in which it voluntarily agreed to revise certain provisions in its contracts with non-household customers. By virtue of a decision of December 31st 2013, the President of UOKiK resolved not to impose a fine on the Company and obliged the Company to fulfil its commitment. PGNiG performed its obligations set out in the President of UOKiK's obligation decision within the deadlines specified therein.

On August 1st 2014, PGNiG Obrót Detaliczny Sp. z o.o. ("PGNiG OD") took over the existing retail gas trading business from PGNiG and assumed all rights and obligations arising from the decisions issued by the President of UOKiK under the Act on Competition and Consumer Protection in respect of agreements to which PGNiG OD became a party. PGNiG OD is in the course of performing the obligation (in the part corresponding to its scope of business) imposed under the decision of the President of UOKiK dated December 31st 2013.

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

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

Proceedings concerning the OPAL pipeline

Proceedings concerning the OPAL pipeline are pending before:

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

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

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

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

Renegotiation of price terms under the contract with OOO Gazprom Export

On May 13th 2015, PGNiG S.A. called PAO Gazprom and OOO Gazprom Export to arbitration proceedings before the Arbitration Court in Stockholm. The dispute relates to change of the price terms of the long-term gas supply contract of September 25th 1996 (the Yamal Contract). In the course of the arbitration proceedings, on February 1st 2016 PGNiG filed with the Arbitration Court a claim against PAO Gazprom and OOO Gazprom Export.

On November 1st 2017, PGNiG again requested PAO Gazprom/OOO Gazprom Export to renegotiate the price terms of gas supplies. The Russians submitted their own renegotiation request on December 7th 2017, which the Company believes was groundless and ineffective as it failed to meet the formal requirements set out in the Yamal Contract.

On June 29th 2018, the Arbitration Court issued a partial award in the arbitration proceedings, in which it established that:

- in November 2014 PGNiG filed a valid and effective request for renegotiation of the contract price;
- the condition set forth in the Yamal Contract which entitles PGNiG to demand a reduction of the contract price for the gas supplied by Gazprom under the Yamal Contract was satisfied – thus the Arbitration Court confirmed that, in principle, PGNiG's request to determine a new, lower contract price was justified;
- PGNiG had the right to change the contract price within the limits of the claim, though the Court declared that PGNiG's initial demand regarding the new price formula was too far-reaching; the Court also decided ad hoc that the new contract price would be determined later on in the proceedings.

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

On October 2nd 2018, PAO Gazprom and OOO Gazprom Export filed an appeal with the Court of Appeals in Stockholm requesting reversal of the Arbitration Court's partial award of June 29th 2018. In the Company's opinion, there are no grounds to demand reversal of the Arbitration Court's partial award of June 29th 2018.

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

Other material proceedings related to liabilities and claims

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

4.7. Settlements from court proceedings

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

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

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

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

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

4.10. Related-party transactions

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

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

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

(in PLN million, unless stated otherwise)

