CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30TH 2012

Members of the Management Board

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

Warsaw, August 13th 2012

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FINANCIAL HIGHLIGHTS
for the period ended June 30th 2012

	PLN		EUR	
	Jan 1–Jun 30 2012	**Jan 1–Jun 30 2011**	**Jan 1–Jun 30 2012**	**Jan 1–Jun 30 2011**
I. Sales revenue	14,764,372	11,523,362	3,494,857	2,904,585
II. Operating profit/loss	(52,628)	1,072,795	(12,458)	270,409
III. Pre-tax profit/loss	(93,612)	1,239,611	(22,159)	312,457
IV. Net profit/loss attributable to owners of the parent	(13,290)	1,003,474	(3,146)	252,936
V. Net profit/loss	(16,512)	1,004,863	(3,909)	253,286
VI. Comprehensive income attributable to owners of the parent	(98,496)	1,084,192	(23,315)	273,282
VII. Total comprehensive income	(101,718)	1,085,581	(24,078)	273,632
VIII. Net cash provided by/used in operating activities	1,179,627	2,256,511	279,228	568,778
IX. Net cash provided by/used in investing activities	(4,288,096)	(2,107,855)	(1,015,030)	(531,307)
X. Net cash provided by/used in financing activities	2,974,047	(487,518)	703,983	(122,884)
XI. Total net cash flow	(134,422)	(338,862)	(31,819)	(85,414)
XII. Net earnings/loss and diluted net earnings/loss per share attributable to owners of the parent (PLN/EUR)	(0.002)	0.17	(0.001)	0.04
	As at Jun 30 2012	**As at Dec 31 2011**	**As at Jun 30 2012**	**As at Dec 31 2011**
XIII. Total assets	42,180,713	37,964,374	9,898,555	8,595,448
XIV. Liabilities and provisions for liabilities	17,782,649	13,467,714	4,173,057	3,049,202
XV. Non-current liabilities	10,728,612	5,621,501	2,517,685	1,272,754
XVI. Current liabilities	7,054,037	7,846,213	1,655,372	1,776,448
XVII. Equity	24,398,064	24,496,660	5,725,498	5,546,246
XVIII. Share capital	5,900,000	5,900,000	1,384,554	1,335,809
XIX. Weighted average number of shares ('000)	5,900,000	5,900,000	5,900,000	5,900,000
XX. Book value per share and diluted book value per share (PLN/EUR)	4.14	4.15	0.97	0.94
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 at the EUR/PLN exchange rate computed as the arithmetic mean of mid-exchange rates quoted by the National Bank of Poland (NBP) for the last day of each calendar month in the given reporting period.

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

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

	Jun 30 2012	Dec 31 2011	Jun 30 2011
Average exchange rate for the period	4.2246	4.1401	3.9673
Exchange rate at end of the period	4.2613	4.4168	3.9866

CONSOLIDATED INCOME STATEMENT
for the period ended June 30th 2012

	Note	Jan 1–Jun 30 2012	Jan 1–Jun 30 2011
		(PLN '000)	
Sales revenue		**14,764,372**	**11,523,362**
Raw and other materials used	4.1	(10,633,231)	(6,890,056)
Employee benefits	4.2	(1,365,358)	(1,380,222)
Depreciation and amortisation		(1,003,922)	(776,896)
Contracted services	4.3	(1,487,369)	(1,567,526)
Cost of products and services for own needs		362,391	481,410
Other operating expenses, net	4.4	(689,511)	(317,277)
Total operating expenses		**(14,817,000)**	**(10,450,567)**
Operating profit/loss		**(52,628)**	**1,072,795**
Finance income	5	68,849	192,689
Finance expenses	5	(196,397)	(25,478)
Share in net profit/loss of equity-accounted entities	6.2	86,564	(395)
Pre-tax profit/loss		**(93,612)**	**1,239,611**
Income tax	7.1	77,100	(234,748)
Net profit/loss		**(16,512)**	**1,004,863**
Attributable to:			
Owners of the Parent		(13,290)	1,003,474
Non-controlling interests		(3,222)	1,389
Net earnings/loss and diluted net earnings/loss per share attributable to holders of ordinary shares of the Parent (PLN)	9	(0.002)	0.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period ended June 30th 2012

	Jan 1–Jun 30 2012	Jan 1–Jun 30 2011
	(PLN '000)	
Net profit/loss	**(16,512)**	**1,004,863**
Currency translation differences on foreign operations	13,750	(14,150)
Valuation of hedging instruments	(122,168)	169,803
Valuation of financial instruments	-	(52,689)
Deferred tax related to other comprehensive income	23,212	(22,246)
Other comprehensive income, net	**(85,206)**	**80,718**
Total comprehensive income	**(101,718)**	**1,085,581**
Attributable to:		
Owners of the Parent	(98,496)	1,084,192
Non-controlling interests	(3,222)	1,389

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at June 30th 2012

	Note	Jun 30 2012	Dec 31 2011
		(PLN '000)	
ASSETS			
Non-current assets			
Property, plant and equipment	11	31,841,098	28,427,026
Investment property	12	12,753	7,136
Intangible assets	13	1,081,535	275,437
Investments in equity-accounted associates	6	684,954	598,391
Financial assets available for sale	14	56,473	56,410
Other financial assets	15	81,606	9,339
Deferred tax assets	16	1,206,506	963,800
Other non-current assets	17	95,542	97,814
Total non-current assets		**35,060,467**	**30,435,353**
Current assets			
Inventories	18	2,719,279	2,082,386
Trade and other receivables	19	2,379,173	3,378,136
Current income tax receivable	20	136,706	164,462
Prepayments and accrued income	21	307,655	83,911
Financial assets available for sale	22	2,838	22,275
Derivative financial instrument assets	34	197,867	284,629
Cash and cash equivalents	23	1,369,469	1,504,792
Non-current assets held for sale	24	7,259	8,430
Total current assets		**7,120,246**	**7,529,021**
Total assets		**42,180,713**	**37,964,374**
EQUITY AND LIABILITIES			
Equity			
Share capital	25	5,900,000	5,900,000
Currency translation differences on foreign operations		(11,240)	(22,967)
Share premium account		1,740,093	1,740,093
Other capital reserves		16,011,780	14,149,226
Retained earnings/(deficit)		750,722	2,723,499
Equity attributable to owners of the parent		**24,391,355**	**24,489,851**
Equity attributable to non-controlling interests		6,709	6,809
Total equity		**24,398,064**	**24,496,660**
Non-current liabilities			
Loans, borrowings and debt securities	26	5,819,308	1,382,344
Provisions	27	1,883,718	1,625,802
Deferred income	28	1,204,598	1,160,067
Deferred tax liabilities	29	1,797,815	1,433,410
Other non-current liabilities	30	23,173	19,878
Total non-current liabilities		**10,728,612**	**5,621,501**
Current liabilities			
Trade and other payables	31	3,001,614	3,354,903
Loans, borrowings and debt securities	26	3,137,497	3,616,633
Derivative financial instrument liabilities	34	399,102	416,836
Current tax liabilities	20	45,350	57,729
Provisions	27	371,704	305,171
Deferred income	28	98,770	94,941
Total current liabilities		**7,054,037**	**7,846,213**
Total liabilities		**17,782,649**	**13,467,714**
Total equity and liabilities		**42,180,713**	**37,964,374**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the period ended June 30th 2012

	Note	Jan 1–Jun 30 2012	Jan 1–Jun 30 2011
		(PLN '000)	
Cash flows from operating activities			
Net profit/loss		(16,512)	1,004,863
Adjustments:			
Share in net profit/loss of equity-accounted entities		(86,564)	395
Depreciation and amortisation		1,003,922	776,896
Net foreign exchange gains/losses		(1,827)	(25,494)
Net interest and dividend		89,849	(5,326)
Profit/loss from investing activities		(124,686)	34,685
Current income tax		(77,100)	234,748
Income tax paid		(114,683)	(382,594)
Other items, net	32	81,375	136,574
Net cash provided by/(used in) operating activities before changes in working capital		**753,774**	**1,774,747**
Change in working capital:			
Change in receivables, net	32	1,255,519	1,513,276
Change in inventories	32	(279,109)	(463,829)
Change in provisions	32	65,838	42,492
Change in current liabilities	32	(370,575)	(429,723)
Change in prepayments	32	(213,484)	(192,047)
Change in deferred income	32	(32,336)	11,595
Net cash provided by/(used in) operating activities		**1,179,627**	**2,256,511**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		142,342	12,608
Sale of shares in non-consolidated entities		150	153,339
Sale of short-term securities		18,900	-
Acquisition of property, plant and equipment and intangible assets		(1,616,964)	(2,276,056)
Acquisition of shares in non-consolidated entities		(95)	(18,872)
Acquisition of short-term securities		-	(22,720)
Interest received		29	1,121
Dividends received		2,459	1,298
Proceeds from finance lease		3	1,228
Acquisition of shares in PGNiG Termika S.A.		(3,018,295)	-
Other items, net		183,375	40,199
Net cash provided by/(used in) investing activities		**(4,288,096)**	**(2,107,855)**
Cash flows from financing activities			
Net proceeds from issue of shares, other equity instruments and additional contributions to equity		-	-
Increase in loans and borrowings		162,290	288,759
Issue of debt securities		6,764,907	497,566
Repayment of loans and borrowings		(463,355)	(131,435)
Redemption of debt securities		(3,283,988)	(1,090,517)
Decrease in finance lease liabilities		(26,693)	(16,769)
Inflows from forward and futures contracts		-	-
Outflows on forward and futures contracts		(35,991)	-
Dividends paid			-
Interest paid		(136,783)	(35,264)
Other items, net		(6,340)	142
Net cash provided by/(used in) financing activities		**2,974,047**	**(487,518)**
Net change in cash		**(134,422)**	**(338,862)**
Net foreign exchange gains/losses		(901)	66
Cash and cash equivalents at beginning of the period		**1,503,803**	**1,372,918**
Cash and cash equivalents at end of the period		**1,369,381**	**1,034,056**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended June 30th 2012

	Equity (attributable to owners of the parent)						**Equity (attributable to non-controlling interests)**	**Total equity**
	Share capital	Currency translation differences on foreign operations	Share premium account	Other capital reserves	Retained earnings / deficit	**Total**		
					(PLN '000)			
As at Jan 1 2012	**5,900,000**	**(22,967)**	**1,740,093**	**14,149,226**	**2,723,499**	**24,489,851**	**6,809**	**24,496,660**
Transfers	-	(2,023)	-	1,961,510	(1,959,487)	**-**	-	**-**
Payment of dividend to owners	-	-	-	-	-	**-**	-	**-**
Net profit/loss for H1 2012	-	-	-	-	(13,290)	**(13,290)**	(3,222)	**(16,512)**
Other comprehensive income, net, for H1 2012	-	13,750	-	(98,956)	-	**(85,206)**	-	**(85,206)**
Purchase of shares from non-controlling interests	-	-	-	-	-	**-**	(1,595)	**(1,595)**
Changes in the Group	-	-	-	-	-	**-**	4,717	**4,717**
As at Jun 30 2012	**5,900,000**	**(11,240)**	**1,740,093**	**16,011,780**	**750,722**	**24,391,355**	**6,709**	**24,398,064**
As at Jan 1 2011	**5,900,000**	**(57,320)**	**1,740,093**	**12,268,163**	**3,655,110**	**23,506,046**	**13,424**	**23,519,470**
Transfers	-	-	-	1,815,008	(1,814,971	**37**	(37)	**-**
Purchase of shares from non-	-	-	-	-	-	**-**	(5,000)	**(5,000)**
Payment of dividend to owners	-	-	-	-	(708,000)	**(708,000)**	-	**(708,000)**
Net profit/loss for H1 2011	-	-	-	-	1,003,474	**1,003,474**	1,389	**1,004,863**
Other comprehensive income, net, for	-	(14,150)	-	94,868	-	**80,718**	-	**80,718**
As at Jun 30 2011	**5,900,000**	**(71,470)**	**1,740,093**	**14,178,039**	**2,135,613**	**23,882,275**	**9,776**	**23,892,051**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at June 30th 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, XVI Commercial Division, under No. RHB 48382. Currently, the Company is entered in the Register of Entrepreneurs maintained by the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register, under No. KRS 0000059492. The Company's Industry Identification Number REGON is 012216736 and its Tax Identification Number NIP is 525-000-80-28.

PGNiG SA shares are listed on the Warsaw Stock Exchange ("WSE").

The Company's core business includes the 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. Polskie Górnictwo Naftowe i Gazownictwo S.A. is the parent company of the Group.

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

The trade in and distribution of natural gas, which together with natural gas and crude oil production constitute the core business of the PGNiG Group, are regulated by the Polish Energy Law. For this reason, the Group's operations require a license and its revenue depends on the tariff rates for 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 June 30th 2012 and for the period January 1st–June 30th 2012, along 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 three are parents of their own groups and one is an indirect subsidiary), one associate and one jointly-controlled entity.

1.5. Organisation of the PGNiG Group and its consolidated entities

As at June 30th 2012, the Group comprised PGNiG SA (the Parent), and 40 production and service companies, including:

- 29 subsidiaries of PGNiG SA
- 11 indirect subsidiaries of PGNiG SA.

The list of the PGNiG Group companies as at June 30th 2012 is presented in the table below.

