Consolidated Financial Statements PGNiG 2010

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PGNiG
Energy through knowledge

Consolidated Financial Statements

PGNiG 2010

Letter from the Chief Financial Officer

Dear Shareholders, Ladies and Gentlemen,

On behalf of the Management Board of Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna, as well as on my own behalf, I present to you the PGNiG Group's 2010 Consolidated Financial Statements. Similarly to last year, it is a great pleasure for me as the Group's results proved record-high – we posted sales revenue of PLN 21.28bn and turned net profit of PLN 2.46bn. The robust performance was underpinned by a combination of factors, including the largest-ever volume of natural gas sold (14.4 billion cubic metres) and stronger performance of the Exploration and Production segment, which reported a marked rise in revenue from sales of crude oil, and geological, geophysical and exploration services.

To a large extent, the Group's financial performance was affected by high volatility and unpredictability of the FX markets in 2010. The strengthening of the US dollar pushed up the cost of high-methane gas imports. Due to formal and legal constraints, the Group is not able to flexibly cushion the US dollar fluctuations by adequately adjusting its pricing. Therefore, instability in FX markets may considerably impact the Group's current and future financial position.

The Group recorded a PLN 1.51bn increase in its operating result compared with a year ago. The improvement in the Group's financial standing was largely fuelled by stronger margins on the sale of high-methane gas, increase in gross profit on sales of crude oil, and larger amount of reversed impairment losses on gas companies' assets.

The Group pursues its objectives through three main operating segments. One of them is the Exploration and Production segment whose business comprises the production of natural gas and crude oil, sale of gas to customers connected directly to the production fields, sale of crude oil to customers in Poland and abroad, and provision of geophysical, geological and exploration services.

The segment's operating profit was up by PLN 414m relative to 2009 and came in at PLN 588m. In the period under review, the Group also reported a material improvement in margins on the sale of crude oil. Owing to crude price increase on global markets, the selling price of the fuel was 28% higher than a year ago. Following launch of the denitriding plant in Grodzisk Wielkopolski, the production volume of nitrogen-rich gas rose by 7%. At the same time, the sales volume of the gas fell by 7% due to an increased quantity of gas supplied for denitriding and implementation of projects designed to switch customers to high-methane gas. The segment's operating profit was also largely driven by a major decrease in the amount of impairment losses and lower drilling expenditure on wells evaluated as dry, charged to cost.

Trade and Storage segment is another business segment which recorded a marked improvement in its operating result, with EBIT having risen by PLN 703m, to PLN 816m. The improvement followed from a significant increase in margins on the sale of high-methane gas, helped by a 7% decrease in the purchase price of imported gas and, importantly, depreciation of the US dollar. The lower unit price of gas imports in 2010 was also a result of the negotiated discounts provided for in an annex to the Yamal contract, applied to the gas volumes collected above the minimum level. Margins on the sale of high-methane gas rose despite the average annual selling price of gas having declined on the back of changes in rates and charges determined in the gaseous fuel tariffs. The segment's operating profit was also greatly affected by a lower result on remeasurement of derivatives pertaining to operating activities.

The Group's third business segment is the Distribution segment, which posted operating profit of PLN 1.49bn (up by 405m relative to 2009). The stronger EBIT was mainly attributable to an increase in rates and charges for network services, approved by the President of the URE and effective as of June 2010. Another contributing factor was a reversal of impairment losses on gas companies' assets, which marked completion of the process of reversing the impairment loss recognised in 2007.

The PLN 1.22bn increase in net profit translated into an improvement of all key ratios measuring the Group's business efficiency. Return on equity (ROE) rose from 5.8% to 10.4%, return on assets (ROA) advanced from 4.0% to 7.2%, while net sales margin went up from 6.4% to 11.5%.

The balance of cash and cash equivalents totalled PLN 1.37bn, which represents a PLN 177m rise on the end of 2009. The rise was led by more substantial inflows of cash provided by current operating activities and a larger size and structure of external financing. In August 2010 PGNiG Norway AS entered into a seven-year USD 400m credit agreement with seven banks and PGNiG SA repaid in full the outstanding debt under a multi-currency syndicated loan, and in July 2010 the domestic bonds programme of up to PLN 3bn was launched.

Another successful year behind us, we are now facing new challenges: negotiations with the regulator, implementation of the Group's ambitious investment programme and raising the necessary funding, launch of gas and oil production in Norway and start-up of a trading subsidiary in Germany. A successful completion of these projects should help the Group tackle the challenges of gas market liberalisation in Europe and provide a springboard for further sustainable growth.

Sławomir Hinc
Vice-President of the Management Board
Chief Financial Officer

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Auditor's opinion

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

We have audited the attached consolidated financial statements of the Polskie Górnictwo Naftowe i Gazownictwo SA Capital Group with Polskie Górnictwo Naftowe i Gazownictwo SA, with its registered office in Warsaw at M. Kasprzaka Street 25, as the parent, including consolidated statement of financial position prepared as of 31 December 2010, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2010 to 31 December 2010 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the capital group in line with the law is the responsibility of the Management Board of the Parent.

The Management Board of the Parent and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:
- section 7 of the Accounting Act,
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent and the subsidiaries, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the audited consolidated financial statements in all material respects:
- present fairly and clearly the information material to evaluate the economic and financial position of the Capital Group as of 31 December 2010 as well as its profit or loss in the financial year from 1 January 2010 to 31 December 2010,
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
- comply with the provisions of law applicable to the Capital Group which affect the contents of the consolidated financial statements.

Without raising any qualifications to the correctness and fairness of the audited consolidated financial statements, we would like to emphasize:
- The information presented in Note 6, Note 6, in which the Parent's Management Board has presented factors resulting in uncertainty of assumptions on which measurement of shares in SGT EuRoPol Gas SA co-subsidiary was based. Measurement of the shares was based on assumptions and future events beyond control of the Parent, whose effects could not have been clearly projected as at the date of the consolidated financial statements. The Parent's Management Board explained also reasons of having made impairment write-downs on the shares of the co-subsidiary.
- The information presented in Note 37.8, in which the Parent's Management Board has informed about the uncertainty related to the current political situation in Libya and therefore the uncertainty of future operating activity in this country.

The Report on the activities of the Capital Group for the 2010 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states and consistent with underlying information disclosed in the audited consolidated financial statements.

Piotr Sokołowski

Key certified auditor
conducting the audit
No. 9752

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Represented by:

Piotr Sokołowski
Vice President of the Management Board
Certified auditor
No. 9752

Marta Towpik
Member of the Management Board
Certified auditor
No. 90113

Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II 19
00-754 Warszawa

entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors

Warsaw, 3 March 2011

Consolidated Financial Statements of the Capital Group Polskie Górnictwo Naftowe i Gazownictwo for the 2010 Financial Year

I. General information

1. Details of the audited Parent

The Parent of the Capital Group operates under the business name Polskie Górnictwo Naftowe i Gazownictwo SA The Company's registered office is located in Warsaw, at M. Kasprzaka Street 25.

The Company operates as a joint stock company established by a notarized deed on 1 October 1996 before Paweł Błaszczak, Notary Public in Warsaw (Repertory A No. 18871/96). The Company was recorded in the Commercial Register kept by the District Court, XVI Business-Registry Division in Warsaw, section B, under number 48382, based on the decision of 27 December 2001 Currently the Company is recorded in the Register of Entrepreneurs kept by the District Court, XII Business-Registry Division in Warsaw, under KRS number 0000059492.

The Company's tax identification number NIP assigned by the Second Tax Office on 22 November 1996 is 525-000-80-28.

The REGON number assigned by the Statistical Office on 14 November 1996 is: 012216736.

The Company operates based on the provisions of the Code of Commercial Companies.

In accordance with the Company's articles of association, the scope of its activities includes:
- production of crude oil,
- production of natural gas,
- services related to exploration of crude oil and natural gas fields,
- mining of sulphur-bearing materials,
- other mining, n.e.c.,
- production of crude oil and refined products,
- reprocessing crude oil and refined products,
- services related to installation, repair and maintenance of machines for mining and building industry,
- production of electricity,
- transmission of electricity,
- distribution of electricity,
- production of gas fuels,
- distribution of gas fuels through the network,
- production of heat (steam and hot water),
- distribution of heat (steam and hot water),
- geological and engineering excavations and drilling,
- execution of general construction works in respect to line structures: pipelines, power lines, electrical traction lines as well as telecommunication and transmission lines,
- central heating and ventilation installations,
- gas installations,
- service and repair of motor vehicles,
- retail sale of fuels,
- wholesale of solid, liquid and gas fuels and derivative products,
- wholesale of semi-finished products,
- other specialized wholesale trade,
- hotels and motels with restaurant,
- hotels and motels without restaurants,
- cargo road transport by specialized vehicles,
- cargo transport by road, using general-purpose vehicles,
- pipeline transport,
- warehousing and storage of goods in other storage areas,
- travel agencies,
- fixed line telephony and telegraphy,
- mobile telephony,
- data transmission, information and communication technology,
- radio communications,
- research and development work in technical sciences,
- geological and exploration activity,
- surveying and mapping,
- rental of real property on own account,
- management of residential real property,
- management of non-residential real property,
- purchase and sales of real property on own account,
- non-public libraries,
- archives,
- museums,
- technical tests and analyses,
- leasing of the Company's assets dedicated to transmission of energy and gas,
- other financial brokerage services,
- holdings,
- other printing operations, not elsewhere classified,
- DTP and typesetting services,
- auxiliary graphics services,
- service activity related to installation, repair and maintenance of measurement, control, research, testing and navigation instruments and equipment,
- heating, water, ventilation and gas installations,
- brokerage sales of fuels, ore, metals and industrial chemicals,
- activities of agents involved in the sales of various goods,
- wholesale trade of metal products and equipment as well as additional plumbing and heating equipment,
- other retail sale in non-specialized stores,
- finance lease,
- auxiliary financial services related to insurance and pension-retirement funds,
- rental of machines and equipment,
- data processing,
- activity related to databases,
- other IT-related services,
- accounting and bookkeeping services,
- advertisement,
- Call Center services,
- other commercial activity, n.e.c.,
- property management services,
- other short-term accommodation, n.e.c.

In the audited period, the Company conducted the following business activities:

As of 31 December 2010, the Company's share capital amounted to PLN 5.900.000.000 and was divided into:
- 4,250,000,000 A series bearer shares with face value of PLN 1 each,
- 750,000,000 A1 series bearer shares with face value of PLN 1 each,
- 900,000,000 B series bearer shares with face value of PLN 1 each

As at 31 December 2010, the Company's shareholders included:
- State Treasury – 72,43% of shares,
- Publicly traded shares – 27,57% of shares.

During the financial year there were no changes in the share capital of the Company.

During the audited period, the shareholding structure of the Company's share capital did not undergo any changes.

After the balance-sheet date there were no changes in the Company's share capital.

As of 31 December 2010, the Capital Group's equity amounted to PLN 23.519.470 thousand.

The Capital Group's financial year is the calendar year.

Composition of the Management Board as of the date of the opinion:
- Michał Szubski – Chairman of the Management Board,
- Radosław Dudziński – Vice Chairman of Management Board in Charge of Strategy,
- Sławomir Hinc – Vice Chairman of the Management Board in Charge of Finance,
- Mirosław Szkałuba – Vice Chairman of the Management Board in Charge of Trade,
- Marek Karabuła – Vice Chairman of the Management Board in Charge of Oil Mining.

Changes in the composition of the Management Board during the audited period:

On April 26th 2010, Mirosław Dobrut resigned from his position as Vice-President of the Management Board for Gas and Trade, with effect from April 30th 2010. The reason for Mirosław Dobrut's resignation was his appointment as President of the Management Board of SGT EUROPOL GAZ SA.

On May 12th 2010, Marek Karabuła, Member of the Supervisory Board, was delegated to temporarily stand in as Vice-President of the Management Board for Gas and Trade in the period from June 1st to August 31st 2010.

On July 19th 2010, the Supervisory Board of PGNiG SA appointed Marek Karabuła as Member of the Management Board of PGNiG SA.

On August 15th 2010, Waldemar Wójcik resigned from his position as Vice-President of the Management Board for Oil Mining.

On December 1st 2010 the Supervisory Board of PGNiG SA stared the verification procedure for positions of Management Board members:
- Chairman of the Management Board,
- Vice Chairman of the Management Board in Charge of Finance,
- Vice Chairman of Management Board in Charge of Strategy,
- Vice Chairman of the Management Board in Charge of Oil Mining.

On January 12th 2011 the the verification procedure for positions of Management Board members ened and as a result the Supervisory Board appointed current members of Management Board – Michał Szubski, Sławomir Hinc, Radosław Dudziński and Marek Karabuła – for the next joint three-year term.

On December 28th 2010 the Supervisory Board made a decision to appoint the January 4th as a start date of procedure for election by the employees a one member of the Management Board.

As a result Mirosław Szkałuba was elected by the employees to serve as a member of the Management Board for the duration of its term of office.

The above changes have been reported and registered at a relevant court register.

Composition of the Capital Group as of 31 December 2010:

Parent – Polskie Górnictwo Naftowe i Gazownictwo SA, and

- Direct subsidiaries:
  - Geofizyka Kraków Sp. z o.o. – 100% shares,
  - Geofizyka Toruń Sp. z o.o. – 100% shares,
  - Poszukiwania Nafty i Gazu Jasło Sp. z o.o. – 100% shares,
  - Poszukiwania Nafty i Gazu Kraków Sp. z o.o. – 100% shares,
  - Poszukiwania Nafty i Gazu Nafta Sp. z o.o. w Pile – 100% shares,
  - Dolnośląska Spółka Gazownictwa Sp. z o.o. – 100% shares,
  - Górnośląska Spółka Gazownictwa Sp. z o.o. – 100% shares,
  - Karpacka Spółka Gazownictwa Sp. z o.o. – 100% shares,
  - Mazowiecka Spółka Gazownictwa Sp. z o.o. – 100% shares,
  - Pomorska Spółka Gazownictwa Sp. z o.o. – 100% shares,
  - Wielkopolska Spółka Gazownictwa Sp. z o.o. – 100% shares,
  - PN Diament Sp. z o.o. – 100% shares,
  - Biuro Studiów i Projektów Gazownictwa Gazoprojekt SA – 75% shares,
  - Polish Oil and Gas Company – Libya B.V. – 100% shares,
  - PGNIG Technologie Sp. z o.o. (Górnictwo Naftowe Sp. z o.o.) – 100% shares,
  - Geovita Sp. z o.o. – 100% shares,
  - ZRG Krosno Sp. z o.o. – 100% shares,
  - Investgas SA – 100% shares,
  - PGNiG Norway AS – 100% udziałów,
  - PGNiG Energia SA – 100% shares,
  - POGC Trading GmbH – 100% shares,
  - Operator Systemu Magazynowania Sp. z o.o. – 100% shares,
  - Polskie Elektrownie Gazowe Sp. z o.o. – 100% shares,
  - NYSAGAZ Sp. z o.o. – 51% shares,
  - BUD-GAZ P.P.U.H. Sp. z o.o. – 100% shares.

- Indirect subsidiaries:
  - BUG Gazobudowa Sp. z o.o. – 100% shares,
  - Zakład Urządzeń Naftowych Naftomet Sp. z o.o. – 100% shares,
  - ZRUG Sp. z o.o. (w Pogórskiej Woli) – 100% shares,
  - Budownictwo Naftowe Naftomontaż Sp. z o.o. – 88,83% shares,
  - Geofizyka Torun Kish Ltd (Rial) – 100% shares,
  - Oil Tech International F.Z.E. – 100% shares,
  - Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła) – 100% shares,
  - Biogazownia Ostrowiec Sp. z o.o. – 100% shares,
  - Powiśle Park Sp. z o.o. (Warszawa) – 100% shares,
  - CHEMKOP Sp. z o.o. Kraków – 85% shares,
  - GAZ Sp. z o.o. (Błonie) – 51% shares,
  - GAZ MEDIA Sp. z o.o. (Wołomin) – 51% shares.

The consolidated financial statements as of 31 December 2010 included the following entities:

a) **Parent – Polskie Górnictwo Naftowe i Gazownictwo SA**

We have audited the financial statements of Polskie Górnictwo Naftowe i Gazownictwo SA, the Parent, for the period from 1 January to 31 December 2010. As a result of our audit, on March 3rd 2011 we issued an emphasis of matter opinion.

b) Companies subject to full consolidation:

Name and address of the Company	Interest in the capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity	Opinion date
GEOFIZYKA Kraków Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified emphasis of matter opinion	31.12.2010	01.03.2011
GEOFIZYKA Toruń Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	04.02.2011
Poszukiwania Nafty i Gazu Jasło Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified emphasis of matter opinion	31.12.2010	03.03.2011
GK Poszukiwania Nafty i Gazu Kraków Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	03.03.2011
Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	01.03.2011
Dolnośląska Spółka Gazownictwa Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	01.03.2011
Górnośląska Spółka Gazownictwa Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	01.03.2011
Karpacka Spółka Gazownictwa Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	01.03.2011
GK Mazowiecka Spółka Gazownictwa Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	01.03.2011
Pomorska Spółka Gazownictwa Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	01.03.2011
Wielkopolska Spółka Gazownictwa Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	11.02.2011
Budownictwo Urządzeń Gazowniczych Gazobudowa Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified emphasis of matter opinion	31.12.2010	03.03.2011
Budownictwo Naftowe Naftomontaż Sp. z o.o.	88,83%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	25.02.2011
Zakład Urządzeń Naftowych Naftomet Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o.	31.12.2010	03.03.2011
Poszukiwania Naftowe Diament Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	01.03.2011
ZRG Krosno Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	03.03.2011
Biuro Studiów i Projektów Gazownictwa Gazoprojekt SA	75,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	01.03.2011
Geovita Sp. z o.o.	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	28.02.2011
POGC Libya B.V.	100,00%	As at the opinion date, no opinion	31.12.2010	
Investgas SA	100,00%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	03.03.2011
PGNiG Norway AS	100,00%	Deloitte AS Unqualified opinion	31.12.2010	17.02.2011
PGNiG Energia SA	100,00%	Deloitte AS Unqualified opinion	31.12.2010	03.03.2011
ZRUG Sp. z o.o. w Pogórskiej Woli	100%	Deloitte Audyt Sp. z o.o. Unqualified opinion	31.12.2010	25.02.2011
PGNIG Technologie Sp. z o.o. (Górnictwo Naftowe Sp. z o.o.)	100%	Skonto –Ficadex Spółka z o.o. Unqualified opinion	31.12.2010	22.02.2011
NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy)**	59,88%	The company is not audited as at 31.12.2010*		
POGC Trading GmbH	100%	The company is not audited as at 31.12.2010	31.12.2010	
Operator Systemu Magazynowania Sp. z o.o.	100%	The company is not audited as at 31.12.2010	31.12.2010	

* On June 29th 2010, the District Court for Krosno resolved to declare the bankruptcy of NAFT-STAL Sp. z o.o. w upadłości (in bankruptcy) and to liquidate the company's assets. As a result it was excluded from the consolidation in III quarter 2010.

** In consolidation included only income statement for the period from 01.01.2010 to 30.06.2010.

c) Companies subject to equity method of consolidation:

Name and address of the Company	Interest in the capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity	Opinion date
SGT EuRoPol Gaz SA	49,74%	As at the opinion date, no opinion	31.12.2010	
Gas-Trading SA	43,41%	As at the opinion date, no opinion	31.12.2010	

The Holding Company preparing the consolidated financial statements did not simplify or alter consolidation principles in relation to the consolidated entities.

In the audited financial year, the Company included in consolidation the following entities: PGNIG Technologie Sp. z o.o. (previously Górnictwo Naftowe Sp.z o.o.), ZRUG Sp. z o.o. w Pogórskiej Woli, Operator Systemu Magazynowania Sp. z o.o., POGC Trading GmbH and in III quarter excluded from consolidation NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy). Effect of the decision on the consolidated financial statements was immaterial.

2. Information about the consolidated financial statements for the prior financial year

The activities of the Capital Group in 2009 resulted in a net profit of PLN 1.236.886 thousand. The consolidated financial statements of the Capital Group for 2009 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Audyt Sp. z o.o. On March 3rd 2010 the certified auditor issued a qualified emphasis of matter opinion on those financial statements, stating as follows:

"Without qualifying the accuracy and fairness of the audited consolidated financial statements, we would like to point out the information presented Note 6, in which the Parent's Management Board have indicated factors resulting in measurement assumptions applied to shares of SGT EuRoPol Gaz SA being uncertain. The measurement of the shares value was based on assumptions and future events beyond control of the Parent, whose outcome cannot be clearly predicted as at the consolidated financial statements date. Additionally, the Parent's Management Board have also explained reasons of impairment write-downs on these shares."

The General Shareholders" Meeting which approved the consolidated financial statements for the 2009 financial year was held on April 29th 2010.

In accordance with applicable laws, the consolidated financial statements for the 2009 financial year were submitted to the National Court Register (KRS) on May 6th 2010 and filed for publication in Monitor Polski B on May 27th 2010. They were published in Monitor Polski B No. 1908 on October 7th 2010.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The audit of the consolidated financial statements was performed based on the agreement of May 28th 2010 concluded between Polskie Górnictwo Naftowe i Gazownictwo SA and Deloitte Audyt Sp. z o.o. with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statements was conducted under the supervision of Piotr Sokołowski, key certified auditor, (No. 9752), in the registered office of the Parent from from February 1st to March 3rd 2011.

The entity authorized to audit the consolidated financial statements was appointed by the resolution of the Supervisory Board of May 12th 2010 based on authorization included in Article 33 of the Parent's articles of association.

Deloitte Audyt Sp. z o.o. and Piotr Sokołowski, key certified auditor, confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009, No. 77, item 649) to express an unbiased and independent opinion on the consolidated financial statements of the Polskie Górnictwo Naftowe i Gazownictwo SA Capital Group.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent of March 3rd 2011.

II. Economic and financial position of the Capital Group

Presented below are the main items from the consolidated income statement as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

Main items from the income statement (PLN „000)	2010	2009	2008
Sales revenue	21.281.161	19.331.527	18.432.048
Operating expenses	18.394.472	17.956.668	17.631.370
Financial revenue	80.515	203.315	213.238
Financial expenses	30.410	94.626	78.771
Share in profits/(losses) of entities measured using the equity method	(695)	(359)	221
Income tax	478.915	246.303	69.624
Net profit (loss)	2.457.184	1.236.886	865.742
Total comprehensive income	2.537.359	1.250.607	815.266
Profitability ratios	2010	2009	2008
– gross profit margin	14%	7%	4%
– net profit margin	12%	6%	5%
– net return on equity	12%	6%	4%
Effectiveness ratios			
– assets turnover ratio	0,62	0,62	0,62
– receivables turnover in days	66	70	70
– liabilities turnover in days	60	61	58
– inventory turnover in days	23	30	30
Liquidity/Net working capital			
– debt ratio	31%	31%	30%
– equity to fixed assets ratio	69%	69%	70%
– net working capital (PLN „000)	1 059 935	518 083	2 200 964
– current ratio	1,18	1,09	1,44
– quick ratio	1,00	0,87	1,10

An analysis of the above figures and ratios indicated the following trends in 2010:

- An increase in gross, net profit margin and net return on equity,
- A decrease in receivables, liabilities and inventory turnover,
- An improvement in current and quick ratio.

III. Detailed information

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as of 31 December 2010 and include:

- consolidated statement of financial position prepared as of 31 December 2010, with total assets and liabilities plus equity of PLN 34.316.239 thousand,
- consolidated income statement for the period from 1 January 2010 to 31 December 2010, with a net profit of PLN 2.457.184 thousand,
- consolidated statement of comprehensive income for the period from 1 January 2010 to 31 December 2010 with a total comprehensive income of PLN 2.537.359 thousand,
- consolidated statement of changes in equity for the period from 1 January 2010 to 31 December 2010, disclosing an increase in equity of PLN 2.084.142 thousand,
- consolidated statement of cash flows for the period from 1 January 2010 to 31 December 2010, showing a cash inflow of PLN 176.602 thousand,
- notes, comprising a summary of significant accounting policies and other explanatory information.

The structure of assets and liabilities plus equity as well as items affecting the financial profit or loss has been presented in the consolidated financial statements.

The audit covered the period from 1 January 2010 to 31 December 2010 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent,
- verification of the consolidation documentation,
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation,
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

2. Consolidation documentation

The Parent presented the consolidation documentation including:

1) financial statements of entities included in the consolidated financial statements,

2) financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation,

3) financial statements of controlled entities translated into the Polish currency,

4) all consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements,

5) calculation of the fair value of the net assets of controlled entities,

6) calculation of goodwill and negative goodwill as well as their write-downs, also due to impairment,

7) calculation of minority interest,

8) calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

Basis for the preparation of the consolidated financial statements

The consolidated financial statements of the Capital Group for the 2010 financial year have been prepared in accordance with the International Financial Reporting Standards.

Entities in the Capital Group

The scope and method of consolidation as well as the relationship between entities in the capital group have been determined based on the criteria specified in the International Financial Reporting Standards.

Financial period

The consolidated financial statements have been prepared as of the same balance sheet date and for the same financial year as the financial statements of the Parent – Polskie Górnictwo Naftowe i Gazownictwo SA. Subsidiaries and associated companies included in consolidation prepared their financial statements as of the same balance sheet date as the Parent. The financial year of all subsidiaries and associated companies included in consolidation ended on 31 December 2010.

Consolidation method

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent and the subsidiaries included in consolidation were summed up.

Once the values had been summed up, consolidation adjustments and eliminations were applied to:

- the cost of shares held by the Parent in subsidiaries and the part of net assets of subsidiaries corresponding to the interest of the Parent in these companies,
- mutual receivables and liabilities of entities included in consolidation,
- material revenue and expenses related to transactions between entities included in consolidation.

The equity method was applied with respect to associated entities. The value of the Parent's interest in the associated company was adjusted by increases or decreases in the equity of the associated company attributable to the Parent, which occurred in the period covered by consolidation, and decreased by dividends due from such companies.

3. Justification of the opinion issued

Without raising any qualifications to the correctness and fairness of the audited consolidated financial statements, we would like to emphasize:

- The information presented in Note 6, Note 6, in which the Parent's Management Board has presented factors resulting in uncertainty of assumptions on which measurement of shares in SGT EuRoPol Gas SA co-subsidiary was based. Measurement of the shares was based on assumptions and future events beyond control of the Parent, whose effects could not have been clearly projected as at the date of the consolidated financial statements. The Parent's Management Board explained also reasons of having made impairment write-downs on the shares of the co-subsidiary.
- The information presented in Note 37.8, in which the Parent's Management Board has informed about the uncertainty related to the current political situation in Libya and therefore the uncertainty of future operating activity in this country.

4. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Capital Group

The Parent confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes to the consolidated financial statements give a correct and complete description of measurement principles regarding assets, liabilities, profit or loss and principles of preparation of the consolidated financial statements.

The Parent prepared notes in the form of tables to individual items of the consolidated statement of financial position and statement of comprehensive income as well as narrative descriptions, in line with the requirement of IFRS.

Notes describing property, plant and equipment, intangible assets, investments, liabilities and provisions correctly present increases and decreases as well as their basis during the financial year.

Limitations imposed on individual assets disclosed in the consolidated [balance sheet/statement of financial position arising from security granted to creditors have been described.

Individual assets and liabilities as well as revenue and expenses have been correctly presented by the Parent in the consolidated financial statements. The consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows as well as notes which constitute an integral part of the financial statements include all items required for disclosure in the consolidated financial statements under IFRS.

The Management Board prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2010 financial year. The report contains all information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states. We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. Closing comments

Management Board's Representation

Deloitte Audyt Sp. z o.o. and the key certified auditor received a representation letter from the Parent's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

Piotr Sokołowski

Key certified auditor
conducting the audit
No. 9752

Represented by:

Piotr Sokołowski
Vice President of the Management Board
Certified auditor
No. 9752

Marta Towpik
Member of the Management Board
Certified auditor
No. 90113

Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II 19
00-754 Warszawa

entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors

Warsaw, 3 March 2011

Annual Consolidated Financial Statements

For the year ended December 31st, 2010

Members of the Management Board

Michał Szubski
President of the Management Board

Radosław Dudziński
Vice-President of the Management Board for Strategy

Sławomir Hinc
Vice-President of the Management Board for Finance

Marek Karabuła
Vice-President of the Management Board for Oil Mining

Mirosław Szkałuba
Vice-President of the Management Board for Trade

in PLN '000

Financial Highlights

for the year ended December 31st 2010

		(PLN '000)		(EUR '000)	
		Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
I	Sales revenue	21,281,161	19,331,527	5,314,444	4,453,653
II	Operating profit/(loss)	2,886,689	1,374,859	720,879	316,744
III	Pre-tax profit/(loss)	2,936,099	1,483,189	733,218	341,701
IV	Net profit/loss attributable to owners of the parent	2,453,741	1,235,239	612,761	284,578
V	Net profit/(loss)	2,457,184	1,236,886	613,621	284,957
VI	Comprehensive income attributable to owners of the parent	2,533,916	1,248,960	632,783	287,739
VII	Total comprehensive income	2,537,359	1,250,607	633,643	288,118
VIII	Net cash provided by/used in operating activities	3,843,312	2,554,924	959,772	588,611
IX	Net cash provided by/used in investing activities	(3,558,839)	(3,637,658)	(888,732)	(838,054)
X	Net cash provided by/used in financing activities	(107,871)	858,187	(26,938)	197,712
XI	Total net cash flow	176,602	(224,547)	44,102	(51,732)
XII	Net earnings/(loss) and diluted net earnings/(loss) per share attributable to owners of the parent (PLN / EUR)	0.42	0.21	0.10	0.05

in PLN '000

		(PLN '000)		(EUR '000)	
		As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2010	As at Dec 31 2009
XIII	Total assets	34,316,239	31,074,364	8,665,060	7,563,985
XIV	Liabilities and provisions for liabilities	10,796,769	9,639,036	2,726,250	2,346,292
XV	Non-current liabilities	4,973,340	3,740,262	1,255,799	910,438
XVI	Current liabilities	5,823,429	5,898,774	1,470,451	1,435,854
XVII	Equity	23,519,470	21,435,328	5,938,810	5,217,693
XVIII	Share capital	5,900,000	5,900,000	1,489,786	1,436,152
XIX	Weighted average number of shares (,000)	5,900,000	5,900,000	5,900,000	5,900,000
XX	Book value per share and diluted book value per share (PLN / EUR)	3.99	3.63	1.01	0.88
XXI	Dividend per share declared or paid (PLN / EUR)	0.08	0.09	0.02	0.02

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

Items of the statement of financial position were translated using the mid EUR exchange rate quoted by the NBP as at the end of the given financial period.

Average EUR/PLN exchange rates quoted by the National Bank of Poland

(PLN)	Dec 31 2010	Dec 31 2009
Average exchange rate for the period	4.0044	4.3406
Exchange rate at the end of the period	3.9603	4.1082

in PLN '000

Consolidated Income Statement

for the year ended December 31st 2010

(PLN '000)	Note	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Sales revenue	**3**	**21,281,161**	**19,331,527**
Raw and other materials used	4	(11,675,234)	(11,522,734)
Employee benefits	4	(2,647,237)	(2,454,298)
Depreciation and amortisation		(1,524,712)	(1,496,212)
Contracted services	4	(3,148,800)	(2,963,630)
Cost of products and services for own needs		1,043,028	900,131
Net other operating expenses	4	(441,517)	(419,925)
Total operating expenses		**(18,394,472)**	**(17,956,668)**
Operating profit/(loss)		**2,886,689**	**1,374,859**
Finance income	5	80,515	203,315
Finance expenses	5	(30,410)	(94,626)
Share in net profit/(loss) of equity-accounted undertakings	6	(695)	(359)
Pre-tax profit/(loss)		**2,936,099**	**1,483,189**
Income tax	7	(478,915)	(246,303)
Net profit/(loss)		**2,457,184**	**1,236,886**
Attributable to:			
Owners of the parent		2,453,741	1,235,239
Non-controlling interests		3,443	1,647
Earnings/loss and diluted earnings/loss per share attributable to ordinary owners of the parent	**9**	**0.42**	**0.21**

in PLN '000

Consolidated statement of comprehensive income

for the year ended December 31st 2010

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Net profit/(loss)	**2,457,184**	**1,236,886**
Currency translation differences on foreign operations	(11,468)	(12,102)
Valuation of hedging instruments	42,036	–
Valuation of financial instruments	71,103	31,880
Deferred tax related to other comprehensive income	(21,496)	(6,057)
Other comprehensive net income	**80,175**	**13,721**
Total comprehensive income	**2,537,359**	**1,250,607**
Attributable to:		
Owners of the parent	2,533,916	1,248,960
Non-controlling interests	3,443	1,647

Consolidated statement of financial position

As at December 31st 2010

(PLN '000)	Note	Dec 31 2010	Dec 31 2009
ASSETS			
Non-current assets			
Property, plant and equipment	11	25,662,220	22,888,917
Investment property	12	9,915	7,480
Intangible assets	13	246,710	173,459
Investments in equity-accounted associated undertakings	6	555,828	556,523
Financial assets available for sale	14	170,442	89,789
Other financial assets	15	39,868	299,879
Deferred tax asset	16	676,817	592,087
Other non-current assets	17	71,075	49,373
Total non-current assets		**27,432,875**	**24,657,507**
Current assets			
Inventories	18	1,049,567	1,258,870
Trade and other receivables	19	4,061,187	3,680,039
Current income tax receivable	20	229,666	199,413
Prepayments and accrued income	21	78,801	55,253
Financial assets available for sale	22	8,833	7,467
Derivative financial instruments	34	77,873	18,002
Cash and cash equivalents	23	1,373,292	1,196,325
Non-current assets held for sale	24	4,145	1,488
Total current assets		**6,883,364**	**6,416,857**
Total assets		**34,316,239**	**31,074,364**

(PLN '000)	Note	Dec 31 2010	Dec 31 2009
EQUITY AND LIABILITIES			
Equity			
Share capital	25	5,900,000	5,900,000
Currency translation differences on foreign operations		(57,320)	(51,162)
Share premium account		1,740,093	1,740,093
Other capital reserves		12,268,163	11,455,447
Retained earnings/(losses)		3,655,110	2,380,473
Equity attributable to equity holders of the parent		**23,506,046**	**21,424,851**
Equity attributable to non-controlling interests		13,424	10,477
Total equity		**23,519,470**	**21,435,328**
Non-current liabilities			
Loans, borrowings and debt securities	26	969,864	44,086
Provisions	27	1,501,164	1,315,759
Deferred income	28	1,089,192	1,093,339
Deferred tax liability	29	1,392,010	1,268,432
Other non-current liabilities	30	21,110	18,646
Total non-current liabilities		**4,973,340**	**3,740,262**
Current liabilities			
Trade and other payables	31	3,291,472	2,733,417
Loans, borrowings and debt securities	26	1,229,237	1,984,077
Derivative financial instruments	34	104,443	260,428
Current tax liability	20	225,972	47,409
Provisions	27	289,647	240,240
Deferred income	28	682,658	633,203
Total current liabilities		**5,823,429**	**5,898,774**
Total liabilities		**10,796,769**	**9,639,036**
Total equity and liabilities		**34,316,239**	**31,074,364**

Consolidated statement of cash flows

for the year ended December 31st 2010

in PLN '000

(PLN '000)	Note	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Cash flows from operating activities			
Net profit/(loss)		2,457,184	1,236,886
Adjustments:			
Share in profit/(loss) of equity-accounted undertakings		695	359
Depreciation and amortisation		1,524,712	1,496,212
Net foreign exchange gains/(losses)		(64,525)	(248,944)
Net interest and dividend		(4,837)	12,727
Profit/(loss) on investing activities		(346,138)	(211,674)
Current income tax		478,915	246,303
Income tax paid		(216,075)	(556,033)
Other items, net	32	(44,835)	684,638
Net cash provided by/(used in) operating activities before changes in working capital		**3,785,096**	**2,660,474**
Change in working capital:			
Change in receivables, net	32	(411,507)	61,810
Change in inventories	32	217,016	462,389
Change in provisions	32	49,586	(8,111)
Change in current liabilities	32	247,156	(570,873)
Change in prepayments	32	(23,388)	979
Change in deferred income	32	(20,647)	(51,744)
Net cash provided by/(used in) operating activities		**3,843,312**	**2,554,924**

in PLN '000

(PLN '000)	Note	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		8,999	23,936
Sale of shares in non-consolidated undertakings		200	137
Sale of short-term securities		2,731	12,108
Acquisition of property, plant and equipment and intangible assets		(3,669,900)	(3,840,760)
Acquisition of shares in non-consolidated undertakings		(13,248)	(5,098)
Acquisition of short-term securities		(2,358)	(5,000)
Interest received		14,453	47,168
Dividend received		4,065	8,287
Proceeds from finance lease		15,865	40,111
Other items, net		80,354	81,453
Net cash provided by/(used in) investing activities		**(3,558,839)**	**(3,637,658)**

(PLN '000)	Note	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Cash flows from financing activities			
Net proceeds from issue of shares, other equity instruments and additional contributions to equity		–	–
Increase in loans and borrowings		1,028,544	1,178,927
Issue of debt securities		1,090,517	–
Repayment of loans and borrowings		(1,947,576)	(66,618)
Redemption of debt securities		–	–
Decrease in finance lease liabilities		(37,166)	(36,380)
Inflows from forward and futures contracts		–	–
Outflows on forward and futures contracts		–	–
Dividend paid		(132,006)	(148,501)
Interest paid		(61,477)	(67,888)
Other items, net		(48,707)	(1,353)
Net cash provided by/(used in) financing activities		**(107,871)**	**858,187**
Net change in cash		**176,602**	**(224,547)**
Net foreign exchange gains/(losses)		365	(1,067)
Cash and cash equivalents at beginning of period		**1,196,316**	**1,420,863**
Cash and cash equivalents at end of period		**1,372,918**	**1,196,316**

Consolidated statement of changes in equity

for the year ended December 31st 2010

(PLN '000)	Equity (attributable to owners of the parent)						Equity (attributable to non-controlling interests)	Total equity
	Share capital	Currency translation differences on foreign operations	Share premium	Other capital reserves	Retained earnings (losses)	Total		
As at Jan 1 2010	**5,900,000**	**(51,162)**	**1,740,093**	**11,455,447**	**2,347,193**	**21,391,571**	**10,477**	**21,402,048**
Effect of change in accounting policies concerning connection charge (see Note 2.2.1.)	–	–	–	–	33,280	**33,280**	–	**33,280**
As at Jan 1 2010 after change in accounting policies	**5,900,000**	**(51,162)**	**1,740,093**	**11,455,447**	**2,380,473**	**21,424,851**	**10,477**	**21,435,328**
Transfers	–	5,310	–	715,894	(721,211)	**(7)**	7	**–**
First-time consolidation of subsidiary undertakings	–	–	–	5,179	14,107	**19,286**	–	**19,286**
Payment of dividend to shareholders	–	–	–	–	(472,000)	**(472,000)**	(503)	**(472,503)**
Comprehensive income for 2010	–	(11,468)	–	91,643	2,453,741	**2,533,916**	3,443	**2,537,359**
As at Dec 31 2010	**5,900,000**	**(57,320)**	**1,740,093**	**12,268,163**	**3,655,110**	**23,506,046**	**13,424**	**23,519,470**
As at Jan 1 2009	**5,900,000**	**(39,060)**	**1,740,093**	**10,729,053**	**2,376,809**	**20,706,895**	**9,030**	**20,715,925**
Transfers	–	–	–	700,571	(700,575)	**(4)**	4	**–**
Payment of dividend to shareholders	–	–	–	–	(531,000)	**(531,000)**	(204)	**(531,204)**
Comprehensive income for 2009	–	(12,102)	–	25,823	1,235,239	**1,248,960**	1,647	**1,250,607**
As at Dec 31 2009	**5,900,000**	**(51,162)**	**1,740,093**	**11,455,447**	**2,380,473**	**21,424,851**	**10,477**	**21,435,328**

Consolidated financial statements – additional information

as at December 31st 2010

1. General information

1.1. Company Name, Core Business and Key Registry Data

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna ("PGNiG SA", "the Company", "the Parent Undertaking"), registered office at ul. Marcina Kasprzaka 25, 01-224 Warsaw, is the Parent Undertaking of the PGNiG Group ("the PGNiG Group", "the Group").

