Polskie Górnictwo Naftowe i Gazownictwo SA

CONSOLIDATED ANNUAL REPORT OF THE PGNIG GROUP FOR THE YEAR 2012

THE CONSOLIDATED ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31ST 2012 COMPRISES:

1. LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD
2. QUALIFIED AUDITOR'S OPINION AND REPORT FROM THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
3. FINANCIAL HIGHLIGHTS
4. CONSOLIDATED FINANCIAL STATEMENTS OF THE PGNIG GROUP FOR THE YEAR ENDED DECEMBER 31ST 2012
5. DIRECTORS' REPORT ON THE PGNIG GROUP'S OPERATIONS IN THE YEAR ENDED DECEMBER 31ST 2012
6. REPRESENTATION OF THE MANAGEMENT BOARD ON THE RELIABILITY OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2012
7. REPRESENTATION OF THE MANAGEMENT BOARD ON APPOINTMENT OF THE ENTITY QUALIFIED TO AUDIT THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2012

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	28,730	23,004	6,884	5,556
II. Operating profit/(loss)	2,533	1,872	607	452
III. (Profit)/loss before tax	2,542	1,898	609	458
IV. Net profit/(loss) attributable to owners of the Parent	2,236	1,756	536	424
V. Net profit/(loss)	2,234	1,755	535	424
VI. Comprehensive income attributable to owners of the Parent	2,032	1,821	487	440
VII. Total comprehensive income	2,030	1,820	486	440
VIII. Net cash flows from operating activities	2,552	2,676	611	646
IX. Net cash flows from investing activities	(6,149)	(4,227)	(1,473)	(1,021)
X. Net cash flows from financing activities	4,040	1,682	968	406
XI. Change in cash	443	131	106	32
XII. Earnings/(loss) and diluted earnings/(loss) per share attributable to owners of the Parent (PLN/EUR)	0.38	0.30	0.09	0.07
	Dec 31 2012	**Dec 31 2011**	**Dec 31 2012**	**Dec 31 2011**
XIII. Total assets	47,917	38,824	11,721	8,790
XIV. Liabilities and provisions	20,670	13,606	5,056	3,080
XV. Non-current liabilities	11,057	5,760	2,705	1,304
XVI. Current liabilities	9,613	7,846	2,351	1,776
XVII. Equity	27,247	25,218	6,665	5,710
XVIII. Share capital	5,900	5,900	1,443	1,336
XIX. Weighted average number of shares (thousand)	5,900	5,900	5,900	5,900
XX. Carrying amount per share and diluted carrying amount per share (PLN/EUR)	4.62	4.27	1.13	0.97
XXI. 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 using 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 using the EUR mid-rate quoted by the NBP as at the end of the given financial 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

CONSOLIDATED
FINANCIAL STATEMENTS
OF THE PGNIG GROUP
FOR THE YEAR ENDED
DECEMBER 31ST 2012

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

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CONSOLIDATED INCOME STATEMENT
for the year ended December 31st 2012

	Note	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
		(PLNm)	
Revenue	**3**	**28,730**	**23,004**
Raw material and consumables used	4.1	(17,447)	(14,059)
Employee benefit expense	4.2	(3,054)	(2,850)
Depreciation and amortisation expenses		(2,069)	(1,574)
Contracted services	4.3	(3,060)	(3,182)
Work performed by the entity and capitalised		1,006	1,129
Other income and expenses	4.4	(1,573)	(596)
Total operating expenses		**(26,197)**	**(21,132)**
Operating profit/(loss)		**2,533**	**1,872**
Finance income	5	216	135
Finance costs	5	(380)	(152)
Share in net profit/loss of equity-accounted entities	6.3	173	43
Profit/(loss) before tax		**2,542**	**1,898**
Income tax expense	7.1	(308)	(143)
Net profit/(loss)		**2,234**	**1,755**
Attributable to:			
Owners of the Parent		2,236	1,756
Non-controlling interests		(2)	(1)
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the Parent (PLN/EUR)	9	0.38	0.30

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

	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
	(PLNm)	
Net profit/(loss)	**2,234**	**1,755**
Exchange differences on translating foreign operations	(2)	(1)
Hedge accounting	(250)	135
Remeasurement of financial assets available for sale	-	(53)
Deferred tax on other comprehensive income	48	(16)
Other comprehensive income, net	**(204)**	**65**
Total comprehensive income	**2,030**	**1,820**
Attributable to:		
Owners of the Parent	2,032	1,821
Non-controlling interests	(2)	(1)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at Dec 31 2012

	Note	Dec 31 2012	Dec 31 2011	Jan 1 2011
			(PLNm)	
ASSETS				
Non-current assets				
Property, plant and equipment	11	33,784	29,319	26,360
Investment property	12	11	7	10
Intangible assets	13	1,146	343	298
Investments in equity-accounted associates	6	771	598	556
Financial assets available for sale	14	48	56	170
Other financial assets	15	124	10	40
Deferred tax assets	16	1,124	920	662
Other non-current assets	17	76	48	41
Total non-current assets		**37,084**	**31,301**	**28,137**
Current assets				
Inventories	18	3,064	2,082	1,049
Trade and other receivables	19	5,374	3,378	3,387
Current tax assets	20	150	164	230
Other assets	21	84	78	75
Financial assets available for sale	22	-	22	9
Derivative financial instrument assets	35	105	285	78
Cash and cash equivalents	23	1,948	1,505	1,373
Non-current assets held for sale	24	108	9	4
Total current assets		**10,833**	**7,523**	**6,205**
Total assets		**47,917**	**38,824**	**34,342**
LIABILITIES AND EQUITY				
Equity				
Share capital	25	5,900	5,900	5,900
Share premium		1,740	1,740	1,740
Accumulated other comprehensive income		(90)	114	12
Retained earnings/(deficit)		19,693	17,457	16,445
Equity attributable to owners of the Parent		**27,243**	**25,211**	**24,097**
Equity attributable to non-controlling interests		4	7	14
Total equity		**27,247**	**25,218**	**24,111**
Non-current liabilities				
Borrowings and other debt instruments	26	5,509	1,382	970
Employee benefit obligations	27	319	268	280
Provisions	28	1,792	1,358	1,221
Deferred income	29	1,448	1,160	1,089
Deferred tax liabilities	30	1,936	1,572	1,501
Other non-current liabilities	31	53	20	21
Total non-current liabilities		**11,057**	**5,760**	**5,082**
Current liabilities				
Trade and other payables	32	3,667	3,236	3,103
Borrowings and other debt instruments	26	4,702	3,617	1,229
Derivative financial instrument liabilities	35	393	417	104
Current tax liabilities	20	24	58	226
Employee benefit obligations	27	356	238	177
Provisions	28	350	185	216
Deferred income	29	101	95	94
Liabilities related to assets available for sale	24	20	-	-
Total current liabilities		**9,613**	**7,846**	**5,149**
Total liabilities		**20,670**	**13,606**	**10,231**
Total liabilities and equity		**47,917**	**38,824**	**34,342**

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

	Note	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
		(PLNm)	
Cash flows from operating activities			
Net profit/(loss)		2 234	1 755
Adjustments:			
Share in net profit/(loss) of equity-accounted entities		(173)	(43)
Depreciation and amortisation expenses		2 069	1 574
Net foreign exchange gains/(losses)		(142)	(193)
Net interest and dividend		234	(25)
Gain/(loss) on investing activities		138	86
Current tax expense		308	143
Other items, net	33	456	527
Income tax expense		(591)	(396)
Cash flows from operating activities before changes in working capital		**4 533**	**3 428**
Change in working capital:			
Change in receivables	33	(1 734)	12
Change in inventories	33	(620)	(1 031)
Change in employee benefit obligations	33	73	49
Change in provisions	33	140	1
Change in current liabilities	33	248	299
Change in other assets	33	(22)	(2)
Change in deferred income	33	(66)	(80)
Net cash flows from operating activities		**2 552**	**2 676**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets		208	21
Proceeds from disposals of shares in non-consolidated entities		5	153
Proceeds from disposals of short-term securities		21	18
Purchase of property, plant and equipment and intangible assets		(3 788)	(4 506)
Purchase of shares in non-consolidated entities		-	(29)
Purchase of short-term securities		-	(29)
Interest received		3	2
Dividends received		4	3
Proceeds from finance lease		-	2
Purchase of shares in PGNiG Termika S.A.		(3 021)	-
Other items, net		419	138
Net cash flows from investing activities		**(6 149)**	**(4 227)**
Cash flows from financing activities			
Proceeds from borrowings		193	384
Proceeds from issue of debt securities		8 649	3 284
Repayment of borrowings		(972)	(59)
Repayment of debt securities		(3 354)	(1 091)
Payment of finance lease liabilities		(44)	(31)
Outflows on forward contracts		(111)	-
Dividend paid		(1)	(678)
Interest paid		(317)	(111)
Other items, net		(3)	(16)
Net cash flows from financing activities		**4 040**	**1 682**
Net change in cash		**443**	**131**
Exchange differences on cash and cash equivalents		-	1
Cash and cash equivalents at beginning of the period		**1 504**	**1 373**
Cash and cash equivalents at end of the period		**1 947**	**1 504**

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

	Equity (attributable to owners of the parent)							Equity (attributable to non-controlling interests)	Total equity
			Accumulated other comprehensive income, including						
	Share capital	Share premium	1.1.1. 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	**5,900**	**1,740**	**(29)**	**143**	**-**	**17,457**	**25,211**	**7**	**25,218**
Transfers	-	-	-	-	-	-	**-**	-	**-**
Payment of dividend to owners	-	-	-	-	-	-	**-**	(1)	**(1)**
Other changes in equity	-	-	-	-	-	-	**-**	-	**-**
Changes in the Group	-	-	-	-	-	-	**-**	-	**-**
Total comprehensive income	**-**	**-**	**(2)**	**(202)**	**-**	**2,236**	**2,032**	**(2)**	**2,030**
Net profit/(loss) for 2012	-	-	-	-	-	2,236	**2,236**	(2)	**2,234**
Other comprehensive income, net, for 2012	-	-	(2)	(202)	-	-	**(204)**	-	**(204)**
As at Dec 31 2012	**5,900**	**1,740**	**(31)**	**(59)**	**-**	**19,693**	**27,243**	**4**	**27,247**
As at Jan 1 2011 (restated)	**5,900**	**1,740**	**(65)**	**34**	**43**	**16,445**	**24,097**	**14**	**24,111**
Transfers	-	-	37	-	-	(36)	**1**	(1)	**-**
Payment of dividend to	-	-	-	-	-	(708)	**(708)**	-	**(708)**
Purchase of shares from non-controlling interests	-	-	-	-	-	-	**-**	(5)	**(5)**
Total comprehensive	**-**	**-**	**(1)**	**109**	**(43)**	**1,756**	**1,821**	**(1)**	**1,820**
Net profit/(loss) for 2011	-	-	-	-	-	1,756	**1,756**	(1)	**1,755**
Other comprehensive income, net, for 2011	-	-	(1)	109	(43)	-	**65**	-	**65**
As at Dec 31 2011 (restated)	**5,900**	**1,740**	**(29)**	**143**	**-**	**17,457**	**25,211**	**7**	**25,218**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at Dec 31 2012

1. GENERAL INFORMATION

1.1. Company name, core business and key registry data

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

On October 30th 1996, the Company was entered in the commercial register maintained by the District Court for the Capital City of Warsaw, 16th Commercial Division, under No. RHB 48382. Currently, the Company is entered in the Register of Entrepreneurs maintained by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, under No. KRS 0000059492. The Company's Industry Identification Number REGON is 012216736 and its Tax Identification Number NIP is 525-000-80-28.

PGNiG SA shares are listed on the Warsaw Stock Exchange ("WSE"). The Company's core business includes exploration for and production of crude oil and natural gas, as well as import, storage and sale of gas fuels.

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

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

1.2. Duration of the PGNiG Group

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

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

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

1.3. Period covered by these consolidated financial statements

These consolidated financial statements present data as at December 31st 2012 and for the period January 1st–December 31st 2012, with comparative financial data for the relevant periods of 2011.

1.4. These financial statements contain aggregated data.

These financial statements contain consolidated data of the Parent, its 26 subsidiaries (of which two are parents of their own groups and one group and four companies are indirect subsidiaries), one associate and one jointly-controlled entity.

1.5. Organisation of the PGNiG Group and its consolidated entities

As at December 31st 2012, the Group comprised PGNiG SA (the Parent), and 39 production and service companies, including:

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

The list of the PGNiG Group companies as at December 31st 2012 is presented in the table below.

Companies of the PGNiG Group

No.	Company name	Share capital (PLN)	Value of shares held by PGNiG SA (PLN)	% ownership interest of PGNiG SA	% of total vote held by PGNiG SA
	Direct subsidiaries of PGNiG SA				
1	GEOFIZYKA Kraków S.A.	64,400,000	64,400,000	100 %	100 %
2	GEOFIZYKA Toruń S.A.	66,000,000	66,000,000	100 %	100 %
3	PGNiG Poszukiwania S.A. (currently Exalo Drilling S.A.)	981,500,000	981,500,000	100 %	100 %
4	PGNiG Norway AS	1,092,000,000 (NOK)[1)]	1,092,000,000 (NOK)[1)]	100 %	100 %
5	Polish Oil and Gas Company - Libya B.V.	26,724 (USD)[1)]	26,724 (USD)[1)]	100 %	100 %
6	PGNiG Sales & Trading GmbH	10,000,000 (EUR)[1)]	10,000,000 (EUR)[1)]	100 %	100 %
7	Operator Systemu Magazynowania Sp. z o.o.	5,000,000	5,000,000	100 %	100 %
8	Dolnośląska Spółka Gazownictwa Sp. z o.o.	658,384,000	658,384,000	100 %	100 %
9	Górnośląska Spółka Gazownictwa Sp. z o.o.	1,300,338,000	1,300,338,000	100 %	100 %
10	Karpacka Spółka Gazownictwa Sp. z o.o.	1,484,953,000	1,484,953,000	100 %	100 %
11	Mazowiecka Spółka Gazownictwa Sp. z o.o.	1,255,800,000	1,255,800,000	100 %	100 %
12	Pomorska Spółka Gazownictwa Sp. z o.o.	655,199,000	655,199,000	100 %	100 %
13	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000	1,033,186,000	100 %	100 %
14	PGNiG TERMIKA S.A.[4)]	862,316,000	862,308,730	99.99%	99.99%
15	PGNiG Energia S.A.	41,000,000	41,000,000	100 %	100 %
16	INVESTGAS S.A.	502,250	502,250	100 %	100 %
17	PGNiG Technologie S.A.	166,914,000	166,914,000	100 %	100 %
18	BSiPG Gazoprojekt S.A.	4,000,000	3,000,000	75 %	75 %
19	PGNiG Finance AB (publ)	500,000 (SEK)[1)]	500,000 (SEK)[1)]	100%	100%
20	PGNiG Serwis Sp. z o.o.	9,995,000	9,995,000	100%	100%
21	Geovita S.A.	86,139,000	86,139,000	100 %	100 %
22	NYSAGAZ Sp. z o.o.	9,881,000	6,549,000	66.28 %	66.28 %
23	BUD-GAZ P.P.U.H. Sp. z o.o.	51,760	51,760	100 %	100 %
24	Polskie Elektrownie Gazowe Sp. z o.o.	1,212,000	1,212,000	100 %	100 %
25	PGNiG SPV4 Sp. z o.o.	5,000	5,000	100%	100%
	Indirect subsidiaries of PGNiG SA				
26	Poszukiwania Nafty i Gazu Jasło S.A.[5)]	100,000,000	100,000,000	100 %	100 %
27	Poszukiwania Nafty i Gazu Kraków S.A.[5)]	105,231,000	105,231,000	100 %	100 %
28	Poszukiwania Nafty i Gazu NAFTA S.A.[5)]	60,000,000	60,000,000	100%	100%
29	Poszukiwania Naftowe Diament Sp. z o.o.[5)]	62,000,000	62,000,000	100%	100%
30	Zakład Robót Górniczych Krosno Sp. z o.o.[5)]	26,903,000	26,903,000	100%	100%
31	Oil Tech International F.Z.E.	20,000 (USD)[1)]	20,000 (USD)[1)]	100%	100%
32	Zakład Gospodarki Mieszkaniowej Sp. z o.o.	1,806,500	1,806,500	100%	100%
33	Biogazownia Ostrowiec Sp. z o.o.	165,000	165,000	100%	100%
34	Powiśle Park Sp. z o.o.	81,131,000	81,131,000	100%	100%
35	Poltava Services LLC	20,000 (EUR)[1)]	19,800 (EUR)[2)]	99%	99%
36	CHEMKOP Sp. z o.o.	3,000,000	2,550,000	85%	85%
37	GAZ Sp. z o.o.	300,000	240,000	80%	80%
38	PT Geofizyka Toruń Indonezja LLC w likwidacji	8 773 000 000 (IDR)[1)]	4 825 150 000 (IDR)[3)]	55%	55%
39	XOOL GmbH	500,000 (EUR)[1)]	500,000 (EUR)[1)]	100%	100%

1) In foreign currencies.
2) Share capital not paid up.
3) The company's share capital, which following translation into USD amounts to USD 1,000 thousand, has been partly paid up by Geofizyka Toruń Sp. z o.o.: by December 31st 2012 Geofizyka Toruń Sp. z o.o. has paid USD 40.7 thousand.
4) On December 31st 2012, PGNiG Termika S.A. (acquiring company) merged with PGNiG SPV 1 Sp. z o.o. (target company). Following the transaction, PGNiG SA's ownership interest in PGNiG TERMIKA S.A. is 99.99%. For more information, see Note 1.6.
5) The company was transferred as a non-cash contribution to PGNiG Poszukiwania S.A. on August 21st 2012.

Consolidated entities of the Group as at the end of 2012

No.	Company name	Based in	Ownership interest held by PGNiG SA (%)	
1	PGNiG SA (Parent)	Poland		
	Direct subsidiaries of PGNiG SA		**Dec 31 2012**	**Dec 31 2011**
2	GEOFIZYKA Kraków S.A.	Poland	100.00%	100.00%
3	GEOFIZYKA Toruń S.A.	Poland	100.00%	100.00%
4	PGNiG Poszukiwania S.A. (currently Exalo Drilling S.A.)	Poland	100.00%	-
5	PGNiG Norway AS	Norway	100.00%	100.00%
6	Polish Oil And Gas Company – Libya B.V.	The Netherlands	100.00%	100.00%
7	Dolnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
8	Górnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
9	Karpacka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
10	GK Mazowiecka Spółka Gazownictwa [1)]	Poland	100.00%	100.00%
11	Pomorska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
12	Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
13	Geovita S.A.	Poland	100.00%	100.00%
14	INVESTGAS S.A.	Poland	100.00%	100.00%
15	PGNiG Energia S.A.	Poland	100.00%	100.00%
16	PGNiG Technologie S.A.	Poland	100.00%	100.00%
17	Operator Systemu Magazynowania Sp. z o.o.	Poland	100.00%	100.00%
18	PGNiG Sales &Trading Group [2)]	Germany	100.00%	100.00%
19	PGNiG SPV1 Sp. z o.o.[3)]	Poland	-	100.00%
20	PGNiG TERMIKA S.A.[4)]	Poland	99.99 %[5)]	-
21	PGNiG Serwis Sp. z o.o.	Poland	100.00%	-
22	PGNiG Finance AB	Sweden	100.00%	100.00%
23	BSiPG Gazoprojekt S.A.	Poland	75.00%	75.00%
	Indirect subsidiaries of PGNiG SA			
24	Poszukiwania Nafty i Gazu Jasło S.A.[6)]	Poland	100.00%	100.00%
25	Poszukiwania Nafty i Gazu Kraków Group [6), 7)]	Poland	100.00%	100.00%
26	Poszukiwania Nafty i Gazu NAFTA S.A. [6)]	Poland	100.00%	100.00%
27	Zakład Robót Górniczych Krosno Sp. z o.o.[6)]	Poland	100.00%	100.00%
28	Poszukiwania Naftowe Diament Sp. z o.o.[6)]	Poland	100.00%	100.00%
	Equity-accounted jointly-controlled and associated entities			
29	SGT EUROPOL GAZ S.A.[8)]	Poland	49.74%	49.74%
30	GAS - TRADING S.A.	Poland	43.41%	43.41%

[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 PGNiG SPV1 Sp. z o.o. ceased to exist.

[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 SA.

[5)] PGNiG SA's ownership interest in PGNiG Termika, excluding treasury shares held for retirement.

[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.