Companies of the PGNiG Group

	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
	PGNiG SA’s subsidiaries				
1	Poszukiwania Nafty i Gazu Jasło S.A.	100,000,000	100,000,000	100,%	100,%
2	Poszukiwania Nafty i Gazu Kraków S.A.	105,231,000	105,231,000	100,%	100,%
3	Poszukiwania Nafty i Gazu NAFTA S.A.	60,000,000	60,000,000	100,%	100,%
4	GEOFIZYKA Kraków S.A.[1)]	64,400,000	64,400,000	100,%	100,%
5	GEOFIZYKA Toruń S.A.[1)].	66,000,000	66,000,000	100,%	100,%
6	Poszukiwania Naftowe Diament Sp. z o.o.	62,000,000	62,000,000	100,%	100,%
7	Zakład Robót Górniczych Krosno Sp. z o.o.	26,903,000	26,903,000	100,%	100,%
8	PGNiG Norway AS	1,092,000,000(NOK)[2)]	1,092,000,000(NOK)[2)]	100,%	100,%
9	Polish Oil and Gas Company - Libya B.V.	26,724(USD)[2)]	26,724(USD)[2)]	100,%	100,%
10	INVESTGAS S.A.	502,250	502,250	100,%	100,%
11	Dolnośląska Spółka Gazownictwa Sp. z o.o.	658,384,000	658,384,000	100,%	100,%
12	Górnośląska Spółka Gazownictwa Sp. z o.o.	1,300,338,000	1,300,338,000	100,%	100,%
13	Karpacka Spółka Gazownictwa Sp. z o.o.	1,484,953,000	1,484,953,000	100,%	100,%
14	Mazowiecka Spółka Gazownictwa Sp. z o.o.	1,255,800,000	1,255,800,000	100,%	100,%
15	Pomorska Spółka Gazownictwa Sp. z o.o.	655,199,000	655,199,000	100,%	100,%
16	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000	1,033,186,000	100,%	100,%
17	Geovita S.A.[1)]	86,139,000	86,139,000	100,%	100,%
18	PGNiG Technologie S.A.	166,914,000	166,914,000	100,%	100,%
19	PGNiG Energia S.A.	41,000,000	41,000,000	100,%	100,%
20	BUD-GAZ P.P.U.H. Sp. z o.o.	51,760	51,760	100,%	100,%
21	PGNiG Sales & Trading GmbH	10,000,000(EUR)[2)]	10,000,000(EUR)[2)]	100,%	100,%
22	PGNiG Finance AB (publ)	500,000(SEK)[2)]	500,000(SEK)[2)]	100%	100%
23	PGNiG SPV 1 Sp. z o.o.	770,020,000	770,020,000	100%	100%
24	Operator Systemu Magazynowania Sp. z o.o.	5,000,000	5,000,000	100,%	100,%
25	Polskie Elektrownie Gazowe Sp. z o.o.	1,212,000	1,212,000	100,%	100,%
26	PGNIG Serwis Sp. z o.o.	9,995,000	9,995,000	100.00%	100.00%
27	MLV 27 Sp. z o.o.	5,000	5,000	100.00%	100.00%
28	BSiPG Gazoprojekt S.A.	4,000,000	3,000,000	75,%	75,%
29	NYSAGAZ Sp. z o.o.	9,881,000	6,549,000	66,%	66,%
	PGNiG SA's indirect subsidiaries				
30	Oil Tech International F.Z.E.	20,000(USD)[2)]	20,000(USD)[2)]	100%	100%
31	Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła)	1,806,500	1,806,500	100%	100%
32	Biogazownia Ostrowiec Sp. z o.o.	105,000	105,000	100%	100%
33	Powiśle Park Sp. z o.o. (Warsaw)	81,131,000	81,131,000	100%	100%
34	PGNiG Termika S.A.	246,300,000	246 045 490	99.89%	99.89%
35	Poltava Services LLC	20,000(EUR)[2)]	19,800(EUR)[3)]	99%	99%
36	CHEMKOP Sp. z o.o. Kraków	3,000,000	2,550,000	85%	85%
37	GAZ Sp. z o.o. (Błonie)	300,000	240,000	80%	80%
38	GAZ MEDIA Sp. z o.o. (Wołomin)	300,000	153,000	51%	51%
39	PT Geofizyka Toruń Indonesia	8,773,000,000(IDR),[2)]	4,825,150,000(IDR)[4)]	55%	55%
40	XOOL GmbH	500,000(EUR)[2)]	500,000(EUR)[2)]	100%	100%

[1)]On July 2nd 2012 the company changed its legal form from limited liability company (spółka z ograniczoną odpowiedzialnością) into joint-stock company (spółka akcyjna).

[2)]Figures in foreign currencies.

[3)]Share capital not paid up.

[4)]The company's share capital, which following translation into USD amounts to USD 1,000 thousand, has been partly paid up by Geofizyka Toruń Sp. z o.o.: by June 30th 2012 Geofizyka Toruń Sp. z o.o. has paid USD 40.7 thousand.

Consolidated entities of the Group in H1 2012

Company name	Based in	Equity interest held by PGNiG SA (%)	
PGNiG SA (Parent)	Poland		
PGNiG SA's subsidiaries		**Jun 30 2012**	**Jun 30 2011**
GEOFIZYKA Kraków S.A.	Poland	100.00%	100.00%
GEOFIZYKA Toruń S.A.	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu Jasło S.A.	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu Kraków Group[1)]	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu NAFTA S.A.	Poland	100.00%	100.00%
Zakład Robót Górniczych Krosno Sp. z o.o.	Poland	100.00%	100.00%
Poszukiwania Naftowe Diament Sp. z o.o.	Poland	100.00%	100.00%
PGNiG Norway AS	Norway	100.00%	100.00%
Polish Oil And Gas Company – Libya B.V.	The Netherlands	100.00%	100.00%
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Górnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Karpacka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Mazowiecka Spółka Gazownictwa Group[2)]	Poland	100.00%	100.00%
Pomorska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Geovita S.A.	Poland	100.00%	100.00%
INVESTGAS S.A.	Poland	100.00%	100.00%
PGNiG Energia S.A.	Poland	100.00%	100.00%
PGNiG Technologie S.A.	Poland	100.00%	100.00%
Operator Systemu Magazynowania Sp. z o.o.	Poland	100.00%	100.00%
GK PGNiG Sales&Trading [3)]	Germany	100.00%	100.00%
PGNiG SPV1 Sp. z o.o.	Poland	100.00%	-
PGNiG Serwis Sp. z o.o.	Poland	100.00%	-
PGNiG Finance AB	Sweden	100.00%	-
BSiPG Gazoprojekt S.A.	Poland	75.00%	75.00%
PGNiG SA's indirect subsidiaries			
BUG Gazobudowa Sp. z o.o. Zabrze[4)]	Poland	-	100.00%
Zakład Urządzeń Naftowych Naftomet Sp. z o.o.[4)]	Poland	-	100.00%
ZRUG Sp. z o.o. (Pogórska Wola)[4)]	Poland	-	100.00%
Budownictwo Naftowe Naftomontaż Sp. z o.o. [4)]	Poland	-	88.83%
PGNiG Termika S.A.	Poland	99.89 %	-
Equity-accounted jointly-controlled and associated entities			
SGT EUROPOL GAZ S.A.[5)]	Poland	49.74%	49.74%
GAS - TRADING S.A.	Poland	43.41%	43.41%

[1)] 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.
[2)] The Mazowiecka Spółka Gazownictwa Group comprises Mazowiecka Spółka Gazownictwa Sp. z o.o. and its subsidiary Powiśle Park Sp. z o.o.
[3)] The PGNiG Sales &Trading Group comprises PGNiG Sales &Trading GmbH and its subsidiary XOOL GmbH.
[4)] As of December 22nd 2011, these have operated as branches of PGNiG Technologie S.A.
[5)] Including a 48.00% direct interest and a 1.74% interest held indirectly through GAS-TRADING S.A.

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

The most important changes in the PGNiG Group's structure in H1 2012 included:

- 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.). In H1 2012, PGNiG SPV 1 Sp. z o.o. acquired 13,005 PGNiG TERMIKA S.A. shares from the company's minority shareholders, thus its interest in the company's share capital increased to 99.89%;
- 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 May 8th 2012, the Extraordinary General Meeting of Al Masharig – Geofizyka Toruń Limited Company (a subsidiary of Geofizyka Toruń S.A.) 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 of Münster, 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 an aggregate par value of PLN 5 thousand, representing the entire share capital of the company, for PLN 8 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 8 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. As at the date of these financial statements, the change of the company's name was not 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.

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.

As at June 30th 2012, the PGNiG Management Board consisted of four members:
- Grażyna Piotrowska-Oliwa – President of the Management Board
- Radosław Dudziński – Vice-President, Trade
- Sławomir Hinc – Vice-President, Finance
- Mirosław Szkałuba – Vice-President, Procurement and IT

The following changes in the composition of the PGNiG Management Board took place in H1 2012:

At its meeting held on March 7th 2012, the Supervisory Board of PGNiG appointed Ms Grażyna Piotrowska-Oliwa to the position of President of the PGNiG Management Board, 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 as President of the Management Board of POGC Libya B.V., a subsidiary of PGNiG SA.

From June 30th 2012 to the date of these financial statements, there were no changes in the composition of the PGNiG Management Board.

1.8. Commercial proxies of PGNiG SA

As at June 30th 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 SA Accounting Department
- Mr Kazimierz Chrobak, Head of PGNiG Zielona Góra Branch
- Mr Mieczysław Jakiel, Head of PGNiG Sanok Branch

Subsequent to June 30th 2012 no commercial proxies have been appointed for PGNiG SA.

1.9. Composition of the PGNiG Supervisory Board

Pursuant to the provisions of PGNiG SA's Articles of Association, its Supervisory Board can consist 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 equity 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) He or she should be elected in accordance with the procedure set forth in Par. 36.3 of PGNiG SA's Articles of Association;
2) He or she may not be a related party of the Company or any of the Company's subsidiaries;
3) He or she may not be a related party of the Parent or another subsidiary of the Parent; or
4) He or she may not have any links to the Company or to any of the entities specified in items 2) and 3) above which could materially affect his/her ability to make impartial decisions in his/her capacity as a Supervisory Board member.

The links referred to above do not include the membership in the 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 a Supervisory Board member. If no candidates for the position are proposed by the shareholders, candidates to the Supervisory Board who satisfy the above criteria are nominated by the Supervisory Board.

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

As at June 30th 2012, the Supervisory Board consisted of nine members:
- Wojciech Chmielewski – Chairman of the Supervisory Board
- Marcin Moryń – Deputy Chairman of the Supervisory Board
- Mieczysław Kawecki – Secretary of the Supervisory Board
- Agnieszka Chmielarz – Member of the Supervisory Board
- Józef Głowacki – Member of the Supervisory Board
- Janusz Pilitowski – Member of the Supervisory Board
- Mieczysław Puławski – Member of the Supervisory Board
- Ewa Sibrecht-Ośka – Member of the Supervisory Board
- Jolanta Siergiej – Member of the Supervisory Board

The following events relating to the composition of PGNiG Supervisory Board took place in H1 2012:

On January 5th 2012, Prof. Stanisław Rychlicki, Chairman of the PGNiG Supervisory Board, tendered his resignation from the position citing compelling 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 appointed Ms Ewa Sibrecht-Ośka to the PGNiG Supervisory Board.

Subsequent to June 30th 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 consolidated financial statements, the State Treasury was the only shareholder holding 5% or more of the total vote at the General Meeting of PGNiG SA.

PGNIG SA 's shareholder structure was as follows:

Shareholder	Registered office	Number of shares	% of share capital held	% of total vote
As at Jun 30 2012				
State Treasury	Warsaw	4,271,911,724	72.41%	72.41%
Other shareholders	-	1,628,088,276	27.59%	27.59%
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%**

1.11. Going-concern assumption

These consolidated financial statements were prepared based on the assumption that the Group companies would continue as going concerns 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 functioning as business entities.

1.12. Mergers of commercial-law companies

In the first half of 2012, there were no mergers involving the Parent or other Group companies and any other companies under commercial law.

1.13. Approval of the financial statements

These financial statements will be submitted to the Parent's Management Board for approval on August 23rd 2012.

2. APPLIED ACCOUNTING POLICIES

2.1. Basis for the preparation of the consolidated financial statements

These consolidated financial statements have been prepared in accordance with the historical cost convention, except with respect to financial assets available for sale, financial derivatives measured at fair value, and loans and receivables measured at adjusted cost.
These consolidated financial statements are presented in the złoty (PLN), and unless indicated otherwise, all values are expressed in thousands of złoty (PLN '000). Differences, if any, between the totals and the sum of particular items are due to rounding off.

2.1.1. Compliance statement

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at June 30th 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).

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 June 30th 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 the income statement for the period in which the acquisition took place.

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

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

The policies applied to prepare these interim consolidated financial statements are consistent with the general policies applied to draw up the annual consolidated financial statements for the period ended December 31st 2011, published on March 20th 2012, except to the extent of application of the following amendments to financial reporting standards and their new interpretations, which are effective for annual periods beginning on or after January 1st 2012:

2.2.1. First-time adoption of standards and interpretations

In the current year, the Group has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, and endorsed by the EU, which apply to the Group's business and are effective for annual reporting periods beginning on or after January 1st 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 to standard has not caused any material changes in the accounting policies of the Group or in the presentation of data in its financial statements.

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

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

- Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1st 2012);
- Amendments to IAS 19 Employee Benefits – Amendments to Post-Employment Benefit Accounting (effective for annual periods beginning on or after January 1st 2013),

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

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 June 30th 2012 had not yet been endorsed for use:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1st 2015);
- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after January 1st 2013);
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after January 1st 2013);
- IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 1st 2013);
- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after January 1st 2013);
- IAS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after January 1st 2013);
- IAS 28 (revised 2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after January 1st 2013);
- Amendments to IFRS 1 First-Time Adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1st 2011);
- Amendments to IFRS 1 First-Time Adoption of IFRS – Government Loans (effective for annual periods beginning on or after January 1st 2013);
- Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2013);
- Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures – Mandatory Effective Date and Transitional Provisions;
- Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1st 2012);
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (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).

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (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 balance sheet date.

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

2.3. Accounting policies

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

2.3.1. Investments in 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 valued using the equity method, except when an investment is classified as held for sale. Investments in associated entities are valued at cost, taking into account changes in the Company's share in the net assets which occurred until the balance sheet date, less impairment of particular investments. Losses incurred by an associated 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 goodwill. 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 in the income statement for the period in which the acquisition took place.

Gains and losses on transactions between the Group and an associated entity are eliminated in consolidation proportionately to the Group's interest in such associated entities' equity. Financial statements of 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, operating and political decisions concerning the joint venture need to be made unanimously by all parties.

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

2.3.3. Translation of items denominated in foreign currencies

The 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 assets and liabilities denominated in foreign currencies are translated at the exchange rate of the functional currency effective as at the balance sheet date. All foreign exchange gains and losses are charged to the consolidated income statement, except for the foreign exchange gains and losses from the translation of assets, equity and liabilities of foreign entities, which, until the disposal of interests in such entity, are disclosed directly in equity. Non-cash items valued at their historical cost in a foreign currency are translated at the exchange rate effective as at the date of the initial transaction. Non-cash items valued at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.
To hedge against foreign currency risk, the Parent enters into forwards and option contracts (for a description of the accounting policies applied by the Group to derivative financial instruments see Section 2.3.13).

The functional currencies of the foreign entities 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 balance sheet date, assets and liabilities of the foreign entities are translated into the reporting currency of PGNiG SA at the exchange rate effective as at the balance sheet date, and the items of

their income statements are translated at the average exchange rate for a given reporting period. Foreign exchange gains and losses on such translation are disclosed as a separate item directly under equity. Upon disposal of a foreign entity, accumulated deferred foreign exchange gains or losses disclosed under equity are recognised in the income statement.

2.3.4. Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

2.3.5. Exploration and appraisal assets

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

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

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

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

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

2.3.6. Borrowing costs

Borrowing costs directly attributable to acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time to become ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

The above cost capitalisation policies do not apply to:

- assets measured at fair value, and
- inventories generated in significant volumes on a continuous basis and with high turnover ratios.

2.3.7. Investment property

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

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

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

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

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

Buildings and structures	2–40 years

2.3.8. Intangible assets

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

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

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

Research expense is recognised in profit or loss when incurred.

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

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

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

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

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

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

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

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

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

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

2.3.9. Leases

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

2.3.9.1. The Group as a lessor

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

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

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

2.3.9.2. The Group as a lessee

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

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

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

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

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

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

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

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

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

2.3.11. Financial assets

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

- financial assets measured at fair value through profit or loss
- investments held to maturity
- financial assets available for sale
- loans and receivables
- positive valuation of derivatives

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

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

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

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

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

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

- derivatives with positive valuation which are not measured pursuant to the principles of hedge accounting (e.g. SWAP IRS, SWAP CIRS, FRA, CAP, FLOOR, OPTIONS, option strategies, futures, delivery forwards, non-delivery forwards and FX SWAPS),
- investments in listed shares and debt instruments held for trading,
- investment fund units,
- other financial assets.

