PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31ST 2012

Members of the Management Board

President of the Management Board	Grażyna Piotrowska-Oliwa	....
Vice-President of the Management Board	Radosław Dudziński	....
Vice-President of the Management Board	Sławomir Hinc	....
Vice-President of the Management Board	Mirosław Szkałuba	....

Warsaw, March 5th 2013

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FINANCIAL HIGHLIGHTS
for the year ended December 31st 2012

	PLN		EUR	
	Jan 1–Dec 31 2012	**Jan 1–Dec 31 2011**	**Jan 1–Dec 31 2012**	**Jan 1–Dec 31 2011**
I. Revenue	25,539	21,821	6,119	5,271
II. Operating profit/loss	1,812	1,196	434	289
III. Profit/loss before tax	2,260	1,962	541	474
IV. Net profit	1,918	1,733	460	419
V. Comprehensive income	1,707	1,809	409	437
VI. Cash flows from operating activities	474	847	114	205
VII. Cash flows from investing activities	(4,579)	(2,057)	(1,097)	(497)
VIII. Cash flows from financing activities	4,204	1,579	1,007	381
IX. Total net cash flow	99	369	24	89
X. Earnings/loss and diluted earnings/loss per ordinary share (PLN/EUR)	0.33	0.29	0.08	0.07
	As at Dec 31 2012	**As at Dec 31 2011**	**As at Dec 31 2012**	**As at Dec 31 2011**
XI. Total assets	36,641	29,251	8,963	6,623
XII. Liabilities and provisions	14,660	8,978	3,586	2,033
XIII. Non-current liabilities	7,278	2,158	1,780	489
XIV. Current liabilities	7,382	6,820	1,806	1,544
XV. Equity	21,981	20,273	5,377	4,590
XVI. Share capital	5,900	5,900	1,443	1,336
XVII. Weighted average number of shares (million)	5.900	5.900	5.900	5.900
XVIII. Carrying amount per share and diluted carrying amount per share (PLN/EUR)	3.73	3.44	0.91	0.78
XIX. Dividend per share declared or paid (PLN/EUR)	-	0.12	-	0.03

Items of the income statement, statement of comprehensive income and statement of cash flows were translated at the EUR 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 EUR mid-rate quoted by the NBP as at the end of the given period.

Average EUR/PLN exchange rates quoted by the NBP

	Dec 31 2012	Dec 31 2011
Average exchange rate for the period	4.1736	4.1401
Exchange rate at end of the period	4.0882	4.4168

SEPARATE INCOME STATEMENT
for the year ended December 31st 2012

	Note	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
		(PLNm)	
		audited	restated
Revenue	3	**25,539**	**21,821**
Raw material and consumables used	4	(15,483)	(13,523)
Employee benefit expense	4	(990)	(905)
Depreciation and amortisation expenses		(603)	(568)
Contracted services	4	(5,811)	(5,618)
Work performed by the entity and capitalised		13	33
Other income and expenses	4	(853)	(44)
Total operating expenses		**(23,727)**	**(20,625)**
Operating profit/loss		**1,812**	**1,196**
Finance income	5	728	1,027
Finance costs	5	(280)	(261)
Profit before tax		**2,260**	**1,962**
Income tax expense	6	(342)	(229)
Net profit		**1,918**	**1,733**
Earnings and diluted earnings per share attributable to holders of ordinary shares (PLN)		0.33	0.29

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31st 2012

	Note	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
		(PLNm)	
		audited	restated
Net profit		**1,918**	**1,733**
Exchange differences on translating foreign operations		(9)	10
Hedge accounting		(249)	135
Remeasurement of financial assets available for sale		-	(53)
Deferred tax related to hedge accounting		47	(16)
Other comprehensive income, net		**(211)**	**76**
Total comprehensive income		**1,707**	**1,809**

SEPARATE STATEMENT OF FINANCIAL POSITION
As at Dec 31 2012

	Note	Dec 31 2012	Dec 31 2011	Jan 1 2011
			(PLNm)	
ASSETS		audited	restated	restated
Non-current assets				
Property, plant and equipment	10	14,098	13,036	11,544
Investment property	11	2	3	3
Intangible assets	12	204	159	133
Financial assets available for sale	13	7,263	6,460	6,409
Other financial assets	14	5,780	2,901	2,261
Deferred tax assets	15	395	345	289
Other non-current assets	16	47	26	21
Total non-current assets		**27,789**	**22,930**	**20,660**
Current assets				
Inventories	17	2,427	1,897	879
Trade and other receivables	18	5,172	3,170	3,295
Current tax assets	19	24	5	-
Other assets	20	17	28	14
Derivative financial instrument assets	34	105	285	78
Cash and cash equivalents	22	1,034	935	566
Non-current assets held for sale	23	**73**	**1**	**2**
Total current assets		**8,852**	**6,321**	**4,834**
Total assets		**36,641**	**29,251**	**25,494**
EQUITY AND LIABILITIES				
Equity				
Share capital	24	5,900	5,900	5,900
Share premium		1,740	1,740	1,740
Accumulated other comprehensive income		(59)	152	76
Retained earnings		14,400	12,481	11,454
Total equity		**21,981**	**20,273**	**19,170**
Non-current liabilities				
Borrowings and other debt instruments	25	4,390	-	-
Employee benefit obligations	26	81	97	99
Provisions	27	1,576	1,154	1,077
Deferred income	28	559	257	76
Deferred tax liabilities	29	632	634	601
Other non-current liabilities	30	40	16	15
Total non-current liabilities		**7,278**	**2,158**	**1,868**
Current liabilities				
Trade and other payables	31	2,763	2,660	2,824
Borrowings and other debt instruments	25	3,879	3,591	1,219
Derivative financial instrument liabilities	34	393	417	104
Current tax liabilities	19	-	-	136
Employee benefit obligations	26	190	62	50
Provisions	27	152	88	119
Deferred income	28	5	2	4
Total current liabilities		**7,382**	**6,820**	**4,456**
Total liabilities		**14,660**	**8,978**	**6,324**
Total equity and liabilities		**36,641**	**29,251**	**25,494**

SEPARATE STATEMENT OF CASH FLOWS
for the year ended December 31st 2012

	Note	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
		(PLNm)	
		audited	restated
Cash flows from operating activities			
Net profit		1,918	1,733
Adjustments:			
Depreciation and amortisation expenses		603	568
Net foreign exchange gains/(losses)		9	(263)
Net interest and dividend		(364)	(687)
Gain/(loss) on investing activities		147	(36)
Current tax expense		342	200
Other items, net		179	370
Income tax expense	32	(378)	(409)
Cash flows from operating activities before changes in working capital		**2,456**	**1,476**
Change in working capital:			
Change in receivables	32	(1,787)	274
Change in inventories	32	(529)	(1,018)
Change in employee benefit obligations	32	112	11
Change in provisions	32	66	(20)
Change in current liabilities	32	174	139
Change in other assets	32	(22)	(10)
Change in deferred income		4	(5)
Net cash flows from operating activities		**474**	**847**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets		153	30
Proceeds from disposals of shares in related entities		-	153
Proceeds from disposals of shares in other entities		-	1
Purchase of property, plant and equipment and intangible assets		(1,168)	(2,334)
Expenditures on exploration and evaluation assets		(499)	(117)
Purchase of shares in related entities		(801)	(150)
Decrease in loans advanced		195	174
Loans advanced		(3,118)	(558)
Inflows from forward contracts		136	73
Outflows on forward contracts		(117)	-
Interest received		22	18
Dividends received		320	521
Proceeds from finance lease		5	2
Other items, net		293	130
Net cash flows from investing activities		**(4,579)**	**(2,057)**
Cash flows from financing activities			
Proceeds from borrowings		2,085	-
Proceeds from issue of debt securities		6,156	3,580
Repayment of debt securities		(3,580)	(1,210)
Payment of finance lease liabilities		-	(2)
Outflows on forward contracts		(111)	-
Dividend paid		-	(678)
Interest paid		(345)	(92)
Other items, net		(1)	(19)
Net cash flows from financing activities		**4,204**	**1,579**
Net change in cash		**99**	**369**
Exchange differences on cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the period		**935**	**566**
Cash and cash equivalents at end of the period		**1,034**	**935**
Restricted cash		**233**	**199**

STATEMENT OF CHANGES IN EQUITY
for the year ended December 31st 2012

	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	Retained earnings/deficit	**Total**
	(PLNm)						
As at Jan 1 2012 (restated)	**5,900**	**1,740**	**9**	**143**	**-**	**12,481**	**20,273**
Total comprehensive income	-	-	**(9)**	**(202)**	-	**1,918**	**1,707**
Net profit for 2012	-	-	-	-	-	1,918	**1,918**
Other comprehensive income, net, for 2012	-	-	(9)	(202)	-	-	**(211)**
As at Dec 31 2012 (audited)	**5,900**	**1,740**	**-**	**(59)**	**-**	**14,400**	**21,981**
As at Jan 1 2011 (restated)	**5,900**	**1,740**	**(1)**	**24**	53	**11,454**	**19,170**
Payment of dividend to owners	-	-	-	-	-	(708)	**(708)**
Total comprehensive income	-	-	**10**	**119**	(53)	**1,733**	**1,809**
Net profit for 2011	-	-	-	-	-	1,733	**1,733**
Other comprehensive income, net, for 2011	-	-	10	119	(53)	-	**76**
As at Dec 31 2011 (restated)	**5,900**	**1,740**	**9**	**143**	**-**	**12,481**	**20,273**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF PGNiG S.A. AS AT DECEMBER 31ST 2012

1. GENERAL INFORMATION

1.1. Company name, core business and key registry data

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna ("PGNIG S.A.", "Company"), registered office at ul. Marcina Kasprzaka 25, Warsaw, was established as a result of transformation of state-owned enterprise Przedsiębiorstwo Państwowe PGNiG into a state-owned stock company pursuant to Art. 6.1 of the Act on Privatisation of State-Owned Enterprises, dated July 13th 1990 (Dz. U. of 1990, No. 51, item 298, as amended), and the Regulation of the President of the Council of Ministers on transformation of the state-owned public utility enterprise Polskie Górnictwo Naftowe i Gazownictwo of Warsaw into a state-owned stock company, dated September 30th 1996 (Dz. U. No. 116, item 553). Based on the above Regulation, on October 21st 1996 the Deed of Transformation was executed.

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. On November 14th 2001, by virtue of the decision of the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register, PGNIG S.A. was entered into the Register of Entrepreneurs 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.

By virtue of the decision of the Warsaw Stock Exchange of September 16th 2005, Series A and Series B shares as well as rights to Series B shares of PGNIG S.A. have been admitted to stock-exchange trading on the main market. The rights to Series B ordinary bearer shares were listed for the first time on September 23rd 2005. On October 18th 2005, the Warsaw Stock Exchange introduced Series A and Series B shares of PGNIG S.A. to stock-exchange trading on the main market. The shares were listed for the first time on October 20th 2005.

On January 14th 2013, the PGNiG Management Board received a ruling of the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, dated December 28th 2012, concerning the registration of amendments to the Articles of Association of PGNiG S.A., which were adopted by virtue of Resolution No. 3/XII/2012 of the Extraordinary General Meeting of PGNiG S.A. on December 6th 2012. The amendments were entered in the Register of Entrepreneurs on December 31st 2012.

Pursuant to the Articles of Association of PGNIG S.A., the Company performs activities aimed at ensuring energy security of Poland. These relate in particular to the following:

1) ensuring continuity of gas supplies to consumers and maintaining necessary reserves,
2) ensuring safe operation of gas networks,
3) ensuring gas fuels balance, managing operations and capacity of power equipment connected to the common gas distribution network,
4) natural gas production.

Pursuant to its Articles of Association, the Company engages in production, service and trade activities in the following areas:

1) trade of gas fuel through mains,
2) natural gas extraction,
3) crude oil extraction,
4) test drilling and boring,
5) construction of transmission pipelines and distribution systems,
6) service activities incidental to oil and gas extraction,
7) service activities incidental to other extraction and quarrying,
8) extraction of chemical and fertiliser minerals,
9) other extraction and quarrying n.e.c.,
10) manufacture and processing of refined petroleum products,
11) production of gas fuels,
12) wholesale of chemical products,
13) wholesale of other intermediate products,
14) retail sale of automotive fuel in specialised stores,
15) wholesale of fuels and related products,
16) construction of plumbing, heating, gas and air conditioning installations,

17) repair and maintenance of machinery,
18) repair of motor vehicles other than motorcycles,
19) transport of gas fuels via pipelines,
20) transport of other products via pipelines,
21) freight transport by road,
22) storage and warehousing of gas fuels,
23) storage and warehousing of other products,
24) manufacture of industrial gases,
25) manufacture of other chemical products n.e.c.,
26) wholesale of waste and scrap,
27) other research and experimental development on natural sciences and engineering,
28) engineering activities and related technical consultancy,
29) other professional, scientific and technical activities n.e.c.,
30) other technical testing and analysis,
31) installation of industry machinery and equipment,
32) production and supply of steam, hot water and air for air-conditioning systems,
33) other specialised construction activities, n.e.c.,
34) wired telecommunications activities,
35) wireless telecommunications activities other than satellite telecommunications services,
36) satellite telecommunications activities,
37) other telecommunications activities,
38) production of electricity,
39) distribution of electricity,
40) trade of electricity,
41) renting and leasing of other machinery, equipment and tangible goods n.e.c.,
42) financial leasing,
43) other financial service activities, except insurance and pension funding n.e.c., including debt trading for own account,
44) other activities auxiliary to financial services, except insurance and pension funding,
45) other credit granting,
46) dealing in financial markets on behalf of others (e.g. stock broking) and related activities,
47) securities brokerage,
48) commodity contracts brokerage,
49) other activities auxiliary to insurance and pension funding,
50) administration of financial markets,
51) accounting and book-keeping activities; tax consultancy,
52) activities of head offices and holding companies other than financial holdings,
53) activities of agents involved in the sale of fuels, ores, metals and industrial chemicals,
54) activities of agents involved in the sale of a variety of goods,
55) wholesale of hardware, plumbing and heating equipment and supplies,
56) computer facilities management activities,
57) data processing; hosting and related activities,
58) other information technology and computer service activities,
59) computer programming activities,
60) reproduction of recorded media,
61) repair and maintenance of electronic and optical equipment,
62) repair and maintenance of electrical equipment,
63) wholesale of computers, computer peripheral equipment and software,
64) wholesale of electronic and telecommunications equipment and parts,
65) wholesale of other office machinery and equipment,
66) wholesale of other machinery and equipment,
67) publishing of directories and mailing lists,
68) other software publishing,
69) computer consultancy activities,
70) web portals,
71) other information service activities n.e.c.,
72) engineering activities and related technical consultancy,
73) renting and leasing of office machinery and equipment (including computers),
74) leasing of intellectual property and similar products, except copyrighted works,
75) repair and maintenance of computers and computer peripheral equipment,
76) repair and maintenance of (tele)communications equipment,

77) repair and maintenance of consumer electronics,
78) other service activities n.e.c.,
79) call centre activities,
80) other publishing activities,
81) service activities related to printing,
82) other printing,
83) photocopying, document preparation and other specialised office support activities,
84) other human resources provision,
85) other business support service activities n.e.c.,
86) water collection, treatment and supply,
87) non-specialised wholesale,
88) library activities,
89) archive activities,
90) museums activities,
91) buying and selling of own real estate,
92) operating of real estate on a fee or contract basis,
93) renting and operating of own or leased real estate,
94) other education n.e.c.,
95) renting and leasing of cars and light motor vehicles,
96) renting and leasing of other motor vehicles excluding motorcycles,
97) tour operator activities,
98) hotels and similar accommodation,
99) holiday and other short-stay accommodation,
100) camping grounds, recreational vehicle parks and trailer parks,
101) other accommodation,
102) retail sale in non-specialised stores with food, beverages or tobacco predominating,
103) other retail sale in non-specialised stores,
104) retail trade not in stores, stalls or markets,
105) organisation of conventions and trade shows,
106) other amusement and recreation activities.”.

1.2. Duration of the Company

The duration of the Company is unspecified.

1.3. Period covered by these financial statements

These separate financial statements ("financial statements") present data covering the annual period from January 1st to December 31st 2012, with comparative data for the period from January 1st to December 31st 2011.

1.4. These financial statements contain aggregated data.

PGNiG S.A. has a multi-branch structure, which as at December 31st 2012 comprised the following entities:

- Head Office, Warsaw
- Lower Silesian Gas Trading Division, Wrocław,
- Upper Silesian Gas Trading Division, Zabrze,
- Carpathian Gas Trading Division, Tarnów,
- Mazovian Gas Trading Division, Warsaw,
- Pomeranian Gas Trading Division, Gdańsk,
- Greater Poland Gas Trading Division, Poznań,
- Odolanów Branch,
- Sanok Branch,
- Zielona Góra Branch,
- Geology and Hydrocarbon Production Branch, Warsaw,
- Central Measurement and Testing Laboratory in Warsaw,
- Well Mining Rescue Station in Kraków,

as well as the following foreign branches:

- Operator Branch in Pakistan,
- Egypt Branch,
- Denmark Branch.

On June 5th 2012, the PGNiG Management Board adopted Resolution No. 329/2012 to liquidate the Storage System Operator Branch due to the launch of business activity involving the provision of storage services by Operator Systemu Magazynowania Sp. z o.o. as of June 1st 2012.
By way of Resolution No. 563/2012 of August 20th 2012, the PGNiG Management Board resolved to establish the Geology and Hydrocarbon Production Branch as of September 1st 2012. The new Geology and Hydrocarbon Production Branch was established to provide a more effective platform for managing hydrocarbons exploration and production processes, whose successful implementation is a factor determining the Company's growth and maintaining financial performance that is satisfactory to shareholders.
By way of Resolution No. 923/2012 of December 28th 2012, the PGNiG Management Board resolved that the Denmark Branch would be liquidated by June 30th 2013.

PGNIG S.A., as the Parent, also prepares consolidated financial statements containing the data of 26 subsidiaries (including two which are parents of their own groups, four indirect subsidiaries and one indirect subsidiary which is the parent of its own group), one associate and one jointly-controlled entity.

1.5. Composition of the PGNiG Management Board

Pursuant to PGNiG S.A.'s Articles of Association, its Management Board can 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 December 31st 2012, the composition of the Management Board was as follows:

- Ms Grażyna Piotrowska-Oliwa – President of the Management Board;
- Mr Radosław Dudziński – Vice-President, Trade;
- Mr Sławomir Hinc – Vice-President, Finance,
- Mr Mirosław Szkałuba – Vice-President, Procurement and IT.

The following changes in the composition of the PGNiG Management Board occurred in 2012:

Following resignation of Mr Michał Szubski as President of the PGNiG Management Board in December 2011, the PGNiG Supervisory Board resolved that from January 1st 2012 until successful completion of the recruitment process the affairs within the remit of the President of the Management Board, including directing the work of the PGNiG Management Board, will be supervised by Mr Marek Karabuła, Vice-President, Petroleum Extraction.

At its meeting held on March 7th 2012, the PGNIG Supervisory Board adopted Resolution No. 39/VI/2012 whereby it appointed Ms Grażyna Piotrowska-Oliwa to the position of President of the Management Board of PGNiG, with effect as of March 19th 2012, for the joint term of office expiring on March 13th 2014.

On May 11th 2012, Mr Marek Karabuła resigned from his position as member of the PGNiG Management Board, with effect as of that date.

On January 22nd 2013, Mr Sławomir Hinc tendered his resignation from his position as a PGNiG Management Board member, with effect as of March 31st 2013.

On February 27th 2013, the PGNiG Supervisory Board adopted a resolution to appoint 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.

The newly appointed Vice-Presidents will commence work at PGNiG S.A. on April 1st 2013. Their terms of office, like the terms of the other members of the PGNiG Management Board, expire on March 13th 2014.

1.6. Commercial proxies

As at December 31st 2012, no commercial proxies were appointed at PGNiG S.A.

On March 21st 2012, the PGNiG Management Board resolved to revoke the powers of proxy previously granted to:

- Ms Ewa Biernacik, Head of PGNiG Accounting Department
- Mr Kazimierz Chrobak, Head of PGNiG Zielona Góra Branch
- Mr Mieczysław Jakiel, Head of PGNiG Sanok Branch

Subsequent to December 31st 2012, and as of the date of these financial statements, no commercial proxies were appointed at PGNiG S.A.

1.7. Composition of the PGNiG Supervisory Board

Pursuant to the provisions of PGNiG S.A.'s Articles of Association, its Supervisory Board is composed 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 appointed by the General Meeting should satisfy the independence criteria (independent member of the Supervisory Board). The term 'independent member of the supervisory board' means an independent member as defined by the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and the committees of the (supervisory) board (2005/162/EC), with due regard to the provisions of the Code of Best Practices for WSE-Listed Companies.

Pursuant to Par. 36.3 of PGNiG S.A.'s Articles of Association, the Supervisory Board elects the member satisfying the above criteria in a separate vote. Written proposals of candidates for the position of a Supervisory Board member who satisfies these criteria may be submitted to the Chairman of the General Meeting 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 December 31st 2012, the composition of the PGNiG Supervisory Board was as follows:

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

On January 5th 2012, Mr Stanisław Rychlicki, Chairman of the Supervisory Board, tendered his resignation from the position with effect as of January 10th 2012.

On January 12th 2012, the Extraordinary General Meeting of PGNiG S.A. adopted Resolution No. 3/I/2012 to remove Mr Grzegorz Banaszek from the Supervisory Board.

By way of Resolution No. 4/I/2012 the General Meeting appointed Mr Józef Głowacki to the Company's Supervisory Board.

By way Resolution No. 5/I/2012 the General Meeting appointed Mr Wojciech Chmielewski to the Company's Supervisory Board.

On January 12th 2012, a request was received from the Minister of State Treasury, dated January 12th 2012 (ref. no. MSP/DSK/110/12), to appoint Mr Janusz Pilitowski to the PGNiG Supervisory Board as of the same date.

On January 13th 2012, the PGNiG Supervisory Board appointed Mr Wojciech Chmielewski as its Chairman.

On March 19th 2012, the Extraordinary General Meeting of PGNiG adopted Resolution No. 2/III/2012 to appoint Ms Ewa Sibrecht-Ośka to the PGNIG Supervisory Board.

Subsequent to December 31st 2012 there have been no changes in the composition of the PGNiG Supervisory Board.

1.8. Shareholder structure of PGNIG S.A.

As at the date of release of these 2012 separate financial statements, the only shareholder holding at least 5% of the total vote at the General Meeting of PGNiG S.A. was the State Treasury. PGNIG S.A. ’s shareholder structure was as follows:

Shareholder	Registered office	Number of shares	% of share capital held	% of total vote
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%**
As at Dec 31 2011				
State Treasury	Warsaw	4,272,063,451	72.41%	72.41%
Other shareholders	-	1,627,936,549	27.59%	27.59%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**

The cause of the change in PGNiG S.A.'s shareholder structure is the ongoing process of delivering the Company shares to eligible employees. As at December 31st 2012, the process was not yet completed, mainly due to pending probate processes. The shares to which eligible employees are entitled but which have not yet been delivered are held by the State Treasury.

1.9. Going-concern assumption

These financial statements have been prepared based on the assumption that the Company 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 Company’s continuing as a going concern.

1.10. Business combinations

In 2012, there were no business combinations involving PGNiG S.A. and any other companies under commercial law.

1.11. Approval of the financial statements

These financial statements will be submitted to the PGNiG Management Board for approval and published on March 19th 2013.