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

Key changes in the PGNiG Group's structure:

- On January 2nd 2012, the transformation of PNiG Jasło Sp. z o.o. into a joint-stock company was registered with the National Court Register;
- On January 11th 2012, PGNiG SPV 1 Sp. z o.o. executed a final share purchase agreement with Vattenfall AB, whereby PGNiG SPV 1 Sp. z o.o. acquired 24,591,544 shares in Vattenfall Heat Poland S.A., which represented 99.84% of the company's share capital and conferred the right to 99.84% of the total vote at the General Meeting of Vattenfall Heat Poland S.A. (currently PGNiG TERMIKA S.A.).
- On January 13th 2012, the Extraordinary General Meeting of PGNiG SPV 1 Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 770,000 thousand, to PLN 770,020 thousand, through the issue of 15,400,000 new shares with a par value of PLN 50 per share. All the new issue shares were acquired by PGNiG SA. The increase was registered with the National Court Register on January 25th 2012;
- On February 16th 2012, the Extraordinary General Meeting of PGNiG Energia S.A. adopted a resolution to increase the company's share capital by PLN 11,000 thousand, to PLN 41,000 thousand, through an issue of 110,000 new shares with a par value of PLN 100 per share. All the new issue shares were acquired by PGNiG SA. The increase was registered with the National Court Register on March 22nd 2012;
- On February 17th 2012, the Extraordinary General Meeting of Pomorska Spółka Gazownictwa Sp. z o.o. adopted a resolution to increase the company's share capital by PLN 1,553 thousand, to PLN 655,199 thousand, through the issue of 1,553 new shares with a par value of PLN 1,000 per share. All new issue shares were acquired by PGNiG SA and paid for with an in-kind contribution in the form of a perpetual usufruct right to land, along with the ownership title to buildings and structures erected thereon. The increase was registered with the National Court Register on March 7th 2012;
- On February 24th 2012, Mazowiecka Spółka Gazownictwa Sp. z o.o. executed two share purchase agreements, under which it acquired in aggregate 58 shares in GAZ Sp. z o.o. of Błonie. As a result, the company's equity interest in GAZ Sp. z o.o. increased to PLN 240 thousand and its share in the company's share capital rose to 80%;
- On February 24th 2012, by virtue of a court decision, NAFTEK Sp. z o.o. w likwidacji (in liquidation) – an indirect subsidiary of PGNiG Technologie S.A. – was deleted from the National Court Register;
- On May 8th 2012, the Extraordinary General Meeting of Al Masharig – Geofizyka Toruń Limited Company adopted a resolution to open liquidation proceedings;
- On May 25th 2012, the transformation of ZRUG Zabrze Sp. z o.o. into a joint-stock company was registered with the National Court Register;
- On June 1st 2012, the transformation of PNiG Kraków Sp. z o.o. into a joint-stock company was registered with the National Court Register;
- On June 1st 2012, the transformation of PGNiG Technologie Sp. z o.o. into a joint-stock company was registered with the National Court Register;
- On June 6th 2012, PGNiG Sales & Trading GmbH acquired 500,000 shares in XOOL GmbH, with a par value of EUR 1 per share. The acquired shares represent the entire share capital of the company;
- On June 14th 2012, the transformation of PNiG NAFTA Sp. z o.o. into a joint-stock company was registered with the National Court Register;

- On June 6th 2012, PGNiG SA acquired 100 shares in MLV 26 Sp. z o.o., with a total par value of PLN 5 thousand, representing the entire share capital of the company, for PLN 7,5 thousand. On June 14th 2012, a change of the company's name to PGNiG Serwis Sp. z o.o. was registered with the National Court Register.

  On June 15th 2012, the company's Extraordinary General Meeting resolved to increase the company's share capital to PLN 9,995 thousand. All the new issue shares were acquired by PGNiG SA. The increase was registered with the National Court Register on June 29th 2012;

- On June 8th 2012, PGNiG SA acquired 100 shares in MLV 27 Sp. z o.o., with an aggregate par value of PLN 5 thousand, representing the entire share capital of the company, for PLN 7,5 thousand. On June 4th 2012, the company's Extraordinary General Meeting resolved to amend the company's Articles of Association. The amendments included a change of the company's name to PGNiG SPV 4 Sp. z o.o. The change was registered with the National Court Register on August 29th 2012;

- On July 2nd 2012, the transformation of GEOFIZYKA Toruń Sp. z o.o. into a joint-stock company was registered with the National Court Register;

- On July 2nd 2012, the transformation of GEOFIZYKA Kraków Sp. z o.o. into a joint-stock company was registered with the National Court Register;

- On July 2nd 2012, the transformation of Geovita Sp. z o.o. into a joint-stock company was registered with the National Court Register;

- On July 27th 2012, PGNiG Poszukiwania S.A., a company incorporated on July 3rd 2012, was registered with the National Court Register. The company's share capital amounts to PLN 10,000 thousand and is divided into 10,000 thousand shares with a par value of PLN 1 per share. All PGNiG Poszukiwania shares are held by PGNiG SA;

- On August 11th 2012, the General Meeting of PT Geofizyka Torun Indonesia resolved to open liquidation proceedings as of August 15th 2012;

- On August 21st 2012, the Extraordinary General Meeting of PGNiG Poszukiwania S.A. resolved to increase the company's share capital by PLN 971,500,000, to PLN 981,500,000, through an issue of 971,500,000 new shares with a par value of PLN 1 per share and to cover the shares with a non-cash contribution in the form of shares in the following companies:
  - 100,000,000 shares in Poszukiwania Nafty i Gazu Jasło S.A.
  - 105,231,000 shares in Poszukiwania Nafty i Gazu Kraków S.A.
  - 60,000,000 shares in Poszukiwania Nafty i Gazu NAFTA S.A.
  - 62,000 shares in Poszukiwania Naftowe Diament Sp. z o.o.
  - 26,903 shares in Zakład Robót Górniczych Krosno Sp. z o.o.

  The increase was registered with the National Court Register on September 10th 2012;

- On October 9th 2012, the District Court of Toruń declared the bankruptcy by liquidation of ZRUG Toruń S.A. PGNiG SA holds 130,000 shares in the company, with a par value of PLN 10 per share, representing 25.24% of the company's share capital and of the total vote at the company's General Meeting.

- On October 11th 2012, a share capital increase of ZRUG Zabrze S.A., from PLN 5,250,000 to PLN 11,950,000, was registered with the National Court Register. As PGNiG SA did not participate in the share capital increase, its shareholding in ZRUG Zabrze S.A. was diluted from 11.43% to 5.02%;

- On December 5th 2012, Mazowiecka Spółka Gazownictwa Sp. z o.o. sold all 120 shares held in GAZ MEDIA Sp. z o.o. to the Company by way of retirement for consideration;

- On December 18th 2012, Mazowiecka Spółka Gazownictwa Sp. z o.o. acquired 5,000 shares in Powiśle Park Sp. z o.o. from BSiPG Gazoprojekt S.A., thereby increasing its interest in the company to 100%;

- On December 14th 2012, the Extraordinary General Meeting of Biogazownia Ostrowiec Sp. z o.o. adopted a resolution concerning an increase in the company's share capital from PLN 105,000 to PLN 165,000 by way of an issue of 1,200 new shares with a par value of PLN 50 per share. All new issue shares were acquired by PGNiG SA as the only shareholder. The shares will be paid for with a cash contribution of PLN 60,000, made by contractual set-off of liabilities payable by Biogazownia Ostrowiec Sp. z o.o. to PGNiG Energia S.A. under a loan against the amount payable by PGNiG Energia S.A. for the shares. The share capital increase has not been registered with the National Court Register;

- On December 19th 2012, the Extraordinary General Meeting of PGNiG Poszukiwania S.A. resolved to merge the Company with Poszukiwania Nafty i Gazu Kraków S.A., Poszukiwania Nafty i Gazu NAFTA S.A., Poszukiwania Nafty i Gazu Jasło S.A., Poszukiwania Naftowe Diament Sp. z o.o. and Zakład Robót Górniczych Krosno Sp. z o.o. The merger was registered with the National Court Register on February 1st 2013;

- On December 19th 2012, the Extraordinary General Meeting of Przedsiębiorstwo Badawczo Usługowe Petromin Sp. z o.o. resolved to wind up the company and initiate the liquidation process (the company is an associate of PNiG Jasło S.A.);

- On December 31st 2012, the merger of PGNiG TERMIKA S.A. and PGNiG SPV 1 Sp. z o.o. was registered with the National Court Register, with PGNiG Termika S.A. as the surviving company. The merger was effected through the transfer of all assets, rights and obligations of the Target Company (PGNiG SPV 1 Sp. z o.o.) to the Acquiring Company (PGNiG TERMIKA S.A.) in exchange for shares the Acquiring Company will issue to the shareholder of the Target Company (PGNiG SA) – merger by acquisition.

  Following the merger, the share capital of PGNiG TERMIKA S.A. amounts to PLN 862,316,000.00 and is divided into 86,231,600 shares with a par value of PLN 10 per share, including 61,601,600 new Series C shares acquired by PGNiG SA in exchange for shares in PGNiG SPV 1 Sp. z o.o. and 24,629,273 treasury shares in respect of which the voting rights are not exercised.

  As at the end of 2012, PGNiG SA holds 99.99% of the total vote at the General Meeting of PGNiG TERMIKA S.A.

  As at the end of 2012, legal proceedings were under way to establish court deposits as the company could not pay off some of PGNiG TERMIKA S.A.'s minority shareholders whose shares were purchased under Art. 418 of the Commercial Companies Code. Until the court issues final decisions on the establishment of the court deposits with respect to 727 shares in PGNiG TERMIKA S.A., PGNiG SA's ownership interest in the company is 99.99% (71.43% as direct interest and 28.56% as interest held indirectly through PGNiG TERMIKA S.A.);

- On January 2nd 2013, the Extraordinary General Meeting of BUD-GAZ PPUH Sp. z o.o. resolved to wind up the company and commence the liquidation process;
- On January 30th 2013, the Extraordinary General Meeting of PGNiG SA adopted a resolution approving the acquisition by PGNiG SA of all new shares in the increased share capital of PGNiG Technologie S.A. of Warsaw, with a total par value equal to the amount resulting from the valuation of up to 30,000 shares in B.S. i P.G. GAZOPROJEKT S.A. of Wrocław, with the shares to be acquired at par value for a non-cash contribution in the form of up to 30,000 shares in B.S. i P.G. GAZOPROJEKT S.A. of Wrocław (PGNiG SA's total shareholding: 75%). The shares in B.S. i P.G. GAZPROJEKT S.A. will be contributed at their value determined in the course of the valuation;

- On February 1st 2013, the merger of PGNiG Poszukiwania S.A. with five drilling and servicing companies from the PGNiG Group (PNiG Kraków S.A., PNiG NAFTA S.A., PNiG Jasło S.A., PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o.) was registered with the National Court Register.

  As of February 6th 2013 trades as Exalo Drilling S.A., and is currently one of the largest companies in the exploration sector in Central and Eastern Europe.

  On February 15th 2013, the Extraordinary General Meeting of PGNiG SPV 4 Sp. z o.o. resolved to increase the company's share capital by PLN 990,000, to PLN 995,000, by way of an issue of 19,800 new shares with a par value of PLN 50 per share, which were subscribed for by PGNiG SA and fully paid for with cash. The share capital increase has not been registered with the National Court Register.

1.7. Composition of the PGNiG Management Board

Pursuant to PGNiG SA's Articles of Association, its Management Board 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.

<u>As at December 31st 2012, the PGNiG Management Board consisted of four members:</u>

- 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 the period from January 1st 2012 until the date of these financial statements:

At its meeting held on March 7th 2012, the PGNIG Supervisory Board 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. The reason for the resignation was his appointment to the position of President of the Management Board of POGC Libya B.V., PGNiG SA's subsidiary.

On January 22nd 2013, Mr Sławomir Hinc tendered his resignation as a PGNiG Management Board member, with effect as of March 31st 2013. The reason for the resignation was his appointment as President (CEO) of PGNiG Norway AS, PGNiG SA's subsidiary, with effect from April 1st 2013.

On February 27th 2013, the PGNiG Supervisory Board appointed Mr Krzysztof Bocian as Vice-President of the Management Board, Exploration and Production, and Mr Jacek Murawski as Vice-President of the Management Board, Finance, with effect as of April 1st 2013, for the joint term of office expiring on March 13th 2014.

1.8. Commercial proxies

As at December 31st 2012, PGNiG SA had no commercial proxies.

On March 21st 2012, the PGNiG Management Board revoked the powers of proxy granted to the following persons:

- 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, until the date of these financial statements, no commercial proxies were appointed at PGNiG SA.

1.9. Composition of the PGNiG Supervisory Board

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

One member of the Supervisory Board elected by the General Meeting should satisfy the following criteria:

1) they should be elected in accordance with the procedure set forth in Par. 36.3 of PGNiG SA's Articles of Association;
2) they may not be a related party of the Company or any of the Company's subsidiaries;
3) they may not be a related party of the parent or another subsidiary of the parent; or
4) they may not have any links to the Company or to any of the entities specified in items 2) and 3) above which could materially affect their ability to make impartial decisions in their capacity as a Supervisory Board member.

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

Pursuant to Par. 36.3 of PGNiG SA's Articles of Association, the Supervisory Board elects the member satisfying the above criteria in a separate vote. Written proposals of candidates for the position of a Supervisory Board member who satisfies these criteria may be submitted 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 consists of up to six members, two members are appointed from among the candidates elected by the Company's employees. If the Supervisory Board consist 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 Supervisory Board consisted of nine members:

- 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.

The following events relating to the composition of PGNiG Supervisory Board took place in 2012:

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

On January 12th 2012, the Extraordinary General Meeting of PGNiG SA removed Mr Grzegorz Banaszek from the Supervisory Board, with effect as of January 12th 2012.

At the same time, the Extraordinary General Meeting of PGNiG held on January 12th 2012 appointed to the PGNiG Supervisory Board:

- Mr Józef Głowacki,
- Mr Wojciech Chmielewski.

On January 12th 2012, by virtue of a decision of the Minister of State Treasury, and pursuant to Par. 35.1 of PGNiG's Articles of Association, Mr Janusz Pilitowski was appointed to the PGNiG Supervisory Board.

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

On March 19th 2012, the General Meeting of PGNiG SA appointed 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.

1.10. Shareholder structure of PGNIG SA

As at the date of release of these 2012 consolidated financial statements, the only shareholder holding at least 5% of the total vote at the General Meeting of PGNiG SA was the State Treasury.

PGNIG SA '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%**

In 2012, the State Treasury' interest in the Company was reduced by 0.01% due to the ongoing process of delivering the Company shares to eligible employees.

1.11. Going-concern assumption

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

1.12. Business combinations

In 2012, the merger of PGNiG SPV 1 Sp. z o.o. (a PGNiG Group company) with PGNiG Termika S.A. (previously Vattenfall Heat Poland S.A.), acquired on January 11th 2012, was effected.
On December 31st 2012, the merger of PGNiG TERMIKA S.A. and PGNiG SPV 1 Sp. z o.o. was registered with the National Court Register, with PGNiG Termika S.A. as the surviving company. The merger was effected through the transfer of all assets, rights and obligations of the Target Company (PGNiG SPV 1 Sp. z o.o.) to the Acquiring Company (PGNiG TERMIKA S.A.) in exchange for shares the Acquiring Company issued to the shareholder of the Target Company (merger by acquisition). Following the merger, the share capital of PGNiG Termika S.A. amounts to PLN 862.3m and is divided into 86.2m shares with a par value of PLN 10 per share. The acquisition was accounted for in accordance with IFRS 3. For details, see below.

Acquisition of shares in PGNIG TERMIKA S.A. (formerly VATTENFALL HEAT POLAND S.A.)

On January 11th 2012, PGNiG SPV 1 Sp. z o. o., a subsidiary of PGNiG SA, acquired control of Vattenfall Heat Poland S.A. (currently PGNiG Termika S.A.), whose core business is high-efficiency cogeneration of heat and electricity. PGNiG SPV 1 Sp. z o. o. acquired 99.84% of shares, conferring the right to 99.84 of the total vote in the company. Pursuant to the preliminary share purchase agreement, the purchase price was PLN 2,957.4m. Under the final share purchase agreement, that price was increased to include interest at the rate of 5% for the period of four months starting from the agreement execution date, and 6% for the period starting with the fifth month after the agreement execution date and ending on the date on which control of the company was taken over. The final purchase price was PLN 3,016.7m.

The acquisition of control over PGNiG Termika S.A. will enable the PGNiG Group to diversify its revenue sources, in line with the PGNiG Group's updated strategy, which provides for power generation being one of the Group's three key growth areas.

With this transaction, the PGNiG Group has advanced on a path to becoming a multi-utility group, supplying heat, electricity and gas to its customers.

The table below presents the value of consideration transferred and the values of acquired assets and assumed liabilities estimated as at the date of these financial statements.

a. Consideration paid

	Jan 11 2012
Cash	3,017
Total consideration paid	**3,017**
Buy-back of minority interests	4
Total consideration paid recognised in the statement of cash flows	**3,021**

b. Identifiable acquired assets and assumed liabilities

	Jan 11 2012
Property, plant and equipment	2,758
Investment property	6
Intangible assets	841
Inventories	362
Receivables	280
Derivative financial instrument assets	-
Cash and cash equivalents	189
Other assets	13
Deferred tax assets	29
Trade and other payables	(993)
Employee benefit obligations	(92)
Provisions	(34)
Accruals and deferrals	-
Deferred tax liabilities	(380)
Total identifiable net assets	**2,979**

c. Goodwill

The Group measured goodwill as at the acquisition date as:

- the fair value of consideration paid; plus:
- the fair value of non-controlling interests in the acquired entity; less:
- the fair value of identifiable acquired assets and assumed liabilities.

The goodwill recognised in connection to the acquisition was measured in the following manner:

	Jan 11 2012
Total acquisition price	3,017
Fair value of identifiable net assets	(2,979)
Fair value of non-controlling interests	4
Goodwill	**42**

The goodwill as at the transaction date, i.e. PLN 42m, represents the synergies and economies of scale expected from the acquisition of shares in PGNiG Termika S.A.

It will not be possible to account for the recognised goodwill for the purpose of corporate income tax.

d. Costs of the acquisition

In 2012, PGNiG SPV 1 Sp. z o.o. incurred PLN 11m in costs related to the acquisition. These included mainly costs of advisory services, transfer tax and brokerage fees. These costs were recognised in the PGNiG Group's profit or loss for the reporting period ended December 31st 2012.

e. Non-controlling interests

An 0.16% non-controlling interests in PGNiG Termika S.A. was measured at fair value as at the acquisition date.

The fair value of the shares was determined based on the provisions of the preliminary share purchase agreement, whereby the employees holding shares in PGNiG Termika S.A. have the right to sell these shares at a price equal to the price at which PGNiG SPV 1 Sp. z o.o. acquired the shares. The fair value of non-controlling interests thus estimated is approximately PLN 4m.
Throughout 2012, the Group acquired the majority of non-controlling interest.

f. Acquired receivables

Main classes of receivables	**Gross value**	**Impairment loss**	**Fair value**
Trade receivables	276	(2)	274
Other receivables	6	-	6

Impairment loss on the receivables represents the value of cash flows with respect to which there are doubts as to whether they will be received in full.

g. Intangible assets

In its statement of financial position, the Group recognised identifiable intangible assets, acquired as part of the acquisition, separately from goodwill.

As a result of the acquisition, intangible assets of PLN 242m were identified which had not previously been recognised in the financial statements of the acquired entity. These assets included chiefly carbon emission allowances allocated to the entity, as well as agreements, concluded on favourable terms, for the purchase of coal, sale of electricity and sale of proprietary rights embodied in certificates of origin for electricity. These agreements have been executed for a period of at least one year, and provide for fixed sale/purchase prices.

The identified intangible assets relating to the agreements entered into by the entity are amortised throughout the term of the agreements to which they relate. Once used, the identified carbon dioxide emission allowances are to be written down (as amortisation expense).

In 2012, PLN 242m was charged as amortisation expense upon the use of the identified assets.

Category	**Value**
Carbon emission allowances allocated for 2012	194
Coal purchase agreements	19
Electricity sales agreements	3
Agreements for sale of certificates of origin	26
Total	**242**

h. Property, plant and equipment

As part of the acquisition, some property, plant and equipment were identified which had not previously been recognised in the financial statements of the acquired entity. These included primarily land and land held in perpetual usufruct, which the acquired entity used although it did not hold a relevant ownership title. The fair value of the land and perpetual usufruct rights is PLN 54.7m. The acquired items of property, plant and equipment have been measured at fair value by an independent appraiser and this valuation may be subject to further changes. Further, the value of the property, plant and equipment was increased by borrowing costs of PLN 10m.

i. Effect of the acquisition on the financial performance of the acquirer

As the acquisition took place at the beginning of the reporting period, the entire profit or loss of the acquiree was accounted for in the profit of the PGNiG Group for the reporting period ended December 31st 2012.

1.13. Approval of the financial statements

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

2. APPLIED ACCOUNTING POLICIES

2.1. Basis of preparation

These financial statements have been prepared on the historical cost basis, except with respect to financial assets available for sale, financial derivatives measured at fair value, and loans and receivables measured at adjusted cost.
The reporting currency is the Polish złoty (PLN). Unless stated otherwise, all amounts are given in PLN million. Differences, if any, between the totals and the sum of particular items are due to rounding off.

2.1.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at December 31st 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 consolidated financial statements is consistent with the provisions of the IFRS and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz. U. No. 33, item 259, as amended).

2.1.2. Basis of consolidation

These consolidated financial statements comprise the financial statements of PGNiG SA (the Parent) and the financial statements of companies controlled by the Parent (or by the Parent's subsidiaries) other than subsidiaries whose effect on the consolidated financial statements would be immaterial, prepared as at December 31st 2012.

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

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

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

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

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

2.2. Changes in applied accounting policies and changes to the scope of disclosure

2.2.1. First-time adoption of standards and interpretations

In the current year, the Group adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, and endorsed by the EU, which apply to the Group's business and are effective for annual reporting periods beginning on or after January 1st 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 Group or in the presentation of data in its consolidated 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 consolidated financial statements, the Group did not apply the following standards, amendments and interpretations which have been published and endorsed for application in the EU but have not yet become effective:

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

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

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 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 Group 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 Group as at the end of the reporting period.