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

2.3.11.2. Investments held to maturity

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

The Group classifies the following financial assets as investments held to maturity:
- debt instruments such as treasury, commercial, coupon and discount bonds, treasury and commercial bills, in each case held to maturity,
- term deposits,
- other financial assets.

2.3.11.3 Financial assets available for sale

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

The Group classifies the following financial assets as available for sale:
- investments in unlisted equity instruments (including shares in subsidiaries, jointly controlled and associated entities),
- investments in listed equity instruments not held for trading (including shares in subsidiaries, jointly controlled and associated entities),
- investments in debt instruments that the entity does not have a firm intention to hold to maturity,
- other financial assets.

2.3.11.4 Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payment terms which are not traded on an active market.
Loans and receivables are measured at amortised cost using the effective interest rate method less impairment losses. Interest revenue is recognised using the effective interest rate, except for current receivables, where the recognition of interest is immaterial.

The Group classifies the following financial assets as loans and receivables:
- all receivables (excluding taxes, grants, customs duties, social security and health insurance contributions and other benefits),
- loans advanced
- receivables from buy sell back and reverse repo transactions.

Uncollectible receivables are 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 with respect to which no impairment losses have been recognised or the impairment losses that have been recognised were lower than the full amounts of receivables, are charged to other operating expenses or finance expenses, as appropriate.

2.3.11.5. Positive valuation of derivatives

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

2.3.12. Impairment of financial assets

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

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

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

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

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

2.3.13. Hedge accounting

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

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

The type hedging applied is the hedging of future, highly probable cash flows related to the Parent'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 Parent's activities to hedge against the risk of changes in gas prices is to guarantee a specified level of cost of gas expressed in the US dollars.

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

Instruments designated for hedge accounting include purchased commodity swaps (fix/float), Asian commodity call options with European settlement and option strategies (collars) involving a combination of long Asian call options and short Asian put options. The underlying indices for all instruments are Gasoil 0.1% Barges FOB Rotterdam (Platt's) and Fuel Oil 1% Barges FOB Rotterdam (Platt's).

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

2.3.14. Inventories

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

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

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

The gas fuel in the storage facilities is valued jointly for all storage units, at the average weighted acquisition cost.

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

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

2.3.15. Trade and other receivables

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

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

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

Impairment losses on receivables from other customers are recognised based on a case-by-case analysis of the financial standing of each debtor.
A full impairment loss is recognised for receivables past due by more than 90 days and for accrued penalty charges, litigation expenses, enforcement costs and interest on past due payments.

Impairment losses on receivables are charged to other operating or finance expenses, 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 operating expenses or finance expenses, as appropriate.

2.3.16. Cash and cash equivalents

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

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

2.3.17. Non-current assets held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its net book value will be recovered principally through a sale transaction rather than through continuing use. This is the case if an asset (or a disposal group) is available for immediate sale in its present condition, subject

only to usual and customary terms applicable to the sale of such assets (or a group of assets for disposal), and its sale is highly probable.

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

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

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

2.3.18. Equity

Equity is disclosed in the accounting books by type and in accordance with the rules stipulated by applicable laws and the entity's articles of association.

Share capital is disclosed at par value and in the amount specified in the entity'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 account is created from the surplus of the issue price of shares over their par value, less issue costs.

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

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

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

2.3.19. Bank loans, bonds/notes and borrowings

Interest-bearing bank loans, bonds/notes and borrowings are recognised at the value of funding received, net of any direct costs of acquiring the funds. Following initial recognition, interest-bearing bank loans, bonds/notes and borrowings are recognised at adjusted acquisition cost using the effective interest rate method. The adjusted acquisition cost includes cost of obtaining the loan or borrowing as well as discounts or premiums obtained at settlement of the liability.
The difference between net funding and redemption value is disclosed under finance income or expenses over the term of the loan or borrowing.

2.3.20. Provisions

Provisions are created when the Group has a present obligation (legal or constructive) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of funds representing economic benefits, and the amount of the obligation, whose amount and maturity date is not certain, may be reliably estimated. The amount of created provisions is reviewed and adjusted at each balance sheet date in order to ensure that the estimated amount is as accurate as possible.

The Group creates the following provisions:

- provision for well decommissioning costs
- provision for length-of-service awards and retirement severance pays
- provision for environmental protection liabilities
- provision for penalties
- provision for potential liability
- provision for claims under extra-contractual use of land.

2.3.20.1 Provision for well decommissioning costs

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

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

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

The Mining 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 Group makes contributions to the Fund in the amount of 3% to 10% of the value of the annual tax depreciation of mining assets (property, plant and equipment) with a corresponding increase in other operating expenses.

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

2.3.20.2 Provision for length-of-service awards and retirement severance pays

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

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

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

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

- Assumptions related to the probability of staff turnover and retirement: the calculations are based on staff turnover and retirement probability tables presented by gender, age, total years in service, years in service with the Group and remuneration, which were drawn up based on information provided by the Group companies on 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 data derived from standard life span tables;
- Salary increase assumptions: the calculations are based on market trend figures;
- Discount rate assumptions: discount rate is calculated on the basis of the rate of return on assets and the forecast salary growth rate.

2.3.20.3. Provision for environmental protection liabilities

Future liabilities for the reclamation of contaminated soil or elimination of harmful substances, if there is a relevant legal or constructive obligation, are recognised under provisions. The provision created

for such liabilities reflects potential costs projected to be incurred, estimated and reviewed periodically based on current prices.

2.3.20.4. Provision for fines/penalties

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

2.3.20.5. Provision for potential liability

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

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

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

Where possible, at the time of installing the elements of the infrastructure the Group companies entered into agreements establishing standard land easements, and after the amendment of the Polish Civil Code effected in 2008 – transmission easements.
Transmission easement is a new construct of civil law governed by Art. 3051–3054 of the Polish Civil Code of April 23rd 1964 (Dz. U. No. 16, item 93, as amended), which came into force in 2008.

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

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 related to such claims has continued for the last three years.

2.3.20.7. Other provisions

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

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

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

2.3.21. Accruals and deferrals

The companies of the PGNiG Group disclose as prepayments those expenses which will be recognised as costs in future reporting periods. They are disclosed as a separate item of assets in the statement of financial position.

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

The entities of the PGNiG Group recognise deferred income for the purposes of disclosing the income in future reporting periods at the time of income realisation.
In deferred income, the Parent includes deferred income from additional charges for non-accepted gas under the existing take-or-pay contracts.

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

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

2.3.22. Trade and other payables

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

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

2.3.23. Financial liabilities

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

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

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

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

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

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

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

2.3.23.2. Financial liabilities measured at amortised cost

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

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

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

2.3.24. Sales revenue

Sales revenue comprises amounts receivable for products, goods and services delivered as part of ordinary business activities. Sales revenue is measured at the fair value of the consideration received or receivable, less any discounts, sales taxes (VAT, excise duty) and other charges. Recognition of particular types of revenue is also subject to the criteria described below.

2.3.24.1. Sales of goods and products

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

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

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

2.3.24.2. Rendering of services

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

2.3.24.3. Interest revenue

Interest revenue is recognised on a time 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.

2.3.24.4. Dividends

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

2.3.24.5. Lease revenue

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

2.3.25. Grants

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

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

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

2.3.26. Employee benefits

Short-term employee benefits paid by the Group include:

- wages and social security contributions,
- short-term compensated absences,
- profit-sharing and bonus payments,
- non-monetary benefits.

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

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

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

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

2.3.27. Income tax

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

Current tax is calculated based on the taxable profit/(loss) (tax base) for a given financial year. 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. Tax is calculated based on the tax rates effective in a given financial year.

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

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

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

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

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

2.3.28. Operating segments

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker;
- 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 (in 2011 the entities operated within four segments):

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

b) *Trade and Storage.* The segment's activities consist in sales of natural gas, either from imports or domestic sources, and operation of underground gas storage facilities for trading purposes. Following completion of the trading business integration process and the separation of storage and trading functions, sale of natural gas is conducted by PGNiG SA, while gas storage services are provided by

Operator Systemu Magazynowania Sp. z o.o. The segment operates six underground gas storage facilities (Mogilno, Wierzchowice, Husów, Brzeźnica, Strachocina and Swarzów). The segment’s activities comprise the sale of high-methane and nitrogen-rich gas fed into the transmission and distribution systems.

PGNiG Sales & Trading GmbH of Munich, which conducts activities in the area of power 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*. 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.* The segment's activities consist in generation of heat and electricity. In this segment, the Group presents assets, revenues and expenses of PGNiG Termika, whose acquisition by PGNiG SPV 1 Sp. z o.o. was completed in January 2012.

e) *Other Activities.* This segment includes the following areas of activity: design and construction of structures, machinery and equipment for the mining and power industries, as well as catering and hospitality services. This segment’s members conduct activities which cannot be classified into the other segments.

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

In H1 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. By the date of these financial statements, no final decisions had been awarded.

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 52,000 thousand, 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 as invalid. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, along with a petition to be exempt from court fees. By virtue of its decision of December 14th 2011, the Court of Appeals dismissed PI GAZOTECH Sp. z o.o.’s appeal. The decision was final. On April 24th 2012, PI GAZOTECH Sp. z o.o. lodged a cassation compliant which had not been accepted for consideration by the Supreme Court by the date of these financial statements.

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 26,000 thousand, 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 of Warsaw dismissed PI GAZOTECH Sp. z o.o.'s appeal. The decision was final. As at the date of these financial statements, PI GAZOTECH Sp. z o.o. has not lodged a cassation compliant against that decision.

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 6,552 thousand, 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. By virtue of its decision of May 21st 2012, the Regional Court of Warsaw declared the resolution of the General Meeting of PI GAZOTECH Sp. z o.o. on additional contributions invalid. As at the date of these financial statements, PI GAZOTECH Sp. z o.o. has not lodged an appeal against that decision.

In connection with the foregoing, in the financial statements for H1 2012 the Parent retained in the accounting books a PLN 84,552 thousand liability and receivable from PI GAZOTECH Sp. z o.o. connected with the additional contribution to equity, and a PLN 84,552 thousand impairment loss recognised on that receivable.

2.4.2. Impairment of non-current assets

The Group's key operating assets include the mining assets, the transmission infrastructure and gas fuel storage facilities. These assets were tested for impairment. The Group computed and recognised material impairment losses on the assets, based on an assessment of their current and future usefulness or planned decommissioning and sales. For certain assets, the assumptions made in connection with the potential use, liquidation and sale of such assets may change. For information on the value of recognised impairment losses see Note 11.2.

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

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

2.4.3. Useful lives of tangible assets

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

2.4.4. Estimating sales of natural gas

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

2.4.5. Provision for decommissioning costs and environmental protection

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

2.4.6. 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 2.3.20.6).

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

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

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

The Parent tested the shares held in SGT EUROPOL GAZ S.A. for impairment, using the discounted cash flow method and relying in its calculations on the SGT EUROPOLGAZ S.A.'s net profit figure derived from the Inter-Governmental Protocol of October 29th 2010, as discussed in detail in Note 6. The results of the impairment tests show that the value of the shares varies considerably depending on the adopted assumptions as to future cash flows, the adopted discount rate and the estimated cash-flow period, which ultimately may have a material effect on the value of the shares in the future.

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

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

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

refusing to sell gas fuel under a comprehensive gas supply contract to an entrepreneur that intended to further 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 has discontinued those practices as of November 30th 2010, and imposed a fine of PLN 60,016 thousand on the Company. On July 24th 2012, PGNiG SA will appeal against the decision of the President of UOKiK to the Competition and Consumer Protection Court with the Regional Court of Warsaw.

The Company recognised a provision for the fine in its accounting books for H1 2012.

Moreover, on July 4th 2011, the President of UOKiK instigated anti-trust proceedings concerning abuse of dominant position by PGNiG SA on the domestic natural gas retail 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 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 provisions of its standard gas supply contracts. PGNiG SA has satisfied this requirement.

On February 9th 2012, the President of UOKiK instigated anti-trust proceedings concerning practices employed by PGNiG SA which infringe collective consumer interests. The President of UOKiK has accused PGNiG SA of including in comprehensive gas 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.

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

On June 27th 2011, PBG S.A. filed with the Regional Court of Warsaw, XX Commercial Division, 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 the consideration paid to PBG S.A.

The Company believes that the claim is unjustified due to the fact that the deliverable under the contract handed over by the contractor had material defects, and due to actual significant delays in the performance of the contract, which constituted grounds for charging the contractual penalties. In addition, according to PGNiG 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. Until the date of these financial statements, no hearing date has been set.
Negotiations of the terms of the contract between PBG S.A. and PGNiG SA are pending. In addition, a legal analysis is conducted of potential consequences, if any, to PGNiG SA of the bankruptcy or voluntary arrangement of PBG S.A.

Acting in accordance with the prudence principle, the Company maintains a provision recognised for that purpose in its accounting books as at the end of 2011.

2.4.10 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, providing for supplies of natural gas to the Republic of Poland, so as to reduce the price. Since 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 Stockholm. In accordance with the Court's procedure, on February 20th 2012, the Company filed a suit against OAO Gazprom and OOO Gazprom Export. On May 24th 2012, OAO Gazprom/OOO Gazprom Export provided their response to the statement of claim in which they dismissed all the arguments put forward by PGNiG SA.

As at the date of these financial statements, the proceedings before the Court of Arbitration were pending. PGNiG SA does not rule out a possibility of reaching an agreement in commercial negotiations,
provided that OAO Gazprom and OOO Gazprom Eksport agree to reduce the price of natural gas supplied under the Yamal Contract.

2.5. Presentation changes in the financial statements

In the financial statements for H1 2012, the Group has not made any changes in the comparative financial data other than the changes in the comparative financial data for H1 2011 in the section presenting information by operating segments (described below).

The table below presents the impact of the three changes introduced in the reported period on the segments' operating results and assets for the comparative period, i.e. H1 2011.
The 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 values relating to gas storage facilities, used previously for the purposes of the Exploration and Production segment, to the Trade and Storage segment;

Transfer of intersegment eliminations in assets from the particular segments to Eliminations.

Period ended June 30th 2011	Exploration and Production	Trade and Storage	Distribution	Other Activities	Eliminations	Total
Segment's operating profit/loss before the changes	**446,474**	**135,107**	**501,976**	**2,799**	**(13,561)**	**1,072,795**
Changes, including	**6,684**	**(11,482)**	**-**	**6,036**	**(1,238)**	**-**
1) Transfer of companies (PGNiG Enegia and Investgas) between Trade and Storage and Other Activities		(4,798)		6,036	(1,238)	-
2) Transfer of values relating to gas storage facilities from the Exploration and Production segment to the Trade and Storage segment	6,684	(6,684)				-
Segment's operating profit/loss after the changes	**453,158**	**123,625**	**501,976**	**8,835**	**(14,799)**	**1,072,795**
Segment's assets before the changes	**13,572,901**	**10,088,566**	**12,516,599**	**420,715**	**(3,914,521)**	**32,684,260**
Changes, including	**79,090**	**55,744**	**130,821**	**59,955**	**(325,610)**	**-**
1) Transfer of companies (PGNiG Enegia and Investgas) between Trade and Storage and Other Activities	-	(48,991)	-	59,716	(10,725)	-
2) Transfer of values relating to gas storage facilities from the Exploration and Production segment to the Trade and Storage segment	(27,887)	27,887	-	-	-	-
3) Exclusion of intersegment eliminations into Eliminations	106,977	76,848	130,821	239	(314,885)	-
Segment's assets after the changes	**13,651,991**	**10,144,310**	**12,647,420**	**480,670**	**(4,240,131)**	**32,684,260**

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 show the revenues, costs and profits/losses, as well as the assets, equity and liabilities of the Group's reportable segments for the periods ended June 30th 2012 and June 30th 2011.