2 ACCOUNTING POLICIES

2.1. Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for financial assets available for sale, financial derivatives that are measured at fair value, and loans and receivables measured that are measured at adjusted cost.

The reporting currency used in these 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.

Cash flows from operating activities are presented in line with the indirect method.

2.1.1. Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at December 31st 2012.

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 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).

2.2. 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 financial statements, the Company 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 2012. The newly adopted standards are presented below.

- **Amendment to IFRS 7** Financial Instruments: Disclosures – Transfers of Financial Assets, endorsed by the EU on November 22nd 2011 (effective for annual periods beginning on or after July 1st 2011).

Application of the above amendment has not caused any material changes in the accounting policies of the Company or in the presentation of data in its financial statements.

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

As at the date of these financial statements, the Company 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);

- IFRS 13 Fair Value Measurement endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2013);

- IAS 27 (revised 2011) 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),

- Amendment to IFRS 1 First-Time Adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after July 1st 2013),

- Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities endorsed by the EU on December 13th 2012 (effective for annual periods beginning on or after January 1st 2013),

- Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1st 2012);

- Amendment to IAS 12 Income Tax – Deferred Tax: Realisation of Assets endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2013),

- Amendments to IAS 19 Employee Benefits – Amendments to Post-Employment Benefit Accounting (effective for annual periods beginning on or after January 1st 2013),

- 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),

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2013).

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

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

2.2.3. Standards and interpretations adopted by the IASB but not yet approved for use by the EU

The IFRSs endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB), except to the extent of the following standards, amendments and interpretations, which as at December 31st 2012 had not yet been endorsed for use:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1st 2015);

- Amendments to IFRS 1 First-Time Adoption of IFRS – Government Loans (effective for annual periods beginning on or after January 1st 2013);

- 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 11 Joint Agreements, and IFRS 12 Disclosure of Interests in Other Entities – transition guidance (effective for annual periods beginning on or after January 1st 2013),

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 27 Separate Financial Statements – Investment Entities (effective for annual periods beginning on or after January 1st 2014),

- Amendments to various standards Improvements to International Financial Reporting Standards (2012) – amendments made as part of the process of making annual improvements to the Standards, published on May 17th 2012 (IFRS1, IAS 1, IAS 16, IAS 32 and IAS 34) aimed chiefly at eliminating inconsistencies and clarification of wording (effective for annual periods beginning on or after January 1st 2013).

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

2.3. Accounting policies

Below are presented the principal accounting policies applied by the PGNiG S.A..

2.3.1. Property, plant and equipment

Property, plant and equipment comprises assets which the Company intends to use in the production or supply of goods 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 Company. The category of property, plant and equipment also comprises 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. measured at historical cost). Borrowing costs are also disclosed at cost (for a description of borrowing costs see Section 2.3.3.).

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

The Company 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 the income statement when incurred. The costs of day-to-day maintenance of property, plant and equipment, i.e. cost of repairs and maintenance works, include the cost of labour and materials used, and may also include the cost of less significant spare parts.

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

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 partial or complete refilling of a pipeline 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 estimated economic useful life of an asset:

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

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

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

Tangible assets under construction are measured 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.

2.3.2. Exploration and appraisal assets

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

Appraisal of natural gas and/or crude oil (mineral) deposits can be performed once the Company 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 Company's statement of financial position under intangible assets.

Expenditure incurred in relation to individual wells is first capitalised in tangible assets under construction as a separate item under exploration and appraisal assets.

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

If a decision to produce minerals is made following the appraisal, the Company reclassifies relevant exploration and appraisal 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 the Company 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 capitalised expenses incurred in relation to the wells drilled during exploration are recognised in profit or loss in full, in the period in which the decision to discontinue exploration was made.

The Company recognises provisions for production 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.

In the current reporting period, the Company changed the rules governing recognition of expenses related to seismic surveys. In previous reporting periods, these expenses were recognised directly in profit or loss when incurred, whereas currently expenses under seismic surveys are capitalised in the value of exploration and appraisal assets and presented in the accounting books as a separate exploration and appraisal asset. For more information on the changes as at the reporting date, see Note 2.5.

2.3.3. Borrowing costs

The Company 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.

The above cost capitalisation policies do not apply to:

- assets measured at fair value, and
- inventories produced or otherwise 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 foreign currency, to the extent that they are regarded as an adjustment to interest costs.

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 Company's liabilities in the period, other than funds borrowed specifically for the purpose of acquiring qualifying assets.

2.3.4. Investment property

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

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

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

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

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

- Buildings and structures 2–40 years

2.3.5. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, controlled by the Company as a result of past events. In line with the Company's expectations, such assets will cause an inflow of economic benefits to the Company in the future and their cost can be reliably established.

Taking into account the nature of the Company's operations, the following intangible assets can be identified:

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

Intangible assets generated in the course of development work are recognised in the statement of financial position only if the Company is able to demonstrate:

- the technical feasibility of completing the intangible asset so that it is fit for use or sale,
- its intention to complete and to use or sell the intangible asset,
- 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 Company 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 during 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 surplus 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.

In the current reporting period, the Company changed the rules of recognition of expenses related to licences, rights to geological information and mining rights. In previous reporting periods, the Company disclosed these expenses in the statement of financial position under other assets. At present, 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 disclosed as expenditure subject to capitalisation and presented under intangible assets.
For more information on changes in effect as at the reporting date, see Note 2.5.

Pursuant to the Act on Trading in Greenhouse Gas Emission Allowances, the Company holds CO2 emission allowances, allocated for individual installations.

The Company distinguishes the following emission allowances:

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

Emission allowances purchased for redemption at an installation are disclosed in the accounting books as intangible assets at actual acquisition cost.

Emission allowances purchased for resale are disclosed in the accounting books 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 Company. 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 Company 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 period specified in the decision by 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 (once a year or whenever there is indication of impairment).

2.3.6. 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.

2.3.6.1. The Company 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.

The difference between the carrying amount of leased assets and their fair value is posted to the deferred income.

2.3.6.2. The Company as a lessee

Non-current assets used under a finance lease are recognised as assets of the Company. As at the commencement of the lease term, the Company 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, representing 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. The same presentation policies are used by the Company for agreements which meet the criteria for being classified as leases, but are not called leases.

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

As at the end of each reporting period, the Company tests its property, plant and equipment and intangible assets to determine whether there is any evidence of impairment of any of the assets. If any evidence 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 in question belongs is determined.

In case of an intangible asset with an indefinite useful life, such an asset is 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 evidence 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 under other expenses as the cost of the period in which the impairment loss arose.

If an impairment loss is reversed, the carrying amount of an 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.

2.3.8. Financial assets

Due to their nature and purpose, the Company's financial assets are classified to the following categories:

- financial assets measured at fair value through profit or loss are (positive valuation of derivatives which are not measured pursuant to the principles of hedge accounting),
- hedge derivatives,
- financial assets available for sale,
- loans and receivables,

2.3.8.1. Financial assets measured at fair value through profit or loss

This category comprises financial assets held for trading and financial assets designated at initial recognition at fair value through profit or loss.
A financial asset is classified as held for trading if it is:

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

The Company classifies the following financial assets as held for trading:

- derivatives with positive valuation which are not measured pursuant to the principles of hedge accounting (e.g. SWAP, CIRS, OPTIONS).

The Company did not apply hedge accounting to CIRS transactions due to the fact that the valuation of both the hedged item, i.e. exchange differences on a loan, and the hedge is reflected in the income statement in the same reporting period.
The item "Financial assets held for trading" includes also a positive value of commodity options with respect to which the Company cancelled the hedging relationship.

2.3.8.2. Hedge derivatives

The category comprises valuation of derivative instruments to which the Company applies hedge accounting. For description of the applied hedge accounting policies, see Section 2.3.10.

2.3.8.3. 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 acquisition cost, without remeasurement as at each balance sheet date to reflect changes in currency exchange rates.

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

- 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 Company does not have a firm intention to hold to maturity.

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

2.3.8.4. 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 Company does not discount receivables maturing in less than 12 months from the end of the reporting period and where the discounting effect would be immaterial.

The Company 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 if deemed unrecoverable. Writing off or cancellation of receivables due to their expiry or irrecoverability reduces previously recognised impairment losses on such receivables.

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

2.3.8.5 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 Company does not discount receivables maturing 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 unrecoverable accounts. Writing off or cancellation of receivables due to their expiry or irrecoverability reduces previously recognised impairment losses on such receivables.

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

2.3.8.6. 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 separate statement of cash flows ("statement of cash flows") consists of the aforementioned cash and cash equivalents, less outstanding overdraft facilities.

2.3.9. Impairment of financial assets

As at the end of each reporting period, the Company assesses whether there is an indication of impairment of a financial asset or a group of financial assets. A financial asset or a group of financial assets is impaired if there is an objective indication 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 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 loss is 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 receivable 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 does not drive 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. The amount of the reversed loss is recognised in profit or loss.

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

2.3.10. Hedge accounting

The Company applies cash-flow hedge accounting with respect to foreign exchange transactions.
The objective of the Company's activities to hedge against the EUR/PLN and USD/PLN currency risk is to guarantee a specified Polish złoty value of its expenses incurred in the euro and the US dollar on gas purchases under long-term contracts.

The type of hedging applied is the hedging of future, highly probable cash flows related to the Company'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 issued European put options for the EUR/PLN and USD/PLN exchange rates with the identical face values and settlement dates falling on the days of an expected outflow of the hedged foreign-currency amount related to the incurred gas expenses.

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

The applied hedging are hedges of future, highly probable cash flows related to gas purchases.

Instruments designated for hedge accounting include purchased commodity swaps (fix/float), Asian commodity call options with European settlement and option strategies (collars) 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 selected to hedge cash flows, to the extent representing an effective hedge, are posted directly to accumulated other comprehensive income. Changes in the fair value of financial derivatives selected to hedge cash flow, to the extent not representing an effective hedge, are charged to other 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 Company no longer expects the planned transaction to be executed, part of the valuation is transferred from equity to the income statement as an adjustment resulting from reclassification. If the Company cancels the hedging relationship, the valuation amounts should be left in a separate item under equity until the planned transaction is executed or until it is no longer expected to be executed.

2.3.11. 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.

2.3.12. Inventories

Inventories include assets intended to be sold in the ordinary course of business, assets in the process of production intended to be sold and assets in the form of materials or raw material deliveries used in the production process or assets used in the course of rendering of services. Inventories comprise materials and consumables, goods, finished products, work in progress and certificates of origin for electricity.

The value of inventory is established at the lower of cost and net realizable 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.

The gas fuel in the 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 attributable to its sales 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 Company is 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 Company 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 acquired certificates of origin is measured using the weighted average method.

Upon sale of electricity, a provision is recognised for the certificates of origin 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 Company recognises an impairment loss on such inventories to net realisable amount.

The amount of all impairment losses on inventories to their net realisable amount and all losses on inventories are charged to expense of the period when occurred.

Impairment losses on inventories are determined by way of an ad hoc 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 Company mostly recognises an impairment loss of 20% of their value at the time of initial recognition;
  In cases where individual usefulness assessment and the possibility of using a material category and their cycle structure are taken into account, the Company may recognise impairment losses of 5% and 10% of the value of the materials at the time of initial recognition;
- For purchased materials which are not traded for a period of 5–10 years, the Company recognises an impairment loss of 20%–100% of their value at the time of initial recognition;
- For materials remaining in warehouses for more than 10 years, which are completely useless and intended for liquidation, the Company recognises an impairment loss of 100% of their value at the time of initial recognition.

2.3.13. Non-current assets held for sale

The Company classifies a non-current asset (or a disposal group) as available for sale if its net 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 group of assets for disposal), and its sale is highly probable.

An asset (or a disposal group) is classified as available for sale after an appropriate decision is made by a duly authorised body of the Company. 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 effected 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 costs to sell. If the fair value is lower than the net carrying amount, the resulting difference is recognised in profit or loss. Any reversal of the difference is also recognised in profit or loss, but only up to the accumulated impairment loss on such asset.

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

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

2.3.14. Equity

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

Share capital is disclosed at par value and in the amount specified in the Company'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 Company's equity.

Reserve funds include the surplus of the issue proceeds over the par value of shares (share premium) remaining after covering issue costs.

Share issue costs incurred upon establishment of a company or share capital increase reduce the reserve funds set up from the surplus of the issue proceeds over the par value of shares ("share premium"), up to the share premium, and the remaining part reduces other capital reserves disclosed under retained earnings/deficit.
The effects of adjustments related to the first-time adoption of IAS were charged to retained profit/deficit.

In accordance with IAS, net profit for the current financial year can be allocated only to company's equity or dividends for shareholders. The option available under the Polish law whereby profit can be allocated to the Company Social Benefits Fund, the Restructuring Fund, employee profit-sharing schemes or other purposes is not reflected in IAS. Therefore, the Company recognises the aforementioned reductions in profit as the cost of the period.

2.3.15. Provisions

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

The Company 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 provisions as a result of lapse of time is disclosed as cost of external funding.

The Company recognises the following provisions:

- provision for well decommissioning costs,
- provision for environmental protection liabilities,
- provision for claims under extra-contractual use of land,
- other provisions.

2.3.15.1. Provision for well decommissioning costs

The Company 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 production branches 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 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 Company 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 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.

2.3.15.2. Provision for 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, estimated and reviewed periodically based on current prices.

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

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

Where possible, at the time of installing the elements of the infrastructure the Company entered into agreements establishing standard land 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 Company 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 Company 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 meters, the amount of annual rent per square meter 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 Company analyses submitted claims on a case-by-case basis.

2.3.15.4. Other provisions

The Company recognises other provisions for future expenses related to its activities and operations, such as a provision for penalties and other claims, where costs of such claims are so material that a failure to recognise them in profit or loss for a given period would distort the true view of the Company's assets and financial position.

2.3.16. Accruals and deferrals

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

In the 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 goods 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 Company 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 Company recognises the amount of income based on bookkeeping notes issued for 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.

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

2.3.17. 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, borrowings and debt securities).

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.

2.3.17.1. 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 Company 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 near 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 instruments are recognised as income or expense in a reporting period in which a given derivative is remeasured.

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

2.3.17.2. Financial liabilities measured at amortised cost

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

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

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

2.3.18. Trade and other payables

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

2.3.18.1. Employee benefit obligations

Employee benefits are all forms of consideration given by the Company 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 Company 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 Company receives the payment from the employee, and in the case of profit-sharing and bonus payments when the following conditions are met:

- the Company 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 Company operates a length-of-service award and retirement severance payment scheme. Payments under the schemes are recognised in profit or loss, so that the costs of length-of-service awards and retirement severance payments can be amortised over the entire period of employees' service at the respective companies. The costs of such benefits are determined using the actuarial valuation method, i.e. the projected unit credit method.

Obligations for length-of-service awards are disclosed in the statement of financial position at the value of current obligations under such benefits resulting from actuarial calculations.

Obligations for retirement severance payments are disclosed in the statement of financial position at the net amount of obligation, i.e. after adjustment for unrecognised actuarial gains or losses and past employment costs.

The above are disclosed in the income statement as employee benefit expense.

In the calculation of obligations for length-of-service awards and retirement severance payments, the Company made the following assumptions:

- Assumptions related to the probability of staff turnover and retirement: the calculations are based on staff turnover and retirement probability tables presented by sex, age, total years in service, years in service with the Company and remuneration, which were drawn up based on information regarding employees whose employment relationship has terminated. The turnover probability table does not include cases involving the implementation of restructuring plans and organisational changes over recent years;
- Death rate assumptions: the calculations are based on figures derived from standard life span tables;
- Salary increase assumptions: the calculations are based on market trend data;
- Discount rate assumptions: discount rate is calculated on the basis of the rate of return on treasury bonds with high ratings and the forecast salary growth rate.

Actuarial gains and losses are recognised in profit or loss.

The Company 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 the operation of the Fund as well as the list of mark-ups and expenses from the Fund are specified in the Company's internal resolutions. For detailed information on the use of the Central Restructuring Fund, see Note 40.1.

In 2012, the Company launched the Voluntary Termination Programme as part of employee benefits. Under the Voluntary Termination Programme, employees who decided to terminate their employment with PGNiG S.A. by December 31st 2012 will receive compensation much in excess of a severance payment provided for in the Labour Code.

2.3.18.2. Other liabilities

Other liabilities include all liabilities not classified by the Company 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 Company, 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.

2.3.19. Revenue

The Company's business consists in production of and trade in high-methane and nitrogen-rich natural gas, sale and generation of energy, 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, goods 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.

2.3.19.1. Sale of goods and products

Sale of goods and products are recognised upon delivery of goods and products to the customer along with transfer of significant risks and benefits related to their ownership rights.

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

2.3.19.2. Rendering of services

The Company's business also includes rendering of services, i.e. rental, gas, maintenance, 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 transaction at the end of the reporting period.

2.3.20. Other categories of income

2.3.20.1. 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.

2.3.20.2. Dividends

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

2.3.21. Grants

The Company distinguishes the following grants:
- grants related to assets, receivable on the condition that the Company 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 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 are disclosed under Revenue.

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

2.3.22. Income tax expense

Mandatory increases of loss/decreases of profit include current income tax 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 all 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 does not constitute 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 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 the end of each quarter, and is updated only for changed items. If future foreseen taxable profit is insufficient for deductible temporary differences to be utilised, 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 Company:

- 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).

2.3.23. Foreign currencies

The Polish złoty (PLN) is the functional currency (measurement currency) and the reporting currency of PGNiG S.A.. Transactions denominated in foreign currencies are initially disclosed at the exchange rate of the functional currency effective as at the transaction date. Cash assets and liabilities denominated in foreign currencies are translated at the exchange rate of the functional currency effective as at the end of the reporting period. All foreign exchange gains and losses are recognised in profit or loss, except for the foreign exchange gains and losses from the translation of assets, equity and liabilities of foreign entities, which, until the disposal of interests in such entity, are disclosed directly in equity. 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.

To hedge against foreign currency risk, the Company enters into derivatives transactions (for a description of the accounting policies applied by the Group to derivative financial instruments see Section 2.3.10).

2.3.24. Operating segments

An operating segment is a component of the Company:

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

PGNiG S.A. has adopted division into business segments as the basic division of its operations. The Company carries out operations in the following segments.

a) *Exploration and production* 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, and development of and production from the reserves.

b) *Trade and storage* 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 S.A., while gas storage services are provided by Operator Systemu Magazynowania Sp. z o.o. pursuant to an agreement with PGNiG S.A. for exclusive operation of storage facilities. The segment operates six underground gas storage facilities (Mogilno, Wierzchowice, Husów, Brzeźnica, Strachocina and Swarzów). The segment's activities comprise the sale of high-methane and nitrogen-rich gas fed into the transmission and distribution systems.

   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) *Other services* The segment conducts research activities and prepares expert analyses of measurement and settlement devices.

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.

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, as well as transactions between segments, are eliminated.

2.4. Key reasons for uncertainty of estimates

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

2.4.1. Impairment of non-current assets

The Company's key operating assets include mining assets, transmission infrastructure and gas fuel storage facilities. These assets were tested for impairment. The Company 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 the potential use, liquidation and sale of such assets may change. For information on the value of recognised impairment losses see Note 10.2.

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

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 2.3.1. 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 who are in charge of their operation. Any such assessment is connected with uncertainty as to the future business environment, technology changes and market competition, which could lead to a different assessment of the economic usefulness of the assets and their remaining useful lives and ultimately have a material effect on the value of the property, plant and equipment and the future depreciation charges.

2.4.3. Estimating sales of natural gas

In order to correctly recognise revenue from gas sales in appropriate reporting period, 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. Therefore result for the given period might account for a portion of the estimated sales volume which will never be realised.

2.4.4. Provisions for well decommissioning costs and environmental protection

The provision for well decommissioning costs and provisions for environmental liabilities presented in Note 27 represent significant items among the provisions disclosed in the financial statements. These provisions are based on the estimates of future decommissioning and 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 Company estimated the amount of the provision for claims under extra-contractual use of land (see Section 2.3.15.3).

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

2.5. Presentation changes in the financial statements

In the financial statements for the year ended December 31st 2012, the Company made changes to comparative financial data relating to the presentation of expenses on:

- seismic surveys,
- licences,
- rights to geological information,
- mining rights.

Until 2012, in line with the Accounting Policies costs of seismic surveys and licences were charged directly to profit or loss under costs for the period in which they had been incurred. As for rights to geological information and mining rights, the Company presented them under other assets.

The main reason for reclassification of seismic work from costs to tangible assets under construction was the intention to reflect continuity of the investment process of individual exploration and production projects.

Starting from 2012, the Company has implemented an accounting treatment commonly applied in the oil and gas industry.

The expenses referred to above are presented by the Company in the following way:

- expenses on seismic work are capitalised under exploration and appraisal assets,
- expenses on licences, rights to geological information and mining rights subject to capitalisation are presented under intangible assets.

The Company also made presentation changes to employee benefits. Until 2012, employee benefit provisions had been disclosed in the income statement as other expenses/income. In 2012, the Company presented those expenses/income in the income statement under employee benefit expense, while the liabilities were carried under employee benefit obligations in the statement of financial position.

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, the following adjustments were made to comparative data for the year ended December 31st 2011:

Separate income statement	Period prior to the change (audited)	Adjustments ensuring comparability - presentation change - employee benefit obligations	Adjustments ensuring comparability - seismic surveys, licences	Period following the change (restated)
Revenue	21,821	-	-	21,821
Raw material and consumables used	(13,523)	-	-	(13,523)
Employee benefit expense	(896)	(9)	-	(905)
Depreciation and amortisation expenses	(568)	-	-	(568)
Contracted services	(5,764)	-	146	(5,618)
Work performed by the entity and capitalised	-	-	-	33
Other income and expenses	(53)	9	-	(44)
Total operating expenses	**(20,771)**	**-**	**146**	**(20,625)**
Operating profit	**1,050**	**-**	**146**	**1,196**
Finance income	1,027	-	-	1,027
Finance costs	(261)	-	-	(261)
Profit before tax	**1,816**	**-**	**146**	**1,962**
Income tax expense	(200)	-	(29)	(229)
Net profit	**1,616**	**-**	**117**	**1,733**
Earnings and diluted earnings per share attributable to holders of ordinary shares (PLN)	**0.27**			**0.29**

Separate statement of financial position	Period prior to the change (audited)	Adjustments ensuring comparability - presentation change - employee benefit obligations	Adjustments ensuring comparability - seismic surveys	Adjustments ensuring comparability - licences	Adjustments ensuring comparability - rights to geological information and mining rights	Period following the change (restated)
ASSETS						
Total non-current assets	**22,160**	**-**	**755**	**10**	**6**	**22,930**
Property, plant and equipment	12,281	-	755	-	-	13,035
Intangible assets	92	-	-	12	55	159
Deferred tax assets	347	-	-	(2)	-	345
Other non-current assets	75	-	-	-	(49)	26
Total current assets	**6,327**	**-**	**-**	**-**	**(6)**	**6,321**
Other assets	34	-	-	-	(6)	28
Total assets	**28,487**	**-**	**755**	**10**	**-**	**29,251**
LIABILITIES AND EQUITY						
Total equity	19,647	-	616	10	-	**20,273**
Total non-current liabilities	**2,019**	**-**	**139**	**-**	**-**	**2,158**
Employee benefit obligations	-	97	-	-	-	97
Provisions	1,251	(97)	-	-	-	1,154
Deferred tax liabilities	496	-	139	-	-	634
Total current liabilities	**6,820**	**-**	**-**			**6,820**
Trade and other payables	2,675	(15)	-	-	-	2,660
Employee benefit obligations	-	62	-	-	-	62
Provisions	135	(47)	-	-	-	88
Total liabilities	**8,839**	**-**	**139**	**-**	**-**	**8,978**
Total liabilities and equity	**28,487**	**-**	**755**	**10**	**-**	**29,251**

3 OPERATING SEGMENTS

3.1. Reportable segments

The tables below set forth data on revenue, costs and profits/losses, as well as some assets, equity and liabilities of the Company's operating segments for the periods ended December 31st 2012 and December 31st 2011.

