PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30TH 2013

FINANCIAL HIGHLIGHTS
for the period ended June 30th 2013

	PLN		EUR	
	Jan 1–Jun 30 2013	**Jan 1–Jun 30 2012**	**Jan 1–Jun 30 2013**	**Jan 1–Jun 30 2012**
I. Revenue	16,790	14,764	3,984	3,537
II. Operating profit/(loss)	2,174	22	516	5
III. Profit/(loss) before tax	1,899	(18)	451	(4)
IV. Net profit/(loss) attributable to owners of the parent	1,425	48	338	12
V. Net profit/(loss)	1,428	45	339	11
VI. Comprehensive income attributable to owners of the parent	1,553	(39)	369	(9)
VII. Total comprehensive income	1,556	(42)	369	(10)
VIII. Net cash flows from operating activities	4,554	1,251	1,081	300
IX. Net cash flows from investing activities	(1,559)	(4,360)	(370)	(1,045)
X. Net cash flows from financing activities	(2,283)	2,974	(542)	713
XI. Change in cash	712	(135)	169	(32)
XII. Earnings/(loss) and diluted earnings/(loss) per share attributable to owners of the parent (PLN/EUR)	0.24	0.01	0.06	0.00
	Jun 30 2013	**Dec 31 2012**	**Jun 30 2013**	**Dec 31 2012**
XIII. Total assets	46,931	47,928	10,841	11,723
XIV. Liabilities and provisions	18,946	20,732	4,377	5,071
XV. Non-current liabilities	11,380	11,119	2,629	2,720
XVI. Current liabilities	7,566	9,613	1,748	2,351
XVII. Equity	27,985	27,196	6,464	6,652
XVIII. Share capital	5,900	5,900	1,363	1,443
XIX. Weighted average number of shares (million)	5,900	5,900	5,900	5,900
XX. Book value per share and diluted book value per share (PLN/EUR)	4.74	4.61	1.10	1.13
XXI. Dividend per share declared or paid (PLN/EUR)	0.13	-	0.03	0.00

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

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

Average EUR/PLN exchange rates quoted by the NBP

	Jun 30 2013	Dec 31 2012	Jun 30 2012
Average exchange rate for the period	4.2140	4.1736	4.2246
Exchange rate at end of the period	4.3292	4.0882	4.2613

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE PGNIG GROUP

FOR THE SIX MONTHS ENDED JUNE 30TH 2013

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

TABLE OF CONTENTS

CONSOLIDATED INCOME STATEMENT
for the period ended June 30th 2013

	Note	Jan 1–Jun 30 2013	Jan 1–Jun 30 2012
		unaudited	restated
Revenue	**3**	**16 790**	**14 764**
Raw materials and consumables used	4.1	(10,476)	(10,633)
Employee benefit expense	4.2	(1,418)	(1,357)
Depreciation and amortisation expense		(1,162)	(1,004)
Services	4.3	(1,513)	(1,487)
Work performed by the entity and capitalised		424	433
Other income and expenses	4.4	(471)	(694)
Total operating expenses		**(14,616)**	**(14,742)**
Operating profit/(loss)		**2,174**	**22**
Finance income	5	150	69
Finance costs	5	(383)	(196)
Share in net profit/loss of equity-accounted entities	6.3	(42)	87
Profit/(loss) before tax		**1,899**	**(18)**
Income tax	7.1	(471)	63
Net profit/(loss)		**1,428**	**45**
Attributable to:			
Owners of the parent		1,425	48
Non-controlling interests		3	(3)
Earnings/(loss) and diluted earnings/loss per share attributable to holders of ordinary shares of the parent (PLN)	9	0.24	0.01

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period ended June 30th 2013

	Jan 1–Jun 30 2013	Jan 1–Jun 30 2012
	unaudited	restated
Net profit/(loss)	**1,428**	**45**
Other comprehensive income that will be reclassified to profit or loss once specific conditions are met, relating to:	**134**	**(85)**
Exchange differences on translating foreign operations	38	14
Hedge accounting	118	(122)
Deferred tax	(22)	23
Other comprehensive income that will not be reclassified to profit or loss, relating to:	**(6)**	**(2)**
Actuarial gains/(losses) on employee benefits	(7)	(2)
Deferred tax	1	-
Other comprehensive income, net	**128**	**(87)**
Total comprehensive income	**1,556**	**(42)**
Attributable to:		
Owners of the parent	1,553	(39)
Non-controlling interests	3	(3)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at June 30th 2013

	Note	Jun 30 2013	Dec 31 2012
		unaudited	restated
ASSETS			
Non-current assets			
Property, plant and equipment	11	33,773	33,784
Investment property	12	11	11
Intangible assets	13	1,169	1,146
Investments in equity-accounted associates	6	729	771
Financial assets available for sale	14	53	48
Other financial assets	15	188	124
Deferred tax assets	16	1,142	1,135
Other non-current assets	17	73	76
Total non-current assets		**37,138**	**37,095**
Current assets			
Inventories	18	2,958	3,064
Trade and other receivables	19	3,174	5,374
Current tax assets	20	124	150
Other assets	21	371	84
Financial assets available for sale	22	-	-
Derivative financial instrument assets	35	341	105
Cash and cash equivalents	23	2,659	1,948
Assets held for sale	24	166	108
Total current assets		**9,793**	**10,833**
Total assets		**46,931**	**47,928**
LIABILITIES AND EQUITY			
Equity			
Share capital	25	5,900	5,900
Share premium		1,740	1,740
Accumulated other comprehensive income		(22)	(150)
Retained earnings/(deficit)		20,360	19,702
Equity attributable to owners of the parent		**27,978**	**27,192**
Equity attributable to non-controlling interests		7	4
Total equity		**27,985**	**27,196**
Non-current liabilities			
Borrowings and other debt instruments	26	5,734	5,509
Employee benefit obligations	27	390	381
Provisions	28	1,708	1,792
Deferred income	29	1,455	1,448
Deferred tax liabilities	30	2,038	1,936
Other non-current liabilities	31	55	53
Total non-current liabilities		**11,380**	**11,119**
Current liabilities			
Trade and other payables	32	3,822	3,667
Borrowings and other debt instruments	26	2,474	4,702
Derivative financial instrument liabilities	35	237	393
Current tax liabilities	20	169	24
Employee benefit obligations	27	288	356
Provisions	28	423	350
Deferred income	29	129	101
Liabilities related to assets available for sale	24	24	20
Total current liabilities		**7,566**	**9,613**
Total liabilities		**18,946**	**20,732**
Total liabilities and equity		**46,931**	**47,928**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the period ended June 30th 2013

	Note	Jan 1–Jun 30 2013	Jan 1–Jun 30 2012
		unaudited	restated
Cash flows from operating activities			
Net profit/(loss)		1,428	45
Adjustments:			
Share in net profit/loss of equity-accounted entities		42	(87)
Depreciation and amortisation		1,162	1,004
Net foreign exchange gains/(losses)		135	(2)
Net interest and dividend		109	90
Gain/(loss) on investing activities		(77)	(125)
Current tax expense		471	(63)
Other items, net	33	(150)	81
Income tax expense		(226)	(115)
Cash flows from operating activities before changes in working capital		**2,894**	**828**
Change in working capital:			
Change in receivables	33	2,194	1,256
Change in inventories	33	106	(279)
Change in employee benefit obligations	33	(59)	69
Change in provisions	33	91	19
Change in current liabilities	33	(363)	(395)
Change in other assets	33	(290)	(215)
Change in deferred income	33	(19)	(32)
Net cash flows from operating activities		**4,554**	**1,251**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets		16	142
Proceeds from disposal of short-term securities		-	19
Purchase of property, plant and equipment and intangible assets		(1,568)	(1,688)
Dividends received		2	2
Purchase of shares in PGNiG TERMIKA S.A.		-	(3,018)
Other items, net		(9)	183
Net cash flows from investing activities		**(1,559)**	**(4,360)**
Cash flows from financing activities			
Proceeds from borrowings		361	162
Proceeds from issue of debt securities		1,039	6,765
Repayment of borrowings		(198)	(463)
Repayment of debt securities		(3,366)	(3,284)
Payment of finance lease liabilities		(27)	(27)
Cash inflow from derivative financial instruments		83	-
Cash outflow on derivative financial instruments		(65)	(36)
Interest paid		(109)	(137)
Other items, net		(1)	(6)
Net cash flows from financing activities		**(2,283)**	**2,974**
Net change in cash		**712**	**(135)**
Exchange differences on cash and cash equivalents		(1)	(1)
Cash and cash equivalents at beginning of the period		**1,947**	**1,504**
Cash and cash equivalents at end of the period		**2,659**	**1,369**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended June 30th 2013

	Equity (attributable to owners of the parent)								Equity (attributable to non-controlling interests)	Total equity
			Accumulated other comprehensive income, including:							
	Share capital	Share premium	exchange differences on translating foreign operations	hedge accounting	remeasurement of financial assets available for sale	actuarial gains/(losses) on employee benefits	Retained earnings/ (deficit)	Total		
As at Jan 1 2013 (audited)	**5,900**	**1,740**	**(31)**	**(59)**	**-**	**(60)**	**19,702**	**27,192**	**4**	**27,196**
Payment of dividend to owners	-	-	-	-	-	-	(767)	**(767)**	-	**(767)**
Total comprehensive income	**-**	**-**	**38**	**96**	**-**	**(6)**	**1,425**	**1,553**	**3**	**1,556**
Net profit/(loss) for H1 2013	-	-	-	-	-	-	1,425	**1,425**	3	**1,428**
Other comprehensive income, net, for H1 2013	-	-	38	96	-	(6)	-	**128**	-	**128**
As at Jun 30 2013 (unaudited)	**5,900**	**1,740**	**7**	**,37**	**-**	**(66)**	**20,360**	**27,978**	**7**	**27,985**
As at Jan 1 2012 (restated)	**5,900**	**1,740**	**(29)**	**143**	**-**	**(73)**	**17,463**	**25,144**	**7**	**25,151**
Transfers	-	-	(2)	-	-	-	2	**-**	-	**-**
Changes in the Group	-	-	-	-	-	-	-	**-**	5	**5**
Purchase of shares from non-controlling interests	-	-	-	-	-	-	-	**-**	(2)	**(2)**
Total comprehensive income	**-**	**-**	**14**	**(99)**	**-**	**(2)**	**48**	**(39)**	**(3)**	**(42)**
Net profit/(loss) for H1 2012	-	-	-	-	-	-	48	**48**	(3)	**45**
Other comprehensive income, net, for H1 2012	-	-	14	(99)	-	(2)	-	**(87)**	-	**(87)**
As at Jun 30 2012 (unaudited)	**5,900**	**1,740**	**(17)**	**44**	**-**	**(75)**	**17,513**	**25,105**	**7**	**25,112**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at June 30th 2013

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"), registered office at ul. Marcina Kasprzaka 25, 01-224 Warsaw, is the Parent 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, 16th Commercial Division, under No. RHB 48382. Currently, the Company is entered in 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 ("WSE"). The Company's core business includes exploration for and production of crude oil and natural gas, as well as import, storage and sale of gas fuels.

The PGNiG Group remains the only vertically integrated company in the Polish gas sector, holding the leading position in all segments of the country's gas industry. It is also a major producer of heat and electricity in the country. The scope of the PGNiG Group's business comprises oil and gas exploration, oil and gas production from deposits in Poland, as well as import, storage and distribution of and trade in gas fuels. The PGNiG Group is both the main importer of gas fuel from Russia, Germany and the Czech Republic and the main producer of natural gas from Polish deposits. The Company's upstream operations are one of the key factors building PGNiG's competitive position on the liberalised gas market in Poland.

The trade in and distribution of natural gas and heat, 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 license and its revenue depends on the tariff rates for gas fuels approved by the President of the 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 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 former 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 (balance sheet) of the state-owned enterprise.

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

The Parent and the Group subsidiaries were incorporated for unspecified time.

1.3. Period covered by these consolidated financial statements

These consolidated financial statements present data as at June 30th 2013 and for the period January 1st–June 30th 2013, with comparative financial data for the relevant periods of 2012.

1.4. These financial statements contain aggregated data.

These financial statements contain consolidated data of the Parent, its 22 subsidiaries (of which three are parents of their own groups), one associate and one jointly-controlled entity.

1.5. Organisation of the PGNiG Group and its consolidated entities

As at June 30th 2013, the Group comprised PGNiG SA (the Parent), and 34 production and service companies, including:

- 25 subsidiaries of PGNiG SA;
- 9 indirect subsidiaries of PGNiG SA.

The list of the PGNiG Group companies as at June 30th 2013 is presented below.

Companies of the PGNiG Group

No.	Company name	Share capital (PLN)	Value of shares held by PGNiG SA (PLN)	**% ownership interest** of PGNiG SA	**%** of total vote held by PGNiG SA
	Direct subsidiaries of PGNiG SA				
1	GEOFIZYKA Kraków S.A.	64,400,000	64,400,000	100%	100%
2	GEOFIZYKA Toruń S.A.	66,000,000	66,000,000	100%	100%
3	Exalo Drilling S.A. (formerly PGNiG Poszukiwania S.A)	981,500,000	981,500,000	100%	100%
4	PGNiG Upstream International AS (formerly PGNiG Norway AS)	1,092,000,000,(NOK)[1),]	1,092,000,000 (NOK)[1),]	100%	100%
5	Polish Oil and Gas Company - Libya B.V.	20,000,(EUR)[1)]	20,000 (EUR)[1)]	100%	100%
6	PGNiG Sales & Trading GmbH	10,000,000,(EUR)[1)]	10,000,000 (EUR)[1)]	100%	100%
7	Operator Systemu Magazynowania Sp. z o.o.	5,000,000	5,000,000	100%	100%
8	Dolnośląska Spółka Gazownictwa Sp. z o.o.	658,384,000	658,384,000	100%	100%
9	Górnośląska Spółka Gazownictwa Sp. z o.o.	1,300,338,000	1,300,338,000	100%	100%
10	Karpacka Spółka Gazownictwa Sp. z o.o.	1,484,953,000	1,484,953,000	100%	100%
11	Mazowiecka Spółka Gazownictwa Sp. z o.o.	1,255,800,000	1,255,800,000	100%	100%
12	Pomorska Spółka Gazownictwa Sp. z o.o.	655,199,000	655,199,000	100%	100%
13	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000	1,033,186,000	100%	100%
14	PGNiG TERMIKA S.A.	650,000,000	650,000,000	100%	100%
15	PGNiG Energia S.A.	41,000,000	41,000,000	100%	100%
16	INVESTGAS S.A.	502,250	502,250	100%	100%
17	PGNiG Technologie S.A.	182,127,240	182,127,240	100%	100%
18	PGNiG Finance AB (publ)	500,000,(SEK)[1)]	500,000 (SEK)[1)]	100%	100%
19	PGNiG Serwis Sp. z o.o.	9,995,000	9,995,000	100%	100%
20	Geovita S.A.	86,139,000	86,139,000	100%	100%
21	NYSAGAZ Sp. z o.o.	9,881,000	6,549,000	66.28,%	66.28,%
22	BUD-GAZ P.P.U.H. Sp. z o.o. w likwidacji (in liquidation)	51,760	51,760	100%	100%
23	Polskie Elektrownie Gazowe Sp. z o.o.	1,212,000	1,212,000	100%	100%
24	PGNiG SPV4 Sp. z o.o.	995,000	995,000	100%	100%
25	BSiPG Gazoprojekt S.A.	4,000,000	900,000	22.50,%[2)]	22.50%[2)]
	PGNiG SA's indirect subsidiaries				
26	Oil Tech International F.Z.E.	20,000(USD)[1)]	20,000,(USD)[1)]	100%	100%
27	Zakład Gospodarki Mieszkaniowej Sp. z o.o.	1,806,500	1,806,500	100%	100%
28	Biogazownia Ostrowiec Sp. z o.o. w likwidacji (in liquidation)	165,000	165,000	100%	100%
29	Powiśle Park Sp. z o.o.	81,131,000	81,131,000	100%	100%
30	Poltava Services LLC	20,000 (EUR)[1)]	19,800 (EUR)[1)]	99%	99%
31	CHEMKOP Sp. z o.o.	3,000,000	2,565,350	85.51%	85.51%
32	GAZ Sp. z o.o.	300,000	240,000	80%	80%
33	PT Geofizyka Toruń Indonezja LLC w likwidacji (in liquidation)	8,773,000,000 (IDR)[1)]	4,825,150,000 (IDR)[3)]	55%	55%
34	XOOL GmbH	500,000 (EUR)[,1)]	500,000 (EUR)[,1)]	100%	100%

[1)] In foreign currencies.

[2)] Including PGNiG SA's direct interest in the share capital of BSiPG Gazoprojekt S.A. at 22.50%; its indirect interest through PGNiG Technologie S.A. is 52.50%. PGNiG SA has the right to appoint the majority of the company's Supervisory Board members.

[3)]The company's share capital, which following translation into USD amounts to USD 1,000 thousand, has been partly paid up by Geofizyka Toruń Sp. z o.o.: by June 30th 2013 Geofizyka Toruń Sp. z o.o. paid USD 40.7 thousand.

Consolidated entities of the Group as at June 30th 2013

No.	Company name	Based in	Ownership interest held by PGNiG SA (%)	
1	PGNiG SA (Parent)	Poland		
	Direct subsidiaries of PGNiG SA		**Jun 30 2013**	**Jun 30 2012**
2	GEOFIZYKA Kraków S.A.	Poland	100.00%	100.00%
3	GEOFIZYKA Toruń S.A.	Poland	100.00%	100.00%
4	Exalo Drilling Group [1] (formerly PGNiG Poszukiwania S.A)	Poland	100.00%	-
5	PGNiG Upstream International AS (formerly PGNiG Norway AS)	Norway	100.00%	100.00%
6	Polish Oil And Gas Company – Libya B.V.	Netherlands	100.00%	100.00%
7	Dolnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
8	Górnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
9	Karpacka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
10	Mazowiecka Spółka Gazownictwa Group[2]	Poland	100.00%	100.00%
11	Pomorska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
12	Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
13	Geovita S.A.	Poland	100.00%	100.00%
14	INVESTGAS S.A.	Poland	100.00%	100.00%
15	PGNiG Energia S.A.	Poland	100.00%	100.00%
16	PGNiG Technologie S.A.	Poland	100.00%	100.00%
17	Operator Systemu Magazynowania Sp. z o.o.	Poland	100.00%	100.00%
18	PGNiG Sales & Trading Group [3]	Germany	100.00%	100.00%
19	PGNiG SPV1 Sp. z o.o.[4]	Poland	-	100.00%
20	PGNiG TERMIKA S.A.	Poland	100.00%	99,89%
21	PGNiG Serwis Sp. z o.o.	Poland	100.00%	100.00%
22	PGNiG Finance AB	Sweden	100.00%	100.00%
23	PGNiG SPV4 Sp. z o.o.	Poland	100.00%	100.00%
24	BSiPG Gazoprojekt S.A. [5]	Poland	75.00%	75.00%
	PGNiG SA's indirect subsidiaries			
25	Poszukiwania Nafty i Gazu Jasło S.A.[6]	Poland	-	100.00%
26	Poszukiwania Nafty i Gazu Kraków Group [6, 7]	Poland	-	100.00%
27	Poszukiwania Nafty i Gazu NAFTA S.A. [6]	Poland	-	100.00%
28	Zakład Robót Górniczych Krosno Sp. z o.o.[6]	Poland	-	100.00%
29	Poszukiwania Naftowe Diament Sp. z o.o.[6]	Poland	-	100.00%
	Equity-accounted jointly-controlled and associated entities			
30	SGT EUROPOL GAZ S.A.[8]	Poland	49.74%	49.74%
31	Gas - Trading S.A.	Poland	43.41%	43.41%

[1] The Exalo Drilling Group comprises Exalo Drilling S.A. and its subsidiaries: Oil Tech International - F.Z.E. and Poltava Services LLC.

[2] The Mazowiecka Spółka Gazownictwa Group comprises Mazowiecka Spółka Gazownictwa Sp. z o.o. and its subsidiaries: Powiśle Park Sp. z o.o. and GAZ Sp. z o.o.

[3] The PGNiG Sales &Trading Group comprises PGNiG Sales & Trading GmbH and its subsidiary XOOL GmbH.

[4] On December 31st 2012, the company merged with PGNiG TERMIKA S.A. and PGNiG SPV1 Sp. z o.o. ceased to exist.

[5] PGNiG SA holds a 22.50% direct interest in the share capital of BSiPG Gazoprojekt S.A., while its indirect interest through PGNiG Technologie S.A. is 52.50%. PGNiG SA has the right to appoint the majority of the company's Supervisory Board members.

[6] Since February 1st 2013, these entities have operated as branches of Exalo Drilling S.A.

[7] Prior to February 1st 2013, the Poszukiwania Nafty i Gazu Kraków Group comprised Poszukiwania Nafty i Gazu Kraków S.A. and its subsidiaries: Oil Tech International - F.Z.E. and Poltava Services LLC.

[8] Including a 48.00% direct interest and a 1.74% interest held indirectly through Gas - Trading S.A.

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

The most important changes in the structure of the PGNiG Group in H1 2013 included:

- On January 2nd 2013, the Extraordinary General Meeting of BUD-GAZ PPUH Sp. z o.o. resolved to wind up the company and commence the liquidation process;
- On January 25th 2013, the Extraordinary General Meeting of PGNiG Poszukiwania S.A. resolved to amend the company's Articles of Association by changing the company name to Exalo Drilling S.A. The amendment was registered with the National Court Register on February 6th 2013;
- On February 1st 2013, the merger of Exalo Drilling S.A. with five drilling and service companies from the PGNiG Group (PNiG Kraków S.A., PNiG Jasło S.A., PNiG NAFTA S.A., PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o.) was registered with the National Court Register;
- On February 15th 2013, the Extraordinary General Meeting of PGNiG SPV 4 Sp. z o.o. resolved to increase the company's share capital by PLN 990,000, to PLN 995,000, by way of an issue of 19,800 new shares with a par value of PLN 50 per share, which were subscribed for by PGNiG SA and fully paid for with cash. The share capital increase was registered with the National Court Register on March 6th 2013;
- On February 28th 2013, the Extraordinary General Meeting of PGNiG TERMIKA S.A. resolved to increase the company’s share capital by PLN 33,984,000, to PLN 896,300,000, by way of an issue of 3,398,400 Series D shares. All new issue shares were subscribed for by PGNiG SA. The increase was registered with the National Court Register on March 22nd 2013. In addition, a formal procedure to purchase 391 shares from minority shareholders under Art. 418 of the Commercial Companies Code was under way. Upon its completion, on May 13th 2013, the Extraordinary General Meeting of PGNiG TERMIKA S.A. resolved to retire all of the company's 24,630,000 treasury shares without consideration. Also, a resolution was adopted to reduce the company's share capital by PLN 246,300,000 - from PLN 896,300,000 to PLN 650,000,000. These changes were registered with the National Court Register on May 27th 2013; the court also registered PGNiG SA as the only shareholder in the company;
- Following a resolution of the Extraordinary General Meeting of Biogazownia Ostrowiec Sp. z o.o., adopted on December 14th 2012, to increase the company's share capital from PLN 105,000 to PLN 165,000 by way of an issue of 1,200 new shares with a par value of PLN 50 per share, on March 5th 2013 the share capital increase was registered with the National Court Register. All new issue shares were subscribed for by PGNiG Energia S.A., the company's sole shareholder, and paid for with a cash contribution of PLN 60,000, made by contractual set-off of Biogazownia Ostrowiec Sp. z o.o.'s liabilities to PGNiG Energia S.A. under a loan against the amount payable by PGNiG Energia S.A. for the shares;
- On March 27th 2013, the General Meeting of PGNiG Norway AS resolved to amend the company’s Articles of Association by changing the company name to PGNiG Upstream International AS. On May 23rd 2013, the change of the company name (amended Articles of Association) from PGNiG Norway AS to PGNiG Upstream International AS was formally registered;
- Pursuant to an agreement of April 15th 2013 executed between the State Treasury and INVESTGAS S.A., INVESTGAS S.A. acquired further 307 shares in Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o. (shares that were not subscribed for by the eligible employees or their heirs). The shares were acquired upon the execution of the agreement. INVESTGAS S.A.'s interest in the company's share capital increased from 85% to 85.51%;
- On May 14th 2013, the Extraordinary General Meeting of Biogazownia Ostrowiec Sp. z o.o. resolved to wind up the company and commence the liquidation process;
- On May 24th 2013, the Extraordinary General Meeting of PGNiG SPV 4 Sp. z o.o. (acquiring company) adopted a resolution on its merger with Karpacka Spółka Gazownictwa Sp. z o.o.,

Górnośląska Spółka Gazownictwa Sp. z o.o., Mazowiecka Spółka Gazownictwa Sp. z o.o., Wielkopolska Spółka Gazownictwa Sp. z o.o., Pomorska Spółka Gazownictwa Sp. z o.o., Dolnośląska Spółka Gazownictwa Sp. z o.o. (target companies). The merger is effected under Art. 492.1.1 of the Commercial Companies Code through the transfer of all assets and obligations of the target companies to the acquiring company in exchange for shares which the acquiring company will issue to the shareholder of the target companies (merger through acquisition). On May 24th 2013, the Extraordinary General Meetings of the target companies adopted resolutions to approve the merger;

- On May 28th 2013, the Extraordinary General Meeting of Operator Systemu Magazynowania Sp. z o.o. (acquiring company) adopted a resolution on its merger with INVESTGAS S.A. (target company), to be effected under Art. 492.1.1 of the Commercial Companies Code through the transfer of all assets of the target company (merger through acquisition) to the acquiring company in exchange for shares in its increased share capital. On May 28th 2013, the Extraordinary General Meeting of INVESTGAS S.A. adopted relevant resolutions to approve the merger;
- On June 13th 2013, the Extraordinary General Meeting of PGNiG Technologie S.A. adopted a resolution to increase the company's share capital by PLN 15,213,240, to PLN 182,127,240. All new issue shares were subscribed for by PGNiG SA and paid for with a contribution of 21,000 shares in BSiPG Gazoprojekt S.A. The changes were registered with the National Court Register on June 21st 2013. Following the transaction, PGNiG SA's direct interest in the share capital of BSiPG Gazoprojekt S.A. was reduced to 22.50%, while its indirect interest through PGNiG Technologie S.A. is 52.50%;
- On June 26th 2013, the Extraordinary General Meeting of PGNiG SA approved the merger, to be effected under Art. 492.1.1 of the Commercial Companies Code, of PGNiG Energia S.A. as the target company with PGNiG SA as the acquiring company, through the transfer of all assets of the target company, including 14,100,000 shares in Elektrociepłownia Stalowa Wola S.A. and all shares in Biogazownia Ostrowiec Sp. z o.o. w likwidacji (in liquidation) held by PGNiG Energia S.A., to the acquiring company. The Extraordinary General Meeting of PGNiG Energia S.A. gave relevant approvals on June 28th 2013.