Period ended June 30th 2012	Exploration and Production	Trade and Storage	Distribution	Generation	Other Activities	Eliminations	Total
Income statement							
Sales to external customers	1,475,927	12,032,475	63,606	1,114,479	77,885	-	14,764,372
Intercompany sales	570,693	266,829	1,864,924	-	151,845	(2,854,291)	-
Total segment revenue	2,046,620	12,299,304	1,928,530	1,114,479	229,730	(2,854,291)	14,764,372
Depreciation and amortisation	(294,734)	(66,080)	(404,797)	(230,077)	(8,234)	-	(1,003,922)
Other costs	(982,091)	(13,669,084)	(957,311)	(830,596)	(251,444)	2,877,448	(13,813,078)
Total segment costs	(1,276,825)	(13,735,164)	(1,362,108)	(1,060,673)	(259,678)	2,877,448	(14,817,000)
Operating profit/loss	**769,795**	**(1,435,860)**	**566,422**	**53,806**	**(29,948)**	**23,157**	**(52,628)**
Net finance expenses							(127,548)
Share in net profit/loss of equity-accounted entities		86,564					86,564
Pre-tax profit/loss							**(93,612)**
Corporate income tax							77,100
Net profit/loss							**(16,512)**
Statement of financial position							
Segment's assets	15,175,788	14,598,008	12,953,259	4,135,347	436,699	(7,264,189)	40,034,912
Investments in equity-accounted entities		684,954					684,954
Unallocated assets							254,341
Deferred tax assets							1,206,506
Total assets							**42,180,713**
Total equity							24,398,064
Segment liabilities	5,159,038	3,213,750	2,334,220	2,642,131	163,837	(6,947,682)	6,565,294
Unallocated liabilities							9,419,540
Deferred tax liabilities							1,797,815
Total equity and liabilities							**42,180,713**
Other information on the segment							
Capital expenditure on property, plant and equipment and intangible assets	(796,632)	(149,029)	(583,375)	(59,629)	(12,335)	(15,964)	**(1,616,964)**
Impairment losses on assets	(499,809)	(2,123,065)	(91,841)	(24,589)	(10,081)	414	**(2,748,971)**
Impairment losses on unallocated assets							**(37,807)**

Period ended June 30th 2011	Exploration and Production	Trade and Storage	Distribution	Generation	Other Activities	Eliminations	Total
Income statement							
Sales to external customers	1,275,300	10,099,053	54,570	-	94,439	-	11,523,362
Intercompany sales	564,415	93,337	1,777,189	-	219,196	(2,654,137)	-
Total segment revenue	1,839,715	10,192,390	1,831,759	-	313,635	(2,654,137)	11,523,362
Depreciation and amortisation	(296,186)	(62,744)	(410,445)	-	(7,521)	-	(776,896)
Other costs	(1,090,371)	(10,006,021)	(919,338)	-	(297,279)	2,639,338	(9,673,671)
Total segment costs	(1,386,557)	(10,068,765)	(1,329,783)	-	(304,800)	2,639,338	(10,450,567)
Operating profit/loss	**453,158**	**123,625**	**501,976**	**-**	**8,835**	**(14,799)**	**1,072,795**
Net finance expenses							167,211
Share in net profit/loss of equity-accounted entities		(395)					(395)
Pre-tax profit/loss							**1,239,611**
Corporate income tax							(234,748)
Net profit/loss							**1,004,863**
Statement of financial position							
Segment's assets	13,651,991	10,144,310	12,647,420	-	480,670	(4,240,131)	32,684,260
Investments in equity-accounted entities		555,433					555,433
Unallocated assets							368,662
Deferred tax assets							729,597
Total assets							**34,337,952**
Total equity							23,892,051
Segment liabilities	2,070,782	3,152,600	2,311,339	-	140,990	(3,925,246)	3,750,465
Unallocated liabilities							5,283,383
Deferred tax liabilities							1,412,053
Total equity and liabilities							**34,337,952**
Other information on the segment							
Capital expenditure on property, plant and equipment and intangible assets	(1,346,421)	(487,766)	(460,738)	-	(6,922)	25,791	**(2,276,056)**
Impairment losses on assets	(1,257,863)	(1,846,760)	(84,902)	-	(11,563)	14,010	**(3,187,078)**
Impairment losses on unallocated assets							**(37,241)**

3.2. Geographical areas

The Company's business activity focuses on domestic sales (Poland). In H1 2012, the revenue from export sales to external customers accounted for 4.57% (3.70% in H1 2011) of the total revenue from sales to external customers.

	Period from Jan 1 – Jun 30 2012	Period from Jan 1 – Jun 30 2011
Domestic sales	14,088,952	11,096,757
High-methane gas	11,445,686	9,637,584
Nitrogen-rich gas	715,486	627,509
Crude oil	325,133	311,218
Helium	18,128	9,027
Propane-butane gas	30,638	24,208
Natural gasoline	3,755	1,716
LNG	23,576	15,056
Electricity	444,918	4,891
Heat	527,481	264
Certificates of origin for electricity	132,072	-
Gas storage services	18,776	15,253
Geophysical and geological services	59,281	174,829
Drilling and well maintenance services	119,538	80,227
Construction and erection	37,916	55,929
Hotel services	13,181	13,845
Other services	96,787	77,201
Other products	23,390	8,476
Materials and goods for resale	11,335	8,850
Connection charge	41,875	30,674
Export sales	675,420	426,605
High-methane gas	88,617	33,048
Nitrogen-rich gas	-	-
Crude oil	264,519	161,126
Helium	48,365	17,329
Propane-butane gas	-	-
Gasoline	-	-
LNG	-	-
Electricity	-	-
Heat	-	-
Certificates of origin for electricity	-	-
Gas storage services	-	-
Geophysical and geological services	102,378	34,946
Drilling and well maintenance services	140,732	163,394
Construction and erection	12,710	10,574
Hotel services	-	-
Other services	7,176	1,233
Other products	10,909	4,955
Materials and goods for resale	14	-
Connection charge	-	-
Total	**14,764,372**	**11,523,362**

The Group sells its products and services mainly to customers in the following countries: Switzerland, Germany, Uganda, Kazakhstan, Egypt, India, Pakistan, Austria, Denmark, Slovenia, Ukraine, Norway, the USA and the UAE.

A majority of the Group's non-current assets (other than financial instruments) are also located in Poland. The value of non-current assets located abroad as at June 30th 2012 represented 15.42% of the Group's total non-current assets (14.37% as at December 31st 2011).

	Jun 30 2012	Dec 31 2011
Value of non-current assets other than financial instruments located in Poland	27,856,377	24,585,187
Value of non-current assets other than financial instruments located abroad*	5,079,009	4,124,412
Total	**32,935,386**	**28,709,599**

* As at June 30th 2012, PLN 4,006,509 thousand of that amount related to PGNiG Norway AS (as at the end of 2011: PLN 3,791,969 thousand).

3.3. Key customers

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

4. OPERATING EXPENSES

4.1. Raw and other materials used

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Cost of gas sold	(9,687,916)	(6,562,077)
Other fuels for electricity and heat generation	(563,056)	-
Other raw and other materials used	(382,259)	(327,979)
Total	**(10,633,231)**	**(6,890,056)**

4.2. Employee benefits

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Salaries and wages	(992,952)	(1,004,772)
Social security and other benefits	(372,406)	(375,450)
Total	**(1,365,358)**	**(1,380,222)**

4.3. Contracted services

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Purchases of transmission services	(752,094)	(764,496)
Costs of dry wells written off	(60,786)	(139,589)
Other contracted services	(674,489)	(663,441)
Total	**(1,487,369)**	**(1,567,526)**

4.4. Other operating expenses, net

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Change in impairment losses, net	(10,826)	(60,020)
Change in provisions, net	(63,173)	(12,904)
Taxes and charges	(424,753)	(371,572)
Net interest related to operating activities	24,213	37,189
Net foreign exchange differences related to operating activities	(135,802)	17,363
Gain/loss on derivative instruments related to operating activities	(133,336)	(30,250)
Value of goods for resale and materials sold	(21,847)	(15,069)
Income from current settlement of deferred income recognised in the statement of financial position	2,001	32,491
Difference on valuation of assets distributed as dividend	-	-
Net gains/losses on disposal of non-financial non-current assets	63,461	(5,586)
Property insurance	(43,998)	(30,332)
Domestic and international business trips	(30,122)	(23,945)
Change in products	152,684	162,354
Income from compensations, penalties, fines, etc.	25,659	61,315
Cost of compensations, penalties, fines, etc.	(13,118)	(8,007)
Other expenses, net	(80,554)	(70,304)
Total	**(689,511)**	**(317,277)**

5. FINANCE INCOME AND EXPENSES

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Finance income	**68,849**	**192,689**
Gain on valuation and execution of forwards and futures	25,543	-
Interest income	34,276	25,051
Foreign exchange gains	-	89,449
Investment revaluation	-	1,385
Gain on disposal of investments	222	73,074
Dividends and other profit distributions	4,349	2,506
Other finance income	4,459	1,224
Finance expenses	**(196,397)**	**(25,478)**
Loss on valuation and execution of forwards and futures	-	-
Interest expenses	(128,967)	(15,744)
Foreign exchange losses	(56,356)	-
Investment revaluation	(87)	(346)
Loss on disposal of investments	-	-
Loan commissions	(6,571)	(5,646)
Costs related to guarantees issued	(2,154)	(1,948)
Other finance expenses	(2,262)	(1,794)
Net finance income/expenses	**(127,548)**	**167,211**

6. EQUITY METHOD VALUATION OF ASSOCIATES

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

	Jun 30 2012	Dec 31 2011
SGT EUROPOL GAZ S.A.		
PGNiG Group's interest*	49.74%	49.74%
Core business	Gas fuel transmission	Gas fuel transmission
Valuation of interests using equity method	1,514,889	1,474,080
Cost	38,400	38,400
Share in change in equity	1,553,289	1,512,480
Impairment losses	(884,922)	(930,863)
Net book value of investment	**668,367**	**581,617**
GAS-TRADING S.A.		
PGNiG Group's interest	43.41%	43.41%
Core business	Trade	Trade
Valuation of interests using equity method	15,296	15,483
Cost	1,291	1,291
Share in change in equity	16,587	16,774
Impairment losses	-	-
Net book value of investment	**16,587**	**16,774**
Total net book value of investments	**684,954**	**598,391**

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

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

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Net book value of investments as at beginning of the period	598,391	555,828
Dividend paid by **GAS-TRADING S.A.**	-	-
Rounding-off	(1)	-
Valuation recognised in the income statement, including:	**86,564**	**(395)**
Valuation of **SGT EUROPOL GAZ S.A.**	86,751	-
Valuation of **GAS-TRADING S.A.**	(187)	(395)
Net book value of investments as at end of the period	**684,954**	**555,433**

The Parent estimated its equity interest in SGT EUROPOL GAZ S.A. on the basis of the value of the company's equity as shown in its financial statements prepared as at June 30th 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 loans and borrowings).

As at June 30th 2012, the Parent valued its equity interest in jointly-controlled entity SGT EUROPOL GAZ S.A. using the equity method at PLN 1,514,889 thousand. The company's value estimated as at the same date using the discounted cash flow method was PLN 668,367 thousand.

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 668,367 thousand. As at the end of H1 2012, the difference in valuation relative to December 31st 2011 was PLN 86,751 thousand and was recognised in the income statement for the current period in "Share in net profit/loss of equity-accounted entities".

7. CORPORATE INCOME TAX

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

7.1. Income tax disclosed in the income statement

	Note	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Pre-tax profit/loss		(93,612)	1,239,611
Tax rate applicable in the period		19%	19%
Tax calculated at the applicable tax rate		17,786	(235,526)
Permanent differences between pre-tax profit/loss and tax base		59,314	778
Corporate income tax disclosed in the consolidated income statement		**77,100**	**(234,748)**
Current income tax	7.2.	(128,871)	(287,208)
Deferred income tax	7.3.	205,971	52,460
Effective tax rate		82%	19%

7.2. Current income tax

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Profit/loss before tax (consolidated)	(93,612)	1,239,611
Consolidation adjustments	261,878	590,968
Differences between profit/loss before tax and tax base	(447,987)	(460,870)
Taxable revenue not recognised as revenue for accounting purposes	129,390	111,777
Tax deductible expenses, not recognised as expenses for accounting purposes	(1,465,801)	(1,318,774)
Revenue not included in taxable income	793,413	295,387
Non-tax deductible expenses	(1,702,823)	(1,042,878)
Deductions from income	(20,986)	(1,364)
Income tax base	(279,721)	1,369,709
Tax rate applicable in period	19%	19%
Income tax	53,147	(260,245)
Increases, reliefs, exemptions, allowances and reductions in/of corporate income tax	(182,018)	(26,963)
Current income tax disclosed in tax return for period	(128,871)	(287,208)
Current income tax disclosed in consolidated income statement	**(128,871)**	**(287,208)**

7.3. Deferred income tax

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Origination and reversal of deferred tax due to deductible temporary differences	**213,429**	**50,277**
Impairment losses on financial assets, receivables and tangible assets under construction	389	(1,781)
Provisions for future liabilities	7,632	6,907
Costs of FX risk and interest rate risk hedges	(11,393)	1,315
Foreign exchange losses	(2,206)	101
Investment incentives (Norway)	101,536	33,889
Tax loss for current period	112,256	-
Other	5,215	9,846
Origination and reversal of deferred tax due to taxable temporary differences	**(7,458)**	**2,183**
Difference between tax and accounting value of non-current assets	9,559	4,186
Positive valuation of FX and interest rate risk hedges	(9,442)	(5,605)
Foreign exchange gains	1,297	(152)
Accrued interest	(288)	(151)
Income related to tax obligation arising in subsequent month	11,378	17,606
Other	(19,962)	(13,701)
Deferred income tax disclosed in consolidated income statement	**205,971**	**52,460**
Deferred income tax disclosed in other net comprehensive income, including:	**22,855**	**(19,723)**
- relating to valuation of financial instruments	23,212	(22,246)
- relating to differences on currency translation of deferred tax of foreign operations	(357)	2,523
Changes in the Group	**(350,525)**	**-**
Total changes	**(121,699)**	**32,737**

The current reporting period covered the tax period from January 1st to June 30th 2012. A 19% corporate income tax rate was applicable in Poland in H1 2012. In H1 2011, the rate was also 19%.

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

Foreign subsidiaries and foreign branches of the Parent and of Polish subsidiaries are subject to tax regulations in force in the countries where they conduct their business activities and the provisions of double tax treaties. In the case of foreign branches of subsidiaries, the tax rates effective in H1 2012 and H1 2011 ranged from 10% to 43% of the tax base. Foreign branches of the Parent did not pay corporate income tax in H1 2012 and H1 2011.