Period ended December 31st 2012	Exploration and production	Trade and storage	Other services	Eliminations	Total
Income statement					
Sales to external customers	2,165	23,371	3	-	25,539
Intercompany sales	1,198	94	-	(1,292)	-
Total segment revenue	3,363	23,465	3	(1,292)	25,539
Depreciation and amortisation expenses	(437)	(166)	-	-	(603)
Other costs	(1,406)	(23,004)	(6)	1,292	(23,124)
Total segment costs	(1,843)	(23,170)	(6)	1,292	(23,727)
Operating profit/loss	**1,520**	**295**	**(3)**	**-**	**1,812**
Finance income and costs					448
Profit/loss before tax					**2,260**
Income tax expense					(342)
Net profit/loss					**1,918**
Statement of financial position					
Segment’s assets	10,456	18,421	1	-	28,878
Unallocated assets					7,368
Deferred tax assets					395
Total assets					**36,641**
Total equity					21,981
Segment liabilities	1,855	5,814	1	-	7,670
Unallocated liabilities					6,358
Deferred tax liabilities					632
Total equity and liabilities					**36,641**
Other information on the segment					
Purchase of property, plant and equipment and intangible assets	(651)	(1,016)	-	-	**(1,667)**
Impairment losses on assets	(1,060)	(893)	-	-	**(1,953)**
Impairment losses on unallocated assets					**(1,656)**

Period ended December 31st 2011	Exploration and production	Trade and storage	Other services	Eliminations	Total
Income statement					
Sales to external customers	1,854	19,964	3	-	21,821
Intercompany sales	1,175	-	-	(1,175)	-
Total segment revenue	3,029	19,964	3	(1,175)	21,821
Depreciation and amortisation expenses	(438)	(130)	-	-	(568)
Other costs	(1,163)	(20,064)	(5)	1,175	(20,057)
Total segment costs	(1,601)	(20,194)	(5)	1,175	(20,625)
Operating profit/loss	**1,428**	**(230)**	**(2)**	**-**	**1,196**
Finance income and costs					766
Profit/loss before tax					**1,962**
Income tax expense					(229)
Net profit/loss					**1,733**
Statement of financial position					
Segment's assets	10,018	12,141	1	-	22,160
Unallocated assets					6,746
Deferred tax assets					345
Total assets					**29,251**
Total equity					20,273
Segment liabilities	1,575	2,760	1	-	4,336
Unallocated liabilities					4,008
Deferred tax liabilities					634
Total equity and liabilities					**29,251**
Other information on the segment					
Capital expenditure on property, plant and equipment and intangible assets	(1,836)	(615)	-	-	**(2,451)**
Impairment losses on assets	(916)	(781)	-	-	**(1,697)**
Impairment losses on unallocated assets					**(1,661)**

3.2. Geographical areas

The Company trades mainly on the domestic market. In 2012, revenue from export sales of products, goods and materials to external customers accounted for 2.71% (2.49% in 2011) of the total net revenue from sales of products, materials and materials to external customers. The main export markets were Switzerland, Germany, the US and the UK.

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Domestic sales	24,846	21,276
High-methane gas	22,100	19,084
Nitrogen-rich gas	1,394	1,219
Crude oil	687	638
Helium	48	22
Propane-butane gas	67	60
Natural gasoline	7	5
LNG	54	38
Gas storage services	16	31
Hotel services	-	4
Other services	424	159
Other products	39	7
Materials and goods	10	9
Export sales	693	545
High-methane gas	-	42
Crude oil	569	457
Helium	113	36
Other services	9	9
Other products	1	1
Materials and goods	1	-
Total	**25,539**	**21,821**

A majority of the Company's non-current assets (other than financial instruments) are located in Poland. The value of non-current assets located abroad as at December 31st 2012 represented 1.08% of the total non-current assets (other than financial instruments) (December 31st 2011: 0.80%).

	Dec 31 2012	Dec 31 2011
Value of non-current assets other than financial instruments located in Poland	14,150	13,093
Value of non-current assets other than financial instruments located abroad	154	105
Total	**14,304**	**13,198**

3.3. Key customers

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

4 OPERATING EXPENSES

4.1. Raw material and consumables used

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Cost of gas sold	(15,350)	(13,388)
Other raw material and consumables used	(133)	(135)
Total	**(15,483)**	**(13,523)**

4.2. Employee benefit expense

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Salaries and wages	(707)	(655)
Social security contributions	(155)	(138)
including contributions to the Employee Pension Plan	(40)	(38)
Other employee benefit expense	(79)	(99)
Cost of future benefits	(49)	(13)
Total	**(990)**	**(905)**

4.3. Contracted services

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Purchases of transmission and distribution services	(4,807)	(4,739)
Costs of dry wells written off	(98)	(191)
Other contracted services	(906)	(688)
Total	**(5,811)**	**(5,618)**

4.4. Other income and expenses

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Compensations, penalties, fines, etc. received	6	101
Income from current settlement of deferred income recognised in the statement of financial position	2	(6)
Interest on receivables related to operating activities	44	78
Other income	51	105
Net exchange differences related to operating activities	(223)	(75)
Gain/loss on derivative instruments related to operating activities	(233)	(80)
Net gains/losses on disposal of non-financial non-current assets	67	-
Change in products	12	8
Change in impairment losses on property, plant and equipment	(200)	(32)
Change in impairment losses on inventories	(1)	-
Change in impairment losses on trade and other receivables	(10)	81
Provision for well decommissioning costs	(35)	(2)
Provision for the workforce streamlining and voluntary termination programme	(68)	-
Provision for penalty imposed by the Office for Competition and Consumer Protection	(60)	-
Provision for environmental liabilities	(4)	16
Provision for claims under extra-contractual use of land	7	28
Provision for dispute with the PBG Consortium	1	22
Other provisions	37	(45)
Taxes and charges	(147)	(159)
Value of goods and materials sold	(10)	(8)
Property insurance	(25)	(23)
Domestic and international business trips	(12)	(15)
Compensations, penalties, fines, etc. paid	(1)	(1)
Difference on valuation of assets distributed as dividend	-	7
Other costs	(51)	(44)
Total	**(853)**	**(44)**

5 FINANCE INCOME AND COSTS

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Finance income	**728**	**1 027**
Gain on valuation and execution of forwards	88	-
Interest income	292	170
Foreign exchange gains	-	232
Revaluation of investments	-	10
Gain on disposal of investments	-	73
Dividends and other profit distributions	331	535
Other finance income	17	7
Finance costs	**(280)**	**(261)**
Loss on valuation and execution of forwards	-	(240)
Interest expenses	(220)	(1)
Foreign exchange losses	(24)	-
Revaluation of investments	(15)	(5)
Commission fees paid on bank borrowings	(16)	-
Costs of guarantees received	(4)	(4)
Other finance costs	(1)	(11)
Net finance income/costs	**448**	**766**

Total borrowing costs capitalised as acquisition (or production) costs of non-current assets in the reporting period amounted to PLN 185.7m (2011: PLN 101.1m).

6 INCOME TAX

	Note	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Profit before tax		2,260	1,962
Tax rate applicable in the period		19%	19%
Tax calculated at the applicable tax rate		(429)	(373)
Permanent differences between pre-tax profit and tax base		87	144
Tax expense in the income statement		**(342)**	**(229)**
Current tax expense	6.1.	(347)	(268)
Deferred tax expense	6.2.	5	39
Effective tax rate		15%	12%

6.1. Current tax expense

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Profit before tax	**2,260**	**1,962**
Differences between profit/loss before tax and tax base (A+B-C-D+E)	(433)	(554)
Taxable income not recognised as income for accounting purposes (A)	375	164
Tax deductible expenses, not recognised as expenses for accounting purposes (B)	(1,649)	(1,395)
Income not recognised as taxable income (C)	1,629	1,740
Non-tax deductible expenses (D)	(2,743)	(2,422)
Deductions from income (E)	(273)	(5)
Income tax base	1,827	1,408
Tax rate applicable in period	19%	19%
Income tax expense	(347)	(268)
Increases, reliefs, exemptions, allowances and reductions in/of income tax		
Current tax expense disclosed in tax return for the period	(347)	(268)
Current tax expense disclosed in the income statement	**(347)**	**(268)**

Current tax expense has been calculated based on the income tax rate of 19% applicable in Poland in the reporting period.

The income tax rate was changed relative to the comparative period. Foreign branches of PGNiG S.A. are subject to tax regulations in force in the countries where they trade and relevant provisions of double tax treaties. The applicable income tax rates in such countries range from 25% to 41%. In 2012 and 2011, foreign branches did not pay any income tax.

6.2. Deferred tax expense

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Deferred tax expense disclosed in the separate income statement	**5**	**39**
Origination and reversal of deferred tax expense due to deductible temporary differences	**50**	**54**
Impairment losses on financial assets, receivables and tangible assets under construction	(10)	(6)
Provisions for future liabilities	45	(4)
Costs of FX risk and interest rate risk hedges	-	63
Other	15	1
Origination and reversal of deferred tax due to taxable temporary differences	**(45)**	**(15)**
Difference between tax and accounting value of non-current assets*	14	6
Positive valuation of FX and interest rate risk hedges	(26)	(7)
Accrued interest	(22)	(18)
Income on tax obligation arising in subsequent month	(5)	8
Other	(6)	(4)
Deferred tax expense disclosed in other net comprehensive income	**47**	**(16)**
Hedge accounting	47	(16)
Total changes	**52**	**23**

*The item reflects the change in the Accounting Policies described in Note 2.5

Deferred tax expense was determined at the rate of 19%, as the basis for its calculation included only those items which affect the current tax expense in Poland.

As at December 31st 2012, the balance of deferred tax assets was PLN 395m, and while the balance of deferred tax liabilities was PLN 632m.

Deferred tax assets included income tax amounts recoverable in future periods in respect of unused tax losses carried forward.

As at the end of the reporting period, the net balance of deferred tax assets and liabilities was PLN 237m.

In 2012, deferred tax assets were up PLN 50m, adding to the Company’s net profit. Deferred tax liabilities were up PLN 45m, reducing the Company’s net profit.

The net effect of changes in deferred tax expense on the Company’s net profit for the period was PLN 5m.

7 DISCONTINUED OPERATIONS

In 2012, the Company did not discontinue any activities and is not planning to discontinue any of its existing operations.

8 EARNINGS PER SHARE

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

Diluted earnings per share are calculated by dividing the net profit 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).

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Net profit attributable to equity holders of the Company	1,918	1,733
Net profit attributable to equity holders of the Company used to calculate diluted earnings per share	1,918	1,733
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share (million)	5,900	5,900
Weighted average number of outstanding ordinary shares used to calculate diluted earnings per share (million)	5,900	5,900
Basic earnings per share for the year, attributable to holders of ordinary shares of the Company (PLN)	0.33	0.29
Diluted earnings per share for the year, attributable to holders of ordinary shares of the Company (PLN)	0.33	0.29

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

Start date	End date	Number of outstanding ordinary shares (million)	Number of days	Weighted average number of shares (million)
Dec 31 2012				
2012-01-01	2012-12-31	5,900	366	5,900
Total				
Dec 31 2011				
2011-01-01	2011-12-31	5,900	365	5,900
Total				

9 DIVIDEND PAID AND PROPOSED

Dividends paid in the period	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Dividend per share paid (PLN)	-	0.12
Number of shares (million)	5,900	5,900
Dividend paid (PLNm), including:	-	708
- in-kind dividend for the State Treasury	-	30
- cash dividend for the State Treasury	-	483
- cash dividend paid to other shareholders	-	195

On June 6th 2012, by virtue of Resolution No. 16/VI/2012, the Annual General Meeting of PGNiG S.A. decided to retain the 2011 profit of PLN 1,615.7 million. Therefore, no dividend was paid for 2011.

The dividend for 2010 was paid on October 6th 2011.

The effect of the surplus of assets distributed as in-kind dividend over the net carrying amount disclosed in the statement of financial position as at the dividend payment date on the result for the comparative reporting period is presented in Note 4.4.

Until the date of these financial statements, no decision has been made concerning the distribution of profit for 2012.

10 PROPERTY, PLANT AND EQUIPMENT

	Dec 31 2012	Dec 31 2011
Land	26	24
Buildings and structures	6,076	5,236
Plant and equipment	1,414	1,347
Vehicles and other	121	113
Total tangible assets	**7,637**	**6,720**
Assets related to exploration for and evaluation of mineral resources	2,151	1,963
Other tangible assets under construction	4,310	4,353
Total property, plant and equipment	**14,098**	**13,036**

PGNiG S.A.'s property, plant and equipment includes mainly hydrocarbon production assets and assets of underground gas storage facilities.

To ensure compliance with the requirements of Directive 2009/73/EC concerning separation of storage and trading activities, PGNiG S.A. established Operator Systemu Magazynowania Sp. z o.o., a special purpose vehicle set up to act as a storage system operator. Operator Systemu Magazynowania Sp. z o.o. commenced its licensed activities on June 1st 2012, under the agreement with PGNiG S.A. concerning exclusive operation of storage facilities and assignment of the role of storage system operator (the “Agreement”).

In accordance with the Agreement, PGNiG S.A. remains the owner of all the storage facilities.

10.1 PROPERTY, PLANT AND EQUIPMENT

Dec 31 2012	Land	Buildings and structures	Plant and equipment	Vehicles and other*	**Total**	Assets related to exploration for and evaluation of mineral resources	Other tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2012, net of accumulated depreciation and impairment losses	24	5,236	1,347	113	**6,720**	1,963	4,353	13,036
Increase	-	358	-	-	**358**	252	1,498	2,108
Decrease	(1)	(124)	(10)	(1)	**(136)**	(66)	(50)	(252)
Transfers from tangible assets under construction and between groups	3	1,164	265	28	**1,460**	(14)	(1,541)	(95)
Impairment losses	-	(175)	(30)	-	**(205)**	17	50	(138)
Depreciation expense for the year	-	(383)	(158)	(19)	**(560)**	-	-	(560)
As at Dec 31 2012, net of accumulated depreciation and impairment losses	**26**	**6,076**	**1,414**	**121**	**7,637**	**2,151**	**4,310**	**14,098**
As at Jan 1 2012								
Gross value	26	8,705	2,549	222	**11,502**	2,315	4,430	18,247
Accumulated depreciation and impairment losses	(2)	(3,469)	(1,202)	(109)	**(4,782)**	(352)	(77)	(5,211)
Net carrying amount as at Jan 1 2012	**24**	**5,236**	**1,347**	**113**	**6,720**	**1,963**	**4,353**	**13,036**
As at Dec 31 2012								
Gross value	28	10,065	2,783	238	**13,114**	2,487	4,337	19,937
Accumulated depreciation and impairment losses	(2)	(3,989)	(1,369)	(117)	**(5,477)**	(335)	(27)	(5,839)
Net carrying amount as at Dec 31 2012	**26**	**6,076**	**1,414**	**121**	**7,637**	**2,151**	**4,310**	**14,098**

* In this category the Company presents seismic survey expenses reclassified from assets related to the exploration for and evaluation of mineral resources, whose net value as at December 31st 2012 was PLN 31m.

Dec 31 2011	Land	Buildings and structures	Plant and equipment	Vehicles and other*	**Total**	Assets related to exploration for and evaluation of mineral resources	Other tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2011, net of accumulated depreciation and impairment losses	24	5,171	1,354	85	**6,634**	1,487	3,423	11,544
Increase	-	111	1	37	**149**	829	1,458	2,436
Decrease	(1)	(194)	(12)	(2)	**(209)**	-	(240)	(449)
Transfers from tangible assets under construction and between groups	1	444	171	19	**635**	(353)	(307)	(25)
Impairment losses	-	77	(10)	(4)	**63**	-	19	82
Depreciation expense for the year	-	(373)	(157)	(22)	**(552)**	-	-	(552)
As at Dec 31 2011, net of accumulated depreciation and impairment losses	**24**	**5,236**	**1,347**	**113**	**6,720**	**1,963**	**4,353**	**13,036**
As at Jan 1 2011								
Gross value	26	8,381	2,414	184	**11,005**	1,839	3,519	16,363
Accumulated depreciation and impairment losses	(2)	(3,210)	(1,060)	(99)	**(4,371)**	(352)	(96)	(4,819)
Net carrying amount as at Jan 1 2011	**24**	**5,171**	**1,354**	**85**	**6,634**	**1,487**	**3,423**	**11,544**
As at Dec 31 2011								
Gross value	26	8,705	2,549	222	**11,502**	2,315	4,430	18,247
Accumulated depreciation and impairment losses	(2)	(3,469)	(1,202)	(109)	**(4,782)**	(352)	(77)	(5,211)
Net carrying amount as at Dec 31 2011	**24**	**5,236**	**1,347**	**113**	**6,720**	**1,963**	**4,353**	**13,036**

* In this category the Company presents seismic survey expenses reclassified from assets related to the exploration for and evaluation of mineral resources, whose net value as at December 31st 2011 was PLN 33m.

10.2 Impairment losses on property, plant and equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total tangible assets**	Assets related to exploration for and evaluation of mineral	Other tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2012	**2**	**446**	**110**	**10**	**568**	**353**	**77**	998
Increase	1	355	72	3	**431**	138	15	**584**
Decrease	(1)	(180)	(42)	(4)	**(226)**	(155)	(65)	**(446)**
As at Dec 31 2012	**2**	**621**	**141**	**9**	**773**	336	**27**	**1,136**
As at Jan 1 2011	**2**	**523**	**100**	**6**	**631**	**353**	**96**	**1,080**
Increase	-	35	14	4	**53**	-	-	**53**
Decrease	-	(112)	(4)	-	**(116)**	-	(19)	**(135)**
As at Dec 31 2011	**2**	**446**	**110**	**10**	**568**	353	**77**	**998**

As at the beginning of the period, impairment losses on tangible assets stood at PLN 568m, of which:
- PLN 334m were impairment losses on assets used directly in hydrocarbon production,
- PLN 38m were impairment losses on underground gas storage facilities,
- PLN 196m were impairment losses on other tangible assets.

In 2012, the impairment losses were increased by PLN 431m and decreased by PLN 226m. The movements included:
- a 405m increase and a PLN 167m decrease in impairment losses on assets used directly in hydrocarbon production,
- a PLN 1m increase and a PLN 11m decrease in impairment losses on underground gas storage facilities,
- a PLN 25m increase and a PLN 48m decrease in impairment losses on other tangible assets.

Changes in impairment losses on particular assets groups were connected with the update of adopted assumptions, review of impairment indicators, disposal of assets or their reclassification between asset groups.

As at the end of the period, impairment losses on tangible assets stood at PLN 773m, of which:
- PLN 599m were impairment losses on assets used directly in hydrocarbon production,
- PLN 1m were impairment losses on underground gas storage facilities,
- PLN 173m were impairment losses on other tangible assets.

As at the end of 2012, impairment losses on assets related to the exploration for and evaluation of mineral resources included PLN 288m of impairment losses on capitalised well-drilling expenditure (end of 2011: PLN 353m).

The recoverable amount of assets is equal to their value in use. The discount rate applied to estimate the value in use of assets used directly in hydrocarbon production in 2012 was 11.88 % (2011: 14.24%). The discount rate applied to tangible assets under construction in 2012 was 12.56% (2011: 14.97%).

11 INVESTMENT PROPERTY

	Dec 31 2012	Dec 31 2011
At beginning of the period, net of accumulated depreciation and impairment losses	3	3
Decrease	(1)	-
At end of the period, net of accumulated depreciation and impairment losses	**2**	**3**
At beginning of the period		
Gross value	5	5
Accumulated depreciation and impairment losses	(2)	(2)
Net carrying amount as at beginning of the period	**3**	**3**
At end of the period		
Gross value	4	5
Accumulated depreciation and impairment losses	(2)	(2)
Net carrying amount as at end of the period	**2**	**3**

The Company’s investment property includes office/amenity buildings partly held for rent, as well as industrial buildings and structures. At the end of the reporting period, the net carrying amount of the office/amenity buildings classified as investment property amounted to PLN 1.3m (2011: PLN 1.4m), and the net carrying amount of the industrial buildings and structures was PLN 0.7m (2011: PLN 1.6m).

The 2012 depreciation expense allocated to investment property was PLN 0.3m (2011: PLN 0.4m)

In the reporting period, the Company derived PLN 1.9m in revenue from rental of investment property (2011: PLN 1.9m).

Operating expenses incurred in connection with the rental of investment property amounted to PLN 0.6m in the reporting period (2011: PLN 0.7m).

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

12 INTANGIBLE ASSETS

Dec 31 2012	Perpetual usufruct right to land – acquired for consideration*	Computer software	Other intangible assets**	**Total**
As at Jan 1 2012, net of accumulated amortisation and impairment losses	35	56	68	**159**
Transfers from tangible assets under construction and between groups	4	45	47	**96**
Impairment losses	-	-	(8)	**(8)**
Amortisation expense for the year	-	(28)	(15)	**(43)**
As at Dec 31 2012, net of accumulated amortisation and impairment losses	**39**	**73**	**92**	**204**
As at Jan 1 2012				
Gross value	37	129	100	**266**
Accumulated amortisation and impairment losses	(2)	(73)	(32)	**(107)**
Net carrying amount as at Jan 1 2012	**35**	**56**	**68**	**159**
As at Dec 31 2012				
Gross value	41	170	146	**357**
Accumulated amortisation and impairment losses	(2)	(97)	(54)	**(153)**
Net carrying amount as at Dec 31 2012	**39**	**73**	**92**	**204**

* The Company 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 339.9m (end of 2011: PLN 338.3m).

** In this asset group the Company presents expenses incurred on licences, rights to geological information, and mining rights.

Dec 31 2011	Perpetual usufruct right to land – acquired for consideration	Computer software	Other intangible assets*	**Total**
As at Jan 1 2011, net of accumulated amortisation and impairment losses	36	45	52	**133**
Increase	-	-	16	**16**
Transfers from tangible assets under construction and between groups	-	28	-	**28**
Amortisation expense for the year	(1)	(17)	-	**(18)**
As at Dec 31 2011, net of accumulated amortisation and impairment losses	**35**	**56**	**68**	**159**
As at Jan 1 2011				
Gross value	38	104	54	**196**
Accumulated amortisation and impairment losses	(2)	(59)	(2)	**(63)**
Net carrying amount as at Jan 1 2011	**36**	**45**	**52**	**133**
As at Dec 31 2011				
Gross value	37	129	100	**266**
Accumulated amortisation and impairment losses	(2)	(73)	(32)	**(107)**
Net carrying amount as at Dec 31 2011	**35**	**56**	**68**	**159**

** In this asset group the Company presents expenses incurred on licences, rights to geological information, and mining rights.

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

As at December 31st 2012, the Company did not use any property, plant and equipment under finance lease agreements. In the comparative period, the net carrying amount of property, plant and equipment used under finance lease agreements was PLN 0.3m.
All lease agreements expired in 2012.

