Polskie Górnictwo Naftowe i Gazownictwo S.A.

INTERIM REPORT

for the six months ended June 30th 2020

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	
	6 months ended June 30th 2020	6 months ended June 30th 2019	6 months ended June 30th 2020	6 months ended June 30th 2019
Revenue	21,038	22,624	4,737	5,276
Operating profit before interest, taxes, depreciation and amortisation (EBITDA)	9,352	3,180	2,106	742
Operating profit (EBIT)	7,656	1,714	1,724	400
Profit before tax	7,327	1,753	1,650	409
Net profit attributable to owners of the parent	5,920	1,333	1,333	311
Net profit	5,920	1,332	1,333	311
Total comprehensive income attributable to owners of the parent	5,597	1,600	1,260	373
Total comprehensive income	5,597	1,599	1,260	373
Net cash from operating activities	6,679	4,063	1,504	948
Net cash from investing activities	(2,938)	(2,280)	(662)	(532)
Net cash from financing activities	(3,119)	(2,602)	(702)	(607)
Net cash flows	622	(819)	140	(191)
Basic and diluted earnings per share (in PLN and EUR, respectively)	1.02	0.23	0.23	0.05
	As at June 30th 2020	As at December 31st 2019	As at June 30th 2020	As at December 31st 2019
Total assets	62,174	59,185	13,922	13,898
Total liabilities	18,739	21,078	4,196	4,950
Total non-current liabilities	10,960	10,378	2,454	2,437
Total current liabilities	7,779	10,700	1,742	2,513
Total equity	43,435	38,107	9,726	8,948
Share capital	5,778	5,778	1,294	1,357
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)	7.52	6.60	1.68	1.55
Dividend per share declared or paid (PLN and EUR)	0.09	0.11	0.02	0.03

Key data from the interim condensed separate financial statements	PLNm		EURm	
	6 months ended June 30th 2020	6 months ended June 30th 2019	6 months ended June 30th 2020	6 months ended June 30th 2019
Revenue	11,037	12,035	2,485	2,807
Operating profit before interest, taxes, depreciation and amortisation (EBITDA)	6,776	864	1,526	201
Operating profit (EBIT)	6,365	447	1,433	104
Profit before tax	6,469	1,895	1,457	442
Net profit	5,230	1,772	1,178	413
Total comprehensive income	4,955	2,046	1,116	477
Net cash from operating activities	2,622	846	591	197
Net cash from investing activities	(1,083)	(241)	(244)	(56)
Net cash from financing activities	(3,051)	(2,387)	(687)	(557)
Net cash flows	(1,512)	(1,782)	(340)	(416)
Earnings and diluted earnings per share attributable to holders of ordinary shares (PLN/EUR)	0.91	0.31	0.20	0.07
	As at June 30th 2020	As at December 31st 2019	As at June 30th 2020	As at December 31st 2019
Total assets	43,790	41,044	9,805	9,638
Total liabilities	8,507	10,426	1,905	2,448
Total non-current liabilities	3,532	3,315	791	778
Total current liabilities	4,975	7,111	1,114	1,670
Equity	35,283	30,618	7,900	7,190
Share capital and share premium	7,518	7,518	1,683	1,765
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)	6.11	5.30	1.37	1.24
Dividend per share declared or paid (PLN/EUR)	0.09	0.11	0.02	0.03

Average EUR/PLN exchange rates quoted by the NBP	June 30th 2020	June 30th 2019	December 31st 2019
Average exchange rate for period	4.4413	4.2880	4.3018
Exchange rate at end of period	4.4660	4.2520	4.2585

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 for the reporting date.

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1. Interim condensed consolidated financial statements

Consolidated statement of profit or loss	3 months ended June 30th 2020	6 months ended June 30th 2020	3 months ended June 30th 2019	6 months ended June 30th 2019	
	unaudited	unaudited	unaudited	unaudited	
Revenue from sale of gas	4,859	15,290	5,751	16,825	*Note 4.4.1.*
Other revenue	2,423	5,748	2,533	5,799	*Note 4.4.1.*
Revenue	**7,282**	**21,038**	**8,284**	**22,624**	
Cost of gas	(2,764)	(11,458)	(4,846)	(14,777)	*Note 4.5*
Effect of the annex executed with PAO Gazprom/OOO Gazprom Export on the cost of gas in 2014–2019*	4,915	4,915	-	-	*Note 4.5*
Other raw materials and consumables used	(671)	(1,549)	(628)	(1,427)	*Note 4.5*
Employee benefits expense	(801)	(1,601)	(834)	(1,547)	*Note 4.5*
Transmission services	(260)	(519)	(258)	(519)	
Other services	(440)	(859)	(441)	(849)	*Note 4.5*
Taxes and charges	(66)	(640)	(45)	(545)	
Other income and expenses	14	459	(265)	(17)	*Note 4.6*
Work performed by the entity and capitalised	223	498	246	483	
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	(158)	(932)	(251)	(246)	*Note 4.5*
Operating profit before interest, taxes, depreciation and amortisation (EBITDA)	**7,274**	**9,352**	**962**	**3,180**	
Depreciation and amortisation expense	(825)	(1,696)	(677)	(1,466)	
Operating profit (EBIT)	**6,449**	**7,656**	**285**	**1,714**	
Net finance costs	149	(121)	7	13	*Note 4.7*
Profit/(loss) from equity-accounted investees	(217)	(208)	14	26	
Profit before tax	**6,381**	**7,327**	**306**	**1,753**	
Income tax	(1,240)	(1,407)	(74)	(421)	*Note 4.8*
Net profit	**5,141**	**5,920**	**232**	**1,332**	
Net profit attributable to:					
Owners of the parent	5,141	5,920	232	1,333	
Non-controlling interests	-	-	-	(1)	
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778	
Basic and diluted earnings per share (PLN)	0.89	1.02	0.04	0.23	

Consolidated statement of comprehensive income	3 months ended June 30th 2020	6 months ended June 30th 2020	3 months ended June 30th 2019	6 months ended June 30th 2019
	unaudited	unaudited	unaudited	unaudited
Net profit	**5,141**	**5,920**	**232**	**1,332**
Exchange differences on translating foreign operations	6	(21)	(20)	2
Hedge accounting	(257)	(314)	25	345
Deferred tax	49	60	(5)	(66)
Other comprehensive income subject to reclassification to profit or loss	**(202)**	**(275)**	**-**	**281**
Actuarial losses on employee benefits	(54)	(54)	(15)	(15)
Deferred tax	10	10	3	3
Share of other comprehensive income of equity-accounted investees	(4)	(4)	(2)	(2)
Other comprehensive income not subject to reclassification to profit or loss	**(48)**	**(48)**	**(14)**	**(14)**
Other comprehensive income, net	**(250)**	**(323)**	**(14)**	**267**
Total comprehensive income	**4,891**	**5,597**	**218**	**1,599**
Total comprehensive income attributable to:				
Owners of the parent	4,891	5,597	217	1,600
Non-controlling interests	-	-	1	(1)

* For more information, see Note 5.1.1.

(all amounts in PLN million, unless stated otherwise)

Consolidated statement of cash flows	6 months ended June 30th 2020	6 months ended June 30th 2019
	unaudited	unaudited
Cash flows from operating activities		
Net profit	5,920	1,332
Depreciation and amortisation expense	1,696	1,466
Current tax expense	1,407	421
Net gain/(loss) on investing activities	874	235
Other non-monetary adjustments	756	(204)
Income tax paid	(609)	(549)
Movements in working capital	(3,365)	1,362
Net cash from operating activities	**6,679**	**4,063**
Cash flows from investing activities		
Payments for purchase of tangible exploration and evaluation assets under construction	(523)	(388)
Payments for other property, plant and equipment and intangible assets	(2,330)	(1,827)
Other items, net	(85)	(65)
Net cash from investing activities	**(2,938)**	**(2,280)**
Cash flows from financing activities		
Increase in debt	295	103
Decrease in debt	(3,400)	(2,705)
Other items, net	(14)	-
Net cash from financing activities	**(3,119)**	**(2,602)**
Net cash flows	**622**	**(819)**
Cash and cash equivalents at beginning of the period	3,041	3,928
Foreign exchange differences on cash and cash equivalents	8	5
Cash and cash equivalents at end of the period	**3,663**	**3,109**

(all amounts in PLN million, unless stated otherwise)

Consolidated statement of financial position	As at June 30th 2020	As at December 31st 2019	
	unaudited	audited	
ASSETS			
Property, plant and equipment	40,588	40,002	*Note 4.9*
Intangible assets	430	729	
Deferred tax assets	25	32	
Equity-accounted investees	1,352	1,564	
Derivative financial instruments	482	237	
Other assets	1,427	1,375	
Non-current assets	**44,304**	**43,939**	
Inventories	2,297	4,042	
Receivables	9,614	5,504	
Derivative financial instruments	1,709	2,390	*Note 4.10*
Other assets	572	259	
Cash and cash equivalents	3,666	3,037	
Assets held for sale	12	14	
Current assets	**17,870**	**15,246**	
TOTAL ASSETS	**62,174**	**59,185**	
EQUITY AND LIABILITIES			
Share capital and share premium	7,518	7,518	
Hedging reserve	714	739	
Accumulated other comprehensive income	(315)	(246)	
Retained earnings	35,519	30,097	
Equity attributable to owners of the parent	43,436	38,108	
Equity attributable to non-controlling interests	(1)	(1)	
TOTAL EQUITY	**43,435**	**38,107**	
Financing liabilities	3,672	3,507	
Derivative financial instruments	75	20	
Employee benefit obligations	1,006	890	
Provision for well decommissioning costs	2,599	2,355	*Note 4.3*
Other provisions	281	279	*Note 4.3*
Grants	699	705	
Deferred tax liabilities	2,428	2,383	
Other liabilities	200	239	
Non-current liabilities	**10,960**	**10,378**	
Financing liabilities	381	3,245	
Derivative financial instruments	1,032	1,277	*Note 4.10*
Trade and tax payables*	3,129	3,487	
Employee benefit obligations	436	398	
Provision for well decommissioning costs	20	34	*Note 4.3*
Other provisions	727	728	*Note 4.3*
Other liabilities	2,054	1,531	
Current liabilities	**7,779**	**10,700**	
TOTAL LIABILITIES	**18,739**	**21,078**	
TOTAL EQUITY AND LIABILITIES	**62,174**	**59,185**	

*Including income tax of PLN 1,111m (2019: PLN 132m)

(all amounts in PLN million, unless stated otherwise)

Consolidated statement of changes in equity

	Equity attributable to owners of the parent								Equity attributable to non-controlling interests	Total equity
	Share capital and share premium, including:		Hedging reserve	Accumulated other comprehensive income:			Retained earnings	Total		
	Share capital	Share premium		Translation reserve	Actuarial gains/(losses) on employee benefits	Share of other comprehensive income of equity-accounted investees				
As at January 1st 2019 (audited)	**5,778**	**1,740**	**73**	**(112)**	**(91)**	**-**	**29,246**	**36,634**	**(2)**	**36,632**
Impact of IFRS 16	-	-	-	-	-	-	121	**121**	**-**	**121**
Net profit	-	-	-	-	-	-	1,333	**1,333**	(1)	**1,332**
Other comprehensive income, net	-	-	279	2	(12)	(2)	-	**267**	-	**267**
Total comprehensive income	**-**	**-**	**279**	**2**	**(12)**	**(2)**	**1,333**	**1,600**	**(1)**	**1,599**
Change in equity recognised in inventories	-	-	(85)	-	-	-	-	**(85)**	-	**(85)**
Dividend	-	-	-	-	-	-	(636)	**(636)**	-	**(636)**
Changes in the Group	-	-	-	3	-	-	(5)	**(2)**	-	**(2)**
As at June 30th 2019 (unaudited)	**5,778**	**1,740**	**267**	**(107)**	**(103)**	**(2)**	**30,059**	**37,632**	**(3)**	**37,629**
As at January 1st 2020 (audited)	**5,778**	**1,740**	**739**	**(122)**	**(117)**	**(7)**	**30,097**	**38,108**	**(1)**	**38,107**
Net profit	-	-	-	-	-	-	5,920	**5,920**	-	**5,920**
Other comprehensive income, net	-	-	(254)	(21)	(44)	(4)	-	**(323)**	-	**(323)**
Total comprehensive income	**-**	**-**	**(254)**	**(21)**	**(44)**	**(4)**	**5,920**	**5,597**	**-**	**5,597**
Change in equity recognised in inventories	-	-	229	-	-	-	-	**229**	-	**229**
Dividend	-	-	-	-	-	-	(520)	**(520)**	-	**(520)**
Changes in the Group	-	-	-	-	-	-	22	**22**	-	**22**
As at June 30th 2020 (unaudited)	**5,778**	**1,740**	**714**	**(143)**	**(161)**	**(11)**	**35,519**	**43,436**	**(1)**	**43,435**

2. General information

2.1 Basic information about the Group

Parent's name	Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna
Registered office	ul. Marcina Kasprzaka 25, 01-224 Warsaw, Poland
Court of registration	District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register
NATIONAL COURT REGISTER (KRS) NO.	0000059492
Industry Identification Number (REGON)	012216736
Tax Identification Number (NIP)	525-000-80-28
Description of business	The Company's principal business activity is exploration for and production of crude oil and natural gas; import, storage and sale of gas and liquid fuels; and trade in electricity.