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

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

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

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

Therefore, PGNiG Norway AS began to amortise capital expenditure and applied the investment incentive already in 2008, recognising the expenditure and incentive as deferred tax (in the amount recorded under "Investment incentive (Norway)" in table 7.3.). Once revenue is generated, these amounts will be deducted from the current tax base.
From the PGNiG Group's viewpoint, it is important that the Norwegian tax system permits deduction of losses without time limitation. Additionally, losses incurred after 2002 bear interest. With respect to such losses, interest rate is calculated as a risk-free interest rate increased by a margin, including income tax (28%). In other words, losses incurred by PGNiG Norway AS since 2007, increased by interest, will reduce its current tax payable once production from the Skarv field is launched.
The balance of deferred tax presented in the financial statements is reduced by a valuation adjustment due to temporary differences whose realisation for tax purposes is not entirely certain.

8. DISCONTINUED OPERATIONS

In H1 2012, the Group did not discontinue any operations and is not planning to discontinue any of its existing operations.

9. EARNINGS/LOSS PER SHARE

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

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

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Net profit/loss attributable to owners of the parent	(13,290)	1,003,474
Net profit/loss attributable to equity holders of the parent used to calculate diluted earnings/loss per share	(13,290)	1,003,474
Weighted average number of outstanding ordinary shares used to calculate basic earnings/loss per share ('000)	5,900,000	5,900,000
Weighted average number of outstanding ordinary shares used to calculate diluted earnings/loss per share ('000)	5,900,000	5,900,000
Basic earnings/loss per share for financial period attributable to holders of ordinary shares of the parent (PLN)	(0.002)	0.17
Diluted earnings/loss per share for financial period attributable to holders of ordinary shares of the parent (PLN)	(0.002)	0.17

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)
Jun 30 2012				
2012-01-01	2012-06-30	5,900,000	182	5,900,000
Total			**182**	**5,900,000**
Jun 30 2011				
2011-01-01	2011-06-30	5,900,000	181	5,900,000
Total			**181**	**5,900,000**

10. DIVIDEND PAID AND PROPOSED TO BE PAID

Dividends declared in the period	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Dividend per share declared (PLN)	-	0.12
Number of shares ('000)	5,900,000	5,900,000
Dividend declared (PLN '000), including:		708,000
- in-kind dividend payable to the State Treasury	-	30,104
- cash dividend payable to the State Treasury	-	482,587
- cash dividend payable to other shareholders	-	195,309

On June 6th 2012, by virtue of Resolution No. 16/VI/2012, the Annual General Meeting of PGNiG SA decided to allocate the 2011 profit of PLN 1,615,691 thousand and retained earnings of PLN 72,472 thousand to the Company's statutory reserve funds. Therefore, no dividend will be paid to shareholders for 2011.

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

11. PROPERTY, PLANT AND EQUIPMENT

	Jun 30 2012	Dec 31 2011
Land	73,343	57,506
Buildings and structures	15,508,143	14,662,532
Plant and equipment	4,207,683	2,480,291
Vehicles and other	1,156,135	1,020,759
Total tangible assets	**20,945,304**	**18,221,088**
Tangible assets under construction	10,895,794	10,205,938
Total property, plant and equipment	**31,841,098**	**28,427,026**

TANGIBLE ASSETS

Jun 30 2012	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
As at Jan 1 2012, net of accumulated depreciation and impairment losses	57,506	14,662,532	2,480,291	1,020,759	**18,221,088**
Increase	16	102,437	517	1,247	**104,217**
Changes in the Group	12,303	802,948	1,606,279	6,881	**2,428,411**
Decrease	(218)	(93,180)	(5,903)	(3,279)	**(102,580)**
Currency translation differences	-	-	874	(885)	**(11)**
Transfers from tangible assets under construction and between groups	3,246	525,906	381,823	225,055	**1,136,030**
Impairment losses	490	(3,596)	15,783	2,279	**14,956**
Depreciation for reporting period	-	(488,904)	(271,981)	(95,922)	**(856,807)**
As at Jun 30 2012, net of accumulated depreciation and impairment losses	**73,343**	**15,508,143**	**4,207,683**	**1,156,135**	**20,945,304**
As at Jan 1 2012					
Gross value	59,826	22,410,612	4,886,906	1,982,557	**29,339,901**
Accumulated depreciation and impairment losses	(2,320)	(7,748,080)	(2,406,615)	(961,798)	**(11,118,813)**
Net carrying amount as at Jan 1 2012	**57,506**	**14,662,532**	**2,480,291**	**1,020,759**	**18,221,088**
As at Jun 30 2012					
Gross value	75,172	23,780,387	6,883,677	2,250,807	**32,990,043**
Accumulated depreciation and impairment losses	(1,829)	(8,272,244)	(2,675,994)	(1,094,672)	**(12,044,739)**
Net carrying amount as at Jun 30 2012	**73,343**	**15,508,143**	**4,207,683**	**1,156,135**	**20,945,304**

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	50,617	14,506,236	2,449,873	979,530	**17,986,256**
Increase	124	113,561	38,957	48,396	**201,038**
Decrease	(439)	(191,384)	(24,415)	(10,129)	**(226,367)**
Transfers from tangible assets under construction and between groups	7,340	1,125,799	398,475	198,447	**1,730,061**
Impairment losses	(136)	79,941	(17,965)	(10,459)	**51,381**
Depreciation for financial year	-	(971,621)	(364,634)	(185,026)	**(1,521,281)**
As at Dec 31 2011, net of accumulated depreciation and impairment losses	**57,506**	**14,662,532**	**2,480,291**	**1,020,759**	**18,221,088**
As at Jan 1 2011					
Gross value	52,801	21,424,854	4,539,164	1,811,479	**27,828,298**
Accumulated depreciation and impairment losses	(2,184)	(6,918,618)	(2,089,291)	(831,949)	**(9,842,042)**
Net carrying amount as at Jan 1 2011	**50,617**	**14,506,236**	**2,449,873**	**979,530**	**17,986,256**
As at Dec 31 2011					
Gross value	59,826	22,410,612	4,886,906	1,982,557	**29,339,901**
Accumulated depreciation and impairment losses	(2,320)	(7,748,080)	(2,406,615)	(961,798)	**(11,118,813)**
Net carrying amount as at Dec 31 2011	**57,506**	**14,662,532**	**2,480,291**	**1,020,759**	**18,221,088**

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.

	Jun 30 2012				Dec 31 2011			
	Initial value of capitalised finance lease	Accumulated depreciation	Impairment loss	**Net book value**	Initial value of capitalised finance lease	Accumulated depreciation	Impairment loss	**Net book value**
Buildings and structures	92	23	-	115	92	(18)	-	74
Plant and equipment	168,745	(29,256)	(1,266)	138,223	114,799	(29,397)	-	85,402
Vehicles and other	37,512	(6,549)	-	30,963	42,290	(10,052)	(188)	32,050
	206,349	**(35,782)**	**(1,266)**	**169,301**	**157,181**	**(39,467)**	**(188)**	**117,526**

11.2. Impairment losses on property, plant and equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total tangible assets**	Tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2012	2,320	461,092	118,932	16,568	**598,912**	450,709	**1,049,621**
Increase	150	110,787	16,123	603	**127,663**	88,884	**216,547**
Decrease	(640)	(107,110)	(31,699)	(2,603)	**(142,052)**	(168,214)	**(310,266)**
Transfers	-	(81)	58	23	**-**	-	**-**
Currency translation differences	-	-	(265)	(302)	**(567)**	-	**(567)**
Changes in the Group	-	-	-	-	**-**	23,017	**23,017**
As at Jun 30 2012	**1,830**	**464,688**	**103,149**	**14,289**	**583,956**	**394,396**	**978,352**
As at Jan 1 2011	2,184	541,033	100,967	6,109	**650,293**	543,034	**1,193,327**
Increase	136	35,553	21,524	10,853	**68,066**	89,609	**157,675**
Decrease	-	(115,494)	(3,559)	(394)	**(119,447)**	(181,934)	**(301,381)**
As at Dec 31 2011	**2,320**	**461,092**	**118,932**	**16,568**	**598,912**	**450,709**	**1,049,621**

As at the beginning of the period, impairment losses on tangible assets stood at PLN 598,912 thousand, including:
- PLN 359,697 thousand of impairment losses on assets used directly in production,
- PLN 6,891 thousand of impairment losses on distribution assets,
- PLN 10,920 thousand of impairment losses on assets of underground gas storage facilities,
- PLN 221,404 thousand of impairment losses on other tangible assets.

New impairment losses recognised in the reporting period amounted to PLN 138,006 thousand (of which PLN 120,566 thousand related to assets used directly in production). Also, in the reporting period impairment losses decreased by PLN 152,962 thousand (including PLN 99,305 thousand related to assets used directly in production, PLN 10,486 thousand related to storage assets, and the remaining amount mainly relating to other assets, i.e. unused assets or assets with unclear legal status).

As at the end of the period, impairment losses on tangible assets stood at PLN 583,956 thousand, including:
- PLN 380,958 thousand were impairment losses on assets used directly in hydrocarbon production,
- PLN 7,366 thousand of impairment losses on distribution assets,
- PLN 2,058 thousand of impairment losses on assets of underground gas storage facilities,
- PLN 193,574 thousand of impairment losses on other tangible assets.

Out of the total amount of impairment losses on tangible assets under construction as at the end of H1 2012, PLN 334,807 thousand related to capitalised cost of drilling work (at the end of 2011, impairment losses related to capitalised cost of drilling work were PLN 401,924 thousand).

12. INVESTMENT PROPERTY

	Jun 30 2012	Dec 31 2011
At beginning of the period, net of accumulated depreciation and impairment losses	7,136	9,915
Increase	4,398	-
Changes in the Group	6,330	-
Decrease	(5,093)	(102)
Currency translation differences	-	-
Transfers from/to property, plant and equipment	439	(1,978)
Impairment losses	(60)	(22)
Depreciation for reporting period	(397)	(677)
At end of the period, net of accumulated depreciation and impairment losses	**12,753**	**7,136**

	Jun 30 2012	Dec 31 2011
At beginning of the period		
Gross value	10,913	13,898
Accumulated amortisation and impairment losses	(3,777)	(3,983)
Net book value	**7,136**	**9,915**
At end of the period		
Gross value	17,047	10,913
Accumulated depreciation and impairment losses	(4,294)	(3,777)
Net book value	**12,753**	**7,136**

The Group's investment property includes office/amenity buildings partly held for rent, as well as 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 amounted to PLN 9,487 thousand (PLN 3,539 thousand as at the end of 2011), whereas the net carrying amount of the industrial buildings and structures was PLN 2,931 thousand (PLN 3,046 thousand as at the end of 2011).

The value of land and perpetual usufruct rights to land was PLN 335 thousand as at the end of the reporting period (PLN 551 thousand as at the end of 2010).

In the reporting period, the Group derived PLN 3,409 thousand in revenue from lease of investment property (PLN 2,653 thousand in H1 2011).

Operating expenses incurred to derive revenue from lease of investment property amounted to PLN 2,140 thousand in the reporting period (PLN 1,466 thousand in H1 2011).

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

13. INTANGIBLE ASSETS

Jun 30 2012	Development expense	Goodwill	Perpetual usufruct right to land – acquired against a consideration *	Computer software	CO2 emission allowances	Other intangible assets	**Total**
As at Jan 1 2012, net of accumulated depreciation and impairment losses	2,165	-	70,851	135,861	-	66,560	**275,437**
Increase	-	-	(13)	459	-	-	**446**
Changes in the Group	58	44,461	593,762	13,699	193,827	48,619	**894,426**
Decrease	-	-	(106)	(88)	-	(7)	**(201)**
Currency translation differences	-	17	-	100	-	(237)	**(120)**
Transfers from tangible assets under construction and	-	-	5,374	48,226	40	4,599	**58,239**
Impairment losses	-	-	43	(12)	-	(5)	**26**
Depreciation for reporting period	(371)	-	(1,769)	(28,865)	(87,960)	(27,753)	**(146,718)**
As at Jun 30 2012, net of accumulated depreciation and impairment losses	**1,852**	**44,478**	**668,142**	**169,380**	**105,907**	**91,776**	**1,081,535**
As at Jan 1 2012							
Gross value	5,002	-	83,893	307,785	-	110,129	**506,809**
Accumulated amortisation and impairment losses	(2,837)	-	(13,042)	(171,924)	-	(43,569)	**(231,372)**
Net carrying amount as at Jan 1 2012	**2,165**	**-**	**70,851**	**135,861**	**-**	**66,560**	**275,437**
As at Jun 30 2012							
Gross value	5,081	44,478	682,848	370,152	193,867	163,660	**1,460,086**
Accumulated depreciation and impairment losses	(3,229)	-	(14,706)	(200,772)	(87,960)	(71,884)	**(378,551)**
Net carrying amount as at Jun 30 2012	**1,852**	**44,478**	**668,142**	**169,380**	**105,907**	**91,776**	**1,081,535**

* Furthermore, the Group holds perpetual usufruct right to land obtained free of charge, which is disclosed exclusively as an off-balance-sheet item. As at June 30th 2012, the estimated value of the right was PLN 500,463 thousand (PLN 492,843 thousand as at the end of 2011).

Dec 31 2011	Development expense	Goodwill	Perpetual usufruct right to land – acquired against a consideration	Computer software	CO2 emission allowances	Other intangible assets	**Total**
As at Jan 1 2011, net of accumulated amortisation and impairment losses	2,214	-	73,474	119,601	-	51,421	**246,710**
Increase	-	-	281	170	-	4,863	**5,314**
Decrease	-	-	(1,624)	(129)	-	62	**(1,691)**
Transfers from tangible assets under construction and	636	-	1,140	57,514	-	17,887	**77,177**
Impairment losses	-	-	153	(76)	-	(10)	**67**
Amortisation for reporting period	(685)	-	(2,573)	(41,219)	-	(7,663)	**(52,140)**
As at Dec 31 2011, net of accumulated depreciation and impairment losses	**2,165**	**-**	**70,851**	**135,861**	**-**	**66,560**	**275,437**
As at Jan 1 2011							
Gross value	4,366	-	103,579	254,668	-	88,535	**451,148**
Accumulated depreciation and impairment loss	(2,152)	-	(30,105)	(135,067)	-	(37,114)	**(204,438)**
Net book value as at Jan 1 2011	**2,214**	**-**	**73,474**	**119,601**	**-**	**51,421**	**246,710**
As at Dec 31 2011							
Gross value	5,002	-	83,893	307,785	-	110,129	**506,809**
Accumulated amortisation and impairment losses	(2,837)	-	(13,042)	(171,924)	-	(43,569)	**(231,372)**
Net carrying amount as at Dec 31 2011	**2,165**	**-**	**70,851**	**135,861**	**-**	**66,560**	**275,437**

13.1. Impairment losses on intangible assets

	Development expense	Goodwill	Perpetual usufruct right to land – acquired against a consideration	Computer software	CO2 emission allowances	Other intangible assets	**Total**
As at Jan 1 2012	-	-	2,669	205	-	13	**2,887**
Increase	-	-	213	38	-	16	**267**
Decrease	-	-	(256)	(26)	-	(11)	**(293)**
As at Jun 30 2012	**-**	**-**	**2,626**	**217**	**-**	**18**	**2,861**
As at Jan 1 2011	-	-	2,822	131	-	1	**2,954**
Increase	-	-	55	76	-	10	**141**
Decrease	-	-	(208)	(2)	-	2	**(208)**
As at Dec 31 2011	**-**	**-**	**2,669**	**205**	**-**	**13**	**2,887**

14. NON-CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Jun 30 2012	Dec 31 2011
Unlisted shares (gross)	94,192	94,211
Listed shares available for sale (gross)	16	101
Total, gross	**94,208**	**94,312**
Unlisted shares (net)*	56,457	56,394
Listed shares available for sale (net)*	16	16
Total, net	**56,473**	**56,410**

* Net of impairment losses.