2.3. Accounting policies

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

2.3.1. Investments in associates

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

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

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

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

2.3.2. Interests in joint ventures

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

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

2.3.3. Translation of items denominated in foreign currencies

The Polish złoty (PLN) is the functional currency (measurement currency) and the reporting currency of PGNiG SA and its subsidiaries, with the exception of POGC Libya BV, PGNiG Norway AS, PGNiG Sales & Trading GmbH and PGNiG Finance AB.

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

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

The functional currencies of the Parent's foreign branches are as follows: the Pakistan rupee (PKR) for the Pakistan Operating Branch; the Polish złoty (PLN) for the Egypt Branch and Denmark Branch; the US dollar (USD) for POGC Libya BV, the euro (EUR) for PGNiG Sales & Trading GmbH, the Norwegian krone (NOK) for PGNiG Norway AS and the Swedish crown (SEK) for PGNiG Finance AB. As at the end of the reporting period, assets and liabilities of the foreign entities are translated into the reporting currency of PGNiG SA at the exchange rate effective as at the end of the reporting period, and the items of their income statements are translated at the average exchange rate for a given reporting period. Foreign exchange gains and losses on such translation are recognised in equity as revaluation capital reserve. In the consolidated financial statements they are disclosed under Accumulated other comprehensive income. Upon disposal of a foreign entity, accumulated foreign exchange gains or losses disclosed under equity are recognised in profit or loss.

2.3.4. Property, plant and equipment

Property, plant and equipment comprises assets which the Group intends to use in the production or supply of 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 Group. 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 capitalisation policies see Section2.3.6.). Spare parts and maintenance equipment are recorded as inventories and recognised in profit or loss as at the date of their use. Significant spare parts and maintenance equipment may be disclosed as property, plant and equipment if the Group expects to use such spare parts or equipment for a period longer than one year and they may be assigned to specific items of property, plant and equipment.

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

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

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

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

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

Tangible assets under construction are 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.

2.3.5. 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 Group obtains:

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

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

Expenditure incurred 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 Group assesses the areas and prospects in terms of economic viability of production.

If a decision to produce minerals is made following the appraisal, the Group 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 a Group entity does not file for a licence for appraisal of natural gas and/or crude oil following the analysis of economic viability of production from the areas or prospects, the 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 Group 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 Group 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 expenses incurred as at the reporting date, see Note 2.5.

2.3.6. Borrowing costs

The Group capitalises borrowing costs.

Borrowing costs directly attributable to acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time to become ready for their intended use or sale, are capitalised at part of cost of the asset.

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

All other borrowing costs are recognised in profit or loss when incurred.

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 continuous process and characterised by high turnover.

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

2.3.7. Investment property

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

Investment property is initially recognised at cost and the initial valuation includes transaction costs. The Group 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 Group depreciates investment property based on the straight-line method over the following useful economic life periods:

- Buildings and structures 2–40 years

2.3.8. Intangible assets

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

The Group identifies the following intangible assets:
- development expenses;
- goodwill;
- perpetual usufruct right to land – acquired for consideration;
- licenses, mining rights and geological information rights;

- 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 Group is able to demonstrate:

- the technical feasibility of completing the intangible asset so that it is fit for use or sale,
- its intention to complete and to use or sell the intangible asset,
- its ability to either use or sell the intangible asset,
- the manner in which the intangible asset will generate future economic benefits,
- the availability of appropriate technical, financial and other means which are necessary to complete the development work and to use or sell the intangible asset,
- the feasibility of a reliable determination of the expenditure incurred in the course of development work.

Research expense is recognised in profit or loss when incurred.

Intangible assets also include expenditure on acquisition of a perpetual usufruct right to land.

The Group holds perpetual usufruct rights:

- acquired for consideration
- acquired free of charge

Perpetual usufruct rights to land acquired for consideration (from other entities) are presented as intangible assets and amortised 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 Group changed the rules of recognition of expenses related to licences, rights to geological information and mining rights. In previous reporting periods, the Group 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 Group holds CO2 emission allowances, allocated for individual installations.

The Group distinguishes the following emission allowances:

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

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

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 Group. If the pattern of consumption of such benefits cannot be reliably determined, the straight-line method is applied. The adopted amortisation method is applied consistently over subsequent periods, unless there is a change in the expected pattern of consumption of economic benefits.

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

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

- Acquired licenses, patent rights and similar items 2-15 years
- Acquired computer software 2-10 years
- Perpetual usufruct right to land 40-99 years
- Licences - granted for the period specified in the decision of the President of the Energy Regulatory Office.

Intangible assets with an indefinite useful life are not amortised. Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment periodically (at least once a year or whenever there is indication of impairment).

2.3.9. Leases

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

2.3.9.1. The Group as a lessor

Finance leases are disclosed in the statement of financial position as receivables, at amounts equal to net investment in the lease. Lease payments relating to the given financial period, excluding costs of services, reduce the value of gross investment in the lease, reducing both the principal amount and the amount of unrealised finance income.

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

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

The excess of the fair value over the carrying amount of leased assets is posted to the deferred income.

2.3.9.2. The Group as a lessee

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

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

As at the end of each reporting period, the Group tests its property, plant and equipment and intangible assets 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 an 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 as 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.

2.3.11. Financial assets

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

- financial assets are measured at fair value through profit or loss (including 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.

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

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

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

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

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

- derivatives with positive valuation which are not designated to be accounted for pursuant to the principles of hedge accounting (e.g. SWAP, CIRS, options).

The Group 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 recognised in profit or loss 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 Group cancelled the hedging relationship.

2.3.11.2. Hedge derivatives

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

2.3.11.3. Financial assets available for sale

Non-derivative financial assets that are designated as available for sale or which are not financial assets included in any other category are classified as financial assets available for sale and are measured at fair value. Profit gained or loss incurred as a result of changes in fair value is recognised in equity under accumulated other comprehensive income. Investments in equity instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured are carried at acquisition price (without remeasurement as at each balance sheet date to reflect changes in currency exchange rates).

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

- investments in unlisted equity instruments (including shares in companies which have not been consolidated, given the immateriality of their financial information or lack of control),
- investments in listed equity instruments not held for trading (including shares in companies which have not been consolidated, given the immateriality of their financial information or lack of control),
- investments in debt instruments that the Group does not have a firm intention to hold to maturity.

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

2.3.11.4. Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments which are not quoted on an active market.
Loans and receivables are measured at amortised cost, using the effective interest rate method. Measurement differences are recognised in profit or loss. The Group does not discount receivables maturing in less than 12 months from the end of the reporting period and where the discounting effect would be immaterial.

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

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

Uncollectible receivables are charged to costs 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 or finance costs, respectively.

2.3.11.5. Trade and other receivables

Trade receivables are initially recognised at nominal value (provided that the discounting effect is immaterial). Following initial recognition, receivables are measured at amortised cost using the effective interest rate method. Measurement differences are recognised in profit or loss. The Group does not discount receivables 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. 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.

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.

2.3.11.6. Cash and cash equivalents

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

The balance of cash and cash equivalents disclosed in the statement of cash flows consists of the cash and cash equivalents specified above, less outstanding overdraft facilities.

2.3.12. Impairment of financial assets

As at the end of each reporting period, the Group assesses whether there is an 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 equals the difference between the carrying amount of an asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

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

Impairment losses on receivables from other customers are determined using the individual method, based on a case-by-case analysis of the financial standing of each debtor.

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

Impairment losses on receivables are charged to other expenses or finance costs, as appropriate, depending on the type of 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 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.

2.3.13. Hedge accounting

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

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

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

The selected hedging instruments include purchased forward contracts for the USD/PLN and EUR/PLN exchange rates, purchased European call options and zero-cost option structures (collars) involving a combination of purchased European call options and 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 Group's activities to hedge against the risk of changes in gas prices is to guarantee a specified level of cost of gas expressed in the US 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 zero-cost option structures involving a combination of long Asian call options and short Asian put options. The underlying indices for all instruments are Gasoil 0.1% Barges FOB Rotterdam (Platt's) and Fuel Oil 1% Barges FOB Rotterdam (Platt's).

Changes in the fair value of financial derivatives 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 Group 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 Group cancels the hedging relationship, the valuation amounts remain in a separate item under equity until the planned transaction is executed or until it is no longer expected to be executed.

2.3.14. Inventories

Inventories include assets intended to be sold in the ordinary course of business, assets in the process of production intended to be sold and assets in the form of materials or raw materials used in the production process or assets used in the course of 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 Group obtains and surrenders for cancellation certificates of origin for electricity corresponding to the volume of electricity sold to end customers. Under inventories, the Group recognises certificates of origin for electricity obtained in connection with electricity production and certificates of origin for electricity purchased in order to be surrendered for cancellation.

The certificates of origin obtained in connection with the production of electricity are recognised at market value when their grant becomes probable. Purchased certificates of origin are recognised at cost. Decreases in the 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 Group recognises an impairment loss on such inventories to net realisable amount. The amount of 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 Group mostly recognises an impairment loss of 20% of their value; Where individual usefulness assessment and the possibility of using a material category and their cycle structure are taken into account, the Group may recognise impairment losses of 5% and 10% of the value of the materials;
- For purchased materials which are not traded for a period of 5–10 years, the Group recognises an impairment loss of 20%–100% of their value;
- For materials remaining in warehouses for more than 10 years, which are completely useless and intended for liquidation, the Group recognises an impairment loss of 100% of their value.

2.3.15. Non-current assets held for sale

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

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

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

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

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

2.3.16. Equity

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

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

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

Share premium includes the surplus of the issue price of shares over the par value of shares (share premium) remaining after covering issue costs.

Share issue costs incurred upon establishment of a joint-stock company or share capital increase reduce the reserve funds set up from the surplus of the issue proceeds over the par value of shares, up to the share premium, and the remaining part is charged to other capital reserves disclosed under Retained earnings/(deficit).

The effects of adjustments related to the first-time adoption of IAS were charged to Retained earnings/(deficit). In accordance with IAS, net profit for the previous 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 for other purposes is not reflected in IAS. Therefore, the Group recognises the aforementioned reductions in profit as the cost of the period. Distribution of profit among employees is recognised in payroll cost, while funds transferred to the Company Social Benefits Fund are disclosed under employee benefit expense.

2.3.17. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of funds including economic benefits, and the amount of the obligation, whose amount and maturity date is not certain, may be reliably estimated.
The Group reviews provisions at the end of each reporting period in order to reflect the current best estimate. If the effect of changes in the time value of money is material, provisions are discounted. If the provisions are discounted, an increase in provisions as a result of lapse of time is disclosed as cost of external funding.

The Group recognises the following provisions:
- provision for well decommissioning costs,
- provision for environmental protection liabilities,
- provision for claims under extra-contractual use of land, and
- other provisions.

2.3.17.1. Provision for well decommissioning costs

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

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

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

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

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

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

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

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

2.3.17.2. Provision for 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.

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

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

Where possible, at the time of installing the elements of the infrastructure Group companies 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 Group estimates the amount of the provision for claims under extra-contractual use of land if the exchange of correspondence with a claimant has continued for the last three years and such claims have been confirmed to be valid.

The Group estimates the amount of the provision based on:

- an estimate survey made by an expert appraiser, or
- its own valuation, taking into account the size of the controlled area in square 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 Group analyses submitted claims on a case-by-case basis.

2.3.17.4. Other provisions

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

2.3.18. Accruals and deferrals

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

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

Accruals are outstanding liabilities due for 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 Group recognises deferred income from additional charges for uncollected gas and government grants relating to assets. Deferred income from additional charges for uncollected gas is generated under take-or-pay contracts. Under this item the Group recognises the amount of income based on the volume of ordered and uncollected gas, which is then adjusted pro rata to the actual volume of delivered gas. If a trading partner fails to collect the declared volume of gas by the deadline specified in the contract, deferred income is reclassified to income from compensations, penalties, fines, etc.
Government grants relating to assets are recognised as deferred income when it is certain that they have been awarded. Then, they are charged to profit or loss pro rata to depreciation charges on the corresponding assets.
The gas companies (operators of distribution systems) disclose as Accruals and deferrals the value of gas infrastructure accepted free of charge and connection fees (received by June 30th 2009). This income is amortised over time, proportionately to depreciation charges on those connections.
Deferred income is broken down into a non-current and current portion and disclosed in equity and liabilities of the consolidated statement of financial position.

2.3.19. Financial liabilities

Financial liabilities are classified into two categories: financial liabilities measured at fair value through profit or loss and other financial liabilities (including trade and other payables and other liabilities).
Upon initial recognition, financial liabilities are measured at fair value increased, in the case of financial liabilities not classified as measured at fair value through profit or loss, by transaction costs, which may be directly attributed to the acquisition or issue of a given financial liability.

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

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

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

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

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

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

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

2.3.19.2. Financial liabilities at amortised cost

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

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

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

2.3.19.3. Other financial liabilities

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

Following initial recognition, they are measured at amortised cost with the use of the effective interest rate method. The adjusted acquisition cost includes cost of obtaining the borrowing as well as discounts or premiums obtained at settlement of the liability.

2.3.19.4. Trade and other payables

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

2.3.19.5. Employee benefit obligations

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

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

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

Short-term employee benefits paid by the Group include:

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

Short-term employee benefits, including payments towards defined contribution plans, are recognised in the periods in which the entity receives the payment from the employee, and in the case of profit-sharing and bonus payments – when the following conditions are met:

- the entity has a legal or constructive obligation to make such payments as a result of past events, and
- a reliable estimate of the expected cost can be made.

The Group 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.

All changes to these obligations are recognised in profit or loss as Employee benefit expense.

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

- Assumptions related to the probability of staff turnover and retirement: the calculations are based on staff turnover and retirement probability tables presented by sex, age, total years in service, years in service with the Group and remuneration, which were drawn up based on information 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.

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

The Group also recognises as liabilities expected employee benefit expenses related to compensated absences in the case of accumulated compensated absences (when employees rendered services that increased their entitlement to future compensated absences), and in the case of non-accumulating absences (upon their occurrence).

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

2.3.19.6. Other liabilities

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

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

Other current liabilities include in particular liabilities towards:

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

2.3.20. Revenue

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

Revenue comprises amounts receivable (except for VAT and other amounts received on behalf of third parties) for products, 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.

2.3.20.1. 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 balance-sheet date of the quantity and value of gas delivered, but not invoiced, to retail customers.

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

2.3.20.2. Rendering of services

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

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

2.3.20.3. Revenue from construction contracts

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

2.3.21. Other categories of income

2.3.21.1. Interest income

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

2.3.21.2. Dividends

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

2.3.22. Grants

The Group distinguishes the following grants:

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

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

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

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

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

2.3.23. Income tax expense

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

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

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

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

Deferred tax liabilities are recognised for temporary differences which are taxable when realised for tax purposes, while a deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, including tax losses, can be utilised.

Deferred tax liabilities are not recognised with respect to recognised goodwill. Deferred tax liabilities (assets) are also not recognised in connection with initial recognition of an asset or liability in a transaction, which 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 Group company, acting as the parent, investor or venturer is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

2.3.24. Operating segments

An operating segment is a component of the Group:

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

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

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

b) *Trade and Storage Segment*. The segment's activities consist in sale of natural gas, either from imports or domestic sources, and operation of underground gas storage facilities for trading purposes. Following completion of the trading business integration and the separation of storage and trading functions, sale of natural gas is conducted by PGNiG SA, while gas storage services are rendered by Operator Systemu Magazynowania Sp. z o.o. The segment operates six underground gas storage facilities (Mogilno, Wierzchowice, Husów, Brzeźnica, Strachocina and Swarzów). PGNiG Sales & Trading GmbH of Munich, whose buisness consists in gas and electricity trading and distribution, and PGNiG Energia S.A., involved in electricity trading, are also classified as the Trade and Storage segment.

Gas trading and storage business is regulated by the Energy Law, with prices established on the basis of tariffs approved by the President of URE.

c) *Distribution Segment*. The segment's activities consist in transmitting natural gas through the distribution network. Natural gas distribution services are rendered by six Gas Distribution Companies, which supply gas to individual, industrial and wholesale customers. These entities are also responsible for operation, maintenance and expansion of the distribution network.

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

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

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 are eliminated.

2.4. Key reasons for uncertainty of estimates

In connection with the application by the Group of the accounting policies described above, the Group made certain assumptions as to 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 Group’s key operating assets include mining assets (for production of natural gas and crude oil), gas transmission infrastructure and gas fuel storage facilities. These assets were tested for impairment. The Group computed and recognised material impairment losses on the assets, based on an assessment of their current and future usefulness or planned decommissioning or sale. For certain assets, the assumptions made in connection with potential future use, liquidation and sale may change. For information on the value of recognised impairment losses see Note 11.2.

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

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

2.4.2. Useful lives of property, plant and equipment

The useful lives of the main groups of property, plant and equipment are set forth in Section 2.3.4. of these financial statements. The useful lives of the property, plant and equipment were determined on the basis of assessments made by the engineering personnel responsible for their operation. Any such assessment is connected with uncertainty as to the future business environment, technology changes and market competition, which could lead to a different assessment of the economic usefulness of the assets and their remaining useful lives and ultimately have a material effect on the value of the property, plant and equipment and the future depreciation charges.

2.4.3. Estimating 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 profit or loss 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 28 represent significant items among the provisions disclosed in the consolidated financial statements. These provisions are based on the estimates of future asset decommissioning and land reclamation costs, which largely depend on the adopted discount rate and the estimated future cash-flow period.

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

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

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

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

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

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

2.5. Presentation changes in the financial statements

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

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

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

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

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

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

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

As a result of the changes, several adjustments were made to comparative data for the year ended December 31st 2011 and are presented in the following financial statements.

Earnings and diluted earnings per share attributable to owners of the Parent (in PLN)

	Jan 1–Dec 31 2011 before the change	Jan 1–Dec 31 2011 after the change
Earnings and diluted earnings per share attributable to owners of the Parent (in PLN)	0.28	0.30

Income statement

	Jan 1–Dec 31 2011 before the change	Adjustments ensuring comparability - presentation change - employee benefit obligations	Adjustments ensuring comparability - seismic surveys, licences	Jan 1–Dec 31 2011 after the change
Revenue	23,004	-	-	23,004
Raw material and consumables used	(14,059)	-	-	(14,059)
Employee benefit expense	(2,809)	(41)	-	(2,850)
Depreciation and amortisation expenses	(1,574)	-	-	(1,574)
Contracted services	(3,241)	-	59	(3,182)
Work performed by the entity and capitalised	1,002	-	127	1,129
Other income and expenses	(637)	41	-	(596)
Total operating expenses	**(21,318)**	**-**	**186**	**(21,132)**
Operating profit/(loss)	**1,686**	**-**	**186**	**1,872**
Finance income	135	-	-	135
Finance costs	(152)	-	-	(152)
Share in net profit/(loss) of equity-accounted entities	43	-	-	43
Profit/(loss) before tax	**1,712**	**-**	**186**	**1,898**
Income tax expense	(85)	-	(58)	(143)
Net profit/(loss)	**1,627**	**-**	**128**	**1,755**

Statement of comprehensive income

	Jan 1–Dec 31 2011 before the change	Adjustments ensuring comparability - presentation change - employee benefit obligations	Adjustments ensuring comparability - seismic surveys, licences	Jan 1–Dec 31 2011 after the change
Net profit/(loss)	**1,627**	**-**	**128**	**1,755**
Other comprehensive income, net	**64**	**-**	**1**	65
of which:				
Exchange differences on translating foreign operations	(2)	-	1	(1)
Total comprehensive income	**1,691**	**-**	**129**	**1,820**

Statement of financial position

	Dec 31 2011 before the change	Adjustments ensuring comparability - rights to geological information and mining rights	Adjustments ensuring comparability - seismic surveys and licences	Dec 31 2011 after the change
ASSETS				
Total non-current assets	**30,435**	**6**	**860**	**31,301**
of which:				
Property, plant and equipment	28,427	-	892	29,319
Intangible assets	275	56	12	343
Deferred tax assets	964	-	(44)	920
Other non-current assets	98	(50)	-	48
Total current assets	**7,529**	**(6)**	**-**	**7,523**
of which:				
Other non-current assets	84	(6)	-	78
Total assets	**37,964**	**-**	**860**	**38,824**
LIABILITIES AND EQUITY				
Total equity	24,496	-	722	**25,218**
of which:				
Accumulated other comprehensive income	120	-	(6)	114
Retained earnings	16,729	-	728	17,457
Total non-current liabilities	**5,622**	**-**	**138**	**5,760**
of which:				
Employee benefit obligations	-	268	-	268
Provisions	1,626	(268)	-	1,358
Deferred tax liabilities	1,434	-	138	1,572
Total current liabilities	**7,846**	**-**	**-**	**7,846**
of which:				
Trade and other payables	3,354	(118)	-	3,236
Employee benefit obligations	-	238	-	238
Provisions	305	(120)	-	185
Total liabilities	**13,468**	**-**	**138**	**13,606**
Total liabilities and equity	**37,964**	**-**	**860**	**38,824**

	Jan 1 2011 before the change	Adjustments ensuring comparability - rights to geological information and mining rights	Adjustments ensuring comparability - seismic surveys and licences	Jan 1 2011 after the change
ASSETS				
Total non-current assets	**27,433**	**4**	**700**	**28,137**
of which:				
Property, plant and equipment	25,662	-	698	26,360
Intangible assets	247	34	17	298
Deferred tax assets	677	-	(15)	662
Other non-current assets	71	(30)	-	41
Total current assets	**6,209**	**(4)**	**-**	**6,205**
of which:				
Other non-current assets	79	(4)	-	75
Total assets	**33,642**	**-**	**700**	**34,342**
LIABILITIES AND EQUITY				
Total equity	23,519	-	592	**24,111**
of which:				
Accumulated other comprehensive income	19	-	(7)	12
Retained earnings	15,846	-	599	16,445
Total non-current liabilities	**4,974**	**-**	**108**	**5,082**
of which:				
Employee benefit obligations	-	280	-	280
Provisions	1,501	(280)	-	1,221
Deferred tax liabilities	1,393	-	108	1,501
Total current liabilities	**5,149**	**-**	**-**	**5,149**
of which:				
Trade and other payables	3,206	(103)	-	3,103
Employee benefit obligations	-	177	-	177
Provisions	290	(74)	-	216
Total liabilities	**10,123**	**-**	**108**	**10,231**
Total liabilities and equity	**33,642**	**-**	**700**	**34,342**

Statement of cash flows

	Jan 1–Dec 31 2011 before the change	Adjustments ensuring comparability - presentation change - employee benefit obligations	Adjustments ensuring comparability - seismic surveys, licences	Jan 1–Dec 31 2011 after the change
Net cash flows from operating activities	2,468	22	186	2,676
of which:				
Net profit/loss	1,627	-	128	1,755
Current tax expense	85	-	58	143
Change in working capital	(774)	22	-	(752)
Net cash flows from investing activities	(4,019)	(22)	(186)	(4,227)
of which:				
Purchase of property, plant and equipment and intangible assets	(4,298)	(22)	(186)	(4,506)
Net cash flows from financing activities	1,682	-	-	1,682
Net change in cash	**131**	**-**	**-**	**131**
Cash and cash equivalents at beginning of the period	1,373	-	-	1,373
Cash and cash equivalents at end of the period	**1,504**	**-**	**-**	**1,504**

The Group also made certain presentation changes in the reporting segments.