Other events subsequent to June 30th 2013:

- On July 1st 2013, the merger of PGNiG SPV 4 Sp. z o.o. (acquiring company) with six gas distribution companies (target companies), i.e. Mazowiecka Spółka Gazownictwa Sp. z o.o., Wielkopolska Spółka Gazownictwa Sp. z o.o., Karpacka Spółka Gazownictwa Sp. z o.o., Pomorska Spółka Gazownictwa Sp. z o.o., Dolnośląska Spółka Gazownictwa Sp. z o.o. and Górnośląska Spółka Gazownictwa Sp. z o.o., was registered with the National Court Register. Following the transaction, the share capital of PGNiG SPV 4 Sp. z o.o. was increased from PLN 995,000 to PLN 10,454,206,550;
- On July 1st 2013, the merger of Operator Systemu Magazynowania Sp. z o.o. (acquiring company) with INVESTGAS S.A. (target company) was registered with the National Court Register. Following the transaction, the share capital of Operator Systemu Magazynowania Sp. z o.o. was increased from PLN 5,000,000 to PLN 15,290,000;
- On July 23rd 2013, the merger of PGNiG SA (acquiring company) with PGNiG Energia S.A. (target company, a wholly-owned subsidiary of PGNiG SA) was registered with the National Court Register. The merger of PGNiG SA and PGNiG Energia S.A. was effected in accordance with Art. 492.1.1 of the Commercial Companies Code, through the transfer, by way of universal succession, of all assets of the target company to the acquiring company, as the sole shareholder of the target company, and dissolution of the target company without a liquidation procedure (merger through acquisition), pursuant to Art. 515.1 of the Commercial Companies Code, i.e. without increasing the share capital of the acquiring company;
- On July 29th 2013, the liquidation of Biogazownia Ostrowiec Sp. z o.o. was registered with the National Court Register.

1.7. Composition of the PGNiG Management Board

Pursuant to PGNiG SA's Articles of Association, its Management Board may consist of two to seven members. The number of Management Board members is determined by the body appointing the Management Board. 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 duties by the Supervisory Board or the General Meeting.

As long as the State Treasury remains a shareholder of the Company and the Company's annualised average 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 June 30th 2013, the PGNiG Management Board consisted of three members:

- Jerzy Kurella - Vice-President of the Management Board, Trade (acting President of the PGNiG Management Board since July 1st 2013),
- Jacek Murawski – Vice-President of the Management Board, Finance,
- Mirosław Szkałuba - Vice-President of the Management Board, Procurement and IT (in charge of coordination of the PGNiG Management Board's activities from April 27th 2013 to June 30th 2013).

In the period from January 1st 2013 to the date of these financial statements the following changes occurred in the PGNiG Management Board's composition:

- On January 22nd 2013, Mr Sławomir Hinc tendered his resignation as the PGNiG Management Board member, with effect from March 31st 2013. The reason for the resignation was his appointment as President (CEO) of PGNiG Upstream International AS (formerly: PGNiG Norway AS), PGNiG SA's subsidiary, with effect from April 1st 2013.
- On February 27th 2013, the PGNiG Supervisory Board appointed Mr Krzysztof Bocian as Vice-President of the Management Board, Exploration and Production, and Mr Jacek Murawski as Vice-President of the Management Board, Finance, with effect from April 1st 2013, for the joint term of office expiring on March 13th 2014. Following the receipt of Mr Krzysztof Bocian's declaration on avoidance of the legal effects of acceptance of the position, on April 2nd 2013 the PGNiG Supervisory Board resolved to cancel the resolution to appoint Mr Krzysztof Bocian to the position of Vice-President of the PGNiG Management Board for Exploration and Production and to close the recruitment process with the position left vacant.
- On April 29th 2013, the PGNiG Supervisory Board removed Ms Grażyna Piotrowska-Oliwa from the PGNiG Management Board and the position of the President of the PGNiG Management Board. On the same day, Mr Radosław Dudziński was removed from the PGNiG Management Board and the position of Vice-President of the PGNiG Management Board for Trade. The reason for their removal was the negative assessment of the members' performance in connection with the signing of a memorandum of understanding between SGT EUROPOL GAZ S.A. and OOO Gazprom Export, related to an evaluation of the economic viability of a potential construction of the Yamal II gas pipeline (the Memorandum was signed in Petersburg on April 4th 2013). Concurrently, Mr Mirosław Szkałuba, Member of the PGNiG Management Board, was delegated to coordinate the Management Board's activities until a new president is appointed, and steps were promptly taken to initiate the process aimed at appointing new Management Board members.
- On June 11th 2013, the PGNiG Supervisory Board appointed Mr Jerzy Kurella as Vice-President of PGNiG Management Board for Trade, with effect from June 14th 2013, for the joint term of office expiring on March 13th 2014, and resolved to close the qualification procedure for the position of President of the PGNiG Management Board without electing any candidate.
- On July 1st 2013, the PGNiG Supervisory Board appointed Mr Jerzy Kurella, Vice-President, as acting President of the Management Board until a new president is elected.

1.8. Commercial proxies

As at June 30th 2013 and as at the date of preparation of these financial statements, PGNiG SA had no commercial proxies.

1.9. Composition of the PGNiG Supervisory Board

Pursuant to the provisions of PGNiG SA's Articles of Association, its Supervisory Board consists of five to nine members, appointed by the General 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 Meeting should satisfy the following criteria:
1) They should be elected in accordance with the procedure set forth in Article 36.3 of PGNiG SA's Articles of Association;
2) They may not be a related party of the Company or any of the Company's subsidiaries;
3) They may not be a related party of the parent or another subsidiary of the parent; or
4) They 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 their ability to make impartial decisions in their capacity as a Supervisory Board member.

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

Pursuant to Article 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 by shareholders present at the General Meeting whose agenda includes election of such 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.

If the Supervisory Board is composed of up to six members, two members are appointed from among the candidates elected by the Company's employees. If the Supervisory Board is composed of seven to nine members, three members are appointed from among the candidates elected by the Company's employees.

As at June 30th 2013, the Supervisory Board consisted of nine members:

- Wojciech Chmielewski – Chairman of the Supervisory Board
- Marcin Moryń – Deputy Chairman of the Supervisory Board
- Mieczysław Kawecki – Secretary of the Supervisory Board
- Agnieszka Chmielarz – Member of the Supervisory Board
- Józef Głowacki – Member of the Supervisory Board,
- Janusz Pilitowski - Member of the Supervisory Board,
- Ewa Sibrecht-Ośka - Member of the Supervisory Board,
- Jolanta Siergiej – Member of the Supervisory Board,
- Zbigniew Skrzypkiewicz – Member of the Supervisory Board.

On June 26th 2013, the General Meeting of PGNiG SA removed Mr Mieczysław Puławski from the Supervisory Board and appointed Mr Zbigniew Skrzypkiewicz as a new Supervisory Board Member.

1.10. Shareholder structure of PGNIG SA

As at the date of release of these consolidated financial statements for H1 2013, the State Treasury was the only shareholder holding 5% or more of the total vote at the General Meeting of PGNiG SA.

PGNIG SA 's shareholder structure was as follows:

Shareholder	Registered office	Number of shares	% of share capital held	% of total vote
as at June 30th 2013				
State Treasury	Warsaw	4,271,764,202	72.40%	72.40%
Other shareholders	-	1,628,235,798	27.60%	27.60%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**
as at Dec 31 2012				
State Treasury	Warsaw	4,271,810,954	72.40%	72.40%
Other shareholders	-	1,628,189,046	27.60%	27.60%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**

1.11. Going-concern assumption

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

1.12. Mergers of commercial-law companies

In the period covered by these financial statements, there were no business combinations involving the Group and any other companies under commercial law.

1.13. Approval of the financial statements

These financial statements will be submitted to the Parent's Management Board for approval on August 14th 2013.

2. APPLIED ACCOUNTING POLICIES

2.1. Basis of preparation

These consolidated 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.

The reporting currency used in these consolidated financial statements is the Polish złoty (PLN). Unless stated otherwise, all amounts are given in PLN million. 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 June 30th 2013.

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, as amended).

2.1.2. Consolidation methods

These consolidated financial statements comprise the financial statements of PGNiG SA (the Parent) and the financial statements of companies controlled by the Parent other than subsidiaries whose effect on the consolidated financial statements would be immaterial, prepared as at June 30th 2013.

Subsidiaries are consolidated using the full consolidation method from their acquisition date (the date of assuming control over the company) until the date the control is lost. Control is exercised when the parent has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Identifiable acquired assets and assumed liabilities of the acquiree are recognised as at the acquisition date and are measured at fair value. The excess of the acquisition cost (consideration transferred measured in accordance with IFRS 3, any non-controlling interest in the acquiree measured in accordance with IFRS 3, and - in a business combination achieved in stages - the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net fair value of identifiable acquired assets and assumed liabilities, as determined as at the acquisition date, measured in accordance with the IFRS, is recognised as goodwill. If the acquisition cost is lower than the net fair value of identifiable acquired assets and assumed liabilities, as determined as at the acquisition date, the difference is recognised as gain in profit or loss as at the acquisition date.

Non-controlling interest is an interest in profit or loss and net assets of consolidated subsidiaries not attributable, directly or indirectly, to the Parent. Non-controlling interests are presented in separate items of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity.

Financial statements of subsidiaries are prepared for the same reporting period as the financial statements of the Parent, using uniform accounting policies. If necessary, adjustments are made to the financial statements of subsidiaries or associates in order to ensure consistency between the accounting policies applied by a given entity and those applied by the Parent.

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

Profit or loss of acquired entities or subsidiaries over which the Parent has lost control in a given reporting period are recognised in the consolidated financial statements from the acquisition date until the date of their disposal. If the Parent 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.

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 period covered by these consolidated financial statements, the Group 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 2013.

2.2.1.1. Application of the revised IAS 19

Revised IAS 19 introduces material changes in accounting for defined employee benefits plans. In particular, the corridor method, which allowed deferred recognition of actuarial gains/losses, has been eliminated. This means that actuarial gains/losses should be recognised immediately upon their origination. The amendments to the standard also refer to the manner of presentation of changes in assets and liabilities of defined benefits plans. The amendments, in particular, require permanent recognition of impacts of remeasurement of assets and liabilities of a benefits plan in the statement of comprehensive income, with respect to post-employment benefits. The impacts of remeasurement of assets and liabilities of a benefits plan with respect to benefits paid during the employment period, as well as employment costs and interest are to be recognised in profit or loss for current reporting period, as under the previous regime. Having applied the revised IAS 19, the Group changed the presentation of actuarial gains/losses and recognises them in other comprehensive income and not in net profit/loss for current period. Actuarial gains/losses on remeasurement of long-term employee benefits paid during the employment period (jubilee awards) are, as earlier, charged against net profit/loss for current reporting period. The Group made a one-off recognition of past service cost in profit/(loss). Formerly, the cost was recognised on a straight-line basis. The impact of the amendments on these consolidated financial statements is presented in Note *2.5 Presentation changes in the financial statements*.

2.2.2. Standards and interpretations published and endorsed for application in the EU but not yet effective

As at the date of these consolidated 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:

- IFRS 10 Consolidated Financial Statements endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2014),
- IFRS 11 Joint Arrangements endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2014),
- IFRS 12 Disclosure of Interests in Other Entities endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2014),
- IAS 27 (revised 2011) Consolidated and Separate Financial Statements endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2014),
- IAS 28 (revised 2011) Investments in Associates and Joint Ventures endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 32 Financial Instruments: Presentation– Offsetting Financial Assets and Financial Liabilities endorsed by the EU on December 13th 2012 (effective for annual periods beginning on or after January 1st 2014).

The Group decided not to use the option of early adoption of the above amendments.

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

2.2.3. Standards and interpretations adopted by the IASB but not yet endorsed for application in 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 June 30th 2013 had not yet been endorsed for application:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1st 2015),
- Amendments to IFRS 7 Financial Instruments: Disclosures – disclosures relating to the effects of initial application of IFRS 9 where the entity does not restate its comparative data as required under the amended IFRS 9 (effective for annual periods beginning on or after January 1st 2015),
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 27 Consolidated and Separate Financial Statements – Investment Entities (effective for annual periods beginning on or after January 1st 2014),
- IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1st 2014),
- IFRIC 21 Levies (effective for annual periods beginning on or after January 1st 2014).

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

2.3. Accounting policies

The policies applied to prepare these condensed consolidated financial statements are consistent with the general policies applied to draw up the annual consolidated financial statements for the period ended December 31st 2012, published on March 19th 2013, with the exception of the changes described in Note *2.2.1. First-time adoption of standards and interpretations.*

2.3.1. Investments in associated entities

An associate is an entity, other than a subsidiary or a joint venture, over which the parent has significant influence by participating in its financial and operating policy decisions.

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

Excess of acquisition cost over the net fair value of identifiable assets and liabilities of the associate as at the acquisition date is included the carrying amount of the investment. If acquisition cost is lower than net fair value of identifiable assets and liabilities of the associate as at the acquisition date, the difference is disclosed as gain in the income statement for the period in which the acquisition took place.

Gains and losses on transactions between the Group and an associated entity are eliminated in consolidation proportionately to the Group's interest in such associated entities' equity. Financial statements of associates and of the Group are prepared as at the same date, using uniform accounting policies. If necessary, adjustments are made to the financial statements of associates in order to ensure consistency between the accounting policies applied by a given entity and those applied by the Parent. Losses incurred by an associate may indicate an 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 and operating 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 sold and services rendered, generated by the joint venture. As assets, liabilities, revenues and costs relating to the joint venture are also disclosed in the separate financial statements of the party, these items are not subject to adjustment or other consolidation procedures when preparing consolidated financial statements of that party.

2.3.3. Translation of items denominated in foreign currencies

The Polish złoty (PLN) is the functional currency (measurement currency) and the reporting currency of PGNiG SA and its subsidiaries, with the exception of:

- POGC Libya B.V. – US dollar (USD),
- PGNiG Upstream International AS – Norwegian krone (NOK),
- PGNiG Sales & Trading GmbH - euro (EUR),
- PGNiG Finance AB – Swedish krona (SEK),
- foreign branches of the Group's subsidiaries (see Note 38.8).

Transactions denominated in foreign currencies are initially disclosed at the exchange rate of the functional currency effective as at the transaction date. Cash items 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 recognised in the consolidated income statement, except for the exchange differences on cash items comprising part of an entity's net investment in a foreign operation, which are recognised in other comprehensive income and accumulated in a separate item of equity until the disposal of the foreign operation. Non-cash items measured at historical cost in a foreign currency are translated at the exchange rate effective as at the date of transaction. Non-cash items measured at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.

As at the end of the reporting period, assets and liabilities of the foreign operations are translated into the reporting currency of PGNiG SA at the exchange rate effective as at the end of the reporting period, and the items of their income statements are translated at the average exchange rate for a given reporting period. Foreign exchange gains and losses on such translation are recognised in equity as revaluation capital reserve. In the consolidated financial statements they are disclosed under "Accumulated other comprehensive income". Upon disposal of a foreign operation, accumulated foreign exchange gains or losses disclosed under equity are recognised in profit or loss.

To hedge against foreign currency risk, the Group enters into derivatives transactions (for description of the accounting policies applied by the Group to derivative financial instruments see Note 2.3.13).

2.3.4. Property, plant and equipment

Property, plant and equipment comprises assets which the Group intends to use in the production or supply of merchandise or services, for rental to others (under a relevant agreement), or for administrative purposes for more than one period, where it is probable that future economic benefits associated with the assets will flow to the Group. The category of property, plant and equipment also includes tangible assets under construction. The cost of property, plant and equipment includes:

- expenditure incurred at initial recognition,
- expenditure incurred on improvements (modernisation) which increase future economic benefits.

Property, plant and equipment is initially disclosed at cost (i.e. valued at historical cost). Borrowing costs are also disclosed at cost (for a description of the capitalisation policies applied to borrowing costs see Section 2.3.6.). Spare parts and maintenance equipment are recorded as inventories and recognised in profit or loss 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 carrying amount of property, plant and equipment items to account for day-to-day maintenance costs of the assets. Such costs are recognised in profit or loss 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 recognised as assets, are disclosed at cost less depreciation and impairment losses.

The initially recognised value of gas pipelines and gas storage facilities includes the value of gas used to fill the pipelines or facilities for the first time. The amount of gas required to fill a pipeline or a storage chamber for the first time equals the amount required to obtain the minimum operating pressure in the pipeline or chamber.

In the event of a leak, the costs of pipeline refilling or replacing lost fuel are carried through profit or loss in the period when incurred.

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 the 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 Group as its assets are depreciated over their economic useful lives, but not longer than for the term of the contract.

On disposal or when no future economic benefits are expected from the use or disposal of an item of property, plant and equipment, its carrying amount is derecognised from the statement of financial position, and any gains or losses arising from the derecognition are charged to profit or loss.

Tangible assets under construction are valued at cost or aggregate cost incurred in the course of their production or acquisition, 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 appraisal expenditure covers geological work performed to discover and document deposits and is accounted for with the successful efforts method.

Natural gas and/or crude oil (mineral) deposits can be appraised once the Group obtains:

- a licence for appraisal of mineral deposits,
- a licence for exploration for and appraisal of mineral deposits,
- a signed agreement establishing mining rights.

The cost of a licence for appraisal of natural gas and/or crude oil deposits and the cost of its extension is the charge for operations executed under the licence, recognised in the Group's statement of financial position under intangible assets.

Expenditure incurred on individual wells is first capitalised in "Tangible assets under construction" as a separate item under exploration and evaluation assets.

If exploration is successful and leads to a discovery of commercial reserves, the Group assesses the areas and prospects in terms of economic viability of production.

If following the appraisal a decision is made to produce minerals, the Group reclassifies relevant exploration and evaluation assets at the start of production into property, plant and equipment or intangible assets, depending on the type of the asset.

If exploration is unsuccessful or a Group entity does not file for a licence for appraisal of natural gas and/or crude oil following the analysis of economic viability of production from the areas or prospects, the entire capitalised expenses incurred in relation to the wells drilled during exploration are recognised in profit or loss, in the period in which the decision to discontinue exploration was made.

The Group recognises provisions for extraction and storage well decommissioning costs. The value of the discounted provision is added to the initial value of the wells and depreciated over their expected useful economic lives.

Expenses under seismic surveys are capitalised under exploration and evaluation assets and presented as a separate exploration and evaluation asset.

2.3.6. Borrowing costs

The Group capitalises borrowing costs.

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 or sale, are capitalised at part of cost of the asset.

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 when incurred.

These cost capitalisation policies do not apply to:

- assets measured at fair value, and
- inventories produced or generated in significant volumes in the course of a repetitive process.

Borrowing costs may comprise:

- interest expense calculated using the effective interest rate method,
- financial liabilities under finance lease agreements,
- exchange differences arising on borrowings denominated in a foreign currency, to the extent that they are regarded as an adjustment to interest expenses.

In the case of funds borrowed without a specific purpose, borrowing costs are calculated by applying the capitalisation rate to the capital expenditure on that asset. The capitalisation rate is the weighted average of rates applied to all borrowing costs which are recognised as the Group's liabilities in the period, other than funds borrowed specifically for the purpose of acquiring qualifying assets.

2.3.7. Investment property

Investment property is the property (land, buildings or parts thereof) treated by the Group, as the owner or lessee under finance lease, as a source of rental income or held for expected capital appreciation, or both.

Investment property is initially recognised at cost and the initial valuation includes transaction costs. Following initial recognition of its investment property, the Group uses the cost model and 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 discontinuation of use if no benefits from its sale are expected in the future.

All gains or losses arising from the sale or discontinuation of the use of investment property are determined as the difference between net proceeds from sale and the carrying amount of the asset, and are recognised in profit or loss in the period in which the liquidation or sale is performed.

The Group depreciates investment property with 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 as a result of past events, which the Group expects to cause an inflow of economic benefits to the Group in the future and whose cost can be reliably estimated.

The Group identifies the following intangible assets:

- development expenses,
- goodwill,

- perpetual usufruct right to land – acquired for consideration,
- licenses, mining rights and geological information,
- computer software,
- greenhouse gas emission allowances.

Intangible assets generated in the course of development work are recognised in the statement of financial position only if the Group 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,
- its ability to either use or sell the intangible asset,
- the manner in which the intangible asset will generate future economic benefits,
- the availability of appropriate technical, financial and other 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.

The Group holds perpetual usufruct rights:

- acquired for consideration,
- acquired free of charge.

Perpetual usufruct rights to land acquired for consideration (from other entities) are presented as intangible assets and amortised over their useful life. 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. The useful life of the excess of the first payment over the annual perpetual usufruct charge is equal to the perpetual usufruct period specified in the perpetual usufruct agreement.

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 costs of licences for production of natural gas and/or crude oil and charges for establishment of mining rights payable to the State Treasury are expenditure subject to capitalisation and are presented under intangible assets.

Pursuant to the Act on Trading in Greenhouse Gas Emission Allowances, the Group holds CO_2 emission allowances, allocated for individual installations.

The Group distinguishes the following emission allowances:

- purchased for redemption,
- purchased for resale,
- received free of charge.

Emission allowances purchased for redemption are recognised as intangible assets at actual acquisition price.

Emission allowances purchased for resale are recognised as inventory and measured initially at cost. At the end of the reporting period, they are measured at the lower of cost or net realisable value.

Emission allowances received free of charge under the National Allocation Plan are recognised as off-balance-sheet items at nominal value (equal to zero).

The Group initially recognises intangible assets at cost and afterwards they are carried at cost less accumulated amortisation and impairment losses. The adopted amortisation method reflects the pattern of consumption of economic benefits associated with an intangible asset by the Group. If the 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 forecast 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 estimates and are recognised in 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
- Licences - granted for periods specified in relevant decisions of the President of the Energy Regulatory Office.

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 tested for impairment periodically (at least once a year or whenever there is indication of impairment).

2.3.9. Leases

A lease is classified as a finance lease if the lease agreement provides for the transfer of substantially all risks and benefits 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. Lease payments relating to the given financial period, excluding costs of services, reduce the value of gross investment in the lease, reducing both the principal amount and the amount of unrealised finance income.

Finance income on a finance lease is disclosed in subsequent periods at a constant rate of return on the net investment in the lease.

Income from operating leases is recognised in profit or loss on a straight-line basis over the lease term, unless the application of a different systemic method better reflects the pattern of reduction over time of the benefits derived from a leased asset.

2.3.9.2. The Group as a lessee

Non-current assets used under finance lease are recognised as assets of the Group. As at the commencement of the lease term, the Group discloses finance leases in the statement of financial position under assets and liabilities at the lower of the fair value of the leased assets as at the first day of the lease term or present value of the minimum lease payments as at the first day of the lease term. The resultant liability to the lessor is disclosed in the statement of financial position under "Borrowings and other debt instruments", including a current and non-current portion.

Minimum lease payments are apportioned between finance costs representing the interest portion of lease payments, and the reduction of the outstanding lease liability. Finance costs are spread over individual reporting periods, and represent a fixed percentage of the outstanding lease liability in each of the reporting periods. Finance costs are determined using the internal rate of return (IRR) method.

Lease payments under operating leases are recognised as costs on a straight-line basis over the lease term, unless the application of a different symmetric method better reflects the pattern of spreading over time of benefits derived by the user.

2.3.10. Impairment of property, plant and equipment and intangible assets

As at the end of each reporting period, the Group tests its property, plant and equipment and intangible assets for impairment. If any indication of impairment is found to exist, the recoverable amount of a particular asset is estimated in order to determine whether the asset is impaired. If a given asset does not generate cash flows which are to a large extent independent of the cash flows generated by other assets, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

Intangible assets with an indefinite useful life are tested for impairment on an annual basis, by way of comparing the recoverable amount of the asset with its carrying amount, and each time there is an indication of impairment of the asset.

The recoverable amount is determined as the higher of the fair value less cost to sell or value in use of the asset or cash-generating unit. Value in use corresponds to the present value of estimated future cash flows expected to be obtained from the continued use of an asset or cash-generating unit, discounted at 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 carrying amount of an asset (or cash-generating unit), the carrying amount is decreased to the recoverable amount of the asset (or cash-generating unit). An impairment loss is recognised as cost of the period in which the impairment loss arose.

If an impairment loss is reversed, the carrying amount of the asset (or cash-generating unit) is increased to the newly estimated recoverable amount, which should not be higher than the carrying amount that would have been determined (net of accumulated depreciation/amortisation) had no impairment of that asset (or cash-generating unit) been recognised in previous years. Reversal of an impairment loss is recognised in profit or loss.

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 (positive valuation of derivatives which are not measured pursuant to the principles of hedge accounting),
- derivative financial instruments,
- financial assets available for sale,
- loans and receivables.

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 fair value through profit or loss on their initial recognition.

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).

Derivatives with positive valuation which are not measured pursuant to the principles of hedge accounting (e.g. SWAP, CIRS, options) are classified by the Group as held for trading.

The Group did not apply hedge accounting to CIRS transactions as the valuation of both the hedged item, i.e. exchange differences on a loan, and the hedge is reflected in profit or loss for the same reporting period.

The item "Financial assets held for trading" includes also a positive value of commodity options with respect to which the Group cancelled the hedging relationship.

2.3.11.2. Derivative financial instruments

The category comprises valuation of derivative instruments to which the Group applies hedge accounting. For description of the applied hedge accounting policies, see Section 2.3.13.

2.3.11.3. Financial assets available for sale

Non-derivative financial assets that are designated as available for sale or which are not financial assets 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 changes in fair value is recognised in equity under Accumulated other comprehensive income. 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 carried at cost (without remeasurement as at each balance sheet date to reflect changes in currency exchange rates).

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

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

If impairment is identified, the Group recognises an appropriate impairment charge. In the statement of financial position, the value of the interests is presented net of impairment charges.

2.3.11.4. Loans and receivables

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

Loans and receivables are measured at amortised cost, using the effective interest rate method. Measurement differences are recognised in profit or loss. The Group does not discount receivables if they mature in less than 12 months from the end of the reporting period and where the discounting effect would be 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 charged to costs when recognised as irrecoverable accounts. If receivables are written off or cancelled due to their expiry or irrecoverability, impairment losses recognised on such receivables, if any, are reduced.

Receivables cancelled or written off due to their expiry or irrecoverability for which no impairment losses were recognised or the impairment losses that were recognised were lower than the full amounts of the receivables, are charged to other expenses or finance costs.

2.3.11.5. Trade and other receivables

Trade receivables are initially recognised at nominal value (provided that the discounting effect is immaterial). Following initial recognition, receivables are measured at amortised cost using the effective interest rate method. Measurement differences are recognised in profit or loss. The Group does not discount receivables which mature in less than 12 months from the end of the reporting period 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.