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

As at the date of issue of this interim report for H1 2020, the State Treasury, represented by the minister competent for energy matters, was the only shareholder holding 5% or more of total voting rights in the Company. For more information on the PGNiG S.A. shareholding structure, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in H1 2020.

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 Group's business comprises exploration for hydrocarbon deposits; production of oil and natural gas; and import, storage, distribution, sale of and trade in gas fuels. The PGNiG Group imports gas fuel, and is the largest producer of natural gas from Polish deposits. The Group's upstream business is one of the key factors ensuring PGNiG's competitive position on the Polish gas market.

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

2.2 Basis for preparation of the financial statements included in the report

The interim condensed consolidated financial statements and interim condensed separate financial statements for H1 2020 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 Parent and the Group will continue as going concerns in the foreseeable future. As at the date of authorisation of this interim report, no circumstances were identified which would indicate any threat to the Group's continuing as a going concern.

The Polish złoty (PLN) is the functional currency of PGNiG S.A. and the presentation currency of these consolidated financial statements. The method of translation of items denominated in foreign currencies is presented in the full-year consolidated financial statements for the year ended December 31st 2019, issued on March 12th 2020.

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

The issue date of this interim report for H1 2020 is August 20th 2020.

2.3 Applied accounting policies

The accounting policies applied in preparing these interim condensed consolidated and separate financial statements were consistent with the policies applied to prepare the consolidated financial statements for 2019.

(all amounts in PLN million, unless stated otherwise)

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

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

2.5 Presentation changes in the financial statements

Following a detailed analysis of the regulations governing recognition of lease contracts/decisions concerning long-term lease of underground infrastructure and taking into account the relevant interpretation issued by the IFRS Interpretations Committee, in the preparation of the financial statements as at December 31st 2019 the Group concluded that it was a party to lease contracts/long-term lease decisions which satisfy the definition of leases in accordance with IFRS 16.

Therefore, the Group recognised right-of-use assets and lease liabilities as at January 1st 2019, and the adjustment also affected the financial data presented in the interim reports issued in 2019.

The tables below present the effect of the adjustment on the consolidated financial statements of the PGNiG Group for H1 2019.

Consolidated statement of profit or loss	Period ended June 30th 2019 before restatement	Period ended June 30th 2019 after restatement	Change
Revenue	**22,624**	**22,624**	**-**
Operating expenses	**(19,498)**	**(19,444)**	**54**
including:			
Taxes and charges	(599)	(545)	54
Operating profit before interest, taxes, depreciation and amortisation (EBITDA)	**3,126**	**3,180**	**54**
Depreciation and amortisation expense	(1,451)	(1,466)	(15)
Operating profit (EBIT)	**1,675**	**1,714**	**39**
Net finance costs	31	13	(18)
Profit before tax	**1,732**	**1,753**	**21**
Net profit	**1,311**	**1,332**	**21**

(all amounts in PLN million, unless stated otherwise)

Consolidated statement of cash flows	Period ended June 30th 2019 before restatement	Period ended June 30th 2019 after restatement	Change
Net cash from operating activities	**3,988**	**4,063**	**75**
Net cash from investing activities	**(2,280)**	**(2,280)**	**-**
Net cash from financing activities, including:	**(2,527)**	**(2,602)**	**(75)**
Decrease in debt	(2,630)	(2,705)	(75)
Net cash flows	**(819)**	**(819)**	**-**
Cash and cash equivalents at beginning of the period	3,928	3,928	-
Cash and cash equivalents at end of the period	**3,109**	**3,109**	**-**

Distribution	Period ended June 30th 2019 before restatement	Period ended June 30th 2019 after restatement	Change
Sales to external customers	2,449	2,449	-
Inter-segment sales	23	23	-
Total revenue	2,472	2,472	-
EBITDA	1,070	1,124	54
Depreciation and amortisation expense	(477)	(492)	(15)
Operating profit (EBIT)	593	632	39

3. The Group and its reportable segments

The Group identifies five reportable segments.

Below is presented a classification of the Group's fully-consolidated entities by reportable segment. For more information on the Group structure, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in H1 2020.

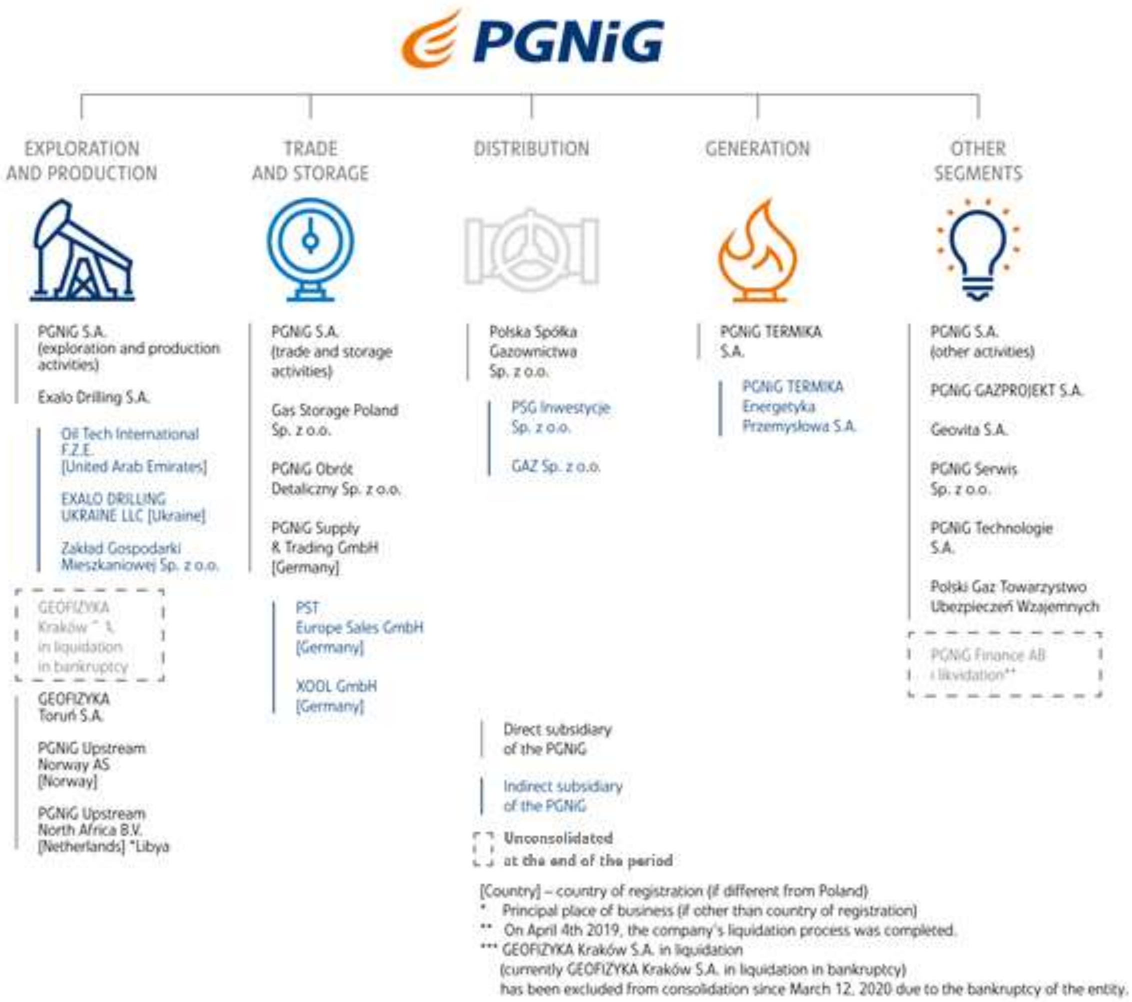

Figure 1 ***Group structure by reportable segments*** *(as at June 30th 2020)*

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

Segment	Description	Operating segments and aggregation criteria
Exploration and Production	The segment's principal business is extracting hydrocarbons from deposits and preparing them for sale. It involves the process of exploration for and production of natural gas and crude oil, from geological surveys and geophysical research, through to drilling, development of gas and oil fields, and production of hydrocarbons. The segment sells natural gas to customers outside the Group and to other segments of the PGNiG Group. It also sells crude oil and other products in Poland and abroad.	This reportable 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, Swarzów and the storage system in Ukraine), and electricity trading.	This reportable 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 reportable 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 reportable segment comprises the following operating segments: PGNiG TERMIKA S.A. and its subsidiary PGNiG TERMIKA Energetyka Przemysłowa S.A. The key aggregation criteria were similarity of products and services, similarity of the customer base, and similar economic characteristics.
Other segments	This segment comprises operations which cannot be classified into any of the segments listed above, i.e. the functions performed by the PGNiG Corporate Centre, 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 reportable segments, and the Group entities which do not qualify to be included in the other reportable segments, specified under Other Segments in ***Figure 1.***

(all amounts in PLN million, unless stated otherwise)

3.1 Key data on the reportable segments

For a discussion of the Group's consolidated financial results, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in H1 2020.

6 months ended June 30th 2020	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Total	Reconciliation with consolidated data*	Total
Sales to external customers	1,327	16,312	2,374	963	62	21,038		
Inter-segment sales	794	125	39	514	179	1,651		
Total revenue	2,121	16,437	2,413	1,477	241	22,689	(1,651)	21,038
EBITDA	243	7,555	1,176	533	(113)	9,394	(42)	9,352
Depreciation and amortisation expense	(596)	(112)	(527)	(432)	(29)	(1,696)	-	(1,696)
Operating profit (EBIT)	(353)	7,443	649	101	(142)	7,698	(42)	7,656
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, and rights to use assets	(931)	-	(1)	-	-	(932)	-	(932)
Profit/(loss) from equity-accounted investees	(218)	-	-	-	10	(208)	-	(208)
Purchase of property, plant and equipment and intangible assets	(1,349)	(21)	(1,319)	(148)	(77)	(2,914)	61	(2,853)
Property, plant and equipment	14,399	3,245	17,281	5,207	728	40,860	(272)	40,588
Employment**	6,676	3,038	11,553	1,853	1,714	24,834		

*Inter-company eliminations and consolidation adjustments
*Excluding employees of equity-accounted investees.

6 months ended June 30th 2019	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Total	Reconciliation with consolidated data*	Total
Sales to external customers	1,564	17,688	2,449	873	50	22,624		
Inter-segment sales	1,428	189	23	537	153	2,330		
Total revenue	2,992	17,877	2,472	1,410	203	24,954	(2,330)	22,624
EBITDA	1,990	(233)	1,124	462	(160)	3,183	(3)	3,180
Depreciation and amortisation expense	(540)	(99)	(492)	(304)	(31)	(1,466)	-	(1,466)
Operating profit (EBIT)	1,450	(332)	632	158	(191)	1,717	(3)	1,714
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, and rights to use assets	(213)	(2)	5	-	(36)	(246)	-	(246)
Profit/(loss) from equity-accounted investees	27	-	-	-	(1)	26	-	26
Purchase of property, plant and equipment and intangible assets	(655)	(27)	(1,074)	(386)	(73)	(2,215)	-	(2,215)
Property, plant and equipment	13,512	3,217	14,809	4,630	767	36,935	(222)	36,713
Employment**	6,714	3,074	11,768	1,841	1,644	25,041		

*Inter-company eliminations and consolidation adjustments
*Excluding employees of equity-accounted investees.