On October 30th 1996, the Company was entered in the commercial register maintained by the District Court for the Capital City of Warsaw, XVI Commercial Division, under No. RHB 48382. Currently, the Company is entered into the Register of Entrepreneurs maintained by the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register, under No. KRS 0000059492. The Company's Industry Identification Number REGON is 012216736 and its Tax Identification Number NIP is 525-000-80-28.

PGNiG SA shares are listed on the Warsaw Stock Exchange.

The Company's core business includes the exploration for and production of crude oil and natural gas, as well as import, storage and sale of gaseous fuels.

The PGNiG Group remains the only vertically integrated company in the Polish gas sector, holding the leading position in all segments of the domestic gas sector. Polskie Górnictwo Naftowe i Gazownictwo SA is the parent company of the Group.

The scope of the PGNiG Group's business comprises oil and gas exploration, oil and gas production from fields in Poland, as well as import, storage and distribution of and trade in gaseous fuels. The PGNiG Group is both the main importer of gaseous fuel from Russia, Central Asia, Norway and Germany, and the main producer of natural gas from Polish fields. The Company's upstream operations are one of the key factors building PGNiG's competitive position on the liberalised gas market.

The trade in and distribution of natural gas, which together with natural gas and crude oil production constitute the core business of the PGNiG Group, are regulated by the Polish Energy Law. For this reason, the Group's operations require a license and its revenue depends on the tariff rates for gaseous fuels approved by the Polish Energy Regulatory Office. Exploration and production activities are conducted on a license basis, subject to the provisions of the Polish Geological and Mining Law.

1.2. Duration of the PGNiG Group

The Company was established as a result of a transformation of state-owned enterprise Polskie Górnictwo Naftowe i Gazownictwo into a state-owned stock company. The Deed of Transformation, together with the Company's Articles of Association, were executed in the form of a notarial deed on October 21st 1996. The Minister of the State Treasury executed the Deed of Transformation pursuant to the Regulation of the President of the Polish Council of Ministers on transformation of the state-owned enterprise Polskie Górnictwo Naftowe i Gazownictwo of Warsaw into a state-owned stock company, dated September 30th 1996 (Dz. U. No. 116 of 1996, item 553). The joint-stock company is the legal successor of the state-owned enterprise. The assets, equity and liabilities of the state-owned enterprise were contributed to the joint-stock company and disclosed in its accounting books at their values from the statement of financial position (closing balance) of the state-owned enterprise.

On September 23rd 2005, when new issue shares of PGNiG SA were first listed on the Warsaw Stock Exchange (the "WSE"), PGNiG SA ceased to be a state-owned stock company and became a public company.

The duration of the Parent Undertaking and the Group's subsidiary undertakings is unspecified.

1.3. Period Covered by these Consolidated Financial Statements

These consolidated financial statements present data covering the annual period from January 1st to December 31st 2010, along with comparative data for the period from January 1st to December 31st 2009.

1.4. Statement whether These Financial Statements Contain Aggregated Data

These financial statements contain consolidated data of the Parent Undertaking, its 26 subsidiary undertakings (of which two are parent undertakings of their own groups and four are indirect subsidiaries), one associated undertaking and one jointly-controlled undertaking.

1.5. Organisation of the PGNiG Group and Its Consolidated Undertakings

As at December 31st 2010, the PGNiG Group comprised PGNiG SA (the Parent Undertaking) and 37 production and service companies, including:

- 25 subsidiaries of PGNiG SA,
- 12 indirect subsidiaries of PGNiG SA.

The following table presents a list of the PGNiG Group members as at December 31st 2010:

Companies of the PGNiG Group

	Company	Share capital (PLN)	Value of shares held by PGNiG SA (PLN)	% of share capital held by PGNiG SA	% of total vote held by PGNiG SA
PGNiG SA's subsidiaries					
1	Poszukiwania Nafty i Gazu Jasło Sp. z o.o.	100,000,000.00	100,000,000.00	100.00%	100.00%
2	Poszukiwania Nafty i Gazu Kraków Sp. z o.o.	105,231,000.00	105,231,000.00	100.00%	100.00%
3	Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.	60,000,000.00	60,000,000.00	100.00%	100.00%
4	GEOFIZYKA Kraków Sp. z o.o.	64,400,000.00	64,400,000.00	100.00%	100.00%
5	GEOFIZYKA Toruń Sp. z o.o.	66,000,000.00	66,000,000.00	100.00%	100.00%
6	Poszukiwania Naftowe Diament Sp. z o.o.	62,000,000.00	62,000,000.00	100.00%	100.00%
7	Zakład Robót Górniczych Krosno Sp. z o.o.	26,903,000.00	26,903,000.00	100.00%	100.00%
8	PGNiG Norway AS	951,327,000.00 (NOK)[1]	951,327,000.00 (NOK)[1]	100.00%	100.00%
9	Polish Oil and Gas Company – Libya B.V.	20,000.00 (EUR)[1]	20,000.00 (EUR)[1]	100.00%	100.00%
10	INVESTGAS SA	502,250.00	502,250.00	100.00%	100.00%
11	Dolnośląska Spółka Gazownictwa Sp. z o.o.	658,384,000.00	658,384,000.00	100.00%	100.00%
12	Górnośląska Spółka Gazownictwa Sp. z o.o.	1,300,338,000.00	1,300,338,000.00	100.00%	100.00%
13	Karpacka Spółka Gazownictwa Sp. z o.o.	1,484,953,000.00	1,484,953,000.00	100.00%	100.00%
14	Mazowiecka Spółka Gazownictwa Sp. z o.o.	1,255,800,000.00	1,255,800,000.00	100.00%	100.00%
15	Pomorska Spółka Gazownictwa Sp. z o.o.	614,696,000.00	614,696,000.00	100.00%	100.00%
16	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000.00	1,033,186,000.00	100.00%	100.00%
17	Geovita Sp. z o.o.	86,139,000.00	86,139,000.00	100.00%	100.00%
18	PGNiG Technologie Sp. z o.o. (formerly Górnictwo Naftowe Sp. z o.o.)	120,398,000.00	120,398,000.00	100.00%	100.00%
19	PGNiG Energia SA	6,000,000.00	6,000,000.00	100.00%	100.00%
20	BUD-GAZ P.P.U.H. Sp. z o.o.	51,760.00	51,760.00	100.00%	100.00%
21	POGC Trading GmbH	10,000,000.00 (EUR)[1]	10,000,000.00 (EUR)[1]	100.00%	100.00%
22	Operator Systemu Magazynowania Sp. z o.o.	1,000,000.00	1,000,000.00	100.00%	100.00%
23	Polskie Elektrownie Gazowe Sp. z o.o.	1,212,000.00	1,212,000.00	100.00%	100.00%
24	Biuro Studiów i Projektów Gazownictwa Gazoprojekt SA	4,000,000.00	3,000,000.00	75.00%	75.00%
25	NYSAGAZ Sp. z o.o.	6,800,000.00	3,468,000.00	51.00%	51.00%
PGNiG SA's indirect subsidiaries					
26	BUG Gazobudowa Sp. z o.o.	39,220,000.00	39,220,000.00	100.00%	100.00%
27	Zakład Urządzeń Naftowych Naftomet Sp. z o.o.	23,500,000.00	23,500,000.00	100.00%	100.00%
28	ZRUG Sp. z o.o. (Pogórska Wola)	9,244,000.00	9,244,000.00	100.00%	100.00%
29	Geofizyka Torun Kish Ltd (Rial)	10,000,000.00 (IRR)[1]	10,000,000.00 (IRR)[2]	100.00%	100.00%
30	Oil Tech International F.Z.E.	20,000.00 (USD)[1]	20,000.00 (USD)[1]	100.00%	100.00%
31	Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła)	1,806,500.00	1,806,500.00	100.00%	100.00%
32	Biogazownia Ostrowiec Sp. z o.o.	105,000.00	105,000.00	100.00%	100.00%
33	Powiśle Park Sp. z o.o. (Warsaw)	81,131,000.00	81,131,000.00	100.00%	100.00%
34	CHEMKOP Sp. z o.o. (Kraków)	3,000,000.00	2,550,000.00	85.00%	85.00%
35	Budownictwo Naftowe Naftomontaż Sp. z o.o.	44,751,000.00	39,751,000.00	88.83%	88.83%
36	GAZ Sp. z o.o. (Błonie)	300,000.00	153,000.00	51.00%	51.00%
37	GAZ MEDIA Sp. z o.o. (Wołomin)	300,000.00	153,000.00	51.00%	51.00%

[1] Figures in foreign currencies.

[2] Share capital not paid in.

Consolidated Undertakings of the Group as at the End of 2010

Company	Based in	% of share capital held by PGNiG SA	
		Dec 31 2010	Dec 31 2009
PGNiG SA (Parent Undertaking)	Poland		
Spółki zależne od PGNiG SA			
GEOFIZYKA Kraków Sp. z o.o.	Poland	100.00%	100.00%
GEOFIZYKA Toruń Sp. z o.o.	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu Jasło Sp. z o.o.	Poland	100.00%	100.00%
GK Poszukiwania Nafty i Gazu Kraków[1]	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.	Poland	100.00%	100.00%
Zakład Robót Górniczych Krosno Sp. z o.o.	Poland	100.00%	100.00%
Poszukiwania Naftowe Diament Sp. z o.o.	Poland	100.00%	100.00%
PGNiG Norway AS	Norway	100.00%	100.00%
Polish Oil And Gas Company – Libya B.V.	The Netherlands	100.00%	100.00%
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Górnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Karpacka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
GK Mazowiecka Spółka Gazownictwa[2]	Poland	100.00%	100.00%
Pomorska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Geovita Sp. z o.o.	Poland	100.00%	100.00%
INVESTGAS SA	Poland	100.00%	100.00%
PGNiG Energia SA	Poland	100.00%	100.00%
PGNiG Technologie Sp. z o.o.[3]	Poland	100.00%	100.00%
POGC Trading GmbH	Germany	100.00%	–
Operator Systemu Magazynowania Sp. z o.o.	Poland	100.00%	–
Biuro Studiów i Projektów Gazownictwa Gazoprojekt SA	Poland	75.00%	75.00%
PGNiG SA's indirect subsidiaries			
BUG Gazobudowa Sp. z o.o. Zabrze	Poland	100.00%	100.00%
Zakład Urządzeń Naftowych Naftomet Sp. z o.o.	Poland	100.00%	100.00%
ZRUG Sp. z o.o. (Pogórska Wola)[4]	Poland	100.00%	100.00%
Budownictwo Naftowe Naftomontaż Sp. z o.o.	Poland	88.83%	88.83%
NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation)[5]	Poland	–	59.88%
Jointly-controlled and associated undertakings accounted for using the equity method			
SGT EUROPOL GAZ SA[6]	Poland	49.74%	49.74%
GAS-TRADING SA	Poland	43.41%	43.41%

[1] The Poszukiwania Nafty i Gazu Kraków Group comprises Poszukiwania Nafty i Gazu Kraków Sp. z o. o. and its subsidiary – Oil Tech International – F.Z.E.

[2] The Mazowiecka Spółka Gazownictwa Group comprises Mazowiecka Spółka Gazownictwa Sp. z o.o. and its subsidiary – Powiśle Park Sp. z o.o.

[3] Formerly Górnictwo Naftowe Sp. z o.o. The company was first consolidated in 2010.

[4] The company was first consolidated in 2010.

[5] On June 29th 2010, the District Court of Krosno issued a decision declaring bankruptcy by liquidation of NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation). That resulted in the loss of control over the subsidiary and its deconsolidation in Q3 2010.

[6] Including a 48.00% direct interest and 1.74% held indirectly through GAS-TRADING SA.

1.6. Changes in the Company's Structure, Including Changes Resulting from Mergers, Acquisitions or Disposals of the Group Undertakings, as well as Long-Term Investments, Demergers, Restructurings or Discontinuation of Operations

The key changes in the PGNiG Group's structure which occurred in 2010 included:

- On January 4th 2010, the 2009 share capital increase at Górnośląska Spółka Gazownictwa Sp. z o.o. was entered in the National Court Register. The company's share capital was increased by PLN 850 thousand, to PLN 1,300,338 thousand;
- On January 11th 2010, PGNiG Energia SA, established on December 7th 2009, was entered in the National Court Register. Initially, the company's share capital amounted to PLN 5,000 thousand and was divided into 50,000 shares with a par value of PLN 100 per share. All the shares were acquired by PGNiG SA On December 14th 2010, a share capital increase by PLN 1,000 thousand, to PLN 6,000 thousand, was entered in the National Court Register;
- On January 19th 2010, Geofizyka Kraków Libia SA, based in Janur, Libya, (PGNiG SA's indirect subsidiary through Geofizyka Kraków Sp. z o.o.) was deleted from the Central Commercial Register of the Great Socialist People's Libyan Arab Jamahiriya;
- On February 5th 2010, a share capital increase at Powiśle Park Sp. z o.o. (a wholly-owned subsidiary of MSG Sp. z o.o.) was entered in the National Court Register. The company's share capital was increased by PLN 3,000 thousand to PLN 81,131 thousand;
- On March 31st 2010, the State Treasury entered into an agreement for the sale of 1,390 shares in Agencja Rynku Energii SA with Związek Pracodawców Porozumienie Producentów Węgla Brunatnego of Bogatynia, one of the company's shareholders. In connection with the fact that the shares sold by the State Treasury lost their preferential status, PGNiG SA's total vote at the General Shareholders Meeting of Agencja Rynku Energii SA rose to 14.79%;
- On May 12th 2010, Biogazownia Ostrowiec Sp. z o.o. was established. Its entire share capital of PLN 5,000 was acquired for cash by PGNiG Energia SA On May 13th 2010, the company was entered into the National Court Register;
- On June 2nd 2010, the District Court of Katowice issued a decision to discontinue the bankruptcy proceedings concerning Walcownia Rur Jedność Sp. z o.o. of Siemianowice Śląskie. The decision is not final;
- On June 14th 2010, PGNiG Energia SA purchased from PGE Energia Odnawialna SA 1,288 shares in Polskie Elektrownie Gazowe Sp. z o.o., representing 51.52% of the company's share capital;
- On June 14th 2010, the Annual General Shareholders Meeting of PPUiH TURGAZ Sp. z o.o. w likwidacji (in liquidation) approved the liquidation report prepared as at the balance-sheet date of May 17th 2010 (a day immediately preceding the day of distribution of liquidation amounts between the shareholders). The liquidation of PPUiH TURGAZ Sp. z o.o. w likwidacji (in liquidation) was completed. By virtue of a decision issued by the District Court for Rzeszów on July 14th 2010, the company was deleted from the National Court Register;
- On June 23rd 2010, a PLN 1,000 thousand share capital increase at ZRUG TORUŃ SA was entered in the National Court Register. PGNiG SA did not participate in the share capital increase, so its shareholding in ZRUG TORUŃ SA fell to 25.24%;
- On June 29th 2010, the District Court of Krosno issued a decision declaring bankruptcy by liquidation of NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation), a fully consolidated subsidiary undertaking of BN Naftomontaż Krosno Sp. z o. o. (subsidiary of PGNiG SA);
- On June 30th 2010, the Annual General Shareholders Meeting of Polskie Elektrownie Gazowe Sp. z o.o. adopted a resolution on further existence of the company and cancellation of liquidation proceedings;
- On July 16th 2010, BUG Gazobudowa Sp. z o.o. sold all its shares in Gazobudowa Poznań Sp. z o.o. with a total par value of PLN 163 thousand;

- On July 30th 2010, Górnictwo Naftowe Sp. z o.o. was transformed into PGNiG Technologie Sp. z o.o. The company was established to consolidate gas construction companies into a single entity, benefiting from greater competitive advantage and enhanced ability to win new orders on the domestic and international markets;
- On August 11th 2010, the State Treasury and INVESTGAS SA of Warsaw entered into an agreement on the sale of 51,000 shares in Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o. of Kraków (85% of the company's share capital). The total value of the transaction amounted to PLN 12,000 thousand. The ownership of the shares was transferred to INVESTGAS SA upon the execution of the sale agreement;
- On August 12th 2010, the Extraordinary General Shareholders Meeting of TE-MA WOC Małaszewicze Terespol Sp. z o.o. w likwidacji (in liquidation) approved the liquidation report prepared as at the balance-sheet date of July 10th 2010 (a day immediately preceding the day of distribution of liquidation amounts between the shareholders). The process of liquidation of TE-MA WOC Małaszewicze Terespol Sp. z o.o. w likwidacji was completed;
- On August 26th 2010, a share capital increase at Górnictwo Naftowe Sp. z o.o. by PLN 2,000 thousand, to PLN 2,050 thousand, as well as a change of the company's name to PGNiG Technologie Sp. z o.o., were entered in the National Court Register;
- On October 26th 2010, a share capital increase at ZRUG Sp. z o.o. of Pogórska Wola by PLN 4,944 thousand, to PLN 9,244 thousand, was entered in the National Court Register. The new shares were covered with a non-cash contribution in the form of perpetual usufruct rights to land located in Pogórska Wola (currently ZRUG Sp. z o.o. of Pogórska Wola is PGNiG SA's indirect subsidiary through PGNiG Technologie Sp. z o.o.);
- On November 5th 2010, a share capital increase at Elektrociepłownia Stalowa Wola SA by PLN 1,000 thousand, to PLN 2,000 thousand, was entered in the National Court Register. In the increased share capital of Elektrociepłownia Stalowa Wola SA, shares with a total par value of PLN 1,000,000 (50% of the share capital) were acquired by PGNiG Energia SA;
- On November 16th 2010, Operator Systemu Magazynowania Sp. z o.o. was established with a share capital of PLN 1,000 thousand. On December 29th 2010, the company was entered in the National Court Register;
- On December 21st 2010, POGC Trading GmbH of Munich was incorporated with a share capital of EUR 10,000 thousand;
- On December 22nd 2010, a share capital increase at Biogazownia Ostrowiec Sp. z o.o. by PLN 100 thousand (to PLN 105 thousand) was registered. All the shares were acquired by the company's sole shareholder – PGNiG Energia SA;
- On December 28th 2010, a share capital reduction at Polskie Elektrownie Gazowe Sp. z o.o. from PLN 2,500 thousand to PLN 1,212 thousand was entered in the National Court Register. The share capital reduction was effected by way of retirement of the shares held by PGNiG Energia SA As a result, PGNiG SA remained the sole shareholder in Polskie Elektrownie Gazowe Sp. z o.o.;
- On December 30th 2010, a share capital increase at PGNiG Technologie Sp. z o.o. by PLN 118,348 thousand, to PLN 120,398 thousand, was entered in the National Court Register. The new shares were acquired for a cash contribution of PLN 500 thousand and a non-cash contribution in the form of shares previously held by PGNiG SA in the following companies: BUG Gazobudowa Sp. z o.o., ZUN Naftomet Sp. z o.o., ZRUG Sp. z o.o. of Pogórska Wola, and BN Naftomontaż Sp. z o.o.

1.7. Composition of the Management Board of PGNiG SA

Pursuant to the provisions of PGNiG SA's Articles of Association, its Management Board is composed of two to seven members. The number of members is determined by the body appointing the Management Board. The Management Board members are appointed for a joint term of three years. Individual members or the entire Management Board are appointed by the Supervisory Board. Each member of the Management Board may be removed from office or suspended from their duties by the Supervisory Board or the General Shareholders Meeting.

As long as the State Treasury remains a shareholder of the Company and the Company's average annual headcount exceeds 500, the Supervisory Board appoints one person elected by the Company's employees to serve on the Management Board during its term.

As at December 31st 2010, PGNiG SA's Management Board was composed of five members:
- Michał Szubski – President of the Management Board,
- Radosław Dudziński – Vice-President for Strategy,
- Sławomir Hinc – Vice-President for Finance,
- Marek Karabuła – Vice-President for Oil Mining,
- Mirosław Szkałuba – Vice-President for Trade.

The following changes in the composition of PGNiG SA's Management Board occurred in 2010:

On April 26th 2010, the Supervisory Board of PGNiG SA received Mr Mirosław Dobrut's resignation from the position of Vice-President of PGNiG SA's Management Board, responsible for Gas and Trade, with effect from April 30th 2010. The reason for the resignation was the appointment of Mr Mirosław Dorbut for the position of President of the Management Board of SGT EUROPOL GAZ SA of Warsaw, made by the company's Extraordinary General Shareholders Meeting on April 20th 2010.

On July 19th 2010, the Supervisory Board of PGNiG SA appointed Mr Marek Karabuła as Vice-President of the Management Board.

On August 16th 2010, the Supervisory Board of PGNiG received a resignation by Mr Waldemar Wójcik from the position of Vice-President of the Management Board of PGNiG SA in charge of Oil Mining with effect from August 15th 2010.

On December 1st 2010, in connection with the expiry of the Management Board's term, the Supervisory Board of PGNiG SA resolved to open a qualification process with a view to selecting candidates for the following positions:
- President of the Management Board of PGNiG SA,
- Member of the Management Board of PGNiG SA in charge of finance,
- Member of the Management Board of PGNiG SA in charge of production,
- Member of the Management Board of PGNiG SA in charge of strategy and sales.

On January 12th 2011, the qualification process was completed. By virtue of a decision of the Supervisory Board, current President of the Management Board of PGNiG SA Michał Szubski was re-elected for another term of office, which starts on March 13th 2011 and expires on March 13th 2014.

Furthermore, the Company's current Vice-Presidents, i.e. Sławomir Hinc, Radosław Dudziński and Marek Karabuła, were appointed as Members of the Management Board of PGNiG SA for the new term of office.

On December 28th 2010, the Supervisory Board of PGNiG SA resolved to begin, as of January 4th 2011, the procedure of election of the Management Board Member representing the employees.

Following elections held from January 31st to February 2nd and from February 14th to February 16th 2011, PGNiG SA's employees re-appointed Mirosław Szkałuba as their representative on the Management Board.

The term of office of the current Management Board expires on March 12th 2011.

From December 31st 2010 to the date of these financial statements there were no changes in the composition of the Management Board of PGNiG SA.

During the next term, starting from March 13th 2011 and expiring on March 13th 2014, the composition of the Management Board of PGNiG SA will be as follows:
- Michał Szubski – President of the Management Board,
- Radosław Dudziński – Vice-President for Strategy,
- Sławomir Hinc – Vice-President for Finance,
- Marek Karabuła – Vice-President for Oil Mining,
- Mirosław Szkałuba – Vice-President for Trade.

1.8. Commercial Proxies

As at December 31st 2010, the following persons served as commercial proxies for PGNiG SA:
- Ewa Bernacik,
- Mieczysław Jakiel,
- Tadeusz Kulczyk.

In 2010, there were no changes regarding commercial proxies for PGNiG SA.

The granted powers of proxy are joint powers of proxy, i.e. for the effectiveness of legal actions a commercial proxy must act jointly with a member of PGNiG SA's Management Board.

From December 31st 2010 to the date of these financial statements, there were no changes regarding commercial proxies for PGNiG SA.

1.9. Composition of the Supervisory Board of PGNiG SA

Pursuant to the provisions of PGNiG SA's Articles of Association, its Supervisory Board is composed of five to nine members, appointed by the General Shareholders Meeting for a common term of three years. As long as the State Treasury holds an interest in the Company, the State Treasury, represented by the minister competent for matters pertaining to the State Treasury, acting in consultation with the minister competent for economic affairs, has the right to appoint and remove one member of the Supervisory Board.

One member of the Supervisory Board elected by the General Shareholders Meeting should satisfy the following criteria:
1) He or she should be elected in accordance with the procedure set forth in Par. 36.3 of PGNiG SA's Articles of Association;
2) He or she may not be a Related Party of the Company or any of the Company's subsidiaries;
3) He or she may not be a Related Party of the Parent Undertaking or other Subsidiary of the Parent Undertaking; or
4) He or she may not have any links to the Company or to any of the entities specified in items 2) and 3) above which could materially affect his/her ability to make impartial decisions in his/her capacity as a Supervisory Board member.

The links referred to above do not include the membership in the Supervisory Board of PGNiG SA.

Pursuant to Par. 36.3 of PGNiG SA's Articles of Association, the Supervisory Board elects the member satisfying the above criteria in a separate vote. Written proposals of candidates for the position of a Supervisory Board member who satisfies these criteria may be submitted to the Chairman of the General Shareholders Meeting by shareholders present at the General Shareholders Meeting whose agenda includes election of such a Supervisory Board member. If no candidates for the position are proposed by the shareholders, candidates to the Supervisory Board who satisfy the above criteria are nominated by the Supervisory Board.

Two-fifths of the Supervisory Board members are appointed from among the persons nominated by the Company's employees.

As at December 31st 2010, the Supervisory Board was composed of seven members:
- Stanisław Rychlicki – Chairman of the Supervisory Board,
- Marcin Moryń – Deputy Chairman of the Supervisory Board,
- Mieczysław Kawecki – Secretary of the Supervisory Board,
- Grzegorz Banaszek – Member of the Supervisory Board,
- Agnieszka Chmielarz – Member of the Supervisory Board,
- Mieczysław Puławski – Member of the Supervisory Board,
- Jolanta Siergiej – Member of the Supervisory Board.

The following change in the composition of PGNiG SA's Supervisory Board occurred in 2010:

On July 19th 2010, the Company received Mr Marek Karabuła's resignation from membership of the Supervisory Board of PGNiG SA. The reason for the resignation was his appointment to the Management Board of PGNiG SA.

On December 28th 2010, the Supervisory Board of PGNiG SA resolved to begin, as of January 4th 2011, the procedure of election of the Supervisory Board members elected by the employees.

Following employee vote held from January 31st to February 2nd 2011, three of the current employee-elected members of the Supervisory Board of PGNiG (Agnieszka Chmielarz, Mieczysław Kawecki and Jolanta Siergiej) were re-appointed for another term.

The term of office of PGNiG SA's current Supervisory Board expires on April 30th 2011.

From December 31st 2010 to the date of these financial statements, there were no changes in the composition of the Supervisory Board of PGNiG SA.

1.10. Shareholder Structure of PGNiG SA

As at the date of release of these consolidated financial statements, the State Treasury was the only shareholder holding 5% or more of the total vote at the General Shareholders Meeting of PGNiG SA.

PGNiG SA's shareholder structure:

Shareholder	Registered office	Number of shares	% of share capital held	% of votes rights held
As at Dec 31 2010				
State Treasury	Warsaw	4,273,650,532	72.43%	72.43%
Others	–	1,626,349,468	27.57%	27.57%
Total	**–**	**5,900,000,000**	**100.00%**	**100.00%**
As at Dec 31 2009				
State Treasury	Warsaw	4,303,686,368	72.94%	72.94%
Others	–	1,596,313,632	27.06%	27.06%
Total	**–**	**5,900,000,000**	**100.00%**	**100.00%**

1.11. Going-Concern Assumption

These consolidated financial statements were prepared based on the assumption that the Group members would continue as going concerns for the foreseeable future. As at the date of approval of these financial statements, there are no circumstances which would indicate any threat to the continuation of their businesses, except in the case of NAFT-STAL Sp. z o.o. of Krosno w upadłości likwidacyjnej (in bankruptcy by liquidation).

On June 29th 2010, the District Court of Krosno issued a decision declaring bankruptcy by liquidation of NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation), a fully consolidated subsidiary undertaking of BN Naftomontaż Krosno Sp. z o.o. (subsidiary of PGNiG SA).

In connection with the bankruptcy, control over NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation) was lost, due to which the company was deconsolidated starting from Q3 2010. As the scale of the business conducted by NAFT-STAL Sp. z o.o. was small, this company had no material effect on the financial statements of the Group.

1.12. Mergers of Companies

In 2010, there were no mergers of the Parent Undertaking and the Group companies with any other companies.

1.13. Approval of the Financial Statements

These financial statements will be submitted to the Parent Undertaking's Management Board for authorisation on March 21st 2011.

2. Information on the applied accounting policies

2.1. Basis for the Preparation of the Consolidated Financial Statements

These financial statements have been prepared in accordance with the historical cost convention, except with respect to financial assets available for sale, financial derivatives measured at fair value, and loans and receivables measured at adjusted cost.

These consolidated financial statements have been presented in the złoty (PLN), and unless indicated otherwise, all the values are expressed in thousand of złoty (PLN '000). Differences, if any, between the totals and the sum of particular items are due to rounding off.

2.1.1. Compliance Statement

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at December 31st 2010.

According to IAS 1 Presentation of Financial Statements, the IFRSs comprise the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The scope of information disclosed in these consolidated financial statements is consistent with the provisions of the IFRS and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz. U. No. 33, item 259).

2.1.2. Consolidation Methods

These consolidated financial statements comprise the financial statements of PGNiG SA (Parent Undertaking) and the financial statements of companies controlled by the Parent Undertaking (or by the subsidiary undertakings of the Parent Undertaking), other than subsidiaries whose effect on the consolidated financial statements would be immaterial, prepared as at December 31st 2010.

Subsidiary undertakings are consolidated using the full consolidation method from their acquisition date (the date of assuming control over the company) until the date control is lost. Control is exercised when the parent undertaking has the power to determine the financial and operating policies of an entity so as to benefit from its activity. As at the acquisition date, assets, equity and liabilities of the acquired undertaking are recognised at fair value. Any excess of the acquisition cost over the fair value of the net identifiable assets acquired is recognised as goodwill. If the acquisition cost is lower than the fair value of the net identifiable assets of the acquiree, the difference is recognised as a gain in the income statement for the period in which the acquisition took place.

Non-controlling interests represent the portion of net profit or loss and net assets that are not held by the Group. Non-controlling interests are presented in separate items of the income statement, the statement of comprehensive income and the statement of changes in equity.

Financial statements of subsidiary undertakings are prepared for the same reporting period as the financial statements of the parent undertaking, using consistent accounting policies. If necessary, adjustments are made to the financial statements of subsidiary or associated undertakings in order to ensure consistency between the accounting policies applied by a given undertaking and those applied by the parent.

All transactions, balances, revenues and costs resulting from dealings between consolidated related undertakings are eliminated on consolidation.

Financial results of undertakings acquired or sold during the year are accounted for in the consolidated financial statements from their acquisition date to their disposal date. If the parent undertaking loses control over a subsidiary, the consolidated financial statements account for the subsidiary's results for such part of the reporting year in which control was held by the parent undertaking.

2.2. Changes in Applied Accounting Policies and Changes to the Scope of Disclosure

2.2.1. First-Time Adoption of Standards and Interpretations

In the current year, the Group has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, and endorsed by the EU, which apply to the Group's business and are effective for annual reporting periods beginning on or after January 1st 2010. The newly adopted standards are presented below.

- IFRS 1 (revised) First-Time Adoption of International Financial Reporting Standards – endorsed by the EU on November 25th 2009 (effective for annual periods beginning on or after January 1st 2010),
- IFRS 3 (revised) Business Combinations – endorsed by the EU on June 3rd 2009 (effective for annual periods beginning on or after July 1st 2009),
- Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters – endorsed by the EU on June 23rd 2010 (effective for annual periods beginning on or after January 1st 2010),
- Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions – endorsed by the EU on March 23rd 2010 (effective for annual periods beginning on or after January 1st 2010),
- Amendments to IAS 27 Consolidated and Separate Financial Statements – endorsed by the EU on June 3rd 2009 (effective for annual periods beginning on or after July 1st 2009),
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items – endorsed by the EU on September 15th 2009 (effective for annual periods beginning on or after July 1st 2009),
- Amendments to various standards and interpretations: Improvements to IFRSs 2009 – amendments made as part of the process of making annual improvements to the IFRSs, published on April 16th 2009 (amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16), aimed chiefly at eliminating any inconsistencies and clarification of wording – endorsed by the EU on March 23rd 2010 (effective for annual periods beginning on or after January 1st 2010),
- IFRIC 12 Service Concession Arrangements – endorsed by the EU on March 25th 2009 (effective for annual periods beginning on or after March 30th 2009),
- IFRIC 15 Agreements for the Construction of Real Estate – endorsed by the EU on July 22nd 2009 (effective for annual periods beginning on or after January 1st 2010),
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation – endorsed by the EU on June 4th 2009 (effective for annual periods beginning on or after July 1st 2009),
- IFRIC 17 Distributions of Non-cash Assets to Owners – endorsed by the EU on November 26th 2009 (effective for annual periods beginning on or after November 1st 2009),
- IFRIC 18 Transfers of Assets from Customers – endorsed by the EU on November 27th 2009 (effective for annual periods beginning on or after November 1st 2009).

With the exception of the revised IFRIC 18, the application of the above standards and interpretations has not caused any material changes in the Group's accounting policies or in the presentation of its financial statements.

Application of the Revised IFRIC 18

IFRIC 18 Transfers of Assets from Customers was adopted to standardise the accounting policies applied to account for any items of property, plant or equipment received from customers or for cash received to construct property, plant or equipment. In the case of the PGNiG Group, the new interpretation is important for the gas companies (operators of distribution systems) in connection with the recognition of connection charges or ready connections. Before the adoption of IFRIC 18, the Group accounted for the above items using policies consistent with those applied in the case of government grants, specified in IAS 20. Under these policies, the value of received assets was recognised as deferred income and then released as income to the income statement over the period corresponding to the useful life of a given item of property, plant and equipment. In accordance with new IFRIC 18, with effect from July 1st 2009 new connection charges received by the gas distribution sector companies are recognised directly in income. Connection charges received before July 1st 2009 are included in the income statement in the same way as before.

The PGNiG Group applied the new regulations in the financial statements for 2010, but with the effective date as from July 1st 2009, which resulted in the necessity to restate the opening statement of financial position as at January 1st 2010. As a result of the application of IFRIC 18, the equity of the PGNiG Group as at January 1st 2010 rose by PLN 33,280 thousand.

The table below sets forth the effect of application of Revised IFRIC 18 on the main items of the consolidated income statement and statement of financial position for 2009.

in PLN '000

Income statement

	Period January 1st – December 31st 2009, prior to the change	Application of the Revised IFRIC 18*	Period January 1st – December 31st 2009, following the change
Sales revenue	19,290,441	41,086	19,331,527
Total operating expenses	(17,956,668)	–	(17,956,668)
Operating profit\loss	**1,333,773**	**41,086**	**1,374,859**
Pre-tax profit\loss	**1,483,189**	**–**	**1,483,189**
Income tax	(238,497)	(7,806)	(246,303)
Net profit\loss	**1,244,692**	**(7,806)**	**1,236,886**

Statement of financial position

	Period January 1st – December 31st 2009, prior to the change	Application of the Revised IFRIC 18	Period January 1st – December 31st 2009, following the change
ASSETS			
Total non-current assets	24,665,313	(7,806)	24,657,507
Total current assets	6,416,857	–	6,416,857
Total assets	**31,082,170**	**(7,806)**	**31,074,364**
EQUITY AND LIABILITIES			
Total equity	21,402,048	33,280	21,435,328
Total non-current liabilities	3,779,920	(39,658)	3,740,262
Total current liabilities	5,900,202	(1,428)	5,898,774
Total liabilities	**9,680,122**	**(41,086)**	**9,639,036**
Total equity and liabilities	**31,082,170**	**(7,806)**	**31,074,364**

* Refers exclusively to the Distribution segment.

2.2.2. Standards and Interpretations Published and Endorsed for Use in the EU but Not Yet Effective

While preparing these financial statements, the Group did not apply the following standards, amendments and interpretations which have been published and endorsed for application in the EU but have not yet become effective:

- Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues – endorsed by the EU on December 23rd 2009 (effective for annual periods beginning on or after February 1st 2010),
- Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards – Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters – endorsed by the EU on June 30th 2010 (effective for annual periods beginning on or after July 1st 2010).
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement – endorsed by the EU on July 19th 2010 (effective for annual periods beginning on or after January 1st 2011),
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – endorsed by the EU on July 23rd 2010 (effective for annual periods beginning on or after July 1st 2010).

With the exception of IAS 24, the Group decided not to apply early the above standards, amendments to standards, and interpretations.

Application of the Revised IAS 24

While preparing these financial statements, the Group chose to use the option of early application of the amendments to IAS 24.

- Amendments to IAS 24 *Related Party Disclosures* – simplifying disclosure requirements for government-related entities and clarifying the definition of a related party – endorsed by the EU on July 19th 2010 (effective for annual periods beginning on or after January 1st 2011).

In these financial statements, the Group has applied the exemption specified in par. 25 – 27 of the revised IAS 24 concerning disclosure requirements in relation to parties related to the State Treasury.

As at December 31st 2010, the State Treasury controlled the Company by holding 72.43% of its shares. The State Treasury has control, joint control or significant influence over many entities co-operating with the PGNiG Group. Pursuant to the exemption under par. 25 of the revised IAS 24, in these financial statements the Group has not disclosed information on the amount of transactions and outstanding balances nor any other information referred to in par. 18 of IAS 24, instead it has described the nature of such transactions and listed the entities with whom the Group generated the highest turnovers in day-to-day operations in 2010 and 2009 (see Note 37.2).

As at the date of these financial statements, the only transaction requiring higher level of detail to be disclosed in under par. 27 of IAS 24 is the non-cash dividend paid by the Parent Undertaking to the State Treasury. See Note 10.

2.2.3. Standards and Interpretations not yet Endorsed for Use by the EU

The IFRSs endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB), except to the extent of the following standards, amendments and interpretations, which as at December 31st 2010 had not yet been endorsed for use:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1st 2013),
- Amendment to IFRS 1 First-Time Adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1st 2011),
- Amendment to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after July 1st 2011),
- Amendment to IAS 12 Income Tax – Deferred Tax: Realisation of Assets (effective for annual periods beginning on or after January 1st 2012),
- Amendments to various standards and interpretations: Improvements to IFRSs 2010 – amendments made as part of the process of making annual improvements to the IFRSs, published on May 6th 2010 (amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, and IFRIC 13), aimed chiefly at eliminating any inconsistencies and clarification of wording (effective for annual periods beginning on or after January 1st 2011).

The Group estimates that the above standards, interpretations and amendments to standards would not have had any material effect on the Group's financial statements if they had been applied as at the balance-sheet date.

Hedge accounting for a portfolio of financial assets or liabilities is still not covered by EU regulations, as the EU has not endorsed the rules of hedge accounting for use.

The Group estimates that the application of hedge accounting with respect to its portfolio of financial assets or liabilities in accordance with IAS 39 Financial Instruments: Recognition and Measurement would not have had any material effect on its consolidated financial statements if these regulations had been adopted for use by the EU as at the balance-sheet date.

2.3. Accounting Policies

Below are presented the key accounting policies applied by the PGNiG Group.

2.3.1. Investments in Associated Undertakings

An associated undertaking is an undertaking over which the Group exercises significant influence, but which is not controlled by the Group and is not a joint venture. Financial and operating policies of such undertaking are determined with the participation of the Group.

Financial interests in associated undertakings are valued using the equity method, except when an investment is classified as held for sale (see below). Investments in associated undertakings are valued at cost, taking into account changes in the Company's share in the net assets which occurred until the balance sheet date, less impairment of particular investments. Losses incurred by an associated undertaking in excess of the value of the Group's share in such associated undertaking are not recognised.

Excess of acquisition cost over the fair value of identifiable acquired net assets of the associated undertaking as at the acquisition date is recognised as goodwill. If acquisition cost is lower than fair value of identifiable acquired net assets of the associated undertaking as at the acquisition date, the difference is disclosed as profit in the income statement for the period in which the acquisition took place.

Gains and losses on transactions between the Group and an associated undertaking are eliminated in consolidation proportionately to the Group's interest in such associated undertakings' equity. Financial statements of associated undertakings are drawn up to the same date as the Group's financial statements, using consistent accounting policies. If necessary, adjustments are made in the financial statements of associated undertakings to conform to the accounting policies of the Parent Undertaking. Losses incurred by an associated undertaking may indicate impairment of its assets and relevant impairment losses would then need to be recognised.

2.3.2. Interests in Joint Ventures

A joint venture is a contractual relationship between two or more parties, under which such parties undertake an economic activity and jointly control such activity. Strategic financial, operating and political decisions concerning the joint venture need to be made unanimously by all parties.

A party to a joint venture discloses assets controlled and liabilities incurred in relation to its interests in such joint venture as well as costs incurred and such party's interests in revenues from products and services sold, generated by the joint venture. As assets, liabilities, revenues and costs relating to the joint venture are also disclosed in the non-consolidated financial statements of the party, these items are not adjusted and other methods of consolidation are not used.