Uncollectible receivables are charged to profit or loss when recognised as irrecoverable accounts. If receivables are written off or cancelled due to their expiry or irrecoverability, impairment losses recognised on such receivables, if any, are reduced.
Receivables cancelled or written off due to their expiry or irrecoverability with respect to which no impairment losses were recognised or the impairment losses that were recognised were lower than the full amounts of the receivables, are charged to other expenses or finance costs, as appropriate.

2.3.11.6. 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 statement of cash flows consists of the cash and cash equivalents specified above, less outstanding overdraft facilities.

2.3.12. Impairment of financial assets

As at the end of each reporting period, the Group assesses whether there is an objective evidence of impairment of a financial asset or a group of financial assets. A financial asset or a group of financial assets is deemed impaired if there is objective evidence of impairment following from one or more events which took place after initial recognition of such asset or group of financial assets, and the event leading to impairment has an adverse effect on the estimated future cash flows related to the asset or group of assets, which can be reliably estimated.

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 losses equals the difference between the carrying amount of an asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Depending on the type of receivables, impairment losses are determined using the statistical or individual method. Impairment losses on receivables for gas deliveries to customers from tariff groups 1-4 are determined using the statistical method. The 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 determined using the individual method, 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 expenses or finance costs, as appropriate, depending on the type of receivables with respect to which an impairment loss is recognised.

If the amount of impairment loss on financial assets, except for financial instruments available for sale, is reduced, the previously recognised loss is reversed through profit or loss. The reversal may not result in increasing the carrying amount 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.

Impairment losses on investments in equity instruments classified as available for sale are not reversed through profit or loss. Any increase in fair value after the recognition of impairment losses is disclosed directly in equity.

2.3.13. Hedge accounting

The Group applies cash-flow hedge accounting with respect to foreign exchange and commodity transactions.

The objective of the Group'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 chiefly on gas purchases under long-term contracts.

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

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

The objective of the Group'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 dollar.

The applied hedging relationship type is a hedge of future, highly probable cash flows related to gas purchases. Instruments designated for hedge accounting include purchased commodity swaps (buy fix/sell float), Asian commodity call options, and zero-cost option structures involving a combination of long Asian call options and short Asian put options. The underlying indices for all instruments are Gasoil 0.1% Barges FOB Rotterdam (Platt's) and Fuel Oil 1% Barges FOB Rotterdam (Platt's).

Changes in the fair value of financial derivatives designated to hedge cash flows are posted directly to accumulated other comprehensive income to the extent they represent an effective hedge. Changes in the fair value of financial derivatives designated to hedge cash flows, to the extent not representing an effective hedge, are charged to other income or expenses in the reporting period.

If a hedging instrument expires, is sold, terminated or exercised, or the hedge no longer meets certain criteria for hedge accounting, the valuation is left in a separate item under equity until the planned transaction is executed. If the Group no longer expects the planned transaction to be executed, part of the valuation is transferred from equity to profit or loss as reclassification adjustment. If the Group cancels the hedging relationship, the valuation amounts remain in a separate item under equity until the planned transaction is executed or until it is no longer expected to be executed.

2.3.14. Inventories

Inventories comprise 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 raw materials or consumables used in the production process or in the course of rendering of services. The Group's inventories comprise materials and consumables, merchandise, finished products, work in progress and certificates of origin for electricity.

The value of inventories is established at the lower of cost and net realisable value. Cost comprises all costs of purchase and processing, as well as other costs incurred to bring the inventories to their present location and condition.

Gas fuel at storage facilities is measured jointly for all storage units, at the average weighted cost. Decreases in the inventories of gas fuel stored in the Underground Gas Storage Facilities for sale and own consumption, as well as balance-sheet differences, are measured at the average actual 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.

The Group companies are obliged to obtain and surrender for cancellation certificates of origin for electricity corresponding to the volume of electricity sold to end customers.

Under inventories, the Group recognises certificates of origin for electricity obtained in connection with electricity production and certificates of origin for electricity purchased in order to be surrendered for cancellation.

The certificates of origin obtained in connection with the production of electricity are recognised at market value when their grant becomes probable. Purchased certificates of origin are recognised at cost. Decreases in the purchased certificates of origin are measured using the weighted average method.

Upon sale of electricity, a provision is recognised for the certificates of origin to be surrendered for cancellation in connection with the sale of electricity to end customers. The provision and the registered certificates of origin disclosed under inventories are accounted for at the time of registering their cancellation in the Register of Certificates of Origin maintained by the Polish Power Exchange ("TGE").

If the cost of inventories is not recoverable, the Group recognises an impairment loss bringing the value of such inventories to the net realisable amount. Impairment losses on inventories bringing their value to the net realisable amount and all losses on inventories are recognised as cost in the period when the loss occurred.

Impairment losses on inventories are determined by way of a case-by-case assessment of the usefulness of inventories, based on the following assumptions:

- For purchased materials which are not traded for a period of 1–5 years, the Group generally recognises an impairment loss of 20% of their value; Where the case-by-case usefulness assessment and the possibility of using a category of materials and their cycle structure are taken into account, the Group may recognise impairment losses of 5% and 10% of the value of the materials;
- For purchased materials which are not traded for a period of 5–10 years, the Group recognises an impairment loss of 20%–100% of their value;
- For materials remaining in warehouses for more than 10 years, which are completely useless and intended for liquidation, the Group recognises an impairment loss of 100% of their value.

2.3.15. Non-current assets held for sale

The Group classifies a non-current asset (or a disposal group) as available for sale if its carrying amount is to 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 disposal group), 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 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 available for sale are measured at the lower of their net carrying amount and fair value less cost to sell. If the fair value is lower than the net carrying amount, 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.

Non-current assets available for sale (or a disposal group) are not subject to depreciation or amortisation.

In the consolidated statement of financial position, assets available for sale (or a disposal group) are presented as a separate item of current assets.

2.3.16. Equity

Equity is disclosed in the statement of financial position by type and in accordance with the rules stipulated by applicable laws and the entity's Articles of Association.

Share capital is disclosed at par value and in the amount specified in the Parent's Articles of Association 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 entity's equity.

Share premium comprises the positive difference between the issue price of shares over the par value of the shares which remains after covering issue costs.

Share issue costs incurred upon establishment of a joint-stock company or share capital increase reduce the share premium account to the amount of the difference between the issue proceeds and the par value of the shares, and their balance is charged to other capital reserves, disclosed under Retained earnings/deficit.

The effects of adjustments related to the first-time adoption of IAS were charged to Retained earnings/deficit. In accordance with the IAS, net profit for the previous financial year can be allocated by an entity only to equity or dividends to shareholders. The option provided by the Polish law, whereby profit can be allocated to the Company Social Benefits Fund, the Restructuring Fund, employee profit-sharing schemes or for other purposes, is not reflected in the IAS. Therefore, the

Group recognises the aforementioned reductions in profit as the cost of the period. Profit distributions to employees are recognised as payroll cost, while funds transferred to the Company Social Benefits Fund are disclosed under employee benefit expense.

2.3.17. Provisions

Provisions are recognised 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 resources embodying economic benefits, and a reliable estimate can be made of the amount of the obligation (with the obligation amount and maturity date being uncertain).

The Group reviews provisions at the end of each reporting period in order to reflect the current best estimate. If the effect of changes in the time value of money is material, provisions are discounted. If the provisions are discounted, an increase in the provisions as a result of lapse of time is disclosed as costs of external funding.

The Group recognises the following provisions:

- provision for well decommissioning costs,
- provision for costs of environmental liabilities,
- provision for claims under extra-contractual use of land,
- provision for the buy-out price payable under the Energy Efficiency Act, and
- other provisions.

2.3.17.1. Provision for well decommissioning costs

The Group recognises a provision for future well decommissioning costs and contributions to the Extraction Facilities Decommissioning Fund.

The provision for future well decommissioning costs is calculated based on the average cost of well decommissioning at the individual branches of the Parent over the last three full years preceding the reporting period, 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.

If a provision relates to the cost of liquidation of property, plant and equipment, the initial value of the provision is added to the value of the property, plant and equipment. Any subsequent adjustments to the provision resulting from changes in estimates are also treated as an adjustment to the value of the property, plant and equipment. Changes in provisions resulting from a change of discount are charged/credited against finance income or costs.

The Extraction Facilities Decommissioning Fund is created on the basis of Art. 26c of the Mining and Geological Law of February 4th 1994 (Dz.U. 05.228.1947, as amended).

The funds accumulated in the Extraction Facilities Decommissioning Fund may be used only to cover the costs of decommissioning of an extraction facility or its specific part, in particular the costs of:

- abandonment of and securing production, storage, discharge, observation and monitoring wells;
- liquidation of redundant facilities and disassembly of machinery and equipment;
- reclamation of land and development of areas after completion of extraction activities;
- maintenance of facilities intended for decommissioning in an order ensuring safety of extraction facility operations.

The Group makes contributions to the Extraction Facilities Decommissioning Fund in the amount of 3% to 10% of the value of the annual tax depreciation of extraction property, plant and equipment (determined in accordance with income tax laws) with a corresponding increase in other expenses.

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

2.3.17.2. Provision for costs of environmental liabilities

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

2.3.17.3. 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 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 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).

In line with the materiality principle, the Group estimates the amount of the provision for claims under extra-contractual use of land if the exchange of correspondence with a claimant has continued for the last three years and such claims have been confirmed to be valid.

The Group estimates the amount of the provision based on:
- an estimate survey made by an expert appraiser, or
- its own valuation, taking into account the size of the controlled area in square metres, the amount of annual rent per square metre for similar land in a given municipality, and the period of extra-contractual use of land (not more than ten years), or
- if it is not possible to obtain reliable data required to apply the method described above, the Group analyses submitted claims on a case-by-case basis.

2.3.19.4 Provision for buy-out price payable under the Energy Efficiency Act

The Energy Efficiency Act of April 15th 2011 introduces the system of white certificates, imposing an obligation to obtain the certificates and surrender them for cancellation to the President of the Energy Regulatory Office, or pay a buy-out price. The obligation applies to companies selling electricity, heat and gas fuels to end users.

White certificates, i.e. energy savings certificates, may be obtained for efficiency-improving measures implemented or planned to be implemented by a company. An energy savings certificate may be obtained for a measure that results in annual energy savings of at least 10 tonnes of oil equivalent (toe) or a group of such measures that results in total annual savings in excess of 10 toe.

The Company estimates the amount of the provision for the buy-out price in accordance with the formula set forth in the Energy Efficiency Act.

2.3.17.5. Other provisions

The Group companies may also recognise other provisions for future expenses related to their activities and operations, if such costs are so material that failure to recognise them in profit or loss for a given period would distort the true view of the Group's assets and financial position.

2.3.18. Accruals and deferrals

The Group recognises as prepayments those costs incurred upfront that relate to future reporting periods.

In the consolidated statement of financial position prepayments are disclosed as non-current (under Other non-current assets) and current (under Other assets).

Accruals are outstanding liabilities due for merchandise or services which have been delivered/provided but have not yet been paid, invoiced or formally agreed upon with the supplier/provider. Accruals are disclosed together with trade and other payables as an item of equity and liabilities in the statement of financial position.

In deferred income, the Group recognises deferred income from additional charges for uncollected gas and government grants relating to assets. Deferred income from additional charges for uncollected gas is generated under take-or-pay contracts. Under this item the Group recognises the amount of income based on the volume of ordered and uncollected gas, which is then adjusted pro rata to the actual volume of delivered gas. If a trading partner fails to collect the declared volume of gas by the deadline specified in the contract, deferred income is reclassified to income from compensations, penalties, fines, etc.

Government grants relating to assets are recognised as Deferred income when it is certain that they have been awarded. Then, they are charged to profit or loss pro rata to depreciation charges on the corresponding assets.

The gas companies (distribution system operators) disclose as accruals and deferrals the value of gas infrastructure accepted free of charge and connection fees (received by June 30th 2009). This income is amortised over time, proportionately to depreciation charges on those connections.

Deferred income is broken down into a non-current and current portion and disclosed under equity and liabilities in the consolidated statement of financial position.

2.3.19. Financial liabilities

Financial liabilities are classified into two categories: financial liabilities measured at fair value through profit or loss and other financial liabilities (including trade and other payables).

Upon initial recognition, financial liabilities are measured at fair value increased, in the case of financial liabilities not classified as measured at fair value through profit or loss, by transaction costs which may be directly attributed to the acquisition or issue of a given financial liability.

2.3.19.1. Financial liabilities measured at fair value through profit or loss

A financial liability at fair value through profit of loss is a financial liability that meets either of the following conditions:

- it is classified as held for trading, or
- it was designated by the Group as measured at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is:

- incurred principally for the purpose of selling or repurchasing it in the short term;
- a derivative (except for a derivative that is a designated and effective hedging instrument).

Changes in the fair value of derivatives included in the above category of financial liabilities are recognised as income or expense in a reporting period in which a given derivative is remeasured.

The Group classifies as liabilities at fair value through profit or loss those derivative financial instruments that are not measured pursuant to the principles of hedge accounting and whose measured value is negative.

2.3.19.2. Financial liabilities at amortised cost

The other financial liabilities at amortised cost 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 costs which may be directly attributed to the acquisition or issue of a given financial liability.

As at the balance-sheet date, they are measured at amortised cost with the use of the effective interest rate method. The adjusted acquisition cost includes cost of obtaining the 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 costs over the term of the borrowing.

2.3.19.3. Other financial liabilities

Other financial liabilities comprise liabilities other than those recognised at fair value through profit or loss.

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 borrowing as well as discounts or premiums obtained at settlement of the liability.

2.3.19.4. Trade and other payables

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

2.3.19.5. Employee benefit obligations

Employee benefits are all forms of consideration given by the Group in exchange for services rendered by employees or upon termination of employment.

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within 12 months after the end of the annual reporting period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) which are payable after the completion of employment.

Short-term employee benefits paid by the Group include:
- salaries, wages and social security contributions,
- short-term compensated absences where the absences are expected to occur within 12 months after the end of the period in which the employees render the related employee service;
- profit-sharing and bonuses payable within 12 months after the end of the period in which the employees render the related service,
- non-monetary benefits for current employees.

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.

The Group recognises expected short-term employee benefit expenses related to compensated absences in the case of accumulated compensated absences (that is absences to which the entitlement is transferred to the future periods and can be used in the future if the absences were not fully used in the current period), and in the case of non-accumulating absences (which cause liabilities on the part of the Group upon their occurrence).

Post-employment benefits in the form of defined benefit plans (retirement severance payments) and other long-term employee benefits (e.g. “jubilee” benefits, long-term disability pensions) are determined using the projected unit credit method, with the actuarial valuation made as at the end of the reporting period.

Actuarial gains and losses related to post-employment benefits are presented in other comprehensive income, whereas gains and losses related to other post-employment benefits are charged to profit or loss of the current reporting period.

The Parent recognised 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 operation of the Fund as well as the list of mark-ups and expenses from the Fund are specified in the Parent’s internal regulations. For more information, see Note 40.

2.3.19.6. Other liabilities

Other liabilities include all liabilities not classified by the Group as trade and other payables, taxes, customs duties, social security contributions, other benefits, salaries and wages.

The category of other non-current liabilities includes liabilities under bank settlements, arrangement and recovery proceedings, liabilities under licences, property, plant and equipment assigned and still used by the Group, which are to be repaid in instalments over a period longer than one year.

Other current liabilities include in particular liabilities towards:

- suppliers (trade and other payables related to acquisition or construction of property, plant and equipment and intangible assets) and sellers of securities,
- insurance companies,
- employees (other than salaries and wages)
- shareholders (dividends),
- suppliers (bid bonds),
- lessors (operating leases),
- trading partners (performance bonds),
- other liabilities.

2.3.20. Revenue

The Group's business consists in production, distribution, storage and trade in high-methane and nitrogen-rich natural gas, sale and generation of electricity and heat, as well as production and sale of crude oil.

Revenue comprises amounts receivable (except for VAT and other amounts received on behalf of third parties) for products, merchandise and services delivered as part of ordinary business. Revenue is measured at the fair value of the consideration received or receivable, less any discounts, sales taxes (VAT, excise duty) and other charges.

2.3.20.1. Sale of merchandise and products

Sales of merchandise and products are recognised when the merchandise and products are delivered to the customer and significant risks and benefits related to their ownership are transferred.

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

Estimated sales, not invoiced in a given reporting period, are determined using industry standards 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.

2.3.20.2. Rendering of services

The Group's business also includes rendering of services, i.e. distribution of gas fuels, storage of gas fuels, real estate rental, gas services, well services as well as transport, hotel, geological, exploration, finance lease and other services.

When the outcome of the transaction involving the rendering of services can be reliably estimated, revenue is recognised by reference to the stage of completion of the service at the end of the reporting period.

2.3.20.3. Revenue from construction contracts

When the outcome of a transaction involving the rendering of construction services can be reliably estimated, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period.
When the stage of completion of the contract activity cannot be estimated reliably, revenue is recognised only to the extent that contract costs incurred are expected to be recoverable.

2.3.21. Other categories of income

2.3.21.1. Interest income

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

2.3.21.2. Dividends

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

2.3.22. Grants

The Group distinguishes the following grants:

- grants related to assets, receivable on condition that the Group purchases, produces, or otherwise obtains plant, property and equipment.
- grants related to revenue.

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

Grants related to assets are recognised in the statement of financial position as deferred income and subsequently recognised – through equal annual write-offs – in profit or loss throughout the expected useful life of the assets. Non-monetary grants are accounted for at fair value.

Grants, which are generally disclosed under Revenue, may also reduce relevant costs.

A grant receivable as compensation for costs or losses already incurred or as immediate financial support for the entity, with no future related costs, should be recognised in profit or loss in the period in which it becomes receivable.

2.3.23. Income tax

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

Current tax is calculated based on the taxable profit/(loss) (tax base) for a given financial year. Profit/(loss) established for tax purposes differs from net profit/(loss) established for accounting purposes due to different time of recognising income as earned and expenses as incurred and because of permanent differences between tax and accounting treatment of income and expenses.

Deferred tax is determined using the balance-sheet method based on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes.

Current tax is calculated based on the tax rates effective in a given financial year.

Deferred tax liabilities are recognised for temporary differences which are taxable when realised for tax purposes, 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, including tax losses, can be utilised.

Deferred tax liabilities are not recognised with respect to recognised goodwill. Deferred tax liabilities (assets) are also not recognised in connection with initial recognition of an asset or liability in a transaction which is not a business combination and when it does not affect either the accounting or the taxable profit at the moment of transaction.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries or associates, and interests in joint ventures, unless the Group company, acting as the parent, investor or venturer is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax assets is reviewed at each balance-sheet date. If future foreseen taxable profit is insufficient for deductible temporary differences to be settled, impairment losses on deferred tax assets are recognised.

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

Deferred tax assets and liabilities are offset if, and only if, the Group:

- has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities.

Deferred and current tax is recognised as income or expense, except to the extent that the tax arises from a transaction or event that is credited or charged directly to other comprehensive income or to equity (deferred tax is then credited or charged directly to equity).

2.3.24. Operating segments

An operating segment is a component of the Group:

- that engages in business activity from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the Group's chief operating decision maker, and are used when making decisions on asset allocation to the segment and when reviewing its performance;
- for which discrete financial information is available.

The PGNiG Group has adopted division into business segments as the basic division of its operations. Consolidated entities operate within the following five segments:

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

b) *Trade and Storage Segment* The segment's activities consist in sale 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 and the separation of storage and trading functions, sale of natural gas is conducted by PGNiG SA, while gas storage services are provided by Operator Systemu Magazynowania Sp. z o.o. The segment operates six underground gas storage facilities (Mogilno, Wierzchowice, Husów, Brzeźnica, Strachocina and Swarzów). PGNiG Sales & Trading GmbH of Munich, which conducts activities in the area of gas and electricity trading and distribution, and PGNiG Energia S.A., involved in electricity trading, are also classified as the Trade and Storage segment.

Gas trading and storage business is regulated 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 Distribution Companies, which supply gas to individual, industrial and wholesale customers. These entities are also responsible for operation, maintenance and expansion of the distribution network.

d) *Generation Segment* The segment's activities consist in generation of electricity and heat. Assets, revenues and expenses of PGNiG TERMIKA S.A. are presented in this segment.

e) *Other Activities Segment* This segment comprises all Group companies whose activities cannot be classified into any of the other segments: engineering design and construction of structures, machinery and equipment for the extraction and energy sectors, as well as catering and hospitality services.

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. Most assets can be directly allocated to particular segments, however, if assets are used by two or more segments their value is allocated to individual segments based on the extent to which a given segment actually uses such assets.

A segment's liabilities comprise all operating liabilities (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.

Intercompany transactions within a segment are eliminated.

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 uncertainty and estimates, which had a 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 areas listed below.

2.4.1. Impairment of non-current assets

The Group's key operating assets include extraction assets (for production of natural gas and crude oil), gas 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 or sale. For certain assets, the assumptions made in connection with potential future use, liquidation and sale may change. For information on the value of recognised impairment losses see Note 11.2.

In the case of extraction 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 calculated. Any changes in the estimates of the resources directly affect the amount of the impairment losses on the extraction assets.

Another significant uncertainty is connected with the risk related to the decisions of the Energy Regulatory Office concerning prices of the gas fuel distribution services. Because prices materially affect the Group's cash flows, any change could lead to the necessity to remeasure the impairment losses on the distribution assets.

2.4.2. Useful lives of property, plant and equipment

The useful lives of the main groups of property, plant and equipment are set forth in Section 2.3.4. of these financial statements. The useful lives of the property, plant and equipment were determined on the basis of assessments made by the engineering personnel responsible for 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 property, plant and equipment and the future depreciation charges.

2.4.3. Estimating natural gas sales

In order to correctly recognise revenue from gas sales in appropriate reporting periods, estimates are made – as at the end of the reporting period – of the quantity and value of gas delivered, but not invoiced, to retail customers.

The value of 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. Accordingly, profit or loss for a given period may account for a portion of the estimated sales volume which will never be realised.

2.4.4. Provisions for well decommissioning costs and environmental liabilities

The provision for well decommissioning costs and provisions for environmental liabilities presented in Note 28 represent significant items among the provisions disclosed in the consolidated financial statements. These provisions are based on the estimates of future asset decommissioning and land reclamation costs, which largely depend on the adopted discount rate and the estimated future cash-flow period.

2.4.5. Provision for claims under extra-contractual use of land

In accordance with the materiality rule, the Group estimated the amount of the provision for claims under extra-contractual use of land (see Section 2.3.17.3).

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

2.4.6. Impairment of SGT EUROPOL GAZ S.A. shares

The Parent tested the shares held in SGT EUROPOL GAZ S.A. for impairment using the discounted cash flow method. The valuation was based on the Inter-Governmental Protocol of October 29th 2010, which specified the company's expected net profit, as discussed in Note 6. The result of the impairment test is sensitive to the adopted assumptions regarding future cash flows and discount rate. Changes in these assumptions following from updates of the Company's financial forecasts and changes in the discount rate due to general or company-specific factors, may have a material effect on the company's future value.

Further, implementation of the provisions of the Inter-Governmental Protocol with respect to the net profit earned in subsequent years will be of material importance to the assessment of the value of SGT EUROPOL GAZ S.A.

2.5. Presentation changes in the financial statements

In the financial statements for H1 2013, the Group made changes to comparative financial data relating to the presentation of expenses on:

- seismic surveys,
- licences,
- rights to geological information,
- mineral-extraction rights.

Until 2012, seismic survey and licence expenses were charged directly to profit or loss as costs when incurred, in line with the accounting policies, while rights to geological information and mineral-extraction rights. were recognised as other assets.

Given the intensified exploration for unconventional gas deposits, leading to potential development of unconventional gas fields, as well as the need to improve comparability of the Group's financial results with results published by peer companies, as of 2012 the Group presents these expenses in the following manner:

- expenses on seismic surveys are capitalised as exploration and evaluation assets,
- expenses on licences, rights to geological information and mineral-extraction rights are capitalised and presented under intangible assets.

The changes are presented retrospectively, in correspondence with retained earnings.

The Group also made presentation changes with respect to employee benefits. Until 2012, employee benefit expense provisions were recognised in the income statement as other expenses/income. In 2012, the Group presented those expenses/income in the income statement under Employee benefit expense, while the obligations were carried under Employee benefit obligations in the statement of financial position.

The Group also made changes in the comparative data following the first-time adoption of the revised IAS 1 Presentation of Financial Statements and IAS 19 Employee Benefits. The effects of the application of the revised standards are further discussed in Note 2.2.1. First-time adoption of standards and interpretations.

The purpose of the above changes was to increase the transparency and usefulness of data shown in the financial statements.

As a result of the changes, several adjustments were made to comparative data for the relevant periods of 2012; these are presented in the financial statements below.

2.5.1. Earnings/(loss) and diluted earnings/(loss) per share attributable to owners of the parent (PLN)

	Jan 1–Jun 30 2012 before the change	Jan 1–Jun 30 2012 after the change
Earnings/(loss) and diluted earnings/(loss) per share attributable to owners of the parent (PLN)	(0,002)	0,01

2.5.2. Consolidated income statement

	Jan 1–Jun 30 2012 before the change	Adjustments ensuring comparability - presentation change - employee benefit obligations	Adjustments ensuring comparability - seismic surveys, licences	Adjustments ensuring comparability - change of IAS 19	Jan 1–Jun 30 2012 after the change
Revenue	14,764	-	-	-	14,764
Raw materials and consumables used	(10,633)	-	-	-	(10,633)
Employee benefit expense	(1,365)	4	-	4	(1,357)
Depreciation and amortisation expense	(1,004)	-	-	-	(1,004)
Services	(1,487)	-	-	-	(1,487)
Work performed by the entity and capitalised	362	-	71	-	433
Other income and expenses	(690)	(4)	-	-	(694)
Total operating expenses	**(14,817)**	**-**	**71**	**4**	**(14,742)**
Operating profit/(loss)	**(53)**	**-**	**71**	**4**	**22**
Finance income	69	-	-	-	69
Finance costs	(196)	-	-	-	(196)
Share in net profit/loss of equity-accounted entities	87	-	-	-	87
Profit/(loss) before tax	**(93)**	**-**	**71**	**4**	**(18)**
Income tax	77	-	(13)	(1)	63
Net profit/(loss)	**(16)**	**-**	**58**	**3**	**45**

2.5.3. Consolidated statement of comprehensive income

	Jan 1–Jun 30 2012 before the change	Adjustments ensuring comparability - presentation change - employee benefit obligations	Adjustments ensuring comparability - seismic surveys, licences	Adjustments ensuring comparability - change of IAS 19	Jan 1 – Jun 30 2012 after the change
Net profit/(loss)	**(16)**	**-**	**58**	**3**	**45**
Other comprehensive income, net	**(85)**	**-**	**-**	**(2)**	(87)
of which:					
Exchange differences on translating foreign operations	14	-	-	-	14
Actuarial gains/(losses) on employee benefits inclusive of tax	-	-	-	(2)	(2)
Total comprehensive income	**(101)**	**-**	**58**	**1**	**(42)**

2.5.4. Consolidated statement of financial position

	Dec 31 2012 before the change	Adjustments ensuring comparability - change of IAS 19	Dec 31 2012 after the change
ASSETS			
Total non-current assets	**37,084**	**11**	**37,095**
of which:			
Deferred tax assets	1,124	11	1,135
Total current assets	**10,833**	**-**	**10,833**
Total assets	**47,917**	**11**	**47,928**
LIABILITIES AND EQUITY			
Total equity	**27,247**	**(51)**	**27,196**
of which:			
Accumulated other comprehensive income	(90)	(60)	(150)
Retained earnings	19,693	9	19,702
Total non-current liabilities	**11,057**	**62**	**11,119**
of which:			
Employee benefit obligations	319	62	381
Total current liabilities	**9,613**	**-**	**9,613**
of which:			
Employee benefit obligations	356	-	356
Total liabilities	**20,670**	**62**	**20,732**
Total liabilities and equity	**47,917**	**11**	**47,928**

2.5.5. Consolidated statement of cash flows

	Jan 1–Jun 30 2012 before the change	Adjustments ensuring comparability - seismic surveys, licences	Adjustments ensuring comparability - change of IAS 19	Jan 1–Jun 30 2012 after the change
Net cash flows from operating activities	**1,180**	**71**	**-**	**1,251**
of which:				
Net profit/(loss)	(16)	58	3	45
Current tax expense	(77)	13	1	(63)
Other items, net	82	1	(2)	81
Change in working capital	426	(1)	(2)	423
Net cash flows from investing activities	**(4,289)**	**(71)**	**-**	**(4,360)**
of which:				
Acquisition of property, plant and equipment and intangible assets	(1,617)	(71)	-	(1,688)
Net cash flows from financing activities	**2,974**	**-**	**-**	**2,974**
Net change in cash	**(135)**	**-**	**-**	**(135)**
Cash and cash equivalents at beginning of the period	**1,504**	**-**	**-**	**1,504**
Cash and cash equivalents at end of the period	**1,369**	**-**	**-**	**1,369**

2.5.6. Reportable segments

The table below presents the impact of the changes made in the reported period on the segments' operating results, as well as their assets, equity and liabilities, for the comparative period, i.e. H1 2012.