(all amounts in PLN million, unless stated otherwise)

3.2 Revenue by segment

6 months ended June 30th 2020	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Reconciliation with consolidated data*	Total
Revenue from sale of gas, including:	**1,135**	**14,969**	**-**	**-**	**-**	**(814)**	**15,290**
High-methane gas	609	13,513	-	-	-	(616)	**13,506**
Nitrogen-rich gas	491	413	-	-	-	(195)	**709**
LNG	10	30	-	-	-	(4)	**36**
CNG	-	23	-	-	-	1	**24**
Propane-butane gas	25	-	-	-	-	-	**25**
Adjustment to gas sales due to hedging transactions	-	990	-	-	-	-	**990**
Other revenue, including:	**986**	**1,468**	**2,413**	**1,477**	**241**	**(837)**	**5,748**
Gas and heat distribution	-	-	2,282	41	-	(35)	**2,288**
Crude oil and natural gasoline	653	-	-	-	-	-	**653**
NGL	38	-	-	-	-	-	**38**
Sales of heat	-	-	-	790	-	-	**790**
Sales of electricity	-	1,381	-	560	-	(588)	**1,353**
Revenue from rendering of services:							
- drilling and oilfield services	67	-	-	-	-	-	**67**
- geophysical and geological services	50	-	-	-	-	-	**50**
- construction and assembly services	24	-	-	-	37	(24)	**37**
- connection charge	-	-	107	-	-	-	**107**
- other	16	70	18	8	190	(165)	**137**
Other	138	17	6	78	14	(25)	**228**
Total revenue	**2,121**	**16,437**	**2,413**	**1,477**	**241**	**(1,651)**	**21,038**

*Inter-company eliminations and consolidation adjustments

6 months ended June 30th 2019	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Reconciliation with consolidated data*	Total
Revenue from sale of gas, including:	**1,805**	**16,577**	**-**	**-**	**-**	**(1,557)**	**16,825**
High-methane gas	1,101	15,762	-	-	-	(1,190)	**15,673**
Nitrogen-rich gas	654	487	-	-	-	(362)	**779**
LNG	17	29	-	-	-	(5)	**41**
CNG	-	19	-	-	-	-	**19**
Propane-butane gas	33	-	-	-	-	-	**33**
Adjustment to gas sales due to hedging transactions	-	280	-	-	-	-	**280**
Other revenue, including:	**1,187**	**1,300**	**2,472**	**1,410**	**203**	**(773)**	**5,799**
Gas and heat distribution	-	-	2,262	40	-	(14)	**2,288**
Crude oil and natural gasoline	919	-	-	-	-	-	**919**
NGL	46	-	-	-	-	-	**46**
Sales of heat	-	-	-	741	-	-	**741**
Sales of electricity	-	1,204	-	553	-	(562)	**1,195**
Revenue from rendering of services:							
- drilling and oilfield services	61	-	-	-	-	-	**61**
- geophysical and geological services	38	-	-	-	-	-	**38**
- construction and assembly services	26	-	-	-	34	(23)	**37**
- connection charge	-	-	81	-	-	-	**81**
- other	11	79	11	15	158	(143)	**131**
Other	86	17	118	61	11	(31)	**262**
Total revenue	**2,992**	**17,877**	**2,472**	**1,410**	**203**	**(2,330)**	**22,624**

*Inter-company eliminations and consolidation adjustments

(all amounts in PLN million, unless stated otherwise)

4. Notes to the interim condensed consolidated financial statements

4.1 Deferred tax

	Deferred tax assets	Deferred tax liabilities	Set-off of assets and liabilities	Assets after set-off	Liabilities after set-off	Net effect of changes in the period
As at January 1st 2019	**930**	**2,902**	**(836)**	**94**	**2,066**	
Impact of IFRS 16	(5)	24	-	-	-	**(29)**
Increase	174	502	-	-	-	**(328)**
Decrease	(24)	-	-	-	-	**(24)**
Currency translation differences	-	(1)	-	-	-	**1**
Other changes	-	(1)	-	-	-	**1**
As at December 31st 2019	**1,075**	**3,426**	**(1,043)**	**32**	**2,383**	**(379)**
As at January 1st 2020	**1,075**	**3,426**	**(1,043)**	**32**	**2,383**	
Increase	99	256	-	-	-	**(157)**
Decrease	(97)	(121)	-	-	-	**24**
Currency translation differences	-	(67)	-	-	-	**67**
Other changes	-	(14)	-	-	-	**14**
As at June 30th 2020	**1,077**	**3,480**	**(1,052)**	**25**	**2,428**	**(52)**

4.2 Impairment losses/write-downs

	Property, plant and equipment	Intangible assets	Assets held for sale	Equity-accounted investees	Other (non-current) assets	Inventories	Receivables	Other (current) assets	Total
As at January 1st 2019	**3,798**	**84**	**5**	**893**	**62**	**200**	**910**	**1**	**5,953**
Impact of IFRS 16	24	(21)	-	-	-	-	-	-	**3**
Increase taken to profit or loss	1,121	13	1	171	1	385	220	-	**1,912**
Decrease taken to profit or loss	(734)	(1)	-	-	(1)	(127)	(262)	(1)	**(1,126)**
Used	(65)	-	(1)	-	-	(2)	(42)	-	**(110)**
Transfers	-	-	-	-	1	-	(1)	-	**-**
Other changes	-	-	-	-	(1)	-	3	-	**2**
As at December 31st 2019	**4,144**	**75**	**5**	**1,064**	**62**	**456**	**828**	**-**	**6,634**
As at January 1st 2020	**4,144**	**75**	**5**	**1,064**	**62**	**456**	**828**	**-**	**6,634**
Increase taken to profit or loss	999	14	-	145	-	17	91	-	**1,266**
Decrease taken to profit or loss*	(158)	(1)	-	-	-	(377)	(68)	-	**(604)**
Used	(9)	-	-	-	-	-	(12)	-	**(21)**
Changes in the Group	-	-	-	-	60	(2)	(1)	39	**96**
Transfers	4	-	(4)	-	1	-	(1)	-	**-**
Other changes	14	1	-	-	-	(2)	24	-	**37**
As at June 30th 2020	**4,994**	**89**	**1**	**1,209**	**123**	**92**	**861**	**39**	**7,408**

* The change of write-down under ‘Inventories’ is mainly attributable to the valuation of gas inventories at the lower purchase price resulting from the Arbitration Court’s award and the Annex to the Yamal Contract, as described in detail in Note **5.1.1.**

Impact of COVID-19 on impairment of non-financial assets and on expected credit losses on financial assets

Impairment of non-financial assets

Impairment losses on non-current assets are the result of an assessment of the recoverable amount of assets based on an analysis of future cash flows, in particular based on current and projected paths of hydrocarbon prices on international markets. The COVID-19 epidemic is one of the factors that have significantly contributed to the sharp decline in hydrocarbon prices, which is also reflected in long-term forecasts of gas and oil prices.

As at June 30th 2020, the Group measured the value of property, plant and equipment, property, plant and equipment under construction and right-of-use assets related to hydrocarbon production taking into account current long-term oil and gas price forecasts. As a result of the valuation review, a PLN 685m impairment loss was recognised on domestic non-current hydrocarbon assets and a PLN 238m impairment loss on non-current hydrocarbon assets located outside of Poland.

Trade receivables

The economic effects of COVID-19 are expected to affect the quality of the Group's portfolio of financial assets and collectability of trade receivables. The projected impact varies depending on the sector of the economy in which the trading partners operate. The models adopted by the Group use adjusted probability of default by trading partners based on market expectations implied by prices of Credit Default Swaps (CDS).

In order to take into account the impact of future factors (including COVID-19) on the risk of the portfolio composed of individually assessed trading partners, the Group has adjusted the probability of default based on prices of CDS instruments as at the reporting date. The adjustment was differentiated according to the economic sectors and subsectors in which the trading partners operate and depended on the partners' ratings (both internal and third-party ratings).

In order to take into account the impact of future factors (including COVID-19) on the risk of the portfolio assessed using the matrix method, the Group assumed an increase in the value of indicators reflecting the expected collectability of receivables in individual aging groups. The increase was proportional to the increase in the market-expected probability of default (reflected in prices of CDS contracts) for trading partners with a risk profile similar to the average risk of the portfolio, taking into account the economic sectors of the Group's key trading partners.

As at the end of H1 2020, the prices of CDS contracts, based on which the Group adjusts the probability of default, fell relative to the end of Q1 2020 (reflecting improved market sentiment). As a result, the (upward) adjustment of the expected credit loss due to COVID-19 was reduced compared with the adjustment recognised at the end of Q1 2020.

The expected credit loss on trade receivables was estimated at PLN 828m, of which PLN 13m is the estimated effect of COVID-19 on the collectability of trade receivables and the related expected future credit loss, up by PLN 33m relative to the expected credit loss on trade receivables estimated at the end of 2019.

Other financial assets

Given the epidemic emergency that has been continuing in Poland and the ensuing economic slowdown, the Group reviewed the value of ist equity holding in Polska Grupa Górnicza S.A. (PGG), which in the consolidated financial statements is presented under "Equity-accounted investees". The PGNiG Group's joint control of PGG, a joint venture, is exercised through PGNiG TERMIKA S.A., a subsidiary of PGNIG S.A. A test for impairment of PGG shares carried out by PGNiG TERMIKA S.A. at the end of H1 2020 put the value in use of the shares at PLN 389m. The value in use was determined using the discounted cash flow method. The main reason for conducting the impairment test on PGG shares was the reduction in electricity demand due to the economic slowdown leading to a decline in the company's revenue from sale of coal.

(all amounts in PLN million, unless stated otherwise)

4.3 Provisions

	Provision for well decommissioning costs	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provisions for environmental liabilities	Provision for UOKiK fine	Provision for claims under extra-contractual use of land	Other provisions	Total	
As at January 1st 2019	**2,008**	**151**	**175**	**115**	**-**	**23**	**408**	**2,880**	
Impact of IFRS 16	-	-	-	(19)	-	-	-	**(19)**	
Recognised provision capitalised in cost of property, plant and equipment	441	-	-	-	-	-	-	**441**	
Increase taken to profit or loss	60	265	-	49	6	2	183	**565**	
Decrease taken to profit or loss	(86)	(59)	-	(28)	-	(4)	(155)	**(332)**	
Used	(35)	(123)	-	-	-	-	(10)	**(168)**	
Other changes	1	(18)	2	5	-	-	39	**29**	
As at December 31st 2019	**2,389**	**216**	**177**	**122**	**6**	**21**	**465**	**3,396**	
As at January 1st 2020	**2,389**	**216**	**177**	**122**	**6**	**21**	**465**	**3,396**	
Recognised provision capitalised in cost of property, plant and equipment	255	-	-	-	-	-	-	**255**	
Increase taken to profit or loss	38	133	-	1	-	1	105	**278**	*Note 4.6*
Decrease taken to profit or loss	(23)	(10)	-	(2)	-	(3)	(31)	**(69)**	*Note 4.6*
Used	(18)	(179)	-	-	-	-	(3)	**(200)**	
Changes in the Group	-	-	-	-	-	-	(1)	**(1)**	
Other changes	(22)	4	9	-	-	-	(23)	**(32)**	
As at June 30th 2020	**2,619**	**164**	**186**	**121**	**6**	**19**	**512**	**3,627**	

(all amounts in PLN million, unless stated otherwise)

4.4 Revenue by product

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

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

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

	6 months ended June 30th 2020	6 months ended June 30th 2019
Revenue from sale of gas, including:	**15,290**	**16,825**
High-methane gas	13,506	15,673
Nitrogen-rich gas	709	779
LNG	36	41
CNG	24	19
Propane-butane gas	25	33
Adjustment to gas sales due to hedging transactions	990	280
Other revenue, including:	**5,748**	**5,799**
Gas and heat distribution	2,288	2,288
Crude oil and natural gasoline	653	919
NGL	38	46
Sales of heat	790	741
Sales of electricity	1,353	1,195
Revenue from rendering of services:		
- drilling and oilfield services	67	61
- geophysical and geological services	50	38
- construction and assembly services	37	37
- connection charge	107	81
- other	137	131
Other	228	262
Total revenue	**21,038**	**22,624**