2.3.3. Translation of Items Denominated in Foreign Currencies

The functional currency (measurement currency) and the reporting currency of PGNiG SA and its subsidiary undertakings, with the exception of POGC Libya B.V. and PGNiG Norway AS, is the Polish złoty (PLN). Transactions denominated in foreign currencies are initially disclosed at the exchange rate of the functional currency effective as at the transaction date. Cash assets and liabilities denominated in foreign currencies are translated at the exchange rate of the functional currency effective as at the balance sheet date. All foreign exchange gains and losses are charged to the consolidated income statement, except for foreign exchange gains and losses on translation of assets, equity and liabilities of foreign undertakings, which, until the disposal of interests in such undertakings, are disclosed directly in equity. Non-cash items valued at their historical cost in a foreign currency are translated at the exchange rate effective as at the date of the initial transaction. Non-cash items valued at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.

To hedge against foreign currency risk, the Parent Undertaking enters into forwards and option contracts (see below: accounting policies for derivative financial instruments applied by the Group).

The functional currencies of the foreign undertakings are as follows: the Pakistan rupee (PKR) for the Operating Division in Pakistan, the Polish złoty (PLN) for the Divisions in Egypt, Denmark and Algeria, and the euro (EUR) and the Norwegian krone (NOK) for the subsidiary undertakings (POGC Libya B.V. and PGNiG Norway AS, respectively). As at the balance sheet date, assets and liabilities of the foreign undertakings are translated into the reporting currency of PGNiG SA at the exchange rate effective as at the balance sheet date, and the items of their income statements are translated at the average exchange rate for a given financial year. Foreign exchange gains and losses on such translation are disclosed as a separate item directly under equity. Upon disposal of a foreign undertaking, accumulated deferred foreign exchange gains or losses disclosed under equity are recognised in the income statement.

2.3.4. Property, Plant and Equipment

Property, plant and equipment include tangible assets and expenditure on assets under construction, which the undertaking is planning to use in its business activity and for administrative purposes for a period longer than one year and which are expected to generate economic benefits for such undertaking. Expenditure on assets include capital expenditure incurred as well as prepaid deliveries of plant, equipment and services necessary to produce such asset (prepayments made). Tangible assets include specialist spare parts which are considered an element of the asset.

Items of property, plant and equipment are initially disclosed at cost (i.e. valued at historical cost). Acquisition or production costs include any expenditure incurred to purchase or produce the asset as well as any expenditure subsequently incurred to enhance the usefulness of the asset, replace any part of or renew such asset. Interest on debt financing is also disclosed at cost (see note 2.3.6.).

Spare parts and maintenance equipment are recorded as inventories and disclosed in the income statement as at the date of their use. Significant spare parts and maintenance equipment may be disclosed as property, plant and equipment if the Group expects to use such spare parts or equipment for a period longer than one year and they may be assigned to specific items of property, plant and equipment.

The Group does not increase the net book value of property, plant and equipment items to account for day-to-day maintenance costs of the assets. Such costs are recognised in the income statement when incurred. The costs of day-to-day maintenance of property, plant and equipment, i.e. cost of repairs and maintenance works, include the cost of labour and materials used, and may also include the cost of less significant spare parts.

Property, plant and equipment, initially disclosed as assets, are recognised at cost less accumulated depreciation and impairment losses.

Depreciable amount of property, plant and equipment, except for land and tangible assets under construction, is allocated on a systematic basis using the straight-line method over estimated economic useful life of an asset:

Buildings and structures	2 – 40 years
Plant and equipment, vehicles and other tangible assets	2 – 35 years

Property, plant and equipment used under lease or similar contract and recognised by the Company as its assets are depreciated over their economic useful lives, but not longer than for the term of the contract.

Upon sale or liquidation of a tangible asset, its historical cost less cumulative depreciation is derecognised from the statement of financial position, and all gains or losses generated by such asset are charged to the income statement.

Tangible assets under construction are valued at cost or aggregate cost incurred in the course of their production, less impairment losses. Tangible assets under construction are not depreciated until completed and placed in service.

2.3.5. Exploration and Evaluation Assets

Natural gas and crude oil exploration and evaluation expenditure covers geological work performed to discover and document deposits and recognised with the successful efforts method.

The Group recognises expenditure incurred on initial land analysis (seismic work, development and drawing up of geological maps) directly under cost in the income statement in the period in which the expenditure is incurred.

The Group recognises drilling expenditure incurred during exploration and prospecting work under assets as tangible assets under construction.

Previously capitalised drilling expenditure related to wells which are evaluated as dry are fully charged to profit or loss in the period in which such wells are determined dry.

Once natural gas and/or crude oil production has been proven technically feasible and commercially viable, mineral reserve exploration and evaluation assets are reclassified as property, plant and equipment or intangible assets, depending on the type of asset.

2.3.6. Borrowing Costs

As from January 1st 2009, the Group capitalises borrowing costs. Until the end of 2008, in line with the model recommended in IAS 23, the Group recognised borrowing costs as expenses in the period in which they were incurred.

Following the amendments to IAS 23 effective as of January 1st 2009, borrowing costs directly attributable to acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time to become ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Gains earned on short-term investment of particular borrowings pending their expenditure on acquisition, construction or production of assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

The above cost capitalisation policies do not apply to:
- assets measured at fair value, and
- inventories generated in significant volumes on a continuous basis and with high turnover ratios.

2.3.7. Investment Property

Investment property is the property (land, building, part of a building, or both) treated by the Group, as the owner or lessee under finance lease, as a source of rental income and/or held for capital appreciation.

Investment property is initially recognised at cost plus transaction costs. The Group has selected the acquisition cost model to measure its investment property and, after initial recognition, measures all its investment property in line with the requirements of IAS 16 defined for that model, i.e. at cost less accumulated depreciation and impairment losses.

Investment property is derecognised from the statement of financial position upon its sale or decommissioning if no benefits from its sale are expected in the future.

All gains or losses arising from the sale, liquidation or decommissioning of investment property are determined as the difference between proceeds from sale and the net book value of the assets, and are recognised in profit or loss in the period in which such transaction is performed.

The Group depreciates investment property based on the straight-line method over the following useful economic life periods:

Buildings and structures	2 – 40 years

2.3.8. Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance, controlled by the Group and which will cause an inflow of economic benefits to the Group in the future.

Intangible assets generated in the course of research and development work are recognised in the statement of financial position only if a company is able to demonstrate:
- the technical feasibility of completing the intangible asset so that it is fit for use or sale,
- its intention to complete and to use or sell the intangible asset,
- the manner in which the intangible asset will generate future economic benefits,
- the availability of appropriate technical and financial means which are necessary to complete the development work and to use or sell the intangible asset,
- the feasibility of a reliable determination of the expenditure incurred in the course of development work.

Research expense is recognised in profit or loss when incurred.

Intangible assets also include expenditure on acquisition of a perpetual usufruct right to land. Perpetual usufruct rights to land acquired for consideration (from other entities) are presented as intangible assets and amortised during their useful life.

Perpetual usufruct rights to land acquired free of charge pursuant to an administrative decision issued under the Amendment to the Act on Land Management and Expropriation of Real Estate of September 20th 1990 are presented only in off-balance-sheet records.

The Group initially recognises intangible assets at cost. As at the balance sheet date, intangible assets are measured at cost less accumulated amortisation write-offs and impairment losses.

The adopted amortisation method reflects the pattern of consumption of economic benefits associated with an intangible asset by the Group. If any other pattern of consumption of such benefits cannot be reliably determined, the straight-line method is applied. The adopted amortisation method is applied consistently over subsequent periods, unless there is a change in the expected pattern of consumption of economic benefits.

Intangible assets are amortised with the amortisation rates reflecting their expected useful economic life. The estimated amortisation period and expected amortisation method are reviewed at the end of each financial year. If the expected useful life of an asset is significantly different from previous estimates, the amortisation period is changed. If the expected pattern of consumption over time of economic benefits associated with an intangible asset has altered significantly, a different amortisation method is applied. Such transactions are recognised by the Group as revision of accounting estimates and are charged to profit or loss in the period in which such estimates are revised.

Intangible assets are amortised over the following useful economic live periods:

Acquired licenses, patent rights and similar items	2 – 15 years
Acquired computer software	2 – 10 years
Perpetual usufruct right to land	40 – 99 years

The useful life of the surplus of the first payment over the annual perpetual usufruct charge is equal to the perpetual usufruct period specified in the perpetual usufruct agreement.

The useful life of a perpetual usufruct right to land acquired for consideration from an entity other than the State Treasury or local government unit is equal to the period from the acquisition date of the perpetual usufruct right to the last day of the perpetual usufruct period set out in the perpetual usufruct agreement.

Intangible assets with an indefinite useful life are not amortised.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are periodically (once a year) tested for impairment.

2.3.9. Leases

A lease is classified as a finance lease if the lease agreement provides for the transfer of substantially all potential benefits and risks resulting from the ownership of the leased asset onto the lessee. All other types of leases are treated as operating leases.

2.3.9.1. The Group as a Lessor

Finance leases are disclosed in the statement of financial position as receivables, at amounts equal to net investment in the lease less the principal component of lease payments for the given reporting period calculated based on a manner which reflects a constant periodic rate of return on the outstanding portion of net investment in respect of the finance lease.

Interest income on a finance lease is disclosed in the relevant reporting periods at a constant rate of return on the Group's net investment outstanding in respect of the finance lease.

Income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

2.3.9.2. The Group as a Lessee

Assets used under a finance lease are recognised as the Group's assets and are measured at fair value as at the acquisition date, the fair value being no higher than the present value of the minimum lease payments. The resultant liability to the lessor is disclosed in the statement of financial position under finance lease liabilities.

Lease payments are broken down into the interest component and the principal component so as to produce a constant rate of interest on the outstanding balance of the liability. Finance expenses are charged to the income statement.

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

2.3.10. Impairment of Property, Plant and Equipment and Intangible Assets

As at each balance sheet date, the Group assesses whether there is any indication that any non-current or intangible asset may be impaired. If any such indication exists, the recoverable amount of a particular asset is estimated in order to determine the amount of impairment loss, if any. If a given asset does not generate any cash flows, which are largely independent of cash flows generated by other assets, the analysis is carried out for a group of cash flow generating assets to which such asset belongs.

In case of intangible assets with indefinite useful lives, a test for impairment is conducted on an annual basis. An additional test for impairment is carried out if there is any indication that any such intangible asset may be impaired.

The recoverable amount is determined as the higher of the following: fair value less selling costs or value in use. The latter corresponds to the present value of estimated future cash flows discounted using a discount rate reflecting the current market time value of money and the risk specific to a particular asset.

If the recoverable amount is lower than the net book value of an asset (or group of assets), the book value is decreased to the recoverable amount. Impairment loss is recognized as an expense in the period in which it was incurred.

If an impairment loss is reversed, the net value of an asset (or group of assets) is increased to the newly estimated recoverable amount, which should be no higher than the net book value of the asset that would have been determined had no impairment been recognised in previous years. Reversal of impairment is charged to the income statement under revenues.

2.3.11. Financial Assets

Due to their nature and purpose, the Group's financial assets are classified to the following categories:
- financial assets measured at fair value through profit or loss,
- investments held to maturity,
- financial assets available for sale,
- loans and receivables,
- positive valuation of derivatives.

When a financial asset is initially recognised, it is measured at its fair value increased by transaction costs, except any financial assets classified as measured at fair value through profit or loss.

2.3.11.1. Financial Assets Measured at Fair Value Through Profit or Loss

This category comprises financial assets held for trading and financial assets designated at initial recognition at fair value through profit or loss.

A financial asset is classified as held for trading if it is:
- acquired principally for the purpose of selling it in the near term,
- part of a portfolio of identified financial instruments that are managed together in accordance with a recent actual pattern of short-term profit-taking,
- a derivative (except for a derivative that is a designated and effective hedging instrument).

The Group classifies the following financial assets as held for trading:
- derivatives with positive valuation which are not measured pursuant to the principles of hedge accounting (e.g. interest rate swaps (IRS), currency interest rate swaps (CIRS), forward rate agreements (FRA), interest rate cap and floor transactions, options, option strategies, futures, delivery and non-delivery forward contracts as well as FX swaps),
- investments in listed shares and debt instruments held for trading,
- investment fund units,
- other financial assets.

Financial assets measured at fair value through profit or loss are disclosed at fair value and related profit or loss is recognised in the income statement. The net profit or loss disclosed in the income statement include dividend or interest generated by a given financial asset.

2.3.11.2. Investments Held to Maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payment terms and fixed maturity that the Group has an intention and ability to hold to maturity. Items included in this category are measured at amortised cost using the effective interest rate method after deducting any impairment whereas income is recognised using the effective income method. The effect of the valuation is charged to the income statement.

The Group classifies the following financial assets as investments held to maturity:

- debt instruments such as treasury, commercial, coupon and discount bonds, treasury and commercial bills, in each case held to maturity,
- term deposits,
- other financial assets.

2.3.11.3 Financial Assets Available For Sale

Non-derivative financial assets that are designated as available for sale or which are not included in any other category are classified as financial assets available for sale and are measured at fair value. Profit gained or loss incurred as a result of change in fair value is recognised in equity under other capital reserves. However, investments in equity instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured are disclosed at cost. Shares in subsidiaries, jointly controlled and associated undertakings classified in this category are measured at cost even if such shares are listed on an active market.

The Group classifies the following financial assets as available for sale:

- investments in unlisted equity instruments (including shares in subsidiaries, jointly controlled and associated undertakings),
- investments in listed equity instruments not held for trading (including shares in subsidiaries, jointly controlled and associated undertakings),
- investments in debt instruments that the Company does not have a firm intention to hold to maturity,
- other financial assets.

2.3.11.4 Loans and Receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payment terms which are not traded on an active market.

Loans and receivables are measured at amortised cost using the effective interest rate method less impairment losses. Interest revenue is recognised using the effective interest rate, except for current receivables, where the recognition of interest is immaterial.

The Group classifies the following financial assets as loans and receivables:

- all receivables (excluding taxes, grants, customs duties, social security and health insurance contributions and other benefits),
- loans advanced,
- receivables from buy sell back and reverse repo transactions.

Uncollectible receivables are recognised as loss if deemed unrecoverable. Writing off or cancellation of receivables due to their expiry or irrecoverability reduces previously recognised impairment losses on such receivables.

Receivables cancelled or written off due to their expiry or irrecoverability with respect to which no impairment losses have been recognised or the impairment losses that have been recognised were lower than the full amounts of receivables, are charged to other operating expenses or finance expenses, as appropriate.

2.3.11.5. Positive Valuation of Derivatives

Derivative instruments (positive valuation) not considered as hedging instruments are measured at fair value through profit or loss and recognised at fair value reflecting any fair value changes in the income statement. Positive valuation of derivatives is disclosed under separate items of current assets.

2.3.12. Impairment of Financial Assets

As at each balance sheet date, the Group determines whether any financial asset may be impaired. An asset is considered impaired if an objective indication exists that the events which took place after initial recognition of such asset had an adverse effect on estimated future cash flows related to the asset.

The value of loans and receivables or investments held to maturity measured at amortised cost takes into account the probability of collection. The amount of impairment loss is the difference between the carrying amount of assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate.

Depending on the type of receivables, impairment losses are determined using the statistical or individual method. Impairment losses on receivables are charged to other operating or finance expenses, as appropriate, depending on the type of receivable with respect to which an impairment loss is recognised. Impairment losses are recognised for full amounts of receivables past due by more than 90 days as well as for the entire recognised interest.

If the amount of impairment loss on financial assets, except for financial instruments held for sale, is reduced, the previously recognised loss is reversed through profit or loss. The reversal does not drive the net book value of the financial asset above the amount that would have been the amortised cost of the asset as at the date of reversal had no impairment losses been recognised.

The amount of the impairment loss on investments in equity instruments is not subject to reversal through profit or loss. Any increase in fair value is made after the recognition of impairment loss and disclosed directly in equity.

2.3.13. Hedge Accounting

As of April 1st 2009, the Parent Undertaking started to apply cash-flow hedge accounting with respect to foreign exchange transactions and as of June 1st 2010 the Parent Undertaking started to apply cash-flow hedge accounting with respect to commodity transactions.

The objective of the Parent Undertaking's activities to hedge against the EUR/PLN and USD/PLN currency risk is to guarantee a specified Polish złoty value of its expenses incurred in the euro and the US dollar on gas purchases under long-term contracts.

The type hedging applied is the hedging of future, highly probable cash flows related to the Parent Undertaking's expenses incurred in the euro and the US dollar.

The selected hedging instruments include purchased European call options and zero-cost option structures (collars) involving a combination of purchased European call options and issued European put options for the EUR/PLN and USD/PLN exchange rates with the identical face values and settlement dates falling on the days of an expected outflow of the hedged foreign-currency amount related to the incurred gas expenses.

The objective of the Parent Undertaking's activities to hedge against the risk of changes in gas prices is to guarantee a specified level of cost of gas expressed in the US dollars.

The applied hedging are hedges of future, highly probable cash flows related to gas purchases.
The selected hedging instruments include purchased fix/float commodity swaps and Asian commodity call options (European style).

Changes in the fair value of financial derivatives selected to hedge cash flows, to the extent representing an effective hedge, are posted directly to revaluation capital reserve. Changes in the fair value of financial derivatives selected to hedge cash flow, to the extent not representing an effective hedge, are charged to other operating income or expenses in the reporting period.

2.3.14. Inventories

Inventories include assets intended to be sold in the ordinary course of business, assets in the process of production intended to be sold and assets in the form of materials or raw materials used in the production process or assets used in the course of provision of services. This asset group comprises materials, goods for resale, finished products and work in progress.

The value of inventory is established at the lower of cost and net realizable value, and reflects impairment losses for decrease of economic usefulness. Cost comprises all costs of purchase and processing, as well as other costs incurred to bring the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The gas fuel in the storage facilities is valued separately for each storage unit, at the average weighted acquisition cost.

Decreases in the inventories of gas fuel stored in the Underground Gas Storage Facilities due to own consumption, as well as balance-sheet differences, are measured at the average actual acquisition cost, which comprises costs of purchase of gas fuel from all foreign sources, actual costs of its production from domestic sources, costs of nitrogen removal and costs of its acquisition from other domestic sources.

Decreases in the inventories of gas fuel attributable to third-party sales are measured at cost of gas fuel, i.e. the average actual acquisition cost.

2.3.15. Trade and Other Receivables

Trade receivables are initially recognised at fair value. Following initial recognition, receivables are measured at amortised cost using the effective interest rate method. Measurement differences are charged to profit or loss. The Group does not discount receivables maturing in less than 12 months from the balance sheet date and where the discounting effect would be immaterial.

Receivables are revalued through the recognition of impairment losses based on the probability of their recovery, if there is objective evidence that the receivables will not be fully recovered

Impairment losses on receivables for gas deliveries to the customers from tariff groups 1-4 are determined using the statistical method. Impairment losses are determined based on the analysis of historical data regarding the payment of past due receivables in particular maturity groups. The results of the analysis are then used to calculate recovery ratios on the basis of which the amounts of impairment losses on receivables in each maturity group are determined.

Impairment losses on receivables from other customers are recognised based on a case-by-case analysis of the financial standing of each debtor.

A full impairment loss is recognised for receivables past due by more than 90 days and for accrued penalty charges, litigation expenses, enforcement costs and interest on past due payments.

Impairment losses on receivables are charged to other operating expenses or finance expenses, respectively, according to the type of receivable covered by the impairment loss.

Uncollectible receivables are charged to profit or loss when recognised as unrecoverable accounts. Writing off or cancellation of receivables due to their expiry or irrecoverability reduces previously recognised impairment losses on such receivables.

Receivables cancelled or written off due to their expiry or irrecoverability with respect to which no impairment losses have been recognised or the impairment losses that have been recognised were lower than the full amounts of receivables, are charged to other operating expenses or finance expenses, as appropriate.

2.3.16. Cash and Cash Equivalents

Cash and cash equivalents disclosed in the statement of financial position include cash at bank and in hand as well as short-term financial assets with high liquidity and the original maturity not exceeding three months, which are readily convertible into specific cash amounts and subject to an insignificant risk of fluctuation in value.

The balance of cash and cash equivalents disclosed in the consolidated statement of cash flows consists of the aforementioned cash and cash equivalents, less outstanding overdraft facilities. The Group discloses overdraft facilities as a decrease in cash. The amount of such overdraft facilities in excess of the amount of cash is disclosed under current liabilities.

2.3.17. Non-Current Assets Held for Sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its net book value will be recovered principally through a sale transaction rather than through continuing use. This is the case if an asset (or a disposal group) is available for immediate sale in its present condition, subject only to usual and customary terms applicable to the sale of such assets (or a group of assets for disposal), and its sale is highly probable.

An asset (or a disposal group) is classified as held for sale after an appropriate decision is made by a duly authorised body under the Company's Articles of Association – the Company's Management Board, Supervisory Board or General Shareholders Meeting. In addition, an asset (or a disposal group) must be actively offered for sale at a reasonable price corresponding with its present fair value. It should also be expected that the sale will be disclosed in the accounting books within one year from the date of such classification.

Non-current assets held for sale are measured at the lower of their net book value and fair value less costs to sell. If the fair value is lower than the net book value, the resulting difference is recognised in profit or loss as an impairment loss. Any reversal of the difference is also recognised in profit or loss, but only up to the amount of the previously recognised loss.

In the statement of financial position, assets held for sale (or a disposal group) are presented as a separate item of current assets and are not depreciated/amortised.

2.3.18. Equity

Equity is disclosed in the accounting books by type and in accordance with the rules stipulated by applicable laws and the Articles of Association of the Parent Undertaking.

Share capital is disclosed at par value and in the amount specified in the Articles of Association of the Parent Undertaking and the entry in the court register.

Declared but not made contributions to equity are disclosed under "Called-up share capital not paid". Treasury shares and called-up share capital not paid reduce the Parent Undertaking's equity.

Share premium account is created from the surplus of the issue price of shares over their par value, less issue costs.

Share issue costs incurred upon establishment of a joint-stock company or share capital increase reduce the share premium account up to the amount of the surplus of the issue proceeds over the par value of shares, while the remaining amount is charged to other capital reserves.

The effect of measurement resulting from the first-time adoption of IAS was charged to retained profit/deficit.

In accordance with IAS, net profit for the previous year can be allocated only to the company's equity or dividends for shareholders. The option provided by the Polish legal system whereby profit can be allocated to the Company Social Benefits Fund, the Restructuring Fund, employee profit-sharing schemes or other purposes is not reflected in IAS. Therefore, the Group recognises the aforementioned reductions in profit as the cost of the period in which the binding obligation to release the funds occurred. Distribution of profit among employees is recognised in payroll cost, while funds transferred to the Company Social Benefits Fund are disclosed under employee benefit costs.

2.3.19. Bank Loans and Borrowings

Interest-bearing bank loans are recognised at the value of funding received, net of any direct costs of acquiring the funds. Following initial recognition, interest-bearing loans and borrowings are recognised at adjusted acquisition cost using the effective interest rate method. The adjusted acquisition cost includes cost of obtaining the loan or borrowing as well as discounts or premiums obtained at settlement of the liability.

The difference between net funding and redemption value is disclosed under finance income or expenses over the term of the loan or borrowing.

2.3.20. Provisions

Provisions are created when the Group has a present obligation (legal or constructive) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of funds representing economic benefits, and the amount of the obligation, whose amount and maturity date is not certain, may be reliably estimated.

The amount of created provisions is reviewed and adjusted at each balance sheet date in order to ensure that the estimated amount is as accurate as possible.

The Group creates the following provisions:
- provision for well decommissioning costs,
- provision for length-of-service awards and retirement severance pays,
- provision for gas allowances for former employees,
- provision for environmental protection liabilities,
- provision for penalties,
- provision for potential liability,
- provision for claims under extra-contractual use of land.

2.3.20.1 Provision for Well Decommissioning Costs

The Parent Undertaking creates a provision for future well decommissioning costs and contributions to the Mine Decommissioning Fund.

The provision for future well decommissioning costs is calculated based on the average cost of well decommissioning in the individual mining facilities over the last three years, adjusted for the projected consumer price index (CPI) and changes in the time value of money. The adoption of a three-year time horizon was due to the varied number of decommissioned wells and their decommissioning costs in the individual years.

The initial value of the provision is added to the value of the relevant asset. Any subsequent adjustments to the provision resulting from changes in estimates are also treated as an adjustment to the value of the asset.

The Mine Decommissioning Fund is created based on the Amendment of July 27th 2001 to the Mining and Geological Law. The Group makes contributions to the Fund in the amount of 10% of the value of the tax depreciation of mining assets in correspondence to other operating expenses.

The amount of the provision for future well decommissioning costs is adjusted for any unused contributions to the Mine Decommissioning Fund.

2.3.20.2 Provision for Length-of-Service Awards and Retirement Severance Pays

The Group has in place a length-of-service award and retirement severance pay scheme. Payments under the scheme are charged to profit or loss, so that the costs of length-of-service awards and retirement severance pays can be amortised over the entire period of employees' service at the respective Group companies. The costs of such benefits are determined using the actuarial projected unit credit method.

The provision for length-of-service awards is disclosed at the present value of liabilities resulting from actuarial calculations. The balance of provisions for retirement severance pays is recognised in the statement of financial position at the net amount of liability, i.e. after adjustment for unrecognised actuarial gains or losses and past employment costs – non-vested benefits.

Unrecognised actuarial gains or losses as well as past employment costs are charged to profit or loss over a period of 15 years.

In the calculation of provisions for length-of-service awards and retirement severance pays, the Group made the following assumptions:
- Assumptions related to the probability of staff turnover and retirement: the calculations are based on staff turnover and retirement probability tables presented by sex, age, total years in service, years in service with the Group and remuneration, which were drawn up based on information provided by the Group companies regarding employees whose employment relationship has terminated. The turnover probability table does not include cases involving the implementation of restructuring plans and organisational changes over recent years;
- Death rate assumptions: the calculations are based on figures derived from standard life span tables;
- Salary increase assumptions: the calculations are based on market trend figures;
- Discount rate is calculated on the basis of the rate of return on assets and the forecast salary growth rate.

2.3.20.3. Provision for Gas Allowances for Former Employees

Until the end of 2010, the Parent Undertaking paid gas allowances to its former employees who had retired by the end of 1995. The provision for the cost of gas allowances was determined in accordance with the actuarial valuation principles applied to estimate the amount of the provision for length-of-service awards and retirement severance pays.

2.3.20.4. Provision for Environmental Protection Liabilities

Future liabilities for the reclamation of contaminated soil or elimination of harmful substances, if there is a relevant legal or constructive obligation, are recognised under provisions. The provision created for such liabilities reflects potential costs projected to be incurred, estimated and reviewed periodically based on current prices.

2.3.20.5. Provision for Penalties

The Group creates such provisions for potential liabilities under penalties imposed on the Group companies.

2.3.20.6. Provision for Potential Liability

If there is evidence indicating that it is highly probable that events causing an increase in liabilities towards a given counterparty under delivered goods or services will occur in the future, the Group calculates the additional cost which it would incur if such events occurred and creates a provision for that purpose.

2.3.20.7. Provision for Claims under Extra-Contractual Use of Land

In the ordinary course of business, the Group companies install technical equipment used for transmission and distribution of gas on land properties owned by third parties, which are often natural persons.

Where possible, at the time of installing the elements of the infrastructure the Group companies entered into agreements establishing standard land easements, and after the amendment of the Polish Civil Code effected in 2008 – transmission easements.

Transmission easement is a new construct of civil law governed by Art. 3051–3054 of the Polish Civil Code of April 23rd 1964 (Dz.U. No. 16, item 93, as amended), which came into force in 2008.

In the last several years, the Group recorded a significant increase in the number of claims submitted by land property owners for compensation for use of transmission easements by the Group companies. Apart from the compensation paid to land property owners under the agreements on establishment of transmission easements, the Group pays compensation under extra-contractual use of land properties.

Given the above, in 2010, in accordance with the materiality rule, the Group estimated the amount of the provision for claims under extra-contractual use of land.

When calculating the amount of the provision, the Group took into consideration any justified claims submitted, in respect of which the exchange of correspondence has continued for the last three years.

To estimate the amount of the provision, the Group analysed the following: estimate surveys of claim amounts made by expert appraisers; Group companies' own calculations based on the size of the controlled area, in which a given piece of equipment was installed, expressed in square meters; amount of annual rent per square meter for similar land in a given municipality; period of extra-contractual use of land (not more than ten years); historical data on the ratio of payments related to the submitted claims and the average amount of paid compensation.

As the amounts used in the above calculations were arrived at based on a number of variables, the final amounts of compensation for extra-contractual use of land that the Group will be required to pay may significantly differ from the recognised amount of the related provision.

2.3.20.8. Other Provisions

The Parent Undertaking created a provision in the form of the Central Restructuring Fund in order to provide redundancy-related benefits for the eligible employees under the Restructuring Programme. The detailed rules of the operation of the Fund as well as the list of mark-ups and expenses from the Fund are specified in the Parent Undertaking's internal resolutions.

The Group companies may also create other provisions for future and probable expenses related to the activities and operations of the Group companies, such as a provision for warranties, a provision of redundancy-related benefits and a restructuring provision.

The Group measures provisions using the discount method, if the effect of changes in the time value of money is material. Long-term provisions are discounted by the Group with a discount rate that is based on the rate of return on risk-free assets and the inflation rate as determined by the constant inflation target of the National Bank of Poland.

2.3.21. Accruals and Deferrals

The companies of the PGNiG Group disclose deferrals if they relate to expenses whose cost relates to future reporting periods. They are disclosed as a separate item of assets in the statement of financial position.

Accruals are outstanding liabilities due for goods or services which have been delivered/provided, but have not yet been paid, invoiced or formally agreed upon with the supplier/provider, plus amounts due to employees (e.g., amounts related to accrued holidays in arrears). Accruals are disclosed together with trade and other payables as an item of equity and liabilities in the statement of financial position.

The undertakings of the PGNiG Group recognise deferred income for the purposes of disclosing the income in future reporting periods at the time of income realisation.

In deferred income, the Parent Undertaking includes deferred income from forecast gas sales and from additional charges for non-accepted gas under existing take-or-pay contracts.

The gas companies (operators of distribution systems) disclose as accruals and deferrals the value of gas infrastructure accepted free of charge (since 1998) and connection fees (received by June 30th 2009). This income is realised concurrently with depreciation charges on those connections.

Deferred income is disclosed as a separate item of accruals in equity and liabilities in the statement of financial position.

2.3.22. Trade and Other Payables

Trade payables are liabilities due for goods or services which have been delivered/provided and have been paid, invoiced or formally agreed upon with the supplier/provider.

Other payables mostly include liabilities contracted in the course of day-to-day operations of the Group companies, that is salaries and wages, and other current employee benefits, as well as accrued expenses and public dues.

2.3.23. Financial Liabilities

Financial liabilities are measured at amortised cost, with the exception of derivatives (measured at a negative value). Derivatives measured at a negative value which are not classified as hedging instruments are measured at fair value through profit or loss and disclosed at fair value, with the changes in fair value charged to profit and loss account.

Items of financial liabilities are classified as either financial liabilities measured at fair value through profit or loss or other financial liabilities.

in PLN '000

2.3.23.1. Financial Liabilities Measured at Fair Value Through Profit or Loss

A financial liability is classified as held for trading if:
- it is incurred principally for the purpose of selling or repurchasing it in the near term;
- a derivative (except for a derivative that is a designated and effective hedging instrument).

The Group classifies as held for trading those derivatives which are not measured according to the principles of hedge accounting and whose measured value is negative (SWAP IRS, SWAP CIRS, FRA, CAP, FLOOR, OPTIONS, option strategies, futures, forwards, FX SWAPS) etc.

Financial liabilities measured at fair value through profit or loss are disclosed at fair value, and financial gains or losses are disclosed in the profit and loss account allowing for interest paid on any given financial liability.

2.3.23.2. Financial Liabilities Measured at Amortised Cost

The other financial liabilities category includes all liabilities with the exception of salaries and wages, taxes, grants, customs duties, social security and health insurance contributions and other benefits.

Upon initial recognition, liabilities included in this category are measured at fair value plus transaction cost, which may be directly attributed to the acquisition or issue of a given financial liability.

Following initial recognition, they are measured at amortised cost with the use of the effective interest rate method. The adjusted acquisition cost includes cost of obtaining the loan or borrowing as well as discounts or premiums obtained at settlement of the liability. The difference between net funding and redemption value is disclosed under finance income or expenses over the term of the loan or borrowing.

2.3.24. Sales revenue

Sales revenue comprises amounts receivable for products, goods and services delivered as part of ordinary business activities. Sales revenue is measured at the fair value of the consideration received or receivable, less any discounts, sales taxes (VAT, excise duty) and other charges. Also the criteria described below apply in revenue recognition:

2.3.24.1. Sales of Goods and Products

Sales of goods and products are recognised upon transfer of goods and products along with the related ownership right.

In order to correctly classify revenue from gas sales to the appropriate reporting period, estimates are made – as at the balance sheet date – of the quantity and value of gas delivered but not invoiced as at the balance sheet date to retail customers.

Added sales, not invoiced in a given reporting period, are determined based on gas off-take characteristics by retail customers in comparable reporting periods. The value of estimated gas sales is defined as the product of quantities assigned to the individual tariff groups and the rates defined in a current tariff.

2.3.24.2. Rendering of Services

Revenue arising from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date. If the rendering of services consists of an undeterminable number of activities performed over a specific period, revenue is recognised on a straight-line basis (in equal amounts) throughout the period. If a specific activity is more important than all other activities, revenue is not recognised before the activity is completed. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

2.3.24.3. Interest Revenue

Interest revenue is recognised on a time-proportion basis by reference to the principal due, using the effective interest rate, i.e. the real interest rate calculated on the basis of all cash flows related to a transaction.

2.3.24.4. Dividends

Dividend revenue is recognised when the shareholders' right to receive dividend is recorded.

2.3.24.5. Lease Revenue

Revenue from lease of investment property is recognised in accordance with the terms of concluded lease agreements.

2.3.25. Government Grants

A government grant is recognised only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received.

Grants which are contingent upon purchase or construction of long-term assets are recognised in the statement of financial position as deferred income and subsequently recognised– through equal annual write-offs – in the income statement throughout the expected useful life of the assets. Non-monetary grants are accounted for at fair value.

Other grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. A grant receivable as compensation for costs or losses already incurred or for immediate financial support, with no future related costs, should be recognised as income in the period in which it is receivable.

2.3.26. Employee Benefits

Short-term employee benefits paid by the Group include:
- wages and social security contributions,
- short-term compensated absences,
- profit-sharing and bonus payments,
- non-monetary benefits.

Short-term employee benefits, including payments towards defined contribution plans, are recognised in the periods in which the entity receives the payment from the employee, and in the case of profit-sharing and bonus payments – when the following conditions are met:
- the entity has a legal or constructive obligation to make such payments as a result of past events, and
- a reliable estimate of the expected cost can be made.

Employee benefits related to accumulating compensated absences are recognised as the employees render service that increases their entitlement. In the case of non-accumulating absences, employee benefits are recognised when the absences occur.

Post-employment benefits in the form of defined benefit plans (retirement severance pays) and other long-term benefits ("jubilee" benefits, disability pensions) are determined using the projected unit credit method, with the actuarial valuation made as at each balance sheet date. Actuarial gains and losses are fully recognised in the income statement. Past service cost is recognised immediately to the extent that it relates to active employees already vested. Otherwise, it is amortised on a straight-line basis over the average period until the benefits become vested.

2.3.27. Income tax

Mandatory increases of loss/decreases of profit include current corporate income tax (CIT) and deferred tax.

Current tax is calculated based on the taxable profit/(loss) (tax base) for a given financial year. The profit/(loss) established for tax purposes differs from the net profit/(loss) established for accounting purposes due to the exclusion of the income which is taxable and the expenses which are deductible in future years and the expense and income items which will never be subject to deduction/taxation. Tax is calculated based on the tax rates effective in a given financial year.

Deferred tax is a future tax liability or asset, resulting from differences between book (accounting) value of assets and liabilities and their tax value used to calculate the tax base.

Deferred tax liabilities are recognised for all taxable temporary differences, while a deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. A deferred tax liability or asset is not recognised if the temporary differences arise in connection with goodwill or in connection with initial recognition of a different asset/liability in a transaction which does not affect either the accounting or the taxable profit. Deferred tax liabilities are recognised for temporary differences associated with investments in subsidiaries, associates, and joint ventures unless the Group is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.

Deferred tax assets are reviewed as at each balance sheet date, and if no sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the asset is written off.

Deferred tax assets and liabilities is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax is recognised as income or expense, except to the extent that the tax arises from a transaction or event that is recognised directly in equity. If the tax relates to items that are credited or charged directly to equity, the tax should also be charged or credited directly to equity.

2.3.28. Operating Segments

The Company has adopted division into business segments as the basic division of its operations. The application of new IFRS 8 "Operating Segments" has not caused any change in the segmental division relative to that presented in the financial statements for the previous years. The Group's segments subject to reporting in accordance with the IFRS are as follows:

a) *Exploration and production.* The segment encompasses extracting hydrocarbons from reserves and preparing products for sale. The segment covers the entire process of exploring and extracting natural gas and crude oil from reserves, including geological surveys, geophysical research and drilling work, and development of and production from the reserves. The exploration and production activities are conducted by PGNiG SA, POGC Libya BV, PGNiG Norway AS and other Group members providing services within this segment.

b) *Trade and Storage Segment*. The segment's activities consist in sales of natural gas, either from imports or domestic sources, and operation of underground gas storage facilities for trading purposes. Following completion of the trading business integration process, sales of natural gas have been conducted by PGNiG SA. The segment operates three underground gas storage facilities (Mogilno, Wierzchowice and Husów). The facilities are operated and any extension work on the facilities is conducted by PGNiG SA and INVESTGAS SA (a Group member). The segment's activities comprise the sale of high-methane and nitrogen-rich gas fed into the transmission and distribution system. Gas trading business is governed by the Energy Law, with prices established on the basis of tariffs approved by the President of URE.

c) *Distribution Segment* The segment's activities consist in transmitting natural gas through the distribution network. Natural gas distribution services are rendered by six Gas Companies, which supply gas to individual, industrial and wholesale customers. In addition, they are responsible for operating, repairing and expanding the distribution network.

d) *Other operations* The segment encompasses designing and building structures, plant and equipment for the mining sector and the fuel and energy sector, as well as offering services associated with the catering and hospitality industry. In addition, in 2010 operations in the power sector were launched. This segment's members conduct activities which cannot be classified into the other segments.

A segment's assets include all operating assets used by the segment: chiefly cash, receivables, inventories and property, plant and equipment, in each case net of depreciation and impairment losses. While the majority of assets can be directly allocated to the particular segments, the value of assets used by two or more segments is allocated to the individual segments based on the extent to which a given segment actually uses such assets.

A segment's liabilities comprise all operating liabilities, including primarily trade payables, salaries and wages, and tax liabilities, both due and accrued, as well as any provisions for liabilities which can be assigned to a particular segment.

A segment's assets or liabilities do not include deferred tax.

Internal transactions within a segment have been eliminated.

All transactions between the segments are effected based on prices agreed internally.

in PLN '000

2.4. Key Reasons for Uncertainty of Estimates

In connection with the application by the Group of the accounting policies described above, the Group made certain assumptions as to the uncertainty and the estimates which had the most material effect on the amounts disclosed in the financial statements. Accordingly, there is a risk that there might be significant changes in the next reporting periods, mainly concerning the below mentioned areas.

2.4.1. Additional Contributions to the Equity of PI GAZOTECH Sp. z o.o.

In 2010, actions were pending instituted by PGNiG SA, to rescind or assert invalidity of resolutions of the Extraordinary General Shareholders Meeting of PI GAZOTECH Sp. z o.o. concerning additional contributions to this company's equity. As the date of these financial statements, no final decision was awarded.

PGNiG SA's action instituted against PI GAZOTECH Sp. z o.o. to rescind or assert invalidity of the resolutions of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated April 23rd 2004, including the resolution obliging PGNiG SA to pay additional contributions in the amount of PLN 52,000 thousand. The proceedings started on March 7th 2006 and have been held before the Regional Court of Warsaw, the Warsaw Court of Appeals and the Supreme Court. In response to a cassation complaint filed by PGNiG SA, in the ruling of May 14th 2009 the Supreme Court allowed PGNiG SA's objection that the agenda for the General Shareholders Meeting of PI GAZOTECH Sp. z o.o. held on April 23rd 2004 lacked the necessary detail, reversed the ruling issued by the Warsaw Court of Appeals on February 4th 2008 and remanded the case for re-examination by the Court of Appeals. On October 13th 2009, the Court of Appeals reversed the ruling issued by the Regional Court and remanded the case for re-examination by the Regional Court. On June 25th 2010, the Regional Court granted PGNiG SA's claims and declared the resolutions concerning share redemption and additional contributions invalid. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court in Warsaw, together with a request for court fee exemption.