12.2. Impairment losses on intangible assets

	Perpetual usufruct right to land – acquired for consideration	Other intangible assets*	**Total**
As at Jan 1 2012	1	-	**1**
Increase	1	8	**9**
Decrease	(1)	-	**(1)**
As at Dec 31 2012	**1**	**8**	**9**
As at Jan 1 2011	1	-	**1**
As at Dec 31 2011	**1**	**-**	**1**

** In this asset group the Company presents impairment losses on licences, rights to geological information, and mining rights.

13 NON-CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Dec 31 2012	Dec 31 2011
Unlisted shares (gross)	8,919	8,121
Total, gross	**8,919**	**8,121**
Unlisted shares (net)*	7,263	6,460
Total, net	**7,263**	**6,460**

* Net of impairment losses.

Under “Unlisted shares”, the Company discloses financial assets which are planned to be sold but, as at December 31st 2012, did not meet the criteria to be reclassified as "Non-current assets held for sale". Restructuring of non-core businesses of the PGNiG Group (the PGNiG Group) is one of the initiatives implemented as part of the Short-Term Value Creation Strategy for the PGNiG Group in 2012–2014.

For details on financial assets reclassified as non-current assets held for sale as at December 31st 2012, see Note 23.

Under “Unlisted shares”, the Company discloses, among other items, shares in POGC Libya BV and additional payments for POGC Libya BV shares. As at December 31st 2012, the Company's equity interest in POGC Libya BV was EUR 65.5m and USD 27.4m (PLN 267.8m and PLN 85.0m, respectively, translated at the exchange rates quoted by the NBP for December 31st 2012). As at December 31st 2012, the value of the shares disclosed in the accounting books of the Company was PLN 291.9 thousand, while additional payments for the shares were disclosed at PLN 86.2m.

Given the current political situation in Libya, which is POGC Libya BV's principal place of business, the risk that shares in this company might become permanently impaired has substantially lowered compared with the situation as at the end of 2011.

Following the outbreak of the civil war in Libya in February 2011, POGC Libya BV cited the occurrence of a force majeure event under the Exploration and Production Sharing Agreement (EPSA). As a result, the company suspended its performance of the EPSA.

In 2012, the situation in Libya stabilised, allowing POGC Libya BV to take steps to declare the cessation of the force majeure event and to resume work under the EPSA. In November 2012, POGC Libya BV and National Oil Corporation signed an agreement confirming the cessation of the force majeure event. At the same time, while working on reaching an agreement with National Oil Corporation, POGC Libya BV implemented safety procedures, renegotiated agreements with sub-contractors and defined technical conditions for the exploration work planned in the licence area.

In December 2012, upon signing of the agreement confirming the cessation of the force majeure event with National Oil Corporation, POGC Libya BV commenced preparations for the drilling campaign. In 2013, once the preparations are completed, the drilling of first exploration wells and the commencement of field seismic work is planned. The key condition for conducting operations in Libya is the stabilisation of the situation in the south-western part of the country, where exploration work is carried out.

In connection with Opal Finance Corporation Ltd pursuing a valid payment claim against PGNiG S.A., pursuant to the court's consent of November 28th 2012, the court enforcement officer secured the claim by seizing (*conservatoir beslag*) the shares held by PGNiG S.A. in POGC Libya BV. As a result, PGNiG S.A. may not freely dispose of its shares in POGC Libya BV and derive benefits from them. However, the seizure of the shares does not prevent PGNiG S.A. from exercising its voting rights and has no practical effect on the operations of POGC Libya BV. At the end of January 2013, PGNiG S.A. made the payment of the principal amount and the related non-statute-barred interest and costs of enforcement, as pursued by Opal Finance Corporation Ltd. The Company expects that following the payment, the security interest created on its shares in POGC Libya BV could be released.

The Company reviewed the valuation of its shares held in POGC Libya BV using the discounted cash flow method. Following the revaluation, PGNiG S.A. recognised a PLN 13.3m impairment loss on the shares.

14 OTHER FINANCIAL ASSETS

	Dec 31 2012	Dec 31 2011
Finance lease receivables (Note 14.1.)	44	44
Loans advanced	5,729	2,849
Amounts receivable for sale of tangible assets	7	8
Total, gross	**5,780**	**2,901**
Total, net	**5,780**	**2,901**

On August 23rd 2011, PGNiG S.A. and PGNiG SPV 1 Sp. z o.o. executed a loan agreement for up to PLN 3 780m. The loan bears interest at the 3M WIBOR rate + margin. Funds advanced under the loan were used by SPV 1 Sp. z o.o. to finance the acquisition of shares in Vattenfall Heat Poland S.A. of Warsaw, including all related costs.

In connection with the merger of PGNiG SPV 1 SP. z o.o. and PGNiG TERMIKA S.A., with PGNiG TERMIKA S.A. as the surviving company, PGNiG SPV 1 Sp. z o.o.'s liabilities under the loan were assumed by the surviving company, i.e. PGNiG TERMIKA S.A.

As at December 31st 2012, the outstanding balance of the loan was PLN 2,409.1m, including a non-current portion of PLN 2,124.5m and a current portion of PLN 284.6m.

14.1. Finance lease

On October 27th 2011, PGNiG S.A. and its subsidiary Wielkopolska Spółka Gazownictwa Sp. z o.o. concluded an Agreement for the Lease of Gas Pipelines and Land in the Coastal Strip. The agreement was executed for a term of 20 years and provides the lessee with an option to purchase the leased assets. The value of the leased assets was determined based on a valuation prepared by an independent appraiser. As per the agreement, the lease payment comprises principal and interest. The interest portion is determined on a quarterly basis by reference to the 3M WIBOR rate as at the last day of the quarter preceding the quarter for which the lease payment is charged, plus a margin. The interest portion required to determine the monthly lease payments for the land throughout the lease term was set at a fixed rate based on the 3M WIBOR rate effective as at the Agreement date.
Proceeds under the lease agreement:

	Dec 31 2012	Dec 31 2011
Interest payment	2	2
Principal payment	2	2
Total	**4**	**4**

The table below presents finance lease receivables by payment periods:

	Dec 31 2012	Dec 31 2011
- less than 1 year	3	3
- 1 to 5 years	10	9
- over 5 years	34	35
Total, including:	**47**	**47**
- current receivables	3	3
- non-current receivables	44	44

15 DEFERRED TAX ASSETS

	Dec 31 2012	Dec 31 2011
Provisions for length-of-service awards and severance payments	18	22
Provision for unused holiday entitlement	3	3
Provision for well decommissioning costs	143	116
Provision for environmental liabilities	9	8
Other provisions	40	18
Impairment losses on property, plant and equipment	66	78
Impairment losses on shares	11	9
Negative valuation of derivatives	87	87
Accrued interest on borrowings and liabilities	16	2
Other	2	2
Total	**395**	**345**

16 OTHER NON-CURRENT ASSETS

	Dec 31 2012	Dec 31 2011
Connection charge	36	8
Commission fees paid on borrowings, notes and other debt instruments	7	14
Other non-current assets	4	4
Total	**47**	**26**

17 INVENTORIES

	Dec 31 2012	Dec 31 2011
Materials		
at cost, including:	2,417	1,894
- gas fuel	2,181	1,762
at net realisable value, including:	2,413	1,890
- gas fuel	2,181	1,762
Finished products		
at cost	13	6
at net realisable value	13	6
Goods		
at cost	1	1
at net realisable value	1	1
Total inventories at cost	**2,431**	**1,901**
Total inventories, at the lower of cost and net realisable value	**2,427**	**1,897**

17.1. Change in inventories in the period

	Dec 31 2012	Dec 31 2011
Inventories at cost, at beginning of the period	**1,901**	**883**
Purchase	20,552	16,910
Other increases	1	13
Inventories charged to expenses for the period	(19,380)	(15,516)
Sale	(10)	(8)
Other decreases	(633)	(381)
Inventories at cost, at end of the period	**2,431**	**1,901**
Impairment loss on inventories	**(4)**	**(4)**
Total net inventories at end of the period	**2,427**	**1,897**

17.2. Impairment losses on inventories

	Dec 31 2012	Dec 31 2011
Balance at beginning of the period	(3)	(3)
Increase in impairment losses	(127)	(2)
Impairment losses reversed	126	1
Balance at end of the period	(4)	(4)

As the value of the stocks of gas exceeded the selling price of gas, the Company recognised an impairment loss of PLN 126m in 2012. Following renegotiation of the contract with the main gas supplier, resulting in reduction of the purchase price, the impairment loss was reversed as at December 31st 2012.

18 TRADE AND OTHER RECEIVABLES

	Dec 31 2012	Dec 31 2011
Trade receivables from other entities	4,520	3,038
Trade receivables from related entities	77	31
VAT receivable	476	257
Other taxes, customs duties and social security receivable	7	8
Due and payable portion of loans advanced to related entities	527	303
Receivables from equity-accounted associated entities	4	1
Other receivables from related entities	101	89
Receivables from sale of property, plant and equipment, related	1	4
Prepayments for tangible assets under construction	3	5
Prepayments for tangible assets under construction, related	1	1
Dividend receivable	11	14
Other receivables	230	113
Total gross receivables	**5,958**	**3,864**
Including gross receivables (including receivable portion of loans) from related entities	722	443
Impairment loss on doubtful receivables (Note 18.1)	**(786)**	**(694)**
Total net receivables	**5,172**	**3,170**
Including:		
Trade receivables from other entities	4,070	2,565
Trade receivables from related entities	77	31
VAT receivable	476	257
Other taxes, customs duties and social security receivable	7	8
Due and payable portion of loans advanced to related entities	498	274
Receivables from equity-accounted associated entities	4	1
Other receivables from related entities	15	4
Receivables from sale of property, plant and equipment, related	1	4
Prepayments for tangible assets under construction	3	4
Prepayments for tangible assets under construction, related	1	1
Dividend receivable	10	14
Other receivables	10	7
Including gross receivables (including receivable portion of loans) from related entities	606	329

The standard payment term applied by the Company with respect to receivables in the usual course of business is 14 days.

18.1. Impairment losses on receivables

	Dec 31 2012	Dec 31 2011
Impairment losses at beginning of the period	(694)	(1,018)
Increase in impairment losses	(319)	(48)
Impairment losses reversed	202	202
Impairment losses used	25	172
Transfers between current and non-current portions	-	(2)
Impairment losses at end of the period	**(786)**	**(694)**

19 CURRENT INCOME TAX

	Dec 31 2012	Dec 31 2011
Income tax payable at beginning of the period	-	136
Change in current tax assets	19	5
Current tax assets at beginning of the period	5	-
Current tax assets at end of the period	24	5
Interest recognised in the income statement	12	-
Corporate income tax (expense in period)	347	268
Income tax paid in period	(378)	(409)
Current income tax payable at end of the period	**-**	**-**

*Interest on past due tax liabilities resulting from application by PGNiG S.A. of the Ministry of Finance's interpretation with respect to which appeal proceedings are pending.

20 OTHER ASSETS

	Dec 31 2012	Dec 31 2011
Property insurance	3	2
Commission fees borrowings, notes, guarantees, etc.	8	12
Software licenses, maintenance and upgrades	3	2
Rents and lease charges payable in advance	-	1
Other current assets	3	11
Total	**17**	**28**

21 CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

As at the balance-sheet date, the Company did not carry any financial assets available for sale. As at the end of the comparative period (end of 2011), the Company did not carry any financial assets available for sale.

22 CASH AND CASH EQUIVALENTS

	Dec 31 2012	Dec 31 2011
Cash in hand and at banks	70	51
Bank deposits	963	882
Other cash*	1	2
Total	**1,034**	**935**

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

The Company's free cash is deposited in bank accounts in order to ensure timely repayment of liabilities towards trading partners and the state budget.

23 NON-CURRENT ASSETS HELD FOR SALE

The Company classified the following items as non-current assets available for sale:

Item (or group) of non-current assets	Expected disposal date	Net carrying amount as at Dec 31 2012	Terms of disposal
Unlisted shares	2013	72	request for proposal, public invitation to negotiate
Items of non-current assets	2013	1	tender
Total		73	

Item (or group) of non-current assets	Expected disposal date	Net carrying amount as at Dec 31 2011	Terms of disposal
Items of non-current assets	2012	1	tender
Total		1	

In 2012, the Company reclassified shares in companies planned for disposal as part of the restructuring of the PGNiG Group's non-core businesses to "Non-current assets available for sale". The above assets are disclosed in the trade and storage segment.

Due to the reclassification, the Company did not recognise impairment loss on the assets.

24 SHARE CAPITAL

	Dec 31 2012	Dec 31 2011
Total number of shares (million)	5,900	5,900
Par value per share (PLN)	1	1
Total share capital	**5,900**	**5,900**

25 BORROWINGS AND DEBT SECURITIES

	Dec 31 2012	Dec 31 2011
Non-current	**4,390**	**-**
Borrowings	2,027	-
Debt securities	2,363	-
Current	**3,879**	**3,591**
Borrowings	79	-
Debt securities	3,800	3,591
Total	**8,269**	**3,591**

25.1. Borrowings

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:	
				2013	2014-2018
EUR	4.064%	515	2,106	79	2,027
Total			**2,106**	**79**	**2,027**

As at December 31st 2011, the Company had no long-term borrowings.

25.2. Debt securities

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:	
				2013	2014-2018
PLN	1M WIBOR +1.15%	118	118	118	-
PLN	1M WIBOR +1.15%	182	182	182	-
PLN	1M WIBOR +1.15%	148	148	148	-
PLN	1M WIBOR +1.15%	229	229	229	-
PLN	1M WIBOR +1.15%	103	103	103	-

PLN	1M WIBOR +1.15%	159	159	159	-
PLN	1M WIBOR +1.15%	116	116	116	-
PLN	1M WIBOR +1.15%	179	179	179	-
PLN	1M WIBOR +1.15%	88	88	88	-
PLN	1M WIBOR +1.15%	138	138	138	-
PLN	1M WIBOR +1.15%	89	89	89	-
PLN	1M WIBOR +1.15%	138	138	138	-
PLN	1M WIBOR +1.15%	78	78	78	-
PLN	1M WIBOR +1.15%	124	124	124	-
PLN	1M WIBOR +1.15%	79	79	79	-
PLN	1M WIBOR +1.15%	123	123	123	-
PLN	1M WIBOR +1.15%	79	79	79	-
PLN	1M WIBOR +1.15%	123	123	123	-
PLN	6M WIBOR +1.25%	2,494	2,494	131	2,363
PLN	5.26%	50	50	50	-
PLN	5.38%	399	399	399	-
PLN	4.51%	328	328	328	-
PLN	4.48%	291	291	291	-
PLN	4.52%	96	96	96	-
PLN	5.09%	8	8	8	-
PLN	5.03%	11	11	11	-
PLN	4.95%	15	15	15	-
PLN	4.88%	20	20	20	-
PLN	4.72%	8	8	8	-
PLN	4.67%	50	50	50	-
PLN	4.65%	30	30	30	-
PLN	4.60%	20	20	20	-
PLN	4.61%	10	10	10	-
PLN	4.58%	40	40	40	-
Total			**6,163**	**3,800**	**2,363**

Dec 31 2011

Currency	**Interest rate**	**Amount in original currency**	**Carrying amount**	**including repayable in:**
				2012
PLN	1M WIBOR +0.8%	2,297	2,297	2,297
PLN	1M WIBOR +0.8%	499	499	499
PLN	1M WIBOR +0.8%	498	498	498
PLN	1M WIBOR +1.5%	25	25	25
PLN	1M WIBOR +1.5%	30	30	30
PLN	2W WIBOR +1.50%	48	48	48
PLN	1M WIBOR + 0.6%	40	40	40
PLN	1M WIBOR + 0.6%	60	60	60
PLN	2W WIBOR +1.50%	15	15	15
PLN	2W/1M WIBOR +1.50%	15	15	15
PLN	2W/1M WIBOR +1.50%	9	9	9
PLN	2W/1M WIBOR +1.50%	55	55	55
Total			**3,591**	**3,591**

As at December 31st 2011, the Company carried PLN 0.3m as liabilities under finance leases. The finance leases expired in 2012.

25.3. Obtained credit facilities and amounts available under the facilities

	Dec 31 2012	Dec 31 2011
Credit facilities obtained	280	280
	280	**280**

These credit facilities enhance the Company's current liquidity position.

25.4. Maturity of finance lease liabilities (disclosed in liabilities)

As at December 31st 2012, the Company carried no liabilities under finance leases.

As at December 31st 2011, the Company carried PLN 0.3m as liabilities under finance leases, which expired in 2012.

26 EMPLOYEE BENEFIT OBLIGATIONS

	Dec 31 2012	Dec 31 2011
Length-of-service awards	47	67
Retirement severance payments	48	49
Wages and salaries payable	2	1
Amounts payable for unused holiday entitlement	16	14
Termination benefits	90	28
Other employee benefit obligations	68	-
Total	**271**	**159**
Non-current	81	97
Current	190	62
	271	**159**

The technical rate adopted to calculate the discounted value of the future retirement severance payment obligations was 2.00%, as the resultant of the 3.73% annual return on assets and the 1.70% forecast annual salary growth (at the end of 2011 the adopted technical rate was 2.80%, as the resultant of 5.87%and 3.0%, respectively).

Under Termination benefits, the Company discloses provisions for costs of implementation of the Voluntary Termination Programme and the Workforce Streamlining Programme. The purpose of both Programmes is to improve the Company's operational efficiency and reduce operating costs.

The redundancy payments to the terminated employees were financed from the Central Restructuring Fund (CRF), described in detail in Note 40.1.

The funds under the Voluntary Termination Programme were paid out in early 2013.

Pursuant to the agreement concluded between the PGNiG Management Board and the Union Coordination Committee, rules were established governing the introduction of an annual bonus in place of bonus from profit awarded in previous reporting periods. As at December 31st 2012, the Company recognised a provision for annual bonuses, presented as Other employee benefit obligations.

26.1. Actuarial income statement for the provision for length-of-service awards and retirement severance payments

	Dec 31 2012	Dec 31 2011
Length-of-service awards		
Value of obligation shown in the statement of financial position at beginning of the period	67	69
Interest cost	1	2
Current service cost	2	3
Benefits paid	(19)	(18)
Actuarial gain/(loss)	(4)	11
Value of obligation shown in the statement of financial position at end of the period	**47**	**67**
Retirement severance payments		
Value of obligation shown in the statement of financial position at beginning of the period	49	45
Current service cost	2	3
Interest cost	1	2
Net actuarial gain recognised during the year	1	-
Benefits paid	(6)	(2)
Past service cost	1	1
Value of obligation shown in the statement of financial position at end of the period	**48**	**49**
Total value of obligation shown in the statement of financial position at end of the period	**95**	**116**

27 PROVISIONS

	Provision for well decommissioning costs	Provision for proceedings before the President of the Polish Office of Competition and Consumer Protection (UOKiK)	Provision for environmental liabilities	Provision for claims under extra-contractual use of land	Provision for dispute with PBG S.A.	Other	**Total**
As at Jan 1 2012	1,116	-	42	23	22	39	**1,242**
Provisions recognised during the year	459	60	4	1	-	37	**561**
Provisions used	(37)	-	-	(8)	(22)	(8)	**(75)**
As at Dec 31 2012	**1,538**	**60**	**46**	**16**	**-**	**68**	**1,728**
Non-current	1,513	-	41	-	-	22	**1,576**
Current	25	60	5	16	-	46	**152**
As at Dec 31 2012	**1,538**	**60**	**46**	**16**	**-**	**68**	**1,728**
Non-current	1,102	-	37	-	-	15	**1,154**
Current	14	-	5	23	22	24	**88**
As at Dec 31 2011	**1,116**	**-**	**42**	**23**	**22**	**39**	**1,242**

In H1 2012, the discount rate adopted to calculate the provision for well decommissioning costs was 1.20%, as the resultant of the 3.73% rate of return on assets and the inflation rate assumed at the NBP’s continuous inflation target of 2.50% (as at the end of 2011, the adopted discount rate was 3.29%, as the resultant of 5.87% and 2.50%, respectively).
Long-term provisions are discounted at the rate of 1.20%.

For more information on the provisions for dispute with PBG S.A. and Proceedings before the President of UOKiK, see Note 40. Other important information.

28. DEFERRED INCOME

	Dec 31 2012	Dec 31 2011
Non-current		
Deferred income related to leased tangible assets	32	34
Connection charge	1	2
Grant	518	214
Other	8	7
Total non-current	**559**	**257**
Current		
Other	5	2
Total current	**5**	**2**

Grants

The Company executes projects co-financed by the European Union, aimed at increasing the capacities of gas storage facilities.

As at December 31st 2012, the Company recognised a PLN 226.3m grant (December 31st 2011: PLN 106.6m) under financing of the Wierzchowice Underground Storage Facility, a PLN 35.9m grant (December 31st 2011: PLN 34.2m) under financing of the Strachocina Underground Storage Facility and a PLN 43.9m grant (December 31st 2011: PLN 9.6m) under financing of the Kosakowo Underground Storage Facility.

The amounts recognised as deferred income will be released to operating income gradually in proportion to the depreciation charges on the tangible assets financed.

29. DEFERRED TAX LIABILITIES

	Dec 31 2012	Dec 31 2011
Accrued interest	47	25
Valuation of hedging instruments	16	37
Income on tax obligation arising in subsequent month	16	11
Difference between tax and accounting value of non-current assets	542	557
Other	11	4
Total	**632**	**634**

30. OTHER NON-CURRENT LIABILITIES

	Dec 31 2012	Dec 31 2011
Liabilities under licences, rights to geological information and mining rights	40	15
Other non-current liabilities	-	1
Total	**40**	**16**

31. TRADE AND OTHER PAYABLES

	Dec 31 2012	Dec 31 2011
Trade payables to other entities	337	762
Trade payables to related entities	711	514
VAT payable	1,224	904
Other taxes, customs duties and social security contributions payable	79	54
Amounts payable under purchase of non-financial non-current assets	94	168
Amounts payable under purchase of non-financial non-current assets to related entities	50	56
Amounts payable under purchase of exploration and appraisal assets	28	18
Amounts payable under purchase of exploration and appraisal assets to related entities	48	27
Additional contribution to equity payable under a relevant resolution	85	85
Other amounts payable to related entities	3	1
Accruals and deferred income and prepaid deliveries	74	48
Other	30	23
Total	**2,763**	**2,660**
Including to related entities (Note 37.2.)	898	683

32. CAUSES OF DIFFERENCES BETWEEN CHANGES IN CERTAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION AND CHANGES IN THOSE ITEMS SHOWN IN THE STATEMENT OF CASH FLOWS

Change in receivables	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Change in other financial assets in the statement of financial position	**(2,879)**	**(640)**
Change in receivables in the statement of financial position	**(2,002)**	**125**
Change in lease receivables in financial assets – adjustment to investment activity	-	14
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	(4)	4
Change in prepayments for property, plant and equipment	(1)	(30)
Due and payable portion of loans advanced	3,103	787
Dividend receivable	(4)	-
Other	-	14
Change in net receivables in the statement of cash flows	**(1,787)**	**274**

Change in provisions	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Change in provisions in the statement of financial position	**486**	**45**
Change in provision for well decommissioning costs which adjusts property, plant and equipment – adjustment to investment activity	(420)	(65)
Change in provisions in statement of cash flows	**66**	**(20)**

Change in current liabilities	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Change in current liabilities in the statement of financial position	**103**	**(163)**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	47	300
Other	24	2
Change in current liabilities in statement of cash flows	**174**	**139**

Change in other assets and prepayments	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Change in other assets in the statement of financial position	**(20)**	**(19)**
Change in other non-current assets in the statement of financial position	**10**	**2**
Expense (fees and commission) related to the note issuance programme	(12)	7
Change in other assets in the statement of cash flows	**(22)**	**(10)**

Change in deferred income	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Change in deferred income in the statement of financial position	**305**	**179**
Deferred income related to leased out tangible assets – reclassification within operating activity	-	(34)
Subsidies received for tangible assets	(303)	(150)
Other	2	-
Change in deferred income in the statement of cash flows	**4**	**(5)**

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

33.1. Financial instruments by category (net carrying amounts)

Dec 31 2012

Classes of financial instruments	Financial assets available for sale	Financial assets measured at fair value through profit or loss	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	**7,263**	**88**	**11,500**	**-**	**-**	**17**	**3**	**18,871**
Unlisted shares	7,263	-	-	-	-	-	-	**7,263**
Trade and other receivables*	-	-	4,686	-	-	-	3	**4,689**
Derivative financial instrument assets	-	88	-	-	-	17	-	**105**
Cash and cash equivalents	-	-	1,034	-	-	-	-	**1,034**
Other financial assets	-	-	5,780	-	-	-	-	**5,780**
Total financial liabilities	**-**	**-**	**-**	**317**	**9,769**	**76**	**-**	**10,162**
Borrowings	-	-	-	-	2,106	-	-	**2,106**
Debt securities	-	-	-	-	6,163	-	-	**6,163**
Other non-current liabilities, trade and other payables**	-	-	-	-	1,500	-	-	**1,500**
Derivative financial instrument liabilities	-	-	-	317	-	76	-	**393**

*Does not include VAT receivable or other taxes, customs duties and social security receivable.
**Does not include VAT payable or other taxes, customs duties and social security payable.