Period ended June 30th 2012	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Segment's operating profit/(loss) before the changes	**770**	**(1,436)**	**566**	**54**	**(30)**	**23**	**(53)**
Changes, including	**72**	**1**	**3**	**(1)**	**-**	**-**	**75**
1) Adjustments ensuring comparability - seismic surveys and licences	71	-	-	-	-	-	**71**
2) Adjustments ensuring comparability - change of IAS 19	1	1	3	(1)	-	-	**4**
Segment's operating profit/(loss) after the changes	**842**	**(1,435)**	**569**	**53**	**(30)**	**23**	**22**
Segment's assets before the changes	**15,176**	**14,598**	**12,953**	**4,135**	**437**	**(7,264)**	**40,035**
Changes, including	**963**	**12**	**-**	**-**	**-**	**-**	**975**
1) Adjustments ensuring comparability - seismic surveys and licences	963	12	-	-	-	-	**975**
Segment's assets after the changes	**16,139**	**14,610**	**12,953**	**4,135**	**437**	**(7,264)**	**41,010**
Segment's liabilities before the changes	**5,159**	**3,214**	**2,334**	**2,642**	**164**	**(6,948)**	**6,565**
Changes, including	**23**	**8**	**48**	**1**	**-**	**-**	**80**
1) Adjustments ensuring comparability - change of IAS 19	23	8	48	1	-	-	**80**
Segment's liabilities after the changes	**5,182**	**3,222**	**2,382**	**2,643**	**164**	**(6,948)**	**6,645**

The above table presents only those changes which affected operating profits/losses of the segments and material changes in the segments' assets and liabilities. In Note 3 "Operating segments", all data for the comparative period have been restated to ensure comparability with the reported period.

3. OPERATING SEGMENTS

3.1. Reportable segments

The tables below present income, expenses and profits/losses, as well as assets, equity and liabilities of the Group's reportable segments for the periods ended June 30th 2013 and June 30th 2012.

Period ended June 30th 2013	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Income statement							
Sales to third-party customers	2,022	13,646	85	898	139	-	16,790
Inter-segment sales	740	180	2,221	230	92	(3,463)	-
Total segment revenue	2,762	13,826	2,306	1,128	231	(3,463)	16,790
Depreciation and amortisation expense	(466)	(87)	(422)	(176)	(11)	-	(1,162)
Other costs	(921)	(13,711)	(1,248)	(809)	(224)	3,459	(13,454)
Total segment costs	(1,387)	(13,798)	(1,670)	(985)	(235)	3,459	(14,616)
Operating profit/(loss)	**1,375**	**28**	**636**	**143**	**(4)**	**(4)**	**2,174**
Net finance costs							(233)
Share in net profit/loss of equity-accounted entities		(42)					(42)
Profit/(loss) before tax							**1,899**
Income tax							(471)
Net profit/(loss)							**1,428**
Statement of financial position							
Segment assets	16,586	17,130	13,906	4,086	504	(7,546)	44,666
Investments in equity-accounted entities		729					729
Unallocated assets							394
Deferred tax assets							1,142
Total assets							**46,931**
Total equity							27,985
Segment liabilities	5,818	4,775	2,797	1,835	194	(7,131)	8,288
Unallocated liabilities							8,620
Deferred tax liabilities							2,038
Total liabilities and equity							**46,931**
Other information on the segment							
Capital expenditure on property, plant and equipment and intangible assets	(891)	(87)	(559)	(51)	(9)	29	**(1,568)**
Impairment losses on assets	(1,049)	(1,688)	(99)	(36)	(11)	1	**(2,882)**
Impairment losses on unallocated assets							**(40)**

Period ended June 30th 2012	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Income statement							
Sales to third-party customers	1,476	12,032	64	1,114	78	-	14,764
Inter-segment sales	571	267	1,865	-	152	(2,855)	-
Total segment revenue	2,047	12,299	1,929	1,114	230	(2,855)	14,764
Depreciation and amortisation expense	(295)	(66)	(405)	(230)	(8)	-	(1,004)
Other costs	(910)	(13,668)	(955)	(831)	(252)	2,878	(13,738)
Total segment costs	(1,205)	(13,734)	(1,360)	(1,061)	(260)	2,878	(14,742)
Operating profit/(loss)	**842**	**(1,435)**	**569**	**53**	**(30)**	**23**	**22**
Net finance costs							(127)
Share in net profit/loss of equity-accounted entities		87					87
Profit/(loss) before tax							**(18)**
Income tax							63
Net profit/(loss)							**45**
Statement of financial position							
Segment assets	16,139	14,610	12,953	4,135	437	(7,264)	41,010
Investments in equity-accounted entities		685					685
Unallocated assets							254
Deferred tax assets							1,177
Total assets							**43,126**
Total equity							25,112
Segment liabilities	5,182	3,222	2,382	2,643	164	(6,948)	6,645
Unallocated liabilities							9,420
Deferred tax liabilities							1,949
Total liabilities and equity							**43,126**
Other information on the segment							
Capital expenditure on property, plant and equipment and intangible assets	(868)	(149)	(583)	(60)	(12)	(16)	**(1,688)**
Impairment losses on assets	(501)	(2,123)	(92)	(25)	(10)	-	**(2,751)**
Impairment losses on unallocated assets							**(38)**

3.2. Geographical areas

The Group's business activity is conducted primarily on the domestic market (Poland). In H1 2013, revenue from export sales to third-party customers accounted for 11.53% (4.58% in H1 2012) of the total revenue from sales to third party customers.

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Domestic sales:	14,854	14,088
High-methane gas	11,878	11,446
Nitrogen-rich gas	774	715
Crude oil	491	325
Helium	16	18
Propane-butane gas	31	31
Natural gasoline	3	4
LNG	29	24
CNG	15	15
Electricity	508	445
Heat	601	527
Certificates of origin for electricity	28	132
Gas storage services	21	19
Geophysical and geological services	30	59
Drilling and well servicing services	104	119
Construction and erection	104	38
Hotel services	15	13
Other services	143	97
Other products	13	8
Materials and merchandise	12	11
Connection charge	38	42
Export sales:	1,936	676
High-methane gas*	933	89
Crude oil	560	265
Helium	76	48
NGL	48	-
Electricity	3	-
Geophysical and geological services	77	102
Drilling and well servicing services	183	141
Construction and erection	3	13
Other services	1	7
Other products	10	11
Materials and merchandise	42	-
Total	**16,790**	**14,764**

* Sales made primarily by PGNiG Sales & Trading GmbH in Western Europe.

The Group sells mainly to customers in Germany (53% of export sales), Switzerland and Norway.

Most 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 June 30th 2013 represented 15.83% of the Group's total non-current assets (15.61% as at December 31st 2012).

	Jun 30 2013	Dec 31 2012
Value of non-current assets other than financial instruments located in Poland	29,421	29,487
Value of non-current assets other than financial instruments located abroad*	5,532	5,454
Total	**34,953**	**34,941**

*Including PLN 4,113m as at June 30th 2013 which related to PGNiG Upstream International AS (PLN 4,125m as at the end of 2012).

3.3. Key customers

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

4. OPERATING EXPENSES

4.1. Raw material and consumables used

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Cost of gas sold	(9,618)	(9,688)
Fuels for electricity and heat generation	(534)	(563)
Other raw material and consumables used	(324)	(382)
Total	**(10,476)**	**(10,633)**

4.2. Employee benefit expense

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Salaries and wages	(1,078)	(993)
Social security contributions	(237)	(229)
Other employee benefit expense	(154)	(183)
Cost of future benefits	51	48
Total	**(1,418)**	**(1,357)**

4.3. Services

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Transmission services	(742)	(752)
Costs of dry wells written off	(81)	(61)
Other services	(690)	(674)
Total	**(1,513)**	**(1,487)**

4.4. Other income and expenses

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Compensations, penalties, fines, etc. received	81	25
Income from current settlement of deferred income recognised in the statement of financial position	32	33
Interest on receivables related to operating activities	37	25
Other income	20	17
Net exchange differences related to operating activities	(12)	(136)
Net gains/losses on derivative instruments related to operating activities	(10)	(133)
Net gains/losses on disposal of non-financial non-current assets	-	63
Change in products	170	153
Change in impairment losses on property, plant and equipment	79	60
Change in impairment losses on inventories	(58)	(65)
Change in impairment losses on trade and other receivables	39	(6)
Change in other impairment losses	(2)	-
Provision for well decommissioning costs	1	(15)
Provision for penalty imposed by the Office for Competition and Consumer	-	(60)
Provision for environmental liabilities	5	-
Provision for claims under extra-contractual use of land	(4)	-
Other provisions	(71)	(4)
Taxes and charges	(430)	(425)
Value of merchandise and materials sold	(186)	(22)
Property insurance	(39)	(44)
Domestic and international business trips	(28)	(30)
Compensations, penalties, fines, etc. paid	(10)	(13)
Interest on liabilities related to operating activities	(2)	-
Other costs	(83)	(117)
Total	**(471)**	**(694)**

5. FINANCE INCOME AND COSTS

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Finance income	**150**	**69**
Gain on measurement and realisation of derivative financial instruments	105	26
Interest income	42	34
Dividends and other profit distributions	3	4
Other finance income	-	5
Finance costs	**(383)**	**(196)**
Loss on measurement and realisation of derivative financial instruments	-	-
Interest expenses	(145)	(129)
Foreign exchange losses	(216)	(56)
Commission fees paid on bank borrowings	(14)	(7)
Cost of guarantees	(2)	(2)
Other finance costs	(6)	(2)
Finance income/costs	**(233)**	**(127)**

6. EQUITY METHOD VALUATION OF ASSOCIATES

6.1. Condensed financial information on equity-accounted associates

	Jun 30 2013	Dec 31 2012
SGT EUROPOL GAZ S.A.		
PGNiG Group's ownership interest*	49.74%	49.74%
Core business	Transmission of natural gas	Transmission of natural gas
Key financial data**		
Total assets	4,732	5,012
Total liabilities	1,138	1,370
Revenue	527	618
Net profit/(loss)	(27)	85
Gas - Trading S.A.		
PGNiG Group's ownership interest	43.41%	43.41%
Core business	Trade	Trade
Key financial data**		
Total assets	41	43
Total liabilities	1	3
Revenue	21	19
Net profit/(loss)	(0,2)	(0,4)

* Including a 48% direct interest and 1.74% held indirectly through Gas-Trading S.A.

** Data from financial statements prepared in accordance with the Polish Accounting Standards.

6.2. Net carrying amount of interests in equity-accounted associates

	Jun 30 2013	Dec 31 2012
SGT EUROPOL GAZ S.A.		
Valuation of interests using equity method*	1,498	1,528
Cost	38	38
Share in change in equity	1,536	1,566
Impairment losses	(823)	(811)
Net carrying amount of the investment	**713**	**755**
Gas - Trading S.A.		
Valuation of interests using equity method	15	15
Cost	1	1
Share in change in equity	16	16
Net carrying amount of the investment	**16**	**16**
Total net carrying amount of the investments	**729**	**771**

*After adjustment to equity, made to ensure compliance with the Group's accounting policies. See Note 6.3.

6.3. Reconciliation of the value of interests in equity-accounted associates

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Net carrying amount of the investments at beginning of the period	771	598
Valuation recognised in profit or loss, including:	**(42)**	**87**
Valuation of **SGT EUROPOL GAZ S.A.**	(42)	87
Net carrying amount of investments at end of the period	**729**	**685**

The Parent estimated its equity interest in SGT EUROPOL GAZ S.A. on the basis of the value of the company's equity as shown in its financial statements prepared as at June 30th 2013 in accordance with the Polish Accountancy Act, adjusted to reflect differences in the accounting policies applied within the Group and results on intercompany 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. Since the beginning of 2009, the Group has capitalised 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 tested its interest in SGT EUROPOL GAZ S.A. for impairment using the discounted cash flow method, on the basis of information on the company's target net profit as indicated in the Inter-Governmental Protocol dated October 29th 2010. The calculations were based on an assumption that SGT EUROPOL GAZ S.A.'s net profit in 2011-2021 will each year amount to PLN 21,000 thousand. Discounted cash flows include all cash flows generated by SGT EUROPOL GAZ S.A., including cash flows related to the servicing of interest-bearing external financing (interest expenses and repayment of principal amounts of borrowings).

As at June 30th 2013, the Parent measured the value of its equity interest in jointly-controlled entity SGT EUROPOL GAZ S.A. using the equity method at PLN 1,536m. The company's value estimated as at the same date using the discounted cash flow method was PLN 713m.

The Parent made a revaluation adjustment to the company's net carrying amount to reflect the company's current valuation of PLN 713m . As at the end of H1 2013, the difference in valuation relative to December 31st 2012 was PLN 42m and was recognised in the income statement for the current period in “Share in net profit/loss of equity-accounted entities”.

7. 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

	Note	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Profit/(loss) before tax		1,899	(18)
Tax rate applicable in the period		19%	19%
Tax calculated at the applicable tax rate		(361)	3
Difference in tax rates		(9)	(3)
Investment tax credit (Norway)		(7)	102
Permanent differences between profit/(loss) before tax and tax base		(94)	(39)
Tax expense in the consolidated income statement		**(471)**	**63**
Current tax expense	7.2.	(402)	(129)
Deferred tax expense	7.3.	(69)	192
Effective tax rate		25%	350%

7.2. Current income tax

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Profit/(loss) before tax (consolidated)	1,899	(18)
Consolidation adjustments	374	262
Differences between profit/(loss) before tax and tax base	(508)	(523)
Taxable revenue not recognised as revenue for accounting purposes	85	129
Tax deductible expenses not recognised as expenses for accounting purposes	(1,767)	(1,537)
Income not recognised as taxable income	744	793
Non-tax deductible expenses	(1,941)	(1,699)
Deductions from income	(23)	(21)
Income tax base	1,765	(279)
Tax rate applicable in period	19%	19%
Income tax	(335)	53
Increases, reliefs, exemptions, allowances and reductions in/of income tax	(67)	(182)
Current tax expense disclosed in tax return for the period	(402)	(129)
Current tax expense disclosed in the consolidated income statement	**(402)**	**(129)**

7.3. Deferred income tax

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Deferred tax expense disclosed in the consolidated income statement	**(69)**	**192**
Origination and reversal of deferred tax due to deductible temporary differences	**10**	**213**
Impairment losses on financial assets, receivables and tangible assets under construction	7	-
Provisions for future liabilities	16	7
Costs of FX risk and interest rate risk hedges	(44)	(11)
Foreign exchange losses	4	(2)
Investment tax credit (Norway)	(7)	102
Tax loss for the period	1	112
Other deductible temporary differences	33	5
Origination and reversal of deferred tax due to taxable temporary differences	**(79)**	**(21)**
Difference between tax and accounting value of non-current assets	(18)	(4)
Positive valuation of FX and interest rate risk hedges	2	(9)
Foreign exchange gains	(1)	1
Income on tax obligation arising in subsequent month	16	11
Other taxable temporary differences	(78)	(20)
Deferred tax expense disclosed in other comprehensive income, net, including:	**(22)**	**23**
Hedge accounting	(23)	23
Actuarial gains/(losses) on employee benefits	1	-
Exchange differences on translating deferred tax attributable to foreign operations	(4)	-
Changes in the Group	-	(351)
Reclassification to assets held for sale	-	-
Total changes	**(95)**	**(136)**

The current reporting period covered the tax period from January 1st to June 30th 2013. A 19% corporate income tax rate was applicable in Poland in H1 2013. In the comparative period, i.e. in 2012, the rate was also 19%.

Regulations on value added tax, corporate and personal income tax or social security contributions change, 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 penalties, and any additional amounts assessed following an inspection must be paid together with 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 determination of the final amount of tax due. Tax settlements may be inspected for a 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 and of Polish subsidiaries 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 subsidiaries, the tax rates effective in H1 2013 and in H1 2012 ranged from 10% to 41%. Foreign branches of the Parent did not generate any taxable income in H1 2013 and 2012.

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

- The corporate income tax system (27% tax rate);
- The petroleum tax system (additional tax rate of 51%).

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

- The company may apply 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 benefit from an investment incentive of 5.5% 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 22% of expenditure subject to depreciation/amortisation (5.5% in each of the four years). The incentive is deducted only from the income subject to the petroleum tax (51% rate) and does not apply to income tax. If the incentive amount exceeds income generated in a given year, it becomes deductible in subsequent years.
- Total expenditure on exploration activities may be deducted from revenue. If a company does not generate income from which expenditure on exploration could be deducted, it is entitled to a 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 costs may be deducted in both taxation systems.

PGNiG Upstream International AS has been amortising its investment expenditure since 2007 and has been using its investment incentive by recognising it as deferred tax expense (in the amount recorded under "Investment incentive (Norway)" in table 7.3.); such deferred tax expense will be used when taxable income (subject to income tax) is generated.
Under the Norwegian tax system the use of tax losses is not time-barred and, what is more, interest accrues on losses incurred after 2002. The interest rate applicable to such losses is calculated as a risk-free interest rate plus a margin, net of income tax (27%). Losses incurred by PGNiG Upstream International AS since 2007, increased by the interest, will reduce its current tax expense in the future.
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

The Group did not discontinue any operations in H1 2013.

In H2 2013, the Group is planning to sell Geovita S.A., its catering and hospitality subsidiary.

As at June 30th 2013, the Group presented the assets and equity and liabilities of consolidated entity Geovita S.A. in the statement of financial position under Non-current assets held for sale and Liabilities associated with assets held for sale. The company does not represent any material area of the Group's operations.

Detailed information on assets held for sale is presented in Note 24.

9. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share are/is calculated by dividing net profit/(loss) attributable to holders of the Parent'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/is 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).

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Net profit/(loss) attributable to owners of the parent	1,425	48
Net profit/(loss) attributable to owners of the parent used to calculate diluted earnings/(loss) per share	1,425	48
Weighted average number of outstanding ordinary shares used to calculate basic earnings/(loss) per share (million)	5,900	5,900
Weighted average number of outstanding ordinary shares used to calculate diluted earnings/(loss) per share (million)	5,900	5,900
Basic earnings/(loss) per share for the year, attributable to holders of ordinary shares of the parent (PLN)	0.24	0.01
Diluted earnings/(loss) per share for the period, attributable to holders of ordinary shares of the parent (PLN)	0.24	0.01

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

Beginning of the period	End of the period	Number of outstanding ordinary shares (million)	Number of days	Weighted average number of shares (million)
Jun 30 2013				
Jan 1,2013	Jun 30 2013	5,900	181	5,900
Total			**181**	**5,900**
Jun 30 2012				
Jan 1,2012	Jun 30 2012	5,900	182	5,900
Total			**182**	**5,900**

10. DIVIDEND PAID AND PROPOSED

Dividend declared in the period	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Dividend per share declared (PLN)	0.13	-
Number of shares (million)	5,900	5,900
Dividend declared (PLNm), including:	767	-
- cash dividend for the State Treasury	555	-
- cash dividend paid to other shareholders	212	-

On June 6th 2012, the Annual General Meeting of PGNiG SA resolved to allocate the 2011 profit of PLN 1,615.7m and retained earnings of PLN 72.5m to the Company's statutory reserve funds. Therefore, no dividend was paid to shareholders for 2011.

On May 22nd 2013, the Annual General Meeting of PGNiG SA adopted a resolution on distribution of the Company's 2012 profit, whereby it decided to allocate PLN 767 million for payment of dividend. The dividend record date and the dividend payment date were set for July 20th 2013 and October 3rd 2013, respectively.

11. PROPERTY, PLANT AND EQUIPMENT

	Jun 30 2013	Dec 31 2012
Land	76	70
Buildings and structures	17,543	16,522
Plant and equipment	9,213	4,530
Vehicles and other	1,248	1,244
Total tangible assets	**28,080**	**22,366**
Tangible assets under construction - exploration for and appraisal of mineral resources	2,178	2,371
Other tangible assets under construction	3,515	9,047
Total property, plant and equipment	**33,773**	**33,784**

TANGIBLE ASSETS

Jun 30 2013	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
Total net carrying amount as at Jan 1 2013, net of accumulated depreciation and impairment losses	70	16,522	4,530	1,244	**22,366**
Increase	-	12	2	(1)	**13**
Changes in the Group	1	1	1	-	**3**
Decrease	(1)	(316)	(20)	(4)	**(341)**
Currency translation differences	-	-	(48)	-	**(48)**
Transfers from tangible assets under construction and between groups	5	1,806	5,168	114	**7,093**
Impairment losses	1	60	(1)	1	**61**
Depreciation expense for the reporting period	-	(542)	(419)	(106)	**(1,067)**
Total net carrying amount as at Jun 30 2013, net of accumulated depreciation and impairment losses	**76**	**17,543**	**9,213**	**1,248**	**28,080**
As at Jan 1 2013					
Gross value	72	25,430	7,470	2,366	**35,338**
Accumulated depreciation and impairment losses	(2)	(8,908)	(2,940)	(1,122)	**(12,972)**
Net carrying amount as at Jan 1 2013	**70**	**16,522**	**4,530**	**1,244**	**22,366**
As at Jun 30th 2013					
Gross value	77	26,920	12,547	2,432	**41,976**
Accumulated depreciation and impairment losses	(1)	(9,377)	(3,334)	(1,184)	**(13,896)**
Net carrying amount as at Jun 30 2013	**76**	**17,543**	**9,213**	**1,248**	**28,080**

Dec 31 2012	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
Total net carrying amount as at Jan 1 2012, net of accumulated depreciation and impairment losses	58	14,663	2,480	1,054	**18,255**
Increase	-	367	10	3	**380**
Changes in the Group	8	803	1,606	7	**2,424**
Decrease	(1)	(133)	(19)	(19)	**(172)**
Currency translation differences	-	-	1	(1)	**-**
Transfers from tangible assets under construction and between groups	5	2,008	1,039	395	**3,447**
Impairment losses	-	(175)	(28)	7	**(196)**
Depreciation expense for the reporting period	-	(1,011)	(559)	(202)	**(1,772)**
Net carrying amount as at Dec 31 2012, net of accumulated depreciation and impairment losses	**70**	**16,522**	**4,530**	**1,244**	**22,366**
As at Jan 1 2012					
Gross value	60	22,411	4,887	2,019	**29,377**
Accumulated depreciation and impairment losses	(2)	(7,748)	(2,407)	(965)	**(11,122)**
Net carrying amount as at Jan 1 2012	**58**	**14,663**	**2,480**	**1,054**	**18,255**
As at Dec 31 2012					
Gross value	72	25,430	7,470	2,366	**35,338**
Accumulated depreciation and impairment losses	(2)	(8,908)	(2,940)	(1,122)	**(12,972)**
Net carrying amount as at Dec 31 2012	**70**	**16,522**	**4,530**	**1,244**	**22,366**

11.1. Property, plant and equipment used under finance lease agreements

	Jun 30 2013				Dec 31 2012			
	Initial value of capitalised finance lease	Accumulated depreciation	Impairment loss	Net carrying amount	Initial value of capitalised finance lease	Accumulated depreciation	Impairment loss	Net carrying amount
Plant and equipment	204	(44)	-	160	225	(46)	-	179
Vehicles and other	47	(11)	-	36	50	(9)	-	41
Total	**251**	**(55)**	**-**	**196**	**275**	**(55)**	**-**	**220**

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 - exploration for and appraisal of mineral resources	Other tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2013	2	636	147	11	**796**	335	74	**1,205**
Increase	-	127	19	1	**147**	19	1	**167**
Decrease	(1)	(187)	(18)	(2)	**(208)**	(39)	(2)	**(249)**
As at Jun 30th 2013	**1**	**576**	**148**	**10**	**735**	**315**	**73**	**1,123**
As at Jan 1 2012	2	461	119	18	**600**	299	152	**1,051**
Increase	1	357	74	5	**437**	138	24	**599**
Decrease	(1)	(182)	(45)	(11)	**(239)**	(155)	(72)	**(466)**
Transfers	-	-	-	-	**-**	53	(53)	**-**
Currency translation differences	-	-	(1)	(1)	**(2)**	-	-	**(2)**
Changes in the Group	-	-	-	-	**-**	-	23	**23**
As at Dec 31 2012	**2**	**636**	**147**	**11**	**796**	**335**	**74**	**1,205**

As at the beginning of the period, impairment losses on tangible assets stood at PLN 796m, of which:

- - PLN 597m were impairment losses on assets used directly in hydrocarbon production,
- - PLN 8m were impairment losses on distribution assets,
- - PLN 1m were impairment losses on assets of underground gas storage facilities,
- - PLN 190m were impairment losses on other tangible assets.

Impairment losses recognised and reversed in the reporting period amounted to PLN 147m and PLN 208m respectively, of which PLN 145m and PLN 205m, respectively, concerned assets used directly in hydrocarbon production, with the balance attributable to other tangible assets used by the Group.