4.5 Operating expenses (selected items)

	6 months ended June 30th 2020	6 months ended June 30th 2019
Cost of gas	**(11,458)**	**(14,777)**
Gas fuel	(11,458)	(14,778)
Cost of transactions hedging gas prices	-	1
Effect of the annex executed with PAO Gazprom/OOO Gazprom Export on the cost of gas in 2014–2019	**4,915**	**-**
Other raw materials and consumables used	**(1,549)**	**(1,427)**
Fuels for electricity and heat generation	(515)	(552)
Electricity for trading purposes	(808)	(639)
Other raw materials and consumables used	(226)	(236)
Employee benefits expense	**(1,601)**	**(1,547)**
Salaries and wages	(1,126)	(1,098)
Social security contributions	(233)	(248)
Long-term employee benefits	(76)	(83)
Other employee benefits expense	(166)	(118)
Other services	**(859)**	**(849)**
Regasification services	(195)	(188)
Repair and construction services	(93)	(89)
Mineral resources production services	(94)	(109)
Rental services	(50)	(32)
Other services	(427)	(431)
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	**(932)**	**(246)**
Cost of exploration and evaluation assets written-off	(78)	(24)
Impairment losses on property, plant and equipment	(841)	(216)
Impairment losses on intangible assets	(13)	(6)
Total	**(11,484)**	**(18,846)**

(all amounts in PLN million, unless stated otherwise)

4.6 Other income and expenses

	6 months ended June 30th 2020	6 months ended June 30th 2019
Compensation, penalties, and fines received	12	17
Exchange differences related to operating activities	191	5
Measurement and exercise of derivative financial instruments	111	64
Change in inventory write-downs	360	(75)
Change in impairment losses on trade and other receivables	(23)	16
Change in provision for well decommissioning costs	(15)	16
Change in provision for certificates of origin and energy efficiency certificates	(123)	(104)
Provision for CO_2 emission allowances	(17)	-
Change in other provisions	(50)	(90)
Change in products	146	176
Change in underlift/ overlift	43	105
Cost of merchandise and materials sold	(45)	(48)
Other income and expenses	(131)	(99)
Total other income and expenses	**459**	**(17)**

4.7 Net finance income/(costs)

	6 months ended June 30th 2020	6 months ended June 30th 2019
Interest on debt (including fees)	3	(39)
Interest on lease liabilities	(36)	(16)
Foreign exchange differences	(116)	20
Measurement and exercise of derivative financial instruments not designated for hedge accounting	1	(2)
Fair value measurement of financial assets	(2)	1
Other net finance costs (income)	29	49
Total net finance costs	**(121)**	**13**

(all amounts in PLN million, unless stated otherwise)

4.8 Income tax

Reconciliation of effective tax rate	6 months ended June 30th 2020	6 months ended June 30th 2019
Profit before tax	7,327	1,753
Corporate income tax at the 19% statutory rate applicable in Poland	(1,392)	(333)
Deductible temporary differences with respect to which no deferred tax was recognised	(15)	(88)
Income tax expense disclosed in the statement of profit or loss	**(1,407)**	**(421)**
Including:		
Current tax expense	(1,258)	(390)
Deferred tax expense	(149)	(31)
Effective tax rate	19%	24%

Tax group

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

The PGNiG Tax Group was established under an agreement of September 19th 2016 for a period from January 1st 2017 to December 31st 2020.

The PGNiG Tax Group comprises: PGNiG S.A., PGNiG Obrót Detaliczny Sp. z o.o., Polska Spółka Gazownictwa Sp. z o.o., PGNiG Termika S.A., Gas Storage Poland Sp. z o.o., PGNiG Ventures Sp. z o.o. (until December 30th 2019 as PGNiG SPV 5 Sp. z o.o.), PGNiG SPV 6 Sp. z o.o., PGNiG SPV 7 Sp. z o.o., Geofizyka Toruń S.A., PGNiG Technologie S.A. and PGNiG Serwis Sp. z o.o.

In accordance with applicable tax laws, the companies included in the PGNiG Tax Group lost their status as separate payers of corporate income tax and such status was acquired by the PGNiG Tax Group, which allows corporate income tax to be calculated jointly for all members of the PGNiG Tax Group. The PGNiG Tax Group is a separate entity only for corporate income tax purposes, and it should not be viewed as a separate legal person. Its tax status does not extend to other types of taxes; in particular, each of the companies forming the PGNiG Tax Group is a separate payer of value-added tax and of tax on civil-law transactions, and a separate remitter of personal income tax withholdings. The other companies of the PGNiG Group are separate payers of corporate income tax.

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

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

(all amounts in PLN million, unless stated otherwise)

4.9 Property, plant and equipment

	As at June 30th 2020	As at December 31st 2019
Land	129	130
Buildings and structures	19,984	19,805
Plant and equipment	8,174	8,198
Vehicles and other	1,240	1,272
Total own tangible assets	**29,527**	**29,405**
Right-of-use asset – land	2,379	2,245
Right-of-use asset – buildings and structures	282	278
Right-of-use asset – machinery and equipment	181	162
Right-of-use asset – vehicles	42	35
Total right-of-use assets	**2,884**	**2,720**
Tangible exploration and evaluation assets under construction	2,742	2,561
Other tangible assets under construction	5,435	5,316
Total property, plant and equipment	**40,588**	**40,002**

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

In the reporting period, the Group did not execute any individually material transactions to purchase or sell items of property, plant and equipment. The Group's most significant investment was the capital expenditure on the development of deposits in the Norwegian Sea and the North Sea (the total amount spent in the period was approximately PLN 800m).

4.9.2. Material commitments or obligations related to purchase of property, plant and equipment

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

(all amounts in PLN million, unless stated otherwise)

4.10 Derivative financial instruments

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

In the case of the Parent, all eligible transactions in the period January 1st–June 30th 2020 were accounted for 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 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			**6 months ended June 30th 2020**		**6 months ended June 30th 2019**	
Item of statement of profit or loss and statement of comprehensive income	**Item referenced in Note / additional explanations**	**Notes**	**Derivative financial instruments not designated for hedge accounting**	**Derivative financial instruments designated for cash flow hedge accounting**	**Derivative financial instruments not designated for hedge accounting**	**Derivative financial instruments designated for cash flow hedge accounting**
Effect on statement of profit or loss						
Net finance costs	Measurement and exercise of derivative financial instruments not designated for hedge accounting	*Note 4.7*	1	-	(2)	-
Other income and expenses	Measurement and exercise of derivative financial instruments not designated for hedge accounting	*Note 4.6*	111	-	64	-
Revenue	Reclassification from other comprehensive income	*Note 4.4.1.*	-	990	-	280
Cost of gas sold	Reclassification from other comprehensive income	*Note 4.5*	-	-	-	1
			112	**990**	**62**	**281**
Effect on other comprehensive income						
Gains/(losses) on measurement of derivative instruments designated for cash flow hedge accounting [effective portion]				676		626
Reclassification of derivative instruments measurement to profit or loss upon exercise (cash flow hedges)				(990)		(281)
				(314)		**345**
Effect on comprehensive income			**112**	**676**	**62**	**626**
Change in equity recognised in inventories				**229**		**(85)**

The tables below present the Group companies' derivative transactions as at June 30th 2020.

Derivative instruments designated for hedge accounting	As at June 30th 2020					As at December 31st 2019		
Type of derivative instrument	Notional amount (million)	Period when cash flow will occur and affect the financial result	Exercise price (exercise price range)	Weighted average exercise price	Fair value of instruments for which cash flow hedge accounting is applied	Notional amount (million)	Period when cash flow will occur and affect the financial result	Fair value of instruments for which cash flow hedge accounting is applied
Derivative instruments used to hedge currency risk in gas purchase and sale contracts								
Forwards								
USD	USD 687	up to 3 years	3.58-3.97	3.81	118	USD 371	up to 3 years	54
USD	11 USD	up to 3 years	3.99-4.00	4.00	-	USD 601	up to 3 years	(39)
EUR	-	-	-	-	-	EUR 970	up to 3 years	120
EUR/USD	EUR 42	up to 3 years	1.15-1.18	1.16	6	EUR 42	up to 3 years	2
EUR/USD	EUR 24	up to 3 years	1.12-1.13	1.12	(1)	-	-	-
Currency swap								
EUR	EUR 149	up to 3 years	4.49-4.66	4.57	11	-	-	-
EUR	EUR 691	up to 3 years	4.41-4.52	4.46	(27)	-	-	-
					107			**137**
Derivative instruments used to hedge gas purchase and selling prices								
TTF swap DA	40 MWh	up to 3 years	3.97-20.73	15.21	582	41 MWh	up to 3 years	807
TTF swap MA	1 MWh	1–3 months	4.22	4.22	4	2 MWh	1–3 months	(1)
TTF swap DA	14 MWh	up to 3 years	4.20-14.03	10.60	(101)	12 MWh	Up to 12 months	(254)
TTF swap MA	3 MWh	1–3 months	6.22-10.44	7.60	(17)	-	-	-
BRENT Swap	5 Bbl	up to 3 years	28.55-43.87	40.30	61	-	-	-
GASPOOL swap DA	1 MWh	Up to 12 months	15.97-21.98	19.20	38	4 MWh	up to 3 years	105
HH NYMEX	12 MMBTU	up to 3 years	2.24-2.42	2.32	5	-	-	-
HH NYMEX	3 MMBTU	up to 3 years	2.24-2.40	2.37	(1)	15 MMBTU	up to 3 years	(12)
NCG swap DA	1 MWh	Up to 12 months	6.93-7.45	7.19	3	-	-	-
NCG swap DA	0.3 MWh	Up to 12 months	6.93-7.45	7.19	(4)	-	-	-
					570			**645**
				Total	**677**		**Total**	**782**
			Including:	Assets	828	Including:	Assets	1,088
				Liabilities	151		Liabilities	306

TTF – Natural Gas at the Title Transfer Facility
IRS – Interest Rate Swap
MA – month-ahead; DA – day-ahead
MMBTU - a million of international British Thermal Units

Derivative instruments not designated for hedge accounting	As at June 30th 2020		As at December 31st 2019	
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 3,818	67	NOK 2,318	90
Forwards				
EUR	-	-	EUR 608	89
EUR	-	-	EUR 610	(49)
EUR	EUR 67	7	EUR 24	(1)
EUR	EUR 27	(2)	-	-
USD	USD 17	1	-	-
USD	USD 16	(1)	-	-
Currency swap				
EUR	EUR 155	6	-	-
EUR	EUR 107	(6)	-	-
		72		**129**
Derivative instruments used as economic hedges of electricity purchase prices				
Forwards				
electricity – PPX	13 MWh	63	12 MWh	18
electricity – PPX	7 MWh	(29)	1 MWh	(5)
electricity – OTC	1 MWh	36	1 MWh	34
electricity – OTC	0.54 MWh	(16)	1 MWh	(22)
Futures				
electricity – EEX AG	1 MWh	52	2 MWh	69
electricity – EEX AG	2 MWh	(72)	3 MWh	(81)
		34		**13**
Derivative instruments used to hedge gas purchase and selling prices				
Forwards				
gas – OTC	14 MWh	356	16 MWh	393
gas – OTC	10 MWh	(238)	13 MWh	(310)
Futures				
gas - PPX	0.36 MWh	1	-	-
gas - PPX	3 MWh	(65)	2 MWh	(54)
gas – ICE ENDEX B.V.	3 MWh	67	4 MWh	91
gas – ICE ENDEX B.V.	3 MWh	(76)	4 MWh	(92)
gas – POWERNEXT SA	1 MWh	35	2 MWh	40
gas – POWERNEXT SA	2 MWh	(74)	3 MWh	(72)
GASPOOL DA	6 MWh	328	9 MWh	235
GASPOOL DA	6 MWh	(153)	7 MWh	(99)
HH NYMEX	4 MMBTU	3	-	-
HH NYMEX	5 MMBTU	(16)	-	-
TTF swap DA	10 MWh	305	21 MWh	473
TTF swap DA	9 MWh	(120)	9 MWh	(159)
TTF swap MA	1 MWh	6	-	-
TTF swap MA	4 MWh	(60)	9 MWh	(44)
		299		**402**
Derivative instruments used to hedge purchase prices of CO_2 emission allowances				
Forwards	1.14 t	(27)	-	-
Futures	8.16 t	23	3 t	(1)
		(4)		**(1)**
Derivative instruments used to hedge share purchase prices				
Options	9.125 million shares	6	9.125 million shares	5
	Total	**407**	**Total**	**548**
	Including:		Including:	
	Assets	1,363	Assets	1,539
	Liabilities	956	Liabilities	991

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

(all amounts in PLN million, unless stated otherwise)

4.11 Contingent assets and liabilities

Contingent asset	As at June 30th 2020	As at December 31st 2019
	Estimated amount	
Grants awarded*	200	187
Other contingent assets	14	14
Total	**214**	**201**

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

Contingent liabilities	As at June 30th 2020	As at December 31st 2019
	Estimated amount	
Guarantees and sureties	4,423	3,808
Promissory notes	550	552
Other	31	11
Total	**5,004**	**4,371**

The change in contingent assets due to co-funding received was attributable to the execution of a new agreement by Polska Spółka Gazownictwa Sp. z o.o. with partial settlement in the reporting period of the relevant agreements executed in prior periods.