Proceedings based on PGNiG SA's action against PI GAZOTECH Sp. z o.o. to rescind or assert invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated January 19th 2005, whereunder PGNiG SA is obliged to pay additional contributions in the amount of PLN 26,000 thousand, were held before the Regional Court and the Court of Appeals of Warsaw. By virtue of the ruling of October 31st 2008, the Regional Court dismissed PGNiG SA's action. PGNiG SA filed an appeal against the ruling. The measures to safeguard the claim were maintained until the ruling became final. PGNiG SA advised the Court of Appeals of the ruling issued by the Supreme Court on May 14th 2009, which is of relevance for the discussed case. On July 30th 2009, the Court of Appeals reversed the Regional Court's ruling and remanded the case for re-examination by the Regional Court.

By virtue of its ruling of October 18th 2010, the Regional Court in Warsaw rescinded the resolution on additional contributions. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court in Warsaw, together with a request for court fee exemption. By virtue of its decision of November 24th 2010, the Regional Court dismissed the request. On December 30th 2010, PI GAZOTECH Sp. z o.o. lodged an appeal against the decision of the Regional Court.

Proceedings based upon PGNiG SA's action against PI GAZOTECH Sp. z o.o. to rescind or assert invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated October 6th 2005, whereunder PGNiG SA is obliged to pay additional contributions in the amount of PLN 6,552 thousand, instigated before the Regional Court of Warsaw were concluded in the first instance. On May 30th 2008, the Regional Court dismissed the Company's claim and reversed the decision concerning implementation of measures to safeguard the claim. The proceedings to maintain the safeguarding measures have been pending before the Court of Appeals and the Regional Court of Warsaw since July 22nd 2008. On February 17th 2009, PGNiG SA filed a complaint concerning the Regional Court's repeated reversal of the decision concerning implementation of the safeguarding measures. On April 23rd 2009, the Warsaw Court of Appeals once more reversed the Regional Court's decision reversing the decision concerning implementation of the safeguarding measures, and referred the case to the District Court of Warsaw. PGNiG SA advised the Court of Appeals of the ruling issued by the Supreme Court on May 14th 2009, which is of relevance for the discussed case. In its ruling of December 21st 2009, the Court of Appeals reversed the Regional Court's unfavourable ruling and remanded the case for re-examination by the Regional Court. By virtue of its decision of May 25th 2010, the Court of Appeals once again changed the District Court's decision and dismissed the request for reversing the decision concerning implementation of the safeguarding measures.

In connection with the foregoing, in the financial statements for 2010 the Parent Undertaking retained in the accounting books a PLN 84,552 thousand liability and receivable from PI GAZOTECH Sp. z o.o. on additional contribution to equity, and a PLN 84,552 thousand impairment loss recognised on that receivable.

In connection with the implementation of the safeguarding measures PI GAZOTECH Sp. z o.o. is not entitled to any interest on additional contribution to equity. As a result, the Parent Undertaking released the entire amount (i.e. PLN 13,017.5 thousand) of the provision for potential interest liabilities.

2.4.2. Impairment of Non-Current Assets

The Group's key operating assets include the mining assets, the transmission infrastructure and gas fuel storage facilities. These assets were tested for impairment. The Group computed and recognised material impairment losses on the assets, based on an assessment of their current and future usefulness or planned decommissioning and sales. For information on the value of recognised impairment losses see Note 11.2.

In the case of the mining assets, there is uncertainty connected with the estimates of natural gas and crude oil resources, on the basis of which the related cash flows are estimated. Any changes in the estimates of the resources directly affect the amount of the impairment losses on the mining assets.

Another significant uncertainty is connected with the risk that the Polish Energy Regulatory Office (Urząd Regulacji Energetyki – "URE") might change its decision as to the prices of the gas fuel distribution services. Any change in those prices would materially affect the cash flows at the distribution companies, which could lead to the necessity to remeasure the impairment losses on the distribution assets.

2.4.3. Useful Lives of Tangible Assets

Item 2.3.4. of the financial statements presents depreciation rates for the key group of tangible assets. The useful lives of the tangible assets were determined on the basis of assessments made by the engineering personnel who are in charge of their operation. Any such assessment is connected with uncertainty as to the future business environment, technology changes and market competition, which could lead to a different assessment of the economic usefulness of the assets and their remaining useful lives and ultimately have a material effect on the value of the tangible assets and the future depreciation charges.

2.4.4. Estimating Natural Gas Sales

In order to correctly recognise revenue on sales of natural gas in the appropriate reporting period, as at the balance sheet date estimates are made of the natural gas volumes supplied to retail customers.

The value of the natural gas which has been supplied to retail customers but has not been invoiced, is estimated on the basis of the customers' consumption patterns seen to date in comparable reporting periods. There exists a risk that the actual final volume of the gas fuel sold might differ from the estimate. Therefore result for the given period might account for a portion of the estimated sales volume which will never be realised.

2.4.5. Provision for Decommissioning Costs and Environmental Protection

The provision for well decommissioning costs and other provisions for environmental liabilities presented in Note 27 represent significant items among the provisions disclosed in the consolidated financial statements. These provisions are based on the estimates of future decommissioning and restoration costs, which significantly depend on the adopted discount rate and the estimated cash-flow period.

2.4.6. Provision for Claims under Extra-Contractual Use of Land

In the ordinary course of business, the Group companies install technical equipment used for transmission and distribution of gas on land properties owned by third parties, which are often natural persons.

Where possible, at the time of installing the elements of the infrastructure the Group companies entered into agreements establishing standard land easements, and after the amendment of the Polish Civil Code effected in 2008 – transmission easements.

Transmission easement is a new construct of civil law governed by Art. 3051–3054 of the Polish Civil Code of April 23rd 1964 (Dz.U. No. 16, item 93, as amended), which came into force in 2008.

In the last several years, the Group recorded a significant increase in the number of claims submitted by land property owners for compensation for use of transmission easements by the Group companies. Apart from the compensation paid to land property owners under the agreements on establishment of transmission easements, the Group pays compensation under extra-contractual use of land properties.

Given the above, in 2010, in accordance with the materiality rule, the Group estimated the amount of the provision for claims under extra-contractual use of land.

When calculating the amount of the provision, the Group took into consideration any justified claims submitted, in respect of which the exchange of correspondence has continued for the last three years.

To estimate the amount of the provision, the Group analysed the following: estimate surveys of claim amounts made by expert appraisers; Group companies' own calculations based on the size of the controlled area, in which a given piece of equipment was installed, expressed in square meters; amount of annual rent per square meter for similar land in a given municipality; period of extra-contractual use of land (not more than ten years); historical data on the ratio of payments related to the submitted claims and the average amount of paid compensation.

As the amounts used in the above calculations were arrived at based on a number of variables, the final amounts of compensation for extra-contractual use of land that the Group will be required to pay may significantly differ from the recognised amount of the related provision.

2.4.7. Impairment of SGT EUROPOL GAZ SA Shares

As part of measurement of the value of SGT EUROPOL GAZ SA shares, the Parent Undertaking tested these shares for impairment, using the discounted cash flow method and relying in its calculations on the data included in SGTEUROPOL GAZ SA's budget for 2006 – 2019, as discussed in detail in Note 6. The results of the impairment tests show that the value of the shares varies considerably depending on the adopted assumptions as to future cash flows, the adopted discount rate and the estimated cash-flow period, which ultimately may have a material effect on the value of the shares in the future.

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

On December 28th 2010, the President of the Polish Office of Competition and Consumer Protection (UOKiK) instigated, ex officio, anti-trust proceedings concerning abuse of dominant position on the domestic natural gas wholesale market by PGNiG SA, which consisted in:

- inhibiting sale of gas against the interest of other business players or consumers,
- impeding the development of market conditions necessary for the emergence or growth of competition,

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

The President of UOKiK may impose on PGNiG SA a fine of not more than 10% of the revenue generated in the financial year preceding the date of the decision imposing the fine.

PGNiG SA did not create any provision for that purpose as at the end of 2010, as the Company believes that the above charges are groundless and that it is not likely that they will lead to an obligation causing an outflow of funds.

2.5. Presentation Changes in the Financial Statements

Presentation Changes in the Statement of Financial Position

Except the changes resulting from the application of updated IFRIC 18, as described in Section 2.2.1., the Group made no other changes in the statement of financial position.

Presentation Changes in the Income Statement

The Group changed the 2009 income statement to ensure comparability of the data for the previous reporting period with the data for the current period.

Except the change resulting from the application of updated IFRIC 18, as described in Section 2.2.1., in 2010, the Parent Undertaking changed the presentation of the costs of gas fuel transport via the gas transit pipeline on the basis of which the price for gas fuel is calculated.

Therefore, the Group made an appropriate reclassification in the 2009 income statement and moved an amount of PLN 103,740 thousand from contracted services to raw and other materials used. The pre-tax profit and net profit remained unchanged.

Presentation Changes – Reporting Segments

Following the presentation changes made introduced in 2010 and concerning the manner of accounting for the produced gas sold by the Trade and Storage Segment, the Group made the necessary adjustment to the data for 2009 to ensure its comparability with the current period.

The adjustment consisted in decreasing the value of inter-segment sales in the Exploration and Production segment by PLN 162,861 thousand, and decreasing by the same amount the value of other expenses in the Trade and Storage segment and the amounts of eliminations. The adjustment resulted in a reduction of the Exploration and Production segment's result and a concurrent increase in the Trade and Storage segment's result by PLN 162,861 thousand. Other items and figures remained unchanged.

3. Operating segments

3.1. Reportable Segments

The tables below set forth data on the revenues, costs and profits/losses, as well as the assets, equity and liabilities of the Group's reportable segments for the periods ended December 31st 2010 and December 31st 2009.

(PLN '000)

Year ended December 31st 2010	Exploration and Production	Trade and Storage	Distribution	Other	Eliminations	Total
Income statement						
Sales to external customers	2,244,777	18,701,376	126,464	208,544	–	21,281,161
Sales to other segments	1,206,729	378,240	3,411,410	359,454	(5,355,833)	–
Total segment revenue	3,451,506	19,079,616	3,537,874	567,998	(5,355,833)	21,281,161
Depreciation and amortisation	(608,820)	(139,757)	(762,587)	(13,548)	–	(1,524,712)
Other costs	(2,255,054)	(18,124,389)	(1,284,066)	(527,864)	5,321,613	(16,869,760)
Total segment costs	(2,863,874)	(18,264,146)	(2,046,653)	(541,412)	5,321,613	(18,394,472)
Operating profit/(loss)	**587,632**	**815,470**	**1,491,221**	**26,586**	**(34,220)**	**2,886,689**
Net finance expenses						50,105
Share in net profit/(loss) of equity-accounted undertakings		(695)				(695)
Pre-tax profit/loss						**2,936,099**
Income tax						(478,915)
Net profit/(loss)						**2,457,184**
Statement of financial position						
Segment's assets	12,797,364	10,447,368	12,227,593	414,579	(3,051,625)	32,835,279
Investments in equity-accounted undertakings		555,828				555,828
Unallocated assets						248,315
Deferred tax asset						676,817
Total assets						**34,316,239**
Total equity						23,519,470
Segment liabilities	1,863,052	3,535,500	1,932,133	130,607	(3,051,625)	4,409,667
Unallocated liabilities						4,995,092
Deferred tax liability						1,392,010
Total equity and liabilities						**34,316,239**
Other information						
Capital expenditure on property, plant and equipment and intangible assets	(2,193,179)	(505,599)	(957,873)	(13,249)	–	**(3,669,900)**
Impairment losses on assets	(1,103,992)	(2,060,351)	(78,363)	(8,448)	–	**(3,251,154)**
Impairment losses on unallocated assets						**(52,760)**

in PLN '000

(PLN '000)

Year ended December 31st 2009	Exploration and Production	Trade and Storage	Distribution	Other	Eliminations	Total
Income statement						
Sales to external customers	1,865,985	17,157,569	102,657	205,316	–	19,331,527
Sales to other segments	1,172,326	213,004	2,978,692	255,275	(4,619,297)	–
Total segment revenue	3,038,311	17,370,573	3,081,349	460,591	(4,619,297)	19,331,527
Depreciation and amortisation	(621,652)	(141,880)	(722,482)	(10,198)	–	(1,496,212)
Other costs	(2,242,915)	(17,115,840)	(1,272,981)	(429,228)	4,600,508	(16,460,456)
Total segment costs	(2,864,567)	(17,257,720)	(1,995,463)	(439,426)	4,600,508	(17,956,668)
Operating profit/(loss)	**173,744**	**112,853**	**1,085,886**	**21,165**	**(18,789)**	**1,374,859**
Net finance expenses						108,689
Share in net profit/(loss) of equity-accounted undertakings		(359)				(359)
Pre-tax profit/(loss)						**1,483,189**
Income tax						(246,303)
Net profit/(loss)						**1,236,886**
Statement of financial position						
Segment's assets	11,062,509	10,200,569	11,039,126	366,061	(2,850,302)	29,817,963
Investments in equity-accounted undertakings		556,523				556,523
Unallocated assets						107,791
Deferred tax asset						592,087
Total assets						**31,074,364**
Total equity						21,435,328
Segment liabilities	1,608,413	2,920,963	1,831,287	136,451	(2,850,302)	3,646,812
Unallocated liabilities						4,723,792
Deferred tax liability						1,268,432
Total equity and liabilities						**31,074,364**
Other information						
Capital expenditure on property, plant and equipment and intangible assets	(1,913,366)	(779,674)	(1,127,447)	(20,273)	–	**(3,840,760)**
Impairment losses on assets	(891,201)	(1,999,064)	(840,663)	(4,552)	–	**(3,735,480)**
Impairment losses on unallocated assets						**(53,944)**

3.2. Information on Geographical Areas

The Company's business activity focuses on domestic sales (Poland). In 2010, the revenue from export sales of products, goods for resale and materials to external customers accounted for 4.65% (4.44% in 2009) of the total net revenue from sales of products, goods for resale and materials to external customers.

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Domestic sales	**20,292,375**	**18,472,574**
High-methane gas	17,831,213	16,167,031
Nitrogen-rich gas	1,187,319	1,281,065
Crude Oil	467,836	361,609
Helium	13,318	11,623
Propane-butane gas	49,910	36,823
Gasoline	3,227	2,664
LNG	30,019	21,366
Gas storage services	31,701	23,525
Geophysical and geological services	145,827	55,486
Exploration services	79,130	100,996
Construction and erection	101,981	75,946
Design services	40,478	40,784
Hotel services	31,673	36,472
Other services	156,643	160,025
Other products	16,837	19,188
Materials and goods for resale	17,734	27,090
Connection charge	87,529	50,881
Export sales	**988,786**	**858,953**
High-methane gas	56,516	41,212
Nitrogen-rich gas	–	–
Crude Oil	370,806	300,025
Helium	30,732	25,449
Propane-butane gas	–	–
Gasoline	–	–
LNG	88	–
Gas storage services	–	–
Geophysical and geological services	132,937	170,031
Exploration services	329,268	275,880
Construction and erection	27,522	22,766
Design services	–	1,804
Hotel services	–	–
Other services	35,819	9,056
Other products	4,411	11,929
Materials and goods for resale	687	801
Connection charge	–	–
Total	**21,281,161**	**19,331,527**

The Group sells its products and services to customers in the following countries: Switzerland, Kazakhstan, India, Germany, Uganda, Pakistan, Czech Republic, Libya, Belgium, Ukraine, Slovenia, Russia, United Arab Emirates, Thailand, Slovakia, Mozambique, Norway, Egypt, Denmark and Austria.

A majority of the Group's non-current assets (other than financial instruments) are also located in Poland. The value of non-current assets located abroad as at December 31st 2010 represented 12.22% of the total value of assets (10.50% as at December 31st 2009).

(PLN '000)	Dec 31 2010	Dec 31 2009
Value of non-current assets other than financial instruments located in Poland	22,752,207	20,647,131
Value of non-current assets other than financial instruments located abroad*	3,166,638	2,422,725
Total	**25,918,845**	**23,069,856**

* As at December 31st 2010, PLN 2,877,710 thousand was attributable to PGNiG Norway AS (PLN 2,151,133 thousand as at the end of 2009).

3.3. Key Customers

The Group does not have any single external customer who would account for 10% or more of the total revenue generated by the Group.

4. Operating expenses

4.1. Raw and other materials used

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Cost of gas sold	(11,004,793)	(10,861,881)
Other raw and other materials used	(670,441)	(660,853)
Total	**(11,675,234)**	**(11,522,734)**

4.2. Employee Benefits

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Salaries and wages	(1,940,247)	(1,815,276)
Social security and other benefits	(706,990)	(639,022)
Total	**(2,647,237)**	**(2,454,298)**

4.3. Contracted Services

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Purchases of transmission services from OGP Gaz-System SA	(1,531,449)	(1,353,702)
Costs of dry wells written off	(162,337)	(264,650)
Other contracted services	(1,455,014)	(1,345,278)
Total	**(3,148,800)**	**(2,963,630)**

4.4. Other Net Operating Expenses

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in impairment losses, net	428,572	(139,322)
Change in provisions, net	(67,210)	13,508
Taxes and charges	(442,295)	(456,319)
Net interest related to operating activities	90,760	92,920
Net foreign exchange gains/(losses) related to operating activities	130,119	311,653
Gain/(loss) on derivative instruments related to operating activities	(276,530)	(229,771)
Value of goods for resale and materials sold	(18,540)	(22,590)
Income from current settlement of deferred income recognised in the statement of financial position	64,710	73,756
Difference on valuation of assets distributed as dividend	24,422	3,607
Gains/(losses) on disposal of non-financial non-current assets	(23,402)	6,414
Property insurance	(54,455)	(35,821)
Domestic and international business trips	(57,646)	(52,148)
Change in inventories	(4,632)	24,992
Income from compensations, penalties, fines etc.	24,034	141,390
Cost of compensations, penalties, fines, etc.	(116,449)	(8,421)
Other expenses, net	(142,975)	(143,773)
Total	**(441,517)**	**(419,925)**

5. Finance income and expenses

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Finance income	**80,515**	**203,315**
Gain on valuation and execution of forward transactions	–	–
Interest revenue	51,305	45,479
Foreign exchange gains	21,332	4,785
Investment revaluation	855	134,367
Gain on disposal of investments	2,024	6,329
Dividends and other profit distributions	4,065	8,311
Other finance income	934	4,044
Finance expenses	**(30,410)**	**(94,626)**
Loss on valuation and execution of forward transactions	–	–
Interest expenses	(17,809)	(47,346)
Foreign exchange losses	–	–
Investment revaluation	(3,036)	(37,199)
Loss on disposal of investments	–	–
Commissions on loans	(1,422)	(1,460)
Costs related to guarantees issued	(5,307)	(6,764)
Other finance expenses	(2,836)	(1,857)
Net finance income/expense	**50,105**	**108,689**

6. Equity method valuation of associated undertakings

6.1. Net Book Value of Interests in Equity-Accounted Associated Undertakings.

(PLN '000)	Dec 31 2010	Dec 31 2009
SGT EUROPOL GAZ SA		
PGNiG Group's interest*	49.74%	49.74%
Core business	Gas fuel transmission	Gas fuel transmission
Valuation of interests using equity method	1,456,855	1,436,380
Cost	38,400	38,400
Share in change in equity	1,495,255	1,474,780
Impairment losses	(956,555)	(936,080)
Net book value of investment	**538,700**	**538,700**
GAS-TRADING SA		
PGNiG Group's interest	43.41%	43.41%
Core business	Trade	Trade
Valuation of interests using equity method	15,837	16,532
Cost	1,291	1,291
Share in change in equity	17,128	17,823
Impairment losses	–	–
Net book value of investment	**17,128**	**17,823**
Total net book value of investments	**555,828**	**556,523**

* Including a 48% direct interest and 1.74% held indirectly through GAS-TRADING SA.

6.2. Reconciliation of the Value of Interests in Equity-Accounted Associated Undertakings

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Net book value of investments as at beginning of period	**556,523**	**556,882**
Dividend paid by GAS-TRADING SA	–	–
Valuation recognised in the income statement, including:	**(695)**	**(359)**
Valuation of SGT EUROPOL GAZ SA	–	–
Valuation of GAS-TRADING SA	(695)	(359)
Net book value of investments as at end of period	**555,828**	**556,523**

The Parent Undertaking estimated its equity interest in SGT EUROPOL GAZ SA on the basis of the value of the company's equity as shown in its financial statements prepared as at December 31st 2010 in accordance with the Polish Accountancy Act, adjusted to reflect differences in the accounting policies applied by the Group and results on intra-Group transactions. The differences in the accounting policies concerned the recognition of interest expenses in the net value of property, plant and equipment (until the end of 2008). Until the end of 2008, the Group applied the standard approach (in accordance with IAS 23) and did not recognise borrowing costs in the initial value of property, plant and equipment. As of the beginning of 2009, the Group capitalises borrowing costs in the value of property, plant and equipment, therefore the adjustment consists in continued elimination of these costs with respect to the previous years. Subsequently, the Parent Undertaking tested the interest in SGT EUROPOL GAZ SA for impairment using the discounted cash flow method on the basis of information included in SGT EUROPOL GAZ SA' s budget for 2006-2019. Discounted cash flow includes all cash flows generated by SGT EUROPOL GAZ SA, including cash flow related to the servicing of interest-bearing external financing (interest expenses and repayment of principal amounts of loans and borrowings). As at December 31st 2010, the Parent Undertaking valued its interest in SGT EUROPOL GAZ SA using the equity method, at PLN 1,456,855 thousand.

The results of impairment tests differ significantly depending on adopted assumptions.

Due to changes in exchange rates and tariff policies, the assumptions adopted for the valuation of equity interests carry – for reasons beyond the Company's control – significant uncertainty.

Taking the above factors into account, as at December 31st 2010 the Parent Undertaking estimated the net book value of SGT EUROPOL GAZ SA using the discounted cash flow method at PLN 538,700 thousand. This valuation did not differ from the one performed as at December 31st 2009.

7. Corporate income tax

The Group does not constitute a group for tax purposes within the meaning of the Polish regulations. Each member of the Group is a separate taxpayer for tax purposes.

7.1. Income tax disclosed in the income statement

(PLN '000)	Note	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Pre-tax profit/(loss)		2,936,099	1,483,189
Tax rate applicable in the period		19%	19%
Tax calculated at the applicable tax rate		(557,859)	(281,806)
Permanent differences between pre-tax profit/(loss) and tax base		78,944	35,503
Corporate income tax disclosed in the consolidated income statement		**(478,915)**	**(246,303)**
Current income tax	7.2.	(558,184)	(416,091)
Deferred income tax	7.3.	79,269	169,788
Effective tax rate		16%	17%

7.2. Current Income Tax

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Profit/(loss) before tax (consolidated)	2,936,099	1,483,189
Consolidation adjustments	368,288	127,052
Differences between profit/(loss) before tax and tax base	(754,888)	210,239
Taxable revenue not recognised as revenue for accounting purposes	236,647	278,292
Tax deductible expenses, not recognised as expenses for accounting purposes	(1,825,239)	(1,899,726)
Revenue not recognised in taxable income	2,315,641	1,149,310
Non-tax deductible expenses	(3,235,484)	(2,956,528)
Deductions from income	(86,139)	24,455
Income tax base	2,549,499	1,820,480
Tax rate applicable in period	19%	19%
Corporate income tax	(484,405)	(345,891)
Increases, reliefs, exemptions, allowances and reductions in/of corporate income tax	(73,779)	(70,200)
Current income tax disclosed in tax return for period	(558,184)	(416,091)
Current income tax disclosed in consolidated income statement	**(558,184)**	**(416,091)**

7.3. Deferred Income Tax

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Origination and reversal of deferred tax due to deductible temporary differences	**195,680**	**96,657**
Impairment losses on financial assets, receivables and tangible assets under construction	19,036	(6,454)
Provisions for future liabilities	31,629	(7,807)
Costs of FX risk and interest rate risk hedges	(19,099)	47,812
Foreign exchange losses	238	(25,239)
Costs related to sales taxable in subsequent month	–	–
Investment incentives (Norway)	158,024	90,206
Tax loss for current period	–	–
Other	5,852	(1,861)
Origination and reversal of deferred tax due to taxable temporary differences	**(116,411)**	**73,131**
Difference between tax and accounting value of non-current assets	(98,524)	50,204
Positive valuation of FX and interest rate risk hedges	(4,365)	26,869
Foreign exchange gains	(412)	4,786
Accrued interest	(56)	3,363
Income related to tax obligation arising in subsequent month	(8,518)	(2,927)
Other	(4,536)	(9,164)
Deferred income tax disclosed in consolidated income statement	**79,269**	**169,788**
Deferred income tax disclosed in other net comprehensive income, including:	**(16,113)**	**8,298**
– relating to valuation of financial instruments	(21,496)	(6,057)
– relating to differences on currency translation of deferred tax of foreign operations	5,383	14,355
Tax refund relating to investment incentives (Norway)	**(22,468)**	**(17,057)**
Deferred income tax charged to non-current assets (Norway)	**113,162**	**–**
Deferred income tax charged to current income tax receivable (Norway)	**(207,059)**	**–**
Transfer from current income tax receivable	**13,547**	**–**
Changes in the Group	**814**	**–**
Total changes	**(38,848)**	**161,029**

The current reporting period covered the tax period from January 1st 2010 to December 31st 2010. A 19% corporate income tax rate was applicable in 2010 to businesses operating in Poland. In the comparable period, i.e. 2009, the CIT rate was also 19%.

Regulations on value added tax, corporate and personal income tax or social security contributions change frequently, and as a consequence it is often not possible to rely on established regulations or legal precedents. The regulations in effect tend to be unclear, thus leading to differences in opinions as to legal interpretation of fiscal regulations, both between state authorities themselves and between state authorities and entrepreneurs. Tax and other settlements (customs duty or foreign exchange settlements) may be inspected by authorities empowered to impose high penalties, and any additional amounts assessed following an inspection must be paid together with high interest. Consequently, the tax risk in Poland is higher than in other countries where tax systems are more developed. In Poland, there are no formal procedures for the determination of the final amount of tax due. Tax settlements may be inspected for the period of five years. Therefore, the amounts disclosed in the financial statements may change at a later date, following final determination of their amount by the competent tax authorities.

Foreign subsidiaries and foreign branches of the Parent Undertaking and of Polish subsidiary undertakings are subject to tax regulations in force in the countries where they conduct their business activities and the provisions of double tax treaties. In the case of foreign branches of subsidiary undertakings, the tax rates effective in 2010 and 2009 ranged from 3% to 37% of tax base. Foreign branches of the Parent Undertaking did not pay corporate income tax in 2010 and 2009.

In the case of PGNiG Norway AS, the marginal tax rate is 78% of tax base, the reason being that PGNiG Norway AS's activities in the continental shelf are subject to taxation under two separate tax systems:

- The corporate income tax system (28% tax rate);
- The petroleum tax system (additional tax rate of 50%).

Such a high tax rate is accompanied by a wide range of investment incentives and additional allowances, in line with the following principles:

- The company may use a high depreciation/amortisation rate (the annual depreciation/amortisation rate is 16.67%) and commence depreciation/amortisation immediately after capital expenditure is incurred. In the first year, the company is entitled to full annual depreciation/amortisation, regardless of the date when capital expenditure is actually incurred.

- The company may apply an investment incentive of 7.5% per annum for the period of four years under the petroleum tax regime. The incentive relates to capital expenditure made in the Norwegian Continental Shelf (NCS) (excluding expenditure on exploration) and amounts to 30% of expenditure subject to depreciation/amortisation (7.5% in each of the four years). The incentive is deducted only from the income subject to the petroleum tax (50% rate) and does not apply to the regular CIT. It is designed to encourage further capital outlays in the NCS. If the incentive amount exceeds income generated in a given year, it can be deducted in subsequent years.

- Total expenditure on exploration activities may be immediately deducted from revenue. If a company does not generate income from which expenditure on exploration could be deducted (as is the case with PGNiG AS at the moment), it is entitled to immediate reimbursement of 78% of expenditure on exploration. The funds are returned in cash, and the transfer to the company's bank account is made by the end of the year following the year covered by the tax return.

- Finance expenses may be deducted under both taxation systems.

Therefore, PGNiG Norway AS began to amortise capital expenditure and applied the investment incentive already in 2008, recognising the expenditure and incentive as deferred tax (in the amount recorded under "Investment incentive (Norway)" in table 7.3.). Once revenue is generated (i.e. after 2011), these amounts will be deducted from the current tax base.

From the PGNiG Group's viewpoint, it is important that the Norwegian tax system permits deduction of losses without time limitation. Additionally, losses incurred after 2002 bear interest. With respect to such losses, interest rate is calculated as a risk-free interest rate increased by a margin, including income tax (28%). In other words, losses incurred by PGNiG Norway AS in 2007 – 2011, increased by interest, will reduce its current tax payable once production from the Skarv field is launched.

The balance of deferred tax presented in the financial statements is reduced by a valuation adjustment due to temporary differences whose realisation for tax purposes is not entirely certain.

8. Discontinued operations

In 2010, the Group did not discontinue any activities and is not planning to discontinue any of its existing operations.

9. Earnings/loss per share

Basic earnings/(loss) per share are calculated by dividing the net profit/(loss) attributable to holders of the Parent Undertaking's ordinary shares for a given reporting period by the weighted average number of outstanding ordinary shares in the financial year.

Diluted earnings/(loss) per share are calculated by dividing the net profit/(loss) attributable to holders of the ordinary shares for a given reporting period (less interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of outstanding ordinary shares in the reporting period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Net profit/loss attributable to equity holders of the parent	2,453,741	1,235,239
Net profit/loss attributable to equity holders of the parent used for calculating diluted earnings/loss per share	2,453,741	1,235,239
Weighted average number of outstanding ordinary shares used for calculating basic earnings/loss per share ('000)	5,900,000	5,900,000
Weighted average number of outstanding ordinary shares used for calculating diluted earnings/loss per share ('000)	5,900,000	5,900,000
Basic earnings/loss per share for financial period attributable to holders of ordinary shares of the parent (PLN)	0.42	0.21
Diluted earnings/loss per share for financial period attributable to holders of ordinary shares of the parent (PLN)	0.42	0.21

The weighted average number of shares was computed in the manner presented in the table below:

Period start date	Period end date	Number of outstanding ordinary shares ('000)	Number of days	Weighted average number of shares (,000)
Jan 1 2010	Dec 31 2010	5,900,000	365	5,900,000
Total			**365**	**5,900,000**
Jan 1 2009	Dec 31 2009	5,900,000	365	5,900,000
Total			**365**	**5,900,000**

10. Dividend paid and proposed to be paid

Dividends paid in the period	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Dividend per share paid (PLN)	0.08	0.09
Number of shares ('000)	5,900,000	5,900,000
Dividend paid (PLN ,000), including:	472,000	531,000
– in-kind dividend paid to the State Treasury	339,994	382,499
– cash dividend paid to the State Treasury	2,683	6,137
– cash dividend paid to other shareholders	129,323	142,364

Dividend for 2009 was paid on October 4th 2010 and dividend for 2008 was paid on October 2nd 2009.

The effect of the surplus of assets distributed as in-kind dividend over the net book value disclosed in the statement of financial position as at the dividend payment date on the result for individual reporting periods is presented in Note 4.4.

Until the date of these financial statements, no decision has been made concerning the distribution of profit for 2010.

11. Property, plant and equipment

(PLN '000)	Dec 31 2010	Dec 31 2009
Land	50,617	65,498
Buildings and structures	14,506,236	13,744,065
Plant and equipment	2,449,873	2,324,912
Vehicles and other	979,530	936,055
Total tangible assets	**17,986,256**	**17,070,530**
Tangible assets under construction	7,675,964	5,818,387
Total property, plant and equipment	**25,662,220**	**22,888,917**

Tangible assets

Dec 31 2010	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
As at Jan 1 2010, net of amortisation and impairment losses	65,498	13,744,065	2,324,912	936,055	17,070,530
Increase	354	38,417	22,900	7,710	69,381
Changes in the Group	23	8,525	10,137	2,413	21,098
Decrease	(526)	(252,623)	(20,940)	(9,982)	(284,071)
Transfers from tangible assets under construction and between groups	(16,268)	1,264,917	464,819	195,407	1,908,875
Impairment loss	2,505	668,300	(3,109)	14,647	682,343
Depreciation for financial year	(969)	(965,365)	(348,846)	(166,720)	(1,481,900)
As at Dec 31 2010, net of depreciation and impairment losses	**50,617**	**14,506,236**	**2,449,873**	**979,530**	**17,986,256**
As at Jan 1 2010					
Gross value	76,001	20,307,452	4,138,796	1,661,929	26,184,178
Accumulated depreciation and impairment loss	(10,503)	(6,563,387)	(1,813,884)	(725,874)	(9,113,648)
Net book value as at Jan 1 2010	**65,498**	**13,744,065**	**2,324,912**	**936,055**	**17,070,530**
As at Dec 31 2010					
Gross value	52,801	21,424,854	4,539,164	1,811,479	27,828,298
Accumulated depreciation and impairment loss	(2,184)	(6,918,618)	(2,089,291)	(831,949)	(9,842,042)
Net book value as at Dec 31 2010	**50,617**	**14,506,236**	**2,449,873**	**979,530**	**17,986,256**

Dec 31 2009	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
As at Jan 1 2009, net of amortisation and impairment losses	82,372	13,557,215	2,322,574	903,316	16,865,477
Increase	–	32,871	9,808	107,041	149,720
Decrease	(16,821)	(168,765)	(24,231)	(129,196)	(339,013)
Transfers from tangible assets under construction and between groups	3,286	1,096,955	411,044	201,681	1,712,966
Impairment loss	(2,370)	184,693	(47,943)	13,067	147,447
Depreciation for financial year	(969)	(958,904)	(346,340)	(159,854)	(1,466,067)
As at Dec 31 2009, net of depreciation and impairment losses	**65,498**	**13,744,065**	**2,324,912**	**936,055**	**17,070,530**
As at Jan 1 2009					
Gross value	89,427	19,003,262	3,773,102	1,541,040	24,406,831
Accumulated depreciation and impairment loss	(7,055)	(5,446,047)	(1,450,528)	(637,724)	(7,541,354)
Net book value as at Jan 1 2009	**82,372**	**13,557,215**	**2,322,574**	**903,316**	**16,865,477**
As at Dec 31 2009					
Gross value	76,001	20,307,452	4,138,796	1,661,929	26,184,178
Accumulated depreciation and impairment loss	(10,503)	(6,563,387)	(1,813,884)	(725,874)	(9,113,648)
Net book value as at Dec 31 2009	**65,498**	**13,744,065**	**2,324,912**	**936,055**	**17,070,530**

11.1. Property, Plant and Equipment Used under Finance Lease

The PGNiG Group uses the following property, plant and equipment under finance lease as a lessee.

(PLN '000)	Dec 31 2010				Dec 31 2009			
	Initial value of capitalised finance lease	Depreciation	Impairment loss	**Net book value**	Initial value of capitalised finance lease	Depreciation	Impairment loss	**Net book value**
Buildings and structures	92	(9)	–	83	–	–	–	–
Plant and equipment	93,349	(21,877)	–	71,472	108,689	(38,063)	–	70,626
Vehicles and other	45,398	(12,432)	(333)	32,633	31,632	(6,926)	(495)	24,211
Total	**138,839**	**(34,318)**	**(333)**	**104,188**	**140,321**	**(44,989)**	**(495)**	**94,837**

11.2. Impairment Losses on Property, Plant and Equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total tangible assets	Tangible assets under construction	Total property, plant and equipment
As at Jan 1 2010	4,689	1,209,333	97,858	20,756	**1,332,636**	346,075	**1,678,711**
Increase	–	105,599	16,003	483	**122,085**	196,959	**319,044**
Decrease	(2,505)	(773,899)	(12,894)	(15,130)	**(804,428)**	–	**(804,428)**
As at Dec 31 2010	**2,184**	**541,033**	**100,967**	**6,109**	**650,293**	**543,034**	**1,193,327**
As at Jan 1 2009	2,319	1,394,026	49,915	33,823	**1,480,083**	395,291	**1,875,374**
Increase	16,158	373,061	96,698	5,057	**490,974**	422	**491,396**
Decrease	(13,788)	(557,754)	(48,755)	(18,124)	**(638,421)**	(49,638)	**(688,059)**
As at Dec 31 2009	**4,689**	**1,209,333**	**97,858**	**20,756**	**1,332,636**	**346,075**	**1,678,711**

As at the beginning of the period, impairment loss on tangible assets amounted to PLN 1,332,636 thousand, including:
- PLN 412,640 thousand on assets used directly in production,
- PLN 780,121 thousand on distribution assets,
- PLN 139,875 thousand on other tangible assets.

The current period saw a PLN 804,428 thousand decrease (including PLN 776,775 thousand related to assets used in the distribution activities and PLN 14,655 thousand related to assets used directly in production) and a PLN 122,085 thousand increase in impairment losses (including PLN 32,641 thousand related to assets used directly in production and the remaining amount mainly relating to other assets, i.e. transmission assets not transferred to OGP Gaz-System SA as well as unused assets or assets with unclear legal status).

As at the end of the period, impairment losses on tangible assets amounted to PLN 650,293 thousand, including:
- PLN 430,626 thousand on assets used directly in production,
- PLN 7,976 thousand on distribution assets,
- PLN 211,691 thousand on other tangible assets.

Out of the amount of impairment losses on tangible assets under construction as at the end of 2010, PLN 501,529 thousand related to capitalised cost of drilling work (as at the end of 2009, the impairment was PLN 315,772 thousand). PLN 425,464 thousand and PLN 76,065 thousand of that amount was related to drilling work carried out in Poland and Norway, respectively.

12. Investment property

(PLN '000)	Dec 31 2010	Dec 31 2009
As at beginning of period, net of depreciation and impairment losses	7,480	8,181
Increase	–	–
Decrease	(614)	(2,327)
Transfers to/from property, plant and equipment	3,612	1,055
Impairment loss	(2)	1,175
Depreciation for financial year	(561)	(604)
As at end of period, net of depreciation and impairment losses	**9,915**	**7,480**
As at beginning of period		
Gross value	9,829	11,066
Accumulated depreciation and impairment loss	(2,349)	(2,885)
Net book value	**7,480**	**8,181**
As at end of period		
Gross value	13,898	9,829
Accumulated depreciation and impairment loss	(3,983)	(2,349)
Net book value	**9,915**	**7,480**

The Group's investment property includes office/amenity buildings partly held for rent, as well as industrial buildings and structures, and land. As at the end of the reporting period, the net book value of the office/amenity buildings recognised as investment property amounted to PLN 4,164 thousand (PLN 4,963 thousand as at the end of 2009), whereas the net book value of industrial buildings and structures as at the end of the reporting period amounted to PLN 5,451 thousand (PLN 2,294 thousand as at the end of 2009). The value of land and perpetual usufruct rights to land was PLN 300 thousand as at the end of the reporting period (PLN 223 thousand as at the end of 2009).

In the reporting period, the Group derived PLN 4,546 thousand in revenue from rental of investment property (PLN 4,141 thousand in 2009).

Operating expenses incurred in connection with the rental of investment property amounted to PLN 2,910 thousand in the reporting period (PLN 2,529 thousand in 2009).

As investment property is not a significant item in the statement of financial position, the Group does not perform a valuation of the property to determine its fair value.