4.12. Events subsequent to the reporting date

Date	Company	Event
October 2nd 2018	PGNiG S.A.	The Management Board of PGNiG became aware that PAO Gazprom and OOO Gazprom Export (“Gazprom”) filed an appeal with the Court of Appeals in Stockholm requesting reversal of the Arbitration Court’s *ad hoc* partial award of June 29th 2018, issued in the arbitration proceedings initiated by PGNiG against Gazprom to reduce the contract price for the gas supplied by Gazprom under the contract for the sale of natural gas to the Republic of Poland of September 25th 1996 (the Yamal Contract). The Company announced the issue of the partial award in Current Report No. 37/2018 of June 30th 2018. The Company was notified about the appeal by the Court of Appeals in Stockholm. The text of the appeal is not known to the Company as it has not yet been formally delivered to PGNiG. In the Company’s opinion, there are no grounds to demand reversal of the Arbitration Court’s partial award of June 29th 2018. Once a certified copy of the appeal is officially delivered to the Company, decision on further steps will be made.
October 18th 2018	PGNiG Upstream Norway AS	The Management Board of PGNiG Upstream Norway AS (“PUN”) concluded an agreement for the purchase of an interest in a licence on the Norwegian Continental Shelf from Equinor Energy AS (the “Agreement”). The Agreement provides for the purchase of a 30% interest in the PL044 licence from Equinor Energy AS, resulting in a 42.38% interest in the Tommeliten Alpha field. The operator of the field is ConocoPhillips Norway AS (a 28.26% interest), and the other licence partners are Total (20.23%) and Eni Norge (9.13%). Tommeliten Alpha is a gas and condensate field located in the North Sea in the immediate vicinity of the Ekofisk field. According to the Norwegian Petroleum Directorate data, the field has proven reserves of 12.8 bcm of natural gas, 5.9 mcm (around 5 million tonnes) of crude oil, and 0.5 million tonnes of NGL. According to the same data, the reserves corresponding to the interest purchased by PUN from Equinor Energy AS amount to approximately 52 mboe. The reserves of the Tommeliten Alpha field may prove even higher, while the PL044 licence offers considerable potential for further exploration work. Production is currently planned to be launched in 2024 by hooking up the field to the existing production infrastructure of the Ekofisk field. The purchase price of the interest is USD 220m, with January 1st 2018 marking the contractual transaction date. The Company expects that its interest in the field will enable the PGNiG Group to increase its natural gas output by more than 0.5 bcm annually in the first six years of production, and by an average of 0.3 bcm each year thereafter. In addition, the Tommeliten Alpha field will enable PGNiG to produce approximately 500 thousand tonnes of crude oil and NGL in the peak production year. According to the operator’s data, production will continue for over 20 years. It is assumed that produced gas will be routed to the Baltic Pipe, for which PGNiG has made a long-term capacity reservation. The licence has been purchased in the performance of the PGNiG Group Strategy for 2017–2022 (with an outlook until 2026), announced in Current Report No. 19/2017 of March 13th 2017. The agreement provides for conditions precedent, including the condition to obtain the required administrative consents in Norway and the PGNiG Supervisory Board’s approval. The conditions precedent must be met by July 1st 2019. On November 15th 2018, a condition precedent stipulated in the Agreement, concerning approval by the PGNiG Supervisory Board of the efforts designed to conclude the Agreement, was met.

(in PLN million, unless stated otherwise)

October 29th 2018	PGNiG S.A.	The Management Board of PGNiG decided to distribute an interim dividend of PLN 404,482,039.99 for 2018. Pursuant to Art. 349 of the Commercial Companies Code and Art. 22c of the Company's Articles of Association, the interim dividend will not exceed half of the financial profit for H1 2018 disclosed in the audited financial statements for the period ended June 30th 2018, increased by the amount of capital reserves and decreased by the accumulated losses. The interim dividend will be paid out on 5,778,314,857 Company shares. Thus, the interim dividend will amount to PLN 0.07 per share. The PGNiG Management Board set the interim dividend record date to November 26th 2018 and the interim dividend payment date to December 3rd 2018. On October 29th 2018, the Supervisory Board approved the distribution of the interim dividend.
November 8th 2018	PGNiG S.A.	PGNiG S.A. signed a binding long-term LNG purchase contract with Cheniere Marketing International, LLP ("Cheniere"). The contract with Cheniere provides for the purchase by the Company of LNG and its delivery to the President Lech Kaczyński LNG Terminal in Świnoujście as the main LNG receiving terminal, in the following volumes: • 2019–2022: ca. 0.73 bcm of gas after regasification in the entire period; • 2023–2042: ca. 39 bcm of gas after regasification in the entire period, i.e. approximately 1.95 bcm of gas after regasification annually. The contract was concluded for 24 years. Supplies will be made on a Delivered Ex-Ship basis. In the opinion of the PGNiG Management Board, the terms and conditions of the contract with Cheniere, including the competitive price of LNG, are satisfactory in the context of the PNGiG Group's strategy to expand LNG trading on global markets. The primary loading terminals for Cheniere's supplies will be the liquefaction terminals Sabine Pass in Louisiana, USA, and Corpus Christi in Texas, USA.