The change in contingent liabilities under sureties and guarantees issued in the reporting period was principally due to new guarantees issued as security for gas supplies, totalling PLN 751m (as translated at the exchange rate quoted by the NBP for June 30th 2020).

4.12 Fair value hierarchy

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

	As at June 30th 2020		As at December 31st 2019	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Derivative instruments	718	1,473	714	1,913
	718	**1,473**	**714**	**1,913**
Financial liabilities				
Derivative instruments	594	513	634	663
	594	**513**	**634**	**663**

4.13 Classification of financial assets

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

(all amounts in PLN million, unless stated otherwise)

5. Supplementary information to the report

5.1 Key events related to the issuer in the reporting period

Date	Company	Event
January 9th 2020	PGNiG S.A.	On January 10th 2020, the Supervisory Board appointed a new member of the PGNIG Management Board for a joint term of office. For detailed information, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in H1 2020.
January 9th 2020	PGNiG Upstream Norway AS	On January 9th 2020, the condition precedent of the agreement for PGNiG Upstream Norway AS to purchase shares in the Duva field from Pandion Energy was fulfilled (PUN obtained the required administrative approvals in Norway). On November 7th 2019, PGNiG Upstream Norway AS, a subsidiary, executed an agreement to purchase an additional 10% interest in the PL636 and PL636B licences, including the Duva field, from Pondion Energy. As a result, PUN's interest in those licences increased from 20% to 30%. The Agreement provides for conditions precedent, including obtaining the administrative approvals in Norway.
February 27th 2020	PGNiG S.A.	The Supervisory Board decided to appoint Ms Magdalena Zegarska as Vice President of the Management Board for a joint term of office, with effect from February 27th 2020 (following the election of PGNiG employees).
March 18th 2020	Polska Spółka Gazownictwa sp. z o.o.	On March 18th 2020, the President of the Energy Regulatory Office (the „President of URE") approved new Tariff No. 8 for gas fuel distribution and liquefied natural gas regasification services provided by Polska Spółka Gazownictwa Sp. z o.o. (the „Distribution Tariff"). The prices and rates of network fees and charges applied in settlements with customers were increased by 3.5% on average in relation to the previous distribution tariff of Polska Spółka Gazownictwa sp. o.o. for all tariff groups with the exception of coke gas. The Distribution Tariff is valid from April 3rd 2020 to December 31st 2020. For detailed information on the approved Distribution Tariff, see www.ure.gov.pl and *Biuletyn Branżowy URE – Paliwa gazowe* (the URE official gazette – Gas fuels).
May 22nd, May 29th 2020	PGNiG S.A.	On May 22nd 2020, Polskie LNG S.A. (Polskie LNG), the operator of the LNG terminal in Świnoujście, allocated as part of the Open Season procedure the base and transitional capacities to provide regasification service and technical services, including LNG tanker loading, LNG bunkering, and LNG transshipment between vessels. Following the Open Season procedure and once PGNiG concludes a regasification agreement with Polskie LNG (Regasification Agreement), the LNG regasification capacity reserved by PGNiG will increase from the current 5bcm to ca. 6.2 bcm of gas in 2022 (when the temporary regas service is launched) and then to ca. 8.3 bcm in 2024 (when the base regas service is launched). The reservation of increased regasification capacity at the LNG terminal will enable the Company to achieve its strategic objectives to diversify gas supply sources and to increase the national energy security. On May 29th 2020, PGNiG S.A. and Polskie LNG S.A. executed a Regasification Agreement as part of an Open Season procedure to make the LNG Terminal available in Świnoujście 2020, in accordance with the conditions described above. The Regasification Agreement was concluded for a period of 17 years. The services will be paid at tariff rates applicable during the term of the Agreement and approved by the President of URE. The increase in regasification capacity at the LNG Terminal is consistent with the PGNiG Group Strategy for 2017-2022, with an outlook until 2026, as announced in Current Report No. 19/2017 of March 13th 2017.
June 9th 2020	PGNiG S.A.	On June 9th 2020, PGNiG S.A. adopted a strategic plan for future investment projects in the sector of renewable energy sources (RES) (Plan), which will enable the Group to establish a dedicated competence area for RES. By gaining exposure to RES, PGNiG S.A. aims to ensure conditions for the Group's

(all amounts in PLN million, unless stated otherwise)

		sustained development in the long term by stabilising its revenue in the rapidly changing macroeconomic and regulatory environment. In building its RES operations, the PGNiG Group will mainly focus on: a) acquiring projects and gradually building its own development capabilities in wind power and photovoltaics; b) development of a franchise model for biomethane projects; c) research, development and innovation projects in hydrogen and energy storage. Based on its analyses and strategic model simulations, the PGNiG Management Board decided to allocate up to PLN 4bn over a period beyond PGNiG's strategic 2022 horizon to the implemention and acquisition of projects related, among other things, to RES generation. The ultimate scope of strategic objectives within this segment of the PGNiG Group's business and the level of capital expenditure expected to be made will be analysed and modelled as part of an update of the PGNiG Group's Strategy for 2017–2022, with an outlook until 2026.
June 16th 2020	PGNiG S.A.	On June 16th 2020, PGNiG entered into exclusive negotiations with Tauron Polska Energia S.A. to acquire 100% of shares in TAURON Ciepło Sp. z o.o. (Transaction). The Transaction is to be completed in Q1 2021, subject to compliance with material conditions precedent, including receipt of administrative and corporate approvals. TAURON Ciepło Sp. z o.o.'s business consists primarily in the production, distribution and sale of heat and electricity generation. TAURON Ciepło Sp. z o.o. operates heating networks with a total length of 857 km, located in the Silesia and Dąbrowa Basin metropolitan area. TAURON Ciepło Sp. z o.o.'s generation capacities comprise a total of 1,160 MWt of heat capacities and 347 MWe of electric power capacities, located at three CHP plants and local heating plants. In 2019, TAURON Ciepło Sp. z o.o. generated heat sales of 12.01 PJ (with its own output of 6.02 PJ) and net electricity sales of 1.20 TWh. The purchase of shares in TAURON Ciepło Sp. z o.o. would be in line with the PGNiG Group's Strategy for 2017–2022 with an outlook until 2026, providing for the Group's expansion into the power and heat generation segment.
June 16th 2020	PGNiG Obrót Detaliczny Sp. z o.o.	On June 16th 2020, the President of the Energy Regulatory Office ("President of URE") approved Gas Fuel Trading Tariff No. 9 of PGNiG Obrót Detaliczny Sp. z o.o. ("Retail Tariff"). The Retail Tariff provides for a 10.6% reduction in gas fuel prices for all tariff groups relative to the previous Tariff of PGNiG Obrót Detaliczny Sp. z o.o. The subscription fees have remained unchanged. The Retail Tariff applies to household customers for gas fuels. The new Retail Tariff is valid from July 1st to December 31st 2020. For detailed information on the approved tariffs, see www.ure.gov.pl and Biuletyn Branżowy URE – Paliwa gazowe (the URE official gazette – Gas fuels).
June 25th 2020	PGNiG S.A.	On June 25th 2020, PGNiG and Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN") entered into an annex to the Individual Contract for gas fuel supplies to the ORLEN Group, dated September 29th 2016 ("Individual Contract"). As a result of the annex, gas fuel supplies will be made until December 31st 2022, with an option to extend them until December 31st 2023. The ORLEN Group will remain PGNiG's strategic customer for gas fuel. The value of the Individual Contract in the period from October 1st 2021 to December 31st 2023 is estimated at approximately PLN 5.5bn. The applied pricing formula is based on gas market price indices.

(all amounts in PLN million, unless stated otherwise)

5.1.1. Key events related to the issuer - outcome of arbitration proceedings

Date	Company	Event
March 30th 2020	PGNiG S.A.	On March 30th 2020, the Arbitration Court in Stockholm (the Arbitration Court) issued a final award ("Award") in the arbitration proceedings instigated by PGNiG against PAO Gazprom and OOO Gazprom Export (Gazprom) to reduce the contract price for gas supplied by Gazprom under the contract for sale of natural gas to the Republic of Poland, dated September 25th 1996 (the Yamal Contract), as previously reported by the Company in its financial and current reports. Pursuant to the Award, the Arbitration Court changed the pricing formula for the gas supplied by Gazprom under the Yamal Contract, including through its significant and direct linking to the prices of natural gas on the European energy market. The amended pricing formula will help PGNiG to significantly improve its trading position through greater consistency between the indexation of prices affecting the cost of imported gas and the arm's length pricing policy. Pursuant to the Yamal Contract and the Award, the new contract price determined by the Arbitration Court is applicable to gas supplies made from November 1st 2014, i.e. the date PGNiG requested that the contract price be renegotiated. Therefore, pursuant to the final Award of the Arbitration Court and based on the Company's preliminary assessment, the amount to be reimbursed by Gazprom to PGNiG for the period from November 1st 2014 to February 29th 2020 is approximately USD 1.5bn. Furthermore, PGNiG indicates that the contract price for gas supplied by Gazprom could be changed in the future, effectively as of November 1st 2017, as a result of the Company's request for renegotiation of the contract price announced by PGNiG in Current Report No. 91/2017 of November 1st 2017. The Company also indicates the possibility of changing the contract price in the future as a result of a request for renegotiation submitted by Gazprom, as announced by the Company in Current Report No. 96/2017 of December 8th 2017.
April 24th, April 29th 2020	PGNiG S.A.	In connection with the invoices received from Gazprom for the gas delivered in March 2020 and the first half of April 2020 ("Invoices"), issued without regard to the new price terms of the Yamal Contract, as set out in the final Award of the Stockholm Arbitration Court of March 30th 2020 (" Award"), PGNiG demanded that Gazprom immediately (but not later than April 23rd 2020) correct the Invoices under pain of PGNiG considering Gazprom's actions as deliberate non-compliance with the provisions of the Award. On April 29th 2020, the Company received from Gazprom a declaration that it would observe the new price terms of the Yamal Contract set forth in the Award and correct the Invoices.
June 2nd 2020	PGNiG S.A.	On June 2nd 2020, the Company was notified that the defendant (Gazprom) had filed an appeal with the Court of Appeals in Stockholm to overturn the final Award of March 30th 2020 issued by the Arbitration Court in Stockholm in arbitration proceedings brought by PGNiG against Gazprom to reduce the contract price for gas supplied by Gazprom under the Yamal Contract, as announced by the Company in Current Report No. 13/2020 of March 30th 2020. In the Company's opinion, there are no grounds to demand overturning of the final Award of March 30th 2020.
June 15th 2020	PGNiG S.A.	An annex (Annex) was signed between PGNiG S.A. and Gazprom. to the contract for sale of natural gas to the Republic of Poland, dated September 25th 1996 (the Yamal Contract). The Annex was executed on June 5th 2020 in electronic form and then, by June 15th 2020, its original counterparts were signed and exchanged. In the Annex, the Parties confirmed the rules of applying the pricing formula for gas supplied under the Yamal Contract, as specified in the final Award delivered by the Stockholm Arbitration Court on March 30th 2020. In addition, the Annex sets out the terms of mutual settlement between the Parties of the financial consequences of applying the new pricing formula retroactively as of November 1st 2014, whereby Gazprom is obliged to refund to PGNiG a net overpayment of approximately USD 1.5bn. The agreed payment deadline for Gazprom is July 1st 2020.