13. Intangible assets

Dec 31 2010	Development expense	Goodwill	Perpetual usufruct right to land – acquired against a consideration*	Other intangible assets	Total
As at Jan 1 2010, net of amortisation and impairment losses	2,197	–	48,383	122,879	173,459
Increase	–	–	–	7,956	7,956
Changes in the Group	–	–	–	109	109
Decrease	–	–	(591)	(10,552)	(11,143)
Transfers from tangible assets under construction and between groups	573	–	29,005	91,662	121,240
Impairment loss	–	–	(2,544)	(116)	(2,660)
Depreciation for financial year	(556)	–	(779)	(40,916)	(42,251)
As at Dec 31 2010, net of depreciation and impairment losses	**2,214**	**–**	**73,474**	**171,022**	**246,710**
As at Jan 1 2010					
Gross value	3,793	–	68,496	272,442	344,731
Accumulated depreciation and impairment loss	(1,596)	–	(20,113)	(149,563)	(171,272)
Net book value as at Jan 1 2010	**2,197**	**–**	**48,383**	**122,879**	**173,459**
As at Dec 31 2010					
Gross value	4,366	–	103,579	343,203	451,148
Accumulated depreciation and impairment loss	(2,152)	–	(30,105)	(172,181)	(204,438)
Net book value as at Dec 31 2010	**2,214**	**–**	**73,474**	**171,022**	**246,710**

* Furthermore, the Group holds perpetual usufruct right to land, obtained free of charge, which is disclosed as an off-balance-sheet item. As at December 31st 2010, the estimated value of this right amounted to PLN 485,422 thousand (PLN 481,425 thousand as at the end of 2009).

Dec 31 2009	Development expense	Goodwill	Perpetual usufruct right to land – acquired against a consideration	Other intangible assets	Total
As at Jan 1 2009, net of amortisation and impairment losses	1,459	–	51,134	99,128	151,721
Increase	–	–	4,878	6,213	11,091
Decrease	–	–	(9,388)	(9,444)	(18,832)
Transfers from tangible assets under construction and between groups	1,110	–	2,573	47,944	51,627
Impairment loss	–	–	(179)	7,572	7,393
Depreciation for financial year	(372)	–	(635)	(28,534)	(29,541)
As at Dec 31 2009, net of depreciation and impairment losses	**2,197**	**–**	**48,383**	**122,879**	**173,459**
As at Jan 1 2009					
Gross value	2,693	–	66,200	214,396	283,289
Accumulated depreciation and impairment loss	(1,234)	–	(15,066)	(115,268)	(131,568)
Net book value as at Jan 1 2009	**1,459**	**–**	**51,134**	**99,128**	**151,721**
As at Dec 31 2009					
Gross value	3,793	–	68,496	272,442	344,731
Accumulated depreciation and impairment loss	(1,596)	–	(20,113)	(149,563)	(171,272)
Net book value as at Dec 31 2009	**2,197**	**–**	**48,383**	**122,879**	**173,459**

13.1. Impairment Losses on Intangible Assets

	Development expense	Goodwill	Perpetual usufruct right to land – acquired against a consideration	Other intangible assets	Total
As at Jan 1 2010	**–**	**–**	**278**	**16**	**294**
Increase	–	–	2,544	–	2,544
Decrease	–	–	–	116	116
As at Dec 31 2010	**–**	**–**	**2,822**	**132**	**2,954**
As at Jan 1 2009	**–**	**–**	**99**	**7,588**	**7,687**
Increase	–	–	188	15	203
Decrease	–	–	(9)	(7,587)	(7,596)
As at Dec 31 2009	**–**	**–**	**278**	**16**	**294**

14. Non-current financial assets available for sale

(PLN '000)	Dec 31 2010	Dec 31 2009
Unlisted shares (gross)	36,058	26,873
Listed shares available for sale (gross)	78,101	78,101
Other financial assets available for sale (gross)	56,379	56,524
Total, gross	**170,538**	**161,498**
Unlisted shares (net)*	32,670	23,084
Listed shares available for sale (net)**	130,765	59,608
Other financial assets available for sale (net)*	7,007	7,097
Total, net	**170,442**	**89,789**

* Net of impairment loss.

** Shares in Zakłady Azotowe of Tarnów and Centrozap Katowice, net impairment losses.

"Other financial assets available for sale" include financial assets available for sale which could not be classified as current financial assets or non-current assets available for sale due to the fact that the time of their possible disposal was not known.

Under "Listed shares available for sale", gross amount of PLN 78,000 thousand (PLN 130,720 thousand net) relates to shares in Zakłady Azotowe w Tarnowie-Mościcach SA of Tarnów (ZAT). The result of valuation of the ZAT shares (up by PLN 71,160 thousand on the end of 2009) was disclosed under revaluation reserve. The Parent Undertaking treats the holding as a long-term investment for which there is an active market, therefore any changes in its measurement following from changes in its current market value are recognised directly in the Parent Undertaking's equity, until a decision to dispose of the holding is made.

15. Other financial assets

(PLN '000)	Dec 31 2010	Dec 31 2009
Finance lease receivables (Note 15.1.)	30,538	283,285
Loans advanced	–	8,075
Amounts receivable under sale of tangible assets	6,673	7,392
Non-current deposits	754	554
Amounts receivable under licences and mining usufruct rights	–	–
Other	2,142	591
Total, gross	**40,107**	**299,897**
Impairment loss	(239)	(18)
Total, net	**39,868**	**299,879**

15.1. Finance Lease

With a view to implementing the PGNiG Restructuring and Privatisation Programme adopted by the Polish Council of Ministers on October 5th 2004, a lease agreement was executed on July 6th 2005 between PGNiG SA and OGP Gaz-System Sp. z o.o. (currently OGP Gaz-System SA). The transmission business was unbundled from the production and trading business by way of leasing of the transmission assets to Gaz-System SA. The leased assets include real estate, movables, and economic rights. The agreement was concluded for 17 years.

As at the commencement of the lease term, the present value of minimum lease payments exceeded 90% of the fair value of the leased assets. As a result, the lease is recognised as finance lease, in accordance with IAS 17. The lease payment comprises interest and principal. The interest portion is determined on the basis of 3M WIBOR effective in the month preceding the month for which the lease payment is charged, plus margin.

Proceeds under transmission system lease agreement:

(PLN '000)	Dec 31 2010	Dec 31 2009
Interest payment	14,414	42,235
Principal payment	15,865	40,111
Total	**30,279**	**82,346**

The table below presents finance lease receivables by payment periods:

	Dec 31 2010	Dec 31 2009
– less than 1 year	2,335	23,093
– 1 to 5 years	9,549	82,741
– over 5 years	20,989	200,544
Total	**32,873**	**306,378**
– current receivables	2,335	23,093
– non-current receivables	30,538	283,285

16. Deferred tax assets

(PLN '000)	Dec 31 2010	Dec 31 2009
Provisions for gas allowances	47	3,878
Provisions for length-of-service awards and severance pays	62,301	61,166
Provision for unused holidays	3,784	3,539
Provision for well decommissioning costs	120,767	101,472
Other provisions	57,777	40,584
Impairment losses on tangible assets	84,441	65,816
Impairment losses on shares	9,819	9,822
Impairment losses on interest on receivables	4,307	2,165
Negative valuation of forward contracts	23,903	50,989
Foreign exchange losses	751	630
Accrued interest on loans and liabilities	1,412	161
Connection charge	73,697	68,747
Unpaid salaries and wages, including contributions to the Social Insurance Institution (ZUS)	5,044	5,479
Revaluation of prepayments/deferred income due to hyperinflation	8,733	9,761
Investment incentives (Norway)	197,805	148,901
Other	22,229	18,977
Total	**676,817**	**592,087**

17. Other non-current assets

(PLN '000)	Dec 31 2010	Dec 31 2009
Granting access to geological information	27,877	25,616
Charges for establishment of mining usage rights	6,114	5,503
Connection charge	23,466	17,000
Other prepayments and accrued income	13,618	1,254
Total	**71,075**	**49,373**

18. Inventories

(PLN '000)	Dec 31 2010	Dec 31 2009
Materials		
at cost, including:	1,040,511	1,255,118
– gas fuel	753,078	968,901
at net realisable value, including:	1,026,506	1,238,084
– gas fuel	753,078	968,901
Semi-finished products and work in progress		
at cost	13,556	11,097
at net realisable value	13,510	11,018
Finished products		
at cost	8,394	8,484
at net realisable value	8,207	8,421
Goods for sale		
at cost	1,350	1,530
at net realisable value	1,344	1,347
Total inventories at acquisition (or production) cost	**1,063,811**	**1,276,229**
Total inventories, at the lower of cost or net realisable value	**1,049,567**	**1,258,870**

18.1. Change in Inventories in Period

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Inventories at cost, at beginning of period	**1,276,229**	**1,736,267**
Purchase	13,311,128	12,495,563
Other increases	137,110	160,045
Inventories charged to expenses of period	(12,970,770)	(12,389,432)
Sale	(17,226)	(25,184)
Other decreases	(672,660)	(701,030)
Inventories at cost, at end of period	**1,063,811**	**1,276,229**

19. Trade and other receivables

(PLN '000)	Dec 31 2010	Dec 31 2009
Trade receivables	4,519,383	4,078,728
Trade receivables from related undertakings	43,013	51,134
VAT receivable	326,943	227,757
Other taxes, customs and social security receivable	10,439	12,498
Due and payable portion of loans advanced to related undertakings	22,372	20,547
Receivables from equity-accounted associated undertakings	2,671	2,626
Finance lease receivables	2,335	23,093
Other receivables from related undertakings	234	7,545
Prepayments for tangible assets under construction	35,729	74,833
Additional contribution to equity of subsidiary undertaking payable under a relevant resolution*	84,552	84,552
Receivables under breach of contract	–	87,466
Other receivables	96,930	111,978
Total gross receivables	**5,144,601**	**4,782,757**
Including gross receivables (including due and payable portion of loans) from related undertakings (Note 37.1)	152,842	166,404
Impairment loss on doubtful receivables (Note 19.1)	**(1,083,414)**	**(1,102,718)**
Total net receivables	**4,061,187**	**3,680,039**
including:		
Trade receivables	3,657,085	3,278,713
Trade receivables from related undertakings	1,538	9,567
VAT receivable	326,943	227,757
Other taxes, customs and social security receivable	7,449	12,497
Due and payable portion of loans advanced to related undertakings	–	1,476
Receivables from equity-accounted associated undertakings	2,671	2,625
Finance lease receivables	2,335	23,093
Other receivables from related undertakings	11	31
Prepayments for tangible assets under construction	35,729	74,833
Additional contribution to equity of subsidiary undertaking payable under a relevant resolution*	–	–
Receivables under breach of contract	–	–
Other receivables	27,426	49,447
Including net receivables (including due and payable portion of loans) from related undertakings (Note 37.1)	4,220	13,699

* Dispute concerning additional contributions to equity of Gazotech Sp. z o.o., described in more detail in Note 2.4.1.

Trade receivables comprise chiefly receivables under sale of gas fuel and distribution services.

Standard payment deadlines applied by the Group companies with respect to receivables in the usual course of sale are 14 – 30 days.

19.1. Impairment Losses on Receivables

(PLN '000)	Dec 31 2010	Dec 31 2009
Impairment losses at beginning of period	(1,102,718)	(1,033,601)
Recognition of impairment loss	(131,068)	(346,934)
Reversal of impairment loss	127,624	201,978
Use of impairment loss	21,757	75,878
Transfers between current and non-current portions	991	(39)
Impairment losses at end of period	**(1,083,414)**	**(1,102,718)**

20. Accruals and deferred income

(PLN '000)	Dec 31 2010	Dec 31 2009
1. Current income tax payable at beginning of period	47,409	47,552
2. Change in current income tax receivable (a.-b.-c.-d.)*	43,513	139,799
a. Current income tax receivable at beginning of period	199,413	59,614
b. Current income tax receivable transferred to deferred income tax	(13,547)	–
c. Changes in the Group	287	–
d. Current income tax receivable at end of period	229,666	199,413
3. Deferred tax recognised under current income tax receivable	(207,059)	–
4. Corporate income tax (expense in the period)	558,184	416,091
5. Income tax paid in the period	(216,075)	(556,033)
Current income tax payable at end of period (1.-5. total)	**225,972**	**47,409**

* The Group does not comprise a group for tax purposes, therefore current corporate income tax receivable and payable are not offset.

21. Prepayments and accurred income

(PLN '000)	Dec 31 2010	Dec 31 2009
Valuation of long-term contracts	26,701	13,331
Software licenses, maintenance and upgrades	11,054	7,231
Property insurance	9,095	7,577
Commissions on loans, borrowings, notes, etc.	7,590	–
Granting access to geological information	3,763	3,052
Rents and charges	1,191	1,228
Finance expenses settled over time	7,941	845
Oil and gas field development costs	4	1,242
Costs of contract performance preparation	407	1,250
Other expenses settled over time	11,055	19,497
Total	**78,801**	**55,253**

22. Current financial assets available for sale

(PLN '000)	Dec 31 2010	Dec 31 2009
Unlisted shares (gross)	–	–
Listed shares (gross)	–	–
Short-term deposit (gross)	–	142
Investment fund units (gross)	1,839	8,000
Treasury bills (gross)	6,994	–
Total, gross	**8,833**	**8,142**
Unlisted shares (net)*	–	–
Listed shares (net)*	–	–
Short-term deposit (net)	–	142
Investment fund units (net)	1,839	7,325
Treasury bills (net)	6,994	–
Total (net)	**8,833**	**7,467**

* Net of impairment losses.

23. Cash and cash equivalents

(PLN '000)	Dec 31 2010	Dec 31 2009
Cash in hand and at banks	242,954	328,074
Bank deposits	1,126,187	862,527
Highly liquid short-term securities *	–	–
Other cash**	4,151	5,724
Total	**1,373,292**	**1,196,325**

* Bills (treasury, NBP bills, etc.), deposit certificates maturing in less than three months.

** Cash in transit, cheques and third-party notes maturing in less than three months.

The Group companies deposit cash with recognised Polish and international banks, a strategy which reduces the concentration of related risk.

24. Non-current assets held for sale

The net book value of the Group's assets classified as non-current assets held for sale amounted to PLN 4,145 thousand (PLN 1,488 thousand as at the end of 2009). These chiefly include buildings and land usufruct rights planned to be sold in 2011.

25. Sher capital

	Dec 31 2010	Dec 31 2009
Total number of shares ('000)	5,900,000	5,900,000
Par value per share (PLN)	1	1
Total share capital	**5,900,000**	**5,900,000**

26. Bank loans, borrowings and debt securities

('000)	Currency	Dec 31 2010	Dec 31 2009	Effective interest rate (%)	Maturity date	Dec 31 2010	Dec 31 2009	Security
		Amount in original currency				Amount in PLN		
Non-current								
Lease liabilities	PLN	18,128	23,351	1M Wibor; 8 – 10%	2011-2015	18,128	23,351	Blank promissory note with a promissory note declaration, transfer of claims under insurance policy
Lease liabilities	CHF	3,424	5,108	8% on average	2013	10,835	14,130	Blank promissory note with a promissory note declaration
Lease liabilities	USD	10,173	1,615	1M Libor +margin; 8% on average	2015	30,154	4,605	Blank promissory note with a promissory note declaration, direct debit authorisation
Credit facility from Pekao SA	PLN	1,400	2,000	1M Wibor +margin	Apr 30 2014	1,400	2,000	Ordinary contractual mortgage, Deposit contractual mortgage, assignments of rights
Credit facility from Credit Agricole CIB-led bank syndicate	USD	313,500 (NOK 1,793,229)[2]	–	3M Libor +margin	Aug 31 2017	909,347	–	Pledge over shares in PGNiG Norway[3]
Total non-current						**969,864**	**44,086**	

	Currency	Dec 31 2010	Dec 31 2009	Effective interest rate (%)	Maturity date	Dec 31 2010	Dec 31 2009	Security
		Amount in original currency				Amount in PLN		
Current								
Current portion of lease liabilities	PLN	10,629	15,096	1M Wibor; 8 – 10%	2011	10,629	15,096	Blank promissory note with a promissory note declaration, transfer of claims under insurance policy
Current portion of lease liabilities	CHF	1,684	3,837	8% on average	2011	5,327	10,612	Blank promissory note with a promissory note declaration
Current portion of lease liabilities	USD	3,633	981	1M Libor +margin; 8% on average	2011	10,769	2,797	Blank promissory note with a promissory note declaration, direct debit authorisation
Lease liabilities	EUR	–	168	7% on average	Aug 28 2010	–	689	Blank promissory note with a promissory note declaration
Credit facility from Pekao SA	PLN	11,402	6,871	1M Wibor +margin	Dec 31 2011	11,402	6,871	Security (deposit) mortgage
Credit facility from Societe Generale SA	PLN	1,131	–	1M Wibor +margin	Feb 28 2011	1,131	–	Assignment of claims, blank promissory note
Working capital facility from Pekao SA	PLN	–	5,001	1M Wibor +margin	Dec 31 2010	–	5,001	Promissory note, registered pledge
Overdraft facility from Pekao SA	PLN	8,069	6,477	1M Wibor +margin	Aug 23 2011	8,069	6,477	Promissory note, registered pledge
Investment loan from Pekao SA	PLN	1,832	–	1M Wibor +margin	Sep 30 2013	1,832	–	Promissory note, registered pledge
Overdraft facility from ING Bank Śląski SA	PLN	–	5,057	1M Wibor +margin	Aug 26 2010	–	5,057	Promissory note, registered pledge
Overdraft facility from Societe Generale SA	USD	633	–	1M Libor +margin	Feb 28 2011	1,878	–	Mortgage, blank promissory note, assignment of claims
Overdraft facility from Pekao SA	PLN	19,708	1,384	1M Wibor +margin	Dec 31 2011	19,708	1,384	Mortgage, assignment of rights under insurance policy, blank promissory note with promissory note declaration, power of attorney over current account, assignment of claims

26. Bank loans, borrowings and debt securities (continued)

	Currency	Dec 31 2010	Dec 31 2009	Effective interest rate (%)	Maturity date	Dec 31 2010	Dec 31 2009	Security
		Amount in original currency				Amount in PLN		
Current								
Overdraft facility from BRE SA	USD	3,013	–	1M Libor +margin	May 31 2011	8,932	–	Blank promissory note with a promissory note declaration, direct debit authorisation
Short-term loan from the Employee Savings-and-Loan Association	PLN	500	–	4.80%	Feb 15 2011	500	–	–
Overdraft facility from BGK SA	PLN	13,187	10,597	3M Wibor +margin	May 31 2011	13,187	10,597	Registered pledge, assignment of receivables, Security (deposit) mortgage, representation on submission to enforcement
Working capital facility from BGK SA	PLN	5,455	9,091	1M Wibor +margin	Jul 28 2012	5,455	9,091	Registered pledge, mortgage, power of attorney over bank account, representation on submission to enforcement
Overdraft facility from Deutsche Bank Polska SA	PLN	–	157	O/N Wibor +margin	Oct 20 2010	–	157	Assignment of claims
Overdraft facility from Pekao SA	PLN	6,000	–	1M Wibor +margin	Sep 30 2011	6,000	–	Transfer of claims
Working capital facility from Kredyt Bank SA	PLN	182	136	VISA card limits	Dec 31 2011	182	136	–
Credit facility from ING Bank Śląski SA	PLN	5,880	5,244	1M Wibor +margin	Jan 31 2011	5,880	5,244	Blank promissory note, assignment of claims
Overdraft facility from Deutsche Bank Polska SA	PLN	4,891	2,748	1M Wibor +margin	Jan 4 2011	4,891	2,748	Blank promissory note, mortgage
Credit facility from Credit Agricole CIB syndicate[2]	USD	NOK 4,140[2]	–	3M Libor +margin	Aug 31 2017	2,099	–	Pledge over shares in PGNiG Norway[3]
Short-term loan from PKO BP SA	PLN	3,100	–	3M Wibor +margin	Mar 31 2011	3,100	–	Blank promissory note
Overdraft facility from Pekao SA	PLN	4,864	–	1M Wibor +margin	Dec 31 2011	4,864	–	Blank promissory note, assignment of claims, power of attorney over bank account, representation on submission to enforcement
Short-term loan from Pekao SA	EUR	1,020	–	1M Euribor +margin	Jul 29 2011	4,038	–	Blank promissory note with a promissory note declaration, power of attorney over bank account
Short-term loan from ING Bank Śląski SA	PLN	–	264	1M Wibor +margin	Jun 30 2010	–	264	Assignment of claims
Short-term loan from Getin Bank SA	PLN	–	54	1M Wibor +margin	Aug 16 2010	–	54	Transfer of title
Short-term loan from PKO BP SA	PLN	818	724	1M Wibor +margin	Mar 31 2011	818	724	Security (deposit) mortgage
Short-term loan from Nordea Bank Polska SA	PLN	1,438	–	1M Wibor +margin	Jan 28 2011	1,438	–	Security (deposit) mortgage
Credit facility from Pekao SA	PLN	600	600	1M Wibor +margin	Apr 30 2014	600	600	Ordinary mortgage, deposit mortgage, assignments of rights
Syndicated credit facility (Bank Handlowy SA)[1]	PLN	–	1,900,478	1M Wibor +margin	Jul 27 2010	–	1,900,478	Guarantees from Gas Companies
Series D110126A notes	PLN	597,884	–	1M Wibor +margin	Jan 26 2011	597,884	–	–
Series D110121A notes	PLN	498,624	–	1M Wibor +margin	Jan 21 2011	498,624	–	–
Total current						**1,229,237**	**1,984,077**	

[1] Syndicated credit facility (Bank Handlowy SA).

[2] Bank syndicate: Credit Agricole CIB (France) (Agent), BNP Paribas (France), Société Générale (France), Natixis (France), The Bank of Tokyo Mitsubishi UFJ (United Kingdom), UniCredit Bank AG (Germany) and KBC Bank NV (Ireland). The loan is denominated in USD. The amount in PLN was arrived at by translating the carrying amount (including the valuation and commission paid) of the loan of NOK 1,797,369 thousand (of which NOK 4,140 was recognised as current portion) at the PLN/NOK exchange rate as at December 31st 2010.

[3] Pledge over PGNiG Norway shares; pledge over loan advanced by PGNiG SA to PGNiG Norway; pledge over bank accounts, licenses and insurance policies of PGNiG Norway; Sponsor Support Undertaking.

The Group also had access to other credit facilities, listed in the note below.

26.1. Received Credit Facilities and Amounts Undrawn under the Credit Facilities

(PLN '000)	Dec 31 2010		Dec 31 2009	
Bank	Received credit facilities	Undrawn amount	Received credit facilities	Undrawn amount
Pekao SA	25,000	13,598	21,000	14,129
Societe Generale SA	3,000	1,869	3,000	3,000
Komercni Banka AS	790	790	1,554	1,554
BRE BANK SA	–	–	6,000	6,000
Pekao SA	6,000	6,000	–	–
Societe Generale SA	6,000	6,000	6,000	6,000
Deutsche Bank Polska SA	6,000	6,000	6,000	6,000
Pekao SA	29,000	19,098	12,000	523
ING Bank Śląski SA	–	–	12,000	6,943
Pekao SA	20,000	292	20,000	18,616
Societe Generale SA	13,338	11,461	4,275	4,275
BRE BANK SA	10,374	1,443	–	–
HSBC Polska	8,892	3,058	8,551	4,275
Deutsche Bank	–	–	3,000	2,700
Kredyt Bank S.A	3,500	3,500	1,500	1,500
Credit Agricole CIB-led bank syndicate2	1,187,912	255,105		
ING Bank Śląski SA	6,000	11,880	6,000	756
Deutsche Bank Polska SA	5,000	9,890	5,000	2,252
Pekao SA	7,000	11,864	5,000	5,000
BZ WBK SA	3,900	3,900	3,900	3,900
Nordea SA	1,500	62	–	–
PKO BP SA	818	–	900	176
Societe Generale SA	40,000	40,000	40,000	40,000
Bank Handlowy SA	40,000	40,000	40,000	40,000
Millennium SA	40,000	40,000	40,000	40,000
Pekao SA	40,000	40,000	40,000	40,000
PKO BP SA	40,000	40,000	40,000	40,000
BRE BANK SA	40,000	40,000	40,000	40,000
ING Bank Śląski SA	40,000	40,000	–	–
Syndicated credit facility (Bank Handlowy SA)1	–	–	2,464,920	564,920
Total	**1,624,024**	**645,810**	**2,830,600**	**892,519**

[1] Syndicated credit facility (Bank Handlowy SA).

[2] Bank syndicate: Credit Agricole CIB (France) (Agent), BNP Paribas (France), Société Générale (France), Natixis (France), The Bank of Tokyo Mitsubishi UFJ (United Kingdom), UniCredit Bank AG (Germany) and KBC Bank NV (Ireland). The amount in PLN was arrived at by translating the carrying amount (including the valuation and commission paid) of the loan of NOK 1,797,369 thousand at the PLN/NOK exchange rate as at December 31st 2010.

26.2. Maturity of Finance Lease Liabilities (Recognised under Liabilities)

(PLN '000)	Dec 31 2010		
Maturity:	(Discounted) payments disclosed in the statement of financial position	Interest	Lease payments due
up to 1 year	26,725	2,204	28,929
from 1 to 5 years	59,117	3,478	62,595
over 5 years	–	–	–
Total	**85,842**	**5,682**	**91,524**

(PLN '000)	Dec 31 2009		
Maturity:	(Discounted) payments disclosed in the statement of financial position	Interest	Lease payments due
up to 1 year	29,194	2,092	31,286
from 1 to 5 years	42,086	4,107	46,193
over 5 years	–	–	–
Total	**71,280**	**6,199**	**77,479**

27. Provisions

(PLN '000)	Provision for length-of-service awards and retirement severance pays	Provision for gas allowances	Provision for well decommissioning costs	Provision for penalty imposed by the Office for Competition and Consumer Protection	Provision for environmental protection liabilities	Provision for claims under extra-contractual use of land	Provision for potential liability under transmission services	Central Restructuring Fund	Other	Total
As at Jan 1 2010	321,043	20,410	916,231	179	126,100	–	34,391	10,450	127,195	1,555,999
Provisions created during the year	29,642	–	200,279	–	26,396	79,858	–	13,000	118,155	467,330
Changes in the Group	2,816	–	–	–	–	–	–	–	975	3,791
Transfers	–	–	–	–	749	1,795	–	–	(2,544)	–
Provisions used	(26,086)	(20,410)	931	–	(18,961)	(1,689)	(34,391)	(2,158)	(133,545)	(236,309)
As at Dec 31 2010	**327,415**	**–**	**1,117,441**	**179**	**134,284**	**79,964**	**–**	**21,292**	**110,236**	**1,790,811**
Non-current	278,615	–	1,085,369	–	109,943	7,969	–	–	19,268	1,501,164
Current	48,800	–	32,072	179	24,341	71,995	–	21,292	90,968	289,647
As at Dec 31 2010	**327,415**	**–**	**1,117,441**	**179**	**134,284**	**79,964**	**–**	**21,292**	**110,236**	**1,790,811**
Non-current	275,556	–	904,867	–	115,525	–	–	–	19,811	1,315,759
Current	45,487	20,410	11,364	179	10,575	–	34,391	10,450	107,384	240,240
As at Dec 31 2009	**321,043**	**20,410**	**916,231**	**179**	**126,100**	**–**	**34,391**	**10,450**	**127,195**	**1,555,999**

The technical rate adopted to calculate the discounted value of the future retirement severance pay obligations was 3.0%, as the resultant of the 6.07% annual return on assets and the 3.0% forecast annual salary growth (at the end of 2009 the adopted technical rate was 2.1%, as the resultant of 6.24% and 4.1%, respectively).

In 2010, a discount rate of 3.48% was applied to calculate the provision for well decommissioning costs incurred in Poland, as the resultant of the 6.07% return on assets and the inflation rate assumed at the National Bank of Poland's continuous inflation target of 2.5% (as at the end of 2009 the adopted discount rate was 3.65%, as the resultant of 6.24% and 2.5%, respectively).

In 2010, the first subsidiary which recognised the provision for well decommissioning costs in its financial statements was PGNiG Norway AS operating in Norway. PGNiG Norway AS calculated the provision using a discount rate of 3.74%.

Based on the information received from SGT EUROPOL GAZ SA concerning the estimated final amount of the charge for gas transmission services provided in the period January 1st 2006 – December 31st 2009, the Parent Undertaking determined that there no longer exists the risk of claims for any additional gas transmission charges for that period. As a result, as at the end of 2010 the provision for potential liability under transmission services was released in full.

In the ordinary course of business, the Group companies install technical equipment used for transmission and distribution of gas on land properties owned by third parties, which are often natural persons.

Where possible, at the time of installing the elements of the infrastructure the Group companies entered into agreements establishing standard land easements, and after the amendment of the Polish Civil Code effected in 2008 – transmission easements.

Transmission easement is a new construct of civil law governed by Art. 3051–3054 of the Polish Civil Code of April 23rd 1964 (Dz.U. No. 16, item 93, as amended), which came into force in 2008.

In the last several years, the Group recorded a significant increase in the number of claims submitted by land property owners for compensation for use of transmission easements by the Group companies. Apart from the compensation paid to land property owners under the agreements on establishment of transmission easements, the Group pays compensation under extra-contractual use of land properties.

Given the above, in 2010, pursuant to the materiality rule (and in accordance with the accounting policies presented in Note 2.3.20.7), the Group created a provision for claims under extra-contractual use of land in the amount of PLN 79,858 thousand (as at the end of 2010, the provision amounted to PLN 79,964 thousand).

Long-term provisions are discounted at the rate of 3.48%.

27.1. Actuarial Income Statement for the Provision for Length-of-Service Awards and Retirement Severance Pays

(PLN '000)	Dec 31 2010	Dec 31 2009
Length-of-service awards		
Value of obligation shown in the statement of financial position at beginning of period	210,914	216,894
Interest cost	6,325	8,893
Current service cost	8,234	8,846
Past service cost	–	–
Benefits paid	(50,285)	(49,748)
Actuarial gain/loss	30,752	26,029
Gains/losses due to curtailments or settlements	–	–
Changes in the Group	2,721	–
Value of obligation shown in the statement of financial position at end of period	**208,661**	**210,914**
Retirement Severance Pays		
Value of obligation shown in the statement of financial position at beginning of period	110,129	100,195
Current service cost	6,829	6,560
Interest cost	5,320	6,819
Net actuarial gain/loss recognised during the year	3,168	3,105
Benefits paid	(7,851)	(7,581)
Past service cost	1,064	1,031
Gains/losses due to curtailments or settlements	–	–
Changes in the Group	95	–
Value of obligation shown in the statement of financial position at end of period	**118,754**	**110,129**
Total value of obligation shown in the statement of financial position at end of period	**327,415**	**321,043**

28. Deferred income

(PLN '000)	Dec 31 2010	Dec 31 2009
Non-current		
Value of gas service lines financed by customers, not covered by depreciation charges	539,765	587,006
Connection charge	470,225	498,659
Subsidies	63,827	–
Other	15,375	7,674
Total non-current	**1,089,192**	**1,093,339**
Current		
Value of gas service lines financed by customers, not covered by depreciation charges	51,927	59,197
Connection charge	18,273	18,124
Forecast gas sales	588,570	545,817
Other	23,888	10,065
Total current	**682,658**	**633,203**

Grants

In 2010, the Parent Undertaking and Instytut Nafty i Gazu (Oil and Gas Institute) as the Implementing Entity executed four agreements for partial financing of the following projects: Wierzchowice Underground Storage Facility, Strachocina Underground Storage Facility, Kosakowo Underground Gas Storage Cavern Facility, and Mogilno Underground Gas Storage Cavern Facility.

These four projects are to increase the storage capacities from the current 1.8bn cubic metres to over 3bn cubic metres in 2015.

As at December 31st 2010, the Parent Undertaking recognised PLN 63,815 thousand under financing for the Wierzchowice Underground Storage Facility. The amount was charged to deferred income and will be recognised in operating income proportionately to the accumulated depreciation of the financed tangible assets.

29. Deferred tax liability

(PLN '000)	Dec 31 2010	Dec 31 2009
Foreign exchange gains	751	361
Accrued interest	344	282
Valuation of hedging and financial instruments	14,386	–
Income related to tax obligation arising in subsequent month	20,220	11,702
Difference between tax and accounting value of non-current assets	1,345,900	1,250,048
Other	10,409	6,039
Total	**1,392,010**	**1,268,432**

30. Other non-current liabilities

(PLN '000)	Dec 31 2010	Dec 31 2009
Liabilities under licences, rights to geological information and mining usage rights	14,828	16,537
Other non-current liabilities	6,282	2,109
Total	**21,110**	**18,646**
Including related undertakings (Note 37.1.)	1,262	64

31. Trade and other payables

(PLN '000)	Dec 31 2010	Dec 31 2009
Trade payables	1,093,830	899,524
Trade payables to related undertakings	12,033	11,405
VAT payable	1,038,996	860,122
Other taxes, duties and social security contributions payable	157,914	132,972
Dividend payable to owner	–	–
Wages and salaries payable	59,440	44,623
Amounts payable for unused holidays	33,397	28,691
Amounts payable under purchase of non-financial non-current assets	602,930	316,609
Amounts payable under purchase of non-financial non-current assets from related undertakings	6,454	31,221
Additional contribution to equity payable under a relevant resolution*	84,552	84,552
Amounts payable to equity-accounted associated undertakings	7,917	8,943
Other amounts payable to related undertakings	718	16,298
Accruals and deferred income and prepaid deliveries	139,980	243,290
Other	53,311	55,167
Total	**3,291,472**	**2,733,417**
Including related undertakings (Note 37.1.)	111,674	152,419

* Dispute concerning additional contributions to equity of Gazotech Sp. z o.o., described in more detail in Note 2.4.1.

32. Causes of differences between the items of the statement of financial position and the changes caused by changes in certain items of the statement of cash flows. Breakdown of the operating activity. "Other adjustments"

Change in cash (PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
1) Cash in statement of financial position at beginning of period	1,196,325	1,421,939
a) Net foreign exchange gains (losses) on cash at beginning of period*	9	1,076
Cash and cash equivalents in statement of cash flows at beginning of period (1-a)	**1,196,316**	**1,420,863**
2) Cash in statement of financial position at end of period	1,373,292	1,196,325
b) Net foreign exchange gains (losses) on cash at end of period	374	9
Cash and cash equivalents in statement of cash flows at end of period (2-b)	**1,372,918**	**1,196,316**
I. Change in cash in statement of financial position (2-1)	**176,967**	**(225,614)**
II. Change in net foreign exchange gains (losses) on cash (b-a)	365	(1,067)
Change in cash in statement of cash flows (I. – II.)	**176,602**	**(224,547)**

* A negative value means net foreign exchange losses on cash which reduce the cash balance in the statement of financial position. In the statement of cash flows, these foreign exchange differences are eliminated.

Change in receivables (PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in other financial assets in statement of financial position	**260,011**	**376,755**
Change in net receivables in statement of financial position	**(381,148)**	**36,884**
Change in lease receivables in financial assets – adjustment to investment activity	(252,747)	(391,199)
Change in lease receivables – adjustment to investment activity	(20,758)	(29,292)
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	(33,213)	67,601
Changes in the Group	15,929	–
Other	419	1,061
Change in net receivables in statement of cash flows	**(411,507)**	**61,810**

Change in inventories (PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in inventory in statement of financial position	**209,303**	**462,389**
Tangible assets under construction transferred to inventory – adjustment to investment activity	–	–
Changes in the Group	7,713	–
Change in inventory in statement of cash flows	**217,016**	**462,389**

Change in provisions (PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in provisions in statement of financial position	**234,812**	**(119,322)**
Change in provision for well decommissioning costs which adjusts property, plant and equipment – adjustment to investment activity	(181,958)	111,211
Changes in the Group	(3,268)	–
Change in provisions in statement of cash flows	**49,586**	**(8,111)**

Change in current liabilities (PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in current liabilities in statement of financial position	**558,055**	**(489,123)**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	(261,554)	(81,750)
Changes in the Group	(48,667)	–
Other	(678)	–
Change in current liabilities in statement of cash flows	**247,156**	**(570,873)**

Change in prepayments (PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in other assets in statement of financial position	**(21,703)**	**(14,030)**
Change in prepayments in statement of financial position	**(23,547)**	**15,009**
Prepayments related to tangible assets leased to third parties – reclassification within operating activity	54	–
Expense (fees and commission) related to the note issuance programme	18,428	–
Changes in the Group	3,380	–
Change in prepayments in statement of cash flows	**(23,388)**	**979**

Change in deferred income (PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in deferred income in statement of financial position	**45,308**	**(51,561)**
Deferred income related to tangible assets leased to third parties – reclassification within operating activity	32	8
Non-current assets received free of charge	–	(191)
Subsidies received for property, plant and equipment	(63,816)	–
Changes in the Group	(2,171)	–
Change in deferred income in statement of cash flows	**(20,647)**	**(51,744)**

Other net items in operating activity (PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Derivatives	(173,582)	407,322
Expenditure on non-financial non-current assets which was charged to expense	133,229	236,675
Other	(4,482)	40,641
Total	**(44,835)**	**684,638**

33. Financial instruments and financial risk management policy

33.1. Financial Instruments by Category (net carrying values)

(PLN '000)	Dec 31 2010	Dec 31 2009
Financial assets at fair value through profit or loss	–	–
Financial assets available for sale (unlisted shares)	39,677	30,181
Financial assets available for sale (listed shares)	130,765	59,608
Financial investments held to maturity	–	–
Loans and receivables	4,901,683	4,609,658
Positive value of derivatives*	77,873	18,002
Cash (cash in hand and cash at banks, cheques and cash in transit)	247,105	333,798
Financial liabilities at amortised cost	4,221,936	3,713,818
Negative value of derivatives*	104,443	260,428

* Since 2009, the Parent Undertaking has applied hedge accounting in accordance with IAS 39.

The disclosed values of financial instruments are equal or nearly equal to their respective fair values. Therefore, the values disclosed in the table above may be deemed identical to the respective fair values

33.2. Net Gains and Losses Relating to Financial Assets and Liabilities

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Financial assets at fair value through profit or loss	–	–
Financial assets available for sale	20	47
Impairment recognised in profit or loss for period	20	47
Financial investments held to maturity	–	–
Loans and receivables	200,653	2,560
Interest on deposits, BSB, REPO	48,357	38,026
Interest on receivables*	91,876	95,127
Interest on loans advanced	2,948	7,453
Net income from short-term securities	2,141	6,297
Impairment losses on receivables	70,378	(236,816)
Impairment losses on loans	(15,399)	92,818
Foreign currency measurement of loans advanced in foreign currencies	352	(345)
Positive value of derivatives	274,758	210,165
Financial liabilities at amortised cost	4,579	(55,024)
Negative value of derivatives	(465,995)	(478,723)
Total effect on profit or loss	**14,015**	**(320,975)**

*Including PLN 14,414 thousand of interest on receivables under finance lease (PLN 42,235 thousand in 2009).

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Financial assets available for sale (valuation charged directly to equity)	71,103	31,880
Valuation of hedging instruments (valuation recognised directly under equity)	42,036	–
Total effect on equity	**113,139**	**31,880**

The revaluation of financial assets available for sale recognised directly in equity relates to shares in Zakłady Azotowe w Tarnowie-Mościcach SA.

33.3. Objectives and Policies of Financial Risk Management

In its business activities, the Group is exposed to financial risk, including in particular the following types of risk:
- credit risk,
- market risk, including:
  - interest rate risk,
  - foreign exchange risk,
  - commodity price risk,
  - liquidity risk.

Credit risk

The Group understands credit risk as the likelihood of failure by the counterparty to meet its obligations on time or failure to meet such obligations at all. The credit risk resulting from a third party's inability to perform its obligations under a contract concerning financial instruments of the Group is generally limited to the amounts, if any, by which a third party's liabilities exceed the Group's liabilities.
As a rule, the Group concludes transactions in financial instruments with multiple entities with high credit worthiness. The key criteria for the selection of counterparties to whom the Group entrusts a portion of its assets include their financial standing as confirmed by rating agencies, as well as their market shares and reputation.

The PGNiG Group is exposed to credit risk under:
- loans advanced,
- trade receivables,
- investment transactions,
- financial guarantees issued, and
- transactions in financial derivatives.

The maximum exposures to credit risk for individual financial instrument categories are presented below.

Maximum Exposure to Credit Risk

(PLN '000)	Dec 31 2010	Dec 31 2009
Loans advanced	–	1,475
Deposits with other entities (bank deposits, BSB, REPO)	1,135,774	870,548
Trade receivables	3,765,909	3,737,635
Positive value of derivatives	77,873	18,002
Financial guarantees issued	2,867,934	8,089,326
Total	**7,847,490**	**12,716,986**

Exposure to credit risk under loans advanced is exclusively attributable to loans advanced by the Parent Undertaking to the subsidiary and associated undertakings. Loans to those undertakings are advanced in line with the internal procedure "PGNiG SA's Lending Policy with Respect to the Group Undertakings and Undertakings in which PGNiG SA Holds Equity Interests". The policy stipulates detailed rules governing the conclusion and monitoring of loan agreements, thus minimising the Group's exposure to credit risk under such agreements. Loans are advanced only if the borrower meets a number of conditions and provides appropriate security. The credit risk under such agreements is further materially mitigated by the fact that the borrowers' operations serve the Group's common interests.