As at the end of the period, impairment losses on tangible assets stood at PLN 735m, of which:

- - PLN 537m were impairment losses on assets used directly in hydrocarbon production,
- - PLN 8m were impairment losses on distribution assets,
- - PLN 1m were impairment losses on assets of underground gas storage facilities,
- - PLN 189m were impairment losses on other tangible assets.

12. INVESTMENT PROPERTY

	Jun 30 2013	Dec 31 2012
Net carrying amount at beginning of the period, net of accumulated depreciation and impairment losses	11	7
Changes in the Group	-	6
Decrease	-	(1)
Depreciation expense for the reporting period	-	(1)
Net carrying amount at end of the period, net of accumulated depreciation and impairment losses	**11**	**11**
At beginning of the period		
Gross value	15	11
Accumulated depreciation and impairment losses	(4)	(4)
Net carrying amount at beginning of the period	**11**	**7**
At end of the period		
Gross value	15	15
Accumulated depreciation and impairment losses	(4)	(4)
Net carrying amount at end of the period	**11**	**11**

The Group's investment property includes chiefly office buildings held in whole or in part for rent, industrial buildings and structures, and land. As at the end of the reporting period, the net carrying amount of office buildings classified as investment property was PLN 8m (end of 2012: PLN 9m), and the net value of the industrial buildings and structures was PLN 2m (end of 2012: PLN 2m). The remaining PLN 1m under investment property as at June 30th 2013 was attributable to land.

In the reporting period, the Group earned PLN 2m in revenue from rental of investment property (H1 2012: PLN 3m).

Operating expenses incurred in connection with the rental of investment property were PLN 1m in the reporting period (H1 2012: PLN 2m).

As investment property is not a material item in the statement of financial position, the Group does not measure its fair value.

13. INTANGIBLE ASSETS

Jun 30 2013	Development expenses	Goodwill	Perpetual usufruct right to land – acquired for consideration*	Computer software	CO_2 emission allowances	Other intangible assets	**Total**
Net carrying amount as at Jan 1 2013, net of accumulated amortisation and impairment losses	1	44	672	213	50	166	**1,146**
Increase	-	-	(1)	-	44	-	**43**
Decrease	-	-	1	-	-	-	**1**
Currency translation differences	-	-	-	1	-	3	**4**
Transfers from tangible assets under construction and between groups	-	-	3	42	-	25	**70**
Amortisation expense for the reporting period	-	-	(2)	(37)	(39)	(17)	**(95)**
Net carrying amount as at Jun 30 2013, net of accumulated amortisation and impairment losses	**1**	**44**	**673**	**219**	**55**	**177**	**1,169**
As at Jan 1 2013							
Gross value	5	44	688	438	212	318	**1,705**
Accumulated amortisation and impairment losses	(4)	-	(16)	(225)	(162)	(152)	**(559)**
Net carrying amount as at Jan 1 2013	**1**	**44**	**672**	**213**	**50**	**166**	**1,146**
As at Jun 30th 2013							
Gross value	5	44	690	475	256	345	**1,815**
Accumulated amortisation and impairment losses	(4)	-	(17)	(256)	(201)	(168)	**(646)**
Net carrying amount as at Jun 30 2013	**1**	**44**	**673**	**219**	**55**	**177**	**1,169**

* Furthermore, the Group holds perpetual usufruct right to land obtained free of charge, which is disclosed exclusively as an off-balance-sheet item. As at June 30th 2013, the estimated value of the usufruct right was PLN 492m (end of 2012: PLN 493m).

Dec 31 2012	Development expenses	Goodwill*	Perpetual usufruct right to land – acquired for consideration**	Computer software	CO_2 emission allowances	Other intangible assets	**Total**
Net carrying amount as at Jan 1 2012, net of accumulated amortisation and impairment losses	2	-	71	136	-	134	**343**
Increase	-	-	-	-	54	56	**110**
Changes in the Group	-	44	598	4	190	58	**894**
Decrease	-	-	(1)	(1)	(32)	-	**(34)**
Currency translation differences	-	-	-	-	-	(3)	**(3)**
Transfers from tangible assets under construction and between groups	-	-	7	132	-	1	**140**
Impairment losses	-	-	-	-	-	(8)	**(8)**
Amortisation expense for the reporting period	(1)	-	(3)	(58)	(162)	(72)	**(296)**
Net carrying amount as at Dec 31 2012, net of accumulated amortisation and impairment losses	**1**	**44**	**672**	**213**	**50**	**166**	**1,146**
As at Jan 1 2012							
Gross value	5	-	84	308	-	178	**575**
Accumulated amortisation and impairment losses	(3)	-	(13)	(172)	-	(44)	**(232)**
Net carrying amount as at Jan 1 2012	**2**	**-**	**71**	**136**	**-**	**134**	**343**
As at Dec 31 2012							
Gross value	5	44	688	438	212	318	**1 705**
Accumulated amortisation and impairment losses	(4)	-	(16)	(225)	(162)	(152)	**(559)**
Net carrying amount as at Dec 31 2012	**1**	**44**	**672**	**213**	**50**	**166**	**1,146**

* Of which PLN 42m relates to acquisition of PGNiG TERMIKA S.A., and the remaining PLN 2m represents goodwill on acquisition of Xool Gmbh.

* The Group also holds perpetual usufruct right to land obtained free of charge, which is disclosed exclusively as an off-balance-sheet item. As at December 31st 2012, the estimated value of the usufruct right was PLN 493m.

13.1. Impairment losses on intangible assets

	Development expenses	Goodwill	Perpetual usufruct right to land – acquired for consideration	Computer software	CO_2 emission allowances	Other intangible assets	**Total**
As at Jan 1 2013	-	-	3	-	-	8	**11**
Increase	-	-	-	-	-	1	**1**
Decrease	-	-	-	-	-	(1)	**(1)**
As at Jun 30th 2013	**-**	**-**	**3**	**-**	**-**	**8**	**11**
As at Jan 1 2012	-	-	3	-	-	-	**3**
Increase	-	-	-	-	-	8	**8**
As at Dec 31 2012	**-**	**-**	**3**	**-**	**-**	**8**	**11**

14. NON-CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Jun 30 2013	Dec 31 2012
Unlisted shares (gross)	95	90
Total, gross	**95**	**90**
Unlisted shares (net)*	53	48
Total, net	**53**	**48**

* Net of impairment losses.

15. OTHER FINANCIAL ASSETS

	Jun 30 2013	Dec 31 2012
Loans advanced	182	117
Amounts receivable for sale of tangible assets	5	5
Financial receivables (security deposits, guarantees and other)	1	1
Other financial assets	1	1
Total, gross	**189**	**124**
Impairment losses	(1)	-
Total, net	**188**	**124**
Including net receivables from related entities (Note 38.1)	182	**117**

16. DEFERRED TAX ASSETS

	Jun 30 2013	Dec 31 2012
Liabilities under length-of-service awards and severance payments	83	71
Provision for unused holiday entitlement	5	5
Provision for well decommissioning costs	136	143
Provision for environmental liabilities	25	22
Other provisions	86	75
Impairment losses on property, plant and equipment	69	72
Impairment losses on shares	7	7
Impairment losses on interest receivables	7	7
Negative valuation of derivative financial instruments	43	87
Foreign exchange losses	9	5
Accrued interest on borrowings and liabilities	11	5
Connection charge	65	66
Unpaid salaries and wages, including contributions to the Social Insurance Institution (ZUS)	8	9
Revaluation of prepayments/deferred income due to hyperinflation	6	7
Investment tax credit (Norway)	480	492
Tax loss for period	5	4
Other deferred tax assets	97	58
Total	**1,142**	**1,135**

17. OTHER NON-CURRENT ASSETS

	Jun 30 2013	Dec 31 2012
Connection charge	58	58
Commission fees paid on borrowings, notes and other debt instruments	10	13
Other non-current assets	5	5
Total	**73**	**76**

18. INVENTORIES

	Jun 30 2013	Dec 31 2012
Materials		
at cost, including:	2,999	3,006
- gas fuel	2,250	2,181
- fuels for electricity and heat generation	228	370
at net realisable value, including:	2,921	2,983
- gas fuel	2,196	2,181
- fuels for electricity and heat generation	228	370
Semi-finished ???goods??? and work in progress		
at cost	12	45
at net realisable value	12	45
Finished products		
at cost	33	40
at net realisable value	23	34
Merchandise		
at cost	2	2
at net realisable value	2	2
Total inventories at cost	**3,046**	**3,093**
Total inventories, at the lower of cost and net realisable value	**2,958**	**3,064**

18.1. Change in inventories in the period

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Inventories at cost, at beginning of the period	**3,093**	**2,102**
Purchase	10,412	11,732
Other increases	1,318	16
Inventories charged to expenses for the period	(11,618)	(11,334)
Changes in the Group	-	358
Other decreases	(159)	(69)
Inventories at cost, at end of the period	**3,046**	**2,805**
Impairment loss on inventories	**(88)**	**(86)**
Total net inventories at end of the period	**2,958**	**2,719**

18.2. Impairment losses on inventories

	Jun 30 2013	Dec 31 2012
Impairment losses at beginning of the period	(29)	(20)
Increase in impairment losses	(67)	(55)
Reversal of impairment losses	8	46
Impairment losses at end of the period	**(88)**	**(29)**

19. TRADE AND OTHER RECEIVABLES

	Jun 30 2013	Dec 31 2012
Trade receivables	3,120	5,266
Trade receivables from related entities	1	2
VAT receivable	281	502
Other taxes, customs duties and social security receivable	182	25
Due and payable portion of loans advanced to related entities	33	29
Receivables from equity-accounted associated and jointly-controlled entities	4	4
Other receivables from related entities	2	2
Receivables from sale of property, plant and equipment	5	5
Prepayments for tangible assets under construction	6	14
Dividend receivable	1	-
Additional contribution to equity receivable under a relevant resolution*	26	85
Amounts receivable due to failure to meet contractual terms	-	85
Other receivables	343	250
Total gross receivables	**4,004**	**6,269**
Including gross receivables (including due and payable portion of a loan) from related entities (Note 38.1)	40	37
Impairment loss on doubtful receivables (Note 19.1)	**(830)**	**(895)**
Total net receivables	**3,174**	**5,374**
including:		
Trade receivables	2,634	4,756
Trade receivables from related entities	1	2
VAT receivable	281	502
Other taxes, customs duties and social security receivable	180	23
Receivables from equity-accounted associated and jointly-controlled entities	4	4
Other receivables from related entities	2	2
Receivables from sale of property, plant and equipment	5	5
Prepayments for tangible assets under construction	6	14
Dividend receivable	1	-
Other receivables	60	66
Including net receivables (including due and payable portion of a loan) from related entities (Note 38.1)	7	8

* Dispute concerning additional contributions to equity of PI Gazotech Sp. z o.o., described in Note 42.1.

Trade receivables arise mainly in connection with the sale of gas fuel and distribution services. Furthermore, as at the end of 2012, receivables from Gazprom Export under retroactive settlements were recognised pursuant to Annex 40 of November 5th 2012.

Standard payment deadlines applied by the Group companies with respect to receivables in the ordinary course of business are 14 days for the sale of gas, electricity, heat, and distribution services, and 21-45 days for the services of the Exploration and Production segment as well as for the remaining segments.

19.1. Impairment losses on receivables

	Jun 30 2013	Dec 31 2012
Impairment losses at beginning of the period	(895)	(784)
Increase in impairment losses	(242)	(380)
Reversal of impairment losses	277	242
Use of impairment losses	30	29
Changes in the Group	-	(2)
Impairment losses at end of the period	**(830)**	**(895)**

20. CURRENT INCOME TAX

	Jun 30 2013	Dec 31 2012
1. Current tax payable at beginning of the period	24	58
2. Change in current tax assets (i-a-b-c-d-e-f-g+h)*	-	(1)
a. Current tax assets at beginning of the period	150	164
b. Current tax assets transferred from deferred tax	-	89
c. Changes in the Group	-	-
d. Transfer between current tax assets and current tax payable	(24)	27
e. Tax refund - investment tax credit (Norway)	-	(126)
f. Other changes	(3)	-
g. Exchange differences on translating current tax assets	(1)	(3)
h. Impairment loss on current tax assets	(2)	-
i. Current tax assets at end of the period	**124**	**150**
3. Deferred tax disclosed under current tax assets	-	-
4. Income tax disclosed in profit or loss of the period	402	533
5. Income tax paid in the period	(226)	(591)
6. Transfer between current tax assets and current tax payable	(24)	27
7. Other changes	(7)	(3)
8. Exchange differences on translating current tax payable	-	-
9. Changes in the Group	-	1
Current tax payable at end of the period (total from 1 to 9)	**169**	**24**

*The PGNiG Group is not a tax group, therefore current tax assets and current tax payable are not offset.

21. OTHER ASSETS

	Jun 30 2013	Dec 31 2012
Real Estate Tax	171	
Contribution to the Company Social Benefits Fund	30	
Valuation of long-term contracts	107	37
Property insurance	11	9
Commission fees on borrowings, notes, etc.	6	8
Software licenses, maintenance and upgrades	6	10
Rents and charges	1	2
Other current assets	39	18
Total	**371**	**84**

22. CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

As at June 30th 2013 and June 30th 2012, the Group held no current financial assets available for sale.

23. CASH AND CASH EQUIVALENTS

	Jun 30 2013	Dec 31 2012
Cash in hand and at banks	419	467
Bank deposits	2,235	1,482
Other cash*	5	(1)
Total	**2,659**	**1,948**

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

The Group companies deposit their cash with reputable Polish and international banks, as a result of which any risk concentration related to cash deposits is limited.

24. ASSETS HELD FOR SALE

Item (or group) of non-current assets	Expected disposal date	Terms of disposal	Carrying amount as at Jun 30 2013	Carrying amount as at Dec 31 2012
Assets associated with subsidiary Geovita S.A., which has been classified as held for sale	the end of 2013	public invitation to negotiate	93	91
Shares in jointly-controlled entity InterTransGas GmbH, which has been classified as held for sale	-	-	-	5
Other non-current assets held for sale	the end of 2013	tender	73	12
Total			**166**	**108**

Liabilities associated with groups of assets held for sale	Carrying amount as at Jun 30 2013	Carrying amount as at Dec 31 2012
Liabilities associated with subsidiary Geovita S.A., which has been classified as held for sale	24	20
Total	**24**	**20**

As at the end of 2012, the net carrying amount of non-current assets held for sale was PLN 108m. The largest items were two companies classified as held for sale: Geovita S.A., a consolidated subsidiary, and InterTransGas GmbH, a non-consolidated jointly-controlled entity. In H1 2013, the sale of shares in Geovita S.A. continued, however the procedure aimed at selling InterTransGas GmbH was not resolved, and therefore, the company shareholders decided not to classify it as held for sale in the current period.

25. SHARE CAPITAL

	Jun 30 2013	Dec 31 2012
Total number of shares (million)	5,900	5,900
Par value per share (PLN)	1	1
Total share capital	**5,900**	**5,900**

26. BORROWINGS AND DEBT SECURITIES

	Note	Jun 30 2013	Dec 31 2012
Non-current		**5,734**	**5,509**
Bank borrowings	26.1., 26.2.	1,099	974
Non-bank borrowings	26.3.	-	-
Debt securities	26.4.	4,518	4,399
Lease liabilities	26.5., 26.6.	117	136
Current		**2,474**	**4,702**
Bank borrowings	26.1., 26.2.	384	445
Non-bank borrowings	26.3.	124	10
Debt securities	26.4.	1,916	4,200
Lease liabilities	26.5., 26.6.	50	47
Total		**8,208**	**10,211**

26.1. Bank borrowings

Jun 30 2013

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				up to 1 year	from 1 to 5 years	over 5 years
PLN	O/N Wibor+margin	4	4	4	-	-
PLN	1M Wibor+margin	162	162	147	-	15
PLN	3M Wibor+margin	123	123	6	115	2
PLN	6M Wibor+margin	-	-	-	-	-
USD	Libor+margin	344	1,134	212	922	-
EUR	Euribor+margin	39	168	123	28	17
Total			**1,591**	**492**	**1,065**	**34**

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				up to 1 year	from 1 to 5 years	over 5 years
PLN	O/N Wibor+margin	53	53	53	-	-
PLN	1M Wibor+margin	107	107	90	5	12
PLN	3M Wibor+margin	72	72	5	36	31
USD	Libor+margin	371	1,140	283	857	-
EUR	Euribor+margin	12	47	14	33	-
Total			**1,419**	**445**	**931**	**43**

The Group also had access to other credit facilities, which are presented in the note below.

26.2. Obtained credit facilities and amounts available under the facilities

	Jun 30 2013	Dec 31 2012
Credit facilities obtained	1,785	1,585
Amounts drawn	(1,247)	(1,191)
Undrawn amounts	**538**	**394**

26.3. Non-bank borrowings

Jun 30 2013

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				up to 1 year	from 1 to 5 years	over 5 years
PLN	1M Wibor+margin	16	16	16	-	-
Total			**16**	**16**	**-**	**-**

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				up to 1 year	from 1 to 5 years	over 5 years
PLN	1M Wibor+margin	10	10	10	-	-
Total			**10**	**10**	**-**	**-**

26.4. Debt securities

Jun 30 2013

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				up to 1 year	from 1 to 5 years	over 5 years
PLN	3,70%-5,38%	1,477	1,477	1,477	-	-
PLN	6M Wibor+margin	2,772	2,772	403	2,369	-
EUR	4%	505	2,185	36	2,149	-
Total			**6,434**	**1,916**	**4,518**	**-**

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				up to 1 year	from 1 to 5 years	over 5 years
PLN	O/N Wibor+margin	1,164	1,164	1,164	-	-
PLN	1M Wibor+margin	2,294	2,294	2,294	-	-
PLN	6M Wibor+margin	3,032	3,032	668	2,364	-
EUR	Euribor+margin	515	2,109	74	2,035	-
Total			**8,599**	**4,200**	**4,399**	**-**

26.5. Finance lease liabilities

Jun 30 2013

Currency	Interest rate	Amount in original currency	Carrying amount
PLN	1M Wibor+margin	22	22
PLN	5%-8%	44	44
USD	Libor+margin	25	84
USD	6% on average	3	11
EUR	Euribor+margin	1	3
CHF	5%-7%	1	3
Total			**167**

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount
PLN	4%-6%	9	9
PLN	1M Wibor+margin	20	20
PLN	7%-10%	44	44
USD	Libor+margin	28	88
USD	6% on average	4	13
EUR	Euribor+margin	1	3
CHF	8% on average	2	6
Total			**183**

26.6. Maturity of finance lease liabilities (disclosed in the statement of financial position)

Maturing in:	Jun 30 2013 Discounted payments disclosed in the statement of financial position	Interest	Actual lease payments due
up to 1 year	50	(3)	47
from 1 to 5 years	117	3	120
Total	**167**	**-**	**167**

Maturing in:	Dec 31 2012 Discounted payments disclosed in the statement of financial position	Interest	Actual lease payments due
up to 1 year	47	2	48
from 1 to 5 years	123	5	129
over 5 years	13	1	14
Total	**183**	**8**	**191**

27. EMPLOYEE BENEFIT OBLIGATIONS

	Jun 30 2013	Dec 31 2012
Liabilities under length-of-service awards	181	175
Liabilities under severance payments	206	202
Wages and salaries payable	57	72
Amounts payable for unused holiday entitlement	62	55
Termination benefits	27	105
Other employee benefit obligations	145	128
Total	**678**	**737**
Non-current employee benefit obligations	390	381
Current employee benefit obligations	288	356
	678	**737**

27.1. Actuarial income statement for length-of-service award and retirement severance payment obligations

	Jun 30 2013	Dec 31 2012
Length-of-service awards		
Value of obligation shown in the statement of financial position at beginning of the period	175	192
Interest expense	1	4
Current service cost	4	8
Past service cost	-	(3)
Benefits paid	(19)	(61)
Actuarial gain/(loss)	16	8
Gain/(loss) due to curtailments or settlements	4	-
Changes in the Group	-	28
Reclassification to liabilities associated with assets held for sale	-	(1)
Value of obligation shown in the statement of financial position at end of the period	**181**	**175**
Retirement severance payments		
Value of obligation shown in the statement of financial position at beginning of the period	202	211
Current service cost	4	8
Interest expense	2	4

Benefits paid	(9)	(19)
Actuarial gain/(loss)	4	(18)
Gain/(loss) due to curtailments or settlements	3	-
Changes in the Group	-	16
Value of obligation shown in the statement of financial position at end of the period	**206**	**202**
Total value of obligation shown in the statement of financial position at end of the period	**387**	**377**

The technical rate adopted to calculate the discounted value of the future retirement severance payment obligations was 2.7%, as the resultant of the 4.24% annual return on long-term treasury bonds and the 1.5% forecast annual salary growth (at the end of 2012 the adopted technical rate was 2.0%, as the resultant of 3.73% and 1.7%, respectively).

28. PROVISIONS

	Provision for well decommissioning costs	Provision for penalty imposed by the Office for Competition and Consumer Protection	Provision for environmental liabilities	Provision for claims under extra-contractual use of land	Other provisions	**Total**
As at Jan 1 2013	1,661	60	94	77	250	**2,142**
Provisions recognised	48	-	-	17	141	**206**
Provisions used / released	(150)	-	(5)	(13)	(49)	**(217)**
Currency translation differences	(1)	-	-	-	1	**-**
As at Jun 30th 2013	**1,558**	**60**	**89**	**81**	**343**	**2,131**
Non-current	1,539	-	84	35	50	**1,708**
Current	19	60	5	46	293	**423**
As at Jun 30th 2013	**1,558**	**60**	**89**	**81**	**343**	**2,131**
Non-current	1,636	-	85	24	47	**1,792**
Current	25	60	9	53	203	**350**
As at Dec 31 2012	**1,661**	**60**	**94**	**77**	**250**	**2,142**

With respect to costs of abandonment of wells located in Poland, in H1 2013 the discount rate adopted to calculate the provision for well decommissioning costs was 1.7%, as the resultant of the 4.24% rate of return on assets and the inflation rate assumed at the NBP’s continuous inflation target of 2.5% (as at the end of 2012, the adopted discount rate was 1.2%, as the resultant of 3.73% and 2.5%, respectively).

PGNiG Upstream International AS, a subsidiary operating in Norway, applied the same rates in H1 2013 as those applied at the end of 2012 to calculate the provision for well decommissioning costs, i.e. inflation rate at 1.47% and nominal discount rate at 3.5%.

29. DEFERRED INCOME

	Jun 30 2013	Dec 31 2012
Non-current		
Non-depreciated portion of the value of gas service lines financed by gas buyers	408	436
Connection charge	419	429
Grants	625	578
Other deferred income	3	5
Total non-current	**1,455**	**1,448**
Current		
Non-depreciated portion of the value of gas service lines financed by gas buyers	51	50
Connection charge	19	18
Other deferred income	59	33
Total current	**129**	**101**

Grants

The Group is engaged in implementation of projects for which EU co-financing has been obtained. The largest projects are carried out by the Parent and involve extension of the gas storage capacities.

In H1 2013, the Parent obtained a PLN 12.6m grant to co-finance its Wierzchowice Underground Gas Storage Facility project (PLN 226.3m obtained in 2012).

The grant amount was recognised as Deferred income and will be released to operating income gradually in proportion to the depreciation charges on the tangible assets financed with the grant.

30. DEFERRED TAX LIABILITIES

	Jun 30 2013	Dec 31 2012
Foreign exchange gains	6	5
Accrued interest	1	1
Valuation of derivative financial instruments and other financial assets and liabilities	37	16
Difference between tax and accounting value of non-current assets	1,858	1,841
Other deferred tax liabilities	136	73
Total	**2,038**	**1,936**

31. OTHER NON-CURRENT LIABILITIES

	Jun 30 2013	Dec 31 2012
Liabilities under licences, rights to geological information and mineral-extraction rights	43	41
Amounts payable under purchase of non-financial non-current assets	1	-
Other non-current liabilities	11	12
Total	**55**	**53**
Including related entities (Note 38.1.)	-	-

32. TRADE AND OTHER PAYABLES

	Jun 30 2013	Dec 31 2012
Trade payables	1,448	1,310
Trade payables to related entities	2	3
VAT payable	572	1,390
Other taxes, customs duties and social security contributions payable	511	201
Dividend payable to owner	767	-
Amounts payable under purchase of non-financial non-current assets	137	381
Amounts payable under purchase of non-financial non-current assets from related entities	2	6
Additional contribution to equity payable under a relevant resolution*	26	85
Amounts payable to equity-accounted associated and jointly-controlled entities	6	7
Other amounts payable to related entities	-	1
Accruals and deferred income and prepaid deliveries	209	174
Other liabilities	142	109
Total	**3,822**	**3,667**
Including amounts payable to related entities (Note 38.1)	10	17

*Dispute concerning additional contributions to the equity of PI Gazotech Sp. z o.o.; for details, see Note 42.1.

33. CAUSES OF DIFFERENCES BETWEEN ITEMS OF THE STATEMENT OF FINANCIAL POSITION AND CHANGES WHICH ARE DUE TO CHANGES IN CERTAIN ITEMS OF THE STATEMENT OF CASH FLOWS, AND BREAK-DOWN OF "OTHER ADJUSTMENTS" UNDER OPERATING ACTIVITY

Change in cash	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
1) Cash in the statement of financial position at beginning of the period	1,948	1,505
a) Net exchange differences on cash at beginning of the period*	1	1
Cash and cash equivalents in the statement of cash flows at beginning of the period (1-a)	**1,947**	**1,504**
1) Cash in the statement of financial position at end of the period	2,659	1,369
a) Net exchange differences on cash at end of the period	-	-
Cash and cash equivalents in the statement of cash flows at end of the period (2-b)	**2,659**	**1,369**
I. Change in cash in the statement of financial position (2-1)	711	(136)
II. Change in net exchange differences on cash (b-a)	(1)	(1)
Change in cash in the statement of cash flows (I - II)	**712**	**(135)**

* Negative amounts represent excess of foreign exchange losses on translating cash and reduce the balance of cash in the statement of financial position. In the statement of cash flows these differences are eliminated.