These changes involved:

1. transfers of entities between segments - transfer of Investgas S.A. from the Trade and Storage segment to the Other Activities segment, with a concurrent transfer of PGNiG Energia S.A. from the Other Activities segment to the Trade and Storage segment;
2. transfer of amounts relating to gas storage facilities, used previously for the purposes of the Exploration and Production segment, to the Trade and Storage segment;
3. transfer of intersegment eliminations in assets from the particular segments to Eliminations;
4. seismic surveys and licences (impact on segments of the adjustments described above, made to ensure data comparability).

The table below presents the impact of the changes introduced in the reported period on the segments' operating results, as well as their assets, equity and liabilities, for the comparative period, i.e. 2011.

Period ended December 31st 2011	**Exploration and Production**	**Trade and Storage**	**Distribution**	**Other Activities**	**Eliminations**	**Total**
Segment's operating profit/loss before the changes	**1,126**	**(183)**	**783**	**(4)**	**(36)**	**1,686**
Changes, including	**189**	**(16)**	**-**	**13**	**-**	**186**
1) Transfer of companies (PGNiG Energia and Investgas) between Trade and Storage and Other Activities	-	(13)	-	13	-	**-**
2) Transfer of amounts relating to gas storage facilities from the Exploration and Production segment to the Trade and Storage segment	15	(15)	-	-	-	**-**
4) Seismic surveys and licences	174	12	-	-	-	**186**
Segment's operating profit/loss after the changes	**1,315**	**(199)**	**783**	**9**	**(36)**	**1,872**
Segment's assets before the changes	**14,923**	**12,117**	**12,420**	**490**	**(3,889)**	**36,061**
Changes, including	**952**	**97**	**183**	**59**	**(387)**	**904**
1) Transfer of companies (PGNiG Energia and Investgas) between Trade and Storage and Other Activities	-	(40)	-	55	(15)	**-**
2) Transfer of amounts relating to gas storage facilities from the Exploration and Production segment to the Trade and Storage segment	(27)	27	-	-	-	**-**
3) Exclusion of intersegment eliminations into Eliminations	87	98	183	4	(372)	**-**
4) Seismic surveys and licences	892	12	-	-	-	**904**
Segment's assets after the changes	**15,875**	**12,214**	**12,603**	**549**	**(4,276)**	**36,965**

The above table presents only those changes which affected operating profits/losses of the segments and material changes in the segments' assets. In the section presenting information by operating segments (Note 3), all figures for the comparative period have been restated to ensure comparability with the reported period.

3. OPERATING SEGMENTS

3.1. Reportable segments

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

Period ended December 31st 2012	Exploration and production	Trade and storage	Distribution	Generation	Other activities	Eliminations	Total
Income statement							
Sales to external customers	3,121	23,353	153	1,893	210	-	28,730
Intercompany sales	1,204	360	3,430	64	333	(5,391)	-
Total segment revenue	4,325	23,713	3,583	1,957	543	(5,391)	28,730
Depreciation and amortisation expenses	(613)	(162)	(819)	(456)	(19)	-	(2,069)
Other costs	(2,359)	(23,226)	(1,886)	(1,486)	(544)	5,373	(24,128)
Total segment costs	(2,972)	(23,388)	(2,705)	(1,942)	(563)	5,373	(26,197)
Operating profit/(loss)	**1,353**	**325**	**878**	**15**	**(20)**	**(18)**	**2,533**
Net finance costs							(164)
Share in net profit/(loss) of equity-accounted entities		173					173
Profit/loss before tax							**2,542**
Income tax expense							(308)
Net profit/(loss)							**2,234**
Statement of financial position							
Segment's assets	16,580	18,650	13,089	4,345	483	(7,278)	45,869
Investments in equity-accounted entities		771					771
Unallocated assets							153
Deferred tax assets							1,124
Total assets							**47,917**
Total equity							27,247
Segment liabilities	5,823	3,937	2,234	2,870	171	(6,943)	8,092
Unallocated liabilities							10,642
Deferred tax liabilities							1,936
Total liabilities and equity							**47,917**
Other information on the segment							
Capital expenditure on property, plant and equipment and intangible assets	(1,676)	(719)	(1,141)	(196)	(29)	(27)	**(3,788)**
Impairment losses on assets	(1,132)	(1,686)	(97)	(33)	(9)	1	**(2,956)**
Impairment losses on unallocated assets							**(41)**

Period ended December 31st 2011	Exploration and production	Trade and storage	Distribution	Generation	Other activities	Eliminations	Total
Income statement							
Sales to external customers	2,879	19,831	141	-	153	-	23,004
Intercompany sales	1,202	155	3,329	-	435	(5,121)	-
Total segment revenue	4,081	19,986	3,470	-	588	(5,121)	23,004
Depreciation and amortisation expenses	(607)	(129)	(823)	-	(15)	-	(1,574)
Other costs	(2,159)	(20,056)	(1,864)	-	(564)	5,085	(19,558)
Total segment costs	(2,766)	(20,185)	(2,687)	-	(579)	5,085	(21,132)
Operating profit/(loss)	**1,315**	**(199)**	**783**	**-**	**9**	**(36)**	**1,872**
Net finance costs							(17)
Share in net profit/loss of equity-accounted entities		43					43
Profit/(loss) before tax							**1,898**
Income tax expense							(143)
Net profit/(loss)							**1,755**
Statement of financial position							
Segment's assets	15,875	12,214	12,603	-	549	(4,276)	36,965
Investments in equity-accounted entities		598					598
Unallocated assets							341
Deferred tax assets							920
Total assets							**38,824**
Total equity							25,218
Segment liabilities	2,177	2,798	1,915	-	120	(3,937)	3,073
Unallocated liabilities							8,961
Deferred tax liabilities							1,572
Total liabilities and equity							**38,824**
Other information on the segment							
Capital expenditure on property, plant and equipment and intangible assets	(2,788)	(617)	(1,139)	-	(19)	57	**(4,506)**
Impairment losses on assets	(978)	(1,711)	(91)	-	(12)	1	**(2,791)**
Impairment losses on unallocated assets							**(38)**

3.2. Geographical areas

The Group trades primarily on the domestic market (Poland). In 2012, revenue from export sales to external customers accounted for 5.84% (4.40% in 2011) of the total revenue from sales to external customers.

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Domestic sales:	**27,051**	**21,992**
High-methane gas	21,960	18,965
Nitrogen-rich gas	1,389	1,217
Crude oil	687	638
Helium	48	22
Propane-butane gas	66	60
Natural gasoline	7	5
LNG	54	38
Electricity	841	11
Heat	978	-
Certificates of origin for electricity	125	-
Gas storage services	36	31
Geophysical and geological services	90	338
Drilling and well servicing services	243	254
Construction and erection	87	112
Designing services	19	25
Hotel services	32	31
Other services	203	111
Other products	51	19
Materials and goods	29	18
Connection charge	106	97
Export sales:	**1,679**	**1,012**
High-methane gas	349	49
Crude oil	569	457
Helium	113	36
Electricity	1	-
Geophysical and geological services	239	110
Drilling and well servicing services	343	324
Construction and erection	36	20
Other services	10	4
Other products	19	12
Total	**28,730**	**23,004**

* by PST GmbH in Western Europe.

The Group sells its products and services to customers in the following countries: Switzerland, Germany, Uganda, Kazakhstan, Egypt, India, Pakistan, Austria, Denmark, Slovenia, Ukraine, Norway, United States of America, and United Arab Emirates.

Most of the Group's non-current assets (other than financial instruments) are also located in Poland. The value of non-current assets located abroad as at December 31st 2012 represented 15.61% of the Group's total assets (December 31st 2011: 14.56%).

	Dec 31 2012	Dec 31 2011
Value of non-current assets other than financial instruments located in Poland	29,487	25,348
Value of non-current assets other than financial instruments located abroad*	5,454	4,321
Total	**34,941**	**29,669**

*As at December 31st 2012, PLN 4,125m was attributable to PGNiG Norway AS (December 31st 2011: PLN 3,846m).

3.3. Key customers

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

4. OPERATING EXPENSES

4.1. Raw material and consumables used

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Cost of gas sold	(15,714)	(13,353)
Fuels for electricity and heat generation	(984)	-
Other raw material and consumables used	(749)	(706)
Total	**(17,447)**	**(14,059)**

4.2. Employee benefit expense

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Salaries and wages	(2,237)	(2,088)
Social security contributions	(496)	(439)
Other employee benefit expense	(289)	(281)
Cost of future benefits	(32)	(42)
Total	**(3,054)**	**(2,850)**

4.3. Contracted services

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Transmission services	(1,454)	(1,463)
Costs of dry wells written off	(127)	(276)
Other contracted services	(1,479)	(1,443)
Total	**(3,060)**	**(3,182)**

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	48	129
Income from current settlement of deferred income recognised in the statement of financial position	64	57
Interest on receivables related to operating activities	43	79
Other income	107	140
Net exchange differences related to operating activities	(299)	199
Gain/loss on derivative instruments related to operating activities	(116)	(321)
Net gains/losses on disposal of non-financial non-current assets	56	(26)
Change in products	16	7
Change in impairment losses on property, plant and equipment	(206)	(131)
Change in impairment losses on inventories	(9)	(7)
Change in impairment losses on trade and other receivables	(21)	64
Change in other impairment losses	-	-
Provision for well decommissioning costs	(35)	(2)
Provision for penalty imposed by the Office for Competition and Consumer	(60)	-
Provision for environmental liabilities	27	17
Provision for claims under extra-contractual use of land	(15)	18
Provision for dispute with the PBG Consortium	1	(22)
Other provisions	(84)	(18)
Taxes and charges	(547)	(462)
Value of goods and materials sold	(179)	(33)
Property insurance	(89)	(75)
Domestic and international business trips	(64)	(50)
Compensations, penalties, fines, etc. paid	(24)	(16)
Interest on payables related to operating activities	(2)	(1)
Other costs	(185)	(142)
Total	**(1,573)**	**(596)**

5. FINANCE INCOME AND COSTS

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Finance income	**216**	**135**
Interest income	66	53
Foreign exchange gains	139	-
Revaluation of investments	-	1
Gain on disposal of investments	5	73
Dividends and other profit distributions	4	3
Other finance income	2	5
Finance costs	**(380)**	**(152)**
Loss on valuation and execution of forwards	(29)	-
Interest expenses	(315)	(35)
Foreign exchange losses	-	(92)
Revaluation of investments	-	(6)
Commission fees paid on bank borrowings	(19)	(9)
Costs of guarantees received	(4)	(3)
Other finance costs	(13)	(7)
Net finance income/costs	**(164)**	**(17)**

6. EQUITY METHOD VALUATION OF ASSOCIATES

6.1. Condensed financial information on equity-accounted associates

	Dec 31 2012	Dec 31 2011
EUROPOL GAZ S.A.		
PGNiG Group's ownership interest*	49.74%	49.74%
Core business	Transmission of natural gas	Transmission of natural gas
Key financial data		
Total assets	4,852	5,005
Total liabilities	1,192	1,430
Revenue	1,244	1,121
Net profit/(loss)	103	30
Gas-Trading S.A.		
PGNiG Group's ownership interest	43.41%	43.41%
Core business	Trade	Trade
Key financial data		
Total assets	42	43
Total liabilities	2	2
Revenue	42	44
Net profit/(loss)	(1)	(1)

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

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

	Dec 31 2012	Dec 31 2011
SGT EUROPOL GAZ S.A.		
Valuation of interests using equity method*	1,528	1,474
Cost	38	38
Share in change in equity	1,566	1,512
Impairment losses	(811)	(931)
Net carrying amount of investment	**755**	**581**
GAS-TRADING S.A.		
Valuation of interests using equity method	15	16
Cost	1	1
Share in change in equity	16	17
Impairment losses	-	-
Net carrying amount of investment	**16**	**17**
Total net carrying amount of investments	**771**	**598**

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

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

	Period from Jan 1 – Dec 31 2012	Period from Jan 1– Dec 31 2011
Net carrying amount of investments as at beginning of the period	598	556
Rounding-off	-	(1)
Valuation recognised in profit or loss, including:	**173**	**43**
Valuation of **SGT EUROPOL GAZ S.A.**	173	43
Net carrying amount of investments as at end of the period	**771**	**598**

The Parent estimated its equity interest in SGT EUROPOL GAZ S.A. on the basis of the value of the company's equity as shown in its financial statements prepared as at December 31st 2012 in accordance with the Polish Accountancy Act, adjusted to reflect differences in the accounting policies applied within the Group and results on intercompany transactions. The differences in the accounting policies concerned the recognition of interest expenses in the net value of property, plant and equipment (until the end of 2008). Until the end of 2008, the Group applied the standard approach (in accordance with IAS 23) and did not recognise borrowing costs in the initial value of property, plant and equipment. As of the beginning of 2009, the Group capitalises borrowing costs in the value of property, plant and equipment, therefore the adjustment consists in continued elimination of these costs with respect to the previous years. Subsequently, the Parent tested its interest in SGT EUROPOL GAZ S.A. for impairment using the discounted cash flow method on the basis of information on the company's target net profit as indicated in the Inter-governmental Protocol dated October 29th 2010. The calculations were based on an assumption that SGT EUROPOL GAZ S.A.'s net profit in 2011-2021 will each year amount to PLN 21,000 thousand. Discounted cash flow includes all cash flows generated by SGT EUROPOL GAZ S.A., including cash flow related to the servicing of interest-bearing external financing (interest expenses and repayment of principal amounts of borrowings).

As at December 31st 2012, the Parent measured the value of its equity interest in jointly-controlled entity SGT EUROPOL GAZ S.A. using the equity method at PLN 1,566m . The company's value estimated as at the same date using the discounted cash flow method was PLN 755m.

Taking into account SGT EUROPOL GAZ S.A.'s actual current financial performance and improved operational stability, the Parent increased the net carrying amount to reflect the company's current valuation of PLN 755m. As at the end of 2012, the difference in valuation relative to December 31st 2011 was PLN 174m and was recognised in the income statement for the current period under share in net profit/loss of equity-accounted entities.

7. INCOME TAX

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

7.1. Income tax expense disclosed in the income statement

	Note	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Profit/(loss) before tax		2,542	1,898
Tax rate applicable in the period		19%	19%
Tax calculated at the applicable tax rate		(483)	(361)
Difference in tax rates		(7)	(7)
Investment tax credit (Norway)		212	295
Permanent differences between pre-tax profit/(loss) and tax base		(30)	(70)
Tax expense in the consolidated income statement		**(308)**	**(143)**
Current tax expense	7.2.	(533)	(432)
Deferred tax expense	7.3.	225	289
Effective tax rate		12%	8%

7.2. Current tax expense

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Profit/(loss) before tax (consolidated)	2,542	1,898
Consolidation adjustments	65	491
Differences between pre-tax profit/loss and income tax base	(309)	(644)
Taxable income not recognised as income for accounting purposes	433	219
Tax deductible expenses, not recognised as expenses for accounting purposes	(2,602)	(2,268)
Income not recognised as taxable income	2,024	1,972
Non-tax deductible expenses	(4,207)	(3,367)
Deductions from income	(323)	10
Income tax base	2,298	1,745
Tax rate applicable in period	19%	19%
Income tax expense	(437)	(332)
Increases, reliefs, exemptions, allowances and reductions in/of income tax	(96)	(100)
Current tax expense disclosed in tax return for the period	(533)	(432)
Current tax expense disclosed in the consolidated income statement	**(533)**	**(432)**

7.3. Deferred tax expense

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Deferred tax expense disclosed in the consolidated income statement	**225**	**289**
Origination and reversal of deferred tax expense due to deductible temporary differences	**255**	**356**
Impairment losses on financial assets, receivables and tangible assets under construction	(11)	(5)
Provisions for future liabilities	42	1
Costs of FX risk and interest rate risk hedges	-	63
Foreign exchange losses	1	4
Investment tax credit (Norway)	212	295
Tax loss for period	3	-
Other	8	(2)
Origination and reversal of deferred tax due to taxable temporary differences	**(30)**	**(67)**
Difference between tax and accounting value of non-current assets	(2)	(61)
Positive valuation of FX and interest rate risk hedges	(26)	(7)
Foreign exchange gains	(2)	(2)
Accrued interest	-	-
Income on tax obligation arising in subsequent month	(5)	9
Other	5	(6)
Deferred tax expense disclosed in other net comprehensive income, including:	**48**	**(16)**
Hedge accounting	48	(26)
Remeasurement of financial assets available for sale	-	10
Exchange differences on translating deferred tax attributable to foreign operations	(5)	43
Tax refund - investment tax credit (Norway)	**-**	**(129)**
Deferred tax expense charged to non-current assets (Norway)	**13**	**-**
Transfer to current income tax receivable (Norway)	**(89)**	**-**
Changes in the Group	**(354)**	**-**
Reclassification to assets held for sale	**2**	**-**
Total changes	**(160)**	**187**

The current reporting period covered the tax period from January 1st to December 31st 2012. A 19% corporate income tax rate was applicable in Poland in 2012. In the comparative period, i.e. in 2011, the rate was also 19%.

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

Foreign subsidiaries and foreign branches of the Parent and of Polish subsidiaries are subject to tax regulations in force in the countries where they trade and the provisions of double tax treaties. In the case of foreign branches of subsidiaries, the tax rates effective in 2012 and 2011 ranged from 10% to 41%. Foreign branches of the Parent did not generate any taxable income in 2012 or 2011.

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

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

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

- The company may apply a high depreciation/amortisation rate (the annual depreciation/amortisation rate is 16.67%) and commence depreciation/amortisation immediately after capital expenditure is incurred. In the first year, the company is entitled to full annual depreciation/amortisation, regardless of the date when capital expenditure is actually incurred.
- The company may apply an investment incentive of 7.5% per annum for the period of four years under the petroleum tax regime. The incentive relates to capital expenditure made in the Norwegian Continental Shelf (NCS) (excluding expenditure on exploration) and amounts to 30% of expenditure subject to depreciation/amortisation (7.5% in each of the four years). The incentive is deducted only from the income subject to the petroleum tax (50% rate) and does not apply to income tax. If the incentive amount exceeds income generated in a given year, it becomes deductible in subsequent years.
- Total expenditure on exploration activities may be deducted from revenue. If a company does not generate income from which expenditure on exploration could be deducted, it is entitled to a reimbursement of 78% of expenditure on exploration. The funds are returned in cash, and the transfer to the company's bank account is made by the end of the year following the year covered by the tax return.
- Finance costs may be deducted in both taxation systems.

PGNiG Norway AS has been amortising its investment expenditure since 2008 and has been applying its investment incentive by recognising it as deferred tax expense (in the amount recorded under "Investment incentive (Norway)" in table 7.3.); such deferred tax expense will be used when taxable income (subject to income tax) is generated.
Under the Norwegian tax system the use of tax losses is not time-barred and, what is more, interest accrues on losses incurred after 2002. The interest rate applicable to such losses is calculated as a risk-free interest rate plus by a margin, net of income tax (28%). Losses incurred by PGNiG Norway AS since 2007, increased by the interest, will in future reduce its current tax expense.
The balance of deferred tax presented in the financial statements is reduced by a valuation adjustment due to temporary differences whose realisation for tax purposes is not entirely certain.

8. DISCONTINUED OPERATIONS

The Group did not discontinue any operations in 2012.
In 2013, the Group is planning to sell Geovita S.A., its hospitality subsidiary, and its jointly-controlled entity InterTransGas GmbH, whose business consists in construction and operation of transmission infrastructure (for a more detailed description of the business and information on its disposal, see Note 38.8).
As at December 31st 2012, the Group presented the assets and equity and liabilities of consolidated entity Geovita S.A. in the statement of financial position under Non-current assets held for sale and Liabilities associated with assets held for sale. InterTransGas GmbH was not consolidated, and the Group's interest in the entity was disclosed under non-current assets held for sale. The companies that the Group has classified as held for sale do not represent any important area of the Group's operations.
Detailed information concerning assets held for sale is presented in Note 24.