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

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

5. Quarterly financial data of PGNiG S.A.

5.1. Financial statements

Separate statement of profit or loss	3 months ended Sep 30 2018	9 months ended Sep 30 2018	3 months ended Sep 30 2017	9 months ended Sep 30 2017
Revenue from sale of gas	3,430	12,534	2,684	10,800
Other revenue	864	2,675	652	2,181
Revenue	**4,294**	**15,209**	**3,336**	**12,981**
Cost of gas sold	(2,715)	(9,938)	(2,066)	(8,381)
Other raw materials and consumables used	(243)	(892)	(220)	(813)
Employee benefits expense	(140)	(465)	(130)	(433)
Transmission, distribution and storage services	(245)	(728)	(287)	(845)
Other services	(361)	(1,084)	(253)	(703)
Depreciation and amortisation expense	(201)	(589)	(191)	(565)
Taxes and charges	(79)	(221)	(74)	(211)
Other income and expenses	(191)	(248)	(11)	(142)
Work performed by the entity and capitalised	1	4	1	5
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	140	460	32	103
Dividends	-	1,726	-	1,197
Finance income	8	229	11	153
Finance costs	(90)	(205)	44	(121)
Total	**(4,116)**	**(11,951)**	**(3,144)**	**(10,756)**
Profit before tax	**178**	**3,258**	**192**	**2,225**
Income tax	(14)	(303)	(36)	(242)
Net profit	**164**	**2,955**	**156**	**1,983**
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778
Basic and diluted earnings per share (PLN)	0.03	0.51	0.03	0.34

Separate statement of comprehensive income	3 months ended Sep 30 2018	9 months ended Sep 30 2018	3 months ended Sep 30 2017	9 months ended Sep 30 2017
Net profit	**164**	**2,955**	**156**	**1,983**
Hedge accounting	(304)	(319)	40	(93)
Deferred tax	75	84	(7)	18
Other comprehensive income subject to reclassification to profit or loss	**(229)**	**(235)**	**33**	**(75)**
Actuarial losses on employee benefits	-	(4)	-	(7)
Deferred tax	-	1	-	1
Other comprehensive income not subject to reclassification to profit or loss	**-**	**(3)**	**-**	**(6)**
Other comprehensive income, net	**(229)**	**(238)**	**33**	**(81)**
Total comprehensive income	**(65)**	**2,717**	**189**	**1,902**

(in PLN million, unless stated otherwise)

Separate statement of cash flows	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Cash flows from operating activities		
Net profit	2,955	1,983
Depreciation and amortisation expense	589	565
Interest and dividends	(1,757)	(1,295)
Net gain/(loss) on investing activities	(331)	(54)
Other non-monetary adjustments	706	160
Income tax paid	(371)	(219)
Current tax expense	303	242
Movements in working capital	(1,632)	(1,596)
Net cash from operating activities	**462**	**(214)**
Cash flows from investing activities		
Payments for tangible exploration and evaluation assets	(582)	(476)
Payments for intangible assets and other property, plant and equipment	(243)	(243)
Loans advanced	(460)	(833)
Payments for derivative financial instruments	(46)	(82)
Payments for shares in related entities	(4)	(404)
Other cash used in investing activities	(14)	(19)
Repayments of loans advanced	594	601
Proceeds from sale of short-term securities	-	100
Proceeds from derivative financial instruments	44	101
Interest received	101	65
Dividends received	1,726	1,197
Other cash generated by investing activities	27	16
Net cash from investing activities	**1,143**	**23**
Cash flows from financing activities		
Proceeds from issue of debt securities	798	1,288
Proceeds from derivative financial instruments	-	165
Other cash generated by financing activities	2	5
Dividends paid	-	(1,156)
Repayment of borrowings	-	(2,152)
Redemption of debt securities	(1,996)	(2,700)
Interest paid	(25)	(161)
Payments for derivative financial instruments	-	(19)
Net cash from financing activities	**(1,221)**	**(4,730)**
Net cash flows	**384**	**(4,921)**
Cash and cash equivalents at beginning of period	1,680	4,923
Cash and cash equivalents at end of period	**2,064**	**2**

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

- A cash pooling agreement between Bank Pekao S.A. and Group companies, dated July 16th 2014;

(in PLN million, unless stated otherwise)

- A cash pooling agreement of December 22nd 2016 between PKO BP SA and Group companies, effective as of March 1st 2017.