15. OTHER FINANCIAL ASSETS

	Jun 30 2012	Dec 31 2011
Loans advanced	74,380	205
Amounts receivable for sale of tangible assets	5,669	6,371
Non-current deposits	850	1,203
Financial receivables (security deposits, guarantees and other)	594	-
Other	369	1,878
Total, gross	**81,862**	**9,657**
Impairment losses	(256)	(318)
Total, net	**81,606**	**9,339**
Including net receivables from related parties (Note 37.1)	74,179	-

16. DEFERRED TAX ASSETS

	Jun 30 2012	Dec 31 2011
Provisions for length-of-service awards and severance pays	69,662	60,968
Provision for unused holidays	2,469	4,750
Provision for well decommissioning costs	125,272	121,532
Provision for environmental liabilities	28,315	22,404
Other provisions	43,816	36,084
Impairment losses on tangible assets	72,554	81,155
Impairment losses on shares	6,875	6,876
Impairment losses on interest on receivables	6,054	4,640
Negative valuation of forward contracts	75,226	86,620
Foreign exchange losses	2,582	4,788
Accrued interest on loans and liabilities	9,046	2,458
Connection charge	67,805	69,775
Unpaid salaries and wages, including contributions to the Social Insurance Institution (ZUS)	9,559	5,548
Revaluation of prepayments/deferred income due to hyperinflation	7,302	7,706
Investment incentives (Norway)	508,725	407,464
Tax loss for current period	112,920	688
Other	58,324	40,344
Total	**1,206,506**	**963,800**

17. OTHER NON-CURRENT ASSETS

	Jun 30 2012	Dec 31 2011
Granting access to geological information	32,063	33,079
Connection charge	33,049	28,906
Charges for establishment of mining usage rights	16,222	16,669
Commissions paid on loans, borrowings, notes	8,700	14,362
Other prepayments and accrued income	5,508	4,798
Total	**95,542**	**97,814**

18. INVENTORIES

	Jun 30 2012	Dec 31 2011
Materials		
at cost, including:	2,722,684	2,087,873
- gas fuel	1,999,400	1,761,777
- fuels for electricity and heat generation	296,768	-
at net realisable value, including:	2,637,653	2,068,331
- gas fuel	1,933,460	1,761,777
- fuels for electricity and heat generation	296,768	-
Semi-finished products and work in progress		
at cost	25,592	5,779
at net realisable value	25,504	5,686
Finished products		
at cost	50,666	7,509
at net realisable value	50,404	7,198
Goods for resale		
at cost	5,738	1,202
at net realisable value	5,718	1,171
Total inventories at acquisition or production cost	**2,804,680**	**2,102,363**
Total inventories, at the lower of cost and net realisable value	**2,719,279**	**2,082,386**

18.1. Change in inventories in period

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Inventories at cost, at beginning of the period	**2,102,363**	**1,063,811**
Purchase	11,731,532	8,125,555
Other increases	16,252	63,867
Inventories charged to expenses for period	(11,287,961)	(7,568,000)
Sale	(45,946)	(8,461)
Currency translation differences	(176)	-
Changes in the Group	357,954	-
Other decreases	(69,338)	(145,527)
Inventories at cost, at end of the period	**2,804,680**	**1,531,245**
Impairment loss on inventories	**(85,401)**	**(17,849)**
Total net inventories	**2,719,279**	**1,513,396**

18.1. Impairment losses on inventories

	Jun 30 2012	Dec 31 2011
Impairment losses at beginning of the period	(19,978)	(17,283)
Increase in impairment losses	(66,760)	(5,169)
Impairment losses reversed	1,446	1,796
Impairment losses used	40	680
Currency translation differences	21	-
Changes in the Group	(170)	-
Impairment losses at end of the period	**(85,401)**	**(19,977)**

19. TRADE AND OTHER RECEIVABLES

	Jun 30 2012	Dec 31 2011
Trade receivables	2,537,388	3,401,111
Trade receivables from related entities	1,389	2,373
VAT receivable	261,702	333,500
Other taxes, customs duties and social security receivable	40,699	11,609
Matured portion of loans advanced to related entities	31,026	28,822
Receivables from equity-accounted associated and jointly-controlled entities	2,793	1,510
Other receivables from related entities	3,052	178
Receivables from sale of property, plant and equipment	2,406	838
Prepayments for tangible assets under construction	12,171	41,526
Additional contribution to equity payable under a relevant resolution*	84,552	84,552
Receivables under breach of contract	84,860	80,025
Advance payment towards purchase price of VHP	-	88,724
Other receivables	112,343	87,453
Total gross receivables	**3,174,381**	**4,162,221**
Including gross receivables (including payable portion of loans) from related entities (Note 37.1)	38,260	32,883
Impairment loss on doubtful receivables (Note 19.1)	**(795,208)**	**(784,085)**
Total net receivables	**2,379,173**	**3,378,136**
including:		
Trade receivables	2,016,729	2,880,282
Trade receivables from related entities	1,382	2,366
VAT receivable	261,702	333,500
Other taxes, customs duties and social security receivable	38,227	9,160
Matured portion of loans advanced to related entities	910	-
Receivables from equity-accounted associated and jointly-controlled entities	2,793	1,510
Other receivables from related entities	2,877	3
Receivables from sale of property, plant and equipment	2,385	830
Prepayments for tangible assets under construction	12,171	41,526
Additional contribution to equity payable under a relevant resolution*	-	-
Receivables under breach of contract	-	-
Advance payment towards purchase price of VHP	-	88,724
Other receivables	39,997	20,235
Including net receivables (including matured portion of loans) from related entities (Note 37.1)	7,962	3,879

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

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

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

19.1. Impairment losses on receivables

	Jun 30 2012	Dec 31 2011
Impairment losses at beginning of the period	(784,085)	(1,083,414)
Increase in impairment losses	(166,733)	(106,562)
Impairment losses reversed	146,130	229,733
Impairment losses used	11,013	176,174
Transfers between current and non-current portions	-	(16)
Currency translation differences	23	-
Changes in the Group	(1,556)	-
Impairment losses at end of the period	**(795,208)**	**(784,085)**

20. CURRENT INCOME TAX

	Jun 30 2012	Dec 31 2011
1. Current income tax payable at beginning of the period	57,729	225,972
2. Change in current income tax receivable (a- b- c)*	(27,756)	(89,743)
a. Current income tax receivable at beginning of the period	164,462	229,666
b. Exchange differences on translation of current income tax receivable	-	24,539
c. Current income tax receivable at end of the period	136,706	164,462
3. Deferred tax recognised under current income tax receivable	-	(128,501)
4. Corporate income tax (expense in the period)	128,871	431,574
5. Income tax paid in the period	(114,683)	(396,400)
Exchange differences on translation of current income tax payable	-	14,827
7. Changes in the Group	1,189	-
Current income tax payable at end of the period (1.-5. total)	**45,350**	**57,729**

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

21. ACCRUALS AND DEFERRED INCOME

	Jun 30 2012	Dec 31 2011
Real Estate Tax	159,947	-
Contribution to the Company Social Benefits Fund	32,876	-
Valuation of long-term contracts	20,173	18,085
Property insurance	17,585	15,993
Commissions on loans, borrowings, notes, etc.	11,498	11,962
Software licenses, maintenance and upgrades	11,424	9,852
Granting access to geological information	5,100	4,825
Rents and charges	2,795	1,689
Costs of contract performance preparation	2,482	7,323
Other expenses settled over time	43,775	14,182
Total	**307,655**	**83,911**

22. CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Jun 30 2012	Dec 31 2011
Unlisted shares (gross)	135	-
Investment fund units (gross)	-	22,275
Treasury bills (gross)	2,775	-
Total, gross	**2,910**	**22,275**
Unlisted shares (net)*	63	-
Investment fund units (net)	-	22,275
Treasury bills (net)	2,775	-
Total, net	**2,838**	**22,275**

* Net of impairment losses.

23. CASH AND CASH EQUIVALENTS

	Jun 30 2012	Dec 31 2011
Cash in hand and at banks	203,150	326,062
Bank deposits	1,163,297	1,175,671
Highly liquid short-term securities *	-	7
Other cash**	3,022	3,052
Total	**1,369,469**	**1,504,792**

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

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

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

24. NON-CURRENT ASSETS HELD FOR SALE

In H1 2012 net carrying amount of the Group's assets classified as non-current assets held for sale was PLN 7,259 thousand (PLN 8,430 thousand as at the end of 2011). These chiefly include buildings and land usufruct rights planned to be sold in H2 2012.

25. SHARE CAPITAL

	Jun 30 2012	Dec 31 2011
Total number of shares ('000)	5,900,000	5,900,000
Par value per share (PLN)	1	1
Total share capital	5,900,000	5,900,000

26. BANK LOANS, BORROWINGS AND DEBT SECURITIES

	Currency	Jun 30 2012	Dec 31 2011	Effective interest rate (%)	Maturity date	Jun 30 2012	Dec 31 2011	Security
Non-current		Amount in original currency				Amount in PLN		
Lease liabilities	PLN	41,686	37,555	1M Wibor+margin;	2012-2017	41,686	37,555	Blank promissory note; assignment of claims under an insurance policy
Lease liabilities	CHF	314	1,708	7% on average	2013	1,113	6,206	Blank promissory note
Lease liabilities	USD	24,501	29,505	1M Libor+margin	2014 - 2018	83,022	100,831	Blank promissory note
Investment loan from Pekao S.A.	PLN	969	2,907	1M Wibor+margin	Sep 30 2013	969	2,907	Promissory note, registered pledge
Investment loan from BRE Bank S.A.	PLN	10,332	5,604	1M Wibor+margin	2015-2021	10,332	5,604	Blank promissory note, registered pledge, assignment of claims under insurance policy
Investment loan from Kredyt Bank S.A.	PLN	3,820	830	1M Wibor+margin	Nov 30 2021	3,820	830	Registered pledge
Investment loan from PKO BP S.A.	PLN	1,216	569	3M Wibor+margin	2016-2018	1,216	569	Blank promissory note, registered pledge, assignment of claims under insurance policy, debit clause
Investment loan from PKO BP S.A.	PLN	13,092	6,714	3M Wibor+margin	Dec 31 2015	13,092	6,714	Blank promissory note
Investment loan from PKO BP S.A.	PLN	12,107	6,208	3M Wibor+margin	Dec 31 2019	12,107	6,208	Blank promissory note
Credit facility from Pekao S.A.	PLN	600	800	1M Wibor+margin	Apr 30 2014	600	800	Contractual ordinary mortgage, contractual ceiling mortgage, assignment of rights
Investment loan from BGK S.A.	EUR	10,188	1,055	1M Euribor+margin	May 31 2016	43,414	4,659	Registered pledge, promissory note, power of attorney over bank account, representation on submission to enforcement
Credit facility from Credit Agricole CIB-led bank syndicate [1]	USD	320,000	399,300	3M Libor+margin	Aug 31 2017	1,140,468	1,209,461	Pledge over PGNiG Norway shares [2]
Notes	PLN	2,352,046	-	6M Wibor+margin	Jun 19 2017	2,352,046	-	-
Euronotes	EUR	500,000	-	4,00%	Feb 14 2017	2,115,423	-	-
Total non-current						**5,819,308**	**1,382,344**	

26. BANK LOANS, BORROWINGS AND DEBT SECURITIES (continued)

	Currency	Jun 30 2012	Dec 31 2011	Effective interest rate (%)	Maturity date	Jun 30 2012	Dec 31 2011	Security
Current		Amount in original currency				Amount in PLN		
Current portion of lease liabilities	PLN	14,250	13,002	1M Wibor+margin;	2012-2013	14,250	13,002	Blank promissory note; assignment of claims under an insurance policy
Current portion of lease liabilities	CHF	2,260	1,716	5-7% on average	2012-2013	8,019	6,236	Blank promissory note
Current portion of lease liabilities	USD	9,020	6,789	1M Libor+margin	2012-2013	30,564	23,201	Blank promissory note
Overdraft facility from Pekao S.A.	PLN	656	8,249	1M Wibor+margin	Dec 31 2012	656	8,249	Ceiling mortgage, assignment of insurance policy
Overdraft facility from Societe Generale S.A.	PLN	845	2,955	1M Wibor+margin	Sep 28 2012	845	2,955	Ceiling mortgage, assignment of claims, blank promissory note
Overdraft facility from Pekao S.A.	PLN	18,955	18,744	1M Wibor+margin	Aug 23 2012	18,955	18,744	Promissory note, registered pledge
Investment loan from Pekao S.A.	PLN	3,876	3,877	1M Wibor+margin	Sep 30 2013	3,876	3,877	Promissory note, registered pledge
Credit facility from BNP Paribas Bank Polska S.A.	PLN	5,962	105	1M Wibor+margin	Dec 26 2012	5,962	105	Promissory note, registered pledge
Overdraft facility from Societe Generale S.A.	USD	3,718	2,999	1M Libor+margin	Jul 31 2012	12,599	10,248	Mortgage, blank promissory note, assignment of claims
Overdraft facility from Pekao S.A.	PLN	18,053	14,435	1M Wibor+margin	Dec 31 2012	18,053	14,435	Mortgage, assignment of rights under insurance policy, blank promissory note with promissory note declaration, power of attorney over current account, assignment of claims
Overdraft facility from BRE S.A.	USD	3,432	3,069	1M Libor+margin	May 30 2012	11,628	10,489	Blank promissory note with a promissory note declaration
Overdraft facility from Bank Millenium S.A	USD	3,219	2,939	1M Libor+margin	Dec 18 2012	11,418	10,043	Mortgage with assignment of rights under insurance policy, assignment of claims
Overdraft facility from Pekao S.A.	PLN	35,921	31,914	O/N Wibor+margin	May 26 2012	35,921	31,914	Transfer of claims
Investment loan from BGK S.A.	EUR	3,396	3,397	1M Euribor+margin	May 31 2016	14,471	15,004	Registered pledge, promissory note, power of attorney over bank account, representation on submission to enforcement
Working capital facility from Kredyt Bank SA	PLN	174	162	12%	Dec 31 2012	174	162	-
Investment loan from BRE Bank S.A.	PLN	2,123	1,342	1M Wibor+margin	2015-2021	2,123	1,342	Blank promissory note, registered pledge, assignment of claims under insurance policy
Investment loan from BRE Bank S.A.	PLN	2,950	-	O/N Wibor+margin	Apr 9 2013	2,950	-	Promissory note
Investment loan from Kredyt Bank S.A.	PLN	472	149	1M Wibor+margin	Nov 30 2021	472	149	Registered pledge
Investment loan from Kredyt Bank S.A.	PLN	1,885	-	O/N Wibor+margin	Oct 13 2012	1,885	-	Promissory note
Investment loan from PKO BP S.A.	PLN	397	171	3M Wibor+margin	2016-2018	397	171	Blank promissory note, registered pledge, assignment of claims under insurance policy, debit clause
Short-term loan from Alior Bank S.A.	PLN	15	15	20%	Dec 31 2012	15	15	-
Credit facility from Credit Agricole CIB-led bank syndicate [1]	USD	60,000	40,962	3M Libor+margin	Aug 31 2017	138,276	139,330	Pledge over PGNiG Norway shares [2]
Credit facility from ING Bank Śląski S.A.	PLN	-	2,225	1M Wibor+margin	Jan 31 2012	-	2,225	Blank promissory note, assignment of claims