9. EARNINGS/(LOSS) PER SHARE

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

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

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Net profit/(loss) attributable to owners of the Parent	2,236	1,756
Net profit/(loss) attributable to owners of the Parent used to calculate diluted earnings/(loss) per share	2,236	1,756
Weighted average number of outstanding ordinary shares used to calculate basic earnings/(loss) per share ('000)	5,900	5,900
Weighted average number of outstanding ordinary shares used to calculate diluted earnings/(loss) per share ('000)	5,900	5,900
Basic earnings/(loss) per share for the year, attributable to holders of ordinary shares of the Parent (PLN)	0.38	0.30
Diluted earnings/(loss) per share for the year, attributable to holders of ordinary shares of the Parent (PLN)	0.38	0.30

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 ('000)	Number of days	Weighted average number of shares ('000)
Dec 31 2012				
2012-01-01	2012-12-31	5,900,000	366	5,900,000
Total			**366**	**5,900,000**
Dec 31 2011				
2011-01-01	2011-12-31	5,900,000	365	5,900,000
Total			**365**	**5,900,000**

10. DIVIDEND PAID AND PROPOSED

Dividend declared in the period	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Dividend per share declared (PLN)	-	0,12
Number of shares ('000)	5,900	5,900
Dividend declared (PLN '000), including:	-	708
- in-kind dividend for the State Treasury	-	30
- cash dividend for the State Treasury	-	483
- cash dividend paid to other shareholders	-	195
- cash dividend paid to non-controlling interests	1	-

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

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

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

11. PROPERTY, PLANT AND EQUIPMENT

	Dec 31 2012	Dec 31 2011
Land	70	58
Buildings and structures	16,522	14,663
Plant and equipment	4,530	2,480
Vehicles and other	1,244	1,054
Total tangible assets	**22,366**	**18,255**
Tangible assets under construction - exploration for and evaluation of mineral resources	2,371	1,896
Other tangible assets under construction	9,047	9,168
Total property, plant and equipment	**33,784**	**29,319**

TANGIBLE ASSETS

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

Dec 31 2011	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
As at Jan 1 2011, net of accumulated depreciation and impairment losses	51	14,506	2,450	980	**17,987**
Increase	-	114	39	48	**201**
Decrease	-	(191)	(24)	(10)	**(225)**
Transfers from tangible assets under construction and between groups	7	1,126	398	233	**1,764**
Impairment losses	-	80	(18)	(12)	**50**
Depreciation expense for the year	-	(972)	(365)	(185)	**(1,522)**
As at Dec 31 2011, net of accumulated depreciation and impairment losses	**58**	**14,663**	**2,480**	**1,054**	**18,255**
As at Jan 1 2011					
Gross value	53	21,425	4,539	1,812	**27,829**
Accumulated depreciation and impairment losses	(2)	(6,919)	(2,089)	(832)	**(9,842)**
Net carrying amount as at Jan 1 2011	**51**	**14,506**	**2,450**	**980**	**17,987**
As at Dec 31 2011					
Gross value	60	22,411	4,887	2,019	**29,377**
Accumulated depreciation and impairment losses	(2)	(7,748)	(2,407)	(965)	**(11,122)**
Net carrying amount as at Dec 31 2011	**58**	**14,663**	**2,480**	**1,054**	**18,255**

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

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

	Dec 31 2012				Dec 31 2011			
	Initial value of capitalised finance lease	Accumulated depreciation	Impairment loss	**Net carrying amount**	Initial value of capitalised finance lease	Accumulated depreciation	Impairment loss	**Net carrying amount**
Buildings and structures	-	-	-	-	-	-	-	-
Plant and equipment	225	(46)	-	179	115	(29)	-	86
Vehicles and other	50	(9)	-	41	42	(10)	-	32
Total	**275**	**(55)**	**-**	**220**	**157**	**(39)**	**-**	**118**

11.2. Impairment losses on property, plant and equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total tangible assets**	Tangible assets under construction - exploration for and evaluation of mineral	Other tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2012	2	461	119	18	**600**	299	152	**1,051**
Increase	1	357	74	5	**437**	138	24	**599**
Decrease	(1)	(182)	(45)	(11)	**(239)**	(155)	(72)	**(466)**
Transfers	-	-	-	-	**-**	53	(53)	**-**
Currency translation differences	-	-	(1)	(1)	**(2)**	-	-	**(2)**
Changes in the Group	-	-	-	-	**-**	-	23	**23**
As at Dec 31 2012	**2**	**636**	**147**	**11**	**796**	335	**74**	**1,205**
As at Jan 1 2011	2	541	101	6	**650**	299	244	**1,193**
Increase	-	36	22	12	**70**	-	90	**160**
Decrease	-	(116)	(4)	-	**(120)**	-	(182)	**(302)**
As at Dec 31 2011	**2**	**461**	**119**	**18**	**600**	299	**152**	**1,051**

As at the beginning of the period, impairment losses on tangible assets stood at PLN 600m, of which:
- PLN 361m were impairment losses on assets used directly in hydrocarbon production,
- PLN 7m were impairment losses on distribution assets,
- PLN 11m were impairment losses on assets of underground gas storage facilities,
- PLN 221m were impairment losses on other tangible assets.

New impairment losses recognised in the reporting period amounted to PLN 437m (of which PLN 405m was related to assets used directly in hydrocarbon production). Impairment losses were reduced by PLN 241m (including PLN 169m related to assets used directly in hydrocarbon production, PLN 12m related to storage assets, and the remaining amount relating to other assets, including unused assets or assets with unclear legal status).

As at the end of the period, impairment losses on tangible assets stood at PLN 796m, of which:
- PLN 597m were impairment losses on assets used directly in hydrocarbon production,
- PLN 8m were impairment losses on distribution assets,
- PLN 1m were impairment losses on assets of underground gas storage facilities,
- PLN 190m were impairment losses on other tangible assets.

12. INVESTMENT PROPERTY

	Dec 31 2012	Dec 31 2011
At beginning of the period, net of accumulated depreciation and impairment losses	7	10
Changes in the Group	6	-
Decrease	(1)	-
Transfer from/to property, plant and equipment	-	(2)
Depreciation expense for the reporting period	(1)	(1)
At end of the period, net of accumulated depreciation and impairment losses	**11**	**7**
At beginning of the period		
Gross value	11	14
Accumulated depreciation and impairment losses	(4)	(4)
Net carrying amount	**7**	**10**
At end of the period		
Gross value	15	11
Accumulated depreciation and impairment losses	(4)	(4)
Net carrying amount	**11**	**7**

The Group's investment property includes office/amenity buildings partly held for rent, industrial buildings and structures, and land. At the end of the reporting period, the net carrying amount of the office/amenity buildings classified as investment property was PLN 9m (end of 2011: PLN 4m), and the net carrying amount of the industrial buildings and structures was PLN 2m (end of 2011: PLN 3m).

In the reporting period, the Group derived PLN 7m in revenue from rental of investment property (2011: PLN 5m).

Operating expenses incurred in connection with the rental of investment property were PLN 4m in the reporting period (2011: PLN 3m).

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

13. INTANGIBLE ASSETS

Dec 31 2012	Development expenses	Goodwill*	Perpetual usufruct right to land – acquired for consideration**	Computer software	CO2 emission allowances	Other intangible assets	**Total**
As at Jan 1 2012, net of accumulated amortisation and impairment losses	2	-	71	136	-	134	**343**
Increase	-	-	-	-	54	56	**110**
Changes in the Group	-	44	598	4	190	58	**894**
Decrease	-	-	(1)	(1)	(32)	-	**(34)**
Currency translation differences	-	-	-	-	-	(3)	**(3)**
Transfers from tangible assets under construction and	-	-	7	132	-	1	**140**
Impairment losses	-	-	-	-	-	(8)	**(8)**
Amortisation expense for the reporting period	(1)	-	(3)	(58)	(162)	(72)	**(296)**
As at Dec 31 2012, net of accumulated amortisation and impairment losses	**1**	**44**	**672**	**213**	**50**	**166**	**1,146**
As at Jan 1 2012							
Gross value	5	-	84	308	-	178	**575**
Accumulated amortisation and impairment losses	(3)	-	(13)	(172)	-	(44)	**(232)**
Net carrying amount as at Jan 1 2012	**2**	**-**	**71**	**136**	**-**	**134**	**343**
As at Dec 31 2012							
Gross value	5	44	688	438	212	318	**1,705**
Accumulated amortisation and impairment losses	(4)	-	(16)	(225)	(162)	(152)	**(559)**
Net carrying amount as at Dec 31 2012	**1**	**44**	**672**	**213**	**50**	**166**	**1,146**

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

* The Group also holds perpetual usufruct right to land obtained free of charge, which is disclosed exclusively as an off-balance-sheet item. As at December 31st 2012, the estimated value of the usufruct right was PLN 493m (end of 2011: PLN 493m).

Dec 31 2011	Development expenses	Goodwill	Perpetual usufruct right to land – acquired for consideration	Computer software	CO2 emission allowances	Other intangible assets	**Total**
As at Jan 1 2011, net of accumulated amortisation and impairment losses	2	-	74	120	-	102	**298**
Increase	-	-	-	-	-	5	**5**
Decrease	-	-	(1)	-	-	-	**(1)**
Transfers from tangible assets under construction and between groups	1	-	1	57	-	35	**94**
Impairment losses	-	-	-	-	-	-	**-**
Amortisation expense for the reporting period	(1)	-	(3)	(41)	-	(8)	**(53)**
As at Dec 31 2011, net of accumulated amortisation and impairment losses	**2**	**-**	**71**	**136**	**-**	**134**	**343**
As at Jan 1 2011							
Gross value	4	-	104	255	-	139	**502**
Accumulated amortisation and impairment losses	(2)	-	(30)	(135)	-	(37)	**(204)**
Net carrying amount as at Jan 1 2011	**2**	**-**	**74**	**120**	**-**	**102**	**298**
As at Dec 31 2011							
Gross value	5	-	84	308	-	178	**575**
Accumulated amortisation and impairment losses	(3)	-	(13)	(172)	-	(44)	**(232)**
Net carrying amount as at Dec 31 2011	**2**	**-**	**71**	**136**	**-**	**134**	**343**

13.1. Impairment losses on intangible assets

	Development expenses	Goodwill	Perpetual usufruct right to land – acquired for consideration	Computer software	CO2 emission allowances	Other intangible assets	**Total**
As at Jan 1 2012	-	-	3	-	-	-	**3**
Increase	-	-	-	-	-	8	**8**
Decrease	-	-	-	-	-	-	**-**
As at Dec 31 2012	-	-	3	-	-	8	**11**
As at Jan 1 2011	-	-	3	-	-	-	**3**
Increase	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Decrease							
As at Dec 31 2011	-	-	3	-	-	-	**3**

14. NON-CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Dec 31 2012	Dec 31 2011
Unlisted shares (gross)	90	94
Total, gross	90	94
Unlisted shares (net)*	48	56
Total, net	48	56

* Net of impairment losses.

15. OTHER FINANCIAL ASSETS

	Dec 31 2012	Dec 31 2011
Loans advanced	117	-
Amounts receivable for sale of tangible assets	5	6
Long-term deposits	-	1
Financial receivables (security deposits, guarantees and other amounts received)	1	-
Other	1	3
Total, gross	**124**	**10**
Impairment losses	-	-
Total, net	**124**	**10**
Including net receivables from related entities (Note38.1)	117	**-**

16. DEFERRED TAX ASSETS

	Dec 31 2012	Dec 31 2011
Provisions for length-of-service awards and severance payments	60	61
Provision for unused holiday entitlement	5	5
Provision for well decommissioning costs	143	121
Provision for environmental liabilities	22	22
Other provisions	75	36
Impairment losses on property, plant and equipment	72	81
Impairment losses on shares	7	7
Impairment losses on interest on receivables	7	5
Negative valuation of derivatives	87	87
Foreign exchange losses	5	5
Accrued interest on borrowings and liabilities	5	2
Connection charge	66	70
Unpaid salaries and wages, including contributions to the Social Insurance Institution (ZUS)	9	6
Revaluation of prepayments/deferred income due to hyperinflation	7	8
Investment tax credit (Norway)	492	365
Tax loss for period	4	-
Other	58	39
Total	**1,124**	**920**

17. OTHER NON-CURRENT ASSETS

	Dec 31 2012	Dec 31 2011
Connection charge	58	29
Commission fees paid on borrowings, notes and other debt instruments	13	14
Other non-current assets	5	5
Total	**76**	**48**

18. INVENTORIES

	Dec 31 2012	Dec 31 2011
Materials		
at cost, including:	3,006	2,088
- gas fuel	2,181	1,762
- fuels for electricity and heat generation	370	-
at net realisable value, including:	2,983	2,068
- gas fuel	2,181	1,762
- fuels for electricity and heat generation	370	-
Semi-finished goods and work in progress		
at cost	45	6
at net realisable value	45	6
Finished products		
at cost	40	7
at net realisable value	34	7
Goods		
at cost	2	1
at net realisable value	2	1
Total inventories at cost	**3,093**	**2,102**
Total inventories, at the lower of cost and net realisable value	**3,064**	**2,082**

18.1. Change in inventories in the period

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Inventories at cost, at beginning of the period	**2,102**	**1,064**
Purchase	22,104	17,352
Other increases	90	58
Inventories charged to expenses for the period	(20,711)	(15,925)
Sale	(162)	(18)
Currency translation differences	(1)	-
Changes in the Group	362	-
Reclassification to assets held for sale	(1)	-
Other decreases	(690)	(429)
Inventories at cost, at end of the period	**3,093**	**2,102**
Impairment loss on inventories	**(29)**	**(20)**
Total inventories, net	**3,064**	**2,082**

18.2. Impairment losses on inventories

	Dec 31 2012	Dec 31 2011
Impairment losses at beginning of the period	(20)	(17)
Increase in impairment losses	(55)	(5)
Impairment losses reversed	46	2
Impairment losses at end of the period	**(29)**	**(20)**

19. TRADE AND OTHER RECEIVABLES

	Dec 31 2012	Dec 31 2011
Trade receivables	5,266	3,401
Trade receivables from related entities	2	2
VAT receivable	502	333
Other taxes, customs duties and social security receivable	25	12
Due and payable portion of loans advanced to related entities	29	29
Receivables from equity-accounted associated and jointly-controlled entities	4	2
Other receivables from related entities	2	-
Receivables from sale of property, plant and equipment	5	1
Prepayments for tangible assets under construction	14	41
Additional contribution to equity receivable under a relevant resolution	85	85
Amounts receivable due to failure to meet contractual terms	85	80
Prepayment for purchase of VHP assets (PGNiG TERMIKA S.A.)	-	89
Other receivables	250	87
Total gross receivables	**6,269**	**4,162**
Including gross receivables (including receivable portion of loans) from related entities (Note38.1)	37	33
Impairment loss on doubtful receivables (Note 19.1)	**(895)**	**(784)**
Total net receivables	**5,374**	**3,378**
including:		
Trade receivables	4,756	2,880
Trade receivables from related entities	2	2
VAT receivable	502	333
Other taxes, customs duties and social security receivable	23	9
Receivables from equity-accounted associated and jointly-controlled entities	4	2
Other receivables from related entities	2	-
Receivables from sale of property, plant and equipment	5	1
Prepayments for tangible assets under construction	14	42
Additional contribution to equity receivable under a relevant resolution	-	-
Prepayment for purchase of VHP assets (PGNiG TERMIKA S.A.)	-	89
Other receivables	66	20
Including net receivables (including receivable portion of loans) from related entities (Note38.1)	8	4

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

Trade receivables arise mainly in connection with the sale of gaseous fuel and distribution services. In addition, as at the end of 2012 the Group recognised receivables from Gazprom Export under retroactive settlements under Annex 40 of November 5th 2012.

Standard payment terms applied by the Group companies with respect to receivables in the usual course of business range from 14 to 45 days.

19.1. Impairment losses on receivables

	Dec 31 2012	Dec 31 2011
Impairment losses at beginning of the period	(784)	(1 083)
Increase in impairment losses	(380)	(107)
Impairment losses reversed	242	230
Impairment losses used	29	176
Transfers between current and non-current portions	-	-
Currency translation differences	-	-
Changes in the Group	(2)	-
Reclassification into assets held for sale	-	-
Impairment losses at end of the period	**(895)**	**(784)**

20. CURRENT INCOME TAX

	Dec 31 2012	Dec 31 2011
1. Income tax payable at beginning of the period	58	226
2. Change in current tax assets (a-b-c-d-e-f-g)*	(1)	(90)
a. Current tax assets at beginning of the period:	164	230
b. Current tax assets transferred from deferred tax	89	-
c. Changes in the Group	-	-
d. Transfer between current tax assets and current tax payable	27	-
e. Tax refund - investment tax credit (Norway)	(126)	-
f. Other changes	-	-
g. Exchange differences on translating current tax assets	(3)	24
h. Current tax assets at end of the period	150	164
3. Deferred tax included in current tax assets	-	(129)
4. Corporate income tax (expense in period)	533	432
5. Income tax paid in period	(591)	(396)
6. Transfer between current tax assets and current tax payable	27	-
7. Other changes	(3)	-
Exchange differences on translating current tax assets	-	15
9. Changes in the Group	1	-
Current income tax payable at end of the period (total from 1 to 9)	**24**	**58**

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

21. OTHER ASSETS

	Dec 31 2012	Dec 31 2011
Valuation of long-term contracts	37	18
Property insurance	9	16
Commission fees on borrowings, notes, etc.	8	12
Software licenses, maintenance and upgrades	10	10
Rents and charges	2	2
Costs of preparations to perform contracts	-	7
Other current assets	18	13
Total	**84**	**78**

22. CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Dec 31 2012	Dec 31 2011
Investment fund units (gross)	-	22
Total, gross	**-**	**22**
Investment fund units (net)	-	22
Total, net	**-**	**22**

*Net of impairment losses

23. CASH AND CASH EQUIVALENTS

	Dec 31 2012	Dec 31 2011
Cash in hand and at banks	467	326
Bank deposits	1,482	1,176
Other cash*	(1)	3
Total	**1,948**	**1,505**

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

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

24. NON-CURRENT ASSETS HELD FOR SALE

Item (or group) of non-current assets	Expected disposal date	Carrying amount as at Dec 31 2012	Terms of disposal
Assets associated with subsidiary Geovita S.A., which has been classified as held for sale	H1 2013	91	public invitation to negotiate
Shares in jointly-controlled entity InterTransGas GmbH, which has been classified as held for sale	2013	5	request for bids
Other non-current assets held for sale	2013	12	sale through auction
Total		**108**	

Liabilities associated with non-current assets held for sale	Carrying amount as at Dec 31 2012
Liabilities associated with subsidiary Geovita S.A., which has been classified as held for sale	20
Total	**20**

In 2011, assets with a carrying amount of PLN 9m were classified by the Group as non-current assets held for sale. These assets included mainly buildings and land perpetual usufruct rights.

25. SHARE CAPITAL

	Dec 31 2012	Dec 31 2011
Total number of shares ('000)	5,900	5,900
Par value per share (PLN)	1	1
Total share capital	**5,900**	**5,900**

26. BORROWINGS AND DEBT SECURITIES

	Note	Dec 31 2012	Dec 31 2011
Non-current		**5,509**	**1,382**
Bank borrowings	26.1., 26.2.	974	1,238
Debt securities	26.4.	4,399	-
Lease liabilities	26.5., 26.6.	136	144
Current		**4,702**	**3,617**
Bank borrowings	26.1., 26.2.	445	281
Non-bank borrowings	26.3.	10	-
Debt securities	26.4.	4,200	3,294
Lease liabilities	26.5., 26.6.	47	42
Total		**10,211**	**4,999**

26.1. Bank borrowings

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2013	2014-2018	2019 and beyond
PLN	O/N Wibor+margin	53	53	53	-	-
PLN	1M Wibor+margin	107	107	90	5	12
PLN	3M Wibor+margin	72	72	5	36	31
USD	Libor+margin	371	1,140	283	857	-
EUR	Euribor+margin	12	47	14	33	-
Total			**1,419**	**445**	**931**	**43**

Dec 31 2011

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2012	2013-2017	2018 and beyond
PLN	1M Wibor+margin	105	105	95	9	1
PLN	3M Wibor+margin	14	14	-	14	-
USD	Libor+margin	409	1,380	171	1,209	-
EUR	Euribor+margin	4	20	15	5	-
Total			**1,519**	**281**	**1,237**	**1**

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

26.2. Obtained credit facilities and amounts available under the facilities

	Dec 31 2012	Dec 31 2011
Credit facilities obtained	1,585	1,822
Amounts drawn	1,191	1,460
Undrawn amounts	**394**	**362**

26.3. Non-bank borrowings

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2013	2014-2018	2019 and beyond
PLN	1M Wibor+margin	10	10	10	-	-
Total			**10**	**10**	**-**	**-**

Dec 31 2011

No non-bank borrowings were outstanding as at December 31st 2011.