Change in receivables	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Change in other financial assets in the statement of financial position	**(64)**	**(72)**
Change in receivables in the statement of financial position	**2,200**	**999**
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	-	1
Change in prepayments for property, plant and equipment	(8)	(29)
Due and payable portion of loans advanced	65	75
Dividend receivable	1	2
Changes in the Group	-	280
Change in receivables in the statement of cash flows	**2,194**	**1,256**

Change in inventories	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Change in inventory in the statement of financial position	**106**	**(637)**
Changes in the Group	-	358
Change in inventory in the statement of cash flows	**106**	**(279)**

Change in employee benefit obligations	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Change in employee benefit obligations in the statement of financial position	**(59)**	**164**
Changes in the Group	-	(95)
Change in employee benefit obligations in the statement of cash flows	**(59)**	**69**

Change in provisions	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Change in provisions in the statement of financial position	**(11)**	**182**
Change in provision for well decommissioning costs which adjusts property, plant and equipment – adjustment to investment activity	102	(133)
Changes in the Group	-	(30)
Change in provisions in the statement of cash flows	**91**	**19**

Change in current liabilities	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Change in current liabilities in the statement of financial position	**155**	**(378)**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	248	222
Change in dividend payable to owner	(767)	-
Changes in the Group	-	(242)
Other changes in liabilities	1	3
Change in current liabilities in the statement of cash flows	**(363)**	**(395)**

Change in other assets in the statement of financial position	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Change in other non-current assets in the statement of financial position	**2**	**1**
Change in other assets in the statement of financial position	**(286)**	**(224)**
Expense (fees and commission) related to the note issuance programme	(6)	(6)
Changes in the Group	-	14
Change in other assets in the statement of cash flows	**(290)**	**(215)**

Change in deferred income	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Change in deferred income in the statement of financial position	**35**	**48**
Grants received for property, plant and equipment	(54)	(81)
Other changes in deferred income	-	1
Change in deferred income in the statement of cash flows	**(19)**	**(32)**

Other items, net, under operating activity	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Derivative financial instruments	(292)	(17)
Written-down expenditure on non-financial non-current assets	118	32
Acquired CO_2 emission allowances	(44)	-
Other items, net, under operating activity	68	66
Total	**(150)**	**81**

34. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

34.1. Financial instruments by category (carrying amounts)

Jun 30 2013	Categories of financial instruments									
Classes of financial instruments	Notes	Financial assets available for sale	Financial assets measured at fair value through profit or loss	Financial assets held to maturity	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities at amortised cost	Hedge derivatives	Assets and liabilities excluded from the scope of IAS 39	**Total**
Total financial assets		**53**	**188**	**-**	**5,560**	**-**	**-**	**153**	**-**	**5,954**
Unlisted shares	14, 22	53	-	-	-	-	-	-	-	**53**
Trade and other receivables	19	-	-	-	2,713	-	-	-	-	**2,713**
Derivative financial instrument assets	35	-	188	-	-	-	-	153	-	**341**
Cash and cash equivalents	23	-	-	-	2,659	-	-	-	-	**2,659**
Other financial assets	14, 15, 22	-	-	-	188	-	-	-	-	**188**
Total financial liabilities		**-**	**-**	**-**	**-**	**215**	**10,835**	**22**	**167**	**11,239**
Borrowings	26	-	-	-	-	-	1,607	-	-	**1,607**
Debt securities	26	-	-	-	-	-	6,434	-	-	**6,434**
Finance lease	26	-	-	-	-	-	-	-	167	**167**
Trade payables	31, 32	-	-	-	-	-	2,794	-	-	**2,794**
Derivative financial instrument liabilities	35	-	-	-	-	215	-	22	-	**237**

34.1. Financial instruments by category (carrying amounts) - continued

Dec 31 2012		Categories of financial instruments								
Classes of financial instruments	Notes	Financial assets available for sale	Financial assets measured at fair value through profit or loss	Financial assets held to maturity	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities at amortised cost	Hedge derivatives	Assets and liabilities excluded from the scope of IAS 39	**Total**
Total financial assets		**48**	**89**	**-**	**6,921**	**-**	**-**	**16**	**-**	**7,074**
Unlisted shares	14, 22	48	-	-	-	-	-	-	-	**48**
Trade and other receivables	19	-	-	-	4,849	-	-	-	-	**4,849**
Derivative financial instrument assets	35	-	89	-	-	-	-	16	-	**105**
Cash and cash equivalents	23	-	-	-	1,948	-	-	-	-	**1,948**
Other financial assets	14, 15, 22	-	-	-	124	-	-	-	-	**124**
Total financial liabilities		**-**	**-**	**-**	**-**	**317**	**12,157**	**76**	**183**	**12,733**
Borrowings	26	-	-	-	-	-	1,429	-	-	**1,429**
Debt securities	26	-	-	-	-	-	8,599	-	-	**8,599**
Finance lease	26	-	-	-	-	-	-	-	183	**183**
Trade payables	31, 32	-	-	-	-	-	2,129	-	-	**2,129**
Derivative financial instrument liabilities	35	-	-	-	-	317	-	76	-	**393**

34.2. Fair value of financial instruments

Classes of financial instruments	Jun 30 2013		Dec 31 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Total financial assets	**5,954**	**5,901**	**7,074**	**7,026**
Unlisted shares*	53	-	48	-
Trade and other receivables	2,713	2,713	4,849	4,849
Derivative financial instrument assets	341	341	105	105
Cash and cash equivalents	2,659	2,659	1,948	1,948
Other financial assets	188	188	124	124
Total financial liabilities	**11,239**	**11,239**	**12,733**	**12,733**
Borrowings	1,607	1,607	1,429	1,429
Debt securities	6,434	6,434	8,599	8,599
Finance lease	167	167	183	183
Trade payables	2,794	2,794	2,129	2,129
Derivative financial instrument liabilities	237	237	393	393

* Measured at cost less impairment losses.

34.3. Items of income, expenses, profit and loss related to financial assets and liabilities, presented in the consolidated statement of comprehensive income

	Jan 1–Jun 30 2013	Jan 1–Jun 30 2012
Total effect on net profit/(loss), including:	**(196)**	**(115)**
Financial assets and financial liabilities measured at fair value through profit or loss	171	72
Loans and receivables	116	52
Interest on deposits	36	33
Interest on receivables	37	25
Interest on loans advanced	6	1
Impairment losses on receivables	39	(6)
Impairment losses on loans	(3)	(1)
Foreign currency measurement of loans advanced in foreign currencies	1	-
Financial liabilities at amortised cost	(370)	(186)
Derivative financial instruments	(102)	(49)
Assets and liabilities excluded from the scope of IAS 39	(11)	(4)
Total effect on other comprehensive income, net, including:	**118**	**(122)**
Derivative financial instruments	118	(122)
Total effect on comprehensive income	**(78)**	**(237)**

34.4. Fair value hierarchy

	Note	Jun 30 2013		Dec 31 2012	
Classes of financial instruments		level 1	level 2	level 1	level 2
Derivative financial instrument assets	34.2	-	341	-	105
Derivative financial instrument liabilities	34.2	-	237	-	393

34.5. Objectives and policies of financial risk management

In its business activity, 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.

In order to manage financial risk effectively, the Parent implements the "Policy of Financial Risk Management at PGNiG SA", (Policy), defining the division of competencies and tasks among the Company's organisational units in the process of financial risk management and control. The body responsible for ensuring compliance with the "Policy of Financial Risk Management at PGNiG SA" and periodic updates of the Policy is the Risk Committee, which proposes risk management principles, assesses on an ongoing basis whether the Policy is implemented and revises it as needed.

Credit risk

Credit risk is defined as the likelihood of failure by the Group's 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 is generally limited to the amounts, if any, by which the third party's liabilities exceed the Group's liabilities. As a rule, the Group concludes transactions in financial instruments with multiple entities with high creditworthiness. The key criteria applied by the Group in the selection of counterparties 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 in connection with its:

- trade receivables,
- investment transactions,
- financial guarantees,
- hedging transactions.

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

Maximum exposure to credit risk

	Jun 30 2013	Dec 31 2012
Cash and cash equivalents	2,659	1,948
Trade and other receivables	2,713	4,849
Loans and other financial assets	188	124
Positive value of derivative financial instruments	341	105
Total	**5,901**	**7,026**

Exposure to credit risk under loans advanced arises in connection with loans advanced by the Parent to the PGNiG Group companies: subsidiaries not accounted for with the full method and associates. Loans to those entities are advanced in line with the internal procedure "PGNiG SA's Lending Policy with Respect to the Group Companies and Entities 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 highest credit risk, in value terms, is related to receivables. Most of the receivables are receivables under sales of gas fuel by PGNiG SA.

In order to minimise the risk of uncollectible receivables under gas fuel sales, 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 for the agreement.

The Parent 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 terms are also used.

PGNiG SA has implemented measures to monitor and assess the financial standing of customers receiving natural gas in excess of 1 mcm a year based on corporate financial documents (once every three months and once a year). The measures are to help monitor the financial standing of customers and determine the probability of the customers becoming insolvent.

PGNiG SA uses the following types of instruments securing contract performance:

- mortgage (ordinary mortgage, security (deposit) mortgage),
- 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. If a customer's failure to make a payment when due has been identified, the Company takes appropriate measures to collect the debt.

All debt-collection measures are taken based on the procedures set out in *"Pre-Legal Collection of Receivables from Business Customers*" and *"Court Collection of Receivables from Business Customers"*, as well as in "*The Guidelines for Writing Off and Cancelling PGNiG SA's Receivables".*

During debt collection, measures are taken to assess the risk of non-payment of receivables by customers and the causes of such non-payment. In this respect, a standard debt-collection process is followed: a call for payment, a telephone call to the customer, notice and discontinuance of gas fuel supply with simultaneous termination of the agreement and a warning of discontinuing gas supplies under Art. 6.3a of the Polish Energy Law. If all other measures fail, debt cases are submitted to be resolved through court and enforcement proceedings, while the defaulting customer is registered with the National Register of Debts maintained by Biuro Informacji Gospodarczej S.A. of Wrocław.

Statutory interest is charged on late payments.
In line with the pre-legal collection procedure, 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 or extension of the payment date and, additionally, negotiations are undertaken to establish new or strengthen the existing security for the contract.

As at June 30th 2013, the value of unimpaired past due receivables, as disclosed in the Group's statement of financial position, was PLN 395m (December 31st 2012: PLN 594m).

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

Delay	Jun 30 2013	Dec 31 2012
Up to 1 month	101	508
From 1 to 3 months	198	64
From 3 months to 1 year	92	16
From 1 to 5 years	4	6
Total net past due receivables	**395**	**594**

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 companies enter into investment transactions. The Parent has also concluded Framework Agreements with all banks with which funds are held. These Framework Agreements stipulate detailed terms and conditions for execution and settlement of any financial transactions.

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

In H1 2013, the Group invested its long-term cash surplus of significant value in highly liquid, credit risk-free instruments, in particular treasury bills and bonds.

The Group's credit risk exposure arising in connection with the provided guarantees is substantially limited to the risk of default by the banks which, acting on the Group's instructions, issued guarantees to other external entities. However, the banks on which the Group relies for provision of guarantees are reputable institutions with high ratings; therefore, both the probability of their default and the associated credit risk to the Group are insignificant. As in the case of the risk related to cash deposits, the credit risk arising in connection with provided guarantees is measured by regularly reviewing the financial standing of the banks issuing the guarantees.

The exposure to credit risk under financial derivatives is equal to the net carrying amount of the positive valuation of the derivative (at fair value). As in the case of investment transactions, transactions in financial derivatives are executed with most reputable banks with high credit ratings. The Group companies have also concluded either Framework Agreements or ISDA Agreements with each of their relationship banks, stipulating detailed terms of service and limits of maximum exposure arising from the fair value of derivatives.

The Group expects that all these measures protect it from any material losses related to credit risk.

Market risk

Market risk is defined as the probability that the Group's financial performance or economic value 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 (e.g. gas and oil prices).

Currency risk

Currency risk is defined as the probability that the Group's financial performance will be adversely affected by changes in the price of one currency against another.

Trade payables under long-term contracts for gas fuel deliveries are denominated in the US dollar and the euro. The Group has a considerable exposure to currency risk; for details, see "Sensitivity analysis".

The hedging measures implemented by the Group are mainly intended to provide protection against the currency risk accompanying payments settled in foreign currencies (mainly payments for gas fuel supplies). To hedge its payables, the Group uses call options, option strategies as well as forwards and average rate forwards.

Interest rate risk

Interest rate risk is defined as the probability that the Group's financial performance will be adversely affected by changes in interest rates.

The Group is exposed to interest rate risk primarily in connection with its financial liabilities. For detailed information on the Group's financial liabilities and the applicable interest rates, see Note 26.

The Parent measures its market risk (including the currency and interest rate risks) by monitoring the VaR (value at risk). VaR 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 using the variance-covariance method. The Company uses cross currency interest rate swaps (CCIRS) to hedge the aggregate currency and interest rate risks.

Commodity risk

Commodity risk is defined as the probability that the Group's 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 of prices of gas and oil products quoted on global markets. 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 H1 2013, the Group closely monitored and hedged against the risk. 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%.

Liquidity risk

The main objective of the liquidity risk management is to monitor and plan the Company's liquidity on a continuous basis. Liquidity is monitored through at least 12-month projections of future cash flows, which are 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 Group. 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. As part of its strategy to hedge against liquidity risk, as at June 30th 2013 the Group had in place the following debt securities issuance programmes:

- Under the Note Issuance Programme Agreement executed by the Parent on June 10th 2010, the Parent may issue discount or coupon notes maturing in one to twelve months, for an aggregate amount of up to PLN 7,000m. The Agreement was originally concluded with six banks (Bank Pekao S.A., ING Bank Śląski S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A., Societe Generale S.A. and BNP Paribas S.A., Polish Branch). Under an annex of November 25th 2011, BRE Bank S.A., Bank Zachodni WBK S.A. and Nordea Bank Polska S.A. acceded to the Agreement. As at June 30th 2013, no debt was outstanding under the Agreement.
- On August 25th 2011, the Parent and PGNiG Finance AB executed documentation for a Euro Medium Term Notes Programme with Societe Generale S.A., BNP Paribas S.A. and Unicredit Bank AG, pursuant to which PGNiG Finance AB may issue notes with maturities of up to ten years, up to the aggregate amount of EUR 1,200m. The first tranche of PGNiG Finance AB securities under the Programme, comprising PLN 500m 5-year Euronotes, was issued on February 10th 2012. As at June 30th 2013, debt outstanding under the Euronotes was PLN 2,164.6m (translated at the mid exchange rate quoted by the NBP for June 30th 2013).
- On May 22nd 2012, the Parent executed an agreement for a PLN 4,500m notes programme with Bank Pekao S.A. and ING Bank Śląski S.A. On July 30th 2012, the issued notes were floated on the Catalyst market, a multilateral trading facility operated by BondSpot. In the period covered by these financial statements, an issue of notes of PLN 1,066.2m was carried out on March 20th 2013. As at June 30th 2013, debt outstanding under the Programme was PLN 3,999.1m.
- On July 4th 2012, PGNiG Termika S.A. executed a Note Issuance Programme with the following banks: ING Bank Śląski S.A., PKO Bank Polski S.A., Nordea Bank Polska S.A. and Bank Zachodni WBK S.A. Under the Programme, PGNiG Termika S.A. may issue coupon or discount notes up to a total of PLN 1,500m. The Programme will expire on December 29th 2017. PGNiG Termika S.A.'s debt outstanding under the notes amounted to PLN 307.9m as at June 30th 2013 and was attributable to coupon notes issued on July 10th 2012. Given their maturity date (July 9th 2013), the notes were disclosed under current liabilities.

- PGNiG Group companies were parties to credit facility agreements for an aggreate maximum limit of PLN 1,785m (December 31st 2012: PLN 1,585m). For more details, see Note 26.2.

Any excess cash is invested, mainly in high-yield treasury securities, or deposited with reputable banks.

The liquidity risk at the Parent is significantly mitigated through the application of the “PGNiG SA Liquidity Management Procedure”. This procedure has been implemented across the Company’s organisational units. It offers a systematised set of measures designed to ensure proper liquidity management through: 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 disruptions, and appropriate servicing of credit agreements.

Measurement of the liquidity risk is based on an ongoing detailed monitoring of cash flows, which takes into account the probability that specific flows will materialise, as well as the planned net cash position.

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

Financial liabilities at amortised cost, by maturity

Jun 30 2013	Liabilities under borrowings and notes	Finance lease liabilities	Trade payables	**Total**
up to 1 year	2,396	47	2,739	5,182
from 1 to 5 years	3,497	120	51	3,668
over 5 years	2,155	-	4	2,159
Total	**8,048**	**167**	**2,794**	**11,009**

Dec 31 2012	Liabilities under borrowings and notes	Finance lease liabilities	Trade payables	**Total**
up to 1 year	4,685	48	2,076	6,809
from 1 to 5 years	3,339	129	47	3,515
over 5 years	2,030	14	6	2,050
Total	**10,054**	**191**	**2,129**	**12,374**

The items in the above tables are presented at gross (undiscounted) amounts.

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

Derivative financial instruments by maturity

	Carrying amount as at Jun 30 2013*	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	(31)	(255)	(224)	(31)	-
- inflows	-	5,703	2,852	2,851	-
- outflows	-	(5,958)	(3,076)	(2,882)	-
- forward contracts	38	21	21	-	-
- inflows	-	1,188	1,188	-	-
- outflows	-	(1,167)	(1,167)	-	-
*- currency options***	90	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
*- commodity options***	20	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- commodity swaps	(13)	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
Total	**104**	**(234)**	**(203)**	**(31)**	**-**

	Carrying amount as at Dec 31 2012*	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	(232)	11,882	548	11,334	-
- inflows	-	5,700	262	5,438	-
- outflows	-	6,182	286	5,896	-
- forward contracts	(76)	3,478	3,478	-	-
- inflows	-	1,722	1,715	7	-
- outflows	-	1,756	1,763	(7)	-
*- currency options***	5	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
*- commodity options***	15	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- commodity swaps	-	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
Total	**(288)**	**15,360**	**4,026**	**11,334**	**-**

* Net carrying amount (positive valuation less negative valuation of assets) represents the fair value, i.e. payments under swap contracts are discounted, whereas cash flows are shown at undiscounted amounts.

** The disclosed carrying amounts of currency and commodity options account for any option premiums paid; given 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.

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

Sensitivity analysis

To determine a rational range of changes which may occur with respect to currency or interest rate risks, the Group assumed an (implied) market volatility level for semi-annual periods, i.e. an average change of 15% as at the end of H1 2013 for the analysis of exchange rate sensitivity (unchanged relative to the end of December 2012), 100bp for the analysis of interest rate sensitivity (as at the end of 2012, also 100bp) and 20**%** for energy commodity derivatives (December 31st 2012: 25%). The half-year period is the frequency with which the Group discloses results of financial instrument sensitivity analyses in its reports.

The results of the analysis of sensitivity to currency risk carried out as at June 30th 2013 indicate that the net profit would have been lower by PLN 628m, had the EUR, USD, NOK and other currencies appreciated against the złoty by 15%, all other things being equal (net profit decrease of PLN 430m due to stronger NOK and of PLN 202m due to stronger USD vs. increase of PLN 1m on the back of stronger EUR and of PLN 3m due to strengthening of other currencies).

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

If the credit facility was recognised in the statement of financial position (as is the case in the Parent's separate financial statements), the cash flows related to the credit facility and the cash flows from the hedging transactions would offset one another. As a result, the changes in positive (negative) valuation of the credit facility 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 in NOK).

The adverse effect on the net profit of NOK-denominated financial instruments would be substantially amplified by an increase in valuation of the USD credit facility contracted by PGNiG Upstream International AS and reduced by an increase in the valuation of assets in this currency. Any increase in foreign exchange losses from valuation of the Euronotes in EUR would be offset by an increase in the positive portion of the fair value of financial derivatives for EUR. Furthermore, a simultaneous decrease in valuation of USD-denominated trade receivables and increase in valuation of USD-denominated trade payables could have a material negative effect on the H1 2013 result.

As at June 30th 2013, net profit would have been higher by PLN 543m, had the EUR, USD, NOK and other currencies depreciated against the złoty by 15%, all other things being equal (profit higher by PLN 429m due to weaker NOK and by PLN 158m due to weaker USD, and lower by PLN 41m due to weaker EUR and by PLN 3m due to depreciation of other currencies). A positive 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). Any increase in foreign exchange gains from valuation of the Euronotes in EUR would be offset by an increase in the negative portion of the fair value of financial derivatives for EUR. On the other hand, any decrease in the valuation of the USD-denominated credit facility contracted by PGNiG Upstream International AS would be offset by a decrease in assets (receivables) measured in the same currency.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2012 indicate that the net profit would have been lower by PLN 423m, had the EUR, USD, NOK and other currencies appreciated against the złoty by 15%, all other things being equal (net profit decrease of PLN 416m due to stronger NOK and of PLN 13m due to stronger USD vs. increase of PLN 5m on the back of stronger EUR and of PLN 1m due to strengthening of other currencies).

The most significant factor with a bearing on the outcome of the sensitivity analysis is higher negative valuation of CCIRS derivatives hedging the credit facility advanced to PGNiG Upstream International AS, which is eliminated from the consolidated financial statements.
If the credit facility was recognised in the statement of financial position (as is the case in the Parent's separate financial statements), the cash flows related to the credit facility and the cash flows from the hedging transactions would offset one another. As a result, the changes in positive (negative) valuation of the credit facility 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 in NOK).

The adverse effect on the net profit of NOK-denominated financial instruments would be substantially amplified by an increase in valuation of the USD credit facility contracted by PGNiG Upstream International AS and reduced by an increase in the valuation of assets in this currency. Any increase in foreign exchange losses from valuation of the Euronotes in EUR would be offset by an increase in the positive portion of the fair value of financial derivatives for EUR.

As at December 31st 2012, net profit would have been higher by PLN 421m, had the EUR, USD, NOK and other currencies depreciated against the złoty by 15%, all other things being equal (profit higher by PLN 415m due to weaker NOK and by PLN 15m due to weaker USD, and lower by PLN 8m due to weaker EUR and by PLN 1m due to depreciation of other currencies). A positive 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). Any increase in foreign exchange gains from valuation of the Euronotes in EUR would be offset by an increase in the negative portion of the fair value of financial derivatives for EUR. On the other hand, any decrease in the valuation of the USD-denominated credit facility contracted by PGNiG Upstream International AS would be offset by a decrease in assets (receivables) measured in the same currency.

Detailed results of the analysis of sensitivity of financial instruments held by the Group to exchange rate fluctuations for H1 2013 and for 2012 are presented below.

Sensitivity of financial instruments denominated in foreign currencies to exchange rate fluctuations charged to profit or loss

	Carrying amount as at Jun 30 2013	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*	9	1	-	-	-	(1)	-	-	-
Other financial assets	1	-	-	-	-	-	-	-	-
Trade and other receivables	445	41	23	2	1	(41)	(23)	(2)	(1)
Derivative financial instrument assets**	315	340	-	-	-	-	-	519	-
Cash and cash equivalents	139	5	11	1	4	(5)	(11)	(1)	(4)
Effect on financial assets before tax		**387**	**34**	**3**	**5**	**(47)**	**(34)**	**516**	**(5)**
19% tax		(73)	(6)	(1)	(1)	9	6	(98)	1
Effect on financial assets after tax		**314**	**28**	**2**	**4**	**(38)**	**(28)**	**418**	**(4)**
Total currencies					*348*				*348*
Financial liabilities									
Borrowings and debt securities (including finance lease)	3,588	353	184	-	-	(353)	(184)	-	-
Trade and other payables	910	33	89	14	1	(33)	(89)	(14)	(1)
Derivative financial instrument liabilities**	231	-	11	519	-	390	43	-	-
Effect on financial liabilities before tax		**386**	**284**	**533**	**1**	**4**	**(230)**	**(14)**	**(1)**
19% tax		(73)	(54)	(101)	-	(1)	44	3	-
Effect on financial liabilities after tax		**313**	**230**	**432**	**1**	**3**	**(186)**	**(11)**	**(1)**
Total currencies					*976*				*(195)*
Total increase/decrease		1	(202)	(430)	3	(41)	158	429	(3)
Total currencies					**(628)**				**543**
Exchange rates as at the balance-sheet date and their changes:									
EUR/PLN	4.3292	-	4.9786	4.9786	4.9786	-	3.6798	3.6798	3.6798
USD/PLN	3.3175	3.8151	-	3.8151	3.8151	2.8199	-	2.8199	2.8199
NOK/PLN	0.5486	0.6309	0.6309	-	0.6309	0.4663	0.4663	-	0.4663

* Shares are disclosed at historical values, therefore the change in exchange rates will not affect the valuation of those assets and the profit/loss for the period.

** In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on profit or loss. In connection with the use of hedge accounting, part of the changes in the valuation of financial derivatives is 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.

	Carrying amount as at Dec 31 2012	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*	3	-	-	-	-	-	-	-	-
Other financial assets	1	-	-	-	-	-	-	-	-
Trade and other receivables	1,248	35	148	2	3	(35)	(148)	(2)	(3)
Derivative financial instrument assets**	90	357	5	-	-	-	-	507	-
Cash and cash equivalents	337	19	23	6	2	(19)	(23)	(6)	(2)
Effect on financial assets before tax		**411**	**176**	**8**	**5**	**(54)**	**(171)**	**499**	**(5)**
19% tax		(78)	(34)	(2)	(1)	10	33	(95)	1
Effect on financial assets after tax		**333**	**142**	**6**	**4**	**(44)**	**(138)**	**404**	**(4)**
Total currencies					*485*				*218*
Financial liabilities									
Borrowings and debt securities (including finance lease)	3,406	324	186	-	1	(324)	(186)	-	(1)
Trade and other payables	677	81	5	14	2	(81)	(5)	(14)	(2)
Derivative financial instrument liabilities**	393	-	-	507	-	361	2	-	-
Effect on financial liabilities before tax		**405**	**191**	**521**	**3**	**(44)**	**(189)**	**(14)**	**(3)**
19% tax		(77)	(36)	(99)	-	8	36	3	-
Effect on financial liabilities after tax		**328**	**155**	**422**	**3**	**(36)**	**(153)**	**(11)**	**(3)**
Total currencies					*908*				*(203)*
Total increase/decrease		5	(13)	(416)	1	(8)	15	415	(1)
Total currencies					**(423)**				**421**
Exchange rates as at the balance-sheet date and their changes:									
EUR/PLN	4.0882	-	4.7014	4.7014	4.7014	-	3.4750	3.4750	3.4750
USD/PLN	3.0996	3.5645	-	3.5645	3.5645	2.6347	-	2.6347	2.6347
NOK/PLN	0.5552	0.6385	0.6385	-	0.6385	0.4719	0.4719	-	0.4719

* Shares are disclosed at historical values, therefore the change in exchange rates will not affect the valuation of those assets and the profit/loss for the period.

** In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on profit or loss. In connection with the use of hedge accounting, part of the changes in the valuation of financial derivatives is 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.