26. BANK LOANS, BORROWINGS AND DEBT SECURITIES (continued)

Current	Currency	Jun 30 2012	Dec 31 2011	Effective interest rate (%)	Maturity date	Jun 30 2012	Dec 31 2011	Security
		Amount in original currency				Amount in PLN		
Overdraft facility from Deutsche Bank Polska S.A.	PLN	-	6,843	1M Wibor+margin	Jan 31 2012	-	6,843	Blank promissory note, power of attorney over bank account, representation on submission to enforcement, assignment of claims
Short-term loan from Nordea Bank Polska S.A.	PLN	1,996	1,462	1M Wibor+margin	Jan 28 2013	1,996	1,462	Ceiling mortgage, assignment of claims under an insurance policy, blank promissory note, debit clause, representation on submission to enforcement
Short-term loan from BRE S.A.	PLN	985	997	1M Wibor+margin	Apr 19 2013	985	997	Ceiling mortgage, assignment of claims under an insurance policy, blank promissory note, debit clause, representation on submission to enforcement
Overdraft facility from Societe Generale S.A.	PLN	-	1,243	1M Wibor+margin	Sep 30 2012	-	1,243	-
Credit facility from Pekao S.A.	PLN	500	600	1M Wibor+margin	Apr 30 2014	500	600	Contractual ordinary mortgage, contractual ceiling mortgage, assignment of rights
Short-term loan from Vattenfall Treasury Financing	PLN	420,058	-	1M Wibor+margin	Jul 11 2012	420,057	-	Security over assets
Notes	PLN	-	2,296,857	1M Wibor+margin	Jan 9 2012	-	2,296,857	-
Notes	PLN	-	498,786	1M Wibor+margin	Jan 16 2012	-	498,786	-
Notes	PLN	-	497,949	1M Wibor+margin	Jan 27 2012	-	497,949	-
Notes	PLN	152,697	-	6M Wibor+margin	Jun 19 2017	152,697	-	-
Notes	PLN	2,196,226	-	1M Wibor+margin	Jul 11 2012	2,196,226	-	-
Euronotes	EUR	7,406	-	4,00%	Feb 14 2017	31,527	-	-
Total current						**3,137,497**	**3,616,633**	

[1]Bank syndicate: Credit Agricole CIB (France) (Agent), BNP Paribas (France), Société Générale (France), Natixis (France), The Bank of Tokyo Mitsubishi UFJ (United Kingdom), UniCredit Bank AG (Germany) and KBC Bank NV (Ireland). The amount in PLN was arrived at by translating the carrying amount (including the valuation and commission paid) of the loan of NOK 2,261,264 thousand (non-current portion of NOK 2,016,743 thousand and current portion of NOK 244,521 thousand) at the PLN/NOK exchange rate as at June 30th 2012.

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

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

26.1. Received credit facilities and amounts undrawn under the credit facilities

Bank	Jun 30 2012		Dec 31 2011	
	Credit facilities granted	Undrawn amounts	Credit facilities granted	Undrawn amounts
Societe Generale S.A.	40,000	40,000	40,000	40,000
Bank Handlowy SA	40,000	40,000	40,000	40,000
Bank Millenium S.A	40,000	40,000	40,000	40,000
Pekao SA	40,000	40,000	40,000	40,000
PKO BP S.A.	40,000	40,000	40,000	40,000
BRE BANK S.A.	40,000	40,000	40,000	40,000
ING Bank Śląski SA	40,000	40,000	40,000	40,000
Pekao SA	25,000	11,090	25,000	5,242
Societe Generale S.A.	3,000	2,155	3,000	45
Komercni Banka AS	-	-	856	856
Societe Generale S.A.	6,000	3,088	6,000	6,000
BRE BANK S.A.	6,000	6,000	6,000	6,000
Deutsche Bank Polska S.A.	6,000	1,366	-	-
Bank BPH S.A.	6,000	3,434	-	-
Pekao SA	19,000	45	19,000	256
BNP Paribas Bank Polska S.A.	8,400	2,438	8,400	8,295
Pekao SA	-	-	20,000	5,565
Societe Generale S.A.	-	-	15,378	5,130
BRE BANK S.A.	-	-	11,961	1,472
Bank Millenium S.A	-	-	11,961	1,918
Pekao SA	50,000	14,079	3,000	2,900
BGK S.A.	63,920	-	-	-
HSBC Polska	-	-	10,252	10,252
Kredyt Bank S.A.	4,000	4,000	4,000	4,000
Credit Agricole CIB-led bank syndicate[1]	1,285,751	-	1,360,583	-
Bank Handlowy SA	15,000	15,000	15,000	15,000
BRE BANK S.A.	15,000	15,000	-	-
ING Bank Śląski SA	-	-	6,000	3,775
Deutsche Bank Polska S.A.	-	-	7,000	157
BZ WBK S.A.	3,000	3,000	3,000	3,000
Nordea S.A.	2,000	4	1,500	38
BRE BANK S.A.	1,000	16	1,000	3
Societe Generale S.A.	3,500	3,500	3,500	2,258
Total	**1,802,571**	**364,215**	**1,822,391**	**362,162**

[1] Bank syndicate: Credit Agricole CIB (France) (Agent), BNP Paribas (France), Société Générale (France), Natixis (France), The Bank of Tokyo Mitsubishi UFJ (United Kingdom), UniCredit Bank AG (Germany) and KBC Bank NV (Ireland). The amount in PLN was arrived at by translating the carrying amount (including the valuation and commission paid) of the loan of NOK 2,273,654 thousand at the PLN/NOK exchange rate as at June 30th 2012.

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

	Jun 30 2012		
Maturing in:	(Discounted) payments disclosed in the statement of financial position	Interest	Actual lease payments due
up to 1 year	52,833	(3,278)	49,566
from 1 to 5 years	111,596	(4,763)	106,823
over 5 years	14,225	-	14,225
Total	**178,654**	**(8,041)**	**170,614**

	Dec 31 2011		
Maturing in:	(Discounted) payments disclosed in the statement of financial position	Interest	Actual lease payments due
up to 1 year	42,439	3,243	45,682
from 1 to 5 years	103,120	4,872	107,992
over 5 years	41,472	-	41,472
Total	**187,031**	**8,115**	**195,146**

27. PROVISIONS

	Provision for length-of-service awards and retirement severance pays	Provision for the employment streamlining and voluntary termination programme	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	Central Restructuring Fund	Dispute with PBG S.A.	Other	**Total**
As at Jan 1 2012	320,192	37,486	1,237,584	-	117,915	61,651	19,590	21,773	114,782	**1,930,973**
Provisions recognised during the year	21,829	85	142,313	60,016	7,209	12,247	-	-	27,156	**270,855**
Transfers	(443)	-	-	-	-	-	-	-	443	**-**
Provisions used	(20,104)	(17,085)	(9,742)	-	(4,118)	(12,647)	(1,309)	-	(6,379)	**(71,384)**
Currency translation differences	(7)	-	(431)	-	-	-	-	-	(24)	**(462)**
Changes in the Group	44,142	-	-	-	-	-	-	-	81,298	**125,440**
As at Jun 30 2012	**365,609**	**20,486**	**1,369,724**	**60,016**	**121,006**	**61,251**	**18,281**	**21,773**	**217,276**	**2,255,422**
Non-current	306,438	1,031	1,353,122	-	106,083	19,406	-	-	97,638	**1,883,718**
Current	59,171	19,455	16,602	60,016	14,923	41,845	18,281	21,773	119,638	**371,704**
As at Jun 30 2012	**365,609**	**20,486**	**1,369,724**	**60,016**	**121,006**	**61,251**	**18,281**	**21,773**	**217,276**	**2,255,422**
Non-current	264,319	1,420	1,223,360	-	102,453	11,510	-	-	22,740	**1,625,802**
Current	55,873	36,066	14,224	-	15,462	50,141	19,590	21,773	92,042	**305,171**
As at Dec 31 2011	**320,192**	**37,486**	**1,237,584**	**-**	**117,915**	**61,651**	**19,590**	**21,773**	**114,782**	**1,930,973**

The technical rate adopted to calculate the discounted value of the future retirement severance pay obligations was 3.2%, as the resultant of the 5.22% annual return on assets and the 2.0% 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).

In H1 2012, the discount rate adopted to calculate the provision for well decommissioning costs in Poland was 2.65%, as the resultant of the 5.22% rate of return on assets and the inflation rate assumed at the National Bank of Poland's continuous inflation target of 2.5% (as at the end of 2010, the adopted discount rate was 3.29%, as the resultant of 5.87% and 2.5%, respectively).

In H1 2012, PGNiG Norway AS, a subsidiary operating in Norway, calculated the amount of provision for well decommissioning costs using an inflation rate of 2% and a nominal discount rate of 3.12% (at the end of 2011, the company adopted an inflation rate of 2% and a nominal discount rate of 3.12%).

As at the end of 2011, the Company recognised a provision for costs of implementation of employment restructuring and voluntary termination programme. The provision was recognised on the basis of the Voluntary Termination Programme (the Programme) and the Employment Streamlining Plan (the Plan), adopted and announced by the Company. The purpose of the Programme and the Plan is to improve the Company's operational efficiency and reduce operating costs.

Long-term provisions are discounted at the rate of 2.65%.

27.1. Actuarial income statement for the provision for length-of-service awards and retirement severance pays

	Jun 30 2012	Dec 31 2011
Length-of-service awards		
Value of obligation shown in the statement of financial position at beginning of the period	191,957	208,661
Interest cost	2,147	6,202
Current service cost	4,113	7,177
Past service cost	-	-
Benefits paid	(20,692)	(55,208)
Actuarial gain/loss	14,462	27,050
Gains/losses due to curtailments or settlements	(409)	(1,925)
Changes in the Group	28,483	-
Value of obligation shown in the statement of financial position at end of the period	**220,061**	**191,957**
Retirement severance pays		
Value of obligation shown in the statement of financial position at beginning of the period	128,235	118,754
Current service cost	4,295	8,076
Interest cost	2,212	5,543
Net actuarial gain/loss recognised during reporting period	4,208	3,105
Benefits paid	(7,434)	(8,512)
Past service cost	468	993
Gains/losses due to curtailments or settlements	(2,095)	276
Changes in the Group	15,659	-
Value of obligation shown in the statement of financial position at end of the period	**145,548**	**128,235**
Total value of obligation shown in the statement of financial position at end of the period	**365,609**	**320,192**

28. DEFERRED INCOME

	Jun 30 2012	Dec 31 2011
Non-current		
Value of gas service lines financed by customers, not covered by depreciation charges	459,658	487,113
Connection charge	438,866	448,687
Grants	297,221	214,335
Other	8,853	9,932
Total non-current	**1,204,598**	**1,160,067**
Current		
Value of gas service lines financed by customers, not covered by depreciation charges	51,795	51,393
Connection charge	18,542	18,108
Other	28,433	25,440
Total current	**98,770**	**94,941**

Grants

The PGNiG Group executes projects co-financed by the European Union. The largest projects are implemented by the Parent and are aimed at increasing capacities of the gas storage facilities.

In H1 2012, the Parent received PLN 63,665 thousand of co-financing for the Wierzchowice Underground Storage Facility (2011: PLN 106,597 thousand), and PLN 1,741 thousand for Strachocina Underground Storage Facility (2011: PLN 34,223 thousand).

These 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.

29. DEFERRED TAX LIABILITY

	Jun 30 2012	Dec 31 2011
Foreign exchange gains	1,069	2,365
Accrued interest	835	520
Valuation of hedging and financial instruments	23,805	37,191
Income related to tax obligation arising in subsequent month	1	11,379
Difference between tax and accounting value of non-current assets	1,704,968	1,368,084
Other	67,137	13,871
Total	**1,797,815**	**1,433,410**

30. OTHER NON-CURRENT LIABILITIES

	Jun 30 2012	Dec 31 2011
Liabilities under licences, rights to geological information and mining usage rights	19,378	15,940
Other non-current liabilities	3,795	3,938
Total	**23,173**	**19,878**
Including related entities (Note 37.1.)	33	102

31. TRADE AND OTHER PAYABLES

	Jun 30 2012	Dec 31 2011
Trade payables	1,394,894	1,266,062
Trade payables to related entities	6,821	15,267
VAT payable	676,079	990,517
Other taxes, customs duty and social security contributions payable	293,874	155,266
Dividend payable to owner	-	7
Wages and salaries payable	71,731	65,986
Amounts payable for unused holidays	22,654	41,415
Amounts payable under purchase of non-financial non-current assets	193,434	392,955
Amounts payable under purchase of non-financial non-current assets from related entities	3,943	26,091
Additional contribution to equity payable under a relevant resolution*	84,552	84,552
Amounts payable to equity-accounted associated and jointly-controlled entities	7,241	7,283
Other amounts payable to related entities	2,125	1,341
Accruals and deferred income and prepaid deliveries	153,630	232,975
Other	90,636	75,186
Total	**3,001,614**	**3,354,903**
Including related entities (Note 37.1.)	20,130	49,982

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

32. CAUSES OF DIFFERENCES BETWEEN THE ITEMS OF THE STATEMENT OF FINANCIAL POSITION AND THE CHANGES CAUSED BY CHANGES IN CERTAIN ITEMS OF THE STATEMENT OF CASH FLOWS. BREAKDOWN OF THE OPERATING ACTIVITY "OTHER ADJUSTMENTS".