The highest credit risk, in value terms, is related to receivables. Majority of receivables are receivables under sales of gas fuel by PGNiG SA.

In order to minimise the risk of uncollectible receivables under sale of gas fuel, uniform rules designed to secure trade receivables have been implemented, to be followed while concluding agreements for the sale of gas fuel.

Prior to the conclusion of a sale agreement with a significant value, the financial standing of a potential customer is reviewed and analysed based on generally available financial data on the counterparty (checking registers of debtors) in order to determine the counterparty's creditworthiness. If a counterparty is found to be entered in a register of debtors, PGNiG SA requires special security under the agreement.

The Parent Undertaking monitors on an ongoing basis customers' performance of their contractual obligations related to financial settlements. Under most of the agreements, the customer is obliged to make advance payments by the dates provided for in the agreement. At the end of the contractual settlement period, the customer is obliged to make payment for gas fuel actually received by the deadline provided for in the agreement. The standard payment deadline is 14 days from the invoice issue date, but other payment deadlines are also used.

PGNiG SA intends to implement the examination of creditworthiness of all its customers, based on their financial documents, at specified intervals (semi-annually or annually). The purpose of the examination is to show the financial standing of the customer, determine the maximum level of debt at which the customer would still be able to maintain its financial liquidity, and identify any circumstances enabling the customer to declare its bankruptcy.

PGNiG SA uses the following contract performance security instruments:

- Mortgage (ordinary mortgage (hipoteka zwykła) and security (deposit) mortgage (hipoteka kaucyjna));
- Bank guarantee;
- Security deposit;
- Ordinary or registered pledge;
- Insurance guarantee;
- Blank promissory note;
- Statement on voluntary submission to enforcement under Art. 777 of the Polish Code of Civil Procedure;
- Assignment of claims under long-term agreements;
- Cash deposit placed in an account indicated by PGNiG SA;
- Rating;
- Surety.

With respect to new agreements, the selection of a security instrument is agreed between PGNiG SA and the customer. As part of the mandatory harmonisation of concluded agreements with the requirements of the Polish Energy Law, the Company enters into negotiations with certain customers with a view to creating or strengthening contract performance security.

The balance of receivables from customers is monitored on an ongoing basis, in line with internal procedures applicable at the Parent Undertaking. If a customer's failure to make a payment when due has been identified, the Company takes appropriate measures to collect the debt.

The debt-collection measures are governed by "*The Guidelines for Monitoring and Collection of Receivables from Customers Buying Gas/Crude Oil/Other Products" and "Interest Receivable Management Procedure".* During debt collection, legal tools are used and debt-collection measures are taken to assess the level and causes of associated risk. In this respect, standard steps of debt-collection are taken: a payment demand, a telephone call to the customer, notice and discontinuance of gas fuel supply with simultaneous termination of the agreement under Art. 6.3a of the Polish Energy Law. If these measures fail, a suit is filed with the court and an application is filed to enter the customer in the National Register of Debts maintained by Biuro Informacji Gospodarczej SA of Wrocław.

Statutory interest is charged on delayed payments.

In the event of a temporary deterioration in a customer's financial standing, at the customer's request, an agreement is concluded providing for the repayment of debt in instalments and simultaneously negotiations are undertaken to receive additional contract performance security.

As a rule, no agreements on cancellation of principal and interest are currently concluded.

A customer's request for cancellation of interest (with a value exceeding the equivalent of EUR 5,000) is forwarded to the Supervisory Board for approval in line with corporate procedures.

As at December 31st 2010, receivables which are past due but not impaired, disclosed in the consolidated statement of financial position, stood at PLN 421,623 thousand (PLN 550,168 thousand as at the end of 2009).

Receivables past due but not impaired, as at the balance-sheet date – by length of delay

Period of delay	Dec 31 2010	Dec 31 2009
Up to 1 month	333,555	417,986
From 1 to 3 months	60,240	101,394
From 3 months to 1 year	17,430	23,032
from 1 to 5 years	9,132	7,756
over 5 years	1,266	–
Total net past due receivables	**421,623**	**550,168**

The Group identifies, measures and minimises its credit exposure to individual banks with which it executes investment transactions. The reduction of credit exposure was achieved through diversification of the portfolio of counterparties (mainly banks) with which the Group executes investment transactions. Moreover, the Group has concluded Framework Agreements with all banks with which it invests funds. These Framework Agreements stipulate detailed terms and conditions for execution and settlement of any financial transactions. In 2010, the Group invested its significant long-term excess liquidity in risk-free highly liquid instruments, including in particular treasury bills and treasury bonds.

The Group measures the related credit risk by regularly reviewing the banks' financial standings, as reflected in ratings assigned by rating agencies such as Fitch, Standards&Poor's and Moody's.

The Group's credit risk under purchased guarantees is practically limited to risk of default of the bank at which the Group has purchased the guarantee. However, the banks at which the Group has purchased guarantees are reputable institutions with high ratings; therefore, both the probability of default and the associated credit risk to the Group are insignificant.

As in the case of the risk related to investment transactions, the risk under purchased guarantees is measured by way of regularly monitoring of the financial standing of the banks which issued the guarantees.

The exposure to credit risk under financial derivatives is equal to the net carrying value of the positive valuation of the derivative (at fair value). As in the case of investment transactions, transactions in financial derivatives are executed with reputable banks, known for high financial standing. Moreover, with each bank with which it cooperates, the Group has concluded a Framework Agreement or an ISDA Agreement, stipulating detailed terms of cooperation and threshold amounts.

Owing to all those measures, the Group expects to incur no material loss due to credit risk to which it is exposed.

Market Risk

The Group defines market risk as the probability that its economic value or financial performance will be adversely affected by changes in the financial and commodity markets.

The main objective of the market risk management is to identify, measure, monitor and mitigate key sources of risk, including:
- foreign exchange risk;
- interest-rate risk;
- commodity risk (related to gas and oil prices).

As at December 31st 2010, the Parent Undertaking held a financial instrument in the form of 4,000,001 shares in Zakłady Azotowe w Tarnowie-Mościciach SA (a company listed on the Warsaw Stock Exchange); the instrument carried the price risk. Given that the shares are held by the Parent Undertaking as a long-term equity holding and that there is no instrument available on the market which could be used as a hedge against price volatility, the Company did not hedge that risk. Changes in the value this financial instrument, recognised directly in equity, are presented in Note 33.2.

Currency risk

The Group defines currency risk as the probability that its financial performance will be adversely affected by changes in the price of one currency against another.

As at the end of 2010, some of the Group's financial liabilities towards financial institutions were denominated in the US dollar. The largest item was a loan under a USD 400m credit facility, drawn by PGNiG Norway AS, a subsidiary undertaking.

Trade payables under long-term contracts for gas fuel deliveries are denominated in the US dollar and the euro.

The scale of the Group's exposure to currency risk is significant, as further discussed in the section devoted to sensitivity analysis.

The hedging measures implemented by the Group are mainly intended to provide protection against the currency risk accompanying payments for gas fuel deliveries settled in foreign currencies. The Group's liabilities are hedged with forward transactions and option strategies.

Interest-Rate Risk

The Group defines interest-rate risk as the probability that its financial performance will be adversely affected by changes in interest rates.

As the interest-rate risk associated with loans advanced by the Group was not significant, the Group did not hedge that risk.

As at December 31st 2010, the Group held corporate notes for an amount of PLN 1,100,000 thousand. Given the short maturities of the notes and periodic determination of debt cost, the related interest rate risk is immaterial to the Group.

As at the end of 2010, the USD 313,500 thousand credit facility contracted by a subsidiary undertaking, PGNiG Norway AS, was not hedged against interest rate fluctuations. The facility bears interest at 3M Libor plus margin. Consequently, a risk exists that financial expenses will increase if the 3M Libor rate rises.

Market risk (including currency and interest-rate risk) is assessed by the Parent Undertaking on a daily basis, by monitoring VaR. VaR (Value at Risk) means that the maximum loss arising from a change in the market (fair) value will not exceed that value over the next n business days, given a specified probability level (e.g. 99%). VaR is estimated based on the variance–covariance approach, using the SAP System.

Commodity Risk

The Group defines commodity risk as the probability that its financial performance will be adversely affected by changes in commodity prices.

The price risk to which the Group is exposed, mainly in connection with its contracts for gas fuel deliveries, is substantial. It stems from volatility in the prices of oil products quoted on global petroleum exchanges. Under some of the contracts for gas fuel deliveries, the pricing formula relies on a weighted average of the prices from previous months, which mitigates the volatility risk.

In 2010, the Group began to thoroughly examine and hedge this risk category. To hedge against price risk, the Group used Asian call options settled as European options, risk reversal option strategies and commodity swaps.

In addition, the Energy Law provides for the possibility of filing an application for tariff adjustment if, within a quarter, the purchase costs of gas rise by more than 5%.

in PLN '000

Liquidity Risk

The main objective behind the liquidity risk management is to monitor and plan the liquidity levels on an ongoing basis. The liquidity levels are monitored through projections of future cash-flow, covering a period of at least 12 months, which are regularly updated (once a month). PGNiG reviews the actual cash flows against projections at regular intervals – an exercise which comprises an analysis of unmet cash-flow targets, as well as the related causes and effects. The liquidity risk should not be equated exclusively with the risk of loss of liquidity by the Company. An equally serious threat is that of having excess structural liquidity, which could adversely affect the Group's profitability.

The Group monitors and plans its liquidity levels on a continuous basis. In order to hedge the liquidity risk, as at December 31st 2010 the Group was party to credit facility agreements for up to PLN 1,624,024 thousand (PLN 2,830,600 thousand as at the end of 2009). For more details, see Note 26.1.

Additionally, in order to optimise cash management at the Group, on December 1st 2010, the Parent Undertaking concluded with Bank Handlowy w Warszawie SA a note issuance programme agreement for a total amount of PLN 397,270 thousand. The agreement is valid until November 30th 2013. Under the programme, PGNiG SA issues short-term discount notes for its excessively liquid distribution companies. The first issue was carried out on December 22nd 2010. As at the end of 2010, debt under notes issued to Group companies stood at PLN 120,000 thousand.

In order to increase liquidity security, on June 10th 2010, the Parent Undertaking concluded a notes issue programme agreement. As at the end of 2010, debt under the agreement was PLN 1,100,000 thousand. The agreement is valid until July 31st 2013 and its total value is PLN 3,000,000 thousand.

Moreover, on September 17th 2010, a mandate agreement for an EMTN programme of up to EUR 1,200,000 thousand was executed. The agreement providing for arrangement of an EMTN programme and for the first issue of bonds was executed with three banks: Societe Generale SA, BNP Paribas SA and Unicredit AG. The issue date of the euro notes in 2011 will depend on the Company's liquidity needs and the situation on financial markets. Proceeds from the issue will be used to finance PGNiG S.A's investment programme.

To avoid excess liquidity, the Group invests any excess cash mainly in high-yield treasury securities or places it on deposits with reputable banks.

The liquidity risk is significantly mitigated through a liquidity management procedure, implemented across the Company's organisational units. It offers a systematised set of measures designed to ensure proper liquidity management by: settlement of payments, preparation of cash-flow projections, optimum management of free cash flows, securing and restructuring of financing of day-to-day operations and investment projects, protection against the risk of a temporary liquidity loss due to unforeseen events, and servicing of credit agreements.

Liquidity risk is assessed through ongoing detailed monitoring of cash flows, which takes into account the probable timing of the given cash flows and the net cash position target.

The tables below present a breakdown of financial liabilities by maturity.

Financial liabilities at amortised cost, by maturity

Dec 31 2010 (PLN '000)	Liabilities under loans, borrowings and notes issued	Finance lease liabilities	Trade payables	Total expenditure
up to 1 year	1,202,512	28,929	3,291,472	4,522,913
from 1 to 5 years	1,400	62,595	19,613	83,608
over 5 years	–	–	1,497	1,497
Total	**1,203,912**	**91,524**	**3,312,582**	**4,608,018**

Dec 31 2009 (PLN '000)	Liabilities under loans and borrowings	Finance lease liabilities	Trade payables	Total expenditure
up to 1 year	1,954,883	31,285	2,733,417	4,719,585
from 1 to 5 years	2,000	46,194	16,017	64,211
over 5 years	–	–	2,629	2,629
Total	**1,956,883**	**77,479**	**2,752,063**	**4,786,425**

In the current and comparative periods, the Group met its liabilities under loans and borrowings in a timely manner. Furthermore, there were no defaults under any of its agreements that would trigger accelerated repayment.

Derivative instruments by maturity

(PLN '000)	Net book value as at Dec 31 2010	Contractual cash flows, including:	up to 1 year	from 1 to 5 years	over 5 years
– interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	(97,874)	29,242	65,626	(36,384)	–
– inflows	–	2,288,164	65,626	2,222,538	–
– outflows	–	(2,258,922)	–	(2,258,922)	–
– forward transactions	–	–	–	–	–
– inflows	–	–	–	–	–
– outflows	–	–	–	–	–
– currency options**	(34,373)	–	–	–	–
– inflows	–	–	–	–	–
– outflows	–	–	–	–	–
– commodity options**	(7,626)	–	–	–	–
– inflows	–	–	–	–	–
– outflows	–	–	–	–	–
– commodity swaps***	37,260	–	–	–	–
– inflows	–	–	–	–	–
– outflows	–	–	–	–	–
– option premiums paid	76,043	–	–	–	–
– currency options	59,248	–	–	–	–
– commodity options	16,795	–	–	–	–
Total	**(26,570)**	**29,242**	**65,626**	**(36,384)**	**–**

(PLN '000)	Net book value as at Dec 31 2009*	Contractual cash flows, including:	up to 1 year	from 1 to 5 years	over 5 years
– interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	(254,586)	(246,735)	558	(247,293)	–
– inflows	–	1,859,021	98,030	1,760,991	–
– outflows	–	(2,105,756)	(97,472)	(2,008,284)	–
– currency options**	(13,778)	–	–	–	–
– inflows	–	–	–	–	–
– outflows	–	–	–	–	–
– option premiums paid	25,938	–	–	–	–
Total	**(242,426)**	**(246,735)**	**558**	**(247,293)**	**–**

* Net book value (positive valuation less negative valuation of the assets) represents the fair value, i.e. payments under swap contracts are discounted, whereas cash flows are shown at undiscounted amounts. CCIRS cash flows computed using the Exante system; interest payments are forecast.

** In the case of currency and commodity options, given their optional nature, or the fact that possible cash flows depend on the exchange rates or commodity prices prevailing on the market at the time when the option is exercised, no cash flows are shown.

*** Non-deliverable swaps, settled based on difference from to the average value.

The Group has not identified any other material risks inherent in its day-to-day operations.

The procedure has been implemented with a view to optimising the process of PGNiG SA's performing its obligations in a manner which would take into consideration the Parent Undertaking's multi-branch structure, segmental nature of PGNiG SA's accounting and distributed powers and responsibilities with respect to bookkeeping and tax settlements at PGNiG SA.

Sensitivity Analysis

To determine a reliable range of changes that may occur with respect to particular currency and interest rate risks, the Group used the market implied volatility level for a half-year period and assumed 15% as the average value for the purpose of the sensitivity analysis as at the end of 2010 with respect to exchange rates (for the end of 2009, the assumed volatility was also 15%). The half-year period reflects the frequency with which the Company discloses results of the sensitivity analysis of financial instruments in its reports.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2010 indicate that the net profit would have been lower by PLN 288,218 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 15%, ceteris paribus (profit lower by PLN 264,650 thousand on the back of stronger NOK, by PLN 56,641 thousand due to stronger USD and by PLN 823 thousand due to the strengthening of other currencies, vs. profit's rise by PLN 33,896 thousand due to stronger EUR).

The most significant factor with a bearing on the outcome of the sensitivity analysis is higher negative valuation of CCIRS derivatives hedging the loan advanced to PGNiG Norway AS, which is eliminated from the consolidated financial statements.

If the loan was recognised in the statement of financial position (which is the case in the non-consolidated financial statements), the cash flows related to the loan and hedging transactions would offset one another. As a result, the changes in positive(negative) valuation of the loan would be offset by negative (positive) changes in the valuation of CCIRS transactions. In aggregate, the items would be insensitive to the exchange rate and interest rate changes.

Risk Management Policy

To ensure effective financial risk management, on February 17th 2003 the Management Board of the Parent Undertaking implemented the "Policy of Financial Risk Management at PGNiG SA" which defines the distribution of functions and responsibilities between individual organisational units of the Company in the process of managing and monitoring the financial risk.

The Management Board is responsible for the financial risk management at the Parent Undertaking and for ensuring compliance with the adopted policy, however, specific activities related to the process of the risk management are the responsibility of individual organisational units.

The bodies responsible for compliance with the „Policy of Financial Risk Management at PGNiG SA" and periodic updates of the policy are:

5) Risk Committee, which proposes risk management policies, reviews the policies and revises them accordingly;
6) Management Board, which is responsible for the formal approval of the policies.

On December 28th 2010, the Management Board of the Parent Undertaking approved the "Procedure for tax and accounting risk management at PGNiG SA" which took effect on January 1st 2011. The procedure provides for rules to be followed while performing the tax and reporting obligations under tax legislation, as well as accounting and financial reporting obligations under the Polish Accountancy Act of September 29th 1994, secondary legislation issued thereunder, the IAS/IFRS and the disclosure requirements of the Warsaw Stock Exchange.

Lower profit would be mainly attributable to an increase in the negative portion of the fair value of financial derivatives (negative fair value of swap transactions).

The adverse effect on the result on financial instruments in NOK would be augmented by an increase in valuation of the USD credit facility contracted by a subsidiary undertaking, PGNiG Norway AS, and slightly reduced by an increase in the positive portion of the fair value of financial derivatives executed on USD and EUR and the valuation of assets in those currencies.

With the exchange rates higher by 15%, the positive portion of the fair value of financial derivatives executed on USD and EUR would grow and so would foreign exchange losses on trade payables related to EUR and USD.

As at December 31st 2010, the net profit would have been higher by PLN 352,829 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 15%, ceteris paribus (profit higher by PLN 264,650 thousand on the back of weaker NOK, by PLN 98,098 thousand due to weaker USD and by PLN 823 thousand due to the strengthening of other currencies, vs. profit's drop by PLN 10,742 thousand due to weaker EUR). The positive financial result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). The positive financial result would be augmented by a decrease in valuation of the USD credit facility contracted by a subsidiary undertaking, PGNiG Norway AS, and slightly reduced by a decrease in the positive portion of the fair value of financial derivatives executed on USD hedging the liabilities and expenses related to purchases of gas fuel.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2009 indicate that the net profit would have been lower by PLN 245,153 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 15%, ceteris paribus (profit lower by PLN 234,560 thousand on the back of stronger NOK, by PLN 16,702 thousand due to stronger USD, vs. profit's rise by PLN 6,322 thousand due to stronger EUR and by PLN 213 thousand due to the strengthening of other currencies).

The most significant factors with a bearing on the outcome of the sensitivity analysis are lower positive valuation and higher negative valuation of CCIRS derivatives hedging the loan advanced to PGNiG Norway AS, which is eliminated from the consolidated financial statements.

If the loan was recognised in the statement of financial position (which is the case in the non-consolidated financial statements), the cash flows related to the loan and hedging transactions would offset one another. As a result, the changes in positive (negative) valuation of the loan would be offset by negative (positive) changes in the valuation of CCIRS transactions. In aggregate, the items would be insensitive to the exchange rate and interest rate changes.

Lower profit would be mainly attributable to an increase in the negative portion of the fair value of financial derivatives (negative fair value of swap transactions).

The adverse effect on the result on financial instruments in NOK would be slightly reduced by an increase in the positive portion of the fair value of financial derivatives executed on USD and EUR and the valuation of assets in those currencies.

With exchange rates higher by 15%, the positive portion of the fair value of financial derivatives executed on USD would grow and so would EUR/PLN and USD/PLN foreign exchange losses on trade payables. A slight increase would also be posted in the negative valuation of derivatives executed on EUR.

As at December 31st 2009, the net profit would have been higher by PLN 247,222 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 15%, ceteris paribus (profit higher by PLN 234,561 thousand on the back of weaker NOK and by PLN 21,170 thousand due to weaker USD, vs. profit's drop by PLN 8,722 thousand due to weaker EUR and by PLN 213 thousand due to the weakening of other currencies). The positive financial result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). The positive financial result would be slightly reduced by a decrease in the positive portion of the fair value of financial derivatives executed on USD hedging the liabilities and expenses related to purchases of gas fuel.

The following pages present detailed information on the analysis of sensitivity of the Group's currency financial instruments to exchange rate fluctuations in 2010 and 2009.

Sensitivity of Financial Instruments in Foreign Currencies to Exchange Rate Fluctuations Charged to Income Statement

(PLN '000)	Net book value as at Dec 31 2010	Currency risk							
	Exchange rate change by:	15%				-15%			
		for EUR	for USD	for NOK	for other currencies	for EUR	for USD	for NOK	for other currencies
Financial assets									
Financial assets available for sale**	13,819	–	–	–	–	–	–	–	–
Other financial assets	192	26	2	–	–	(26)	(2)	–	–
Trade and Other Receivables	258,296	17,826	18,030	1,239	1,649	(17,826)	(18,030)	(1,239)	(1,649)
Financial assets held for trading	–	–	–	–	–	–	–	–	–
Derivative financial instruments	30,580	31,196	117,044	–	–	–	–	315,036	–
Cash and Cash Equivalents	191,851	14,202	7,819	4,275	2,481	(14,202)	(7,819)	(4,275)	(2,481)
Effect on financial assets before tax		**63,250**	**142,895**	**5,514**	**4,130**	**(32,054)**	**(25,851)**	**309,522**	**(4,130)**
19% tax		(12,018)	(27,150)	(1,048)	(785)	6,090	4,912	(58,809)	785
Effect on financial assets after tax		**51,232**	**115,745**	**4,466**	**3,345**	**(25,964)**	**(20,939)**	**250,713**	**(3,345)**
Total currencies			174,788				200,465		
Financial liabilities									
Loans, borrowings and debt securities (including finance lease)	983,379	606	144,477	–	2,424	(606)	(144,477)	–	(2,424)
Trade and other payables	727,144	20,797	68,345	17,206	2,722	(20,797)	(68,345)	(17,206)	(2,722)
Liabilities under derivative financial instruments*	103,579	–	–	315,036	–	2,610	65,863	–	–
Effect on financial liabilities before tax		**21,403**	**212,822**	**332,242**	**5,146**	**(18,793)**	**(146,959)**	**(17,206)**	**(5,146)**
19% tax	–	(4,067)	(40,436)	(63,126)	(978)	3,571	27,922	3,269	978
Effect on financial liabilities after tax		**17,336**	**172,386**	**269,116**	**4,168**	**(15,222)**	**(119,037)**	**(13,937)**	**(4,168)**
Total currencies			463,006				(152,364)		
Total increase/decrease		33,896	(56,641)	(264,650)	(823)	(10,742)	98,098	264,650	823
Total currencies			**(288,218)**				**352,829**		
Exchange rates as at the balance-sheet date and their change:									
EUR/PLN	3.9603	–	4.5543	4.5543	4.5543	–	3.3663	3.3663	3.3663
USD/PLN	2.9641	3.4087	–	3.4087	3.4087	2.5195	–	2.5195	2.5195
NOK/PLN	0.5071	0.5832	0.5832	–	0.5832	0.4310	0.4310	–	0.4310

* In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on the income statement. In connection with the implementation of hedge accounting at the Parent Undertaking in 2009, part of the changes in the valuation of financial derivatives will be charged to equity through other comprehensive income. The effect of fluctuations in exchange rates on this portion of financial derivatives is presented in a separate table below.

** The item includes shares which as of the 2009 the Group will disclose at historical values, therefore the change in exchange rates will not have a bearing on the valuation of those assets and the result for the period.

(PLN '000)	Net book value as at Dec 31 2009	Currency risk							
	Exchange rate change by:	15%				-15%			
		for EUR	for USD	for NOK	for other currencies	for EUR	for USD	for NOK	for other currencies
Financial assets									
Financial assets available for sale**	13,819	–	–	–	–	–	–	–	–
Other financial assets	167	23	2	–	–	(23)	(2)	–	–
Trade and Other Receivables	315,160	19,063	8,926	13,729	5,555	(19,063)	(8,926)	(13,729)	(5,555)
Financial assets held for trading	–	–	–	–	–	–	–	–	–
Derivative financial instruments	18,002	–	26,579	–	–	(1,821)	(21,063)	302,572	–
Cash and Cash Equivalents	291,372	6,510	7,954	27,541	1,701	(6,510)	(7,954)	(27,541)	(1,701)
Effect on financial assets before tax		**25,596**	**43,461**	**41,270**	**7,256**	**(27,417)**	**(37,945)**	**261,302**	**(7,256)**
19% tax		(4,863)	(8,258)	(7,841)	(1,379)	5,209	7,210	(49,647)	1,379
Effect on financial assets after tax		**20,733**	**35,203**	**33,429**	**5,877**	**(22,208)**	**(30,735)**	**211,655**	**(5,877)**
Total currencies			95,242				152,835		
Financial liabilities									
Loans, borrowings and debt securities (including finance lease)	32,833	103	1,110	–	3,711	(103)	(1,110)	–	(3,711)
Trade and other payables	744,009	16,546	62,970	28,279	3,807	(16,546)	(62,970)	(28,279)	(3,807)
Liabilities under derivative financial instruments*	260,428	1,143	–	302,572	–	–	–	–	–
Effect on financial liabilities before tax		**17,792**	**64,080**	**330,851**	**7,518**	**(16,649)**	**(64,080)**	**(28,279)**	**(7,518)**
19% tax	–	(3,381)	(12,175)	(62,862)	(1,428)	3,163	12,175	5,373	1,428
Effect on financial liabilities after tax		**14,411**	**51,905**	**267,989**	**6,090**	**(13,486)**	**(51,905)**	**(22,906)**	**(6,090)**
Total currencies			340,395				(94,387)		
Total increase/decrease		6,322	(16,702)	(234,560)	(213)	(8,722)	21,170	234,561	213
Total currencies			**(245,153)**				**247,222**		
Exchange rates as at the balance-sheet date and their change:									
EUR/PLN	4.1082	–	4.7244	4.7244	4.7244	–	3.4920	3.4920	3.4920
USD/PLN	2.8503	3.2778	–	3.2778	3.2778	2.4228	–	2.4228	2.4228
NOK/PLN	0.4946	0.5688	0.5688	–	0.5688	0.4204	0.4204	–	0.4204

* In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on the income statement. In connection with the implementation of hedge accounting at the Parent Undertaking as of April 1st 2009, part of the changes in the valuation of financial derivatives will be charged to equity through other comprehensive income. The effect of fluctuations in exchange rates on this portion of financial derivatives is presented in a separate table herein below.

** The item includes shares which as of the end of 2009 the Group will disclose at historical values, therefore the change in exchange rates will not have a bearing on the valuation of those assets and the result for the period.

in PLN '000

Analysis of derivatives' sensitivity to fluctuations of exchange rates charged to equity

(PLN '000)		Dec 31 2010		Dec 31 2009
Exchange rate		for USD		for USD
Exchange rate change by:	15%	-15%	15%	-15%
Effect on equity, before tax	53,830	(11,506)	86,869	(61,842)
19% tax	(10,228)	2,186	(16,505)	11,750
Effect on financial assets/liabilities after tax	**43,602**	**(9,320)**	**70,364**	**(50,092)**

Analysis of derivatives' sensitivity to fluctuations of exchange rates charged to equity, as presented in the table above, indicates that a 15% increase in the USD/PLN exchange rate would cause an increase in equity through other comprehensive income. A 15% drop of the USD/PLN exchange rate would cause a reverse effect, that is a decrease in equity. This is attributable to the fact that the Parent Undertaking uses derivatives whose effective portion valuation is charged to equity to protect itself against an increase in USD exchange rate, which is applied to the settlement and calculation of liabilities and expenses under purchases of gaseous fuel.

The Group assessed the sensitivity of energy commodity derivatives. For the purposes of the 2010 sensitivity analysis, a 25% volatility was assumed for the derivatives (no sensitivity analyses were carried out in prior periods as the Group held no energy commodity derivatives).

The table below presents findings of the analysis of sensitivity of energy commodity derivatives to price changes in 2010.

Sensitivity of Derivatives to Commodity Price Fluctuations Charged to Income Statement

(PLN '000)	Net book value as at Dec 31 2010				Price risk
	Price change by:	25%		-25%	
		Gasoil	Fueloil	Gasoil	Fueloil
Financial assets					
Assets under energy commodity derivatives	47,293	39,614	11,625	(14,279)	(5,851)
Effect on financial assets before tax		**39,614**	**11,625**	**(14,279)**	**(5,851)**
19% tax		(7,527)	(2,209)	2,713	1,112
Effect on financial assets after tax		**32,087**	**9,416**	**(11,566)**	**(4,739)**
Total commodities		41,503		(16,305)	
Financial liabilities					
Liabilities under energy commodity derivatives	864	–	–	–	–
Effect on financial liabilities before tax		**–**	**–**	**–**	**–**
19% tax		–	–	–	–
Effect on financial liabilities after tax		**–**	**–**	**–**	**–**
Total commodities				–	
Total increase/decrease		32,087	9,416	(11,566)	(4 739)
Total commodities		**41,503**		**(16,305)**	

The table presents the impact of price changes on the Group's profit or loss. Some changes in the value of energy commodity derivatives affect directly equity.

in PLN '000

The table below presents the effect of fluctuations of financial derivatives for commodity transactions on energy raw materials charged to equity.

Analysis of derivatives sensitivity to fluctuations of commodity prices charged to equity

(PLN '000)	Dec 31 2010		Dec 31 2009	
Price change by:	25%		-25%	
	Gasoil	Fueloil	Gasoil	Fueloil
Effect on equity, before tax	80,608	28,165	(26,732)	(18,998)
19% tax	(15,315)	(5,351)	5,079	3,610
Effect on financial assets/liabilities after tax	**65,293**	**22,814**	**(21,653)**	**(15,388)**

Analysis of derivatives' sensitivity to fluctuations of financial derivatives for commodity transactions in energy raw materials charged to equity, as presented in the table above, indicates that a 25% increase in commodity prices would cause an increase in equity through other comprehensive income. A 25% drop of commodity prices would cause a reverse effect, that is a decrease in equity. This is attributable to the fact that the Parent Undertaking uses derivatives whose effective portion valuation is charged to equity to protect itself against an increase in prices of energy raw materials, which represent the largest item of expenses in the Group's income statement.

The Group analysed the sensitivity of financial instruments related to loans advanced, contracted loans and lease liabilities based on a floating interest rate. To determine a reliable range of changes that may occur with respect to particular interest rate risk factors, the Group uses the average values of changes in interest rates in the previous year (excluding the interest rates in which no change has occurred). The average range of interest rate fluctuations used in the sensitivity analysis for 2010 was +/-100 basis points (the range for 2009 was +/-200 basis points).

As at December 31st 2010, the sensitivity of liabilities on floating-rate loans and leases and notes issued to interest rate changes by +/-100 basis points was +/-PLN 21,991 thousand.

As at December 31st 2009, the sensitivity of liabilities on floating-rate loans and leases to interest rate changes by +/-200 basis points was +/-PLN 40,564 thousand.

Sensitivity of Financial Instruments to Interest Rate Changes

(PLN '000)	Net book value	change:	
	As at Dec 31 2010	+100 bp	-100 bp
Contracted loans	1,016,751	10,168	(10,168)
Notes issued	1,096,508	10,965	(10,965)
Lease liabilities	85,842	858	(858)
Total	**2,199,101**	**21,991**	**(21,991)**

	Net book value	change:	
	As at Dec 31 2009	+200 bp	-200 bp
Contracted loans	1,956,883	39,138	(39,138)
Lease liabilities	71,280	1,426	(1,426)
Total	**2,028,163**	**40,564**	**(40,564)**

34. Derivatives

Valuation methods

As stipulated by the International Financial Reporting Standards, derivative instruments disclosed by the Parent Undertaking in its financial statements are measured at fair value.

As at December 31st 2010, the Company held three types of currency derivatives: cross currency basis swaps, purchased call options and risk reversal strategies (purchase of call options and sale of put options). Currency call and put options were measured at fair value in accordance with the Garman-Kohlhagen model, based on market data such as interest rates, foreign-exchange rates and volatility as at December 31st 2010.

In order to hedge its commodity risk in 2010, the Company applied Asian call options, risk reversal strategies (purchase of Asian commodity call options and sale of put options) and commodity swaps. Asian commodity call and put options were measured at fair value in accordance with the Turnbull-Wakeman model, based on market data such as commodity prices, foreign-exchange rates and volatility of commodity prices as at December 31st 2010.

Valuation to fair value was performed with the use of Exante application.

Hedge Accounting

As of April 1st 2009, the Parent Undertaking began to apply cash-flow hedge accounting with respect to foreign exchange transactions and as of June 1st 2010 it started to apply cash-flow hedge accounting with respect to commodity transactions. For details, see Note 2.3.13.

Derivative Instruments

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range) in PLN	Measurement at fair value (PLN '000)	
					Dec 31 2010	Dec 31 2009
Cross Currency Rate Swap						
PGNiG Norway loan	NOK 300m	Nov 8 2007	Jan 17 2011*	0.4686	–	(13,119)
PGNiG Norway loan	NOK 300m	Nov 12 2007	Jan 17 2011*	0.4627	–	(14,979)
PGNiG Norway loan	NOK 300m	Nov 15 2007	Jan 17 2011*	0.4596	–	(15,939)
PGNiG Norway loan	NOK 300m	Nov 19 2007	Jan 17 2011*	0.4534	–	(17,859)
PGNiG Norway loan	NOK 300m	Nov 22 2007	Jan 17 2011*	0.4588	–	(16,187)
PGNiG Norway loan	NOK 300m	Nov 30 2007	Jan 17 2011*	0.4461	–	(20,091)
PGNiG Norway loan	NOK 344m	Jan 18 2008	Jan 17 2011*	0.4530	–	(20,539)
PGNiG Norway loan	NOK 344m	Jan 18 2008	Jan 17 2011*	0.4530	–	(20,554)
PGNiG Norway loan	NOK 330m	Jan 12 2009	Jan 16 2012*	0.4300	–	(30,620)
PGNiG Norway loan	NOK 330m	Jan 12 2009	Jan 16 2012*	0.4300	–	(30,803)
PGNiG Norway loan	NOK 330m	Jan 13 2009	Jan 16 2012*	0.4380	–	(27,616)
PGNiG Norway loan	NOK 322m	Jan 13 2009	Jan 16 2012*	0.4400	–	(26,280)
PGNiG Norway loan	NOK 930m	Dec 9 2010	Jan 15 2014	0.5056	(24,211)	–
PGNiG Norway loan	NOK 1596m	Dec 13 2010	Jan 15 2014	0.5052	(39,071)	–
PGNiG Norway loan	NOK 674m	Dec 14 2010	Jan 15 2014	0.5040	(17,795)	–
PGNiG Norway loan	NOK 700m	Dec 15 2010	Jan 15 2014	0.5054	(16,797)	–
					(97,874)	**(254,586)**
Call options						
Payments for gas	USD 10m	Jul 31 2009	Jan 19 2010	3.3000	–	1
Payments for gas	USD 10m	Aug 3 2009	Feb 10 2010	3.3000	–	41
Payments for gas	USD 10m	Aug 3 2009	Jan 8 2010	3.2000	–	–
Payments for gas	EUR 5m	Aug 4 2009	Feb 10 2010	4.4000	–	77
Payments for gas	USD 10m	Aug 13 2009	Feb 10 2010	3.3000	–	41
Payments for gas	USD 10m	Aug 20 2009	Jan 19 2010	3.4000	–	–
Payments for gas	USD 10m	Aug 21 2009	Feb 19 2010	3.4000	–	34
Payments for gas	USD 10m	Aug 21 2009	Feb 10 2010	3.4000	–	18

* The transactions were settled in December 2010.