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

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

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

Reconciliation of cash and cash equivalents disclosed in the statement of cash flows with cash and cash equivalents disclosed in the statement of financial position.	**9 months ended Sep 30 2018**	**9 months ended Sep 30 2017**
Cash and cash equivalents at end of period in the statement of cash flows	**2,064**	**2**
Opening balance of net exchange differences	(2)	(1)
Opening balance of inflows/outflows of cash under cash pooling arrangement	306	210
Net exchange differences in period	4	(1)
Inflows/(outflows) of cash under cash pooling arrangement in period	(129)	915
Cash at end of period in the statement of financial position	**2,243**	**1,125**

(in PLN million, unless stated otherwise)

Separate statement of financial position	As at Sep 30 2018	As at Dec 31 2017
Assets		
Property, plant and equipment	12,127	12,021
Licences, mining rights and rights to geological information	70	54
Deferred tax	136	79
Shares	9,828	9,800
Derivative financial instruments	142	-
Loans advanced	2,735	1,553
Other assets	689	727
Non-current assets	**25,727**	**24,234**
Inventories	3,438	2,231
Receivables	2,612	2,442
Cash pooling receivables	423	284
Derivative financial instruments	549	189
Loans advanced	587	2,042
Other assets	73	41
Cash and cash equivalents	2,243	1,984
Current assets	**9,925**	**9,213**
TOTAL ASSETS	**35,652**	**33,447**
Equity and liabilities		
Share capital and share premium	7,518	7,518
Capital reserve	867	-
Hedging reserve	(352)	7
Accumulated other comprehensive income	20	23
Retained earnings	20,433	18,485
Total equity	**28,486**	**26,033**
Derivative financial instruments	267	-
Employee benefit obligations	234	222
Provision for well decommissioning costs	1,436	1,376
Other provisions	28	28
Grants	528	554
Other liabilities	78	108
Non-current liabilities	**2,571**	**2,288**
Financing liabilities	799	1,998
Derivative financial instruments	966	72
Trade and tax payables	1,716	2,002
Cash pooling liabilities	637	622
Employee benefit obligations	84	98
Provision for well decommissioning costs	58	53
Other provisions	282	229
Other liabilities	53	52
Current liabilities	**4,595**	**5,126**
TOTAL LIABILITIES	**7,166**	**7,414**
TOTAL EQUITY AND LIABILITIES	**35,652**	**33,447**

(in PLN million, unless stated otherwise)

Statement of changes in equity

	Share capital and share premium	Capital reserve*	Hedging reserve	Accumulated other comprehensive income	Retained earnings (deficit)	Total equity
As at Jan 1 2017	**7,518**	**-**	**69**	**34**	**17,607**	**25,228**
Net profit	-	-	-	-	1,983	1,983
Other comprehensive income, net	-	-	(75)	(6)	-	(81)
Total comprehensive income	**-**	**-**	**(75)**	**(6)**	**1,983**	**1,902**
Dividend	-	-	-	-	(1,156)	(1,156)
At Sep 30 2017	**7,518**	**-**	**(6)**	**28**	**18,434**	**25,974**
As at Jan 1 2018	**7,518**	**-**	**7**	**23**	**18,485**	**26,033**
Effect of IFRS 9	-	-	-	-	(140)	(140)
As at Jan 1 2018 (restated)	**7,518**	**-**	**7**	**23**	**18,345**	**25,893**
Net profit	-	-	-	-	2,955	2,955
Other comprehensive income, net	-	-	(235)	(3)	-	(238)
Total comprehensive income	**-**	**-**	**(235)**	**(3)**	**2,955**	**2,717**
Transfers	-	867	-	-	(867)	-
Change in equity recognised in inventories	-	-	(124)	-	-	(124)
As at Sep 30 2018	**7,518**	**867**	**(352)**	**20**	**20,433**	**28,486**

* On July 20th 2018, the Annual General Meeting of PGNIG S.A. resolved to allocate PLN 867m to capital reserve to be used for the expansion and modernisation of the national gas distribution network.

(in PLN million, unless stated otherwise)

5.2. Presentation changes in the financial statements

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

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

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

Statement of profit or loss	Period ended Sep 30 2018 in accordance with IAS 18 and IAS 11	Impact of transition from IAS 18 and IAS 11 to IFRS 15	Period ended Sep 30 2018 in accordance with IFRS 15
Revenue from sale of gas	12,722	(188)	12,534
Other revenue	2,675	-	2,675
Revenue	**15,397**	**(188)**	**15,209**
Cost of gas sold	(9,938)	-	(9,938)
Other raw materials and consumables used	(892)	-	(892)
Employee benefits expense	(465)	-	(465)
Transmission, distribution and storage services	(916)	188	(728)
Other services	(1,084)	-	(1,084)
Depreciation and amortisation expense	(589)	-	(589)
Taxes and charges	(221)	-	(221)
Other income and expenses	(248)	-	(248)
Work performed by the entity and capitalised	4	-	4
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	460	-	460
Dividends	1,726	-	1,726
Finance income	229	-	229
Finance costs	(205)	-	(205)
Total	**(12,139)**	**188**	**(11,951)**
Profit before tax	**3,258**	**-**	**3,258**
Income tax	(303)	-	(303)
Net profit	**2,955**	**-**	**2,955**