Dec 31 2011

Classes of financial instruments	Financial assets available for sale	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities at amortised cost	Hedge derivatives	**Total**
Total financial assets	**6,460**	**6,741**	**-**	**-**	**285**	**13,486**
Unlisted shares	6,460	-	-	-	-	**6,460**
Trade and other receivables*	-	2,905	-	-	-	**2,905**
Derivative financial instrument assets	-	-	-	-	285	**285**
Cash and cash equivalents	-	935	-	-	-	**935**
Other financial assets	-	2,901	-	-	-	**2,901**
Total financial liabilities	**-**	**-**	**411**	**5,308**	**6**	**5,726**
Debt securities	-	-	-	3,591	-	**3,591**
Other non-current liabilities, trade and other payables**	-	-	-	1,718	-	**1,718**
Derivative financial instrument liabilities	**-**	**-**	411	**-**	**6**	**417**

*Does not include VAT receivable or other taxes, customs duties and social security receivable.
**Does not include VAT payable or other taxes, customs duties and social security payable.

33.2. Fair value of financial instruments

	Dec 31 2012		Dec 31 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Total financial assets	**18,871**	**11,608**	**13,486**	**7,026**
Unlisted shares*	7,263	-	6,460	-
Trade and other receivables**	4,689	4,689	2,905	2,905
Derivative financial instrument assets***	105	105	285	285
Cash and cash equivalents**	1,034	1,034	935	935
Other financial assets**	5,780	5,780	2,901	2,901
Total financial liabilities	**10,162**	**10,162**	**5,725**	**5,725**
Borrowings**	2,106	2,106	-	-
Debt securities**	6,163	6,163	3,591	3,591
Trade payables**	1,500	1,500	1,718	1,718
Derivative financial instrument liabilities***	393	393	417	417

*The Company is unable to reliably estimate the fair value of its shareholdings in unlisted companies, classified as financial assets available for sale. In its annual statement of financial position, such assets are measured at cost less impairment losses.
**The disclosed values of financial instruments are equal or nearly equal to their respective fair values. The values disclosed in the table above are deemed identical to the respective fair values.
*** At fair value.

33.3. Items of income, expenses, profit and loss related to financial assets and liabilities

	Period from Jan 1 – Dec 31 2012	Period from Jan 1–Dec 31 2011
Total effect on net profit/loss, including:	(30)	748
Financial assets available for sale	(13)	1
Impairment recognised in profit or loss for the reporting period	(13)	1
Financial assets and financial liabilities measured at fair value through profit or loss	92	(240)
Loans and receivables	261	595
Interest on deposits	31	16
Interest on receivables	41	76
Interest on loans advanced	262	154
Net income from short-term securities	-	1
Impairment losses on receivables	(10)	81
Impairment losses on loans	(1)	3
Foreign currency measurement of loans advanced in foreign currencies	(62)	264
Financial liabilities at amortised cost	(172)	-
Hedge derivatives	(200)	390
Assets and liabilities excluded from the scope of IAS 39	2	2
Total effect on other comprehensive income, net, including:	**(249)**	**82**
Financial assets available for sale	-	(53)
Hedge derivatives	(249)	135
Total effect on comprehensive income	**(279)**	**830**

33.4. Fair value hierarchy

	Dec 31 2012	Dec 31 2011
Classes of financial instruments	level 2	level 2
Derivative financial instrument assets	105	285
Derivative financial instrument liabilities	393	417

33.5. Objectives and policies of financial risk management

In its business activity, the Company is exposed to financial risk, including in particular the following types of risk:

- credit risk
- market risk, including:
  - interest rate risk
  - foreign exchange risk
  - commodity price risk
- liquidity risk.

Credit risk

Credit risk is defined as the likelihood of failure by the Company'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 Company's liabilities. As a rule, the Company concludes transactions in financial instruments with multiple entities with high creditworthiness. The key criteria used by the Company in the selection of counterparties include their financial standing as confirmed by rating agencies, as well as their market shares and reputation.

The Company is exposed to credit risk under:

- investment transactions,
- loans advanced,
- transactions in financial derivatives.

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

Maximum exposure to credit risk

	Dec 31 2012	Dec 31 2011
Deposits	963	882
Trade and other receivables	4,242	2,683
Loans advanced	6,227	3,123
Positive value of derivatives	105	285
Total	**11,537**	**6,973**

The Company identifies, measures and minimises its credit exposure to individual banks with which it executes investment transactions. As at December 31st 2012, its credit exposure under deposits and investment transactions amounted to PLN 963m.

The reduction of credit exposure was achieved through diversification of the portfolio of counterparties (mainly banks) with which the Company enters into investment transactions. Moreover, the Company has concluded Framework Agreements with all banks with which it holds funds. These Framework Agreements stipulate detailed terms and conditions for execution and settlement of any financial transactions.

The table below presents the banks with which the Company has executed ISDA (International Swaps and Derivatives Association) agreements or Polish Master Agreements, prepared in accordance with the guidelines of the Polish Banks Association (PMA).

Bank	Agreement/ transaction types
BH	PMA/all transactions
Barclays Bank plc	ISDA/all transactions
BNP Paribas	ISDA/all transactions
BRE BANK S.A.	PMA/all transactions (excluding commodity transactions)
BZ WBK S.A.	PMA/all transactions
CA-CIB	ISDA/all transactions
Credit Suisse	ISDA/all transactions
DB Polska S.A.	PMA/all transactions
DB AG	ISDA/all transactions
Goldman Sachs	ISDA/all transactions
HSBC Bank Polska S.A.	PMA/all transactions
ING Bank NV	PMA/all transactions
Mitsubishi UFJ Securities Int. plc	ISDA/all transactions
Morgan Stanley	ISDA/all transactions
Millennium Bank Polska S.A.	PMA/all transactions
Natixis	ISDA/all transactions
Nordea Bank Finland plc	ISDA/all transactions
PBP S.A.	PMA/all transactions
Pekao S.A.	PMA/all transactions
PKO BP S.A.	PMA/all transactions
SG Bank	ISDA/all transactions
SMBC Capital Markets, Inc.	ISDA/all transactions

The Company 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.

The Company's exposure to credit risk under loans advanced results only from loans extended to its companies of the PGNiG Group. As at December 31st 2012, the related credit exposure was PLN 6,227m.

Loans to those entities are advanced in line with the internal procedure "PGNiG S.A.'s Lending Policy with Respect to the Group Companies and Entities in which PGNiG S.A. Holds Equity Interests". The policy stipulates detailed rules governing the conclusion and monitoring of loan agreements, thus minimising the Company's exposure to credit risk under such agreements. Loans are advanced only if the borrower meets a number of conditions and provides appropriate security. The credit risk under such agreements is further materially mitigated by the fact that the subsidiaries' operations serve the Group's common interests.

Material credit risk (in value terms) is related to receivables, mainly receivables under gas fuel sales. 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 S.A. requires special security for the agreement.

The Company 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 term is 14 days from the invoice issue date, but other payment terms are also used.

PGNiG S.A. has implemented measures to monitor and assess the financial standing of customers receiving natural gas in excess of 1 million cubic metres a year based on corporate financial documents (once every three months and once a year). These measures are to help monitor the financial standing of customers receiving over 1 million cubic metres of natural gas a year and predict the probability of the customers becoming insolvent.

PGNiG S.A. uses the following types of instruments securing contract performance:

- mortgage (ordinary mortgage (*hipoteka zwykła*) and security (deposit) mortgage (*hipoteka kaucyjna*)),
- bank guarantee;
- security deposit;
- ordinary or registered pledge;
- insurance guarantee;
- blank promissory note;
- statement on voluntary submission to enforcement under Art. 777 of the Polish Code of Civil Procedure;
- assignment of claims under long-term agreements;
- cash deposit placed in an account indicated by PGNiG S.A.;
- rating;
- surety.

With respect to new agreements, the selection of a security instrument is agreed between PGNiG S.A. 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 Company. If a customer's failure to make a payment when due has been identified, the Company takes appropriate measures to collect the debt.

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

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

As a rule, no arrangements providing for cancellation of principal and interest are offered or accepted. A customer's request to cancel interest (in excess of the equivalent of EUR 5,000) is forwarded to the Supervisory Board for approval, in line with relevant corporate procedures.

As at December 31st 2012, the value of past due receivables not impaired, as disclosed in the Company's statement of financial position, was PLN 584m (PLN 453m at the end of 2011).

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

Delay	Dec 31 2012	Dec 31 2011
Up to 1 month	513	364
From 1 to 3 months	53	55
From 3 months to 1 year	14	31
from 1 to 5 years	3	2
over 5 years	1	1
Total net past due receivables	**584**	**453**

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), and at December 31st 2012 stood at PLN 105m. As in the case of investment transactions, transactions in financial derivatives are executed with most reputable banks with high credit ratings. Moreover, the Company has concluded either a Framework Agreement or an ISDA Agreement with each of its relationship banks, stipulating detailed terms of service and threshold amounts.

The Company 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 Company's financial performance will be adversely affected by changes in the financial and commodity markets.

The main objective of the market risk management is to identify, measure, monitor and mitigate key sources of risk, including:

- foreign exchange risk
- interest rate risk;
- commodity risk (gas and oil prices).

Currency risk

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

The long-term portion of the Company's financial receivables in 2012 was predominantly denominated in NOK – as at December 31st 2012, it consisted of a NOK 5,725m loan advanced to PGNiG Norway AS, repayable by December 20th 2021.

The related currency risk was hedged with 21 CCIRS transactions. The transactions fully hedge the risk until 2014 and 2015.

On February 10th 2012, PGNiG Finance AB of Sweden, a subsidiary, issued fixed-coupon eurobonds for an amount of EUR 500m, maturing on February 14th 2017. On February 15th 2012, the proceeds were advanced to PGNiG S.A. as an on-loan.

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

The hedging measures implemented by the Company are mainly intended to provide protection against the currency risk accompanying payments settled in foreign currencies. To hedge its trade payables, the Company used call options, option strategies and forward transactions.

Interest rate risk

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

As at December 31st 2012, major interest rate risk was generated by the loan advanced to PGNiG Norway AS, as well as the outstanding eurobonds. The interest rate risk resulting from the loan was hedged with 21 CCIRS transactions. The transactions fully hedge the risk until 2014 and 2015. The interest rate risk arising under the eurobonds was fully hedged with seven CCIRS transactions.

The other advanced loans were not a source of any material interest rate risk.

In addition, as at December 31st 2012, the Company had outstanding corporate notes for an amount of PLN 2.300m, notes issued to investors in Poland for PLN 3,694m and intragroup notes for PLN 212m. Given the short maturities of the notes and the periodic updating of the interest rates, the related interest rate risk is immaterial to the Company.

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

Commodity risk

Commodity risk is defined as the probability that the Company's financial performance will be adversely affected by changes in commodity prices.

The price risk to which the Company is exposed in connection with its contracts for gas deliveries is substantial. It stems from volatility of prices of oil products quoted on global markets. Under some of the contracts for gas deliveries, the pricing formula relies on a weighted average of the prices from previous months, which mitigates the volatility risk. In addition, the Energy Law provides for the possibility of filing an application for tariff adjustment if, within a quarter, the purchase costs of gas rise by more than 5%.

In 2012, the Company closely monitored and hedged against the risk. To hedge against the price risk, the Company used Asian call options settled as European options, and risk reversal option strategies.

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 Company. An equally serious threat is that of having excess structural liquidity, which could adversely affect the Company's profitability.

The Company monitors and plans its liquidity position on a continuous basis. As part of its strategy to hedge against liquidity risk, PGNiG has executed credit facility agreements with the following banks:

Societe Generale S.A. Polish Branch – for PLN 40m,

Bank Handlowy w Warszawie S.A. – for PLN 40m,

Bank Pekao S.A. – for PLN 40m,

PKO BP S.A. – for PLN 40m,

Bank Millennium S.A. – for PLN 40m,

BRE Bank S.A. – for PLN 40m,

ING Bank Śląski S.A. – for PLN 40m.

As at December 31st 2012, PGNiG did not carry any amounts outstanding under overdraft facilities.

In order to optimise cash management processes at the Group level, on December 1st 2010 PGNiG S.A. also concluded with Bank Handlowy w Warszawie S.A. a short-term note issuance programme agreement for a total amount of PLN 397.3m. Under an annex of June 1st 2011, the value of the programme was raised to PLN 1,000m. The agreement is valid until November 30th 2013.

The nominal value of debt under notes issued to the Group companies was PLN 212m as at December 31st 2012.

To enhance its liquidity, on June 10th 2010 the Company executed a note programme agreement, which originally involved 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), for a total amount of PLN 3,000m. Under the programme, the Company may issue discount or coupon notes with maturities ranging from 1 to 12 months. On July 21st 2011, an annex to the programme agreement was signed, whereby the available financing amount was raised to PLN 5,000m and the agreement term was extended from July 31st 2013 to July 31st 2015. Another annex was signed on November 25th 2011, whereby the programme amount was raised to PLN 7,000m, and three banks (BRE Bank S.A., Bank Zachodni WBK S.A., and Nordea Bank Polska S.A.) joined the programme. As at December 31st 2012, the nominal value of debt under the programme was PLN 2,293m.

The programme's objective is to satisfy PGNiG S.A.'s general liquidity needs, also related to execution of investment projects.

On February 10th 2012, PGNiG Finance AB (PGNiG S.A.'s subsidiary) issued Tranche I of five-year Euronotes for EUR 500m, at a fixed coupon of 4% p.a. The notes were assigned the Baa1 (Moody's) and BBB+ (Standard & Poor's) credit ratings. The notes were issued under a five-year EUR 1,200m Euronote Programme executed on August 25th 2011. The issue proceeds were used to advance a loan to PGNiG S.A. bearing interest at 4.064% p.a.

In May 2012, PGNiG S.A. executed transaction documentation for a note programme for investors in Poland. The first, PLN 2,500m tranche of five-year notes was issued on June 19th 2012. The nominal value of debt under the notes was PLN 3,694m as at December 31st 2012.

The liquidity risk is significantly mitigated with the use of a liquidity management procedure 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.

Liquidity risk is assessed through ongoing detailed measurement of liquidity by monitoring of cash flows.

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

Financial liabilities at amortised cost, by maturity

Dec 31 2012	Liabilities under borrowings and debt securities	Other non-current liabilities, trade and other payables*	Total expenditure
up to 1 year	3,879	1,460	5,339
from 1 to 5 years	4,390	35	4,425
over 5 years	-	5	5
Total	**8,269**	**1,500**	**9,769**

Dec 31 2011	Liabilities under borrowings and debt securities	Other non-current liabilities, trade and other payables*	Total expenditure
up to 1 year	3,591	1,702	5,293
from 1 to 5 years	-	14	14
over 5 years	-	2	2
Total	**3,591**	**1,718**	**5,309**

*Does not include VAT payable or other taxes, customs duties and social security payable.

In the current and comparative periods, the Company 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 instruments by maturity

	Net carrying amount as at Dec 31 2012*	Contractual cash flows, including:	up to 1 year	from 1 to 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 transactions	(76)	3,478	3,478	-
- inflows	-	1,697	1,697	-
- outflows	-	1,781	1,781	-
*- currency options***	5	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
*- commodity options***	15	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
Total	**(288)**	**15,360**	**4,026**	**11,334**

	Net carrying amount as at Dec 31 2011*	Contractual cash flows, including:	up to 1 year	from 1 to 5 years
- interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	(411)	(190)	12	(202)
- inflows	-	2,642	118	2,524
- outflows	-	(2,832)	(106)	(2,726)
*- forward transactions***	59	65	65	-
- inflows	-	1,999	1,999	-
- outflows	-	(1,934)	(1,934)	-
*- currency options***	182	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
*- commodity options***	38	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
Total	**(132)**	**(125)**	**77**	**(202)**

* 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. CCIRS cash flows computed using the Exante system; interest payments are forecast.

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

The Company has not identified any other material risks inherent in its operations.

Risk management policy

To ensure effective financial risk management, on February 17th 2003 the Company's Management Board implemented the *"Policy of Financial Risk Management at PGNiG S.A."* (the document was further amended), which defines the distribution of functions and responsibilities between individual organisational units of the Company in the process of managing and monitoring the financial risk.

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

The bodies responsible for ensuring compliance with the *"Policy of Financial Risk Management at PGNiG S.A."* and periodic updates of the Policy are:

1. Risk Committee, which proposes risk management policies, reviews the policies and revises them accordingly;
2. the PGNiG Management Board, which is responsible for formal approval of the Policy.

Sensitivity analysis

To determine a rational range of changes which may occur with respect to currency or interest rate risks, the Company assumed an (implied) market volatility level for semi-annual periods, i.e. an average change of **15%** as at the end of December 2012 for the analysis of exchange rate sensitivity (unchanged relative to the end of December 2011), 100bp for the analysis of interest rate sensitivity (as at December 31st 2011, also 100bp) and **25%** for energy commodity derivatives (30% as at December 31st 2011). The half-year period reflects the frequency with which the Company discloses results of financial instrument sensitivity analyses in its reports.

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 higher by PLN 5m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 15%, ceteris paribus (loss of PLN 410m due to stronger NOK vs. profit of PLN 127m on the back of stronger USD, PLN 288m due to stronger EUR and PLN 0.5m due to strengthening of other currencies). Higher profit would be mainly attributable to an increase in positive valuation of USD- and EUR-denominated derivatives hedging trade payables. The result on NOK is driven down by a slightly negative balance of negative valuation of derivatives hedging the loan advanced to PGNiG Norway AS, a subsidiary, and positive exchange differences on valuation of the loan.

As at December 31st 2012, the net profit would have been lower by PLN 5m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 15%, ceteris paribus (profit of PLN 410m on the back of weaker NOK vs. loss of PLN 125m due to weaker USD, PLN 290m due to depreciation of EUR, and PLN 0.5m due to weakening of other currencies). The decrease in profit would be attributable to the lower value of EUR-denominated liabilities, which in most part are hedged with derivatives with a straight-line payoff profile, which in turn would increase their effective portion recognised in equity and concurrently reduce the effect on profit or loss. The match of hedging instruments with hedged items (chiefly including the NOK-denominated loan under assets and USD-denominated trade payables) results in the fact that a decrease in NOK/PLN and USD/PLN exchange rates would not have a material bearing on profit or loss. This stems from the fact that the Company, as a major importer of gas fuel, hedges its position against appreciation of USD. In the case of NOK, an increase in positive valuation of NOK-related derivatives would be higher than an increase in negative NOK/PLN exchange differences on revaluation of the NOK-denominated loan advanced to PGNiG Norway AS.

The loan advanced to PGNiG Norway AS is fully covered with CCIRS transactions. The loan-related cash flows are offset by cash flows from the hedging transactions. As a result, changes in positive (negative) valuation of the loan are offset by negative (positive) changes in valuation of the CCIRS transactions. On a net basis, the items are insensitive to the exchange rate and interest rate changes.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2011 indicate that the net profit would have been higher by PLN 63m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 15%, ceteris paribus (loss of PLN 17m due to stronger EUR and PLN 12m due to stronger NOK vs. profit of PLN 91m on the back of stronger USD and PLN 1m due to strengthening of other currencies). Higher profit would be mainly attributable to an increase in positive valuation of USD- and EUR-denominated derivatives hedging trade payables. The result on NOK is driven down by a slightly negative balance of negative valuation of derivatives hedging the loan advanced to PGNiG Norway AS, a subsidiary, and positive exchange differences on valuation of the loan.

As at December 31st 2011, the net profit would have been higher by PLN 35m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 15%, ceteris paribus (profit of PLN 12m on the back of weaker NOK and PLN 37m due to depreciation of EUR vs. loss of PLN 13m due to weaker USD and PLN 1m due to weakening of other currencies). The increase in profit would be attributable to the lower value of EUR-denominated liabilities, which in most part are hedged with derivatives with a straight-line payoff profile, which in turn would increase their effective portion recognised in equity and concurrently reduce the effect on profit or loss. The match of hedging instruments with hedged items (chiefly including the NOK-denominated loan under assets and USD-denominated trade payables) results in the fact that a decrease in NOK/PLN and USD/PLN exchange rates would not have a material bearing on profit or loss. This stems from the fact that the Company, as a major importer of gas fuel, hedges its position against appreciation of USD. In the case of NOK, an increase in positive valuation of NOK-related derivatives would be higher than an increase in negative NOK/PLN exchange differences on revaluation of the NOK-denominated loan advanced to PGNiG Norway AS.

The loan advanced to PGNiG Norway AS is fully covered with CCIRS transactions. The loan-related cash flows are offset by cash flows from the hedging transactions. As a result, changes in positive (negative) valuation of the loan are offset by negative (positive) changes in valuation of the CCIRS transactions. On a net basis, the items are insensitive to the exchange rate and interest rate changes.

Detailed results of the analysis of sensitivity of financial instruments to exchange rate fluctuations for 2012 and 2011 are presented on the following pages.

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

	Net 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	-	-	-	-	-	-	-	-
Trade and other receivables	948	1	141	-	-	(1)	(141)	-	-
Derivative financial instruments	90	357	5	-	-	-	-	507	-
Cash and cash equivalents	104	2	12	1	-	(2)	(12)	(1)	-
Effect on financial assets before tax		**360**	**158**	**1**	**-**	**(3)**	**(153)**	**506**	**-**
19% tax		(68)	(30)	-	-	1	29	(96)	-
Effect on financial assets after tax		**292**	**128**	**1**	**-**	**(2)**	**(124)**	**410**	**-**
Total currencies		*421*				*284*			
Financial liabilities									
Trade and other payables	44	5	1	-	-	(5)	(1)	-	-
Derivative financial instrument liabilities	393	-	-	507	-	361	2	-	-
Effect on financial liabilities before tax		**5**	**1**	**507**	**-**	**356**	**1**	**-**	**-**
19% tax		(1)	-	(96)	-	(68)	-	-	-
Effect on financial liabilities after tax		**4**	**1**	**411**	**-**	**288**	**1**	**-**	**-**
Total currencies		*416*				*289*			
Total increase/decrease		288	127	(410)	-	(290)	(125)	410	-
Total currencies		**5**				**(5)**			
Exchange rates as at the end of the reporting period and their change:									
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

* 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.