26.4. Debt securities

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2013	2014-2018	2019 and beyond
PLN	4.48%-5.38%	1,164	1,164	1,164	-	-
PLN	1M Wibor+margin	2,294	2,294	2,294	-	-
PLN	6M Wibor+margin	3,032	3,032	668	2,364	-
EUR	4%	515	2,109	74	2,035	-
Total			**8,599**	**4,200**	**4,399**	**-**

Dec 31 2011

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2012	2013-2017	2018 and beyond
PLN	1M Wibor+margin	3,294	3,294	3,294	-	-
Total			**3,294**	**3,294**	**-**	**-**

26.5. Finance lease liabilities

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount
PLN	3%-6%	9	9
PLN	1M Wibor+margin	20	20
PLN	7%-10.6%	44	44
USD	Libor+margin	28	88
USD	6% on average	4	13
EUR	Euribor+margin	1	3
CHF	5%-7%	2	6
Total			**183**

Dec 31 2011

Currency	Interest rate	Amount in original currency	Carrying amount
PLN	4%-6%	8	8
PLN	1M Wibor+margin	18	18
PLN	7%-10%	24	24
USD	Libor+margin	31	106
USD	8% on average	5	18
CHF	8% on average	3	12
Total			**186**

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

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

	Dec 31 2011		
Maturing in:	(Discounted) payments disclosed in the statement of financial position	Interest	Actual lease payments due
up to 1 year	42	3	46
from 1 to 5 years	103	5	108
over 5 years	41	-	41
Total	**186**	**8**	**195**

27. EMPLOYEE BENEFIT OBLIGATIONS

	Dec 31 2012	Dec 31 2011
Length-of-service awards	175	192
Retirement severance payments	140	128
Wages and salaries payable	72	66
Amounts payable for unused holiday entitlement	55	42
Termination benefits	105	57
Other employee benefit obligations	128	21
Total	**675**	**506**
Non-current as at Dec 31 2012	319	268
Current as at Dec 31 2012	356	238
	675	**506**

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

	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	192	209
Interest cost	4	6
Current service cost	8	7
Past service cost	(3)	-
Benefits paid	(61)	(55)
Actuarial gain/loss	8	27
Gains/losses due to curtailments or settlements	-	(2)
Changes in the Group	28	-
Reclassification into liabilities associated with assets held for sale	(1)	-
Value of obligation shown in the statement of financial position at end of the period	**175**	**192**
Retirement severance payments		
Value of obligation shown in the statement of financial position at beginning of the period	128	119
Current service cost	8	8
Interest cost	4	6
Net actuarial gain/loss recognised during the reporting period	2	3
Benefits paid	(19)	(9)
Past service cost	1	1
Gains/losses due to curtailments or settlements	-	-
Changes in the Group	16	-
Reclassification into liabilities associated with assets held for sale	-	-
Value of obligation shown in the statement of financial position at end of the period	**140**	**128**
Total value of obligation shown in the statement of financial positionat end of the period	**315**	**320**

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 1.7% forecast annual salary growth (at the end of 2011 the adopted technical rate was 2.8%, as the resultant of 5.87% and 3.0%, respectively).

As at the end of 2012, the Group entities had set up provisions for costs related to employment streamlining and voluntary termination programmes. These provisions were recognised on the basis of the Voluntary Termination Programmes (the “Programmes”) and Workforce Streamlining Schemes (the “Schemes”) adopted and announced by companies of the PGNiG Group. The purpose of the Programmes and the Schemes is to improve the Group’s operational efficiency and reduce operating costs.

28. PROVISIONS

	Provision for well decommissioning costs	Provision for penalty imposed by the Office for Competition and Consumer Protection	Provision for environmental liabilities	Provision for claims under extra-contractual use of land	Provision for dispute with the PBG Consortium	Other provisions	**Total**
As at Jan 1 2012	1,237	-	118	62	22	104	**1,543**
Provisions recognised	463	60	8	42	-	145	**718**
Transfers	-	-	-	-	-	-	**-**
Provisions used / released	(36)	-	(32)	(27)	(22)	(33)	**(150)**
Currency translation differences	(3)	-	-	-	-	-	**(3)**
Changes in the Group	-	-	-	-	-	34	**34**
As at Dec 31 2012	**1,661**	**60**	**94**	**77**	**-**	**250**	**2,142**
Non-current	1,636	-	85	24	-	47	**1,792**
Current	25	60	9	53	-	203	**350**
As at Dec 31 2012	**1,661**	**60**	**94**	**77**	**-**	**250**	**2,142**
Non-current	1,223	-	103	12	-	20	**1,358**
Current	14	-	15	50	22	84	**185**
As at Dec 31 2011	**1,237**	**-**	**118**	**62**	**22**	**104**	**1,543**

With respect to costs of abandonment of wells located in Poland, in 2012 the discount rate adopted to calculate the provision for well decommissioning costs was 1.2%, 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 2.5% (as at the end of 2011, the adopted discount rate was 3.29%, as the resultant of 5.87% and 2.5%, respectively).

For the purpose of calculating its provision for well decommissioning costs as at the end of 2012, PGNiG Norway AS, which operates in Norway, adopted an inflation rate of PLN 1.47% and a nominal discount rate of 3.5% (end of 2011: 2% and 3.12%, respectively).

29. DEFERRED INCOME

	Dec 31 2012	Dec 31 2011
Non-current		
Non-depreciated portion of the value of gas service lines financed by gas buyers	436	487
Connection charge	429	449
Grants	578	214
Other deferred income	5	10
Total non-current deferred income	**1,448**	**1,160**
Current		
Non-depreciated portion of the value of gas service lines financed by gas buyers	50	51
Connection charge	18	18
Other deferred income	33	26
Total current deferred income	**101**	**95**

Grants

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

In 2012, the Parent obtained a PLN 226.3m grant (2011: PLN 106.6m) as co-financing for the Wierzchowice underground Storage Facility project, a PLN 35.9m grant (2011: PLN 34.2m) as co-financing for the Strachocina underground storage facility and a PLN 43.9m grant (2011: PLN 9.6m) as co-financing for the Kosakowo underground storage facility.

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

30. DEFERRED TAX LIABILITIES

	Dec 31 2012	Dec 31 2011
Foreign exchange gains	5	2
Accrued interest	1	1
Valuation of hedging instruments and financial instruments	16	37
Income on tax obligation arising in subsequent month	-	11
Difference between tax and accounting value of non-current assets	1,841	1,507
Other deferred tax liabilities	73	14
Total	**1,936**	**1,572**

31. OTHER NON-CURRENT LIABILITIES

	Dec 31 2012	Dec 31 2011
Liabilities under licences, rights to geological information and mining rights	41	16
Other non-current liabilities	12	4
Total	**53**	**20**
Including related entities (Note 38.1.)	-	-

32. TRADE AND OTHER PAYABLES

	Dec 31 2012	Dec 31 2011
Trade payables	1,310	1,266
Trade payables to related entities	3	15
VAT payable	1,390	991
Other taxes, customs duties and social security contributions payable	201	155
Amounts payable under purchase of non-financial non-current assets	381	393
Amounts payable under purchase of non-financial non-current assets to related entities	6	26
Additional contribution to equity payable under a relevant resolution*	85	85
Amounts payable to equity-accounted associated and jointly-controlled entities	7	7
Other amounts payable to related entities	1	1
Accruals and deferred income and prepaid deliveries	174	233
Other trade and other payables	109	64
Total	**3,667**	**3,236**
Including liabilities to related entities (Note 38.1.)	17	49

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

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

Change in cash	Jan 1 – Dec 31 2012	Jan 1 – Dec 31 2011
1) Cash in the statement of financial position at beginning of the period	1,505	1,373
a) Net exchange differences on cash at beginning of the period*	1	-
Cash and cash equivalents in the statement of cash flows at beginning of the period (1-a)	**1,504**	**1,373**
1) Cash in the statement of financial position at end of the period	1,948	1,505
a) Net exchange differences on cash at end of the period	1	1
Cash and cash equivalents in the statement of cash flows at end of the period (2-b)	**1,947**	**1,504**
I. Change in cash in the statement of financial position (2-1)	443	132
II. Change in net exchange differences on cash (b-a)	-	1
Change in cash in the statement of cash flows (I - II)	**443**	**131**

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

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	**(114)**	**30**
Change in receivables in the statement of financial position	**(1,996)**	**9**
Change in lease receivables in financial assets – adjustment to investment activity	-	(30)
Change in lease receivables – adjustment to investment activity	-	(2)
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	3	4
Change in prepayments for property, plant and equipment	(28)	1
Due and payable portion of loans advanced	117	-
Changes in the Group	284	-
Change in receivables in the statement of cash flows	**(1,734)**	**12**

Change in inventories	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Change in inventory in the statement of financial position	**(982)**	**(1,033)**
Tangible assets under construction transferred to inventory - adjustment to investment activity	-	2
Changes in the Group	362	-
Change in inventory in the statement of cash flows	**(620)**	**(1,031)**

Change in employee benefit obligations	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Change in employee benefit obligations in the statement of financial position	**169**	**49**
Changes in the Group	(96)	-
Change in employee benefit obligations in the statement of cash flows	**73**	**49**

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	**599**	**106**
Change in provision for well decommissioning costs which adjusts property, plant and equipment – adjustment to investment activity	(425)	(105)

Changes in the Group	(34)	-
Change in provisions in the statement of cash flows	**140**	**1**

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	**431**	**133**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	32	167
Changes in the Group	(248)	-
Other	33	(1)
Change in current liabilities in the statement of cash flows	**248**	**299**

Change in other assets in the statement of financial position	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Change in other assets in the statement of financial position	**(28)**	**(7)**
Change in other assets in the statement of financial position	**(6)**	**(3)**
Expense (fees and commission) related to the note issuance programme	(5)	8
Changes in the Group	17	-
Change in other assets in the statement of cash flows	**(22)**	**(2)**

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	**294**	**72**
Deferred income related to leased out tangible assets – reclassification within operating activity	-	-
Non-current assets received free of charge	-	-
Subsidies received for property, plant and equipment	(362)	(152)
Changes in the Group	-	-
Other	2	-
Change in deferred income in the statement of cash flows	**(66)**	**(80)**

Other items, net, under operating activity	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Derivative Instruments	17	240
Written-down expenditure on non-financial non-current assets	196	289
Acquired CO2 emission allowances	(50)	-
Tax refund - investment tax credit (Norway)	126	-
Other items, net, under operating activity	167	(2)
Total	**456**	**527**

34. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

34.1. Financial instruments by category (carrying amounts)

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

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

Dec 31 2011	**Categories of financial instruments**									
Classes of financial instruments	Notes	Financial assets available for sale	Financial assets measured at fair value through profit or loss	Financial assets held to maturity	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities at amortised cost	Hedge derivatives	Liabilities excluded from the scope of IAS 39	**Total**
Total financial assets		**78**	**-**	**-**	**4,551**	**-**	**-**	**285**	**-**	**4,914**
Listed shares	14, 22	-	-	-	-	-	-	-	-	**-**
Unlisted shares	14, 22	56	-	-	-	-	-	-	-	**56**
Debt securities	14, 22	-	-	-	-	-	-	-	-	**-**
Investment fund units	22	22	-	-	-	-	-	-	-	**22**
Trade and other receivables	19	-	-	-	3,036	-	-	-	-	**3,036**
Derivative financial instrument assets	35	-	-	-	-	-	-	285	-	**285**
Cash and cash equivalents	23	-	-	-	1,505	-	-	-	-	**1,505**
Other financial assets	14, 15, 22	-	-	-	10	-	-	-	-	**10**
Total financial liabilities		**-**	**-**	**-**	**-**	**411**	**6,923**	**6**	**186**	**7,526**
Borrowings	26	-	-	-	-	-	1,519	-	-	**1,519**
Debt securities	26	-	-	-	-	-	3,294	-	-	**3,294**
Finance lease	26	-	-	-	-	-	-	-	186	**186**
Trade payables	31, 32	-	-	-	-	-	2,110	-	-	**2,110**
Derivative financial instrument liabilities	35	-	-	-	-	411	-	6	-	**417**

34.2. Fair value of financial instruments

Classes of financial instruments	Dec 31 2012		Dec 31 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Total financial assets	**7,074**	**7,026**	**4,914**	**4,858**
Unlisted shares*	48	-	56	-
Investment fund units	-	-	22	22
Trade and other receivables	4,849	4,849	3,036	3,036
Derivative financial instrument assets	105	105	285	285
Cash and cash equivalents	1,948	1,948	1,505	1,505
Other financial assets	124	124	10	10
Total financial liabilities	**12,733**	**12,733**	**7,526**	**7,526**
Borrowings	1,429	1,429	1,519	1,519
Debt securities	8,599	8,599	3,294	3,294
Finance lease	183	183	186	186
Trade payables	2,129	2,129	2,110	2,110
Derivative financial instrument liabilities	393	393	417	417

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

	Jan 1–Dec 31 2012	Jan 1–Dec 31 2011
Total effect on net profit/(loss), including:	**(206)**	**212**
Financial assets available for sale	(4)	-
Impairment recognised in profit or loss for the reporting period	(4)	-
Financial assets and financial liabilities measured at fair value through profit or loss	87	(241)
Loans and receivables	86	194
Interest on deposits	63	48
Interest on receivables	43	80
Interest on loans advanced	3	5
Net income from short-term securities	-	1
Impairment losses on receivables	(21)	64
Impairment losses on loans	(1)	(5)
Foreign currency measurement of loans advanced in foreign currencies	(1)	1
Financial liabilities at amortised cost	(175)	(111)
Hedge derivatives	(195)	390
Liabilities excluded from the scope of IAS 39	(5)	(20)
Total effect on other comprehensive income, net, including:	**(250)**	**82**
Financial assets available for sale	-	(53)
Hedge derivatives	(250)	135
Total effect on comprehensive income	**(456)**	**294**

34.4. Fair value hierarchy

Classes of financial instruments	Note	Dec 31 2012		Dec 31 2011	
		level 1	level 2	level 1	level 2
Investment fund units	34.2	-	-	22	-
Derivative financial instrument assets	34.2	-	105	-	285
Derivative financial instrument liabilities	34.2	-	393	-	417

34.5. Objectives and policies of financial risk management

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

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

Credit risk

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

The PGNiG Group is exposed to credit risk in connection with its:

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

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

Maximum exposure to credit risk

	Dec 31 2012	Dec 31 2011
Cash and cash equivalents	1,948	1,505
Trade and other receivables	4,849	3,036
Non-bank borrowings and other financial assets	124	10
Positive value of derivatives	105	285
Total	**7,026**	**4,836**

Exposure to credit risk under loans advanced arises exclusively in connection with loans advanced by the Parent to its subsidiaries which are not accounted for with the full method, or to its associates. Loans to those entities are advanced in line with the internal procedure "PGNiG SA's Lending Policy with Respect to the Group Companies and Entities in which PGNiG SA Holds Equity Interests". The policy stipulates detailed rules governing the conclusion and monitoring of loan agreements, thus minimising the Group's exposure to credit risk under such agreements. Loans are advanced only if the borrower meets a number of conditions and provides appropriate security.

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

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

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

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

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

PGNiG SA uses the following contract performance security instruments:

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

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

The balance of receivables from customers is monitored on an ongoing basis, in line with internal procedures applicable at the Parent. If a customer’s failure to make a payment when due has been identified, the Company takes appropriate measures to collect the debt.
The debt-collection measures are governed by “*The Guidelines for Monitoring and Collection of Receivables from Customers Buying Gas/Crude Oil/Other Products*” and *“Interest Receivable Management Procedure”.*During debt collection, legal tools are used and debt-collection measures are taken to assess the level and causes of associated risk. In this respect, standard steps of debt-collection are taken: a payment demand, a telephone call to the customer, notice and discontinuance of gas fuel supply with simultaneous termination of the agreement under Art. 6.3a of the Polish Energy Law. If these measures fail, a suit is filed with the court and an application is filed to enter the customer in the National Register of Debts maintained by Biuro Informacji Gospodarczej S.A. of Wrocław.
Statutory interest is charged on late payments.
In the event of temporary deterioration of a customer’s financial standing, at the customer’s request, an agreement is concluded for repayment of debt in instalments and simultaneously negotiations are undertaken to receive additional contract performance security.
As a rule, no arrangements providing for cancellation of principal and interest are offered or accepted.
A customer’s request to cancel interest (with a value exceeding the equivalent of EUR 5,000) is forwarded to the Supervisory Board for approval, in line with corporate procedures.

As at December 31st 2012, the value of unimpaired past due receivables, as disclosed in the Group's statement of financial position, was PLN 594m (December 31st 2011: PLN 467m).

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	508	371
From 1 to 3 months	64	61
From 3 months to 1 year	16	33
from 1 to 5 years	6	2
Total net past due receivables	**594**	**467**

The Group identifies, measures and minimises its credit exposure to individual banks with which it executes investment transactions. The reduction of credit exposure was achieved through diversification of the portfolio of counterparties (mainly banks) with which the Group companies enter into investment transactions. The Parent has also concluded Framework Agreements with all banks with which the Group companies hold funds. These Framework Agreements stipulate detailed terms and conditions for execution and settlement of any financial transactions.
The Group measures the related credit risk by regularly reviewing the banks' financial standing, as reflected in ratings assigned by rating agencies such as Fitch, Standards&Poor's and Moody's.

In 2012, the Group invested its long-term cash surplus of significant value in highly liquid, credit risk-free instruments, in particular treasury bills and bonds.

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

As in the case of the risk related to cash deposits, the credit risk arising in connection with provided guarantees is measured by regularly reviewing the financial standing of the banks issuing the guarantees.

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

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

Market risk

Market risk is defined as the probability that the Group's financial performance or economic value will be adversely affected by changes in the financial and commodity markets.

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

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

Currency risk

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

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

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

Interest rate risk

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

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

The Parent measures its market risk (including the currency and interest rate risks) by monitoring the VaR (value at risk). VaR means that the maximum loss arising from a change in the market (fair) value will not exceed that value over the next n business days, given a specified probability level (e.g. 99%). VaR is estimated using the variance-covariance method.

Commodity risk

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

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

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

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

Liquidity risk

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

The Group monitors and plans its liquidity levels on a continuous basis. As part of its strategy to hedge against liquidity risk, as at December 31st 2012 the Group had in place the following debt securities issuance programmes:

- Under the Note Issuance Programme Agreement executed by the Parent on June 10th 2010, the Parent may issue discount or coupon notes maturing in one to twelve months, for an aggregate amount of up to PLN 7,000m. The Agreement was originally concluded with six banks (Bank Pekao S.A., ING Bank Śląski S.A., PKOBP S.A., Bank Handlowy w Warszawie S.A., Societe Generale S.A. and BNP Paribas S.A., Polish Branch). Under an annex of November 25th 2011, by BRE Bank S.A., Bank Zachodni WBK S.A. and Nordea Bank Polska S.A. acceded to the Agreement. As at December 31st 2012, debt outstanding under the Agreement was PLN 2,293m.
- On August 25th 2011, the Parent and PGNiG Finance AB executed documentation for a Euro Medium Term Notes Programme with Societe Generale S.A., BNP Paribas S.A. and Unicredit Bank AG, pursuant to which PGNiG Finance AB may issue notes with maturities of up to ten years, up to the aggregate amount of EUR 1,200m. The first tranche of PGNiG Finance AB securities under the Programme, comprising PLN 500m 5-year eurobonds, was issued on February 10th 2012. As at the end of 2012, debt outstanding under the eurobonds was PLN 2,116m (translated at the mid-rate quoted by the NBP for December 31st 2012).
- On May 22nd 2012 the Parent executed an agreement for a PLN 4,500m notes programme with Bank Pekao S.A. and ING Bank Śląski S.A. Under the programme, on June 19th 2012 the Company issued Tranche 1, comprising PLN 2,500m notes maturing on June 19th 2017. On July 30th 2012, the notes were floated on the Catalyst market, a multilateral trading facility operated by BondSpot. On September 19th 2012, the Company issued Tranche 2, comprising PLN 510.5m short-term notes maturing on September 19th 2013, and on December 19th -

Tranche 3, comprising PLN 728m notes maturing in up to twelve months. As at December 31st 2012, debt outstanding under the Programme was PLN 3,694.2m.

- On July 4th 2012, PGNiG Termika S.A. executed a Note Issuance Programme with the following banks: ING Bank Śląski S.A., PKO Bank Polski S.A., Nordea Bank Polska S.A. and Bank Zachodni WBK S.A. Under the Programme, PGNiG Termika S.A. may issue coupon or discount notes up to a total of PLN 1,500m. The Programme will expire on December 29th 2017. As at December 31st 2012, PGNiG Termika S.A.'s debt outstanding under the notes was PLN 537.7m. The notes were disclosed under current liabilities.

  PGNiG Group companies were parties to credit facility agreements for an aggreate maximum limit of PLN 1,585m (December 31st 2011: PLN 1,822m). For more details, see Note 26.2.

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

The liquidity risk at the Parent is significantly mitigated through the application of the "PGNiG SA Liquidity Management Procedure". This procedure has been implemented across the Company's organisational units. It offers a systematised set of measures designed to ensure proper liquidity management through: settlement of payments, preparation of cash-flow projections, optimum management of free cash flows, securing and restructuring of financing of day-to-day operations and investment projects, protection against the risk of a temporary liquidity loss due to unforeseen disruptions, and appropriate servicing of credit agreements.