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

(in PLN million, unless stated otherwise)

The impact of IFRS 9 adoption is presented below:

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

(in PLN million, unless stated otherwise)

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

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

(in PLN million, unless stated otherwise)

5.3. Notes to the interim condensed separate financial statements

Deferred tax

	As at January 1st 2017	Credited/Charged: Net profit/(loss)	Credited/Charged: Other comprehensive income	As at Dec 31 2017	Effect of IFRS 9	Credited/Charged: Net profit/(loss)	Credited/Charged: Other comprehensive income	As at Sep 30 2018
Deferred tax								
Employee benefit obligations	47	(1)	3	49	-	(2)	1	48
Provision for well decommissioning costs	141	14	-	155	-	8	-	163
Other provisions	22	4	-	26	-	15	-	41
Valuation of derivatives	18	(5)	-	13	-	209	-	222
Impairment of property, plant and equipment	214	(40)	-	174	-	(83)	-	91
Other	37	(11)	-	26	-	5	-	31
Total	**479**	**(39)**	**3**	**443**	**-**	**152**	**1**	**596**
Deferred tax liabilities								
Difference between depreciation rates for property, plant and equipment	359	(67)	-	292	-	55	-	347
Valuation of derivatives	65	(17)	(14)	34	-	144	(84)	94
Other	59	(21)	-	38	(4)	(15)	-	19
Total	**483**	**(105)**	**(14)**	**364**	**(4)**	**184**	**(84)**	**460**
Set-off of assets and liabilities	(479)	-	-	(364)		-	-	(460)
After set-off	-	-	-	-	-	-	-	-
Assets	-	-	-	79	-	-	-	136
Liabilities	4	-	-	-	-	-	-	-
Net effect of changes in the period		**66**	**17**		**4**	**(32)**	**85**	

The Company recognised the effect of IFRS 9 on deferred tax liabilities at PLN 4m.

As deferred tax is presented in the statement of financial position on a net basis, the balance of deferred tax assets was adjusted by the identified amount of liabilities.

(in PLN million, unless stated otherwise)

Impairment losses/write-downs

	Property, plant and equipment, licences, mining rights and rights to geological information	Other assets	Loans advanced	Shares	Inventories	Receivables	Cash pooling receivables	Current financial assets	Total
As at Jan 1 2017	**3,231**	**15**	**56**	**2,567**	**72**	**309**	**-**	**40**	**6,290**
Increase taken to profit or loss	1,203	3	4	104	88	222	-	-	1,624
Transfers	-	2	-	(2)	-	-	-	-	-
Decrease taken to profit or loss	(772)	-	(10)	-	(57)	(212)	-	-	(1,051)
Other changes	(65)	-	-	-	-	-	-	-	(65)
As at Dec 31 2017	**3,597**	**20**	**50**	**2,669**	**103**	**319**	**-**	**40**	**6,798**
Effect of IFRS 9	-	-	81	-	-	13	6	-	100
As at Jan 1 2018 (restated)	**3,597**	**20**	**131**	**2,669**	**103**	**332**	**6**	**40**	**6,898**
Increase taken to profit or loss	242	-	85	55	67	313	1	-	763
Transfers	-	(5)	-	7	-	(2)	-	-	-
Decrease taken to profit or loss	(702)	(1)	(138)	-	(81)	(233)	(6)	-	(1,161)
Other changes	(59)	(1)	-	-	-	-	-	-	(60)
As at Sep 30 2018	**3,078**	**13**	**78**	**2,731**	**89**	**410**	**1**	**40**	**6,440**