(all amounts in PLN million, unless stated otherwise)

In connection with the performance of the Award and the Annex to the Yamal Contract, in June 2020 the Company received correction invoices for gas supplies and recognised the effect of the settlement as follows:

- PLN 5,689m reduced operating expenses, including:
  - PLN 4,915m relating to costs of gas in 2014-2019 – presented as the "Effect of the annex executed with PAO Gazprom/OOO Gazprom Export on the cost of gas in 2014–2019" in the consolidated statement of profit or loss;
  - PLN 774m relating to costs of gas in 2020 - presented as "Cost of gas" in the consolidated statement of profit or loss;
- PLN 42m reduced the value of gas inventory;
- PLN 5m reduced the amount of property, plant and equipment.

In addition, the Q2 2020 financial results were affected by net exchange gains on the carrying amount of mutual settlements (approximately PLN 300m) and income tax. The PGNiG Group's corporate income tax advance for June 2020 was approximately PLN 1.1bn.

In addition, the following events took place after the end of the reporting period, related to the settlement of accounts with Gazprom under the Award and the Annex to the Yamal Contract:

July 8th 2020	PGNiG S.A.	Further to PGNiG's Current Report No. 28/2020 of June 15th 2020 on the execution of an annex to the Yamal Contract with PAO Gazprom and OOO Gazprom Export (Gazprom), the Company – acting on instructions from the PFSA Office – announced that on July 1st 2020 it had received from Gazprom a payment of approximately USD 1.6bn. In accordance with the Annex, the Parties agreed that the price difference relating to gas supplies made in the individual months between November 2014 and February 2020 would be settled based on credit notes for approximately USD 1.6bn (payable by Gazprom to PGNiG) and debit notes for approximately USD 90m (paid by PGNiG to Gazprom on July 2nd 2020). As a result, the total net overpayment due to the Company under the Annex was approximately USD 1.5bn.
July 15th 2020	PGNiG S.A.	On July 15th 2020, the Court of Appeals in Stockholm served the Company with a copy of the appeal filed by PAO Gazprom and OOO Gazprom Export (Gazprom) to overturn the final award of March 30th 2020 ("Award") issued by the Arbitration Court in Stockholm in the arbitration proceedings brought by PGNiG against Gazprom to reduce the contract price for gas supplied by Gazprom under the Yamal Contract, as reported by the Company in Current Report No. 13/2020 of March 30th 2020. The Company upholds its position that there are no grounds for overturning the Award. In the course of the proceedings before the Court of Appeals in Stockholm, the Company will request that Gazprom's appeal be dismissed as groundless. For more information on the arbitration proceedings, see the Directors' Report on the operations of PGNiG S.A. and the PGNiG Group in 2019, issued on March 12th 2020.

5.2 Dividend paid (declared)

On June 24th 2020, the Annual General Meeting of PGNiG S.A. passed a resolution to distribute PGNiG's net profit for 2019 and the accumulated loss brought forward resulting from the adoption of new reporting standards, allocating PLN 520m (PLN 0.09 per share) to dividend payment. The dividend record date was set on July 20th 2020 and the dividend payment date – on August 3rd 2020.

On June 27th 2019, the Annual General Meeting of PGNiG S.A. passed a resolution to distribute PGNiG's net profit for 2018 and allocate PLN 1,040m (PLN 0.18 per share) to dividend payment. Following payment in 2018 of the interim dividend for 2018 of PLN 404m, i.e. PLN 0.07 per share, the outstanding balance of the dividend for 2018, amounting to PLN 636m, i.e. PLN 0.11 per share, was paid on August 7th 2019.

5.3 Issue, redemption, and repayment of debt securities

PGNiG S.A. has entered into an agreement on a debt securities programme (up to PLN 5bn). The agreement was not performed in the reporting period. For detailed information, see the full-year consolidated financial statements for the period ended December 31st 2019.

5.4 Seasonality

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

Revenue from 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.

5.5 Settlements related to court proceedings

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

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

In the reporting period, the fair value of the financial assets was affected by the COVID-19 epidemic which led to a decline in hydrocarbon prices on global markets. For more information on the effects of the pandemic on the Group's financial assets, see **Note 4.2. Impairment losses/write-downs**

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

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

(all amounts in PLN million, unless stated otherwise)

5.8 Events subsequent to the reporting date

July 23rd 2020	PGNiG S.A.	On July 23rd 2020, PGNiG S.A. and Polski Koncern Naftowy Orlen S.A. (PKN Orlen) entered into a cooperation and non-disclosure agreement ("Agreement"), aimed, among other things, at preparing and submitting by PKN Orlen of a notification of an intended concentration with a Community dimension, within the meaning of Council Regulation (EC) No. 139/2004 of January 20th 2004 on the control of concentrations between undertakings (the Merger Regulation), and conducting a due diligence process. The parties have agreed to take all necessary measures to ensure that information connected with the performance of the Agreement is disclosed in compliance with the applicable laws, in particular the competition laws. The execution of the Agreement is related to the signing, on July 14th 2020, of a letter of intent between PKN Orlen and the State Treasury, represented by the Minister of State Assets, to launch a process whereby PKN Orlen is to acquire control of PGNiG.
July 28th 2020	PGNiG S.A.	On July 28th 2020, the period of exclusive negotiations with Tauron Polska Energia S.A. (Tauron) to acquire 100% of shares in Tauron Ciepło Sp. z o.o. was extended by eight weeks (see Current Report No. 29/2020 of June 16th 2020 on the opening of negotiations with Tauron on an exclusive basis).

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

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

6. Interim condensed separate financial statements

Separate statement of profit or loss	3 months ended June 30th 2020	6 months ended June 30th 2020	3 months ended June 30th 2019	6 months ended June 30th 2019
Revenue from sale of gas	2,778	9,030	3,233	9,932
Other revenue	842	2,007	974	2,103
Revenue	**3,620**	**11,037**	**4,207**	**12,035**
Cost of gas sold	(1,189)	(6,318)	(2,815)	(8,537)
Effect of the annex executed with PAO Gazprom/OOO Gazprom Export on the cost of gas in 2014–2019	4,915	4,915	-	-
Other raw materials and consumables used	(518)	(1,179)	(415)	(957)
Employee benefits expense	(204)	(390)	(183)	(340)
Transmission, distribution and storage services	(230)	(456)	(234)	(464)
Other services	(280)	(484)	(209)	(415)
Depreciation and amortisation expense	(203)	(411)	(209)	(416)
Taxes and charges	(31)	(199)	(8)	(135)
Other income and expenses	295	580	(177)	(110)
Work performed by the entity and capitalised	4	6	3	6
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	(97)	(724)	(244)	(227)
Dividends	23	23	1,344	1,344
Finance income	(47)	87	(2)	25
Interest income calculated using the effective interest rate	55	127	57	113
Finance costs	53	(127)	(4)	(44)
Gain/(loss) on derecognition of financial assets measured at amortised cost	-	-	-	10
Revaluation of financial assets	(22)	(18)	33	7
Total	**2,524**	**(4,568)**	**(3,063)**	**(10,140)**
Profit before tax	**6,144**	**6,469**	**1,144**	**1,895**
Income tax	(1,186)	(1,239)	27	(123)
Net profit	**4,958**	**5,230**	**1,171**	**1,772**
Weighted average number of ordinary shares (million)	5,778	5,778	5,778	5,778
Basic and diluted earnings per share (PLN)	0.86	0.91	0.20	0.31

Separate statement of comprehensive income	3 months ended June 30th 2020	6 months ended June 30th 2020	3 months ended June 30th 2019	6 months ended June 30th 2019
Net profit	**4,958**	**5,230**	**1,171**	**1,772**
Hedge accounting	(257)	(314)	25	345
Deferred tax	49	60	(5)	(66)
Other comprehensive income subject to reclassification to profit or loss	**(208)**	**(254)**	**20**	**279**
Actuarial losses on employee benefits	(26)	(26)	(6)	(6)
Deferred tax	5	5	1	1
Other comprehensive income not subject to reclassification to profit or loss	**(21)**	**(21)**	**(5)**	**(5)**
Other comprehensive income, net	**(229)**	**(275)**	**15**	**274**
Total comprehensive income	**4,729**	**4,955**	**1,186**	**2,046**

(all amounts in PLN million, unless stated otherwise)

Separate statement of cash flows	6 months ended June 30th 2020	6 months ended June 30th 2019
Cash flows from operating activities		
Net profit	5,230	1,772
Depreciation and amortisation expense	411	416
Interest and dividends	(117)	(1,407)
Net gain/(loss) on investing activities	726	227
Other non-monetary adjustments	226	(47)
Income tax paid	(220)	(171)
Income tax expense recognised in profit or loss for the period	1,239	123
Movements in working capital	(4,873)	(67)
Net cash from operating activities	**2,622**	**846**
Cash flows from investing activities		
Payments for tangible exploration and evaluation assets	(471)	(366)
Payments for other property, plant and equipment and intangible assets	(147)	(188)
Loans	(1,064)	(1,277)
Payments for derivative financial instruments	(52)	(34)
Payments for shares in related entities	(2)	(4)
Other cash used in investing activities	(18)	(14)
Repayments of loans	358	177
Proceeds from derivative financial instruments	158	21
Interest received	96	74
Dividends received	-	1,344
Proceeds from sale of property, plant and equipment and intangible assets	59	21
Lease proceeds	-	5
Net cash from investing activities	**(1,083)**	**(241)**
Cash flows from financing activities		
Repayment of borrowings	(3,000)	-
Redemption of debt securities	-	(2,295)
Interest paid	(37)	(70)
Payment of lease liabilities	(14)	(22)
Net cash from financing activities	**(3,051)**	**(2,387)**
Net cash flows	**(1,512)**	**(1,782)**
Cash and cash equivalents at beginning of the period	4,525	4,844
Cash and cash equivalents at end of the period	**3,013**	**3,062**
including restricted cash	358	231

(all amounts in PLN million, unless stated otherwise)

Cash pooling agreements

As at June 30th 2020, the Group was a party to two cash pooling agreements:

- Cash pooling agreement of July 16th 2014 concluded with Bank Pekao S.A., and
- Cash pooling agreement of December 22nd 2016, effective as of March 1st 2017, concluded with PKO BP S.A.

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

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

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

Reconciliation of cash and cash equivalents disclosed in the statement of cash flows with cash and cash equivalents disclosed in the statement of financial position	6 months ended June 30th 2020	6 months ended June 30th 2019
Cash and cash equivalents at end of the period in the statement of cash flows	**3,013**	**3,062**
Opening balance of net exchange differences	(4)	(3)
Opening balance of inflows/outflows of cash under cash pooling arrangement	(2,406)	(1,697)
Net exchange differences in the period	8	5
Inflows/(outflows) of cash under cash pooling arrangement in the period	2,017	750
Cash at end of the period in the statement of financial position	**2,628**	**2,117**

(all amounts in PLN million, unless stated otherwise)

Separate statement of financial position	As at June 30th 2020	As at December 31st 2019
Assets		
Property, plant and equipment	12,007	12,423
Licences, mining rights and rights to geological information	129	149
Shares	10,285	10,285
Derivative financial instruments	490	234
Loans advanced	5,973	5,363
Other assets	371	431
Non-current assets	**29,255**	**28,885**
Inventories	1,693	3,230
Receivables*	7,017	1,886
Cash pooling receivables	1,266	2,501
Derivative financial instruments	1,257	1,834
Loans advanced	571	563
Other assets	103	30
Cash and cash equivalents	2,628	2,115
Current assets	**14,535**	**12,159**
TOTAL ASSETS	**43,790**	**41,044**
Equity and liabilities		
Share capital and share premium	7,518	7,518
Capital reserve	1,867	1,867
Hedging reserve	713	737
Accumulated other comprehensive income	(21)	-
Retained earnings	25,206	20,496
Total equity	**35,283**	**30,618**
Financing liabilities	307	305
Derivative financial instruments	85	20
Employee benefit obligations	352	297
Provision for well decommissioning costs	2,139	1,923
Other provisions	17	17
Grants	466	484
Deferred tax liabilities	105	202
Other liabilities	61	67
Non-current liabilities	**3,532**	**3,315**
Financing liabilities	10	3,015
Derivative financial instruments	595	718
Trade and tax payables	3,018	2,802
Cash pooling liabilities	885	119
Employee benefit obligations	91	107
Provision for well decommissioning costs	20	34
Other provisions	288	266
Other liabilities	68	50
Current liabilities	**4,975**	**7,111**
TOTAL LIABILITIES	**8,507**	**10,426**
TOTAL EQUITY AND LIABILITIES	**43,790**	**41,044**