Analysis of derivative financial instruments' sensitivity to fluctuations of exchange rates charged to equity

	Jun 30 2013			
Exchange rate	*for EUR*	*for USD*	*for EUR*	*for USD*
Exchange rate change by:	15%		-15%	
Effect on equity before tax	311	314	(58)	(131)
19% tax	(59)	(60)	11	25
Effect on financial assets/liabilities after tax	252	254	(47)	(106)
Total currencies		**506**		**(153)**

	Dec 31 2012			
Exchange rate	*for EUR*	*for USD*	*for EUR*	*for USD*
Exchange rate change by:	15%		-15%	
Effect on equity before tax	106	241	(38)	(196)
19% tax	(20)	(46)	7	37
Effect on financial assets/liabilities after tax	86	195	(31)	(159)
Total currencies		**281**		**(190)**

The analysis of derivative instruments' sensitivity to exchange rate fluctuations, charged to equity and presented in the table below, shows that a 15% increase in the PLN/USD and PLN/EUR exchange rates would cause an increase in equity through other comprehensive income. A 15% decline in the PLN/USD and PLN/EUR exchange rates would reduce equity. This is due to the valuation of derivative instruments used by the Group to hedge against an increase in USD- and EUR-denominated liabilities and expenses related to gas purchases. Valuation of the effective portion of such hedges is charged to equity.

The Group has analysed the sensitivity of energy commodity derivatives. For the sensitivity analysis for H1 2013, a 20% volatility was assumed for such instruments (25% as at December 31st 2012).

The tables below present an analysis of sensitivity of energy commodity derivatives to price changes for the end of H1 2013 and for the end of 2012.

Sensitivity of derivative financial instruments to commodity price fluctuations charged to profit or loss

	Carrying amount as at Jun 30 2013	**Price risk**					
	Price change by:	*20%*			*-20%*		
		Gasoil	Fuel oil	Title Transfer Facility	Gasoil	Fuel oil	Title Transfer Facility
Financial assets							
Energy commodity derivative assets	26	3	56	-	-	-	-
Effect on financial assets before tax		**3**	**56**	**-**	**-**	**-**	**-**
19% tax		(1)	(11)	-	-	-	-
Effect on financial assets after tax		**2**	**45**	**-**	**-**	**-**	**-**
Total commodities				*48*			
Financial liabilities							
Energy commodity derivative liabilities	6	-	-	20	3	3	4
Effect on financial liabilities before tax		**-**	**-**	**20**	**3**	**3**	**4**
19% tax		-	-	(4)	(1)	(1)	(1)
Effect on financial liabilities after tax		**-**	**-**	**16**	**2**	**2**	**3**
Total commodities			-	*16*			*7*
Total increase/decrease		2	45	(16)	(2)	(2)	(3)
Total commodities				**32**			**(7)**

	Carrying amount as at Dec 31 2012	25%		-25%	
	Price change by:	Gasoil	Fuel oil	Gasoil	Fuel oil
Financial assets					
Energy commodity derivative assets	15	15	2	-	-
Effect on financial assets before tax		**15**	**2**	**-**	**-**
19% tax		(3)	-	-	-
Effect on financial assets after tax		**12**	**2**	**-**	**-**
Total commodities			*14*		-
Financial liabilities					
Energy commodity derivative liabilities	-	-	-	(3)	(2)
Effect on financial liabilities before tax		**-**	**-**	**(3)**	**(2)**
19% tax		-	-	1	-
Effect on financial liabilities after tax		**-**	**-**	**(2)**	**(2)**
Total commodities			-		*(4)*
Total increase/decrease		12	2	2	2
Total commodities		**-**	**14**	**-**	**4**

The above tables present only the effect of price fluctuations on profit or loss. Some changes in the value of energy commodity derivatives affect directly equity.

The table below presents the effect of changes in energy commodity derivatives charged to equity.

Analysis of derivative financial instruments' sensitivity to fluctuations of commodity prices charged to equity

	Jun 30 2013					
Price change by:	20%			-20%		
	Gasoil	Fuel oil	Title Transfer Facility	Gasoil	Fuel oil	Title Transfer Facility
Effect on equity before tax	72	49	318	35	47	(193)
19% tax	(14)	(9)	(60)	(7)	(9)	37
Effect on financial assets/liabilities after tax	**58**	**40**	**258**	**28**	**38**	**(156)**

	Dec 31 2012			
Price change by:	25%		-25%	
	Gasoil	Fuel oil	Gasoil	Fuel oil
Effect on equity before tax	53	20	(16)	(3)
19% tax	(10)	(4)	3	1
Effect on financial assets/liabilities after tax	**43**	**16**	**(13)**	**(2)**

The analysis of derivative instruments' sensitivity to fluctuations of commodity prices, charged to equity, as presented in the table above, shows that a 20% increase (25% increase at the end of 2012) in commodity prices would increase equity through other comprehensive income. A 20% decline in the prices (25% decline at the end of 2011) would reduce equity. This is due to the fact that the Group uses derivatives to hedge against an increase in prices of energy commodities, and the valuation of the effective portion of such hedges is charged to equity.

The Group analysed the sensitivity of financial instruments under contracted borrowings, notes in issue and variable-rate lease liabilities to interest rate changes of +/-100 bp for H1 2013 (+/-100 bp at the end of 2012).

As at June 30th 2013, the sensitivity to interest rate changes of +/-100 bp of liabilities under borrowings, notes in issue, and variable-rate lease liabilities was +/- PLN 102m. The sensitivity of loans advanced to interest rate changes of +/-100 bp was PLN +/- 1m.

As at December 31st 2012, the sensitivity to interest rate changes of +/-100 bp of liabilities under borrowings, notes in issue, and variable-rate lease liabilities was +/- PLN 1m.

Sensitivity of financial instruments to interest rate changes

	Net carrying amount As at Jun 30 2013	*Change by:* **+100 bp**	**-100 bp**
Loans advanced	182	2	(2)
Borrowings	1,607	16	(16)
Notes issued	6,434	64	(64)
Lease liabilities	167	2	(2)
Total liabilities	**8,208**	**82**	**(82)**

	Net carrying amount As at Dec 31 2012	*Change by:* **+100 bp**	**-100 bp**
Borrowings	1,429	14	(14)
Notes issued	8,599	86	(86)
Lease liabilities	183	2	(2)
Total liabilities	**10,211**	**102**	**(102)**

35. DERIVATIVE FINANCIAL INSTRUMENTS

Measurement of derivative financial instruments

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

As at June 30th 2013, the Group held the following types of currency derivatives: cross currency interest rate swaps (CCIRS), purchased call options, purchased and sold currency forwards, and purchased average rate forwards. In H1 2013, the Group also hedged against commodity risk using Asian call options, risk reversal strategies (purchase of Asian commodity call options and sale of put options) and purchased commodity swaps.

Currency call and put options were measured at fair value using the Garman-Kohlhagen model, whereas Asian commodity call and put options were measured at fair value using the Espen-Levy model. Forwards, average rate forwards, swaps and CCIRS transactions are measured at fair value using the discount method. The measurement was based on market data such as interest rates, foreign-exchange rates, basis spreads, commodity prices and volatility of commodity prices as at June 30th 2013.

Hedge accounting

The Parent applies cash-flow hedge accounting with respect to foreign exchange and commodity transactions. For details, see Note 2.3.13.

Derivative financial instruments

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value		Hedged risk
					Jun 30 2013	Dec 31 2012	
Cross Currency Interest Rate Swap							
Euronotes	500	EUR	over 3 years	4.1580	169	-	Foreign exchange and interest-rate risk
Loan	965	NOK	6-12 months	0.5693	11	-	Foreign exchange and interest-rate risk
Loan	386	NOK	1-3 years	0.5662	3	-	Foreign exchange and interest-rate risk
Loan	4 085	NOK	6-12 months	0.5072	(213)	-	Foreign exchange and interest-rate risk
Loan	344	NOK	1-3 years	0.5521	(1)	-	Foreign exchange and interest-rate risk
Loan	5,244	NOK	1-3 years	0.5198	-	(317)	Foreign exchange and interest-rate risk
Loan	481	NOK	1-3 years	0.5684	-	3	Foreign exchange and interest-rate risk
Euronotes	500	EUR	over 3 years	4.1580	-	82	Foreign exchange and interest-rate risk
					(31)	**(232)**	
Forward contracts							
Payments for gas	5	EUR	6-12 months	4.2741	1	-	Foreign exchange risk
Payments for gas	5	EUR	up to 1 month	4.2425	1	-	Foreign exchange risk
Loan	333	NOK	up to 1 month	0.5635	5	-	Foreign exchange risk
Payments for gas	20	USD	1-3 months	3.3389	-	-	Foreign exchange risk
Payments for gas	60	USD	1-3 months	3.2593	4	-	Foreign exchange risk
Payments for gas	50	USD	3-6 months	3.1973	7	-	Foreign exchange risk
Payments for gas	50	USD	6-12 months	3.2135	7	-	Foreign exchange risk
Payments for gas	30	USD	up to 1 month	3.3285	-	-	Foreign exchange risk
Payments for gas	65	USD	up to 1 month	3.2843	2	-	Foreign exchange risk
Payments for gas	43	EUR	1-3 months	4.1649	7	-	Foreign exchange risk
Payments for gas	5	EUR	3-6 months	4.1565	1	-	Foreign exchange risk
Payments for gas	25	EUR	up to 1 month	4.1580	3	-	Foreign exchange risk
ING Bank Śląski EUR/PLN	1	EUR	6-12 months	4.4530	-	-	Foreign exchange risk
ING Bank Śląski EUR/PLN	1	EUR	6-12 months	4.4300	-	-	Foreign exchange risk
ING Bank Śląski EUR/PLN	0.36	EUR	up to 1 month	4.2116	-	-	Foreign exchange risk
Payments for gas	27	EUR	up to 1 month	4.1665	-	(2)	Foreign exchange risk
Payments for gas	34	EUR	1-3 months	4.1739	-	(2)	Foreign exchange risk
Payments for gas	150	USD	up to 1 month	3.3414	-	(36)	Foreign exchange risk

Derivative financial instruments (cont.)

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value		Hedged risk
					Jun 30 2013	Dec 31 2012	
Payments for gas	210	USD	1-3 months	3.2690	-	(31)	Foreign exchange risk
Payments for gas	60	USD	3-6 months	3.2338	-	(5)	Foreign exchange risk
EUR/PLN	4	EUR	up to 1 month	4.2422	-	-	Foreign exchange risk
EUR/PLN	2	EUR	1-3 years	4.4419	-	-	Foreign exchange risk
					38	**(76)**	
Call options							
Payments for gas	105	EUR	1-3 months	4.2696	11	-	Foreign exchange risk
Payments for gas	231	EUR	3-6 months	4.3502	23	-	Foreign exchange risk
Payments for gas	93	EUR	6-12 months	4.4050	10	-	Foreign exchange risk
Payments for gas	63	EUR	up to 1 month	4.2491	3	-	Foreign exchange risk
Payments for gas	100	USD	1-3 months	3.3406	7	-	Foreign exchange risk
Payments for gas	150	USD	3-6 months	3.3744	16	-	Foreign exchange risk
Payments for gas	120	USD	6-12 months	3.4029	17	-	Foreign exchange risk
Payments for gas	60	USD	up to 1 month	3.2883	3	-	Foreign exchange risk
Payments for gas	90	USD	up to 1 month	3.4742	-	-	Foreign exchange risk
Payments for gas	290	USD	1-3 months	3.4839	-	2	Foreign exchange risk
Payments for gas	30	USD	3-6 months	3.4583	-	1	Foreign exchange risk
Payments for gas	31	EUR	up to 1 month	4.2552	-	-	Foreign exchange risk
Payments for gas	117	EUR	1-3 months	4.2670	-	2	Foreign exchange risk
					90	**5**	

Derivative financial instruments (cont.)

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value		Hedged risk
					Jun 30 2013	Dec 31 2012	
Put options							
Proceeds from sale in foreign currency	1	EUR	up to 1 month	strike price: PUT − 4.1100; strike price: CALL − 4.2545	-	-	Foreign exchange risk
Proceeds from sale in foreign currency	1	EUR	1-3 months	strike price: PUT − 4.1200; strike price: CALL − 4.2545	-	-	Foreign exchange risk
Proceeds from sale in foreign currency	1	EUR	1-3 months	strike price: PUT − 4.1250; strike price: CALL − 4.2545	-	-	Foreign exchange risk
					-	**-**	
Call commodity options							
Payments for gas	0.038	FO	1-3 years	625.00	2	-	Commodity price risk
Payments for gas	0.158	FO	1-3 months	726.93	-	-	Commodity price risk
Payments for gas	0.212	FO	3-6 months	697.74	-	-	Commodity price risk
Payments for gas	0.363	FO	6-12 months	672.94	7	-	Commodity price risk
Payments for gas	0.117	FO	up to 1 month	732.30	2	-	Commodity price risk
Payments for gas	0.019	GO	1-3 years	905.00	1	-	Commodity price risk
Payments for gas	0.099	GO	1-3 months	1,055.76	-	-	Commodity price risk
Payments for gas	0.106	GO	3-6 months	1,028.90	-	-	Commodity price risk
Payments for gas	0.193	GO	6-12 months	992.13	4	-	Commodity price risk
Payments for gas	0.088	GO	up to 1 month	1,029.26	5	-	Commodity price risk
Payments for gas	1.500	TTF	1-3 months	27.14	-	-	Commodity price risk
Payments for gas	1.100	TTF	3-6 months	27.62	2	-	Commodity price risk
Payments for gas	0.880	TTF	6-12 months	28.36	2	-	Commodity price risk
Payments for gas	2.670	TTF	up to 1 month	27.37	-	-	Commodity price risk
Payments for gas	0.176	HFO	up to 1 month	793.52	-	-	Gas price risk
Payments for gas	0.503	HFO	1-3 months	791.65	-	-	Gas price risk
Payments for gas	0.416	HFO	3-6 months	732.38	-	2	Gas price risk
Payments for gas	0.118	HFO	6-12 months	749.92	-	-	Gas price risk
Payments for gas	0.127	GO	up to 1 month	1,108.82	-	-	Gas price risk
Payments for gas	0.373	GO	1-3 months	1,097.37	-	-	Gas price risk
Payments for gas	0.338	GO	3-6 months	1,014.05	-	13	Gas price risk
Payments for gas	0.123	GO	6-12 months	1,052.68	-	-	Gas price risk
					25	**15**	

Derivative financial instruments (cont.)

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value Jun 30 2013	Measurement at fair value Dec 31 2012	Hedged risk
			Put commodity options				
Payments for gas	0.077	FO	6-12 months	576.13	(3)	-	Commodity price risk
Payments for gas	0.044	FO	up to 1 month	547.05	-	-	Commodity price risk
Payments for gas	0.058	GO	6-12 months	818.02	(2)	-	Commodity price risk
Payments for gas	0.041	GO	up to 1 month	821.44	-	-	Commodity price risk
Payments for gas	0.138	HFO	up to 1 month	587.04	-	-	Gas price risk
Payments for gas	0.454	HFO	1-3 months	594.79	-	-	Gas price risk
Payments for gas	0.222	HFO	3-6 months	545.11	-	-	Gas price risk
Payments for gas	0.105	GO	up to 1 month	841.90	-	-	Gas price risk
Payments for gas	0.373	GO	1-3 months	858.16	-	-	Gas price risk
Payments for gas	0.211	GO	3-6 months	818.72	-	-	Gas price risk
					(5)	**-**	
			Commodity swap				
Payments for gas	0.080	FO	6-12 months	606.49	(2)	-	Commodity price risk
Payments for gas	0.014	GO	6-12 months	876.00	-	-	Commodity price risk
Payments for gas	0.021	GO	6-12 months	867.64	-	-	Commodity price risk
Payments for gas	3.400	TTF	1-3 months	26.67	(7)	-	Commodity price risk
Payments for gas	3.660	TTF	3-6 months	27.01	(7)	-	Commodity price risk
Payments for gas	1.980	TTF	3-6 months	27.19	2	-	Commodity price risk
Payments for gas	0.880	TTF	6-12 months	27.27	1	-	Commodity price risk
					(13)	**-**	
	Total				**104**	**(288)**	
		including:	positive valuation*:	assets	**341**	**105**	
			negative valuation:	liabilities	**(237)**	**(393)**	

*Includes reversal of positive valuation, but due to the excess of option premiums and their valuation, they were jointly posted under assets.

HFO – Heavy Fuel Oil

GO – Gasoil

FO – Fuel Oil

TTF – Title Transfer Facility

Positive valuation of derivatives as at the end of the period is presented in the statement of financial position as a separate item of current assets. Negative valuation of derivatives is presented in the statement of financial position as a separate item of current liabilities. The effects of measurement of open positions are recognised in profit/loss for the period or directly in equity if there is an effective portion which represents an effective hedge of fair value changes of financial derivatives designated as cash-flow hedges. In such a case, at the time of exercise of the derivative financial instrument and of the hedged item, the Group's equity is decreased or increased, and the effective portion is charged to profit or loss 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 in the period.

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Net gain/loss on valuation of derivative financial instruments – unrealised	165	91
Net gain/loss on derivative financial instruments – realised	(96)	(68)
Total net gain/loss on derivative financial instruments – recognised in profit or loss	**69**	**23**
of which:		
recognised in raw material and consumables used	(26)	130
recognised in net other expenses	(10)	(133)
recognised in finance income or costs	105	26
Net gain/loss on valuation of derivative financial instruments – recognised in other comprehensive income – unrealised	**118**	**(122)**
Total net gain/loss on derivative financial instruments – recognised in equity	**187**	**(99)**

36. CONTINGENT LIABILITIES AND RECEIVABLES

36.1. Contingent receivables

	Jun 30 2013	Dec 31 2012
From related entities:		
under guarantees and sureties received	-	1
under promissory notes received	177	152
Total contingent receivables from related entities	**177**	**153**
From other entities:		
under guarantees and sureties received	289	420
under promissory notes received	142	158
other contingent assets	215	226
Total contingent receivables from other entities	**646**	**804**
Total contingent assets	**823**	**957**

36.2. Contingent liabilities

	Jun 30 2013	Dec 31 2012
To other entities		
under guarantees and sureties issued*	10,990	9,732
under promissory notes issued	736	698
other contingent liabilities	1,121	1,129
Total contingent liabilities to other entities	**12,847**	**11,559**
Total contingent liabilities	**12,847**	**11,559**

* Contingent liabilities in foreign currencies were translated into the złoty at the exchange rates quoted by the National Bank of Poland respectively for June 30th 2013 and December 31st 2012.

The decrease in contingent receivables in H1 2013 follows chiefly from expiry of sureties issued to the Group entities in previous periods.

The increase in contingent liabilities in H1 2013 is primarily attributable to changes in exchange rates for the currencies in which the liabilities are denominated. The strengthening of the euro against the złoty in H1 2013 caused an increase in contingent liabilities related to guarantees issued by the Parent: a guarantee of repayment of liabilities under Euronotes (growth by PLN 362m, translated at the exchange rate quoted by the NBP for June 30th 2013) and a performance bond provided to the Government of Norway in respect of PGNiG Upstream International AS (growth by PLN 151m).

36.3. Other contingent liabilities

Real estate tax

The Group assessed the risk of claims being filed against it in relation to real estate tax on extraction workings as low. The related liability, if any, including interest, which is not past due and is not recognised in the financial statements, is PLN 180.9m as at June 30th 2013 (as at the end of 2012: PLN 160.2m).

However, taking into consideration the ruling issued by the Polish Constitutional Tribunal on September 13th 2011, there is no doubt that extraction workings, understood as space within land properties or in rock masses, do not qualify as structures and therefore may not be subject to real estate tax on structures, either on their own (as workings in the physical sense) or together with the installations located inside them (as extraction workings in the broader sense).

Pursuant to the ruling (court docket No. P 33/09) concerning imposition of real estate tax on extraction workings, extraction workings are not structures within the meaning of the Polish Building Law (and consequently within the meaning of the Local Taxes and Charges Act). Based on the grounds for the ruling, extraction workings are considered to be space within land properties or in rock masses, created as a result of performance of extraction work, and boreholes (wells) are to be treated as a special type of extraction workings (c.f. ruling of the Provincial Administrative Court of Wrocław of January 31st 2006, court docket No. I SA/Wr 1064/04, and ruling of the Supreme Administrative Court of September 20th 2007, court docket No. II FSK 1016/06).

Therefore, extraction workings understood in this way may not be subject to real estate tax, either as such or with the installations located inside them. However, in its ruling the Polish Constitutional Tribunal has concluded that there are no plausible arguments against the possibility of recognising facilities located in extraction workings as structures, and that it is within the powers of tax authorities and administrative courts to resolve the matter. At the same time the judging panel made a reservation that only the following may be considered structures within the meaning of the Local Taxes and Charges Act:

1. structures explicitly enumerated as such in the Polish Building Law,
2. installations described in Art. 3.9 of the Polish Building Law, which ensure the possibility of using a structure for the purpose for which it is intended, subject to the reservation that extraction workings as such are not structures.

It is extremely difficult to identify in wells any structures which are explicitly named as such in the Polish Building Law, therefore the risk that real estate tax could be imposed on any installations located inside the wells is low.

37. OFF-BALANCE SHEET LIABILITIES

37.1. Operating lease liabilities

	Jun 30 2013	Dec 31 2012
up to 1 year	11	11
from 1 to 5 years	7	10
Total	**18**	**21**

37.2. Commitments under executed agreements (not disclosed in the statement of financial position)

	Jun 30 2013	Dec 31 2012
Commitments under executed agreements	7,031	4,951
Completion of agreements as at the balance-sheet date	(3,298)	(3,292)
Contractual liabilities maturing subsequently to the balance-sheet date	**3,733**	**1,659**

38. RELATED ENTITIES

38.1. Related-party transactions

Related party	Turnover from Jan 1 to	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	Liabilities to related parties
Equity-accounted associates	Jun 30 2013	21	-	Jun 30 2013	4	4	-	-	6
	Jun 30 2012	13	-	Dec 31 2012	4	4	-	-	7
Non-consolidated subsidiaries and associates	Jun 30 2013	13	(31)	Jun 30 2013	3	3	215	182	4
	Jun 30 2012	6	(77)	Dec 31 2012	4	4	146	117	10
Related entities – total	**Jun 30 2013**	**34**	**(31)**	**Jun 30 2013**	**7**	**7**	**215**	**182**	**10**
	Jun 30 2012	**19**	**(77)**	**Dec 31 2012**	**8**	**8**	**146**	**117**	**17**

In H1 2013, there were no material transactions with shareholders.

In H1 2013, neither the Parent nor its subsidiaries entered into any material transactions with related parties otherwise than on arm’s length terms.

The Group prepares documentation for related-party transactions in accordance with Art. 9a of the Corporate Income Tax Act. The procedure is applied each time the PGNiG Group entities execute agreements (including framework agreements), annexes to agreements, orders (detailed agreements) or orders placed under framework agreements with related entities - if the total amounts payable/receivable (to/from one contractor under one agreement) or their equivalent in the złoty exceed in a calendar year the equivalent of EUR 100 thousand in the case of transactions involving merchandise or EUR 30 thousand in the case of transactions involving rendering of services, sale or provision of intangible assets.

38.2. Transactions with entities in which the State Treasury holds equity interests

With respect to the required detail of presentation for transactions entered into with parties related through the State Treasury, the Group applies the exemption provided for in paragraphs 25-27 of IAS 24. As there are no special transactions with such entities, the Company is authorised to present the minimum scope of information required in accordance with the revised IAS 24 (presented below).

The main transactions with entities in which the State Treasury holds equity interests are executed in the course of the Group's day-to-day operations, i.e. natural gas trading and distribution and sale of crude oil.

In H1 2013, the Group generated the highest turnovers with the following entities in which the State Treasury holds equity interests (directly or indirectly): Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A., Polski Koncern Naftowy ORLEN S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., Grupa LOTOS S.A., KGHM Polska Miedź S.A., Krośnieńskie Huty Szkła KROSNO S.A. w upadłości (in bankruptcy), Zakłady Azotowe PUŁAWY S.A., Zakłady Chemiczne POLICE S.A., Grupa Azoty (formerly Zakłady Azotowe w Tarnowie-Mościcach S.A.) and Zakłady Chemiczne RUDNIKI S.A.

In H1 2012, the Group generated the highest turnovers with the following entities in which the State Treasury holds equity interests (directly or indirectly): Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A., Polski Koncern Naftowy ORLEN S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., Grupa LOTOS S.A., KGHM Polska Miedź S.A., Krośnieńskie Huty Szkła KROSNO S.A. w upadłości (in bankruptcy), Zakłady Azotowe PUŁAWY S.A., Zakłady Chemiczne POLICE S.A., Grupa Azoty (formerly Zakłady Azotowe w Tarnowie - Mościcach S.A.) and Huta Cynku Miasteczko Śląskie S.A.

38.3. Remuneration paid to members of management and supervisory bodies of the Group companies

	Jan 1 – Jun 30 2013	Jan 1 – Jun 30 2012
Remuneration paid to management staff	**17.79**	**17.27**
Parent	1.54	1.45
Subsidiaries	9.50	10.05
Jointly-controlled entities	6.34	5.36
Associates	0.41	0.41
Remuneration paid to supervisory staff	**3.18**	**4.47**
Parent	0.19	0.18
Subsidiaries	2.07	3.29
Jointly-controlled entities	0.62	0.63
Associates	0.30	0.37
Total	**20.97**	**21.74**

38.4. Loans granted to the management and supervisory staff of the Group companies

	Jun 30 2013	Dec 31 2012
Management staff		
Interest rate (%)	0%-3.5%	1%-4%
Maturing in	1–5 years	3–5 years
Value of outstanding loans	0.12	0.16
Supervisory staff		
Interest rate (%)	0%	4%
Maturing in	3 years	5 years
Value of outstanding loans	0.01	0.01
Total value of outstanding loans	**0.13**	**0.17**

38.7. Non-consolidated joint ventures

In H1 2013, PGNiG SA had working business relationships 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., San Leon Energy PLC (a company that acquired shares of PGNiG SA's former business partner, Aurelian Oil & Gas PLC) - through subsidiaries Energia Karpaty Zachodnie Sp. z o.o. Sp. k. and Energia Karpaty Wschodnie Sp. z o.o. Sp. k., CalEnergy Resources Poland Sp. z o.o., Tauron Polska Energia S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A. and ENEA S.A.

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

In H1 2013, PGNiG SA continued business relationship with FX Energy Poland Sp. z o.o. in the following areas covered by licences awarded to PGNiG SA:

- "Płotki" – under the Agreement for Joint Operations dated May 12th 2000; interests in the project: PGNiG SA (operator) – 51%, FX Energy Poland Sp. z o.o. – 49%;
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under the Operating Agreement dated October 26th 2005; interests in the project: PGNiG SA (operator) – 51%, FX Energy Poland Sp. z o.o. – 24.5%, CalEnergy Resources Poland Sp. z o.o. – 24.5%;
- "Poznań" – under the Agreement for Joint Operations dated June 1st 2004; interests in the project: PGNiG SA (operator) – 51%, FX Energy Poland Sp. z o.o. – 49%;

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

- "Warszawa-Południe" (blocks 254 and 255) – under the Agreement for Joint Operations dated May 26th 2011; interests in the project: FX Energy Poland Sp. z o.o. (operator) – 51%, PGNiG SA – 49%;
- "Ostrowiec" – under the Agreement for Joint Operations dated February 27th 2009; interests in the project: FX Energy Poland Sp. z o.o. (operator) – 51%, PGNiG SA – 49%;
- "Kutno" – under the Agreement for Joint Operations dated September 30th 2010; interests in the project: FX Energy Poland Sp. z o.o. (operator) – 50%, PGNiG SA – 50%.