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Dec 31 2010	Dec 31 2009
Payments for gas	USD 10m	Aug 25 2009	Jan 8 2010	3.3000	–	–
Payments for gas	USD 10m	Sep 7 2009	Mar 10 2010	3.3000	–	131
Payments for gas	USD 10m	Sep 8 2009	Feb 10 2010	3.3000	–	41
Payments for gas	USD 10m	Sep 8 2009	Mar 10 2010	3.3300	–	113
Payments for gas	USD 10m	Sep 9 2009	Feb 10 2010	3.2000	–	85
Payments for gas	USD 10m	Sep 10 2009	Feb 19 2010	3.3300	–	55
Payments for gas	USD 10m	Sep 14 2009	Feb 19 2010	3.4000	–	34
Payments for gas	USD 10m	Sep 14 2009	Feb 19 2010	3.3000	–	68
Payments for gas	USD 10m	Sep 15 2009	Feb 19 2010	3.3000	–	68
Payments for gas	USD 10m	Sep 15 2009	Mar 10 2010	3.3000	–	131
Payments for gas	USD 10m	Sep 16 2009	Mar 19 2010	3.3000	–	166
Payments for gas	USD 10m	Sep 17 2009	Mar 19 2010	3.2800	–	181
Payments for gas	USD 10m	Sep 21 2009	Mar 19 2010	3.2500	–	205
Payments for gas	USD 10m	Sep 21 2009	Mar 10 2010	3.2500	–	166
Payments for gas	USD 10m	Oct 1 2009	Mar 10 2010	3.2500	–	166
Payments for gas	USD 10m	Oct 5 2009	Jan 19 2010	3.2000	–	4
Payments for gas	USD 10m	Oct 5 2009	Jan 19 2010	3.2000	–	4
Payments for gas	USD 10m	Oct 6 2009	Jan 8 2010	3.1000	–	–
Payments for gas	USD 10m	Oct 12 2009	Mar 19 2010	3.2500	–	205
Payments for gas	USD 10m	Oct 12 2009	Jan 8 2010	3.1200	–	–
Payments for gas	USD 10m	Oct 13 2009	Jan 8 2010	3.1000	–	–
Payments for gas	USD 10m	Oct 14 2009	Jan 8 2010	3.0800	–	1
Payments for gas	EUR 5m	Oct 14 2009	Mar 10 2010	4.5000	–	106
Payments for gas	USD 10m	Oct 15 2009	Jan 19 2010	3.0500	–	44
Payments for gas	USD 10m	Oct 20 2009	Apr 9 2010	3.2700	–	280
Payments for gas	EUR 7m	Oct 20 2009	Jan 19 2010	4.4000	–	13
Payments for gas	EUR 6m	Oct 21 2009	Feb 19 2010	4.4000	–	124
Payments for gas	USD 10m	Oct 23 2009	Apr 9 2010	3.2700	–	280
Payments for gas	USD 10m	Oct 26 2009	Feb 10 2010	3.0500	–	221
Payments for gas	USD 10m	Nov 2 2009	Feb 10 2010	3.1000	–	164
Payments for gas	USD 10m	Nov 2 2009	Feb 19 2010	3.1000	–	216
Payments for gas	USD 10m	Nov 4 2009	Feb 19 2010	3.1200	–	194
Payments for gas	USD 10m	Nov 5 2009	Mar 19 2010	3.1700	–	283
Payments for gas	USD 10m	Nov 5 2009	Apr 20 2010	3.2000	–	395
Payments for gas	USD 10m	Nov 6 2009	Apr 20 2010	3.3500	–	247
Payments for gas	USD 10m	Nov 6 2009	May 10 2010	3.3500	–	319
Payments for gas	USD 10m	Nov 9 2009	Apr 20 2010	3.3000	–	289
Payments for gas	USD 10m	Nov 9 2009	May 10 2010	3.3000	–	366
Payments for gas	USD 10m	Nov 9 2009	Feb 19 2010	3.0000	–	364
Payments for gas	USD 10m	Nov 10 2009	Mar 10 2010	3.0500	–	398
Payments for gas	EUR 6m	Nov 10 2009	Apr 9 2010	4.4000	–	288
Payments for gas	EUR 6m	Nov 12 2009	May 10 2010	4.3800	–	400
Payments for gas	USD 10m	Nov 12 2009	May 10 2010	3.2500	–	421
Payments for gas	USD 10m	Nov 13 2009	Apr 9 2010	3.2000	–	353
Payments for gas	USD 10m	Nov 18 2009	Apr 9 2010	3.2000	–	353
Payments for gas	USD 10m	Nov 23 2009	Apr 20 2010	3.2000	–	395
Payments for gas	USD 10m	Nov 23 2009	May 20 2010	3.2000	–	534
Payments for gas	USD 10m	Nov 23 2009	May 20 2010	3.2300	–	493
Payments for gas	USD 10m	Nov 23 2009	May 20 2010	3.0500	–	814
Payments for gas	USD 10m	Nov 25 2009	Feb 10 2010	2.9500	–	400
Payments for gas	USD 10m	Nov 25 2009	Apr 9 2010	3.0000	–	701
Payments for gas	USD 10m	Nov 25 2009	May 10 2010	3.0500	–	750
Payments for gas	USD 10m	Dec 1 2009	May 20 2010	3.2000	–	534
Payments for gas	USD 10m	Dec 2 2009	Jun 10 2010	3.2100	–	604
Payments for gas	USD 10m	Dec 2 2009	Mar 19 2010	2.9900	–	583
Payments for gas	USD 10m	Dec 2 2009	Mar 19 2010	2.9900	–	583
Payments for gas	USD 10m	Dec 2 2009	May 10 2010	3.0500	–	750

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Dec 31 2010	Dec 31 2009
Payments for gas	USD 10m	Dec 3 2009	Mar 10 2010	2.9500	–	626
Payments for gas	USD 10m	Dec 3 2009	Jun 18 2010	3.2100	–	636
Payments for gas	EUR 7m	Dec 3 2009	Mar 19 2010	4.2700	–	412
Payments for gas	USD 10m	Dec 8 2009	Mar 10 2010	3.0000	–	497
Payments for gas	EUR 6m	Dec 8 2009	Jun 10 2010	4.3500	–	536
Payments for gas	USD 10m	Jul 22 2010	Jan 10 2011	3.6600	–	–
Payments for gas	USD 10m	Jul 22 2010	Jan 20 2011	3.6800	–	–
Payments for gas	USD 10m	Jul 23 2010	Jan 20 2011	3.6000	–	–
Payments for gas	USD 10m	Jul 26 2010	Jan 10 2011	3.5500	–	–
Payments for gas	USD 10m	Jul 26 2010	Jan 10 2011	3.5500	–	–
Payments for gas	USD 10m	Jul 27 2010	Jan 10 2011	3.3000	–	–
Payments for gas	USD 10m	Jul 27 2010	Jan 10 2011	3.3000	–	–
Payments for gas	EUR 5m	Jul 27 2010	Jan 10 2011	4.2500	–	–
Payments for gas	USD 10m	Jul 29 2010	Jan 20 2011	3.3000	9	–
Payments for gas	USD 10m	Jul 29 2010	Jan 10 2011	3.2700	–	–
Payments for gas	USD 10m	Aug 2 2010	Feb 10 2011	3.3000	82	–
Payments for gas	USD 10m	Aug 2 2010	Feb 10 2011	3.4700	20	–
Payments for gas	EUR 5m	Aug 2 2010	Jan 10 2011	4.2000	–	–
Payments for gas	USD 10m	Aug 3 2010	Jan 20 2011	3.2500	19	–
Payments for gas	USD 10m	Aug 3 2010	Feb 10 2011	3.4500	24	–
Payments for gas	USD 10m	Aug 4 2010	Feb 10 2011	3.4600	22	–
Payments for gas	USD 10m	Aug 5 2010	Feb 18 2011	3.4700	37	–
Payments for gas	EUR 5m	Aug 16 2010	Feb 10 2011	4.2000	43	–
Payments for gas	USD 10m	Aug 17 2010	Feb 18 2011	3.3300	100	–
Payments for gas	EUR 5m	Aug 17 2010	Feb 18 2011	4.1700	78	–
Payments for gas	USD 10m	Aug 18 2010	Jan 20 2011	3.2700	14	–
Payments for gas	USD 10m	Aug 19 2010	Feb 18 2011	3.3000	122	–
Payments for gas	USD 10m	Aug 26 2010	Feb 18 2011	3.3700	77	–
Payments for gas	USD 10m	Aug 26 2010	Feb 10 2011	3.3600	51	–
Payments for gas	USD 10m	Sep 6 2010	Mar 10 2011	3.5600	62	–
Payments for gas	USD 10m	Sep 7 2010	Mar 10 2011	3.3500	184	–
Payments for gas	USD 10m	Sep 7 2010	Jan 10 2011	3.3000	–	–
Payments for gas	EUR 8m	Sep 9 2010	Mar 10 2011	4.1500	233	–
Payments for gas	USD 10m	Sep 10 2010	Mar 10 2011	3.3200	212	–
Payments for gas	USD 10m	Sep 17 2010	Feb 18 2011	3.2300	187	–
Payments for gas	USD 10m	Sep 17 2010	Mar 18 2011	3.2500	341	–
Payments for gas	USD 10m	Sep 17 2010	Mar 10 2011	3.2800	254	–
Payments for gas	USD 10m	Sep 20 2010	Mar 18 2011	3.2800	302	–
Payments for gas	USD 10m	Sep 21 2010	Mar 18 2011	3.2500	341	–
Payments for gas	USD 10m	Sep 21 2010	Feb 10 2011	3.2000	167	–
Payments for gas	USD 10m	Sep 22 2010	Feb 18 2011	3.1800	249	–
Payments for gas	USD 10m	Sep 22 2010	Mar 18 2011	3.4650	136	–
Payments for gas	USD 10m	Sep 23 2010	Mar 10 2011	3.2100	347	–
Payments for gas	USD 10m	Sep 28 2010	Jan 20 2011	3.3800	2	–
Payments for gas	USD 10m	Sep 29 2010	Mar 10 2011	3.3600	175	–
Payments for gas	USD 10m	Oct 14 2010	Mar 18 2011	3.2000	417	–
Payments for gas	USD 10m	Oct 14 2010	Jan 20 2011	3.1500	69	–
Payments for gas	USD 10m	Oct 14 2010	Feb 10 2011	2.9500	804	–
Payments for gas	USD 10m	Oct 14 2010	Jan 20 2011	2.9200	715	–
Payments for gas	USD 10m	Oct 25 2010	Jan 20 2011	2.9300	651	–
Payments for gas	USD 10m	Oct 25 2010	Jan 10 2011	2.9300	443	–
Payments for gas	USD 10m	Oct 28 2010	Jan 20 2011	2.9815	393	–
Payments for gas	USD 10m	Nov 4 2010	Jan 20 2011	2.8800	1 007	–
Payments for gas	EUR 8m	Nov 4 2010	Apr 8 2011	4.0700	512	–
Payments for gas	USD 10m	Nov 4 2010	Apr 8 2011	3.0000	1 116	–
Payments for gas	USD 10m	Nov 4 2010	Feb 10 2011	2.9500	804	–
Payments for gas	USD 10m	Nov 4 2010	Mar 10 2011	2.9800	957	–

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Dec 31 2010	Dec 31 2009
Payments for gas	EUR 5m	Nov 5 2010	Feb 10 2011	4.0500	147	–
Payments for gas	USD 10m	Nov 5 2010	Mar 18 2011	3.0000	946	–
Payments for gas	EUR 9m	Nov 10 2010	Jan 20 2011	4.0000	189	–
Payments for gas	USD 10m	Nov 10 2010	Feb 18 2011	2.9900	717	–
Payments for gas	USD 10m	Nov 10 2010	Mar 18 2011	3.0300	835	–
Payments for gas	USD 10m	Nov 16 2010	Feb 18 2011	3.0500	514	–
Payments for gas	USD 10m	Nov 16 2010	Apr 8 2011	3.2500	465	–
Payments for gas	USD 10m	Nov 18 2010	Feb 18 2011	3.0300	574	–
Payments for gas	EUR 9m	Nov 18 2010	May 10 2011	4.1000	654	–
Payments for gas	USD 10m	Nov 19 2010	Feb 18 2011	3.0200	607	–
Payments for gas	USD 10m	Nov 22 2010	Feb 18 2011	3.0000	678	–
Payments for gas	USD 10m	Dec 1 2010	Mar 18 2011	3.2600	327	–
Payments for gas	USD 10m	Dec 1 2010	Feb 10 2011	3.2000	167	–
Payments for gas	USD 10m	Dec 1 2010	Feb 18 2011	3.2000	223	–
Payments for gas	USD 10m	Dec 2 2010	Jan 10 2011	3.1300	4	–
Payments for gas	USD 10m	Dec 2 2010	Feb 10 2011	3.1700	203	–
Payments for gas	USD 10m	Dec 2 2010	Jan 20 2011	3.1700	55	–
Payments for gas	USD 10m	Dec 2 2010	Apr 8 2011	3.2500	465	–
Payments for gas	USD 10m	Dec 3 2010	Feb 18 2011	3.1700	264	–
Payments for gas	USD 10m	Dec 3 2010	Apr 20 2011	3.2200	582	–
Payments for gas	USD 10m	Dec 3 2010	Mar 10 2011	3.1800	396	–
Payments for gas	USD 10m	Dec 3 2010	Mar 18 2011	3.1700	470	–
Payments for gas	USD 10m	Dec 3 2010	Apr 20 2011	3.2000	620	–
Payments for gas	USD 10m	Dec 7 2010	Apr 8 2011	3.2000	549	–
Payments for gas	USD 10m	Dec 10 2010	Feb 18 2011	3.1900	236	–
Payments for gas	USD 10m	Dec 10 2010	Mar 10 2011	3.2000	363	–
Payments for gas	USD 10m	Dec 10 2010	Mar 18 2011	3.2000	417	–
Payments for gas	USD 10m	Dec 13 2010	Mar 10 2011	3.1800	396	–
Payments for gas	EUR 8m	Dec 14 2010	Mar 18 2011	4.1000	344	–
Payments for gas	USD 10m	Dec 14 2010	May 10 2011	3.2500	627	–
Payments for gas	USD 10m	Dec 14 2010	Apr 8 2011	3.1800	588	–
Payments for gas	USD 10m	Dec 14 2010	Apr 20 2011	3.1400	752	–
Payments for gas	USD 10m	Dec 15 2010	Mar 10 2011	3.1380	476	–
Payments for gas	USD 10m	Dec 15 2010	Mar 18 2011	3.1400	531	–
Payments for gas	EUR 8m	Dec 15 2010	Jun 10 2011	4.2000	515	–
Payments for gas	USD 10m	Dec 16 2010	Apr 20 2011	3.2300	564	–
Payments for gas	USD 10m	Dec 16 2010	Apr 8 2011	3.2000	549	–
Payments for gas	USD 10m	Dec 16 2010	May 10 2011	3.4600	353	–
Payments for gas	USD 10m	Dec 27 2010	Apr 20 2011	3.2260	572	–
Payments for gas	USD 10m	Dec 28 2010	Apr 20 2011	3.1950	630	–
					30,342	**18,002**
Put options						
Payments for gas	EUR 5m	Jul 16 2009	Jan 8 2010	2.8030	–	(83)
Payments for gas	USD 15m	Jul 16 2009	Jan 8 2010	2.8100	–	(99)
Payments for gas	USD 15m	Jul 20 2009	Jan 8 2010	2.7980	–	(73)
Payments for gas	USD 15m	Jul 24 2009	Jan 19 2010	2.7285	–	(58)
Payments for gas	USD 15m	Jul 28 2009	Jan 19 2010	2.6900	–	(27)
Payments for gas	USD 15m	Aug 20 2009	Jan 19 2010	2.7425	–	(75)
Payments for gas	USD 15m	Aug 21 2009	Feb 19 2010	2.7070	–	(214)
Payments for gas	USD 15m	Aug 21 2009	Feb 10 2010	2.6720	–	(113)
Payments for gas	USD 15m	Aug 25 2009	Jan 8 2010	2.6350	–	–
Payments for gas	USD 15m	Sep 7 2009	Mar 10 2010	2.7025	–	(292)
Payments for gas	USD 15m	Sep 8 2009	Feb 10 2010	2.6570	–	(94)
Payments for gas	USD 15m	Sep 8 2009	Mar 10 2010	2.6595	–	(207)
Payments for gas	USD 15m	Sep 10 2009	Feb 19 2010	2.6575	–	(131)
Payments for gas	USD 15m	Sep 14 2009	Feb 19 2010	2.6800	–	(165)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value Dec 31 2010	Measurement at fair value Dec 31 2009
Payments for gas	USD 15m	Sep 16 2009	Mar 19 2010	2.6445	–	(214)
Payments for gas	USD 15m	Sep 17 2009	Mar 19 2010	2.6070	–	(158)
Payments for gas	USD 15m	Oct 20 2009	Apr 9 2010	2.5980	–	(204)
Payments for gas	USD 15m	Oct 23 2009	Apr 9 2010	2.5900	–	(192)
Payments for gas	USD 15m	Nov 6 2009	Apr 20 2010	2.6600	–	(343)
Payments for gas	USD 15m	Nov 6 2009	May 10 2010	2.6685	–	(423)
Payments for gas	USD 15m	Nov 9 2009	Apr 20 2010	2.6320	(286)	–
Payments for gas	USD 15m	Nov 9 2009	May 10 2010	2.6300	(339)	–
Payments for gas	USD 15m	Nov 12 2009	May 10 2010	2.5800	(249)	–
Payments for gas	USD 15m	Nov 13 2009	Apr 9 2010	2.5900	(192)	–
Payments for gas	USD 15m	Nov 18 2009	Apr 9 2010	2.5550	(147)	–
Payments for gas	USD 15m	Nov 23 2009	Apr 20 2010	2.5680	(185)	–
Payments for gas	USD 15m	Nov 23 2009	May 20 2010	2.5850	(285)	–
Payments for gas	USD 15m	Nov 23 2009	May 20 2010	2.5680	(257)	–
Payments for gas	USD 15m	Dec 1 2009	May 20 2010	2.5665	(255)	–
Payments for gas	USD 16m	Dec 2 2009	Jun 10 2010	2.5280	(239)	–
Payments for gas	USD 17m	Dec 3 2009	Jun 18 2010	2.5200	(243)	–
Payments for gas	USD 10m	Jul 22 2010	Jan 10 2011	3.0150	(581)	–
Payments for gas	USD 10m	Jul 22 2010	Jan 20 2011	3.0230	(803)	–
Payments for gas	USD 10m	Jul 23 2010	Jan 20 2011	2.9915	(585)	–
Payments for gas	USD 10m	Jul 26 2010	Jan 10 2011	2.9975	(442)	–
Payments for gas	USD 10m	Jul 26 2010	Jan 10 2011	2.9900	(386)	–
Payments for gas	USD 10m	Aug 2 2010	Feb 10 2011	2.9055	(371)	–
Payments for gas	USD 10m	Aug 3 2010	Feb 10 2011	2.8750	(270)	–
Payments for gas	USD 10m	Aug 4 2010	Feb 10 2011	2.8900	(316)	–
Payments for gas	USD 10m	Aug 5 2010	Feb 18 2011	2.8790	(339)	–
Payments for gas	USD 10m	Sep 6 2010	Mar 10 2011	2.8550	(390)	–
Payments for gas	USD 10m	Sep 22 2010	Mar 18 2011	2.7600	(201)	–
Payments for gas	USD 10m	Sep 28 2010	Jan 20 2011	2.7780	(16)	–
Payments for gas	USD 10m	Sep 29 2010	Mar 10 2011	2.7650	(181)	–
Payments for gas	USD 10m	Oct 14 2010	Mar 18 2011	2.5920	(34)	–
Payments for gas	USD 10m	Oct 14 2010	Jan 20 2011	2.6050	–	–
Payments for gas	USD 10m	Nov 16 2010	Apr 8 2011	2.7500	(249)	–
Payments for gas	USD 10m	Dec 16 2010	May 10 2011	2.8200	(541)	–
Sales revenue of Geofizyka Kraków	EUR 0.453m	Dec 10 2010	Jan 14 2011	3.9949	7	–
Sales revenue of Geofizyka Kraków	EUR 1.235m	Dec 10 2010	Feb 14 2011	3.9762	79	–
Sales revenue of Geofizyka Kraków	EUR 0.094m	Dec 10 2010	Mar 15 2011	3.9587	9	–
Sales revenue of Geofizyka Kraków	EUR 0.399m	Dec 10 2010	Apr 15 2011	3.9548	31	–
Sales revenue of Geofizyka Kraków	EUR 0.357m	Dec 10 2010	May 16 2011	3.9549	35	–
Sales revenue of Geofizyka Kraków	EUR 0.415m	Dec 10 2010	Jun 15 2011	3.9579	41	–
Sales revenue of Geofizyka Kraków	EUR 0.308m	Dec 10 2010	Jul 15 2011	3.9472	36	–
					(5,467)	**(5,842)**
Call commodity options						
Payments for gas	12000 MT Fueloil	Jun 10 2010	Jan 10 2011	477.00	–	–
Payments for gas	12000 MT Gasoil	Jun 10 2010	Jan 10 2011	685.00	–	–
Payments for gas	20000 MT Gasoil	Jul 20 2010	Mar 10 2011	695.00	344	–
Payments for gas	20000 MT Fueloil	Jul 20 2010	Mar 10 2011	500.00	–	–
Payments for gas	25000 MT Gasoil	Jul 20 2010	Mar 10 2011	695.00	430	–
Payments for gas	25000 MT Fueloil	Jul 20 2010	Mar 10 2011	500.00	–	–
Payments for gas	20000 MT Gasoil	Jul 21 2010	Mar 18 2011	707.00	–	–

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value Dec 31 2010	Measurement at fair value Dec 31 2009
Payments for gas	20000 MT Fueloil	Jul 21 2010	Mar 18 2011	507.00	–	–
Payments for gas	20000 MT Gasoil	Jul 21 2010	Apr 8 2011	707.00	–	–
Payments for gas	20000 MT Fueloil	Jul 21 2010	Apr 8 2011	507.00	–	–
Payments for gas	20000 MT Gasoil	Jul 23 2010	Mar 18 2011	707.00	–	–
Payments for gas	20000 MT Fueloil	Jul 23 2010	Mar 18 2011	507.00	–	–
Payments for gas	21000 MT Gasoil	Jul 26 2010	Apr 8 2011	705.00	–	–
Payments for gas	21000 MT Fueloil	Jul 26 2010	Apr 8 2011	505.00	–	–
Payments for gas	33000 MT Fueloil	Jul 27 2010	Apr 20 2011	545.00	–	–
Payments for gas	33000 MT Gasoil	Jul 27 2010	Apr 20 2011	750.00	117	–
Payments for gas	32000 MT Fueloil	Jul 27 2010	May 20 2011	545.00	–	–
Payments for gas	32000 MT Gasoil	Jul 27 2010	May 20 2011	750.00	114	–
Payments for gas	16000 MT Fueloil	Jul 27 2010	Jun 20 2011	545.00	–	–
Payments for gas	16000 MT Gasoil	Jul 27 2010	Jun 20 2011	750.00	57	–
Payments for gas	23000 MT Fueloil	Oct 20 2010	Oct 7 2011	570.00	64	–
Payments for gas	23000 MT Fueloil	Oct 20 2010	Sep 20 2011	570.00	64	–
Payments for gas	23000 MT Gasoil	Oct 20 2010	Sep 20 2011	780.00	1,152	–
Payments for gas	23000 MT Gasoil	Oct 20 2010	Oct 7 2011	780.00	1,152	–
Payments for gas	13000 MT Gasoil	Oct 21 2010	Apr 20 2011	780.00	174	–
Payments for gas	13000 MT Gasoil	Oct 21 2010	May 10 2011	780.00	174	–
Payments for gas	24000 MT Gasoil	Oct 21 2010	Jun 20 2011	780.00	322	–
Payments for gas	24000 MT Gasoil	Oct 21 2010	Jul 8 2011	780.00	322	–
Payments for gas	13000 MT Fueloil	Oct 22 2010	Apr 20 2011	540.00	7	–
Payments for gas	13000 MT Fueloil	Oct 22 2010	May 10 2011	540.00	7	–
Payments for gas	23000 MT Fueloil	Oct 22 2010	Jun 20 2011	540.00	13	–
Payments for gas	23000 MT Fueloil	Oct 22 2010	Jul 8 2011	540.00	13	–
Payments for gas	30000 MT Gasoil	Oct 26 2010	Jul 20 2011	790.00	1 209	–
Payments for gas	30000 MT Gasoil	Oct 26 2010	Aug 10 2011	790.00	1,209	–
Payments for gas	30000 MT Fueloil	Oct 26 2010	Jul 20 2011	560.00	129	–
Payments for gas	30000 MT Fueloil	Oct 26 2010	Aug 10 2011	560.00	129	–
Payments for gas	25000 MT Gasoil	Oct 27 2010	Aug 19 2011	790.00	1,008	–
Payments for gas	25000 MT Fueloil	Oct 29 2010	Aug 19 2011	555.00	134	–
Payments for gas	25000 MT Fueloil	Oct 29 2010	Sep 9 2011	555.00	134	–
Payments for gas	10000 MT Gasoil	Nov 8 2010	May 20 2011	780.00	134	–
Payments for gas	10000 MT Gasoil	Nov 8 2010	Jun 10 2011	780.00	134	–
Payments for gas	26000 MT Gasoil	Nov 8 2010	Sep 9 2011	800.00	833	–
Payments for gas	9000 MT Fueloil	Nov 9 2010	May 20 2011	530.00	13	–
Payments for gas	10000 MT Fueloil	Nov 9 2010	Jun 10 2011	530.00	15	–
					9,607	**–**
Put commodity options						
Payments for gas	33000 MT Fueloil	Jul 27 2010	Apr 20 2011	430.00	–	–
Payments for gas	33000 MT Gasoil	Jul 27 2010	Apr 20 2011	606.00	–	–
Payments for gas	32000 MT Fueloil	Jul 27 2010	May 20 2011	425.00	–	–
Payments for gas	32000 MT Gasoil	Jul 27 2010	May 20 2011	594.00	–	–
Payments for gas	16000 MT Fueloil	Jul 27 2010	Jun 20 2011	420.00	–	–
Payments for gas	16000 MT Gasoil	Jul 27 2010	Jun 20 2011	593.00	–	–
Payments for gas	23000 MT Fueloil	Oct 20 2010	Oct 7 2011	412.00	(15)	–
Payments for gas	23000 MT Fueloil	Oct 20 2010	Sep 20 2011	412.00	(15)	–
Payments for gas	23000 MT Gasoil	Oct 20 2010	Sep 20 2011	640.50	(21)	–
Payments for gas	23000 MT Gasoil	Oct 20 2010	Oct 7 2011	640.50	(21)	–
Payments for gas	13000 MT Gasoil	Oct 21 2010	Apr 20 2011	647.00	–	–
Payments for gas	13000 MT Gasoil	Oct 21 2010	May 10 2011	647.00	–	–
Payments for gas	24000 MT Gasoil	Oct 21 2010	Jun 20 2011	645.00	–	–
Payments for gas	24000 MT Gasoil	Oct 21 2010	Jul 8 2011	645.00	–	–
Payments for gas	13000 MT Fueloil	Oct 22 2010	Apr 20 2011	435.00	(1)	–
Payments for gas	13000 MT Fueloil	Oct 22 2010	May 10 2011	435.00	(1)	–
Payments for gas	23000 MT Fueloil	Oct 22 2010	Jun 20 2011	426.00	–	–

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value Dec 31 2010	Measurement at fair value Dec 31 2009
Payments for gas	23000 MT Fueloil	Oct 22 2010	Jul 8 2011	426.00	–	–
Payments for gas	30000 MT Gasoil	Oct 26 2010	Jul 20 2011	640.70	(28)	–
Payments for gas	30000 MT Gasoil	Oct 26 2010	Aug 10 2011	640.70	(28)	–
Payments for gas	30000 MT Fueloil	Oct 26 2010	Jul 20 2011	432.00	(89)	–
Payments for gas	30000 MT Fueloil	Oct 26 2010	Aug 10 2011	432.00	(89)	–
Payments for gas	25000 MT Gasoil	Oct 27 2010	Aug 19 2011	632.00	(14)	–
Payments for gas	25000 MT Fueloil	Oct 29 2010	Aug 19 2011	428.50	(58)	–
Payments for gas	25000 MT Fueloil	Oct 29 2010	Sep 9 2011	428.50	(58)	–
					(438)	**–**
			Commodity swaps			
Payments for gas	11600 MT Gasoil	Jul 16 2010	Jan 10 2011	647.00	299	–
Payments for gas	11600 MT Fueloil	Jul 16 2010	Jan 10 2011	468.75	(424)	–
Payments for gas	45000 MT Fueloil	Jul 20 2010	Jan 20 2011	469.75	229	–
Payments for gas	45000 MT Gasoil	Jul 20 2010	Jan 20 2011	654.50	6,165	–
Payments for gas	45000 MT Gasoil	Jul 20 2010	Feb 10 2011	654.50	6,152	–
Payments for gas	45000 MT Fueloil	Jul 20 2010	Feb 10 2011	469.00	329	–
Payments for gas	45000 MT Gasoil	Jul 20 2010	Feb 18 2011	652.50	6,412	–
Payments for gas	45000 MT Fueloil	Jul 20 2010	Feb 18 2011	468.00	461	–
Payments for gas	33000 MT Gasoil	Jul 28 2010	May 10 2011	660.50	6,363	–
Payments for gas	33000 MT Fueloil	Jul 28 2010	May 10 2011	473.00	696	–
Payments for gas	31000 MT Gasoil	Jul 28 2010	Jun 10 2011	658.00	6,203	–
Payments for gas	31000 MT Fueloil	Jul 28 2010	Jun 10 2011	471.50	791	–
Payments for gas	16000 MT Gasoil	Jul 28 2010	Jul 8 2011	658.50	3,176	–
Payments for gas	16000 MT Fueloil	Jul 28 2010	Jul 8 2011	471.50	408	–
					37 260	–
Total					**(26 570)**	**(242 426)**
		including:	premiums on options	assets	76,043	25,938
			positive valuation*	assets	1,830	(7, 936)
			negative valuation	liabilities	(104,443)	(260,428)

* Includes reversal of positive valuation, but due to a surplus of option premiums and their valuation, they were jointly posted under assets.
MT – metric tonnes.

Positive valuation of derivatives as at the end of period is presented in the statement of financial position in a separate item of current assets. Negative valuation of derivatives is presented in the statement of financial position in a separate item of current liabilities. The effects of measurement of open items are recognised in profit/loss for the period or directly in equity in the event of occurrence of an effective portion constituting an effective hedge of fair value changes of financial derivatives designated to hedge cash flows. In such a case, at the time of exercise of the derivative instrument and of the hedged item, the Company's equity is decreased/increased, and the effective portion is charged to the income statement in the place of origination of the hedged item's costs. The non-effective portion and the fair value of transactions not designated as hedges is recognised under other items of the profit or loss of the period.

	Period from Jan 1 – Dec 31 2010	Period from Jan 1 – Dec 31 2009
Net gain/(loss) on valuation of derivative instruments – unrealised	(142,560)	(270,890)
Profit/(loss) on derivative instruments – realised	(48,677)	2,332
Total net gain/(loss) on derivative instruments recognised in the income statement	**(191,237)**	**(268,558)**
including:		
recognised under net other operating expenses	(276,530)	(229,771)
recognised under cost of raw and other materials used*	85,293	(38,787)
Result on valuation of derivative instruments recognised in other comprehensive income – unrealised*	**42,036**	**–**
Total net gain/(loss) on derivative instruments recognised in equity	**(149,201)**	**(268,558)**

* The Parent Undertaking has applied hedge accounting since 2009.

35. Contingent liabilities and receivables

35.1. Contingent receivables

(PLN '000)	Dec 31 2010	Dec 31 2009
From related undertakings:		
under guarantees and sureties received	–	–
under promissory notes received	152	35,390
Total contingent receivables from related undertakings	**152**	**35,390**
From other undertakings:		
under guarantees and sureties received	369,720	364,902
under promissory notes received	71,153	59,356
Total contingent receivables from other undertakings	**440,873**	**424,258**
Total contingent assets	**441,025**	**459,648**

35.2. Contingent Liabilities

(PLN '000)	Dec 31 2010	Dec 31 2009
To related undertakings		
under guarantees and sureties issued	–	–
under promissory notes issued	–	–
Total contingent liabilities to related undertakings	**–**	**–**
To other undertakings		
under guarantees and sureties issued*	2,867,934	8,089,326
under promissory notes issued	771,473	71,548
Total contingent liabilities to other undertakings	**3,639,407**	**8,160,874**
Total contingent liabilities	**3,639,407**	**8,160,874**

* Contingent liabilities in foreign currencies were translated into the złoty at exchange rates quoted by the National Bank of Poland for December 31st 2010.

In 2010, the guarantee of the largest value (EUR 1,250,000 thousand), granted jointly by the Gas Companies to a bank syndicate led by Bank Handlowy w Warszawie SA, expired. The guarantee secured a syndicated loan which was fully repaid on July 27th 2010. As at the end of 2009, the value of the guarantee amounted to PLN 5,135,250 thousand. Furthermore, due to the appreciation of the złoty against the euro, the value of a guarantee issued to the state of Norway (EUR 627,556 thousand) decreased by PLN 82,815 thousand.

The amount of contingent liabilities under outstanding promissory notes increased significantly due to the issuance of four promissory notes for the total amount of PLN 673,490 thousand issued as a guarantee of proper performance by PGNiG SA of agreements for partial financing of gas storage projects (Wierzchowice, Strachocina, Mogilno and Kosakowo Underground Storage Facilities). The promissory notes were issued for Instytut Nafty i Gazu (Oil and Gas Institute) of Kraków.

35.3. Other Contingent Liabilities

Real Estate Tax

Pursuant to a decision of the Supreme Administrative Court in Warsaw of July 2nd 2001 undertaken by a bench of seven judges, excavations are not subject to real estate tax. Since wells are considered excavations for the purposes of oil and gas production, the local authorities (gminy) in the area of operation of the Zielona Góra Branch resolved not to collect real estate tax thereunder; however some authorities decided that it is the well supporting infrastructure that is subject to taxation.

The pipeline tax was introduced in 2001. In the previous years, the Zielona Góra Branch created provisions for claims of the local authorities due to real estate tax in the amount of PLN 821.3 thousand. Following a favourable outcome of court cases regarding this type of claims in the past, PGNiG SA reassessed the risk thereunder and, having considered it low, released the provision in 2007. However, the local authorities in the Podkarpacie region have never filed any such claims so far. Therefore, the mining plants located in Podkarpacie did not declare or account for real estate tax on excavations for the period from 2001 to 2010. The related liability, if any, including interest, which is not past due and is not recognised in the financial statements, amounted to PLN 136,802 thousand as at December 31st 2010 (as at the end of 2009, it was PLN 127,514.3 thousand).

36. Off-balance sheet liabilities

36.1. Operating Lease Liabilities

No operating lease liabilities were recognised.

36.2. Contractual Liabilities (Not Yet Disclosed in the Statement of Financial Position)

(PLN '000)	Dec 31 2010	Dec 31 2009
Contractual liabilities	3,547,650	3,810,209
Completion of agreements as at the balance-sheet date	(1,600,005)	(914,763)
Contractual liabilities subsequent to the balance-sheet date	**1,947,645**	**2,895,446**

37. Information on related undertakings

37.1. Related-Party Transactions

Related party	Period Jan 1 – Dec 31 ending as at	Sales to related parties	Purchases from related parties	Balance as at	Receivables from related parties, gross	Receivables from related parties, net	Loans to related parties, gross	Loans to related parties, net	Amounts payable to related parties
Associated undertakings consolidated with the equity method	Dec 31 2010	19,313	13	Dec 31 2010	2,671	2,671	–	–	7,917
	Dec 31 2009	25,345	103,750	Dec 31 2009	2,626	2,625	–	–	8,943
Non-consolidated subsidiary and associated undertakings	Dec 31 2010	6,120	137,270	Dec 31 2010	127,799	1,549	22,372	–	105,019
	Dec 31 2009	42,292	225,632	Dec 31 2009	143,231	9,598	28,622	9,551	143,540
Related undertakings – total	**Dec 31 2010**	**25,433**	**137,283**	**Dec 31 2010**	**130,470**	**4,220**	**22,372**	**–**	**112,936**
	Dec 31 2009	**67,637**	**329,382**	**Dec 31 2009**	**145,857**	**12,223**	**28,622**	**9,551**	**152,483**

The principal transactions with shareholders in 2010 and 2009 were dividend payments, as detailed in Note 10.

In 2010, the Parent Undertaking or its subsidiaries did not enter into any material non-arm's length transactions with related parties.

The Group prepares documentation for related-party transactions in accordance with Art. 9a of the Act on Corporate Income Tax. The procedure is applied each time the PGNiG Group undertakings execute agreements(including framework agreements), annexes to agreements, orders (detailed agreements) or orders placed under framework agreements with related undertakings – if the total amount of amounts payable/receivable (to/from one contractor under one agreement) or its equivalent in the złoty exceeds in a calendar year an equivalent of EUR 100 thousand in the case of transactions involving goods and EUR 30 thousand in the case of transactions involving provision of services, sale or delivery of intangible assets. The Group applies the methods and manner of profit calculation and of defining the transaction price as specified in Art. 11 of the Act on Corporate Income Tax, that is the comparable uncontrolled price, resale price, and cost plus methods, as well as additional transactional profit methods (profit split, transactional net margin).

37.2. Transactions with Undertakings in which the State Treasury Holds Equity Interests

The Group, being exempt from the requirements of updated IAS 24 (also described in Note 2.2.1.), presents below the lists of undertakings with whom the Group generated highest turnovers in the ordinary course of business in 2010 and 2009.

In 2010, the Group generated the highest turnovers with the following undertakings in which the State Treasury holds equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM SA, Polski Koncern Naftowy ORLEN SA, Rafineria Trzebinia SA, Zakłady Azotowe ANWIL SA, Zakłady Azotowe PUŁAWY SA, Zakłady Azotowe KĘDZIERZYN SA, Zakłady Chemiczne POLICE SA, Zakłady Azotowe w Tarnowie-Mościcach SA, and PGE Elektrociepłownia Lublin-Wrotków Sp. z o.o.

In 2009, the Group generated the highest turnovers with the following undertakings in which the State Treasury holds equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM SA, Polski Koncern Naftowy ORLEN SA, Rafineria Trzebinia SA, Zakłady Azotowe ANWIL SA, Zakłady Azotowe PUŁAWY SA, and Zakłady Azotowe KĘDZIERZYN SA.

37.3. Remuneration Paid to Members of Management and Supervisory Bodies at the Group Companies

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Remuneration paid to management staff	**31,336**	**28,751**
Parent undertaking	3,250	3,396
Subsidiary undertakings	16,079	14,714
Jointly-controlled undertaking	11,218	9,807
Associated undertakings	789	834
Remuneration paid to supervisory staff	**11,796**	**6,455**
Parent undertaking	337	337
Subsidiary undertakings	4,750	4,073
Jointly-controlled undertaking	5,977	1,313
Associated undertakings	732	732
Total	**43,132**	**35,206**

37.4. Loans Granted to Members of the Management and Supervisory Boards at the Group Companies

(PLN '000)	Dec 31 2010	Dec 31 2009
Management Board members		
Interest rate (%)	1% – 3.5%	1% – 3.5%
Repayment period (years)	3 – 10 years	1.5 – 10 years
Value of outstanding loans	44	72
Supervisory Board members		
Interest rate (%)	0% – 4%	0% – 4%
Repayment period (years)	2 – 3 years	1.5 – 3 years
Value of outstanding loans	25	4
Total value of outstanding loans	**69**	**76**

37.5. Remuneration Paid to Members of Management and Supervisory Bodies of the Parent Undertaking

(PLN '000)	Jan 1 – Dec 31 2010		
Name	Total amount of remuneration, additional benefits and bonuses paid in 2010	Total amount of remuneration for holding offices in subordinated undertakings in 2010	**Total remuneration paid in 2010**
Total remuneration paid to Management Board members, including:	**3,250.15**	**3,209.91**	**6,460.06**
Michał Szubski – President	368.04	950.13	1,318.17
Radosław Dudziński – Vice-President	343.42	687.62	1,031.04
Sławomir Hinc – Vice-President	333.92	687.62	1,021.54
Marek Karabuła – Vice-President*	110.97	53.46	164.43
Mirosław Szkałuba – Vice-President	401.53	203.68	605.21
Ewa Bernacik – proxy	356.22	82.96	439.18
Mieczysław Jakiel – proxy	394.27	41.45	435.72
Tadeusz Kulczyk – proxy	394.10	41.45	435.55
Persons who were Management Board members in 2010 but not as at Dec 31 2010:			
Mirosław Szkałuba – Vice-President	222.60	214.98	437.58
Waldemar Wójcik – Vice-President	325.08	246.56	571.64
Total remuneration paid to Supervisory Board members, including:	**336.79**	**199.31**	**536.10**
Stanisław Rychlicki	41.45	80.00	121.45
Marcin Moryń	41.45	–	41.45
Mieczysław Kawecki	41.45	38.92	80.37
Agnieszka Chmielarz	41.45	38.94	80.39
Grzegorz Banaszek	41.45	–	41.45
Mieczysław Puławski	41.45	–	41.45
Jolanta Siergiej	41.45	41.45	82.90
Persons who were Supervisory Board members in 2010 but not as at Dec 31 2010:			
Marek Karabuła*	46.64	–	46.64
Total	**3,586.94**	**3,409.22**	**6,996.16**

* On July 19th 2010, Marek Karabuła was appointed Vice-President of the Management Board.

(PLN '000)	Jan 1 – Dec 31 2009		
Name	Total amount of remuneration, additional benefits and bonuses paid in 2009	Total amount of remuneration for holding offices in subordinated undertakings in 2009	**Total remuneration paid in 2009**
Total remuneration paid to Management Board members, including:	**3,396.15**	**3,379.74**	**6,775.89**
Michał Szubski – President	322.02	820.78	1,142.80
Mirosław Dobrut – Vice-President	274.17	410.17	684.34
Radosław Dudziński – Vice-President	279.81	736.69	1,016.50
Sławomir Hinc – Vice-President	278.85	747.52	1,026.37
Mirosław Szkałuba – Vice-President	298.40	199.55	497.95
Waldemar Wójcik – Vice-President*	381.85	224.52	606.37
Ewa Bernacik – proxy	343.31	80.85	424.16
Mieczysław Jakiel – proxy	240.31	39.84	280.15
Tadeusz Kulczyk – proxy	334.79	33.20	367.99
Persons who were Management Board members in 2009 but not as at Dec 31 2009:			
Stanisław Radecki – proxy	541.84	39.84	581.68
Marek Dobryniewski – proxy	33.00	6.64	39.64
Zbigniew Król – proxy	67.80	40.14	107.94
Total remuneration paid to Supervisory Board members, including:	**337.06**	**217.15**	**554.21**
Stanisław Rychlicki	39.84	80.00	119.84
Marcin Moryń	39.84	–	39.84
Mieczysław Kawecki	39.84	52.16	92.00
Agnieszka Chmielarz	39.84	45.15	84.99
Grzegorz Banaszek	39.84	–	39.84
Marek Karabuła	39.84	–	39.84
Mieczysław Puławski	39.84	–	39.84
Jolanta Siergiej	39.84	39.84	79.68
Persons who were Supervisory Board members in 2009 but not as at Dec 31 2009:			
Maciej Kaliski	18.34	–	18.34
Total	**3,733.21**	**3,596.89**	**7,330.10**

* Including remuneration paid for holding the position of proxy in the period from January 1st to January 28th 2009.

37.6. Fees Paid to the Audit Firm for the Mandatory Audit of the Annual Consolidated Financial Statements of the Group and for Other Services

The consolidated financial statements of the PGNiG Group and the financial statements of PGNiG SA and 20 subsidiary undertakings for 2010 are audited by Deloitte Audyt Sp. z o.o. The agreement with the audit firm was executed for a period of three years (2010 – 2013). The agreement provides for:

- audit and translation into English of the financial statements for 12-month periods ended December 31st 2010, December 31st 2011 and December 31st 2012 (for PGNiG SA and subsidiary undertakings);
- review of the financial statements for the first quarter of each 2011, 2012 and 2013 (for PGNiG SA);
- review and translation of the financial statements for the first half of each 2010, 2011 and 2012 (for PGNiG SA);
- review of the financial statements for the third quarter of each 2010, 2011 and 2012 (for PGNiG SA);
- performance of agreed procedures related to financial ratios for 2010, 2011 and 2012 for the needs of the banks financing the Parent Undertaking, provided for under outstanding loan agreements and note issuance agreements (for PGNiG SA).