* The increase in receivables in the reporting period was attributable to the execution by the Company, on June 5th 2020, of the Annex to the Yamal Contract with PAO Gazprom/OOO Gazprom Export, details of which are provided in **Note 5.1.1.**

(all amounts 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 January 1st 2019	**7,518**	**867**	**72**	**13**	**20,363**	**28,833**
Effect of IFRS 16	-	-	-	-	20	20
As at January 1st 2019 (restated)	**7,518**	**867**	**72**	**13**	**20,383**	**28,853**
Net profit	-	-	-	-	1,772	1,772
Other comprehensive income, net	-	-	279	(5)	-	274
Total comprehensive income	**-**	**-**	**279**	**(5)**	**1,772**	**2,046**
Transfers	-	1,000	-	-	(1,000)	-
Dividend	-	-	-	-	(636)	(636)
Change in equity recognised in inventories	-	-	(86)	-	-	(86)
As at June 30th 2019	**7,518**	**1,867**	**265**	**8**	**20,520**	**30,178**
As at January 1st 2020	**7,518**	**1,867**	**737**	**-**	**20,496**	**30,618**
Net profit	-	-	-	-	5,230	5,230
Other comprehensive income, net	-	-	(254)	(21)	-	(275)
Total comprehensive income	**-**	**-**	**(254)**	**(21)**	**5,230**	**4,955**
Dividend	-	-	-	-	(520)	(520)
Change in equity recognised in inventories	-	-	230	-	-	230
As at June 30th 2020	**7,518**	**1,867**	**713**	**(21)**	**25,206**	**35,283**

* On June 27th 2019, the Annual General Meeting of PGNIG S.A. passed a resolution to allocate PLN 1,000m to capital reserve to expand and modernise the Polish gas distribution network, resulting in a total balance of PLN 1,867m of the capital reserve as at June 30th 2020.

(all amounts in PLN million, unless stated otherwise)

7. Notes to the interim condensed separate financial statements of PGNiG S.A.

7.1 Deferred tax

			Credited/Charged			Credited/Charged		
	As at January 1st 2019	Effect of IFRS 16 on January 1st 2019	Net profit/ (loss)	Other comprehensive income	As at December 31st 2019	Net profit/ (loss)	Other comprehensive income	As at June 30th 2020
Deferred tax assets								
Employee benefit obligations	55	-	6	3	64	4	5	73
Provision for well decommissioning costs	181	-	21	-	202	30	-	232
Other provisions	35	(5)	(5)	-	25	15	-	40
Measurement of derivatives	93	-	31	-	124	(25)	-	99
Useful lives of property, plant and equipment	98	-	(4)	-	94	17	-	111
Unused tax losses of the Pakistan Branch	50	-	(17)	-	33	-	-	33
Inventories	25	-	51	-	76	(69)	-	7
Other	11	-	3	-	14	(2)	-	12
Total	**548**	**(5)**	**86**	**3**	**632**	**(30)**	**5**	**607**
Deferred tax liabilities								
Difference between depreciation rates for property, plant and equipment	378	-	32	-	410	(55)	-	355
Measurement of derivatives	107	-	128	156	391	(65)	(6)	320
Other	18	-	15	-	33	4	-	37
Total	**503**	**-**	**175**	**156**	**834**	**(116)**	**(6)**	**712**
Set-off of assets and liabilities	(503)	-	-	-	(632)	-	-	(607)
After set-off								
Assets	45	-	-	-	-	-	-	-
Liabilities	-	-	-	-	202	-	-	105
Net effect of changes in the period		**(5)**	**(89)**	**(153)**		**86**	**11**	

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

(all amounts in PLN million, unless stated otherwise)

7.2 Impairment losses/write-downs

	Property, plant and equipment, licences, mining rights and rights to geological information	Right-of-use assets	Other assets	Loans advanced	Shares	Inventories	Receivables	Cash pooling receivables	Current financial assets	Total
As at January 1st 2019	**3,248**	**-**	**5**	**78**	**2,760**	**130**	**486**	**10**	**39**	**6,756**
Increase taken to profit or loss	1,082	47	1	32	7	381	234	13	-	1,797
Transfers	-	-	(1)	-	-	-	1	-	-	-
Decrease taken to profit or loss	(711)	-	-	(17)	(2)	(110)	(321)	(9)	-	(1,170)
Other changes	(66)	-	-	-	-	-	-	-	-	(66)
As at December 31st 2019	**3,553**	**47**	**5**	**93**	**2,765**	**401**	**400**	**14**	**39**	**7,317**
Increase taken to profit or loss	864	10	1	44	2	14	75	3	-	1,013
Transfers	-	-	(1)	-	-	-	1	-	-	-
Decrease taken to profit or loss	(152)	(1)	-	(29)	-	(376)	(54)	(11)	-	(623)
Other changes	(9)	-	-	-	-	-	-	(4)	-	(13)
As at June 30th 2020	**4,256**	**56**	**5**	**108**	**2,767**	**39**	**422**	**2**	**39**	**7,694**

Impact of COVID-19 on impairment of non-financial assets and on expected credit losses on financial assets

Impairment of non-financial assets

Impairment losses on non-current assets are the result of an assessment of the recoverable amount of assets based on an analysis of future cash flows, in particular based on current and projected paths of hydrocarbon prices on international markets. The COVID-19 epidemic is one of the factors that have significantly contributed to the sharp decline in hydrocarbon prices, which is also reflected in long-term forecasts of gas and oil prices.

As at June 30th 2020, the Company measured the value of property, plant and equipment, property, plant and equipment under construction and right-of-use assets related to hydrocarbon production taking into account current long-term oil and gas price forecasts. As a result of the valuation review, a PLN 685m impairment loss was recognised on domestic non-current hydrocarbon assets and a PLN 97m impairment loss on hydrocarbon assets located outside of Poland.

Trade receivables

The economic effects of COVID-19 are expected to affect the quality of the Company's portfolio of financial assets and collectability of trade receivables. The projected impact will vary depending on the sector of the economy in which the trading partners operate. The models adopted by the Company use adjusted probability of default by trading partners based on market expectations implied by prices of Credit Default Swaps (CDS).

In order to take into account the impact of future factors (including COVID-19) on the risk of the portfolio composed of individually assessed trading partners, the Company has adjusted the probability of default based on prices of CDS instruments as at the reporting date. The adjustment was differentiated according to the economic sectors and subsectors in which the trading partners operate and depended on the partners' ratings (both internal and third-party ratings).

In order to take into account the impact of future factors (including COVID-19) on the risk of the portfolio assessed using the matrix method, the Company assumed an increase in the value of indicators reflecting the expected collectability of receivables in individual aging groups. The increase was proportional to the increase in the market-expected probability of default (reflected in prices of CDS contracts) for trading partners with a risk profile similar to the average risk of the portfolio, taking into account the economic sectors of the Company's key trading partners.

As at the end of H1 2020, the prices of CDS contracts, based on which the Company adjusts the probability of default, fell relative to the end of Q1 2020 (reflecting improved market sentiment). As a result, the (upward) adjustment of the expected credit loss due to COVID-19 was reduced compared with the adjustment recognised at the end of Q1 2020.

The expected credit loss on trade receivables was estimated at PLN 422m, including on non-impaired receivables of PLN 6m, of which PLN 3m is the estimated effect of COVID-19 on the collectability of trade receivables and the related expected future credit loss, up by PLN 22m relative to the expected credit loss on trade receivables estimated at the end of 2019.

(all amounts in PLN million, unless stated otherwise)

Loans and other financial instruments

The Company monitors the credit risk associated with its long-term financial instruments on an ongoing basis. The Company's trading partners (predominantly other PGNiG Group companies) operate in sectors with potentially high sensitivity to the effects of COVID-19. Ratings assigned to parent organisations of the Company's counterparties are investment grade, which limits the risk of counterparty default in the lifetime of financial instruments held by the Company, and therefore no indication of significant increase in the credit risk of the financial instruments was identified as at the reporting date.

The expected credit loss on loans advanced and financial assets other than trade receivables was estimated at PLN 128m, including PLN 70m on financial instruments for which the credit loss is estimated for a 12-month horizon, of which PLN 8m reflects the estimated effect of COVID-19 on the probability of the counterparties' insolvency in the future, up by PLN 7m relative to the expected credit loss on loans advanced and other financial instruments estimated at the end of 2019.

7.3 Provisions

	Provision for well decommissioning costs	Provision for certificates of origin and energy efficiency certificates	Provision for liabilities associated with exploration work abroad	Provisions for environmental liabilities	Provision for UOKiK fine	Provision for claims under extra-contractual use of land	Provision for financial guarantees	Other provisions	Total
As at January 1st 2019	**1,660**	**70**	**175**	**26**	**-**	**4**	**15**	**25**	**1,975**
Effect of IFRS 16	-	-	-	(19)	-	-	-	-	(19)
As at January 1st 2019 (restated)	**1,660**	**70**	**175**	**7**	**-**	**4**	**15**	**25**	**1,956**
Recognised provision capitalised in cost of property, plant and equipment	361	-	-	-	-	-	-	-	361
Recognised provision taken to profit or loss	58	47	2	5	6	-	4	1	123
Used	(36)	(48)	-	-	-	-	-	-	(84)
Provision reversal taken to profit or loss	(86)	(21)	-	-	-	-	(5)	(4)	(116)
As at December 31st 2019	**1,957**	**48**	**177**	**12**	**6**	**4**	**14**	**22**	**2,240**
Recognised provision capitalised in cost of property, plant and equipment	214	-	-	-	-	-	-	-	214
Recognised provision taken to profit or loss	28	14	9	-	-	-	4	5	60
Used	(18)	(7)	-	-	-	-	-	-	(25)
Provision reversal taken to profit or loss	(23)	(2)	-	-	-	-	-	(1)	(26)
Other changes	1	-	-	-	-	-	-	-	1
As at June 30th 2020	**2,159**	**53**	**186**	**12**	**6**	**4**	**18**	**26**	**2,464**

(all amounts in PLN million, unless stated otherwise)

7.4 Revenue

	Total		Domestic sales		Export sales	
	6 months ended June 30th 2020	6 months ended June 30th 2019	6 months ended June 30th 2020	6 months ended June 30th 2019	6 months ended June 30th 2020	6 months ended June 30th 2019
Revenue from sale of gas, including:	**9,030**	**9,932**	**8,309**	**9,524**	**721**	**408**
Revenue from contracts with customers IFRS 15	8,040	9,652	7,319	9,244	721	408
High-methane gas	7,191	8,737	6,685	8,456	506	281
Nitrogen-rich gas	651	756	560	692	91	64
Propane-butane gas	25	33	25	33	-	-
LNG	41	48	40	48	1	-
Helium	132	78	9	15	123	63
Excluded from the scope of IFRS 15	990	280	990	280	-	-
Adjustment to gas sales due to hedging transactions - IFRS 9	990	280	990	280	-	-
Other revenue, including:	**2,007**	**2,103**	**1,886**	**1,903**	**121**	**200**
Revenue from contracts with customers IFRS 15	1,712	1,804	1,591	1,604	121	200
Crude oil and natural gasoline	408	717	302	543	106	174
Sales of electricity	1,179	944	1,179	942	-	2
CO_2 emission allowances	17	13	17	13	-	-
Other	108	130	93	106	15	24
Excluded from the scope of IFRS 15	295	299	295	299	-	-
Right to use storage facilities - IFRS 16	287	290	287	290	-	-
Other income from operating leases - IFRS 16	8	9	8	9	-	-
Total revenue	**11,037**	**12,035**	**10,195**	**11,427**	**842**	**608**

Sales are made directly to business 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 entered into under long-term master agreements. Settlements are made on the basis of the contract price and the quantity of goods received by the customer. The Company did not identify any significant financing component in its contracts nor did it incur any significant incremental cost of obtaining a contract.