* Includes shares 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.

	Net carrying amount as at Dec 31 2011	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**	835	-	-	-	-	-	-	-	-
Other financial assets	2,595	-	-	389	-	-	-	(389)	-
Trade and other receivables	184	1	9	17	-	(1)	(9)	(17)	-
Derivative financial instruments	244	28	144	-	-	-	-	421	-
Cash and cash equivalents	96	2	9	-	4	(2)	(9)	-	(4)
Effect on financial assets before tax		**31**	**162**	**406**	**4**	**(3)**	**(18)**	**15**	**(4)**
19% tax		(6)	(31)	(77)	(1)	1	3	(3)	1
Effect on financial assets after tax		**25**	**131**	**329**	**3**	**(2)**	**(15)**	**12**	**(3)**
Total currencies		*488*				*(8)*			
Financial liabilities									
Trade and other payables	686	52	49	-	2	(52)	(49)	-	(2)
Derivative financial instrument liabilities	414	-	-	421	-	4	47	-	-
Effect on financial liabilities before tax		**52**	**49**	**421**	**2**	**(48)**	**(2)**	**-**	**(2)**
19% tax		(10)	(9)	(80)	-	9	-	-	-
Effect on financial liabilities after tax		**42**	**40**	**341**	**2**	**(39)**	**(2)**	**-**	**(2)**
Total currencies		*425*				*(43)*			
Total increase/decrease		(17)	91	(12)	1	37	(13)	12	(1)
Total currencies		**63**				**35**			
Exchange rates as at the end of the reporting period and their change:									
EUR/PLN	4.4168	-	5.0793	5.0793	5.0793	-	3.7543	3.7543	3.7543
USD/PLN	3.4174	3.9300	-	3.9300	3.9300	2.9048	-	2.9048	2.9048
NOK/PLN	0.5676	0.6527	0.6527	-	0.6527	0.4825	0.4825	-	0.4825

* 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.

* Includes shares 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.

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

	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)**	

	Dec 31 2011			
Exchange rate	*for EUR*	*for USD*	*for EUR*	*for USD*
Exchange rate change by:	15%		-15%	
Effect on equity, before tax	61	369	(51)	(265)
19% tax	(12)	(70)	10	50
Effect on financial assets/liabilities after tax	49	299	(41)	(215)
Total currencies	**348**		**(256)**	

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 fact that the Company uses derivative instruments whose valuation in the effective portion is charged to equity in order to hedge against an increase in USD- and EUR-denominated liabilities and expenses related to gas purchases.

The Company has analysed the sensitivity of energy commodity derivatives. For the sensitivity analysis for 2012, a 25% volatility was assumed for such instruments (December 31st 2011: 30%).

The tables below present an analysis of sensitivity of energy commodity derivatives to price changes for 2012 and for 2011.

Sensitivity of derivatives to commodity price fluctuations charged to profit or loss

	Net carrying amount as at Dec 31 2012	**Price risk**			
	Price change by:	*25%*		*--25%*	
		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)**	

	Net carrying amount as at Dec 31 2011	**Price risk**			
	Price change by:	*30%*		*-30%*	
		Gasoil	Fuel oil	Gasoil	Fuel oil
Financial assets					
Energy commodity derivative assets	41	86	72	-	-
Effect on financial assets before tax		**86**	**72**	**-**	**-**
19% tax		(16)	(14)	-	-
Effect on financial assets after tax		**70**	**58**	**-**	**-**
Total commodities		*128*		-	
Financial liabilities					
Energy commodity derivative liabilities	3	-	-	48	67
Effect on financial liabilities before tax		**-**	**-**	**48**	**67**
19% tax		-	-	(9)	(13)
Effect on financial liabilities after tax		-	-	39	54
Total commodities		-		93	
Total increase/decrease		**70**	**58**	(39)	(54)
Total commodities		***128***		***(93)***	

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 derivatives' sensitivity to fluctuations of commodity prices charged to equity

	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)**

	Dec 31 2011			
Price change by:	30%		-30%	
	Gasoil	Fuel oil	Gasoil	Fuel oil
Effect on equity, before tax	42	54	(47)	(4)
19% tax	(8)	(10)	9	1
Effect on financial assets/liabilities after tax	**34**	**44**	**(38)**	**(3)**

The analysis of derivative instruments' sensitivity to changes in prices of energy commodity derivatives, charged to equity and presented in the table below, shows that a 25% increase (30% increase for 2011) in prices of energy commodity derivatives would increase equity through other comprehensive income. A 25% decline in the prices (2011: 30% decline) would reduce equity. This is due to the fact that the Company uses derivatives whose valuation in the effective portion is charged to equity in order to hedge against an increase in prices of energy commodities, which are the largest cost item in the Company's income statement.

The Company analysed the sensitivity of financial instruments under advanced loans, contracted borrowings, notes in issue and variable-rate lease liabilities to interest rate changes of +/-100 bp for 2012 (2011: +/-100 bp).

As at December 31st 2012, the sensitivity of loans advanced to interest rate changes of +/-100 basis points was PLN +/- 29m. The sensitivity to interest rate changes of +/-100 bp of liabilities under borrowings, notes in issue and variable-rate lease liabilities was +/- PLN 89m.

As at December 31st 2011, the sensitivity of loans advanced to interest rate changes of +/-100 basis points was PLN +/- 4m. The sensitivity to interest rate changes of +/-100 bp of liabilities under borrowings, notes in issue, and variable-rate lease liabilities was +/- PLN 36m.

Sensitivity of financial instruments to interest rate changes

	Net carrying amount	*Change by:*	
	As at Dec 31 2012	**+100 bp**	**-100 bp**
Loans advanced*	2,949	29	(29)
Borrowings	2,106	21	(21)
Notes issued	6,163	62	(62)
Total liabilities	**8,269**	**83**	**(83)**

*Does not include the loan advanced to PGNiG Norway AS as related interest rate risk exposure is fully hedged.

	Net carrying amount	*Change by:*	
	As at Dec 31 2011	**+100 bp**	**-100 bp**
Loans advanced*	413	4	(4)
Notes issued	3,591	36	(36)
Total liabilities	**3,591**	**36**	**(36)**

*Does not include the loan advanced to PGNiG Norway AS as related interest rate risk exposure is fully hedged.

34. DERIVATIVES

Measurement of derivatives

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

As at December 31st 2012, the Company held four types of currency derivatives: cross currency interest rate swaps (CCIRS), purchased call options, risk reversal strategies (purchase of call options and sale of put options) and purchased currency forwards. In 2012 the Company also hedged against commodity risk using Asian call options and risk reversal strategies (purchase of Asian commodity call options and sale of put options).

Measurement to fair value was performed with the use of Exante software.

Currency call and put options were measured at fair value with the Garman-Kohlhagen model, based on such market data as interest rates, foreign-exchange rates and volatility as at December 31st 2012. Asian commodity call and put options were measured at fair value with the Espen Levy model, based on such market data as commodity prices, foreign-exchange rates and volatility of commodity prices as at December 31st 2012. CCIRS and forwards were measured at fair value by discounting future cash flows at foreign-exchange rates and interest rates as at December 31st 2012.

Hedge accounting

The Company uses cash flow hedge accounting with respect to transactions hedging payments for gas and with respect to transactions hedging gas prices.

For details, see Note 2.3.10.

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

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

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

The selected commodity hedging instruments include purchased swap contracts (buy: fixed rate / sell: floating rate) based on Gasoil 0.1% and Fuel Oil 1% Barges FOB Rotterdam indices (Platt's), purchased Asian commodity call options based on Gasoil 0.1% and Fuel Oil 1% Barges FOB Rotterdam indices (Platt's), zero-cost option structures (collars) involving a combination of purchased Asian commodity call options and sold Asian commodity put options based on Gasoil 0.1% and Fuel Oil 1% Barges FOB Rotterdam indices (Platt's).

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

Derivative Instruments

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value		Hedged risk
					Dec 31 2012	Dec 31 2011	
Cross Currency Interest Rate Swap							
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
Loan	4,560	NOK	1 - 3 years	0.5147	-	(411)	Foreign exchange and interest-rate risk
					(232)	**(411)**	
Forward transactions							
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
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
Payments for gas	15	EUR	up to 1 month	4.3855	-	1	Foreign exchange risk
Payments for gas	18	EUR	up to 1 month	4.5464	-	(2)	Foreign exchange risk
Payments for gas	26	EUR	1 - 3 months	4.4036	-	1	Foreign exchange risk
Payments for gas	6	EUR	1 - 3 months	4.4751	-	-	Foreign exchange risk
Payments for gas	85	USD	up to 1 month	3.1907	-	19	Foreign exchange risk
Payments for gas	160	USD	1 - 3 months	3.2650	-	27	Foreign exchange risk
Payments for gas	70	USD	3 - 6 months	3.2720	-	13	Foreign exchange risk
					(76)	**59**	

Derivative Instruments (continued)

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value		Hedged risk
					Dec 31 2012	Dec 31 2011	
Call options							
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
Payments for gas	190	USD	up to 1 month	3.1542	-	54	Foreign exchange risk
Payments for gas	390	USD	1 - 3 months	3.3775	-	69	Foreign exchange risk
Payments for gas	310	USD	3 - 6 months	3.5328	-	46	Foreign exchange risk
Payments for gas	17	EUR	up to 1 month	4.2453	-	4	Foreign exchange risk
Payments for gas	34	EUR	1 - 3 months	4.4209	-	5	Foreign exchange risk
Payments for gas	36	EUR	3 - 6 months	4.5681	-	4	Foreign exchange risk
					5	**182**	
Put options							
Payments for gas	20	USD	1 - 3 months	3,003	-	-	Foreign exchange risk
					-	**-**	
Call commodity options							
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
Payments for gas	0.205	HFO	up to 1 month	705.91	-	18	Gas price risk
Payments for gas	0.431	HFO	1 - 3 months	771.89	-	-	Gas price risk
Payments for gas	0.724	HFO	3 - 6 months	782.24	-	-	Gas price risk
Payments for gas	0.947	HFO	6 - 12 months	819.37	-	7	Gas price risk
Payments for gas	0.062	HFO	1 - 3 years	788.06	-	2	Gas price risk
Payments for gas	0.156	GO	up to 1 month	1,013.75	-	10	Gas price risk

Payments for gas	0.343	GO	1 - 3 months	1,098.69	-	-	Gas price risk
Payments for gas	0.505	GO	3 - 6 months	1,089.44	-	-	Gas price risk
Payments for gas	0.642	GO	6 - 12 months	1,150.09	-	3	Gas price risk
Payments for gas	0.042	GO	1 - 3 years	1,121.43	-	1	Gas price risk
					15	**41**	
			Put commodity options				
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
Payments for gas	0.170	HFO	up to 1 month	555.64	-	-	Gas price risk
Payments for gas	0.431	HFO	1 - 3 months	552.60	-	-	Gas price risk
Payments for gas	0.724	HFO	3 - 6 months	526.47	-	-	Gas price risk
Payments for gas	0.827	HFO	6 - 12 months	503.12	-	(1)	Gas price risk
Payments for gas	0.030	HFO	1 - 3 years	490.00	-	-	Gas price risk
Payments for gas	0.156	GO	up to 1 month	802.43	-	-	Gas price risk
Payments for gas	0.343	GO	1 - 3 months	831.17	-	-	Gas price risk
Payments for gas	0.505	GO	3 - 6 months	803.80	-	-	Gas price risk
Payments for gas	0.586	GO	6 - 12 months	753.27	-	(2)	Gas price risk
Payments for gas	0.020	GO	1 - 3 years	772.00	-	-	Gas price risk
					-	**(3)**	
	Total				**(288)**	**(132)**	
	including:	**positive valuation**	**assets**		**105**	**285**	
		negative valuation	**liabilities**		**(393)**	**(417)**	

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 items are recognised in profit/loss for the period or directly in equity in the event of occurrence of an effective portion constituting an effective hedge of fair value changes of financial derivatives designated to hedge cash flows. In such a case, at the time of exercise of the derivative instrument and of the hedged item, the Company's equity is decreased/increased, and the effective portion is charged to 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 of the period.

	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
Net gain/loss on valuation of derivative instruments – unrealised	109	(339)
Net gain/loss on derivative instruments – realised	(218)	489
Total net gain/loss on derivative instruments recognised in profit or loss	**(109)**	**150**
of which:		
recognised in raw material and consumables used	37	470
recognised in net other expenses	(233)	(80)
recognised in other expenses or finance costs	87	(240)
Net gain/loss on valuation of derivative instruments recognised in other comprehensive income -– unrealised	**(249)**	**135**
Total net gain/loss on derivative instruments recognised in equity	**(358)**	**285**

In December 2012, following the renegotiation of the terms of gas purchases, the Company's exposure to petroleum products, Gasoil and Fuel Oil, decreased, which required the Company to cancel hedging relationships designated for hedge accounting with derivative transactions hedging purchase prices of these products. Having measured the decreased exposure, the Company cancelled hedging relationships with the following derivative transactions:

- eight collars, i.e. zero-cost option strategies involving a combination of purchased Asian commodity call options and sold Asian commodity put options based on Gasoil 0.1% Barges FOB Rotterdam index (Platt's);
- one purchased Asian commodity call option based on Gasoil 0.1% Barges FOB Rotterdam index (Platt's);
- four collars, i.e. zero-cost option strategies involving a combination of purchased Asian commodity call options and sold Asian commodity put options based on Fuel Oil 1% Barges FOB Rotterdam index (Platt's);
- four purchased Asian commodity call options based on Fuel Oil 1% Barges FOB Rotterdam index (Platt's);

These transactions were executed and designated for hedge accounting in the period from June to September 2012 and are to be settled in the period from April to July 2013. As the exposure decreased and the hedging relationships were cancelled, these transactions ceased to qualify for hedge accounting and therefore changes in their value were recognised in profit or loss and increased the gain on derivative instruments related to operating activities by PLN 3.3m.

35. CONTINGENT LIABILITIES AND RECEIVABLES

35.1. Contingent receivables

	Dec 31 2012	Dec 31 2011
From related entities:		
under guarantees and sureties received	13,763	12,776
Total contingent receivables from related entities	**13,763**	**12,776**
From other entities:		
under guarantees and sureties received	306	340
under promissory notes received	149	90
Total contingent receivables from other entities	455	430
Total contingent assets	**14,218**	**13,206**

35.2. Contingent liabilities

	Dec 31 2012	Dec 31 2011
To other entities*		
under guarantees and sureties issued	9,539	10,541
under promissory notes issued	117	620
Other**	1,118	-
Total contingent liabilities to other entities	**10,774**	**11,161**
Total contingent liabilities	**10,774**	**11,161**

* Contingent liabilities in foreign currencies were translated into the złoty at the exchange rates quoted by the NBP respectively for December 31st 2012 and December 31th 2011.
** In 2012, the Company executed a registered pledge agreement relating to future claims under a borrowing.

35.3. Other contingent liabilities

35.3.1. Real estate tax

PGNiG S.A. assessed the risk of claims being filed against it in relation to real estate tax on mining workings as low.

The related liability, if any, including interest, which is not past due and is not recognised in the financial statements, was PLN 160.2m as at December 31st 2012 (December 31st 2011: PLN 151.1m).

However, taking into consideration the ruling issued by the Polish Constitutional Tribunal on September 13th 2011, there is no doubt that mining workings, understood as spaces in land properties or in rock masses (excluding structures) may not be subject to real estate tax either on their own (understood as workings in the physical sense) or together with the devices fitted within them (understood as mining workings in the broader sense).

Pursuant to the ruling (court docket No. P 33/09) concerning imposition of real estate tax on mining workings, mining workings are not structures within the meaning of the Polish Building Law (and consequently within the meaning of the Local Taxes and Charges Act). Pursuant to the grounds for the ruling, mining workings are considered to be areas in land properties or in rock masses, created as a result of performance of mining work, and boreholes (wells) are to be treated as a special type of mining 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, mining workings understood in this way may not be subject to real estate tax, either as such or with the installations located inside them. In its ruling, the Polish Constitutional Tribunal concludes however that there are no plausible reasons which would generally be against the possibility to recognise facilities located in mining workings as structures, and that it is within the powers of tax authorities and administrative courts to resolve the matter. The judging panel made a reservation however, that only the following may be considered structures within the meaning of the Local Taxes and Charges Act:

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

To note, 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.

36. OFF-BALANCE SHEET LIABILITIES

36.1. Operating lease liabilities

	Dec 31 2012	Dec 31 2011
Payable in up to 1 year	11	5
Payable in 1 to 5 years	10	8
Payable in over 5 years	-	-
Total	**21**	**13**

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

	Dec 31 2012	Dec 31 2011
Commitments under executed agreements	6,598	4,678
Completion of agreements as at the balance-sheet date	(3,653)	(3,132)
Commitments under executed agreements subsequent to the balance-sheet date	**2,945**	**1,546**

37 RELATED ENTITIES

PGNiG S.A. holds shares in production and service companies. As at December 31st 2012, PGNiG S.A. had 55 related entities, including:

- 25 subsidiaries;
- 20 indirectly related companies;
- 2 jointly-controlled entities;
- 8 associates

37.1. Related entities as at the end of 2012

Company name	Based in	% ownership interest of PGNiG S.A.	
PGNiG S.A. (Parent)	Poland		
PGNiG S.A.'s subsidiaries		**Dec 31 2012**	**Dec 31 2011**
GEOFIZYKA Kraków S.A.	Poland	100.00%	100.00%
GEOFIZYKA Toruń S.A.	Poland	100.00%	100.00%
PGNiG Poszukiwania S.A. (currently Exalo Drilling S.A.)	Poland	100.00%	-
PGNiG Norway AS	Norway	100.00%	100.00%
Polish Oil And Gas Company – Libya B.V.	The Netherlands	100.00%	100.00%
INVESTGAS S.A.	Poland	100.00%	100.00%
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Górnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Karpacka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Mazowiecka Spółka Gazownictwa Group [1)]	Poland	100.00%	100.00%
Pomorska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Geovita S.A.	Poland	100.00%	100.00%
PGNiG Technologie S.A.	Poland	100.00%	100.00%
PGNiG Energia S.A.	Poland	100.00%	100.00%
PGNiG Sales&Trading Group [2)]	Germany	100.00%	100.00%
PGNiG Finance AB	Sweden	100.00%	100.00%
PGNiG SPV1 Sp. z o.o. [3)]	Poland	-	100.00%
PGNiG Termika S.A. [4)]	Poland	71.44%[5]	-
Operator Systemu Magazynowania Sp. z o.o.	Poland	100.00%	100.00%
PGNiG Serwis Sp. z o.o.	Poland	100.00%	-
Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A.	Poland	75.00%	75.00%
NYSAGAZ Sp. z o.o.	Poland	66.28%	66.28%
BUD-GAZ P.P.U.H. Sp. z o.o.	Poland	100.00%	100.00%
Polskie Elektrownie Gazowe Sp. z o.o.	Poland	100.00%	100.00%
PGNiG SPV4 Sp. z o.o.	Poland	100.00%	-
PGNiG S.A.'s indirectly related companies			
Poszukiwania Nafty i Gazu Jasło S.A. [6)]	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu Kraków Group [6), 7)]	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu NAFTA S.A. [6)]	Poland	100.00%	100.00%
Poszukiwania Naftowe Diament Sp. z o.o. [6)]	Poland	100.00%	100.00%
Zakład Robót Górniczych Krosno Sp. z o.o. [6)]	Poland	100.00%	100.00%
Oil Tech International F.Z.E.	UAE	100.00%	100.00%
Zakład Gospodarki Mieszkaniowej Sp. z o.o.	Poland	100.00%	100.00%
Biogazownia Ostrowiec Sp. z o.o.	Poland	100.00%	100.00%
Powiśle Park Sp. z o.o. (Warsaw)	Poland	100.00%	100.00%
Poltava Services LLC	Ukraine	99.00%	99.00%
CHEMKOP Sp. z o.o. Kraków	Poland	85.00%	85.00%

GAZ Sp. z o.o.	Poland	80.00%	80.00%
PT Geofizyka Toruń Indonezja LLC w likwidacji (in liquidation)	Indonesia	55.00%	55.00%
XOOL GmbH	Germany	100.00%	100.00%
NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej	Poland	67.40%	67.40%
Elektrociepłownia Stalowa Wola S.A.	Poland	50.00%	50.00%
Al. Masharig – Geofizyka Toruń Limited Company w likwidacji	Saudi Arabia	50.00%	50.00%
Gazobudowa Kraków Sp. z o.o.	Poland	47.20%	47.20%
Przedsiębiorstwo Badawczo – Usługowe „Petromin" Sp. z o.o. w likwidacji	Poland	40.00%	40.00%
Geotermia Sp. z o.o.	Poland	25.00%	25.00%
PGNiG S.A.'s jointly-controlled entities			
SGT EUROPOL GAZ S.A.[8)]	Poland	49.74%	49.74%
InterTransGas GmbH	Germany	50.00%	50.00%
Associates			
GAS – TRADING S.A.	Poland	49.74%	49.74%
Sahara Petroleum Technology LLC w likwidacji (in liquidation)	Oman	50.00%	50.00%
PFK GASKON S.A.	Poland	49.74%	49.74%
GAZOMONTAŻ S.A.	Poland	50.00%	50.00%
ZRUG Sp. z o.o. (Poznań)	Poland	49.74%	49.74%
ZWUG INTERGAZ Sp. z o.o.	Poland	50.00%	50.00%
Dewon ZSA	Ukraine	49.74%	49.74%
ZRUG TORUŃ S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation)	Poland	50.00%	50.00%

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

[2)] The PGNiG Sales &Trading Group comprises PGNiG Sales &Trading GmbH and its subsidiary XOOL GmbH;

[3)] On January 11th 2012, PGNiG SPV 1 Sp. z o. o. acquired 99.84% of shares in Vattenfall Heat Poland S.A. (currently PGNiG Termika S.A.). On December 31st 2012, the company merged with PGNiG Termika S.A. and the legal existence of PGNiG SPV1 Sp. z o.o. terminated.

[4)] On December 31st 2012, PGNiG Termika S.A. and PGNiG SPV1 Sp. z o.o. merged. PGNiG Termika S.A. was the surviving company and became a subsidiary of PGNiG S.A..

[5)] PGNiG S.A.'s ownership interest in PGNiG Termika. Share in the total vote – 99.99%.

[6)] A subsidiary of PGNiG Poszukiwania S.A. as of August 21st 2012.

[7)] The Poszukiwania Nafty i Gazu Kraków Group comprises 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.