The table below presents the fees paid or payable by the Parent Undertaking to the entity qualified to audit financial statements, for 2009 – 2010.

(PLN '000)	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Audit of the annual consolidated financial statements	108	145
Audit of the annual separate financial statements	122	165
Other certification services, including review of financial statements	320	510
Tax advisory services	–	–
Other services	12	125
Total	**562**	**945**

37.7. Non-Consolidated Joint Ventures

In 2010, PGNiG SA cooperated with the following companies in Poland: FX Energy Poland Sp. z o.o., EuroGas Polska Sp. z o.o., Energia Bieszczady Sp. z o.o., Orlen Upstream Sp. z o.o., Energia Karpaty Zachodnie Sp. z o.o. and Energia Karpaty Wschodnie Sp. z o.o. Sp. k.

FX Energy Poland Sp. z o.o.,
registered office at ul. Chałubińskiego 8, 00-613 Warsaw.

In 2010, PGNiG SA continued cooperation with FX Energy Poland Sp. z o.o. in the following areas covered by licenses awarded to PGNiG SA:

- "Płotki" – under the Agreement for Joint Operations dated May 12th 2000; licence interests: PGNiG SA – 51%, FX Energy – 49%,
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under the Operating Agreement of Mining Users dated October 26th 2005; licence interests: PGNiG SA – 51%, FX Energy – 24.5%, CalEnergy – 24.5%,
- "Poznań" – under the Agreement for Joint Operations dated June 1st 2005; licence interests: PGNiG SA – 51%, FX Energy – 49%,

and in the areas covered by licenses awarded to FX Energy Poland Sp. z o.o.:

- Block 255 – under Agreement for Joint Operations dated October 29th 1999 (FX Energy – 81.82%, PGNiG SA – 18.18%),
- "Ostrowiec" – under the Agreement for Joint Operations dated February 27th 2009, covering licence blocks nos. 163 and 164; licence interests: FX Energy – 51%, PGNiG SA – 49%.

In the "Płotki" area, hydrocarbons were produced from the Klęka field and the Roszków field. In 2010, production from the Klęka field was discontinued and decision was made to abandon the well and decommission the infrastructure. Total volume of natural gas produced from the Klęka field was approx. 76 million cubic meters. In the "Płotki"-"PTZ" area, production continued on the Zaniemyśl and Roszków gas fields.

With respect to the "Poznań" area, reprocessing and interpretation of the Żerków-Pleszew 3D seismic survey was completed. In 2010, natural gas production was commenced on the Środa Wielkopolska field (Środa Wielkopolska-4 well). Also, drilling of the Lisewo-1k borehole was commenced in 2010, which led to discovery of a new natural gas field at the beginning of 2011 The design documentation for the drilling of the Pławce-2 exploration well was prepared, with the drilling work scheduled for 2011. Plans for 2011 include start of production from the Kromolice and Kromolice S fields, completion of stage II of the Żerków-Pleszew 3D seismic survey, tests on the Lisewo-1k borehole, and drilling of the Pławce-2 4000m exploration.

Despite discontinued production from the Wilga field ("Block 255") and absence of hydrocarbon flows from the Ostrowiec-1 borehole, analyses of the available material continued during 2010 to identify any further exploration potential in these areas.

On September 30th 2010, FX Energy Poland Sp. z o.o. and PGNiG SA executed a cooperation agreement covering the licenses awarded to FX Energy Poland Sp. z o.o. (blocks 211, 212, 231 and 232). Interests held by the parties to the project: PGNiG SA – 50%, FX Energy – 50%. FX Energy Poland Sp. z o.o. is project operator. Drilling of the Kutno deep well is scheduled for 2011.

EuroGas Polska Sp. z o.o.,
registered office at ul. Górnośląska 3, 43-200 Pszczyna

Energia Bieszczady Sp. z o.o.,
registered office at ul. Śniadeckich 17, 00-654 Warsaw

In 2010, PGNiG SA continued cooperation with EuroGasPolska Sp. z o.o. and Energia Bieszczady Sp. z o.o. in the "Bieszczady" license area (the mining usufruct and licenses for exploration and appraisal of crude oil and natural gas deposits in that area are held by PGNiG SA). Interests held in the project: PGNiG SA (operator) – 51%, Eurogas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%.

In 2010, the processing and interpretation of Kostarowce-Zahutyń 2D seismic surveys ("Bieszczady" area) in the Carpathian region were completed and the drilling of the Niebieszczany-1 exploration well was commenced. Plans for 2011 assume acquisition of 340 km of 2D seismic data, completion of the drilling of the Niebieszczany-1 well and start of the drilling of the Puławy Górne-1 exploration 5000m well.

Orlen Upstream Sp. z o.o.,
registered office at ul. Przyokopowa 31, 01-208 Warsaw

In 2010, PGNiG SA continued cooperation with Orlen Upstream Sp. z o.o. in the "Sieraków" area (PGNiG SA has a 51% interest in the project, while PKN Orlen SA holds the remaining 49%).

In 2010, in the "Sieraków" area, the Sieraków-4 well was worked over and tested. In early 2011, the drilling of the Sieraków-5 well was commenced. The drilling of the Sieraków-3 well is also planned for 2011.

Energia Karpaty Zachodnie Sp. z o.o. Sp. k.,
registered office at ul. Śniadeckich 17, 00-654 Warsaw

PGNiG SA cooperates with Energia Karpaty Zachodnie Sp. z o.o. Sp. k. in the following areas: "Budzów", "Bielsko-Biała", "Bestwina" and "Cieszyn". Energia Karpaty Zachodnie Sp. z o.o. Sp. k. acts as the Operator and holds a 60% interest in the project, while PGNiG SA holds a 40% interest.

Energia Karpaty Wschodnie Sp. z o.o. Sp. k.,
registered office at ul. Śniadeckich 17, 00-654 Warsaw

PGNiG SA cooperates with Energia Karpaty Wschodnie Sp. z o.o. Sp. k. in the "Mszana Dolna" and "Jordanów" areas. Energia Karpaty Wschodnie Sp. z o.o. Sp. k. acts as the Operator and holds an 80% interest in the project, while PGNiG SA holds a 20% interest.

In 2010, as part of cooperation between Energia Karpaty Zachodnie Sp. z o.o. Sp. k. and Energia Karpaty Wschodnie Sp. z o.o. Sp. k., reprocessing of 3,000 km of 2D profiles and analysis of borehole geophysical data from 113 old boreholes was performed. Plans for 2011 assume reprocessing of approx. 1,000 km of 2D seismic data and acquisition of approx. 250 km of new 2D seismic data in both licence areas.

In 2010, the Minister of Environment approved the following allocation of working interests (division of mining usufruct rights) among the parties to the agreements for joint operations regarding the following areas (allocation consistent with interests in the joint venture projects as established under the agreements):

- "Budzów", "Bielsko-Biała", "Bestwina" and "Cieszyn" – under Agreement for Joint Operations with Energia Karpaty Zachodnie Sp. z o.o. Sp. k.,
- "Mszana Dolna" and "Jordanów" – under Agreement for Joint Operations with Energia Karpaty Wschodnie Sp. z o.o. Sp. k.,
- "Płotki" – under Agreement for Joint Operations with FX Energy Poland Sp. z o.o.,
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under Operating Agreement of Mining Users with FX Energy Poland Sp. z o.o. and Calenergy Resources Poland Sp. z o.o.,
- "Poznań" – under Agreement for Joint Operations with FX Energy Poland Sp. z o.o.

The division of mining usufruct among the parties to the operating agreements in proportion reflecting their respective shares in the joint venture defines the method of settlements for produced hydrocarbons. In addition, the ability to divide mining usufruct facilitates negotiations with potential E&P partners.

All the joint ventures described above were not consolidated in 2010 and 2009 as all their assets, liabilities, income and expenses were presented in the statement of financial position and the income statement of the Parent Undertaking pro rata to its interest in a given joint venture.

37.8. Foreign Operations

PGNiG SA's Interest in Foreign Operations

Ukraine

Dewon Z.SA is a closely-held joint-stock company (not listed), established on November 17th 1999. The company's core business consists in provision of services related to production of natural gas, workover of wells and development and exploitation of fields in Ukraine.

The company's share capital amounts to UAH 11,146.8 thousand (equivalent to PLN 4,148.84 thousand, translated at the exchange rate of the National Bank of Poland quoted for December 31st 2010) and is divided into 120,000 shares with a par value of UAH 92.89 per share. PGNiG SA holds a UAH 4,055.2 thousand interest in the company (equivalent to PLN 1,509.3 thousand, translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010). As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Parent Undertaking amounted to PLN 2,499.4 thousand. An impairment loss was recognised for the full value of the shares.

The company's shareholder structure is as follows:

- PGNiG SA 36.38%
- Prawniczyj Alians Sp. z o.o. 25.99%
- Ferrous Trading Ltd. 25.08%
- NAK Neftiegaz Ukrainy 12.13%
- Oszkader Walentyna Georgijewna 0.41%
- SZJu Łtawa Sp. z o.o. 0.01%

The company commenced production of natural gas in November 2003 and continued its gas production opeartions until April 24th 2009.

Dewon Z.SA conducted work at the Sakhalin field as part of a joint venture, under an agreement with NAK Nadra Ukrainy (the holder of the license for the production of hydrocarbons) and PoltavaNafto-Gas-Geologia. On April 24th 2009, the license for work at the Sakhalin field held by NAK Nadra Ukrainy expired. Dewon Z.S.A has not produced gas from the field since. Despite numerous interventions of the Polish Embassy in Kiev and the representatives of the Polish government, until the date of these statements, no license has been granted whereby Dewon Z.SA would be able to recommence work on the field. The discontinuation of production resulted in significant deterioration of the company's financial and economic position.

Oman

The share capital of **Sahara Petroleum Technology Llc** amounts to OMR 150.0 thousand (Omani rial), equivalent to PLN 1,184.8 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for December 29th 2010 (the last exchange rate quoted in 2010), and is divided into 150,000 shares with a par value of OMR 1 per share. PGNiG SA holds an OMR 73.5 thousand interest in the company (equivalent to PLN 580.6 thousand, translated at the exchange rate quoted by the National Bank of Poland for December 29th 2010). As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Parent Undertaking amounted to PLN 879.0 thousand. An impairment loss was recognised for the full value of the shares.

The company's shareholder structure is as follows:

PGNiG SA	73,500 shares	49%
Petroleum and Gas Technology llc P.O. Box 3641, Ruwi, the Sultanate of Oman	76,500 shares	51%

The company was established in 2000, at the initiative of Zakład Robót Górniczych of Krosno (until June 30th 2005 a branch of PGNiG SA, currently a wholly-owned subsidiary of PGNiG SA). The company's core business consists in provision of services related to well processing and workover, wireline technology operations, wellhead maintenance, as well as light and middle drilling work with the use of PGNiG SA's technological capabilities.

The company never conducted the operations for which it was established. On June 7th 2009, the shareholders resolved to dissolve the company and appoint a liquidator. At present, the liquidation of the company is pending.

Germany

On July 1st 2005 in Potsdam, Germany, PGNiG SA and VNG-Verbundnetz Gas AG executed two deeds of incorporation whereby they established two companies under German law:

- **InterTransGas GmbH (ITG),**
- **InterGasTrade GmbH (IGT).**

Each partner acquired a 50% interest in each company. The share capital of each of the companies amounts to EUR 200 thousand (equivalent to PLN 792.1 thousand, translated at the mid exchange rate of the National Bank of Poland quoted for December 31st 2010), and their registered offices are located in Potsdam (InterGasTrade GmbH (IGT)) and Leipzig (InterTransGas GmbH (ITG).

InterGasTrade GmbH has not been registered.

On August 9th 2005, InterTransGas GmbH was entered in the commercial register of Potsdam. The company's core business consists in construction, operation and sale of transmission capacities.

InterTransGas GmbH was established for the purpose of constructing an inter connector pipeline between the Polish and European transmission systems, which is one of the solutions designed to diversify the supplies of gas fuels to Poland. At present, under a resolution of its shareholders, InterTransGas GmbH operates at minimum costs necessary to keep the company in operation. As soon as it is possible to build a gas pipeline to connect the Polish and German systems for gas fuels transmission, the company will be able to commence operations as provided for in its Articles of Association.

In 2007, pursuant to a resolution of the shareholders, the registered office of InterTransGas GmbH was relocated from Potsdam to Leipzig, Germany.

On January 29th 2009, the Shareholders Meeting of InterTransGas GmbH adopted resolutions concerning approval of the business model for the construction of the Börnicke – Hintersee– Police gas pipeline, approval of the business plan for 2009 and contributions of EUR 3,000 thousand by the shareholders to the company's capital reserves. The recapitalisation takes the form of a contribution to the company's capital reserves, without issuance of new shares. Each of the shareholders paid the first tranche of EUR 750 thousand to the capital reserves in June 2009. The next tranche of EUR 2,250 thousand was paid by each shareholder in July 2010, after on June 30th 2010 the shareholders executed an Annex to the Shareholders Cooperation Agreement, defining in detail the terms of cooperation on the construction of the Germany – Poland interconnector pipeline, particularly with respect to rights and obligations of the shareholders.

The decision concerning construction of the interconnector pipeline is expected to be made in 2011.

As at December 31st 2010, PGNiG SA's interest in InterTransGas GmbH amounted to EUR 3,100 thousand (equivalent to PLN 12,852 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for December 31st 2010). As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Parent Undertaking amounted to PLN 13,602.5 thousand.

On December 21st 2010, **POGC Trading GmbH** of Munich was incorporated, with a share capital of EUR 10,000 thousand. All the shares were acquired by PGNiG SA for a cash contribution made in December 2010. As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Parent Undertaking amounted to PLN 39,710 thousand.

The company's business profile is to involve purchase and sale of, and trade in, gas, fuels and other forms of energy (related to such products in a physical form), as well as trade in derivatives and financial products, provided that the trade in derivatives and financial products is to be conducted only for hedging purposes. On February 10th 2011, POGC Trading GmbH was entered in the commercial register of Munich.

Norway

On May 24th 2007, the Parent Undertaking established its Norwegian subsidiary **PGNiG Norway AS**, incorporated as a company with limited liability, a special purpose vehicle to implement PGNiG SA's projects in the Norwegian Continental Shelf (NCS).

PGNiG SA of Warsaw is the only shareholder in PGNiG Norway AS. PGNiG Norway AS's business consists in crude oil and natural gas production, other types of activities auxiliary to hydrocarbon extraction, and provision of related services. PGNiG Norway AS may also engage in infrastructure projects related to transmission via subsea pipelines (e.g. construction and operation of gas pipelines), and conduct trading and financial activities and other types of activities at all stages of the crude oil and natural gas value chain.

On the Norwegian Continental Shelf, PGNiG Norway AS and its partners are implementing the Skarv/Snadd/Idun development project. PGNiG Norway AS holds a 12% interest in the fields, other interest holders are British Petroleum (the operator, 24%), Statoil (36%) and E.ON Ruhrgas (28%).

In 2010, as part of the Skarv project first wells were drilled and gas and oil reserves were documented, as confirmed by the Norwegian Petroleum Directoriate. The field will be developed using a geostationary floating production, storage and offloading vessel (FPSO), built in a shipyard in South Korea. The Skarv project is one of the largest projects in Norway. Under the project, 16 wells are expected to be drilled, including seven oil extraction wells, five natural gas extraction wells and four injectors. At a later stage of the project's life, the injectors will be transformed into gas producers in order to fully exploit the existing reserves. First production revenues are expected in August 2011.

In January 2010, PGNiG Norway AS acquired a 15% interest in the PL 558 licence following completion of a licence round. The licence operator is E.ON Ruhrgas Norge (30%), with other partners including: Nexen Exploration Norge (15%), Det norske oljeselskap (20%) and Petoro (20%).

In June 2010, PGNiG Norway AS purchased a 10% interest in the Gro licence on the Norwegian Sea from Statoil Petroleum AS. The licence covers the area where the Gro natural gas deposit was discovered. The other interest holders are: Shell (50%), Statoil (30%), and Gaz de France SUEZ (10%).

In addition, in H1 2010, PGNiG Norway AS and its licence partners discovered new oil and gas deposit on the Norwegian Sea, called Snadd North, in the area covered by the PL 212 license, near the Skarv field. PGNiG Norway AS' interest in the field is 12%, and the other licence interests are held by British Petroleum – 24%, Statoil – 36% and E.ON Ruhrgas – 28%. The recoverable reserves of Snadd North are initially estimated at 9 to 16bn cubic metres of natural gas. Its development is expected to start in 2011.

On February 4th 2010, PGNiG Norway AS was granted the status of an operator on the Norwegian Continental Shelf, and now the company may apply for the operator status under the current and future licences. The award of the operator status followed a prequalification process, comprising assessment of PGNiG Norway AS's E&P competence.

In November 2010, the company submitted applications for three licences under the 21st Bidding Round. The round is expected to conclude in the first quarter of 2011.

As at the end of 2010, the company held interests in nine exploration and production licences on the Norwegian Continental Shelf and the Norwegian Sea.

As at December 31st 2010, the expenditure thus far incurred by the Group (through a subsidiary of the Parent Undertaking) and recognised in Group's consolidated statement of financial position was NOK 5,449,599 thousand, i.e. PLN 2,763,491 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010), while the direct costs connected with this project and recognised in the income statement for 2010 were NOK 394,806 thousand, i.e. PLN 197,442 thousand (translated at the average exchange rate for NOK being the arithmetic mean of the exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the reporting period).

In order to finance the purchase of an interest in the reserves of ExxonMobiland, the Parent Undertaking advanced to PGNiG Norway AS a loan of NOK 3,800,000 thousand. The loan was disbursed in tranches, and the repayment deadline was set for December 2022. After the third tranche of NOK 1,312,000 thousand was disbursed in January 2009, PGNiG Norway AS received the full loan amount of NOK 3,800,000 thousand.

On January 13th 2010, the Parent Undertaking granted the company another loan, the amount of NOK 786,000 thousand. The loan is disbursed in tranches upon notice by the company. In H1 2010, the company received NOK 460,000 thousand under the loan.

On August 27th 2010, PGNiG Norway AS and the Parent Undertaking executed another (third) loan agreement for NOK 4,400,000 thousand. The loan was used to repay the 2007 loan of NOK 3,800,000 thousand, with interest. The new loan is subordinated to the credit facility agreements concluded with banks, which means that the collateral established on assets securing the loan is second-ranking to the collateral securing the credit facilities, and the loan's principal may only be repaid after the credit facility has been repaid.

As at December 31st 2010, PGNiG Norway AS's total debt under the aforementioned loan amounted to NOK 3,900,000, i.e. the equivalent of PLN 1,977,690 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010).

On August 31st 2010, PGNiG Norway AS concluded a USD 400m credit facility agreement with seven international banks. The credit facility is secured on the company's assets, including a pledge on Skarv licences and on the company shares. In addition, PGNiG SA issued a guarantee for the liabilities of its subsidiary and the credit facility is senior to other financial liabilities contracted by PGNiG Norway AS. Until the end of 2010, the company drew USD 313.5m under the credit facility. The proceeds were used mainly to prepare the Skarv field for production and repay the loan of January 2010, until production of hydrocarbons starts generating first revenue.

The structure of financing of the company's activity complies with the rules concerning the debt-equity relationship (thin capitalisation) which are effective in Norway.

As at December 31st 2010, the Parent Undertaking's equity interest in the subsidiary was NOK 951,327 thousand, that is PLN 482,417.9 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010). As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Parent Undertaking amounted to PLN 462,872.6 thousand.

The Netherlands – Libya

In January 2008, the PGNiG Management Board adopted a resolution granting its consent to use PGNiG Finance B.V. (established on September 14th 2001 to service the issue of Eurobonds issued by PGNiG SA) for the purpose of conducting exploration and production activity in Libya. On the same date, the PGNiG Management Board adopted a resolution concerning the amendment to the Articles of Association and change of the Management Board of PGNiG Finance B.V., and setting up of the company's branch in Libya.

The amendments to the Articles of Association were registered in the Netherlands on February 4th 2008. In the new Articles of Association, the company's name was changed to **Polish Oil and Gas Company – Libya B.V.** (POGC – Libya B.V.). The company's sole shareholder is PGNiG SA. Its share capital is EUR 20 thousand, that is PLN 79.2 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010).

The Management Board of Polish Oil and Gas Company – Libya B.V. took steps which led to the execution – in February 2008 – of an Exploration and Production Sharing Agreement (EPSA) with Libya's National Oil Corporation. The Agreement, setting out the terms and conditions of an exploration and production project in Libya, was executed in connection with the award (following a licensing round) of Block 113, covering an area of 5,494 square kilometres between the Murzuq and Gadamesh basins, near the Algerian border. The bid submitted by the company included a commitment to carry out exploration work worth a total of USD 108,000 thousand, including acquisition of 3,000 square kilometres of 2D seismic and 1,500 square kilometres of 3D seismic, as well as drilling of eight wells.

Pursuant to the EPSA, if a commercial discovery of hydrocarbons is made within the licence area, the expenditures which the Agreement allocates to the licence as the basis for "cost recovery", incurred by the Parent Undertaking through POGC Libya, may be recovered from the production revenues (cost oil).

In February 2008, PGNiG SA issued a guarantee for the benefit of National Oil Corporation regarding the fulfilment by POGC–Libya B.V. of its work programme commitments worth USD 108,000 thousand, i.e. PLN 320,122.8 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010).

In 2010, phase I and II of the processing of 2D and 3D seismic data was completed. In addition, the location of the drilling site for the first two exploration wells was determined and work on the well drilling design documentation was commenced. Drilling work is scheduled to start at the beginning of the second quarter of 2011.

In 2010, the value of the work described above amounted to EUR 6,405 thousand, i.e. PLN 25,648 thousand (translated at the average exchange rate for the euro being the arithmetic mean of the exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the reporting period).

In March 2009, the PGNiG Management Board adopted a resolution to increase POGC Libya BV's equity by EUR 47,500 thousand, i.e. PLN 188,114.3 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010), to be used primarily towards the expenditure on exploration work in Libya. The equity increase was effected without issuing any new shares. On the date of the resolution, a portion of the contribution to the company's reserve funds was offset against PGNiG SA's receivables under a loan of USD 20,591 thousand, extended in 2008. The amount remaining after offsetting the contribution against the loan receivables (including interest) was paid to the company in 2009 in cash, in three instalments.

On February 1st 2010, POGC Libya BV and PGNiG SA entered into an agreement whereunder POGC Libya BV undertook to make an additional contribution to equity of EUR 18,000 thousand, i.e. PLN 71,285.4 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010). The equity increase was effected without issuing any new shares. The additional funds are to be used chiefly to finance exploration work.

Due to the current political unrest in Libya, the Management Board of POGC Libya BV decided to evacuate all foreign employees from the country and establish a temporary office in Warsaw. Meanwhile, the Tripoli office is operated by local employees and remains open. As at the date of these financial statements, the final phase of 2D seismic data evaluation is performed, mainly by PGNiG SA (under a cooperation agreement). As future developments cannot be predicted, the Management Board of POGC Libya BV is monitoring the situation in Libya and will make suitable decisions and take the required actions depending on circumstances.

As at December 31st 2010, the Parent Undertaking's equity interest in the subsidiary was EUR 65,520.0 thousand, that is PLN 259,478.9 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010). As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Parent Undertaking amounted to PLN 291,922.0 thousand.

Parent Undertaking's direct operations abroad – interests in exploration licences:

The Parent Undertaking conducts exploration work in Pakistan, in the area covered by the Kirthar licence, jointly with Pakistan Petroleum Ltd. (interests held by PGNiG SA (operator) and PPL are 70% and 30%, respectively). In 2010, testing conducted to assess the likely performance of the Rehman-1 exploration well were completed and 2D and 3D seismic surveys were performed. Commencement of workover of the Hallel-1 borehole is planned for 2011.

In Denmark, the Parent Undertaking continued exploration work in the area covered by licence 1/05 (interests held by PGNiG SA (operator) and Nordsofonden are 80% and 20%, respectively). In 2010, acquisition and processing of 2D and 3D seismic data was completed, and advanced processing of seismic data was performed. Drilling work is scheduled to start in 2011.

In Egypt, the Parent Undertaking carried out exploration work under its wholly-owned Bahariya licence (Block 3). The Company holds a 100% interest in the licence. In 2010, as part of exploratory work, 2,000 km of back-file 2D seismic materials were reprocessed and reinterpreted; gravimetric surveys were commenced. The work is scheduled for completion in 2011. In connection with the political situation in Egypt, in January 2011 PGNiG SA employees were temporarily withdrawn from the country, which, however, had no negative effect on the progress of the exploration activities.

Foreign branches of the Group:

The companies of the PGNiG Group have a number of foreign branches, which conduct operating activities or support the Group's development outside of Poland.

PGNiG SA – Parent Undertaking
Operating Branch in Pakistan – Islamabad
Branch in Egypt – Cairo
Branch in Denmark – Copenhagen
Branch in Algeria – Algiers

GEOFIZYKA Kraków Sp. z o.o.
Operating Branch in Pakistan – Islamabad
Branch in Slovakia – Bratislava
Branch in the Czech Republic – Ostrava
Branch in Libya – Tripoli

GEOFIZYKA Toruń Sp. z o.o.
Branch in Thailand – Bangkok
Branch in Egypt – Cairo
Branch in Syria – Damascus

PNiG Jasło Sp. z o.o.
Branch in Libya – Tripoli
Branch in the Czech Republic – Ostrava

PNiG Kraków Sp. z o.o.
Branch in Pakistan – Karachi
Branch in Kazakhstan – Almaty
Branch in the Republic of Uganda

PNiG Piła Sp. z o.o.
Branch in India – Baroda
Branch in Egypt – Cairo

ZRG Krosno Sp. z o.o.
Branch in the Czech Republic – Ostrava

POGC Libya BV
Branch in Libya – Tripoli

38. Employment (number of staff)

Employment as at end of period, by segments	Dec 31 2010	Dec 31 2009
Head Office of PGNiG SA*	840	833
Exploration and Production	11,592	10,800
Trade and Storage	4,107	4,128
including companies consolidated with the equity method	298	292
Distribution	13,881	13,851
Other	2,296	2,073
Total	**32,716**	**31,685**

*Head Office is disclosed separately as it provides services to all segments.

39. Restructuring process within the group

In 2010, the Programme for Employment Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3) ("the Programme"), adopted by the Extraordinary General Shareholders Meeting of PGNiG SA on December 11th 2008, was in force. The Programme is based on the "stand-by" principle, which means that it can be implemented in extraordinary circumstances, i.e. any decisions regarding its implementation can only be made where it would be justified by the scope of planned restructuring involving workforce downsizing and/or liquidation of positions.

In the case of PGNiG SA, any decisions on the implementation of the Programme at the Head Office and PGNiG SA's branches (which includes a consent to commence payments of protection benefits, in accordance with the Programme's terms) are made by the Management Board of PGNiG SA by way of a resolution.

Until the end of the reporting period, i.e. until December 31st 2010, no decisions on the implementation of the Programme at PGNiG SA's branches and Group's undertakings were made, save for the special case described below.

The special case concerned undertakings which were listed in the terms of the Programme as entities entitled to implement the Programme, provided that a relevant resolution was adopted by their General Shareholders Meeting, and whose poor financial situation rendered it impossible to cover all costs of employment streamlining required under the Programme without the financial aid provided under the Programme. Such undertakings, in accordance with the Programme's terms, may apply for benefits due to their former employees, with whom a work agreement was terminated, to be paid out from the PGNiG SA's capital reserve designated as the Central Restructuring Fund ("CRF"), subject to approval by the General Shareholders Meeting of PGNiG SA.

PGNiG Kraków Sp. z o.o. exercised its right and applied for financial aid from the CRF to provide, in accordance with the Programme's terms, to finance one-off protection benefits to its 23 former employees, amounting to PLN 1,070.0 thousand. The request was approved by the General Shareholders Meeting of PGNiG SA (Resolution No. 22/IV/2010).

ZUN Naftomet Sp. z o.o. submitted a similar request for assistance from the CRF in the amount of PLN 1,774.10 thousand, to finance one-off protection benefits for its 35 former employees. The request was approved the General Shareholders Meeting of PGNiG SA (Resolution No. 3/II/2011 of February 24th 2011).

On June 16th 2010, the Management Board of PGNiG SA made a decision to consolidate (through incorporation) the service companies of the Group. As part of share capital increase, PGNiG SA shareholders agreed for the Parent Undertaking to dispose of majority interests in the following four subsidiaries: BN Naftomontaż Sp. z o.o., BUG Gazobudowa Sp. z o.o., ZRUG Sp. z o.o. of Pogórska Wola and ZUN Naftomet Sp. z o.o., which were consolidated to form PGNiG Technologie Sp. z o. o.

The decision on consolidation was approved by the Extraordinary General Shareholders Meeting of PGNiG SA in its resolution concerning approval of the acquisition by PGNiG SA of 118,348 new shares, with a par value of PLN 1000 per share, in the increased share capital of PGNiG Technologie Sp. z o.o. of Warsaw. On December 30th 2010, the increase in the share capital of PGNiG Technologie Sp. z o.o. was registered with the National Court Register, with new shares covered partly by an in-kind contribution in the form of shares in the subsidiaries listed above held by PGNiG SA. The consolidation is carried out with a view to establishing a company able to effectively compete for orders on both the Polish and foreign markets and successfully bid in tenders for large projects.

The consolidation is planned to be completed by the end of 2011.

40. Capital management

The objective behind the Group's capital management is to maintain the ability to continue as a going concern, taking into account any investment plans, while increasing the Group's shareholder value.

The Group monitors its capital using the leverage ratio, calculated as the ratio of net debt to the sum of total equity and net debt. In accordance with the rules adopted by the Group, the leverage should not exceed 35%. Net debt is the sum of loans and borrowings, finance lease liabilities and trade and other payables less cash and cash equivalents. Equity includes equity attributable to owners of the parent.

(PLN '000)	Dec 31 2010	Dec 31 2009
Loans and borrowings, finance lease liabilities and issue of debt securities	2,199,101	2,028,163
Trade and other payables	3,538,554	2,799,472
Cash and cash equivalents (-)	(1,373,292)	(1,196,325)
Net debt	**4,364,363**	**3,631,310**
Equity (attributable to owners of the parent)	**23,506,046**	**21,424,851**
Equity and net debt	**27,870,409**	**25,056,161**
Leverage	15.7%	14.5%

41. Free of charge acquisition of PGNiG SA shares by eligible employees

Pursuant to the Act on Commercialisation and Privatisation of August 30th 1996 ("the Act"), PGNiG SA's employees had the right to acquire, free of charge, 15% of the Company shares. This right was vested in "eligible employees", as defined in Art. 2.5 of the Act. The right to acquire shares free of charge arises after three months from the first disposal of shares by the State Treasury on general terms.

On June 30th 2008, the State Treasury disposed of one PGNiG SA share on general terms.

Consequently, in line with Art. 38.2 of the Act, the right to acquire the Company shares free of charge by eligible employees had arisen on October 1st 2008 and expired on October 1st 2010.

Pursuant to Art. 36.1 of the Act, eligible employees had the right to acquire free of charge up to 15% of the shares taken up by the State Treasury on the Company registration date, that is no more than 750,000,000 shares with a par value of PLN 1 per share. The list of eligible employees was drawn up in December 1997 and contained 61,516 names.

As at end of December 31st 2010, the market value of the 750,000,000 shares was PLN 2,677,500 thousand (as the date of these financial statements, that is March 3rd 2011, the value of the shares was PLN 2,940,000 thousand).

As per the adopted timetable, the share delivery process commenced on April 6th 2009. As at December 31st 2010, 726,349,467 shares were acquired (registered in securities accounts) by the eligible employees or their heirs.

Pursuant to Art. 38.3 of the Act, the shares acquired free of charge by the eligible employees could be traded after July 1st 2010, while the shares acquired free of charge by members of the Company's Management Board – after July 1st 2011.

The key principle of IFRS 2 Share-Based Payments is the recognition of costs related to employee benefits in the period when the cost is incurred. The statutory rights to acquire share free of charge were meant as a compensation for service provided by eligible employees in the period before the Act came into force, in particular the period before 1989, when Poland underwent a political transformation. In line with IFRS 2, the value of the programme should be defined as at the date of determining the number of shares allocated to individual employees, based on the fair value of the shares. In the case of PGNiG SA, the shares are delivered from the pool held by the State Treasury. Thus the Company incurred only the administrative expenses related to the process of delivery of the shares to eligible employees.

Costs directly related to delivery of the shares, incurred in 2010 and recognised in the income statement, amounted to PLN 299.3 thousand, including:

- the cost of press announcements, PLN 20.00 thousand,
- the cost of execution by CDM Pekao SA of agreements on free of charge disposal of the shares, PLN 106.6 thousand,
- the cost of execution by the PGNiG Group employees of agreements on free of charge disposal of the shares, PLN 74.2 thousand,
- the cost of assimilation of the shares and their introduction to stock-exchange trading, PLN 98.5 thousand.

in PLN '000

42. Events subsequent to the balance sheet date

a) On January 3rd 2011, the Management Board of PGNiG SA ("PGNiG") received a notification of instigation of anti-trust proceedings by the President of the Office of Competition and Consumer Protection ("UOKiK") concerning abuse of dominant position on the domestic natural gas wholesale market by PGNiG.

According to the President of UOKiK, the abuse of dominant position on the domestic natural gas wholesale market by PGNiG consisted in:

- inhibiting sale of gas against the interest of other business players or consumers by refusing to sell gaseous fuel under a framework agreement to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw, which may be regarded as an anti-competitive practice defined in Art. 9.2.2 of the Competition and Consumer Protection Act of February 16th 2007 ("the Act"),

- impeding the development of market conditions favourable to the emergence or growth of competition by refusing to sell gaseous fuel under a framework agreement to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw, which may be regarded as an anti-competitive practice defined in Art. 9.2.5 of the Act.

Pursuant to Art. 106 of the Act, the President of UOKiK may, by way of a decision, impose a fine on an entrepreneur abusing its dominant position of not more than 10% of the revenue earned in the financial year preceding the date of the decision. The amount of the fine is determined taking into account the duration, extent and circumstances of the breach of statutory provisions, as well as any previous violations of these provisions.

On January 4th 2011, PGNiG SA filed an appeal with the Regional Court of Warsaw, the Competition and Consumer Protection Division, against a decision issued by the President of URE to impose a penalty on the Company for breach of the cross-border gas trading licence.

b) On January 12th 2011, annex 1 ("the Annex") to the trilateral agreement of January 27th 2010 between PGNiG, OOO Gazprom Export of Moscow ("Gazprom Export") and System Gazociągów Tranzytowych EuRoPol GAZ SA of Warsaw ("EuRoPol GAZ") ("the Agreement") was executed. The Company released information on execution of the Agreement in Current Report No. 7/2010 of January 28th 2010.

The Annex was executed to align the provisions of the Agreement with the provisions of:

- the Protocol of October 29th 2010 on the amendments to the "Agreement between the Governments of the Russian Federation and the Republic of Poland concerning construction of a gas pipeline system for transmission of Russian gas across the territory of Poland, dated August 25th 1993";

- the Protocol of October 29th 2010 on amendments to the Additional Protocol to "the Agreement between the Governments of the Russian Federation and the Republic of Poland concerning construction of a gas pipeline system for transmission of Russian gas across the territory of Poland, dated August 25th 1993", executed on February 12th 2003 ("the Protocol to the Agreement");

- the Annex of October 29th 2010 to the Yamal Contract of September 25th 1996 between PGNiG and Gazprom Export ("the Annex to the Yamal Contract"), concerning increased volume of natural gas supplies.

Under the Annex:

- the Agreement between EuRoPol GAZ and GAZ-SYSTEM SA of Warsaw on assigning the role of the operator of the Polish section of the Yamal-Europe Transit Gas Pipeline System, dated October 25th 2010, will come into force;

- in the case of a change in the operator's role or any change in EuRoPol GAZ's shareholder structure or ownership title to assets which would conflict with the Protocol to the Agreement, the Annex to the Yamal Contract will become null and void, subject to prior notification that the Annex to the Yamal Contract has become null and void, made in writing and delivered to PGNiG on behalf of Gazprom Export by a messenger or recognised international company providing courier services;

- PGNiG and EuRoPol GAZ will settle the payments for the gas transmission services rendered to PGNiG by EuRoPol GAZ in the period from January 1st 2006 to December 31st 2009 on the same terms and conditions as those applicable to the gas transmission services rendered to Gazprom Export,

- Gazprom Export undertook to make all reasonable efforts to conclude a new contract for the transmission of natural gas across the territory of Poland in the period from 2020 to 2045 in the amount of approx. 26bn m^3 according to the Polish standard (i.e. 28bn m^3 according to GOST). If Gazprom Export fails to conclude such contract or terminates such contract prior to its expiry, EuRoPol GAZ shall have the right to file claims and/or bring actions in connection with payments for the gas transmission services in the period from 2006 to 2009, and Gazprom shall not raise a plea that the claims have become time-barred.

c) On January 26th 2011, PGNiG Energia SA of Warsaw, as the last of the parties to the Annex to the Execution Agreement of the Project "Construction of a CCGT Unit in Stalowa Wola" ("the Annex"), obtained the corporate approvals for the Annex, which was signed on December 29th 2010. The other parties to the Annex, i.e. PGNiG, TAURON Polska Energia SA of Katowice and Elektrownia Stalowa Wola SA of Stalowa Wola, had earlier obtained all required corporate approvals. Therefore, the condition subsequent stipulated in the Annex, that the Annex shall expire if the parties thereto fail to obtain the required approvals from their relevant corporate bodies, has not been fulfilled.

In view of the foregoing, and in line with the provisions of the Annex, the Execution Agreement of the Project "Construction of a CCGT Unit in Stalowa Wola" will remain effective until March 31st 2011 with an option to extend it – under special circumstances – until June 30th 2011 by way of appropriate annexes to the Execution Agreement.

d) On March 2nd 2011, given the low air temperatures and increased demand for natural gas, PGNiG SA reduced supplies of gas to PKN Orlen SA The decision was made under the existing agreements between the companies, whereby the supplies may be reduced.

e) On March 3rd 2011, PGNiG SA signed with Zakłady Azotowe "Puławy" SA ("ZA Puławy") an annex ("the Annex") to Agreement No. 4/S/98 on Sale of Methane-Rich Natural Gas, dated January 14th 1999 ("the Agreement"), for an indefinite term.

The Annex to the Agreement adds new definitions, including: contracted capacity, intermittent contracted capacity, continuous contracted capacity, declaration (*nominacja*), annual and weekly declaration, re-declaration, tariff, IRIESP (transmission network operation instruction), and emergency. Moreover, the Annex establishes a procedure for submitting annual and weekly declarations, redeclarations and ordering intermittent contracted capacity and continuous contracted capacity. The amendments to the Agreement also specify the rules governing the provision of intermittent contracted capacity to ZA Puławy and ZA Puławy's obligations relating to the supply of gaseous fuel on an intermittent basis.

The Annex amends the Agreement by imposing on ZA Puławy an obligation to pay a contractual penalty to PGNiG if ZA Puławy fails to collect a minimum annual volume of gaseous fuel. The penalty amount would depend on the actual quantity uncollected in a given contractual year. Pursuant to the Agreement, payment of the contractual penalty excludes the injured Party's right to seek compensation in excess of the penalty amount.

Furthermore, the Annex imposes on ZA Puławy an obligation to pay a contractual penalty to PGNiG if ZA Puławy fails to comply with any introduced limitations on intermittent contracted capacity. The penalty amount would depend on how much the contractual capacity is actually exceeded in the period when such limitations are effective. In the event that damage incurred due to ZA Puławy's failure to comply with any limitations on intermittent contracted capacity exceeds the penalty amount, ZA Puławy will be required to reimburse any sums paid by PGNiG to Operator Gazociągów Przesyłowych Gaz-System SA in connection with such non-compliance.

The amendments introduced under the Annex became effective as of January 1st 2011.

Other provisions of the Agreement remain unchanged The estimated value of the Agreement over a period of five years amounts to approximately PLN 4.94bn.