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

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

Financial liabilities at amortised cost, by maturity

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

Dec 31 2011	Liabilities under borrowings and notes	Finance lease liabilities	Trade payables	**Total**
up to 1 year	3,581	46	2,090	5,717
from 1 to 5 years	1,098	108	18	1,224
over 5 years	140	41	2	183
Total	**4,819**	**195**	**2,110**	**7,124**

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

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

Derivative instruments by maturity

	Net carrying amount as at Dec 31 2012*	Contractual cash flows, including:	up to 1 year	from 1 to 5 years	over 5 years
- interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	(232)	11,882	548	11,334	-
- inflows	-	5,700	262	5,438	-
- outflows	-	6,182	286	5,896	-
- forward transactions	(76)	3,478	3,478	-	-
- inflows	-	1,722	1,715	7	-
- outflows	-	1,756	1,763	(7)	-
*- currency options***	5	1	1	-	-
- inflows	-	1	1	-	-
- outflows	-	-	-	-	-
*- commodity options***	15	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
Total	**(288)**	**15,361**	**4,027**	**11,334**	**-**

	Net carrying amount as at Dec 31 2011*	Contractual cash flows, including:	up to 1 year	from 1 to 5 years	over 5 years
- interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	(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 disclosed undiscounted amounts. ** The disclosed carrying amounts of currency and commodity options account for any option premiums paid; given that possible cash flows depend on the exchange rates or commodity prices prevailing on the market at the time when the option is exercised, no cash flows are shown.

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

Financial risk management policy

In order to manage financial risk effectively, since 2003 the Parent has operated the "Policy of Financial Risk Management at PGNiG SA" (Policy), defining the division of competencies and tasks among the Company's organisational units in the process of financial risk management and control.

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

- Risk Committee, which proposes risk management policies, assesses on an ongoing basis whether the policies are implemented and revises them accordingly;
- 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 Group 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 (December 31st 2011: 30%). The half-year period is the frequency with which the Group discloses results of financial instrument sensitivity analyses in its reports.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2011 indicate that the net profit would have been lower by PLN 423m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 15%, ceteris paribus (net profit decrease of PLN 416m due to stronger NOK and of PLN 13m due to stronger USD vs. increase of PLN 5m on the back of stronger EUR and of PLN 1m due to strengthening of other currencies).
The most significant factor with a bearing on the outcome of the sensitivity analysis is higher negative valuation of CCIRS derivatives hedging the loan advanced to PGNiG Norway AS, which is eliminated from the consolidated financial statements.
If the loan was recognised in the statement of financial position (which is the case in the Parent's separate financial statements), the cash flows related to the loan and the cash flows from the hedging transactions would offset one another. As a result, the changes in positive (negative) valuation of the loan would be offset by negative (positive) changes in the valuation of CCIRS transactions. In aggregate, the items would be insensitive to the exchange rate and interest rate changes.
Lower profit would be mainly attributable to an increase in the negative portion of the fair value of financial derivatives (negative fair value of swap transactions in NOK).
The adverse effect on the result of NOK-denominated financial instruments would be substantially amplified by an increase in valuation the of the USD credit facility contracted by PGNiG Norway AS and reduced by an increase in the valuation of assets in this currency. Any increase in foreign exchange losses from valuation of the eurobonds in EUR would be compensated by an increase in the positive portion of the fair value of financial derivatives on EUR.

As at December 31st 2012, net profit would have been higher by PLN 421m, if the EUR, USD, NOK and other currencies depreciated against the złoty by 15%, ceteris paribus (profit higher by PLN 415m due to weaker NOK and by PLN 15m due to weaker USD, and lower by PLN 8m due to weaker EUR and by PLN 1m due to depreciation of other currencies). A positive result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). Any increase in foreign exchange gains from valuation of the eurobonds in EUR would be offset by an increase in the negative portion of the fair value of financial derivatives for EUR. On the other hand, any decrease in the valuation of the USD-denominated loan contracted by PGNiG Norway AS would be offset by a decrease in assets (receivables) measured in the same currency.

Results of an analysis of sensitivity to currency risk carried out as at December 31st 2011 indicate that net profit would have been lower by PLN 412m, if the EUR, USD, NOK and other currencies apreciated against the złoty by 15%, ceteris paribus (profit lower by PLN 344m due to stronger NOK and by PLN 89m due to stronger USD, and higher by PLN 15m due to stronger EUR and PLN 6m due to the strengthening of other currencies).

The most significant factor with a bearing on the outcome of the sensitivity analysis is higher negative valuation of CCIRS derivatives hedging the loan advanced to PGNiG Norway AS, which is eliminated from the consolidated financial statements.
If the loan was recognised in the statement of financial position (which is the case in the Parent's separate financial statements), the cash flows related to the loan and the cash flows from the hedging transactions would offset one another. As a result, the changes in positive (negative) valuation of the loan would be offset by negative (positive) changes in the valuation of CCIRS transactions. In aggregate, the items would be insensitive to the exchange rate and interest rate changes.
Lower profit would be mainly attributable to an increase in the negative portion of the fair value of financial derivatives (negative fair value of swap transactions in NOK).
The adverse effect on the result on NOK-denominated financial instruments would be substantially amplified by an increase in valuation the of the USD credit facility contracted by PGNiG Norway AS and reduced by an increase in the positive portion of the fair value of financial derivatives on USD and EUR and the valuation of assets in those currencies
With the exchange rates higher by 15%, the positive portion of the fair value of financial derivatives executed on USD and EUR would grow and so would foreign exchange losses on trade payables related to EUR and USD.

As at December 31st 2011, net profit would have been higher by PLN 511m, if the EUR, USD, NOK and other currencies depreciated against the złoty by 15%, ceteris paribus (profit higher by PLN 344m due to weaker NOK, by PLN 168m due to weaker USD, and by PLN 5m due to weaker EUR, and lower by PLN 6m due to depreciation of other currencies). The positive financial result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). The positive financial result would be augmented by a decrease in valuation of the USD credit facility contracted by a subsidiary, PGNiG Norway AS, and slightly reduced by a decrease in the positive portion of the fair value of financial derivatives executed on USD hedging the liabilities and expenses related to purchases of gas fuel.

Detailed results of the analysis of sensitivity of financial instruments held by the Group to exchange rate fluctuations for 2012 and 2011 are presented below.

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

* 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.

** 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.

	Net carrying amount 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*	6	-	-	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-	-	-	-
Trade and other receivables	494	47	14	4	10	(47)	(14)	(4)	(10)
Financial assets held for trading	-	-	-	-	-	-	-	-	-
Derivative financial instrument assets**	244	28	144	-	-	-	-	422	-
Cash and cash equivalents	294	6	11	22	5	(6)	(11)	(22)	(5)
Effect on financial assets before tax		**81**	**169**	**26**	**15**	**(53)**	**(25)**	**396**	**(15)**
19% tax		(15)	(32)	(5)	(3)	10	5	(75)	3
Effect on financial assets after tax		**66**	**137**	**21**	**12**	**(43)**	**(20)**	**321**	**(12)**
Total currencies		*236*				*246*			
Financial liabilities									
Borrowings and debt securities (including finance lease)	1,536	3	226	-	2	(3)	(226)	-	(2)
Trade and other payables	975	60	53	28	5	(60)	(53)	(28)	(5)
Derivative financial instrument liabilities**	414	-	-	422	-	4	47	-	-
Effect on financial liabilities before tax		**63**	**279**	**450**	**7**	**(59)**	**(232)**	**(28)**	**(7)**
19% tax		(12)	(53)	(85)	(1)	11	44	5	1
Effect on financial liabilities after tax		**51**	**226**	**365**	**6**	**(48)**	**(188)**	**(23)**	**(6)**
Total currencies		*648*				*(265)*			
Total increase/decrease		15	(89)	(344)	6	5	168	344	(6)
Total currencies		**(412)**				**511**			
Exchange rates as at the balance-sheet date 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

* 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.

** In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on profit or loss. In connection with the use of hedge accounting, part of the changes in the valuation of financial derivatives is charged to equity through other comprehensive income. The effect of fluctuations in exchange rates on this portion of financial derivatives is presented in a separate table below.

Analysis of 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 Group 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 Group 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 Dec 31 2012	**Price risk**			
	Price change by:	*25%*		*-25%*	
		Gasoil	Fueloil	Gasoil	Fueloil
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 Dec 31 2011	Price risk			
	Price change by:	*30%*		*-30%*	
		Gasoil	Fueloil	Gasoil	Fueloil
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	Fueloil	Gasoil	Fueloil
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	Fueloil	Gasoil	Fueloil
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 Group 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 Group's income statement.

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

As at December 31st 2012, the sensitivity to interest rate changes of +/-100 bp of liabilities under borrowings, notes in issue, and variable-rate lease liabilities was +/- PLN 102m. At the same time, the sensitivity of loans advanced to interest rate changes of +/-100 basis points was PLN +/- 1m.

As at December 31st 2011, the sensitivity to interest rate changes of +/-100 bp of liabilities under borrowings, notes in issue, and variable-rate lease liabilities was +/- PLN 50m.

Sensitivity of financial instruments to interest rate changes

	Net carrying amount	*Change by:*	
	As at Dec 31 2012	**+100 bp**	**-100 bp**
Loans advanced	117	1	(1)
Borrowings and other debt instruments	1,429	14	(14)
Notes issued	8,599	86	(86)
Lease liabilities	183	2	(2)
Total liabilities	**10,211**	**102**	**(102)**

	Net carrying amount	*Change by:*	
	As at Dec 31 2011	**+100 bp**	**-100 bp**
Borrowings and other debt instruments	1,519	15	(15)
Notes issued	3,294	33	(33)
Lease liabilities	186	2	(2)
Total liabilities	**4,999**	**50**	**(50)**

35. DERIVATIVES

Measurement of derivatives

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

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

Currency call and put options were measured at fair value using the Garman-Kohlhagen model, whereas Asian commodity call and put options were measured at fair value using the Espen-Levy model. Forwards and CCIRS were measured at fair value by discounting future cash flows separately for each currency. The measurement was based on market data such as interest rates, foreign-exchange rates, commodity prices and volatility of commodity prices as at December 31st 2012.

Hedge accounting

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

Derivative Instruments

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Dec 31 2012	Dec 31 2011
Cross Currency Interest Rate Swap						
Loan	5,244	NOK	1-3 years	0.5198	(317)	-
Loan	481	NOK	1-3 years	0.5684	3	-
Eurobonds	500	EUR	over 3 years	4.1580	82	-
Loan	4,560	NOK	1-3 years	0.5147	-	(411)
					(232)	**(411)**
Forward transactions						
Payments for gas	27	EUR	up to 1 month	4.1665	(2)	-
Payments for gas	34	EUR	1-3 months	4.1739	(2)	-
Payments for gas	150	USD	up to 1 month	3.3414	(36)	-
Payments for gas	210	USD	1-3 months	3.2690	(31)	-
Payments for gas	60	USD	3-6 months	3.2338	(5)	-
EUR/PLN	4	EUR	up to 1 month	4.2422	-	-
EUR/PLN	2	EUR	1-3 years	4.4419	-	-
Payments for gas	65	EUR	Q1 2012	4.4455	-	(1)
Payments for gas	295	USD	Q1 2012	3.2356	-	59
Payments for gas	20	USD	Q2 2012	3.4076	-	1
Financial liabilities of PN Diament Sp. z o.o.	0.13	USD	2011	2.7848	-	-
Foreign receivables of PGNiG Technologie Sp. z o.o.	2.43	EUR	2011	4.4255	-	-
					(76)	**59**
Call options						
Payments for gas	90	USD	up to 1 month	3.4742	-	-
Payments for gas	290	USD	1-3 months	3.4839	2	-
Payments for gas	30	USD	3-6 months	3.4583	1	-
Payments for gas	31	EUR	up to 1 month	4.2552	-	-
Payments for gas	117	EUR	1-3 months	4.2670	2	-
Payments for gas	51	EUR	Q1 2012	4.3624	-	9
Payments for gas	36	EUR	Q2 2012	4.5681	-	3
Payments for gas	580	USD	Q1 2012	3.3044	-	124
Payments for gas	310	USD	Q2 2012	3.5328	-	46
					5	**182**
Put options						
Proceeds from sale in foreign currency	1	EUR	up to 1 month	strike price: PUT − 4.1100; strike price: CALL − 4.2545	-	-
Proceeds from sale in foreign currency	1	EUR	1-3 months	strike price: PUT − 4.1200; strike price: CALL − 4.2545	-	-
Proceeds from sale in foreign currency	1	EUR	1-3 months	strike price: PUT − 4.1250; strike price: CALL − 4.2545	-	-
Payments for gas	20	USD	Q1 2012	3.0030	-	-
					-	**-**

Derivative Instruments (continued)

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value Dec 31 2012	Measurement at fair value Dec 31 2011
			Call commodity options			
Payments for gas	0.176	HFO	up to 1 month	793.52	-	-
Payments for gas	0.503	HFO	1-3 months	791.65	-	-
Payments for gas	0.416	HFO	3-6 months	732.38	2	-
Payments for gas	0.118	HFO	6-12 months	749.92	-	-
Payments for gas	0.127	GO	up to 1 month	1,108.82	-	-
Payments for gas	0.373	GO	1-3 months	1,097.37	-	-
Payments for gas	0.338	GO	3-6 months	1,014.05	13	-
Payments for gas	0.123	GO	6-12 months	1,052.68	-	-
Payments for gas	0.635	FO	Q1 2012	750.64	-	18
Payments for gas	0.724	FO	Q2 2012	782.24	-	-
Payments for gas	0.947	FO	H2 2012	819.37	-	7
Payments for gas	0.062	FO	Q1 2013	788.06	-	2
Payments for gas	0.499	GO	Q1 2012	1,072.18	-	10
Payments for gas	0.505	GO	Q2 2012	1,089.44	-	-
Payments for gas	0.642	GO	H2 2012	1,150.09	-	3
Payments for gas	0.042	GO	Q1 2013	1,121.43	-	1
					15	**41**
			Put commodity options			
Payments for gas	0.138	HFO	up to 1 month	587.04	-	-
Payments for gas	0.454	HFO	1-3 months	594.79	-	-
Payments for gas	0.222	HFO	3-6 months	545.11	-	-
Payments for gas	0.105	GO	up to 1 month	841.90	-	-
Payments for gas	0.373	GO	1-3 months	858.16	-	-
Payments for gas	0.211	GO	3-6 months	818.72	-	-
Payments for gas	0.600	FO	Q1 2012	553.46	-	-
Payments for gas	0.724	FO	Q2 2012	526.47	-	-
Payments for gas	0.827	FO	H2 2012	503.12	-	(1)
Payments for gas	0.030	FO	Q1 2013	490.00	-	-
Payments for gas	0.499	GO	Q1 2012	822.20	-	-
Payments for gas	0.505	GO	Q2 2012	803.80	-	-
Payments for gas	0.586	GO	H2 2012	753.27	-	(2)
Payments for gas	0.020	GO	Q1 2013	772.00	-	-
					-	**(3)**
Total					**(288)**	**(132)**
	including:	positive valuation*	assets		**105**	**285**
		Negative valuation	liabilities		**(393)**	**(417)**

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

HFO – Heavy Fuel Oil

GO - Gasoil

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 Group'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.

	Period from Jan 1 – Dec 31 2012	Period from Jan 1 – Dec 31 2011
Net gain/loss on valuation of derivative instruments – unrealised	109	(339)
Net gain/loss on derivative instruments – realised	(217)	488
Total net gain/loss on derivative instruments recognised in profit or loss	**(108)**	**149**
of which:		-
recognised in raw material and consumables used	37	470
recognised in net other expenses	(116)	(321)
recognised in finance income or costs	(29)	-
Net gain/loss on valuation of derivative instruments recognised in other comprehensive income -– unrealised	**(250)**	**135**
Total net gain/loss on derivative instruments recognised in equity	**(358)**	**284**

36. CONTINGENT LIABILITIES AND RECEIVABLES

36.1. Contingent receivables

	Dec 31 2012	Dec 31 2011
From related entities:		
under guarantees and sureties received	1	-
under promissory notes received	152	3
Total contingent receivables from related entities	**153**	**3**
From other entities:		
under guarantees and sureties received	420	428
under promissory notes received	158	97
other	226	156
Total contingent receivables from other entities	**804**	**681**
Total contingent assets	**957**	**684**

36.2. Contingent liabilities

	Dec 31 2012	Dec 31 2011
To other entities		
under guarantees and sureties issued*	9,732	10,571
under promissory notes issued	698	858
other	1,129	-
Total contingent liabilities to other entities	**11,559**	**11,429**
Total contingent liabilities	**11,559**	**11,429**

* 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 30th 2011.

The increase in contingent receivables is chiefly attributable to loans advanced to related entities and promissory notes issued as security in respect of these loans (PLN 152m). Other contingent receivables also grew on the back of EU subsidies granted to co-finance projects carried out by gas distribution companies.

The decrease in contingent liabilities in 2012 is primarily attributable to changes in exchange rates for currencies in which the liabilities are denominated. The depreciation of the euro against the złoty in 2012 caused a reduction in contingent liabilities arising in connection with the guarantee of repayment of liabilities under the eurobonds, provided by the Parent (down PLN 493m, translated at the exchange rate quoted by the NBP for December 31st 2012) and in connection with the performance bond provided to the Government of Norway by PGNiG Norway AS (down PLN 206m). Contingent liabilities under issued promissory notes decreased as a result of expiry of some of promissory note agreements. The increase in other contingent liabilities is attributable mainly to the pledge created over claims under the loan advanced to PGNiG Norway AS, of PLN 1,118m, the secure the payment of liabilities under the loan.

36.3. Other contingent liabilities

Real estate tax

The Group assessed the risk of claims being filed against it in relation to real estate tax on 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 160m as at December 31st 2012 (December 31st 2011: PLN 151m).

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 stuctures) 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.

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

37. OFF-BALANCE SHEET LIABILITIES

37.1. Operating lease liabilities

	Dec 31 2012	Dec 31 2011
up to 1 year	11	5
from 1 to 5 years	10	8
Total	**21**	**13**

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

	Dec 31 2012	Dec 31 2011
Commitments under executed agreements	4,951	4,118
Completion of agreements as at the balance-sheet date	(3,292)	(2,726)
Commitments under executed agreements subsequent to the balance-sheet date	**1,659**	**1,392**

38. RELATED ENTITIES

38.1. Related-party transactions

Related party		Sales to related parties	Purchases from related parties	Balance as at	Receivables from related parties, gross	Receivables from related parties, net	Loans to related parties, gross	Loans to related parties, net	Liabilities to related parties
Equity-accounted associates	Dec 31 2012	29	-	Dec 31 2012	4	4	-	-	7
	Dec 31 2011	22	(88)	Dec 31 2011	2	2	-	-	7
Non-consolidated subsidiaries and associates	Dec 31 2012	10	(111)	Dec 31 2012	4	4	146	117	10
	Dec 31 2011	8	176	Dec 31 2011	2	2	29	-	42
Related entities – total	**Dec 31 2012**	**39**	**(111)**	**Dec 31 2012**	**8**	**8**	**146**	**117**	**17**
	Dec 31 2011	**30**	**88**	**Dec 31 2011**	**4**	**4**	**29**	**-**	**49**

In 2012, there were no material transactions with shareholders.
The principal transactions with the Parent's shareholders in 2011 were dividend payments discussed in Note 10.

In 2012, neither the Parent nor its subsidiaries entered into any material transactions with related parties otherwise than on arm's length terms.

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

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

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

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

In 2012, the Group 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.

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

	Period from Jan 1 – Dec 31 2012	Period from Jan 1– Dec 31 2011
Remuneration paid to management staff	**31.01**	**31.93**
Parent	1.89	3.10
Subsidiaries	21.60	20.50
Jointly-controlled entities	6.71	7.53
Associates	0.81	0.80
Remuneration paid to supervisory staff	**12.11**	**9.41**
Parent	0.36	0.29
Subsidiaries	7.84	7.13
Jointly-controlled entities	3.21	1.26
Associates	0.70	0.73
Total	**43.12**	**41.34**

38.4. Loans advanced to members of the management and supervisory boards of the Group companies

	Dec 31 2012	Dec 31 2011
Management Board members		
Interest rate (%)	1%-4%	0%-4%
Maturing in	3–5 years	2–5 years
Value of outstanding loans	0.16	0.12
Supervisory Board members		
Interest rate (%)	4%	0%-4%
Maturing in	5 years	2–5 years
Value of outstanding loans	0.01	0.03
Total value of outstanding loans	**0.17**	**0.15**

38.5. Remuneration paid to members of management and supervisory bodies of the Parent

Name	Jan 1–Dec 31 2012 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
Total remuneration paid to Management Board members, including:	**1.895**	**2.840**	**4.735**
Grażyna Piotrowska-Oliwa	0.211	0.558	**0.769**
Radosław Dudziński	0.330	0.858	**1.188**
Sławomir Hinc	0.336	0.857	**1.193**
Mirosław Szkałuba	0.369	0.423	**0.792**
Persons who were Management Board members in the current period but not as at the end of the current period			
Kazimierz Chrobak*	0.222	-	**0.222**
Mieczysław Jakiel*	0.091	0.018	**0.109**
Ewa Bernacik*	0.106	0.037	**0.143**
Marek Karabuła**	0.230	0.089	**0.319**
Total remuneration paid to Supervisory Board members, including:	**0.360**	**0.213**	**0.573**
Chmielewski Wojciech	0.040	-	**0.040**
Marcin Moryń	0.041	-	**0.041**
Mieczysław Kawecki	0.041	0.043	**0.084**
Agnieszka Chmielarz	0.041	0.045	**0.086**
Józef Głowacki	0.040	-	**0.040**
Mieczysław Puławski	0.041	-	**0.041**
Jolanta Siergiej	0.041	0.045	**0.086**
Janusz Pilitowski	0.040	-	**0.040**
Ewa Sibrecht-Ośka	0.033	-	**0.033**
Persons who were Supervisory Board members in the current period but not as at the end of the current period			
Grzegorz Banaszek	0.001	-	**0.001**
Stanisław Rychlicki	0.001	0.080	**0.081**
Total	**2.255**	**3.053**	**5.308**

*Kazimierz Chrobak, Mieczysław Jakiel and Ewa Bernacik served as proxies until March 21st 2012.
**Marek Karabuła served as Member of the Management Board until May 11th 2012.