37.2. Related-party transactions

Related party		Sales to related parties	Purchases from related parties	Dividends received	Finance income from related parties	Finance costs from related parties
Fully-consolidated or equity-accounted entities	Dec 31 2012	533	4,913	328	384	113
	Dec 31 2011	334	4,863	533	412	8
Associates	Dec 31 2012	27	-	-	-	-
	Dec 31 2011	-	-	-	-	-
Other related entities – non-consolidated	Dec 31 2012	5	10	3	3	-
	Dec 31 2011	10	16	2	6	-
Related entities – total	**Dec 31 2012**	**565**	**4,923**	**331**	**387**	**113**
	Dec 31 2011	**344**	**4,879**	**535**	**418**	**8**

Related party		Receivables from related parties, gross	Receivables from related parties, net	Loans to related parties, gross	Loans to related parties, net	Trade and other payables to related parties	Amounts payable to related parties under borrowings and debt securities
Fully-consolidated or equity-accounted entities	Dec 31 2012	151	148	6,110	6,110	805	2,317
	Dec 31 2011	100	99	3,123	3,123	597	297
Associates	Dec 31 2012	4	4	-	-	7	-
	Dec 31 2011	1	1	-	-	-	-
Other related entities – non-consolidated	Dec 31 2012	85	1	146	117	86	-
	Dec 31 2011	85	1	29	-	86	-
Related entities – total	**Dec 31 2012**	**240**	**153**	**6,256**	**6,227**	**898**	**2,317**
	Dec 31 2011	**186**	**101**	**3,152**	**3,123**	**683**	**297**

The Company discloses lease receivables under gross/net receivables from related entities. For more information on the lease agreement with the related entity, see Note 14.1.

In 2012, the Company did not enter into any material transactions with related parties otherwise than on arm's length terms.

The Company 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 goods or EUR 30 thousand in the case of transactions involving rendering of services , sale or delivery of intangible assets.

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

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

In 2012, PGNiG S.A. generated the highest turnovers with the following entities in which the State Treasury holds equity interests: 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., Zakłady Azotowe w Tarnowie-Mościcach S.A. and Huta Cynku "Miasteczko Śląskie" S.A.

In 2011, the Company generated the highest turnovers with the following entities in which the State Treasury holds equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A., Polski Koncern Naftowy ORLEN S.A., Rafineria Trzebinia S.A., Zakłady Azotowe ANWIL S.A., Zakłady Azotowe PUŁAWY S.A., Zakłady Azotowe KĘDZIERZYN S.A., Zakłady Chemiczne POLICE S.A., Zakłady Azotowe w Tarnowie-Mościcach S.A., and PGE Elektrociepłownia Lublin-Wrotków Sp. z o.o.

37.4. Remuneration paid, loans and other similar benefits granted to members of management and supervisory bodies

	Jan 1–Dec 31 2012		
Name	Total amount of remuneration, additional benefits and bonuses paid in 2012	Total amount of remuneration for holding offices in subordinates in 2012	Total remuneration paid in 2012
	(PLN '000)		
Total remuneration paid to Management Board members, including:	1,894.59	2,840.36	4,734.95
Grażyna Piotrowska-Oliwa – President of the Management Board	210.79	558.06	768.85
Radosław Dudziński – Vice-President	330.21	858.43	1,188.64
Sławomir Hinc – Vice-President	336.04	856.57	1,192.61
Mirosław Szkałuba – Vice-President	369.06	423.16	792.22
Persons who were Management Board members in 2012 but not as at Dec 31 2012:			
Marek Karabuła – Vice-President**	229.85	88.86	318.71
Ewa Bernacik* – proxy	105.85	37.43	143.28
Mieczysław Jakiel* – proxy	91.08	17.85	108.93
Kazimierz Chrobak* – proxy	221.71	-	221.71
Total remuneration paid to Supervisory Board members, including:	363.15	213.52	576.67
Chmielewski Wojciech	40.30	-	40.30
Marcin Moryń	41.45	-	41.45
Mieczysław Kawecki	41.45	43.04	84.49
Agnieszka Chmielarz	41.45	45.24	86.69
Józef Głowacki	40.30	-	40.30
Mieczysław Puławski	41.45	-	41.45
Jolanta Siergiej	41.45	45.24	86.69
Janusz Pilitowski	40.30	-	40.30
Ewa Sibrecht-Ośka	32.66	-	32.66
Persons who were Supervisory Board members in 2012 but not as at Dec 31 2012:			
Grzegorz Banaszek	1.44	-	1.44
Stanisław Rychlicki	0.90	80.00	80.90
Total	**2,257.74**	**3,053.88**	**5,311.62**

*Kazimierz Chrobak, Mieczysław Jakiel and Ewa Bernacik served as proxies until March 21st 2012.
**Marek Karabuła held his position until May 11th 2012.

Name	Jan 1–Dec 31 2011 Total amount of remuneration, additional benefits and bonuses paid in 2011	Jan 1–Dec 31 2011 Total amount of remuneration for holding offices in subordinates in 2011	Jan 1–Dec 31 2011 Total remuneration paid in 2011
	(PLN '000)		
Total remuneration paid to Management Board members, including:	3,100.14	4,364.70	7,464.84
Michał Szubski – President	356.41	1,456.22	1,812.63
Radosław Dudziński – Vice-President	329.05	1,058.18	1,387.23
Sławomir Hinc – Vice-President	325.13	1,058.18	1,383.31
Marek Karabuła – Vice-President	272.07	270.76	542.83
Mirosław Szkałuba – Vice-President	374.34	356.83	731.17
Ewa Bernacik – proxy	357.77	85.25	443.02
Mieczysław Jakiel – proxy	625.38	41.45	666.83
Persons who were Management Board members in 2011 but not as at Dec 31 2011:			
Tadeusz Kulczyk – proxy*	459.99	37.83	497.82
Total remuneration paid to Supervisory Board members, including:	292.33	190.27	482.60
Stanisław Rychlicki	41.45	80.00	121.45
Marcin Moryń	41.45	-	41.45
Mieczysław Kawecki	43.02	41.26	84.28
Agnieszka Chmielarz	41.45	25.75	67.20
Grzegorz Banaszek	41.45	-	41.45
Mieczysław Puławski	41.45	-	41.45
Jolanta Siergiej	42.06	43.26	85.32
Total	**3,392.47**	**4,554.97**	**7,947.44**

* On November 29th 2011, the PGNiG Management Board revoked the power of proxy granted to Mr Tadeusz Kulczyk.

37.5. Joint ventures

In 2012, PGNiG S.A. cooperated with the following companies in Poland: FX Energy Poland Sp. z o.o., EuroGas Polska Sp. z o.o., Energia Bieszczady Sp. z o.o., Orlen Upstream Sp. z o.o., 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 2012, PGNiG S.A. continued cooperation with FX Energy Poland Sp. z o.o. in the following areas covered by licenses awarded to PGNiG S.A.:

- "Płotki" – under the Agreement for Joint Operations dated May 12th 2000; licence interests: PGNiG S.A. (operator) – 51%, FX Energy – 49%;
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under the Operating Agreement of Mining Users dated October 26th 2005; licence interests: PGNiG S.A. (operator) – 51%, FX Energy – 24.5%, CalEnergy – 24.5%;
- "Poznań" – under the Agreement for Joint Operations dated June 1st 2004; licence interests: PGNiG S.A . (operator) – 51%, FX Energy – 49%;

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

- "Warszawa-Południe" (blocks 234, 235, 254, 255, and 274N) – under the Agreement for Joint Operations dated May 26th 2011; licence interests: FX Energy (operator) – 51%, PGNiG S.A. – 49%;
- "Ostrowiec" (blocks 163 and 164) – under the Agreement for Joint Operations dated February 27th 2009; licence interests: FX Energy (operator) – 51%, PGNiG S.A. – 49%;
- "Kutno" (blocks 211, 212, 231 and 232) – under the Agreement for Joint Operations dated September 30th 2010; licence interests: FX Energy (operator) – 50%, PGNiG S.A. – 50%.

In 2012, production continued from the Roszków field in the "Płotki" area, and from the Zaniemyśl field in the "Płotki" – "PTZ" area. Work on the acquisition of the Donatowo-Rusocin 3D seismic survey commenced in the "Płotki" area. While in the "Płotki"-"PTZ" area, work commenced on the reprocessing of the Kaleje-Zaniemyśl 3D seismic survey to select the best location for the Zaniemyśl-4 production well.

In the "Poznań" licence area, in 2012, gas production continued from the Środa Wielkopolska, Kromolice and Kromolice S fields, and also work continued on the development of the Winna Góra and Lisewo gas fields. Drilling of the Komorze-3k borehole, where a new natural gas field was discovered, was also completed. Preparations for hydraulic fracturing were under way in the Pławce-2 (*tight gas*) exploration borehole. In the Żerków-Pleszew area, processing and interpretation of the second stage 3D seismic survey data was completed. A contractor was selected to perform the drilling work on the Mieczewo-1k exploration well. The installation of a drilling rig for the well began. Miłosław 3D and Taczanów 3D seismic surveys were performed, and the processing of the acquired data began.

234.2 km of 2D seismic was acquired in the "Warszawa-Południe" area and the data was subsequently processed. Reprocessing of four archive seismic profiles with a total length of 44.5 km was completed. Geological interpretation of the Potycz-Boglewice-Grójec area, including 563.7 km of new seismic profiles and 677.7 km archive seismic profiles, was performed.

Analytical work continued for the "Ostrowiec" area. In the "Kutno" area, drilling of the Kutno-2 deep exploration borehole was completed.

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 2012, PGNiG S.A. continued cooperation 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 held in the project: PGNiG S.A. (operator) – 51%, EuroGas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%.

In the "Bieszczady" area, in 2012, seismic 2D field work was completed and processing of seismic profiles was commenced in the Jaśliska-Baligród zone. Gravimetric field work and interpretation of the acquired data were completed in the Hoczew-Lutowiska area. The partners in the project decided to secure the Niebieszczany-1 borehole. The subsequent testing of the borehole was scheduled for 2013. Reprocessing of the Kostarowce-Zahutyń 2D archive seismic profiles began. 2D field work was carried out in the Rakowa-Paszowa area.

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

In 2012, PGNiG S.A. continued cooperation with Orlen Upstream Sp. z o.o. in the "Sieraków" area under the agreement for joint operations. Project interests: PGNiG S.A. – 51%, Orlen Upstream Sp. z o.o. – 49%.

In 2012, after a geological and geophysical analysis in the "Sieraków" area, the location of the Sieraków-3 borehole was determined and preparatory work commenced at the site. The borehole will be drilled instead of the previously planned Sieraków-2 borehole.

Aurelian Oil & Gas PLC, registered office at 13/14 Hanover Street London W1S 1YH
Energia Karpaty Zachodnie Sp. z o.o. Sp. k.(a subsidiary of Aurelian Oil & Gas PLC), registered office at ul. Śniadeckich 17, 00-654 Warsaw, Poland
Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (a subsidiary of Aurelian Oil & Gas PLC), registered office at ul. Śniadeckich 17, 00-654 Warsaw, Poland

Under licences awarded to Aurelian Oil & Gas 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 Aurelian Oil & Gas PLC); licence interests: Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (operator) – 60%, PGNiG S.A. – 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 Aurelian Oil & Gas PLC); licence interests: Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (operator) – 80%, PGNiG S.A. – 20%

In 2012, in the "Karpaty Zachodnie" area, 110 kilometres of 2D seismic lines were acquired and interpretation of 108 kilometres of the Bielsko–Cieszyn–Bestwina 2D seismic profiles and 27 kilometres of the Budzów 2D seismic profiles commenced.

In 2012, in the "Karpaty Wschodnie" area, the 2D seismic survey from the Jordanów zone was processed and geological interpretation of the Mszana Dolna-Jordanów 2D seismic survey was completed.

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 S.A. entered into a framework agreement concerning shale oil and gas exploration and production in the Wejherowo licence area with four other Polish 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. 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 S.A. will be the licence operator throughout the exploration and appraisal phase.

37.6. 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 rendering of services related to production of natural gas, workover of wells and development and exploitation of fields in Ukraine.

The company's share capital amounts to UAH 11.1m (equivalent to PLN 4.3m, translated at the exchange rate quoted by the NBP for December 31st 2012) and is divided into 120,000 shares with a par value of UAH 92.89 per share. PGNiG S.A.'s equity interest in the company is UAH 4.1m (equivalent to PLN 1.7m, translated at the exchange rate quoted by the NBP for December 31st 2012). As at December 31st 2012, the value of the shares disclosed in the Company'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 S.A. 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 the 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 150 thousand (Omani rial), equivalent to PLN 1.2m, translated at the mid rate quoted by the NBP for December 24th 2012 (the last exchange rate quoted in 2012), and is divided into 150,000 shares with a par value of OMR 1 per share. PGNiG S.A. holds an OMR 73.5 thousand interest in the company (equivalent to PLN 0.9m, translated at the mid-rate quoted by the NBP for December 24th 2012, which was the last exchange rate quoted in 2012).

The company's shareholder structure is as follows:

- PGNiG S.A. 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, at the initiative of Zakład Robót Górniczych Krosno Sp. z o.o. (until June 30th 2005 a branch of PGNiG S.A., currently a wholly-owned subsidiary of PGNiG S.A.). 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 S.A. and VNG-Verbundnetz Gas AG (VNG AG, VNG) 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 0.2 thousand (equivalent to PLN 0.8m (translated at the mid-rate quoted by the NBP for December 31st 2012), 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.

InterTransGas GmbH was established for the purpose of constructing an inter connector pipeline between the Polish and European transmission systems, which is one of the solutions designed to diversify the supplies of gas fuels to Poland.

On January 29th 2009, the General Meeting of InterTransGas GmbH approved the business model for construction of the Börnicke–Hintersee–Police gas pipeline, the business plan for 2009, and the contribution of EUR 3.0m by the shareholders to the company's capital reserves. The recapitalisation was effected in the form of a contribution to the company's capital reserves, without issuance of new shares. Each of the shareholders paid the first tranche of EUR 0.7m to the capital reserves in June 2009. The next tranche of EUR 2.3m was paid by each shareholder in July 2010, after the shareholders executed an Annex to the Shareholders Cooperation Agreement on June 30th 2010, defining in detailed terms of cooperation on construction of the Germany–Poland Interconnector Pipeline, particularly with respect to rights and obligations of the ITG shareholders.

On December 13th 2011, the General Meeting of InterTransGas GmbH resolved to withdraw EUR 3.8m from capital reserves, and pay out half of this amount to each shareholder, i.e. to PGNiG S.A. and VNG AG. The payment was made before the end of December 2011.

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.

In 2012, the shareholders of ITG expressed their interest in selling their respective holdings of ITG shares. In 2012, steps were taken to find a potential buyer.

As at December 31st 2012, PGNiG S.A.'s interest in InterTransGas GmbH was to EUR 0.8m (equivalent to PLN 3.5m, translated at the mid-rate quoted by the NBP for December 31st 2012). As at December 31st 2012, the value of the shares disclosed in PGNiG S.A.'s accounting books was PLN 5.2m.

On December 21st 2010, POGC Trading GmbH of Munich was incorporated, with a share capital of EUR 10m (equivalent to PLN 40.9m, translated at the mid-rate quoted by the NBP for December 31st 2012). All the shares were acquired by PGNiG S.A. in return for a cash contribution made in

December 2010. As at December 31st 2012, the value of the shares disclosed in PGNiG S.A.'s accounting books was PLN 39.7m.

The company's business profile 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.

On August 22nd 2011, the General Meeting of POGC Trading GmbH adopted a resolution to change the company's name to PGNiG Sales & Trading GmbH. The change was registered on August 25th 2011.

In November 2011, the company commenced purchases of natural gas on the European market for PGNiG S.A.. In 2012, the company continued the trading activities on the European natural gas market.

In June 2012, PGNiG Sales & Trading GMBH acquired 100% shares in XOOL GmbH of Munich, with a share capital of EUR 500 thousand. XOOL GmbH is a natural gas operator with a network of 16,600 end-users in Germany.

Norway

On May 24th 2007, the Company established its Norwegian subsidiary PGNiG Norway AS, incorporated as a company with limited liability, a special purpose vehicle to implement PGNiG S.A.'s projects in the Norwegian Continental Shelf (NCS).

PGNiG Norway AS is a wholly-owned subsidiary of PGNiG S.A., whose business comprises crude oil and natural gas production, and other similar or related activities. PGNiG Norway AS may also engage in infrastructure projects related to transmission via subsea pipelines (e.g. construction and operation of gas pipelines), and conduct trading and financial activities and other types of activities at all stages of the crude oil and natural gas value chain.

PGNiG Norway AS was established in particular to perform the agreement executed on February 28th 2007 between PGNiG S.A., Mobil Development Norway AS and ExxonMobil Produktion Norway Inc. concerning the acquisition by the Company of licence interests in the Norwegian Continental Shelf covering the Skarv, Snadd and Idun fields (licences PL 212, PL 212B and PL 262). In line with the joint venture agreement, PGNiG Norway 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. The field will be developed using a geostationary floating production, storage and offloading vessel (FPSO).

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

In March 2011, the floating production, storage and offloading (FPSO) unit which is to be used to produce hydrocarbons from the Skarv field, was towed to Norway. Installation of all the submarine structures (foundation slabs, pipelines, etc.) on the Skarv and Idun fields was also completed. As additional leak tests of the PFSO had to be carried at the Norwegian shipyard, and due to a delay in the installation of risers caused by adverse weather conditions, the launch of production was rescheduled for Q4 2012.

Following the conclusion of a licensing round, in 2012 PGNiG Norway AS acquired the following interests in the Norwegian Continental Shelf:

- a 50% interest in and the direct operatorship of licence PL648S,
- a 20% interest in licence PL646, the direct operatorship of which was awarded to Wintershall Norge AS (40% interest).

In total, as at the end of 2012, the company held interests in ten exploration and production licences. The Skarv field, discovered in 1998, was its main asset. In 2007, the Skarv licence was extended to include the Idun field.

PGNiG Norway AS finances its exploration activities using the following sources:

- Loan advanced by PGNIG S.A. Since 2007, PGNiG S.A. has been granting loans to the company to finance its operations. As at December 31st 2012, PGNiG Norway AS's total debt

under the loans advanced by PGNiG S.A. was NOK 5,959.2m (equivalent of PLN 3,308.5m, translated at the exchange rate quoted by the NBP for December 31st 2012).
On January 10th 2013, loan no. 5 was granted in the amount of NOK 500.0m.

- USD 400.0m credit facility contracted from seven international banks These funds were spent mainly on preparation of the Skarv field for the production launch and on repayment of the loan advanced by PGNiG S.A. in 2010.

As at the end of 2012, PGNiG S.A.'s equity interest in PGNiG Norway AS was NOK 1,092m, that is PLN 606.3m (translated at the exchange rate quoted by the NBP for December 31st 2012). As at December 31st 2012, the value of the shares disclosed in PGNiG S.A.'s accounting books was PLN 537.5m.

On December 31st 2012, production of crude oil and gas from the Skarv field on the Norwegian Continental Shelf commenced. PGNiG Norway AS holds an 11.92% interest in the field operated by BP. PGNiG Norway AS's target production volume in Norway in 2013 is approx. 370 thousand tonnes of crude oil and other fractions and approx. 0.3bn cubic metres of gas. In 2014, the volume of gas produced is expected to grow as the first quarter of 2013 will be the time of launching the production.

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 S.A.) for the purpose of 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 S.A. Its share capital is USD 26.7 thousand (equivalent of PLN 82.8 thousand, translated at the exchange rate quoted by the NBP for December 31st 2012).

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 PGNiG through POGC Libya B.V., may be recovered from the production revenues (cost oil).
Because of the events which had been taking place in Libya since mid-February 2011, the Management Board of POGC Libya B.V. made a decision to evacuate all international personnel from the country and to set up a temporary office in Warsaw. The international personnel of most of the subcontractors was also evacuated. As required under the Exploration and Production Sharing Agreement (EPSA), the company notified National Oil Corporation in Libya of the occurrence of a force majeure, which provides the basis for an extension of the term to perform obligations under the agreement. In February 2012, the Management Board of POCG-Libya B.V. contacted the management of NOC to commence discussions concerning resumption of the operations. In February 2012, POGC-Libya B.V. and PGNiG S.A. entered into an agreement whereunder PGNiG S.A. undertook to make an additional contribution to the company's equity of up to PLN 20m equivalent. Contributions to the company's equity are effected in tranches, without issuance of new shares. On July 1st 2012, an amending annex was signed to the contribution agreement whereby the maximum contribution amount was raised to USD 25.0m, or PLN 77.5m (translated at the exchange rate quoted by the NBP for December 31st 2012). In December 2012, the Company drew the full amount available under the contribution agreement to finance the drilling of the first exploration wells, which was scheduled to begin at the start of 2013.

Assets disclosed by the Company under other financial assets available for sale include shares in POGC Libya B.V. and contributions to the company's equity. As at December 31st 2012, the Company's equity interest in POGC Libya BV amounted to EUR 65.5m and USD 27.4m (PLN 267.8m and PLN 85m, respectively, translated at the exchange rates quoted by the NBP for December 31st 2012). As at December 31st 2012, the gross value of the shares disclosed in the accounting books of the Company amounted to PLN 291.9m, while additional payments for the shares were PLN 86.2m. The Company recognised an impairment loss on the shares of PLN 13.3m.

On November 21st 2012, POGC Libya B.V. signed an agreement with National Oil Corporation confirming the cessation of the force majeure event. The parties also agreed that if after-effects of the force majeure affect timely performance of licence obligations, they will allow for the extension of the exploration period. Considering that the situation in the region remains unstable, POGC Libya B.V. did not resume the performance of its licence obligations.

Sweden

On April 29th 2011, PGNiG S.A. acquired shares in Goldcup 5839 AB of Stockholm, a company with a share capital of SEK 0.5m (equivalent to PLN 0.2m, translated at the exchange rate quoted by the NBP for December 31st 2012). On June 20th 2011, a change of the company's name to **PGNiG Finance AB** was registered.

The company's objectives 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. On September 30th 2011, a decision was made to increase the company's equity by an additional contribution of EUR 0.06m, i.e. PLN 0.2m (translated at the exchange rate quoted by the NBP for December 31st 2012), without issuing any new shares.

In February 2012, the company (in cooperation with PGNiG S.A.) issued the first tranche of Euronotes for EUR 500m, i.e. PLN 2,044.1m (translated at the exchange rate quoted by the NBP for December 31st 2012). The notes are listed on the Luxembourg Stock Exchange. All proceeds from the issue, net of consideration for the institutions involved in the execution of the issue, were transferred to PGNiG S.A. as an on-loan.

As at December 31st 2012, the value of shares in PGNiG Finance AB disclosed in PGNiG S.A.'s books amounted to PLN 0.5m.

<u>PGNiG S.A.'s direct operations abroad – interests in exploration licences</u>

PGNiG S.A. conducts exploration work in Pakistan under an agreement on hydrocarbon exploration and production in the Kirthar licence area executed between PGNiG S.A. 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 S.A. (operator) – 70%, PPL – 30%. In 2012, the Hallel-I well was worked over and a horizontal well, Hallel-xl, was drilled off. The Hallel-xl well produced a gas flow. Subsequently, the construction of facilities, which will enable the performance of a double-well production test on the Rehman-1 and Hallel-X1 wells, commenced. Additional interpretation of 3D seismic data confirmed the presence of potential deposits in the northern part of the licence area. On July 6th 2012, the *Directorate General of Petroleum Concessions* (the Pakistani concession authority) classified the Rehman field as unconventional (tight gas). In consequence, the interest holders can raise gas prices by 50% relative to the price of gas produced form conventional reserves. Following valuation of the Kirthar licence performed by a Canadian firm DeGolyer&McNaughton, in 2012 the operator decided to move to the second exploration stage as part of which a new exploration well is to be drilled by July 2014.

In Denmark, the Company continued exploration work in the 1/05 licence area (interests held by PGNiG S.A. (operator) and Nordsofonden are 80% and 20%, respectively). Drilling of the Felsted-1 exploration well started in 2011. Following well logging performed at the beginning of 2012, no commercial hydrocarbon flow was identified. The well was abandoned. Given the negative results from the exploration well, PGNiG S.A. decided not to extend the 1/05 licence in Denmark.