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

The impact of COVID-19 on the Polish gas market so far is seen by the Company as limited. The pandemic has only slightly impeded the potential growth in consumption of high-methane grid gas in Poland, which reached 2.1% year on year in the first half of 2020. The above assessment is based on actual transmission data at high-methane gas grid exit points to end users and to the distribution network.

Among high-methane grid gas users, a decline in gas consumption was recorded in the refining industry, as a result of weaker demand for fuels. The Company saw gas consumption rates begin to grow at the end of the second quarter of 2020. In the case of gas sales through the Polish Power Exchange, deliveries made by the Company in the first half of 2020 rose 11% year on year.

(all amounts in PLN million, unless stated otherwise)

7.5 Operating expenses (selected items)

	6 months ended June 30th 2020	6 months ended June 30th 2019
Cost of gas sold	**(6,318)**	**(8,537)**
Gas fuel	(6,318)	(8,538)
Net gain/(loss) on gas price hedges	-	1
Effect of the annex executed with PAO Gazprom/OOO Gazprom Export on the cost of gas in 2014–2019	**4,915**	**-**
Other raw materials and consumables used	**(1,179)**	**(957)**
Electricity for trading	(1,127)	(903)
Other raw materials and consumables used	(52)	(54)
Employee benefits expense	**(390)**	**(340)**
Salaries and wages	(279)	(261)
Social security contributions	(68)	(65)
Other employee benefits expense	(46)	(41)
Provisions for employee benefits	3	27
Transmission, distribution and storage services	**(456)**	**(464)**
Other services	**(484)**	**(415)**
Regasification services	(195)	(188)
Cost of dry wells written off	(79)	(22)
Repair and construction services	(12)	(23)
Geological and exploration services	(21)	(16)
Mineral resources production services	(11)	(10)
Well abandonment services	(15)	(11)
IT services	(54)	(53)
Other services	(97)	(92)
Depreciation and amortisation expense	**(411)**	**(416)**
Depreciation of non-leased assets	(402)	(408)
Depreciation of the right of use	(9)	(8)
Recognition and reversal of impairment losses on property, plant and equipment, intangible assets, rights-of-use assets	**(724)**	**(227)**
Impairment losses on property, plant and equipment and rights-of-use assets	(711)	(221)
Impairment losses on intangible assets	(13)	(6)
Total	**(5,047)**	**(11,356)**

The increase in impairment losses on property, plant and equipment, intangible assets, rights-of-use assets and their reversal results from the valuation by the Company as at June 30th 2020 of property, plant and equipment under construction and rights to use assets related to hydrocarbon production in Poland and abroad (for a detailed description, see **Note 7.2.**).

7.6 Other income and expenses

	6 months ended June 30th 2020	6 months ended June 30th 2019
Measurement and exercise of derivative financial instruments	13	40
Change in inventory write-downs	362	(84)
Change in provision for well decommissioning costs	(5)	16
Change in provision for certificates of origin and energy efficiency certificates	(12)	1
Cost of merchandise and materials sold	(18)	(18)
- including the amount of value of CO_2 emission allowances sold	(17)	(14)
Change in other provisions	(4)	(19)
Net exchange differences related to operating activities	281	(9)
Other	(37)	(37)
Total other income and expenses	**580**	**(110)**

(all amounts in PLN million, unless stated otherwise)

7.7 Finance income and costs

	6 months ended June 30th 2020	6 months ended June 30th 2019
Finance income		
Gain on measurement and exercise of forward contracts	83	-
Foreign exchange gains	-	12
Other finance income	4	13
Total finance income	**87**	**25**
Finance costs		
Loss on measurement and exercise of forward contracts	-	(11)
Debt-related interest and fees	(26)	(27)
- including interest on lease liabilities	(4)	(5)
Foreign exchange losses	(93)	-
Loss on modification of financial assets	-	(2)
Other	(8)	(4)
Total finance costs	**(127)**	**(44)**

7.8 Income tax

Reconciliation of effective tax rate	6 months ended June 30th 2020	6 months ended June 30th 2019
Profit before tax	**6,469**	**1,895**
Corporate income tax at the applicable 19% statutory rate	(1,229)	(360)
Non-taxable income/(Non-deductible expenses)	(10)	237
Corporate income tax at the effective tax rate	**(1,239)**	**(123)**
Current tax expense	(1,325)	(115)
Deferred tax expense	86	(8)
Effective tax rate	**19%**	**6%**

The year-on-year increase in income tax expense in the reporting period was attributable to the execution by the Company, on June 5th 2020, of the Annex to the Yamal Contract with PAO Gazprom/OOO Gazprom Export, details of which are provided in **Note 5.1.1.**

7.9 Property, plant and equipment

	As at June 30th 2020	As at December 31st 2019
Land	18	20
Buildings and structures	6,734	7,158
Plant and equipment	1,989	2,145
Vehicles and other	80	96
Total tangible	**8,821**	**9,419**
Tangible exploration and evaluation assets under construction	2,330	2,225
Other tangible assets under construction	535	454
Total tangible assets under construction	**2,865**	**2,679**
Perpetual usufruct rights to land	244	249
Right-of-use asset – land	44	49
Right-of-use asset – buildings and structures	9	10
Right-of-use asset – machinery and equipment	2	3
Right-of-use asset – vehicles	22	14
Total right-of-use assets	**321**	**325**
Total property, plant and equipment	**12,007**	**12,423**

(all amounts in PLN million, unless stated otherwise)

7.10 Hedge accounting

Effect of cash flow hedge accounting on the statement of profit or loss and other comprehensive income

The amounts presented relate to those instruments that were designated for hedge accounting as at the reporting date or were excluded from hedge accounting during the reporting period.

Type of hedging instrument	Notional amount*	Carrying amount as at June 30th 2020		Period when cash flow will occur and affect the financial result	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 (since the inception of the hedging relationship)	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/PLN)	2,780	118	-	up to 3 years	221	205	-	Not applicable**	Not applicable
Forward contracts to purchase USD for EUR (EUR/USD)	304	6	1	up to 3 years	7	5	-	(3)	Revenue from sale of gas
Average rate forwards (EUR/PLN)	3,754	11	27	up to 3 years	31	(100)	-	(48)	Revenue from sale of gas
COMMODITY PRICE RISK									
Basis swap contracts for gas price indices	57	4	6	1–3 months	26	26	-	(62)	Revenue from sale of gas
Swap contracts for gas price indices	1,356	622	116	up to 3 years	1,422	485	32	(877)	Revenue from sale of gas
Swap contracts for HH price indices	104	5	1	up to 3 years	(18)	(6)	-	Not applicable**	Not applicable
Swap contracts for petroleum product price indices	811	61	-	up to 3 years	61	61	-	Not applicable**	Not applicable
Total	**9,166**	**827**	**151**		**1,750**	**676**	**32**	**(990)**	

*Not all instruments were fully designated for hedge accounting.

**For these relationships, the relevant amounts are not reclassified to profit or loss but adjust the initial value of inventories (for more information, see the ‘Reconciliation of hedging reserve’ table).

(all amounts in PLN million, unless stated otherwise)

Type of hedging instrument	Notional amount*	Carrying amount as at December 31st 2019		Period when cash flow will occur and affect the financial result	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 (since the inception of the hedging relationship)	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/PLN)	3,688	54	39	up to 3 years	287	72	-	Not applicable**	Not applicable
Forward contracts to purchase USD for EUR (EUR/USD)	186	2	-	up to 3 years	2	2	-	-	Revenue from sale of gas
Average rate forwards (EUR/PLN)	4,133	120	-	up to 3 years	156	129	-	(25)	Revenue from sale of gas
COMMODITY PRICE RISK									
Basis swap contracts for gas price indices	88	1	1	up to 3 years	310	286	-	(276)	Revenue from sale of gas
Swap contracts for gas price indices	2,899	911	254	up to 3 years	829	1,013	(4)	(270)	Revenue from sale of gas
Swap contracts for HH price indices	128	-	11	up to 3 years	(11)	(11)	-	Not applicable**	Not applicable
Total	**11,122**	**1,088**	**305**		**1,573**	**1,491**	**(4)**	**(571)**	

*Not all instruments were fully designated for hedge accounting.

**For these relationships, the relevant amounts are not reclassified to profit or loss but adjust the initial value of inventories (for more information, see the 'Reconciliation of hedging reserve' table).

(all amounts in PLN million, unless stated otherwise)

Cash flow hedges

Items hedged as at June 30th 2020	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 of all hedging relationships for which hedge accounting is no longer applied remaining in cash flow hedging reserve
CURRENCY RISK			
Natural gas (USD/PLN)	(221)	118	-
Natural gas (EUR/USD)	(7)	3	-
Natural gas (EUR/PLN)	(31)	(17)	-
COMMODITY PRICE RISK			
Gas contracts indexed to European gas price indices (daily or monthly)	(1,465)	459	251
Gas contracts indexed to monthly Henry Hub price indices	23	4	-
Gas contracts indexed to monthly Brent price indices	(61)	61	-
TOTAL	**(1,762)**	**628**	**251**

Hedged items as at December 31 2019	Change in value of hedged item used as basis for recognising hedge ineffectiveness in given period	Balance of cash flow hedging reserve for continuing hedges	Balance remaining in cash flow hedging reserve in respect of all hedging relationships for which hedge accounting is no longer applied
CURRENCY RISK			
Natural gas (USD/PLN)	(287)	16	-
Natural gas (EUR/USD)	(2)	2	-
Natural gas (EUR/PLN)	(159)	93	38
COMMODITY PRICE RISK			
Gas contracts indexed to monthly gas price indices	(312)	33	1
Gas contracts indexed to daily gas price indices	(843)	606	133
Gas contracts indexed to monthly Henry Hub price indices	15	(11)	-
TOTAL	**(1,588)**	**739**	**172**

(all amounts in PLN million, unless stated otherwise)

Reconciliation of hedging reserve

	2020	2019
Gross amount at beginning of the period	911	89
Net amount at beginning of the period	738	72
CURRENCY RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	110	202
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	(51)	(25)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	(103)	(270)
Gross hedging reserve	**(44)**	**(93)**
Deferred tax on settlement and measurement of hedging instruments	8	18
Net hedging reserve	**(36)**	**(75)**
COMMODITY PRICE RISK		
Hedging gains or losses recognised in other comprehensive income during reporting period	566	1,288
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment	(939)	(546)
Amount transferred from cash flow hedging reserve and recognised as adjustment to carrying amount of inventories	386	174
Amount reclassified from cash flow hedging reserve to statement of profit or loss as reclassification adjustment for those hedging relationships to which hedge accounting is no longer applied	-	(1)
Gross hedging reserve	**13**	**915**
Deferred tax on settlement and measurement of hedging instruments	(2)	(174)
Net hedging reserve	**11**	**741**
Gross amount at end of the period	**880**	**911**
Net amount at end of the period	**713**	**738**

In the reporting period, the Company changed the presentation of certain data in the ‘Effect of cash flow hedge accounting on the statement of profit or loss and other comprehensive income’ and ‘Cash flow hedges’ tables relative to the data presented in the separate financial statements for the year ended December 31st 2019.

The Company has monitored the developing market practice related to the required hedge accounting disclosures under IFRS 9, and has decided to change the classification of transactions accounted for within individual categories of notes and disclosed in the financial statements. At the same time, in order to maintain and ensure the comparability of data, the Company presented the notes contained in the financial statements for 2019 in accordance with the current model.

8. Representation by the Management Board

The Management Board of PGNiG S.A. represents that, to the best of its knowledge, the interim condensed consolidated financial statements of the PGNiG Group and the interim condensed separate financial statements of PGNiG S.A. for the six months to June 30th 2020 as well as the comparative data have been prepared in compliance with the applicable accounting policies, and give a true, clear and fair view of the assets, financial position and financial results of the PGNiG Group and PGNiG S.A.

PGNiG S.A. Management Board:

President of the Management Board	Jerzy Kwieciński	....
Vice President of the Management Board	Robert Perkowski	....
Vice President of the Management Board	Arkadiusz Sekściński	....
Vice President of the Management Board	Przemysław Wacławski	....
Vice President of the Management Board	Jarosław Wróbel	....
Vice President of the Management Board	Magdalena Zegarska	....

Warsaw, August 19th 2020

This document is an English version of the original Polish version.

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