Provisions

	Provision for well decommission ing costs	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provisions	Provisio n for UOKiK fine	Provision for claims under extra-contractual use of land	Provision for financial guarantees	Other provisions	Total
As at Jan 1 2017	**1,272**	**29**	**194**	**26**	**10**	**8**	**-**	**9**	**1,548**
Recognised provision capitalised in cost of property, plant and equipment	192	-	-	-	-	-	-	-	192
Recognised provision taken to profit or loss	63	29	-	-	-	-	-	12	104
Used	(34)	(18)	-	-	-	-	-	-	(52)
Provision reversal taken to profit or loss	(64)	(2)	(32)	-	-	(2)	-	(6)	(106)
As at Dec 31 2017	**1,429**	**38**	**162**	**26**	**10**	**6**	**-**	**15**	**1,686**
Effect of IFRS 9	-	-	-	-	-	-	18	-	18
As at Jan 1 2018 (restated)	**1,429**	**38**	**162**	**26**	**10**	**6**	**18**	**15**	**1,704**
Recognised provision capitalised in cost of property, plant and equipment	73	-	-	-	-	-	-	-	73
Recognised provision taken to profit or loss	27	27	9	-	-	1	-	27	91
Used	(15)	(2)	-	-	(10)	-	-	-	(27)
Provision reversal taken to profit or loss	(20)	(1)	-	-	-	(2)	(13)	(2)	(38)
Other changes	-	-	-	-	-	-	1	-	1
As at Sep 30 2018	**1,494**	**62**	**171**	**26**	**-**	**5**	**6**	**40**	**1,804**

(in PLN million, unless stated otherwise)

Revenue

	Total		Domestic sales		Export sales	
	9 months ended Sep 30 2018	9 months ended Sep 30 2017	9 months ended Sep 30 2018	9 months ended Sep 30 2017	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Revenue	**12,534**	**10,800**	**11,840**	**10,290**	**694**	**510**
High-methane gas	11,806	9,753	11,261	9,372	545	381
Nitrogen-rich gas	967	879	874	804	93	75
Propane-butane gas	51	46	51	46	-	-
LNG	61	57	61	57	-	-
Helium	68	65	12	11	56	54
Adjustment to gas sales due to hedging transactions	(419)	-	(419)	-	-	-
Other revenue, including:	**2,675**	**2,181**	**2,201**	**1,902**	**474**	**279**
Crude oil and natural gasoline	1,114	828	797	602	317	226
Sale of electricity	854	751	759	698	95	53
Right to use storage facilities	429	432	429	432	-	-
CO_2 emission units	9	-	9	-	-	-
Other	269	170	207	170	62	-
Total revenue	**15,209**	**12,981**	**14,041**	**12,192**	**1,168**	**789**

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

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

(in PLN million, unless stated otherwise)

Operating expenses

	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Cost of gas sold	**(9,938)**	**(8,381)**
Gas fuel	(9,949)	(8,382)
Net gain/(loss) on gas price hedges	11	1
Other raw materials and consumables used	**(892)**	**(813)**
Electricity for trading	(814)	(719)
Other raw materials and consumables used	(78)	(94)
Employee benefits expense	**(465)**	**(433)**
Salaries and wages	(347)	(327)
Social security contributions	(85)	(79)
Other employee benefits expense	(43)	(41)
Employee benefit obligations	10	14
Transmission, distribution and storage services	**(728)**	**(845)**
Other services	**(1,084)**	**(703)**
Regasification services	(273)	(266)
Cost of dry wells written off	(531)	(150)
Cost of seismic surveys written off	-	(1)
Repair and construction services	(28)	(22)
Geological and exploration services	(30)	(39)
Mineral resources production services	(16)	(18)
Well abandonment services	(11)	(18)
Other services	(195)	(189)
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	**460**	**103**
Impairment losses on property, plant and equipment	460	104
Impairment losses on intangible assets	-	(1)
Total	**(12,647)**	**(11,072)**

Other income and expenses

	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Measurement and exercise of derivative financial instruments	(79)	(6)
Change in inventory write-downs	14	2
Change in provision for well decommissioning costs	(7)	(12)
Change in provision for certificates of origin and energy efficiency certificates	(26)	(41)
Cost of merchandise and materials sold	(26)	(31)
Change in provision for claims under extra-contractual use of land	1	-
Change in other provisions	(25)	(56)
Change in impairment loss on receivables and interest on receivables	(80)	(24)
Other	(20)	26
Total other income and expenses	**(248)**	**(142)**

(in PLN million, unless stated otherwise)