In Egypt, PGNiG S.A. conducts 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 2012, the field acquisition of 2D seismic data (in total, 2,300 km) was completed, with the 2D seismic image processed and interpreted. Due to the protracting administrative procedures, the drilling of an exploration well is expected to commence at the beginning of 2013.

Foreign branches of the Company:

PGNiG S.A. has a number of foreign branches, which operate or support the Company's development outside of Poland.

Operating Branch in Pakistan – Islamabad,
Branch in Egypt – Cairo,
Branch in Denmark – Copenhagen, subject to liquidation proceedings.

38 WORKFORCE (NUMBER OF STAFF)

Workforce as at end of the period, by segments	Dec 31 2012	Dec 31 2011
Exploration and production	4,408	4,405
Trade and storage	4,295	4,548
including Head Office	617	838
Other services	37	38
Total	**8,740**	**8,991**

In 2012, the average workforce was 8,845 persons (2011: 8,952).

39 CAPITAL MANAGEMENT

The objective of the Company's capital management is to maintain the ability to continue as a going concern, taking into account any capital expenditure plans, while increasing the Company's shareholder value.

PGNiG S.A. 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 Company, the leverage should not exceed 35%. Net debt is the sum of borrowings, debt securities, finance lease liabilities and trade and other payables (including non-current) less cash and cash equivalents. Equity includes equity attributable to owners of PGNiG S.A.

	Dec 31 2012	Dec 31 2011
Borrowings, finance lease liabilities and liabilities under debt securities in issue	8,269	3,591
Trade and other payables	2,803	2,676
Cash and cash equivalents (-)	(1,034)	(935)
Net debt	**10,038**	**5,332**
Equity	**21,981**	**20,273**
Equity and net debt	**32,019**	**25,605**
Leverage	31.4%	20.8%

40 OTHER IMPORTANT INFORMATION

40.1. Restructuring process

In 2012, 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 S.A. on December 11th 2008, was continued. Introduced in January 2009, the Programme operates on a stand-by basis and requires all the participating companies to follow a uniform procedure. Any decisions regarding its implementation can only be made if justified by the scope of planned restructuring involving workforce downsizing and/or closing of particular positions.

The Programme will 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 costs of redundancy payments to which laid-off employees are entitled under the Programme are covered from the Central Restructuring Fund ("CRF"), which is at the disposal of the General Meeting of PGNiG S.A., or with other funds accumulated for that purpose by the entities participating in the Programme. The Company discloses CRF under employee benefit obligations.

Pursuant to Resolution No. 2/XII/2011 of the Extraordinary General Meeting of PGNiG S.A. dated December 7th 2011, the Central Restructuring Fund will be terminated on December 31st 2015.

In the reporting period, five companies, including PGNiG S.A. (the Head Office), Zakład Robót Górniczych Krosno Sp. z o.o., PGNiG Technologie S.A. (two applications), Geofizyka Kraków S.A. and PNiG Jasło S.A., applied for financing from the Central Restructuring Fund under the Programme (PLN 15.1m in total).

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

In 2012, actions instituted by PGNiG S.A. 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 S.A.’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 S.A. to pay additional contributions of PLN 52m, were held in turn before the Regional Court of Warsaw, the Warsaw Court of Appeals and the Supreme Court. On June 25th 2010, the Regional Court granted PGNiG S.A.’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. On June 4th 2011, PGNiG S.A. filed a response to the appeal with the Warsaw Court of Appeals. On December 14th 2011, the Court of Appeals dismissed PI GAZOTECH Sp. z o.o.'s appeal against the Regional Court's decision. On April 24th 2012, PI GAZOTECH Sp. z o.o. lodged a cassation compliant against that decision. On September 4th 2012, the Court of Appeals handed the case files over to the Supreme Court, however, as at the date of these financial statements, there was no information available whether the Supreme Court accepted the complaint for consideration.

Proceedings instigated by PGNiG S.A. 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 S.A. 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 rescinded 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. The Regional Court of Warsaw accepted the appeal for consideration. On June 28th 2011, PGNiG S.A. filed a response to the appeal with the Warsaw Court of Appeals. By virtue of its decision of June 22nd 2012, the Court of Appeals of Warsaw dismissed PI GAZOTECH Sp. z o.o.'s appeal against the Regional Court of Warsaw's decision. On October 30th 2012, PI GAZOTECH Sp. z o.o. lodged a cassation compliant against that decision, a copy of which was delivered to PGNiG S.A.'s representative on December 31st 2012.

Proceedings based upon PGNiG S.A.’s action against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of the resolution of the General Meeting of PI GAZOTECH Sp. z o.o., dated October 6th 2005, whereunder PGNiG S.A. was obliged to pay additional contributions in the amount of PLN 6.6m, were brought before the Regional Court of Warsaw. On May 30th 2008, the Regional Court dismissed the Company’s claim and reversed the decision concerning implementation of measures to safeguard the claim (the temporary injunction order). The proceedings to rescind or declare invalidity of the resolution on additional contributions and to maintain the safeguarding measures have been held before the Court of Appeals and the Regional Court of Warsaw since 2008. By virtue of its decision of May 25th 2010, the Court of Appeals changed the Regional Court’s decision concerning maintenance of the safeguarding measures dated May 30th 2008 and dismissed the request for reversing the final decision on implementation of the safeguarding measures. During its session held on April 11th 2011, the Regional Court issued a decision suspending the proceedings to rescind or declare invalidity of the resolution on additional contributions. The Regional Court of Warsaw instituted the proceedings and, by virtue of its decision of May 21st 2012, declared the resolution of the General Meeting of PI GAZOTECH Sp. z o.o. on additional contributions invalid. The decision became final as of June 12th 2012.

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

On December 28th 2010, the President of the Polish Office of Competition and Consumer Protection ("UOKiK") instigated, ex officio, anti-trust proceedings concerning abuse of dominant position by PGNiG S.A. on the domestic natural gas wholesale market, which consisted in inhibiting sale of gas against the interest of other business players or consumers and frustrating the development of market conditions necessary for the emergence or development of competition by refusing to sell gas fuel under a comprehensive supply contract to an entrepreneur that intended to further resell the gas, i.e. NowyGaz 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 S.A. discontinued those practices as of November 30th 2010, and imposed on the Company a fine of PLN 60m. On July 24th 2012, PGNiG S.A. filed an appeal against the decision of the President of UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw.

On July 4th 2011, the President of UOKiK instigated anti-trust proceedings concerning abuse of dominant position by PGNiG S.A. on the domestic retail natural gas market. In the President's opinion, the abuse consisted in frustrating the emergence or development of competition on the domestic natural gas wholesale and retail markets by limiting the customers' ability to terminate comprehensive gas fuel supply contracts. In the course of the proceedings, PGNiG S.A. voluntarily agreed to change certain contractual provisions. By virtue of the decision of April 13th 2012, the President of UOKiK resolved not to impose a fine on the Company and required the Company to change certain contractual provisions. PGNiG S.A. has satisfied this requirement.

On February 9th 2012, the President of UOKiK instigated anti-trust proceedings concerning practices employed by PGNiG S.A. which infringe collective consumer interests. The President of UOKiK accused PGNiG S.A. of using in comprehensive gas fuel supply contracts a provision classified as illegal contractual clause. In the course of the proceedings, PGNiG S.A. voluntarily agreed to change certain contractual provisions. By virtue of the decision of August 10th 2012, the President of 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 S.A. satisfies this requirement.

40.4. Dispute with PBG S.A.

On June 27th 2011, PBG S.A. filed with the Regional Court of Warsaw, 20th Commercial Division, an action against PGNiG S.A. for payment of a disputed amount, representing the equivalent of the contractual penalties for delay in the performance of a contract, deducted by PGNiG S.A. from the consideration paid to PBG S.A.

The Company believes that the claim is unjustified due to the fact that the deliverable under the contract handed over by the contractor had material defects, and due to actual significant delays in the performance of the contract, which constituted grounds for charging the contractual penalties. In addition, according to PGNiG S.A., the plaintiff's claims have become prescribed. On July 27th 2011, the Company filed its response to the claim, requesting that the action be dismissed in its entirety.

By virtue of its decision of April 9th 2012, the Court resolved to refer the dispute between PBG S.A. and PGNiG S.A. to mediation.
On May 22nd 2012, a team of mediators was set up at PGNiG S.A. to solve the problems related to implementation of the Grodzisk Nitrogen Rejection Unit Construction Project.
On September 20th 2012, an out-of-court settlement was made between PGNiG S.A. and PBG S.A. w upadłości układowej (in company voluntary arrangement). As a result of the settlement, having obtained the approval of its court supervisor, PBG S.A. withdrew in full the action pending before the Regional Court of Warsaw, 20th Commercial Division. By virtue of its decision of October 31st 2012, the Regional Court of Warsaw, 20th Commercial Division, discontinued the proceedings.

On September 21st 2012 a Statement of Claims against the insolvent company was lodged with the District Court of Poznań, 11th Commercial Division for Bankruptcy and Recovery Cases, by an attorney-in-fact acting for and on behalf of PGNiG S.A., against insolvent company PBG S.A., which included the claim related to incorrect performance of the contract concerning the Grodzisk Nitrogen Rejection Unit Construction Project.

40.5. Proceedings before the Court of Arbitration

Following unsuccessful re-negotiation of prices of natural gas supplied under the contract of September 25th 1996 for sale of natural gas to the Republic of Poland (the Yamal Contract), on February 20th 2012 PGNiG S.A. filed a petition for arbitration with the Arbitration Tribunal of Stockholm against OAO Gazprom and OOO Gazprom Export. On May 24th 2012, OAO Gazprom and OOO Gazprom Export submitted their response to the petition in which they rejected the arguments put forward by PGNiG S.A.. Notwithstanding the action pending before the Arbitration Tribunal, the parties reached an agreement. On November 5th 2012, PGNiG S.A. and OOO Gazprom Export executed an annex to the Yamal Contract whereby they changed the pricing terms for gas supplies to

Poland. The newly agreed pricing formula reflects the changes that have taken place on the European natural gas market in recent years and takes into account current prices of oil derivatives and natural gas. In connection with the agreement, PGNiG S.A. withdrew its petition for arbitration from the Stockholm Arbitration Tribunal and the arbitration proceedings were closed.

40.6. Contracts for supplies of gas fuel and crude oil

In 2012, PGNiG S.A. executed the following material long-term contracts for supplies of gas fuel:
1. On December 24th 2012, a contract for deliveries of gas fuel in the period January 1st–September 30th 2013 was signed with ZCh Police S.A. The contract provides for delivery of 300.5m cubic metres of gas and its value is approximately PLN 410m.

2. On December 19th 2012, the Company signed an Annex to agreement DK/KP/002/2008 on crude oil deliveries to Rafineria Trzebinia, which enabled PGNiG to deliver Lubiatów crude oil from the new LMG (Lubiatów-Międzychód-Grotów) project to the Trzebinia Refinery. Other agreements and contracts for crude deliveries did not change.

40.7. Contracts for gas fuel purchases

1. In 2012, PGNiG S.A. purchased gas mainly under the agreements and contracts discussed below, namely the long-term contract for imports of gas from Russia and medium-term and short-term agreements for deliveries of gas from European suppliers, including:

- Contract with OOO Gazprom Export for sale of natural gas to the Republic of Poland, dated September 25th 1996, which will remain in force until 2022;
- Agreement with VNG-Verbundnetz Gas AG for sale of the Lasów natural gas, dated August 17th 2006, which will remain in force until October 1st 2016;
- Standard EFET agreement, executed on September 21st 2011 with GDF Suez Trading, for deliveries of natural gas to VTP Gaspool (the gas is transported by PGNiG S.A. to the Polish system’s entry point in Lasów) between October 1st 2011and April 1st 2012, in a total quantity of 1,888,560.00 MWh (ca. 170m cubic metres);
- Framework agreement with Vitol S.A., dated September 30th 2009. Under the agreement, the following transactions were executed:
  - Individual Transaction of May 13th 2011 for natural gas supplies to a cross-border terminal on the Polish-Czech border in the Cieszyn area, in a total quantity of approximately 550m cubic metres per year, in the period from October 1st 2011 to October 1st 2014;
  - Individual Transaction of September 21st 2011 for supplies of natural gas to VTP Gaspool (the gas was transported by PGNiG S.A. to the Polish system’s entry point in Lasów) in the period from October 1st 2011 to April 1st 2012, in a total quantity of 1,888,560.00 MWh (ca. 170m cubic metres);

2 PGNiG S.A. supplies gas to individual regions of Poland under the following agreements and contracts:

- Agreement on integrated gas supply services, executed between PGNiG S.A. and Severomoravská plynárenská a.s., dated March 27th 2008. By way of an annex, the agreement has been extended until December 31st 2013. Gas imported under the agreement is supplied to consumers in the municipality of Branice;
- Agreement for supplies of natural gas executed with NAK Naftogaz Ukrainy, dated October 26th 2004, in force until 2020. Gas imported under the agreement is supplied to consumers in the Hrubieszów area (on January 1st 2011, NAK Naftogaz Ukrainy suspended the supplies and the company is currently taking steps to terminate the agreement);
- Natural gas sale-purchase agreement of September 28th 2011, executed on standard EFET terms with GDF SUEZ Trading, providing for sale of natural gas to VTP Gaspool (the gas is transported by PGNiG S.A. to the Polish system’s entry point in Gubin). The agreement provides for deliveries of supplying approximately 55,339,200.00 kWh (ca. 5m cubic metres) in the period from October 1st 2011 to October 1st 2012. The gas is supplied to consumers in the municipality of Gubin.

3 In 2012, PGNiG S.A. purchased domestically produced nitrogen-rich gas (types Ls and Lw) from non-PGNiG Group entities under the following agreements, which will remain in force until depletion of the respective fields:

- Natural gas supplies agreement between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated December 8th 2005 (gas from the Zaniemyśl field);
- Natural gas supplies agreement between PGNiG S.A. and Calenergy Resources Poland Sp. z o.o., dated December 8th 2005 (gas from the Zaniemyśl field);
- Natural gas supplies agreement between PGNiG S.A. and DPV Service Sp. z o.o., dated January 13th 2009 (gas from the Antonin field); natural gas production was suspended on November 1st 2012 for economic reasons.
- Natural gas supplies agreement between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated June 19th 2009 (gas from the Roszków field);
- Natural gas supplies agreement between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated December 8th 2010 (gas from the Kromolice-Środa Wielkopolska-Kromolice S field).
- Natural gas supplies agreement between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated June 4th 2012 (gas from the Winna Góra field);

4 In 2012, PGNiG S.A. concluded the following agreements:

- Supplies of natural gas by way the reverse flow service on the Yamal Pipeline:

In order to reduce its gas acquisition costs, PGNiG S.A. requested GAZ-SYSTEM S.A. to provide the virtual reverse flow service on the Yamal Pipeline in the period from January 1st 2012 to December 31st 2015. Having carried out the procedure required for allocation of the available capacity of the Polish section of the Yamal Pipeline to the long-term reverse flow service, GAZ-SYSTEM S.A. entered into an agreement with PGNiG S.A. to provide this service on an intermittent basis.

- Pursuant to the EFET terms Framework Agreement executed by PGNiG S.A. and PGNiG Sales & Trading (PST) on October 27th 2011, the parties enter into short-term agreements for supply of natural gas. In 2012, PGNiG purchased 9,896,727 MWh of natural gas from PST.

Amendments to the existing contracts.

For details on renegotiation of the price of gas supplied under the Yamal Contract, see Note 40.5:

The new terms of the Yamal Contract reflect changes that have occurred on the European gas market in recent years. As a result, the negotiated pricing formula will also reflect current market prices of gas.

Renegotiation of the price under the Lasów Gas Sales Agreement of August 17th 2006.

On October 17th 2012, PGNiG S.A. and VNG-Verbundnetz Gas AG executed Amendment No. 1 to the Lasów Gas Sales Agreement of August 17th 2006. The Amendment provides for a new gas pricing formula, which includes elements based on both the prices of petroleum products and market prices, as well as a new capacity charge rate. The Amendment took effect as of October 1st 2012.
The contracted annual volume of gas has remained unchanged at approximately 400m cubic metres.

41 EVENTS SUBSEQUENT TO THE BALANCE-SHEET DATE

1. After the end of the reporting period, PGNiG issued notes under the short-term note issuance programme dated December 1st 2010 (“Programme”).

   The noteholders were wholly-owned subsidiaries of PGNiG S.A., in which the Company held 100% of the shares and votes.

   In the period from December 31st 2012 to March 5st 2013, the Company issued:

   - on January 4th 2013 – 450 notes with a total value of PLN 45m, maturing on February 1st 2013 and yielding 4.51% per annum, acquired by Wielkopolska Spółka Gazownictwa Sp. z o.o.,
   - on January 9th 2013 – 500 notes with a total value of PLN 50m, maturing on January 23rd 2013 and yielding 4.51% per annum, acquired by Karpacka Spółka Gazownictwa Sp. z o.o.,
   - on January 14th 2013 – 110 notes with a total value of PLN 11m, maturing on April 10th 2013 and yielding 4.38% per annum, acquired by Pomorska Spółka Gazownictwa Sp. z o.o.,

- on January 21st 2013 – 300 notes with a total value of PLN 30m, maturing on March 22nd 2013 and yielding 4.38% per annum, acquired by Wielkopolska Spółka Gazownictwa Sp. z o.o.,
- on January 22nd 2013 – 450 notes with a total value of PLN 45m, maturing on February 22nd 2013 and yielding 4.41% per annum, acquired by Wielkopolska Spółka Gazownictwa Sp. z o.o.,
- on January 23rd 2013 – 500 notes with a total value of PLN 50m, maturing on January 25th 2013 and yielding 4.40% per annum, acquired by Karpacka Spółka Gazownictwa Sp. z o.o.,
- on January 23rd 2013 – 150 notes with a total value of PLN 15m, maturing on April 10th 2013 and yielding 4.36% per annum, acquired by Pomorska Spółka Gazownictwa Sp. z o.o.,
- on January 24th 2013 – 150 notes with a total value of PLN 15m, maturing on April 10th 2013 and yielding 4.36% per annum, acquired by Pomorska Spółka Gazownictwa Sp. z o.o.,
- on January 24th 2013 – 130 notes with a total value of PLN 13m, maturing on February 11th 2013 and yielding 4.41% per annum, acquired by Dolnośląska Spółka Gazownictwa Sp. z o.o.,
- on January 25th 2013 – 500 notes with a total value of PLN 50m, maturing on February 25th 2013 and yielding 4.41% per annum, acquired by Dolnośląska Spółka Gazownictwa Sp. z o.o.,
- on January 25th 2013 – 130 notes with a total value of PLN 13m, maturing on February 8th 2013 and yielding 4.40% per annum, acquired by Dolnośląska Spółka Gazownictwa Sp. z o.o.,
- on January 28th 2013 – 400 notes with a total value of PLN 40m, maturing on March 1st 2013 and yielding 4.40% per annum, acquired by Karpacka Spółka Gazownictwa Sp. z o.o.,
- on February 1st 2013 – 450 notes with a total value of PLN 45m, maturing on March 1st 2013 and yielding 4.35% per annum, acquired by Wielkopolska Spółka Gazownictwa Sp. z o.o.,
- on February 11th 2013 – 100 notes with a total value of PLN 10m, maturing on March 4th 2013 and yielding 4.23% per annum, acquired by Dolnośląska Spółka Gazownictwa Sp. z o.o.,
- on February 15th 2013 – 193 notes with a total value of PLN 19.3m, maturing on May 14th 2013 and yielding 4.12% per annum, acquired by Pomorska Spółka Gazownictwa Sp. z o.o.,
- on February 21st 2013 – 250 notes with a total value of PLN 25m, maturing on May 16th 2013 and yielding 4.11% per annum, acquired by Pomorska Spółka Gazownictwa Sp. z o.o.,
- on February 22nd 2013 – 800 notes with a total value of PLN 80m, maturing on March 22nd 2013 and yielding 4.13% per annum, acquired by Wielkopolska Spółka Gazownictwa Sp. z o.o.,
- on January 25th 2013 – 500 notes with a total value of PLN 50m, maturing on January 25th 2013 and yielding 4.12% per annum, acquired by Karpacka Spółka Gazownictwa Sp. z o.o.,
- on February 25th 2013 – 400 notes with a total value of PLN 40m, maturing on March 28th 2013 and yielding 4.12% per annum, acquired by Dolnośląska Spółka Gazownictwa Sp. z o.o.,
- on February 27th 2013 – 500 notes with a total value of PLN 50m, maturing on March 27th 2013 and yielding 4.11% per annum, acquired by Karpacka Spółka Gazownictwa Sp. z o.o.,
- on March 1st 2013 – 450 notes with a total value of PLN 45m, maturing on April 2nd 2013 and yielding 4.11% per annum, acquired by Wielkopolska Spółka Gazownictwa Sp. z o.o.,
- on March 1st 2013 – 400 notes with a total value of PLN 40m, maturing on March 15th 2013 and yielding 4.11% per annum, acquired by Mazowiecka Spółka Gazownictwa Sp. z o.o.,
- on March 1st 2013 – 200 notes with a total value of PLN 20m, maturing on March 15th 2013 and yielding 4.11% per annum, acquired by Karpacka Spółka Gazownictwa Sp. z o.o.,
- on March 4th 2013 – 150 notes with a total value of PLN 15m, maturing on April 9th 2013 and yielding 4.10% per annum, acquired by Dolnośląska Spółka Gazownictwa Sp. z o.o.,
- on March 5th 2013 – 150 notes with a total value of PLN 15m, maturing on March 19th 2013 and yielding 4.10% per annum, acquired by Wielkopolska Spółka Gazownictwa Sp. z o.o.,

The Programme was implemented to efficiently manage short-term liquidity within the PGNiG Group.
The par value of one note is PLN 0.1m. All the notes are denominated in the Polish złoty and were offered in a private placement exclusively in the territory of Poland.

Following the note issues specified above, the total par value of the notes issued under the Programme and outstanding as at March 5th 2013 was PLN 470.3m.

2. After the balance-sheet date, the merger of PGNiG Poszukiwania S.A. (currently Exalo Drilling S.A.) and the companies listed below was registered:

   - Poszukiwania Nafty i Gazu Jasło S.A.
   - Poszukiwania Nafty i Gazu Kraków S.A.
   - Poszukiwania Nafty i Gazu NAFTA S.A.
   - Poszukiwania Naftowe Diament Sp. z o.o.
   - Zakład Robót Górniczych Krosno Sp. z o.o.

   Following the merger, the surviving company was PGNiG Poszukiwania S.A. (currently, Exalo Drilling S.A.). Exalo Drilling S.A. is one of the largest companies in the exploration sector in Central and Eastern Europe.

3. On February 21st 2013, Annex No. 2 was executed to the Framework Agreement of July 4th 2012 concerning shale hydrocarbon exploration and production (“Agreement”); for details, see Note 37.5 to these financial statements. The Annex was signed by all parties to the Agreement, i.e. PGNiG S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. (hereinafter jointly referred to as the “Parties”). The Parties agreed to extend the period in which they are to set the detailed terms of cooperation until May 4th 2013.

   If the Parties fail to set the terms of cooperation by May 4th 2013, the Agreement can be terminated by any of the Parties. Moreover, if the Parties fail to secure all the required corporate approvals within three months of the date when the detailed arrangements are made or if relevant concentration clearances are not obtained by December 31st 2013, the Agreement will expire.