Name	Jan 1–Dec 31 2011		
	Total amount of remuneration, additional benefits and bonuses paid in 2011	Total amount of remuneration for holding offices in subordinates in 2011	Total remuneration paid in 2011
Total remuneration paid to Management Board members, including:	**3.099**	**4.364**	**7.463**
Michał Szubski – President	0.356	1.456	**1.812**
Radosław Dudziński – Vice-President	0.329	1.058	**1.387**
Sławomir Hinc – Vice-President	0.325	1.058	**1.383**
Marek Karabuła – Vice-President	0.272	0.271	**0.543**
Mirosław Szkałuba – Vice-President	0.374	0.357	**0.731**
Ewa Bernacik – proxy	0.358	0.085	**0.443**
Mieczysław Jakiel – proxy	0.625	0.041	**0.666**
Persons who were Management Board members in 2011 but not as at Dec 31 2011:			
Tadeusz Kulczyk – proxy*	0.460	0.038	**0.498**
Total remuneration paid to Supervisory Board members, including:	**0.290**	**0.190**	**0.480**
Stanisław Rychlicki	0.041	0.080	**0.121**
Marcin Moryń	0.041	-	**0.041**
Mieczysław Kawecki	0.043	0.041	**0.084**
Agnieszka Chmielarz	0.041	0.026	**0.067**
Grzegorz Banaszek	0.041	-	**0.041**
Mieczysław Puławski	0.041	-	**0.041**
Jolanta Siergiej	0.042	0.043	**0.085**
Total	**3.389**	**4.554**	**7.943**

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

38.6. Fees Paid to the audit firm for the mandatory audit of the annual consolidated financial statements of the Group and for the rendering of other services

The consolidated financial statements of the PGNiG Group and the financial statements of PGNiG SA and of its 21 subsidiaries for 2012 were audited by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.). The agreement with the audit firm was executed for a period of three years (2010–2013). The agreement provides for:

- Audit and translation into English of the financial statements for the 12-month periods ended December 31st 2010, December 31st 2011 and December 31st 2012 (for PGNiG SA and subsidiaries);
- Review of the financial statements for the first quarter of each 2011, 2012 and 2013 (for PGNiG SA);
- Review and translation of the financial statements for the first half of each 2010, 2011 and 2012 (for PGNiG SA);
- Review of the financial statements for the third quarter of each 2010, 2011 and 2012 (for PGNiG SA);
- Performance of agreed procedures related to financial ratios for 2010, 2011 and 2012 for the needs of the banks financing the Parent, provided under facilyt agreements and note issuance agreements (for PGNiG SA).

On June 19th 2012, an annex to the agreement was signed, whereby the scope of services provided by the auditor was changed. Translation of the audited financial statements into English was excluded from the agreement, and the scope of the agreement was extended to include:

- Review of financial data related to PGNiG TERMIKA S.A. at the time of acquisition of control over the company by PGNiG SA and review of the fair value measurement of the acquired assets and liabilities of PGNiG TERMIKA S.A.;
- Performance of certain procedures required by the banks providing financing to PGNiG SA for the 12-month periods ended June 30th 2010, 2011 and 2012.

Following the amendments to the agreement, the auditor's fees changed, also with respect to the comparative period.

The table below presents the fees paid or payable by the Parent to the auditor for 2011–2012, taking into account the changes effected under the annex.

	Period from Jan 1 – Dec 31 2012	Period from Jan 1– Dec 31 2011
Audit of the annual consolidated financial statements	0.10	0.10
Audit of the annual separate financial statements	0.12	0.12
Other certification services, including review of financial statements	0.53	0.47
Other services	0.01	0.03
Total	**0.76**	**0.72**

38.7. Non-consolidated joint ventures

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

- “Płotki” – under the Agreement for Joint Operations dated May 12th 2000; licence interests: PGNiG SA (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 SA (operator) – 51%, FX Energy – 24.5%, CalEnergy Resources Poland Sp. z o.o. – 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, 274N) – under the Agreement for Joint Operations dated May 26th 2011 (which with respect to block 255 replaced the agreement of October 29th 1999); licence interests: FX Energy (operator) – 51%, PGNiG SA – 49%;
- “Ostrowiec” (blocks 163 and 164) – under the Agreement for Joint Operations dated February 27th 2009, covering licence blocks no. 163 and 164; licence interests: FX Energy (operator) – 51%, PGNiG SA – 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 SA – 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. Work continued also 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 exploration borehole was completed but proved dry.

EuroGas Polska Sp. z o.o., registered office at ul. Górnośląska 3, 43-200 Pszczyna
Energia Bieszczady Sp. z o.o., registered officeat ul. Śniadeckich 17, 00-654 Warsaw

In 2012, PGNiG SA 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 SA (operator) – 51%, EuroGas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%.
In the “Bieszczady” area 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 SA continued cooperation with Orlen Upstream Sp. z o.o. in the “Sieraków” area under the agreement for joint operations of June 22nd 2009. Project interests: PGNiG SA (operator) – 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.

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 SA – 40%
- “Karpaty Wschodnie” - under the agreement for joint operations dated December 17th 2009, concluded with Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (subsidiary of Aurelian Oil & Gas PLC); licence interests: Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (operator) – 80%, PGNiG SA – 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., siedziba: Katowice 40-114, ul. Ks. Piotra Ściegiennego 3

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

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

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

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

38.8. Foreign operations

PGNiG SA’s interests in foreign operations

Ukraine

Dewon Z.S.A. is a closely-held (unlisted) joint-stock company, established on November 17th 1999. The company's core business consists in 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 of the NBP quoted for December 31st 2012) and is divided into 120,000 shares with a par value of UAH 92.89 per share. PGNiG SA's equity interest in the company is UAH 4.1m (equivalent to PLN 1.7m, translated at the exchange rate of the NBP quoted for December 31st 2012). As at December 31st 2012, the value of the shares disclosed in the Parent's accounts was PLN 2.5m. An impairment loss was recognised for the full value of the shares.

The company's shareholder structure is as follows:

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

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

Dewon Z.S.A. conducted work at the Sakhalin field as part of a joint venture, under an agreement with NAK Nadra Ukrainy (the holder of 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 0.15m (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 SA 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 SA 73,500 shares (49%),
- Petroleum and Gas Technology llc 76,500 shares (51%)
  P.O. Box 3641, Ruwi, the Sultanate of Oman.

The company was established in 2000, at the initiative of Zakład Robót Górniczych Krosno Sp. z o.o. (until June 30th 2005 a branch of PGNiG SA, currently a wholly-owned subsidiary of PGNiG SA). The company was established to offer well servicing services, such as application of enhanced recovery techniques or workovers, wireline services, wellhead maintenance services, and to perform light and middle drilling work with using PGNiG's technological capabilities.
The company has never commenced operations. On June 7th 2009, the shareholders resolved to dissolve the company and appoint a liquidator. At present, the liquidation process is under way.

Germany

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

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

Each partner acquired a 50% interest in each of the companies. The share capital of each of the companies amounts to EUR 200 thousand (equivalent to PLN 0.8m (translated at the mid-rate of the NBP quoted for December 31st 2012), and their registered offices are located in Potsdam (InterGas Trade GmbH (IGT)) and Leipzig (InterTransGas GmbH (ITG)).

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 detail the 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 SA 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 rendering 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 with a view to finding a potential buyer.

As at December 31st 2012, PGNiG SA'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 the Parent'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 SA in return for a cash contribution made in December 2010. As at December 31st 2012, the value of the shares disclosed in the Parent'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 activities consisting in purchase of natural gas on the European market for PGNiG SA. 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 0.5m. XOOL GmbH is a natural gas operator with a network of 16,600 end-users in Germany.

Norway

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

PGNiG Norway AS is a wholly-owned subsidiary of PGNiG SA, 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 SA, 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.

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.

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)
- a 30% interest in licence PL350B, the direct operatorship of which was awarded to E.ON Ruhrgas Norge AS (40% interest).

In 2012, PGNiG Norway AS took part in two licensing rounds, the results of which will be announced in H1 2013.

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:

- Loans advanced by the Parent; since 2007, PGNiG SA 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, including accrued interest, advanced by the Parent was NOK 5,959m (equivalent of PLN 3,309m, 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 500m;
- USD 400m 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 the Parent in 2010.

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 and successively bringing wells on stream. On September 11th 2012, PGNiG Norway AS and PGNiG Sales&Trading GmbH signed an agreement whereby PGNiG Norway AS will be selling to PGNiG Sales&Trading GmbH its share of the natural gas produced from the Skarv field. The agreement was concluded for a period of ten years, and its value is estimated at EUR 1.3bn.

In 2012, PGNiG Norway AS was also engaged in exploration work. In late 2011 and early 2012, an exploration well was drilled in the PL350 licence area. Results from the well were not satisfactory, and the company decided to discontinue work in this licence area. Licence PL350 and its PL350B extension were relinquished to the Norwegian authorities. In 2012, the Company also carried out exploration work in the PL212E and PL558 licences. The work in the PL212E licence area resulted in the discovery of the Snadd Outer field. PGNiG Norway AS's interest in the newly discovered field is 15%.

As at the end of 2012, the value of PGNiG SA's ownership 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 the accounting books of the Parent amounted to PLN 537.5m.

The Netherlands - Libya

In January 2008, the PGNiG Management Board consented to use PGNiG Finance B.V. (established on September 14th 2001 to service the issue of eurobonds issued by PGNiG SA) for the purpose of exploration and production activities in Libya. On the same date, the PGNiG Management Board adopted a resolution concerning the amendment to the Articles of Association and change of the Management Board of PGNiG Finance B.V., and setting up of the company's branch in Libya.
The amendments to the Articles of Association were registered in the Netherlands on February 4th 2008. In the new Articles of Association, the company's name was changed to **Polish Oil and Gas Company – Libya B.V.** (POGC – Libya B.V.). The company's sole shareholder is PGNiG SA. Its share capital is 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 the Parent through POGC Libya B.V., may be recovered from the production revenues (cost oil).

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

Because of the events which had been taking place in Libya since mid-February 2011, the Management Board of POGC Libya 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. 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.

In February 2012, POGC-Libya B.V. and PGNiG SA entered into an agreement whereunder PGNiG SA 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 25m, 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.

As at December 31st 2012, the Parent's equity interest in POGC Libya B.V. amounted to 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 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. As at December 31st 2012, an impairment loss on shares in POGC Libya B.V. recognised in the accounting books was PLN 13.4m.

Sweden

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

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

In February 2012, the company (in cooperation with PGNiG SA) issued the first tranche of eurobonds 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 SA as an on-loan.

As at December 31st 2012, the value of shares in PGNiG Finance AB disclosed in the Parent's books was PLN 0.5m.

<u>The Parent's direct operations abroad – interests in exploration licences</u>

The Parent conducts exploration work in Pakistan under an agreement on hydrocarbon exploration and production in the Kirthar licence area executed between PGNiG SA and the government of Pakistan on May 18th 2005. Work in the Kirthar block is conducted jointly with Pakistan Petroleum Ltd., with production and expenses shared proportionately to the parties' interests in the licence: PGNiG SA (operator) – 70%, PPL – 30%. In 2012, the Hallel-1 well was worked over and a horizontal well, Hallel-X1, was drilled off. The Hallel-X1 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 Parent continued exploration work in the 1/05 licence area. (interests held by PGNiG SA (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 SA decided not to extend the 1/05 licence in Denmark.

In Egypt, the Parent conducted exploration work in the Bahariya licence area (Block 3) under an Exploration and Production Sharing Agreement (EPSA) executed with the government of Egypt of May 17th 2009. The Company holds a 100% interest in the licence. In 2012, having completed the field acquisition of 2D seismic data, the Company commenced the processing and interpretation of the 2D seismic image. 2,300 km of 2D seismic was acquired in the Bahariya licence area. The drilling of an exploration well is scheduled for 2013.

Foreign branches of the Group:

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

PGNiG SA – the Parent:
Operating Branch in Pakistan – Islamabad,
Branch in Egypt – Cairo,
Branch in Denmark – Copenhagen, subject to liquidation proceedings.

Geofizyka Kraków S.A.
Branch in Pakistan – Islamabad,
Branch in Slovakia – Bratislava,
Branch in the Czech Republic – Ostrava,
Branch in Libya – Tripoli.

Geofizyka Toruń S.A.
Branch in Thailand – Bangkok,
Branch in Egypt – Suez,
Branch in Syria – Damascus.

Poszukiwania Nafty i Gazu Jasło S.A.
Branch in Libya – Tripoli,
Branch in the Czech Republic – Ostrava.

Poszukiwania Nafty i Gazu Kraków S.A.
Branch in Pakistan – Islamabad,
Branch in Kazakhstan – Almaty
Branch in the Republic of Uganda – Kampala.

Zakład Robót Górniczych Krosno Sp. z o.o.
Branch in the Czech Republic – Ostrava.

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

39. WORKFORCE (NUMBER OF STAFF)

Workforce as at end of the period, by segments	Dec 31 2012	Dec 31 2011
Exploration and production	10,990	12,054
Trade and storage	4,685	4,967
including equity-accounted entities	288	288
Distribution	13,255	13,865
Generation	1,069	-
Other activities	2,327	2,185
Total	**32,326**	**33,071**

40. RESTRUCTURING PROCESS WITHIN THE GROUP

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 SA on December 11th 2008, was continued. By virtue of Resolution of the Extraordinary General Meeting of PGNiG SA of December 7th 2011, the term of the Central Restructuring Fund (CRF) was extended until December 31st 2015. The Programme will therefore expire on December 31st 2015, unless one of the Parties (the PGNiG Management Board or the Social Partner) terminates the Programme prior to that date.

The Programme is based on the "stand-by" principle, which means that it can be implemented in extraordinary circumstances, i.e. any decisions regarding its implementation can only be made if justified by the scope of planned restructuring involving workforce downsizing and/or job shedding.

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

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

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

In the reporting period, requests for financing under the Programme (for a total amount of PLN 15.1m and an aggregate number of 290 Group employees) were made by the following eligible entities:

- PGNiG SA requested one-off redundancy payments, totalling PLN 2.8m, for 50 former employees of the Head Office, who were made redundant as part of the workforce streamlining programme. The request was granted.
- ZRG Krosno Sp. z o.o. requested one-off redundancy payments, totalling PLN 1.6m, for 31 former employees of the company, who were made redundant as part of workforce streamlining measures. The request was granted.
- PGNiG Technologie SA requested one-off redundancy payments, totalling PLN 2.7m, for 58 former employees of the company, who were made redundant as part of workforce streamlining measures. The request is being considered. Moreover, a request was filed for one-off redundancy payments totalling PLN 5.1m to be granted to 83 former employees who

were made redundant as part of workforce streamlining measures. The request is being considered.

- Geofizyka Kraków S.A. requested one-off redundancy payments, totalling PLN 2.1m, for 46 former employees of the company, who were made redundant as part of workforce streamlining measures. The request is being considered.
- PNiG Jasło S.A. requested for one-off redundancy payments, totalling PLN 0.8m, for 22 former employees of the company, who were made redundant as part of workforce streamlining measures. The request is being considered.

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

41. CAPITAL MANAGEMENT

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

The Group monitors its capital position using the leverage ratio, calculated as the ratio of net debt to the sum of total equity and net debt. In accordance with the rules adopted by the Group, the leverage should not exceed 35%. Net debt is the sum of borrowings, finance lease liabilities, liabilities under debt securities in issue and trade and other payables less cash and cash equivalents. Equity includes equity attributable to owners of the Parent.

	Dec 31 2012	Dec 31 2011
Borrowings, finance lease liabilities and liabilities under debt securities in issue	10,211	4,999
Trade and other payables	3,744	3,314
Cash and cash equivalents (-)	(1,948)	(1,505)
Net debt	**12,007**	**6,808**
Equity (attributable to owners of the parent)	**27,243**	**25,211**
Equity and net debt	**39,250**	**32,019**
Leverage	30.6%	21.3%

42. OTHER IMPORTANT INFORMATION

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

In 2012, actions instituted by PGNiG SA were pending to rescind or declare invalidity of resolutions of the Extraordinary General Meeting of PI GAZOTECH Sp. z o.o. concerning additional contributions to the company's equity.

Proceedings concerning PGNiG SA's action against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of resolutions by the General Meeting of PI GAZOTECH Sp. z o.o., dated April 23rd 2004, including the resolution obliging PGNiG SA to pay additional contributions of PLN 52m, were held 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 SA's claims and declared the resolution concerning share redemption and the resolution concerning the additional contributions invalid. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, along with a petition to be exempt from court fees. On December 14th 2011, the Court of Appeals dismissed PI GAZOTECH Sp. z o.o.'s appeal. The ruling is final. On April 24th 2012, PI GAZOTECH Sp. z o.o. lodged a cassation compliant, which had not been accepted for consideration by the Supreme Court by the date of this report.

Proceedings instigated by PGNiG SA against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of the resolution of the Extraordinary General Meeting of PI GAZOTECH Sp. z o.o., dated January

19th 2005, whereunder PGNiG SA was obliged to pay an additional contribution of PLN 26m, were held before the Regional Court and the Court of Appeals of Warsaw. By virtue of its ruling of October 18th 2010, the Regional Court of Warsaw 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. By virtue of its decision of June 22nd 2012, the Court of Appeals in Warsaw dismissed PI GAZOTECH Sp. z o.o.'s appeal. On October 30th 2012, PI GAZOTECH Sp. z o.o. lodged a cassation compliant against that decision, a copy of which was delivered to PGNiG SA's representative on December 31st 2012. The complaint had not been accepted for consideration by the Supreme Court by the date of this report.

Proceedings based upon PGNiG SA'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 SA 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. The Regional Court of Warsaw, 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.

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

On December 28th 2010, the President of UOKiK instigated anti-trust proceedings concerning abuse of dominant position by PGNiG SA on the domestic wholesale natural gas market, consisting in:

- inhibiting sale of gas against the interest of trading partners or consumers, and
- impeding the development of market conditions necessary for the emergence or development of competition

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

In its decision of July 5th 2012, the President of UOKiK found these actions to be anti-competitive practices, concluded that PGNiG SA discontinued those practices as of November 30th 2010, and imposed on the Company a fine of PLN 60m. On July 24th 2012, PGNiG SA filed an appeal against the decision of the President of UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw.

Also, on July 4th 2011, the President of UOKiK instigated anti-trust proceedings concerning abuse of dominant position by PGNiG SA 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 SA 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 SA has satisfied this requirement.

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

42.3. Dispute between PGNiG SA and PBG S.A.

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

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 SA, 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 SA to mediation. On September 20th 2012, an out-of-court settlement was made between PGNiG SA 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.

By virtue of its decision of October 31st 2012, the Regional Court discontinued the proceedings.

On September 21st 2012 a Statement of Claims against the insolvent company was lodged with the District Court of Poznań, Division for Bankruptcy and Recovery Cases, by an attorney-in-fact acting for and on behalf of PGNiG SA, 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.

42.4 Proceedings before the Court of Arbitration

On March 31st 2011, PGNiG SA requested OOO Gazprom Export to renegotiate the price of gas deliveries under the Contract dated September 25th 1996 for supplies of natural gas to the Republic of Poland, so as to reduce the price. As the parties failed to reach an agreement in the period of six months, on November 7th 2011, PGNiG SA filed a request to OAO Gazprom and OOO Gazprom Export to start arbitration proceedings before the Court of Arbitration. In accordance with the Court's procedure, on February 20th 2012, the Company filed a suit against OAO Gazprom and OOO Gazprom Export.

Concurrently with the arbitration proceedings, PGNiG and OOO Gazprom Export entered into trade negotiations, which led to the execution, on November 5th 2012, of an Annex to the Contract, changing the pricing terms of gas supplies, with retroactive effect. Under the annex, the gas price is based on a formula which includes current market prices of natural gas and petroleum products, and thus reflects the changes on the European gas market.

In connection with the agreement, PGNiG SA withdrew its petition for arbitration from the Stockholm Arbitration Tribunal and the arbitration proceedings were closed.

42.5 Restructuring of the Group's core business

On December 18th 2012, the Parent's Supervisory Board approved the "Short-Term Value Creation Strategy for the PGNiG Group in 2012–2014". The strategy provides for 19 initiatives in three business areas.

Two initiatives from the "Business Model" area are particularly important for the future structure of the Group:

- setting up a Shared Services Centre (SSC) – an initiative which assumes that support functions such as finance and accounting, HR and payroll, IT services or procurement will be transferred from the individual Group companies participating in the initiative to the SSC;
- restructuring of the Group's core business, assuming, inter alia, that the distribution companies which currently operate within the Group will be merged into one entity. The consolidation process is scheduled for completion in June 2013.

43. EVENTS SUBSEQUENT TO THE BALANCE-SHEET DATE

On February 21st 2013, Annex No. 2 (Annex) was executed to the Framework Agreement of July 4th 2012 concerning shale hydrocarbon exploration and production (Agreement). The Annex was signed by all parties to the Agreement, i.e. PGNiG SA, KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. ("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.

The PGNiG 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