Finance income and costs

	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Finance income		
Gain on measurement and exercise of forward contracts	-	6
Interest income	81	143
Foreign exchange gains	60	-
Fair value measurement of a loan	22	-
Gain on modification of financial assets	2	-
Reversal of impairment loss on loans advanced	42	-
Other finance income	22	4
Total finance income	**229**	**153**
Finance costs		
Loss on measurement and exercise of forward contracts	(58)	-
Interest on debt and fees	(28)	(66)
Foreign exchange losses	-	(11)
Impairment losses on shares and other securities	(4)	(40)
Loss on derecognition of financial assets	(113)	-
Other	(2)	(4)
Total finance costs	**(205)**	**(121)**

Income tax

Reconciliation of effective tax rate	9 months ended Sep 30 2018	9 months ended Sep 30 2017
Profit before tax	**3,258**	**2,225**
Corporate income tax at the applicable 19% statutory rate	(619)	(423)
Dividends received	328	227
Other income not recognised as taxable income	87	40
Non-tax deductible expenses	(99)	(86)
Corporate income tax at the effective tax rate	**(303)**	**(242)**
Current tax expense	(271)	(198)
Deferred tax expense	(32)	(44)
Effective tax rate	**9%**	**11%**

Property, plant and equipment

	As at Sep 30 2018	As at Dec 31 2017
Land	39	43
Buildings and structures	7,121	6,981
Plant and equipment	2,287	2,386
Vehicles and other	106	102
Total tangible assets	**9,553**	**9,512**
Tangible exploration and evaluation assets under construction	2,105	2,055
Other tangible assets under construction	469	454
Total property, plant and equipment	**12,127**	**12,021**

(in PLN million, unless stated otherwise)

Hedge accounting

Type of hedging instrument	Notional amount	Carrying amount		Name of item in statement of financial position which includes hedging instrument	Change in fair value of hedging instrument used as basis for recognising hedge ineffectiveness in given period	Hedging gains or losses for reporting period, recognised in other comprehensive income	Hedge ineffectiveness amount taken to profit or loss	Item of statement of comprehensive income (statement of profit or loss) in which ineffectiveness amount is included	Amount reclassified from cash flow hedging reserve to profit or loss as reclassification adjustment	Item of statement of comprehensive income (statement of profit or loss) in which reclassification adjustment is included
		Assets	Liabilities							
CASH FLOW HEDGES										
CURRENCY RISK										
Forward contracts for currency purchase (USD)	3,804	201	4	Derivative financial instruments	197	197	-	Operating income / expenses	Not applicable	Not applicable
Average rate forwards (EUR)	8,786	54	25	Derivative financial instruments	29	29	-	Operating income / expenses	-	Revenue from sale of gas
COMMODITY PRICE RISK										
Basis swap contracts for gas price indices	621	39	74	Derivative financial instruments	(35)	(35)	-	Operating income / expenses	(242)	Revenue from sale of gas
Swap contracts for gas price indices	3,282	14	742	Derivative financial instruments	(728)	(711)	(17)	Operating income / expenses	(177)	Revenue from sale of gas
Swap contracts for petroleum product price indices	46	10	-	Derivative financial instruments	10	10	-	Operating income / expenses	Not applicable	Not applicable
FAIR VALUE HEDGES										
Total	**16,539**	**318**	**845**	**-**	**(527)**	**(510)**	**(17)**	**-**	**(419)**	**-**

(in PLN million, unless stated otherwise)

Hedged items	Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	Balance of cash flow hedging reserve for continuing hedges	Balance remaining in cash flow hedging reserve in respect of all hedging relationships for which hedge accounting is no longer applied
CURRENCY RISK			
Cost of purchased gas (USD)	(197)	197	Not applicable
Cost of purchased gas (USD)	(29)	29	Not applicable
COMMODITY PRICE RISK			
Gas contracts indexed to monthly gas price indices	35	9	5
Gas contracts indexed to daily gas price indices	711	(685)	Not applicable
Gas contracts indexed to monthly petroleum product indices	(10)	10	Not applicable
TOTAL	**510**	**(440)**	**5**

	9 months ended Sep 30 2018	9 months ended Sep 30 2017
At beginning of period	8	84
CURRENCY RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	341	(16)
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	-	(1)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(106)	-
COMMODITY PRICE RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	(1,067)	(75)
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	419	-
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(18)	Not applicable
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment for those hedging relationships to which hedge accounting is no longer applied	(11)	-
At end of period	**(434)**	**(8)**

PGNiG Management Board:

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

Warsaw, November 19th 2018