In H1 2013, production continued from the Roszków field in the "Płotki" area, and from the Zaniemyśl field in the "Płotki" – "PTZ" area. In the "Płotki" area, the acquisition of the Donatowo-Rusocin 3D seismic survey was completed and the processing of the survey was commenced. In the "Płotki" – "PTZ" area, reinterpretation of the Kaleje-Zaniemyśl 3D seismic survey was commenced and completed to select the best location for the Zaniemyśl-4 or Zaniemyśl-3k production well. Based on the results of the reinterpretation, there is no rationale for drilling of the Zaniemyśl-4 well. As a result, design and analytical work was commenced on two project options, i.e. the drilling of the Zaniemyśl-3k horizontal well or a workover of the Zaniemyśl-3 well.

In the "Poznań" licence area, in H1 2013, the Winna Góra field was brought onstream and gas production continued from the Środa Wielkopolska, Kromolice and Kromolice S fields. Work continued on the development of the Lisewo natural gas field, while the development of the Komorze 3K field commenced. Hydraulic fracturing was performed in the Pławce-2 (tight gas) exploration well and the process of initiating production was started. Drilling of the Mieczewo-1k exploration well was completed, resulting in gas flow with a significant presence of formation water. Based on the geological and field analyses, as well as economic analyses, a decision was made to abandon the well. In addition, the processing of the Miłosław 3D seismic survey was completed and work began on its interpretation. Interpretation of the Taczanów 3D seismic survey was completed.

In H1 2013, in the "Warszawa-Południe" area, FX Energy Poland Sp. z o.o. performed its own geological interpretation of the Potycz – Boglewice – Grójec area to select an area for the development of a 3D survey. The company also applied to the Ministry of Environment to amend its licence for block 254 (abandonment of a part of the licence area).

Analytical work was completed for the "Ostrowiec" area. In the "Kutno" area the results of the drilling of the Kutno-2 well were being documented. FX Energy Poland Sp. z o.o. made a decision to abandon the licences covering the "Ostrowiec" and „Kutno" areas.

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 H1 2013, PGNiG SA continued business relationship with EuroGas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o. in the "Bieszczady" license area under the Agreement for Joint Operations of June 1st 2007. Interests in the project: PGNiG SA (operator) – 51%, EuroGas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%.
In the "Bieszczady" area, processing of seismic profiles in the Jaśliska-Baligród zone and reprocessing of the Kostarowce-Zahutyń 2D archive seismic profiles were continued. Moreover, Niebieszczany-1 well was temporarily secured until a decision is made on further well tests.

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

In H1 2013, PGNiG SA continued business relationship with Orlen Upstream Sp. z o.o. in the "Sieraków" area under the agreement for joint operations of June 22nd 2009. Interests in the project: PGNiG SA (operator) – 51%, Orlen Upstream Sp. z o.o. – 49%.
In H1 2013, in the "Sieraków" area, the Sieraków-3 borehole was drilled. Based on the initial testing of the well, a decision to secure the well for further tests was made.

San Leon Energy PLC (a company that acquired shares of PGNiG SA's former business partner, Aurelian Oil & Gas PLC)
Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (subsidiary of San Leon Energy PLC)
Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (subsidiary of San Leon Energy PLC)

Under licences awarded to San Leon Energy PLC, work was performed in the following areas:

- "Karpaty Zachodnie" - under the agreement for joint operations dated December 17th 2009, concluded with Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (subsidiary of San Leon Energy PLC); interests in the project: Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (operator) – 60%, PGNiG SA – 40%
- "Karpaty Wschodnie" - under the agreement for joint operations dated December 17th 2009, concluded with Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (subsidiary of San Leon Energy PLC); interests in the project: Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (operator) – 80%, PGNiG SA – 20%.

In H1 2013, in "Karpaty Zachodnie" area, the Budzów–Cieszyn–Bestwina–Bielsko-Biała 2D seismic profiles were reprocessed.

In "Karpaty Wschodnie" area, geological and geophysical materials of Mszana Dolna – Jordanów were analysed for the possibility of commencing drilling works. As a result, a decision not to proceed with the drilling of an exploration well was made and a request to amend the Mszana Dolna license (abandonment of a part of the licensed area) was filed with the Ministry of Environment.

Tauron Polska Energia S.A., registered office at: ul. Ks. Piotra Ściegiennego 3, 40-114 Katowice, Poland

KGHM Polska Miedź S.A., registered office at ul. M. Skłodowskiej–Curie 48, 59-301 Lubin, Poland

PGE Polska Grupa Energetyczna S.A., registered office at ul. Mysia 2, 00-496 Warsaw, Poland

ENEA S.A., registered office at ul. Górecka 1, 60-201 Poznań, Poland.

On July 4th 2012, PGNiG SA entered into a framework agreement concerning shale oil and gas exploration and production in the Wejherowo licence area with four companies: Tauron Polska Energia S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A. and Enea S.A. Under the agreement, joint work will be conducted on a part of the Wejherowo licence area held by PGNiG, and specifically in the Kochanowo, Częstkowo and Tępcz zones, where preliminary surveys and analyses have confirmed the presence of unconventional gas deposits. The joint effort will cover about 160 sq km in the Wejherowo licence area. Expenditure on the Kochanowo-Częstkowo-Tępcz (KCT) project is estimated at up to PLN 1.7bn. PGNiG SA will be the licence operator throughout the exploration and appraisal phase.

38.8. Foreign operations

PGNiG SA's interests in foreign operations

Ukraine

Dewon Z.S.A. is a closely-held (unlisted) joint-stock company, established on November 17th 1999. The company's core business consists in 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 11.1m (equivalent to PLN 4.5m, translated at the exchange rate quoted by the NBP for June 30th 2013) and is divided into 120,000 shares with a par value of UAH 92.89 per share. PGNiG SA's equity interest in the company is UAH 4.1m (equivalent to PLN 1.6m, translated at the exchange rate quoted by the NBP for June 30th 2013). As at June 30th 2013, the value of the shares disclosed in the Parent's accounts was PLN 2.5m. 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 operations until April 24th 2009.

Dewon Z.S.A. conducted work at the Sakhalin field as part of a joint venture, under an agreement with NAK Nadra Ukrainy (the holder of a license for production of hydrocarbons) and PoltavaNaftoGasGeologia. On April 24th 2009, NAK Nadra Ukrainy's license to conduct work at the Sakhalin field expired. As of that date, the company's operations were suspended. The stoppage, resulting first from the lack of licence, and then from the lack of a joint venture agreement with the new holder of the licence (UkrNaftoBurienie), materially affected Dewon's financial standing.

In mid-2012, after an over three-year break, the company resumed production from the Sakhalin field in eastern Ukraine. On May 15th 2012, a new trilateral joint venture agreement was executed by Ukrnaftoburienie (holder of the licence) and Golden Derrik. Well No. 21 and well No. 113 commenced production on June 25th 2012, and Well no. 18 – on July 7th 2012.

Oman

The share capital of **Sahara Petroleum Technology Llc** amounts to OMR 0.15m, equivalent to PLN 1.29m, translated at the mid-exchange rate quoted by the National Bank of Poland for June 26th 2013, which was the last exchange rate quoted for Omani rial in H1 2013), 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 0.63m, translated at the mid-exchange rate quoted by the National Bank of Poland for June 26th 2013, which was the last exchange rate quoted for Omani rial in H1 2013).

The company's shareholder structure is as follows:

- PGNiG SA 73,500 shares - 49%,
- Petroleum and Gas Technology llc 76,500 shares - 51%

P.O. Box 3641, Ruwi, the Sultanate of Oman.

The company was established in 2000, on the initiative of Zakład Robót Górniczych Krosno Sp. z o.o. (until June 30th 2005 a branch of PGNiG SA, currently a branch of Exalo Drilling SA, a wholly-owned subsidiary of PGNiG SA). The company was established to offer well servicing services, such as application of enhanced recovery techniques or workovers, wireline services, or wellhead maintenance services, and to perform light and middle drilling work using PGNiG's technological capabilities.

The company has never commenced operations. On June 7th 2009, the shareholders resolved to dissolve the company and appoint a liquidator. At present, the liquidation process is under way.

Germany

On July 1st 2005 in Potsdam, Germany, PGNiG SA and VNG-Verbundnetz Gas AG signed 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 of the companies. The share capital of each of the companies amounts to EUR 0.2m (equivalent to PLN 0.87m (translated at the mid-exchange rate quoted by the NBP for June 30th 2013), and their registered offices are located in Potsdam (InterGas Trade GmbH) and Leipzig (InterTransGas GmbH).

InterGasTrade GmbH has not been registered.
InterTransGas GmbH was entered in the commercial register of Potsdam on August 9th 2005. The company's core business consists in construction and operation of transmission infrastructure and sale of transmission capacities.

Since March 1st 2012, ONTRAS-VNG Gastransport GmbH (ONTRAS) (wholly-owned subsidiary of VNG AG, whose business consists in the provision of transmission services) has been the German shareholder. ITG shares were transferred by VNG to ONTRAS in the process of unbundling the network operations from production and trading activities.

As at June 30th 2013, PGNiG SA's interest in InterTransGas GmbH was EUR 0.8m (equivalent to PLN 3.46m, translated at the mid-exchange rate quoted by the NBP for June 30th 2013). As at June 30th 2013, the value of the shares disclosed in the Parent's accounting books was PLN 5.2m.

On December 21st 2010, **PGNiG Sales & Trading GmbH** of Munich was incorporated (until 2011: **POGC Trading GmbH**), with a share capital of EUR 10m (equivalent to PLN 43.29m, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2013). All the shares were acquired by PGNiG SA in return for a cash contribution made in December 2010. As at June 30th 2013, the value of the shares disclosed in the Parent's accounting books was PLN 39.7m.

The company's business involves purchase and sale of, and trading in, gas, fuels and other forms of energy (related to such products in a physical form), as well as trading in derivatives and financial products, provided that the trading in derivatives and financial products is to be conducted for hedging purposes only. On February 10th 2011, POGC Trading GmbH was entered in the commercial register in Munich.

In November 2011, the company commenced purchases of natural gas on the European market for PGNiG SA. This activity has continued since.

In June 2012, PGNiG Sales & Trading GMBH acquired 100% shares in XOOL GmbH of Munich, with a share capital of EUR 0.5m. XOOL GmbH is a natural gas operator with a network of 16,600 end-users in Germany.

Norway

On May 24th 2007, the Parent 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). On May 23rd 2013, its amended articles of association were registered, changing its name to **PGNiG Upstream International AS** and expanding the scope of its business, to reflect the fact that PGNiG Upstream International AS had been appointed as the entity responsible for coordinating PGNiG's exploration operations outside of Poland.

The company's business comprises crude oil and natural gas production, and other similar or related activities. PGNiG Upstream International 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. PGNiG SA is the sole owner of PGNiG Upstream International AS.

PGNiG Upstream International AS was established in particular to perform the agreement executed on February 28th 2007 between PGNiG SA, Mobil Development Norway AS and ExxonMobil Production Norway Inc. concerning the acquisition by the Company of licence interests in the Norwegian Continental Shelf covering the Skarv, Snadd and Idun field (licences PL 212, PL 212B and PL 262). Under the joint venture agreement, PGNiG Upstream International AS holds the rights to 12% of the production (other interest holders are British Petroleum – 24% (operator), Statoil – 36% and E.ON Ruhrgas – 28%) from the Skarv/Snadd/Idun field and has the obligation to participate in the investment expenditure in the same proportion. British Petroleum is the field operator.

Furthermore, in February 2010 PGNiG Upstream International AS obtained from the Norwegian Ministry of Petroleum and Energy the authorisation to act as an operator on the Norwegian Continental Shelf.

In June 2013, the company obtained four new exploration licences following conclusion of the fourth licensing round. Two of these licences, PL 702 (Billing) and PL703 (Loki), are located in the Norwegian Sea, and the other two, PL 707 (Mungo) and PL711 (Labbetuss), in the Barents Sea.

As at the end of 2013, the company held 14 licences in total.

The Skarv field, discovered in 1998, was its main asset. In 2007, the Skarv licence was extended to include the Idun field.

In June 2013, the company signed an annex to a USD 400m credit facility agreement with seven international banks. Under the annex, the facility repayments previously scheduled for June and December 2013 can be postponed until 2014. As at the end of June 2013, the company's debt outstanding under the credit facility was USD 332m.

As at the end of 2012, the value of PGNiG SA's ownership interest in PGNiG Upstream International AS was NOK 1,092m, that is PLN 599.1m (translated at the exchange rate quoted by the National Bank of Poland for June 30th 2013). As at June 30th 2013, the value of the shares disclosed in the Parent's accounting books was PLN 537.5m.

The Netherlands - Libya

In January 2008, the PGNiG Management Board consented to use PGNiG Finance B.V. (established on September 14th 2001 to service the issue of Euronotes 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 (equivalent of PLN 86.6 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 30th 2013).

The Management Board of POGC-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 contained a commitment to carry out exploration work worth a total of USD 108m, including acquisition of 3,000 sq km 2D seismic and 1,500 sq km 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 through POGC Libya B.V., may be recovered from the production revenues (cost oil).

By February 2011, the Company had acquired 3,000 km of 2D seismic lines and 1,087 sq km of 3D seismic profiles, and performed a series of geological surveys.

Because of the events which had been taking place in Libya since mid-February 2011, the Management Board of POGC Libya BV made a decision to evacuate all international personnel from the country and notify National Oil Corporation in Libya of the occurrence of a force majeure event, which provided the basis for an extension of the term to perform obligations under the agreement. On November 21st 2012, POGC Libya B.V. signed an agreement with National Oil Corporation confirming the cessation of the force majeure event and extending the term of the performance of licence obligations.

In 2012, the company's equity was increased by USD 25m, without issuing any new shares, to finance the drilling of first exploration wells, scheduled to begin at the start of 2013. On March 12th 2013, POGC-Libya B.V. and PGNiG SA entered into an agreement whereunder PGNiG SA undertook to make an additional contribution of USD 45.5m to the company's equity.

In June 2013, the company began to drill the first exploration well, and in July 2013 the analysis of the gathered log data commenced.

As at June 30th 2013, the Parent's equity interest in POGC Libya B.V. amounted to EUR 65.5m and USD 27.4m (PLN 283.6m and PLN 91.0m, respectively, translated at the exchange rates quoted by the NBP for June 30th 2013). The gross value of the shares disclosed in the Company's accounting books as at June 30th 2013 was PLN 364m. As at June 30th 2013, an impairment loss on shares in POGC Libya B.V. recognised in the accounting books was PLN 13.7m.

Sweden

On April 29th 2011, PGNiG SA acquired shares in Goldcup 5839 AB of Stockholm. On June 20th 2011, a change of the company's name to **PGNiG Finance AB** was registered.

The Company's objective is to raise financing, including through the issue of Euronotes on the international markets, as well as to borrow funds and advance loans to private investors, other than as part of any activities which in Sweden require a licence.

In February 2012, the company (in cooperation with PGNiG SA) issued the first tranche of Euronotes for EUR 500m, i.e. PLN 2,164.6m (translated at the exchange rate quoted by the NBP for June 30th 2013). The notes are listed on the Luxembourg Stock Exchange. All proceeds from the issue, net of consideration for the institutions involved in its execution, were transferred to PGNiG SA as an on-loan.

As at June 30th 2013, the value of shares in PGNiG Finance AB disclosed in the Parent's books was PLN 0.5m.

The Parent's direct operations abroad – interests in exploration licences

The Parent conducts exploration work in Pakistan under an agreement on hydrocarbon exploration and production in the Kirthar licence area executed between PGNiG SA and the government of Pakistan on May 18th 2005. Work in the Kirthar block is conducted jointly with Pakistan Petroleum Ltd. (PPL), with production and expenses shared proportionately to the parties' interests in the licence: PGNiG SA (operator) – 70%, PPL – 30%. In 2012, the operator decided to move to the second exploration stage on the Kirthar licence, as part of which a new exploration well is to be drilled by July 2014. In H1 2013, work was carried out on the construction of pipelines and surface installations to commence test production from the Rehman-1 and Hallel X-1 wells. Test production was launched at the end of June 2013.

In Egypt, the Parent conducted exploration work in the Bahariya licence area (Block 3) under an Exploration and Production Sharing Agreement (EPSA) executed with the government of Egypt of May 17th 2009. The Company holds a 100% interest in the licence. In H1 2013, two exploration wells were drilled. The wells were abandoned as no commercial hydrocarbon flows were recorded.

Foreign branches of the Group:

PGNiG Group companies have a number of foreign branches, which conduct operations or support the Group's development outside of Poland.

PGNiG SA – the Parent:
Operating Branch in Pakistan – Islamabad,
Branch in Egypt – Cairo,
Branch in Denmark – Copenhagen (in the process of liquidation).

Geofizyka Kraków S.A.:
Branch in Pakistan – Islamabad,
Branch in Libya – Tripoli.

Geofizyka Toruń S.A.:
Branch in Egypt – Suez.

Exalo Drilling S.A.:
Branch in Libya – Tripoli,
Branch in Egypt – Cairo,
Branch in the Czech Republic – Ostrava,
Branch in Pakistan – Islamabad,
Branch in Kazakhstan – Almaty,
Branch in the Republic of Uganda – Kampala,
Branch in Georgia – Tbilisi.

Polish Oil and Gas Company - Libya B.V.:
Branch in Lybya – Benghazi.

39. EMPLOYEES (NUMBER OF STAFF)

Employees by segments as at end of the period	Jun 30 2013	Dec 31 2012
Exploration and Production	9,982	10,990
Trade and Storage	4,192	4,685
including equity-accounted entities	287	288
Distribution	13,174	13,255
Generation	1,074	1,069
Other segments	2,112	2,327
Total	**30,534**	**32,326**

40. RESTRUCTURING PROCESS WITHIN THE GROUP

In H1 2013, the Programme for Workforce Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3) (the "Programme"), adopted by the Extraordinary General Meeting of PGNiG SA on December 11th 2008, was continued. By virtue of a resolution of the Extraordinary General Meeting of PGNiG SA of December 7th 2011, the term of the Central Restructuring Fund (CRF) was extended until December 31st 2015. The Programme will therefore expire on December 31st 2015, unless one of the Parties (the PGNiG Management Board or the Social Partner) terminates the Programme prior to that date.

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 if justified by the scope of planned restructuring involving workforce downsizing and/or job shedding.

The costs of redundancy payments to which laid-off employees are entitled under the Programme are covered from the CRF, which is at the disposal of the General Meeting of PGNiG SA, or with other funds accumulated for that purpose by the entities participating in the Programme. The Group discloses CRF under "Employee benefit obligations".

On August 10th 2011, by virtue of a resolution of the Extraordinary General Meeting of PGNiG SA, an Annex to the Programme was approved, introducing a possibility to use the funds accumulated in the CRF account to support the streamlining initiatives undertaken by PGNiG SA and a possibility for the entities covered by the Programme to create similar funds with a view to securing financing for their workforce streamlining expenses. The functioning of such funds is governed by the rules applicable to the CRF.

The entities which were listed in the terms of the Programme as entitled to implement the Programme (subject to relevant resolutions being adopted by their respective general meetings), and whose difficult financial standing rendered it impossible to cover all costs of the employment restructuring required under the Programme without financial aid, may apply for assistance from PGNiG SA's capital reserve designated as Central Restructuring Fund (subject to approval by the General Meeting of PGNiG SA) to finance payments to former employees with whom employment contracts were terminated.

The following events related to the implementation of the Workforce Streamlining Programme occurred during the reporting period:

1. 138 former employees of PGNiG Technologie S.A. received one-off redundancy payments, paid out of the Central Restructuring Fund, for a total amount of PLN 7.6m;
2. On June 26th 2013, the Extraordinary General Meeting of PGNiG S.A. approved the one-off redundancy payments to:
   - 46 employees of Geofizyka Kraków S.A., for a total amount of PLN 2.3m (payments to be made in Q3 2013);
   - 22 employees of PNiG Jasło S.A. (a branch of Exalo Drilling S.A. since February 1st 2013), for a total amount of PLN 0.8m (payments to be made in Q3 2013).
3. Requests to use the Programme to cover the costs of one-off redundancy payments from the capital reserve designated as Central Restructuring Fund were submitted by the following entities:

- Exalo Drilling S.A. – to cover the costs of one-off redundancy payments to 39 employees, for a total amount of PLN 2.3m;
- BUD-GAZ Sp. z o.o. w likwidacji (in liquidation) – to cover the costs of one-off redundancy payments to 22 employees, for a total amount of PLN 1.9m.

PGNiG Group companies are also implementing other programmes related to workforce streamlining, including Voluntary Termination Programmes.

41. CAPITAL MANAGEMENT

The key objective behind the Group's capital management is to maintain the ability to continue its operations, taking into account investment plans, while increasing the Group's shareholder value.

The Group monitors its capital position 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 borrowings, finance lease liabilities, liabilities under debt securities in issue and trade and other payables less cash and cash equivalents. Equity includes equity attributable to owners of the Parent.

	Jun 30 2013	Dec 31 2012
Borrowings, finance lease liabilities and liabilities under debt securities in issue	8,208	10,211
Trade and other payables	4,046	3,744
Cash and cash equivalents (-)	(2,659)	(1,948)
Net debt	**9,595**	**12,007**
Equity (attributable to owners of the parent)	**27,978**	**27,192**
Equity and net debt	**37,573**	**39,199**
Leverage	25,5%	30,6%

42. OTHER IMPORTANT INFORMATION

42.1. Additional contributions to equity of PI GAZOTECH Sp. z o.o.

In H1 2013, actions instituted by PGNiG SA were pending to rescind or declare invalidity of resolutions of the Extraordinary General Meeting of PI GAZOTECH Sp. z o.o. concerning additional contributions to the company's equity.

Proceedings concerning PGNiG SA's action against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of resolutions by the General Meeting of PI GAZOTECH Sp. z o.o., dated April 23rd 2004, including the resolution obliging PGNiG SA to pay additional contributions of PLN 52m, were held before the Regional Court of Warsaw, the Warsaw Court of Appeals, and finally the Supreme Court. On June 25th 2010, the Regional Court granted PGNiG SA's claims and declared the resolution concerning share redemption and the resolution concerning the additional contributions invalid. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, along with a petition to be exempt from court fees. By virtue of its decision of December 14th 2011, the Court of Appeals dismissed PI GAZOTECH Sp. z o.o.'s appeal. The decision was final. On April 24th 2012, PI GAZOTECH Sp. z o.o. lodged a cassation compliant. By virtue of its decision of March 13th 2013, the Supreme Court refused to accept the cassation compliant for consideration. As a result, the resolution of PI GAZOTECH Sp. z o.o.'s General Meeting of April 23th 2004 is invalid, the decision declaring its invalidity is final and cannot be repealed in proceedings before the Supreme Court based on the cassation compliant. Thus the proceedings in this case were concluded.

Proceedings instigated by PGNiG SA against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of the resolution of the Extraordinary General Meeting of PI GAZOTECH Sp. z o.o., dated January 19th 2005, whereunder PGNiG SA was obliged to pay an additional contribution of PLN 26m, were held before the Regional Court and the Court of Appeals of Warsaw. By virtue of its ruling of October 18th 2010, the Regional Court of Warsaw invalidated the resolution. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, along with a petition to be exempt from court fees. By virtue of its decision of June 22nd 2012, the Court of Appeals in Warsaw dismissed PI GAZOTECH Sp. z o.o.'s appeal. On October 30th 2012, PI GAZOTECH Sp. z o.o. lodged a cassation compliant against that decision. The complaint had not been accepted for consideration by the Supreme Court as at the date of these financial statements.

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

On December 28th 2010, the President of UOKiK instigated anti-trust proceedings concerning abuse of dominant position by PGNiG SA on the domestic wholesale natural gas market, consisting in:
- inhibiting sale of gas against the interest of trading partners or consumers, and
- impeding the development of market conditions necessary for the emergence or development of competition

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

In its decision of July 5th 2012, the President of UOKiK found these actions to be anti-competitive practices, concluded that PGNiG SA discontinued those practices as of November 30th 2010, and imposed on the Company a fine of PLN 60m. On July 24th 2012, PGNiG SA filed an appeal against the decision of the President of UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw. As at the date of these financial statements, the Competition and Consumer Protection Court did not notify PGNiG SA of setting a hearing date.

On February 9th 2012, the President of the UOKiK instigated anti-trust proceedings concerning practices employed by PGNiG SA which infringe collective consumer interests. The President of the UOKiK accused PGNiG SA of using in comprehensive gas fuel supply contracts a provision classified as an abusive clause. In the course of the proceedings, PGNiG SA voluntarily agreed to change certain contractual provisions. By virtue of the decision of August 10th 2012, the President of the UOKiK resolved not to impose a fine on the Company and required the Company to introduce a new form of comprehensive agreement containing revised general provisions. PGNiG SA is in the process of fulfilling this obligation. PGNiG SA is in the process of fulfilling this obligation.

On February 22nd 2013, the President of UOKiK instigated anti-trust proceedings concerning practices employed by PGNiG SA which infringe collective consumer interests. The President of UOKiK accused PGNiG SA of using provisions classified as abusive clauses in contract forms based on which comprehensive gas fuel supply contracts are concluded. PGNiG SA initiated investigation and submitted a motion to the President of UOKiK for a commitment decision. On June 28th 2013, the President of UOKiK issued the commitment decision that concluded the administrative proceedings against PGNiG SA. The President of UOKiK did not impose a fine on the Company in this case. PGNiG SA is in the process of fulfilling this obligation. PGNiG SA is in the process of fulfilling this obligation.

On April 3rd 2013, the President of UOKiK instigated anti-trust proceedings concerning abuse of dominant position by PGNiG SA on the domestic wholesale and retail natural gas market, consisting in impeding the development of market conditions necessary for the emergence or development of competition through:

- limiting the ability of business customers to reduce the ordered volumes of gas fuel and contractual capacity,
- limiting the ability of business customers to resell gas fuel,
- requiring that business customers define the maximum volume of gas fuel purchased for resale in the contract,
- refusing to grant wholesale customers the right to a partial change of the supplier.

PGNiG SA initiated investigation and submitted a motion to the President of UOKiK for a commitment decision.

43. EVENTS SUBSEQUENT TO THE BALANCE-SHEET DATE

Other than those disclosed in Note 1.6, no material events occurred between June 30th 2013 and the date of these interim consolidated financial statements.

PGNiG Management Board:

Vice-President of the Management Board	Jerzy Kurella	....
Vice-President of the Management Board	Jacek Murawski	....
Vice-President of the Management Board	Mirosław Szkałuba	....

Warsaw, August 1st 2013