Change in cash	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
1) Cash in statement of financial position at beginning of the period	1,504,792	1,373,292
a) Net foreign exchange gains (losses) on cash at beginning of the period*	989	374
Cash and cash equivalents in statement of cash flows at beginning of the period (1-a)	**1,503,803**	**1,372,918**
2) Cash in statement of financial position at end of the period	1,369,469	1,034,496
b) Net foreign exchange gains (losses) on cash at end of the period	88	440
Cash and cash equivalents in statement of cash flows at end of the period (2-b)	**1,369,381**	**1,034,056**
I. Change in cash in statement of financial position (2-1)	(135,323)	(338,796)
II. Change in net foreign exchange gains (losses) on cash (b-a)	(901)	66
Change in cash in statement of cash flows (I. - II.)	**(134,422)**	**(338,862)**

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

Change in receivables	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Change in other financial assets in statement of financial position	**(72,267)**	**30,205**
Change in net receivables in statement of financial position	**998,963**	**1,471,158**
Change in lease receivables in financial assets – adjustment to investment activity	-	(30,538)
Change in lease receivables – adjustment to investment activity	-	30,749
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	853	8,951
Change in prepayments for property, plant and equipment	(29,355)	-
Due and payable portion of loans advanced	75,085	-
Dividend receivable	1,890	-
Changes in the Group	280,350	-
Other	-	2,751
Change in net receivables in statement of cash flows	**1,255,519**	**1,513,276**

Change in inventories	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Change in inventory in statement of financial position	**(636,893)**	**(463,829)**
Tangible assets under construction transferred to inventory – adjustment to investment activity	-	-
Changes in the Group	357,784	-
Change in inventory in statement of cash flows	**(279,109)**	**(463,829)**

Change in provisions	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Change in provisions in statement of financial position	**324,449**	**90,281**
Change in provision for well decommissioning costs which adjusts property, plant and equipment – adjustment to investment activity	(133,171)	(47,789)
Changes in the Group	(125,440)	-
Change in provisions in statement of cash flows	**65,838**	**42,492**

Change in current liabilities	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Change in current liabilities in statement of financial position	**(353,289)**	**(103,537)**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	221,669	382,832
Change in dividend payable to owner	-	(708,000)
Changes in the Group	(242,250)	-
Other	3,295	(1,018)
Change in current liabilities in statement of cash flows	**(370,575)**	**(429,723)**

Change in prepayments	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Change in other assets in statement of financial position	**2,272**	**(3,780)**
Change in prepayments in statement of financial position	**(223,744)**	**(184,381)**
Cost of fees and commissions under the note issuance programme	(6,126)	(3,886)
Changes in the Group	14,114	-
Change in prepayments in statement of cash flows	**(213,484)**	**(192,047)**

Change in deferred income	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Change in deferred income in statement of financial position	**48,360**	**54,415**
Deferred income related to tangible assets leased to third parties – reclassification within operating activity	-	3
Non-current assets received free of charge	(43)	-
Subsidies received for property, plant and equipment	(81,354)	(42,823)
Changes in the Group	(152)	-
Other	853	-
Change in deferred income in statement of cash flows	**(32,336)**	**11,595**

Other net items in operating activity	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Derivative Instruments	(17,149)	(10,985)
Expenditure on non-financial non-current assets written off	31,708	139,294
Other	66,816	8,265
Total	**81,375**	**136,574**

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

33.1. Financial Instruments by Category (net carrying values)

	Jun 30 2012	Dec 31 2011
Financial assets at fair value through profit or loss	-	-
Financial assets available for sale (unlisted shares)	56,520	56,394
Financial assets available for sale (listed shares)	16	16
Financial investments held to maturity	-	-
Loans and receivables	3,326,922	4,242,768
Positive value of derivatives	197,867	284,629
Cash (cash in hand and cash at banks, cheques and cash in transit)	206,172	329,114
Financial liabilities at amortised cost	10,917,254	7,120,574
Negative value of derivatives	399,102	416,836

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

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

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Financial assets at fair value through profit or loss	-	-
Financial assets available for sale	10	21
Impairment recognised in profit or loss for period	10	21
Financial investments held to maturity	-	-
Loans and receivables	51,510	90,191
Interest on deposits	32,804	24,789
Interest on receivables*	24,677	37,627
Interest on loans advanced	1,473	263
Net income from short-term securities	81	525
Impairment losses on receivables	(6,053)	46,700
Impairment losses on loans	(1,383)	(19,055)
Foreign currency measurement of loans advanced in foreign currencies	(89)	(658)
Positive value of derivatives	192,093	275,762
Financial liabilities at amortised cost	(190,176)	73,626
Negative value of derivatives	(169,327)	(267,171)
Total effect on profit or loss	**(115,890)**	**172,429**

* Including PLN 3 thousand of interest on receivables under finance lease (PLN 1,093 thousand in H1 2011).

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Financial assets available for sale (valuation charged directly to equity)	-	(52,689)
Hedging instruments (valuation recognised directly under equity)	(122,168)	169,803
Total effect on equity	**(122,168)**	**117,114**

33.3. Objectives and Policies of Financial Risk Management

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

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

Credit risk

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

The PGNiG Group is exposed to credit risk under:

- trade receivables
- investment transactions,
- financial guarantees issued, and
- transactions in financial derivatives.

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

Maximum Exposure to Credit Risk

	Jun 30 2012	Dec 31 2011
Loans advanced	74,380	-
Deposits (bank deposits)	1,166,922	1,199,157
Trade receivables	2,085,620	3,043,611
Positive value of derivatives	197,867	284,629
Financial guarantees issued	10,273,220	10,571,035
Total	**13,798,009**	**15,098,432**

Exposure to credit risk under loans advanced is exclusively attributable to loans advanced by the Parent to the subsidiaries (not accounted for with the full method) and associated entities. 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 sale of gas fuel, uniform rules designed to secure trade receivables have been implemented, to be followed while concluding agreements for the sale of gas fuel.

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

In 2011, PGNiG SA 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 delayed payments.
In the event of a temporary deterioration in a customer’s financial standing, at the customer’s request, an agreement is concluded providing for the repayment of debt in instalments and simultaneously negotiations are undertaken to receive additional contract performance security.
As a rule, no agreements on cancellation of principal and interest are currently concluded.
A customer’s request 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 June 30th 2012, the value of past due receivables not impaired as disclosed in the Group's statement of financial position was PLN 499,033 thousand (PLN 467, 339 thousand at the end of 2011).

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

Period of delay	Jun 30 2012	Dec 31 2011
up to 1 month	351,989	371,137
from 1 to 3 months	111,890	60,476
from 3 months to 1 year	31,282	33,151
from 1 to 5 years	3,266	2,161
over 5 years	606	414
Total net past due receivables	**499,033**	**467,339**

The Group identifies, measures and minimises its credit exposure to individual banks with which it executes investment transactions. The reduction of credit exposure was achieved through diversification of the portfolio of counterparties (mainly banks) with which the Group executes investment transactions. The Parent has also concluded Framework Agreements with all banks with which it places its 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 standings, 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 surpluses of significant value in highly liquid, credit risk-free instruments, in particular treasury bills and bonds.

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

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

Owing to all those measures, the Group does not expect to incur any material losses on its credit risk.

Market Risk

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

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

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

Currency Risk

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

Trade payables under long-term contracts for gas fuel deliveries are denominated in the US dollar and the euro. The scale of the Group's exposure to currency risk is significant, as further discussed in the section devoted to sensitivity analysis.

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

Interest-Rate Risk

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

As at June 30th 2012, the Group had PLN 2,200,00-worth of corporate notes outstanding. Given the short maturities of the notes and periodic determination of the borrowing costs, the related interest rate risk is immaterial to the Group.

Further, on June 19th 2012 the Parent issued notes for a total value of PLN 2,500,000 thousand. The notes bear a floating interest rate at 6M WIBOR plus margin (coupon payments every six months), hence the related interest rate risk is considered low.

The Parent assesses the market risk (including currency and interest-rate risk) by monitoring 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 based on the variance–covariance approach.

Commodity Risk

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

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

In the first six months of 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 behind the liquidity risk management is to monitor and plan the liquidity levels on an ongoing basis. The liquidity levels are monitored through projections of future cash-flow, covering a period of at least 12 months, which are regularly updated (once a month). PGNiG reviews the actual cash flows against projections at regular intervals – an exercise which comprises an analysis of unmet cash-flow targets, as well as the related causes and effects. The liquidity risk should not be equated exclusively with the risk of loss of liquidity by the 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 at June 30th 2012, the Group had in place credit line agreements for up to PLN 1,802,571 thousand as part of its strategy to hedge against liquidity risk (PLN 1,822,391 thousand at the end of 2011). For more details, see Note 26.1.

Additionally, in order to optimise cash management at the Group level, on December 1st 2010, the Parent concluded with Bank Handlowy w Warszawie S.A. a note issuance programme agreement for a total amount of PLN 397,270 thousand. Under an annex of June 1st 2011, the value of the programme was raised to PLN 1,000,000 thousand. The agreement is valid until November 30th 2013. Under the programme, PGNiG SA issues short-term discount notes for its excessively liquid distribution companies. The first issue was carried out on December 22nd 2010. As at the end of H1 2012, debt under notes placed with Group companies was PLN 639,500 thousand.

To enhance security of access to liquidity, the Parent executed a Notes Issuance Programme Agreement of June 10th 2010, which originally involved six banks (Bank Pekao SA, ING Bank Śląski SA, PKOBP SA, Bank Handlowy w Warszawie SA, Societe Generale SA, and BNP Paribas SA, Polish Branch). Under the programme, the Parent may issue discount notes or coupon notes with maturities ranging from one to 12 months. Originally, the agreement ran through July 31st 2013 and its value totalled PLN 3,000,000 thousand. On July 21st 2011, an Annex to the Programme Agreement was signed, whereby the available financing amount was increased to PLN 5,000,000 and the agreement term was extended until July 31st 2015. Another Annex was signed on November 25th 2011. Under

the second Annex, the Programme amount was increased to PLN 7,000,000 thousand, and three banks, including BRE Bank SA, Bank Zachodni WBK SA, and Nordea Bank Polska SA, acceded to the Programme. As at June 30th 2012, the debt outstanding under the Agreement was PLN 2,200,000 thousand.

On February 14th 2012 the Parent issued Euro medium-term notes which were placed on the European market as part of an EMTN programme. The value of the issue was EUR 500,000 thousand, with the value of the Programme totalling EUR 1,200,000 thousand. The proceeds were used to finance the Company's investment plans. Also, on May 22nd 2012 the Company executed an agreement for a PLN 4,500,000 notes programme with Bank Polska Kasa Opieki S.A. and ING Bank Śląski S.A. Under the programme, on June 19th 2012 the Company issued Tranche 1 of notes worth PLN 2,500,000 thousand maturing on June 19th 2017.

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

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

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

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

Financial liabilities at amortised cost, by maturity

Jun 30 2012	Liabilities under loans, borrowings and notes issued	Finance lease liabilities	Trade payables	**Total expenditure**
up to 1 year	3,151,825	49,566	3,001,614	6,203,005
from 1 to 5 years	3,370,949	106,823	18,879	3,496,651
over 5 years	2,255,378	14,225	4,294	2,273,897
Total	**8,778,152**	**170,614**	**3,024,787**	**11,973,553**

Dec 31 2011	Liabilities under loans, borrowings and notes issued	Finance lease liabilities	Trade payables	**Total expenditure**
up to 1 year	3,580,600	45,682	3,354,903	6,981,185
from 1 to 5 years	1,097,734	107,992	18,373	1,224,099
over 5 years	140,017	41,472	1,505	182,994
Total	**4,818,351**	**195,146**	**3,374,781**	**8,388,278**

The figures presented in the tables above are gross amounts (not discounted).

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

Derivative instruments by maturity

	Net book value as at Jun 30 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	(252,470)	11,278,809	487,228	10,791,581	-
- inflows	-	5,390,518	235,096	5,155,422	-
- outflows	-	5,888,291	252,132	5,636,159	-
- forward transactions	78,547	5,052,367	5,049,829	2,538	-
- inflows	-	2,557,560	2,555,022	2,538	-
- outflows	-	2,494,807	2,494,807	-	-
*- currency options***	(8,132)	245	245	-	-
- inflows	-	245	245	-	-
- outflows	-	-	-	-	-
*- commodity options***	(92,043)	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- option premiums paid	72,863	-	-	-	-
- currency options	39,583	-	-	-	-
- commodity options	33,280	-	-	-	-
Total	**(201,235)**	**16,331,421**	**5,537,302**	**10,794,119**	**-**

	Net book value 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 serving as risk hedging instruments	(410,877)	(189,913)	12,196	(202,109)	-
- inflows	-	2,642,145	118,253	2,523,892	-
- outflows	-	(2,832,058)	(106,057)	(2,726,001)	-
- forward transactions	59,315	64,561	64,561	-	-
- inflows	-	1,999,018	1,999,018	-	-
- outflows	-	(1,934,457)	(1,934,457)	-	-
*- currency options***	73,599	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
*- commodity options***	17,813	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
*- commodity swaps****	-	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- option premiums paid	127,943	-	-	-	-
- currency options	107,991	-	-	-	-
- commodity options	19,952	-	-	-	-
Total	**(132,207)**	**(125,352)**	**76,757**	**(202,109)**	**-**

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

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

The 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, on February 17th 2003 the Management Board of the Parent adopted the "Policy of Financial Risk Management at PGNiG SA" (the Policy), defining the division of competencies and tasks among the Company's organisational units in the process of financial risk management and control.

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

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

1. the Risk Committee, which proposes risk management policies, regularly reviews the Policy and revises it as appropriate;
2. the Management Board, which is responsible for formal approval of the Policy.

On December 28th 2010, the Management Board of the Parent approved the "Procedure for tax and accounting risk management at PGNiG SA" (the Procedure), which took effect on January 1st 2011. The Procedure defines the rules to be followed by PGNiG SA while fulfilling tax and reporting obligations imposed by tax legislation, as well as accounting and financial reporting obligations under

the Polish Accountancy Act of September 29th 1994, secondary legislation issued thereunder, the IAS/IFRS and the disclosure requirements of the Warsaw Stock Exchange.

Sensitivity analysis

To determine a rational range of changes which may occur with respect to currency or interest rate risks, the Group assumed an (implied) market volatility level for semi-annual periods, i.e. an average change of 15% as at the end of H1 2012 for the analysis of exchange rate sensitivity (as at the end of 2011 the assumed volatility was also 15%), 100bp for the analysis of interest rate sensitivity (as at December 31st 2011, also 100bp) and 25**%** for energy commodity derivatives (30% as at December 31st 2011). The half-year period reflects the frequency with which the Group discloses results of financial instrument sensitivity analyses in its reports.

The results of the analysis of sensitivity to currency risk as at June 30th 2012 indicate that the net profit would have been lower by PLN 633,265 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 15%, ceteris paribus (profit decrease by PLN 393,282 thousand on the back of stronger NOK and by PLN 273,730 thousand due to stronger USD vs. profit increase by PLN 31,730 thousand due appreciation EUR and by PLN 2,017 thousand 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 separate Parent 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, but the increase of the positive portion of the fair value of financial derivatives on EUR would be mostly attributable to the issued Euronotes. The increase in foreign exchange losses on valuation of the Euronotes in EUR would be offset by an increase in the positive portion of the fair value of financial derivatives for EUR.
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 June 30th 2012, the net profit would have been higher by PLN 599,014 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 15%, ceteris paribus (profit increase by PLN 393,281 thousand on the back of weaker NOK and by PLN 242,645 thousand due to weaker USD vs. profit decrease by PLN 34,895 thousand due to weaker EUR and by PLN 2,017 thousand 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. The increase in foreign exchange gains on valuation of the Euronotes in EUR would be offset by an increase in the negative portion of the fair value of financial derivatives for EUR.

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 412,158 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 15%, ceteris paribus (profit decrease by PLN 343,386 thousand on the back of stronger NOK and by PLN 88,810 thousand due to stronger USD vs. profit increase by PLN 13,661 thousand due to stronger EUR and PLN 6,377 thousand 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 separate Parent 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, the net profit would have been higher by PLN 509,772 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 15%, ceteris paribus (profit increase by PLN 343,386 thousand on the back of weaker NOK, by PLN 167,436 thousand due to weaker USD and by PLN 5,327 thousand due to depreciation of weaker EUR vs. profit decrease by PLN 6,377 thousand due to weakening of other currencies). The positive financial result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). The positive financial result would be 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 the Group's financial instruments to exchange rate fluctuations for H1 2012 and for 2011 are presented on the following pages.

Sensitivity of financial instruments in foreign currencies to exchange rate fluctuations charged to income statement

	Net book value as at Jun 30 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*	8,509	786	14	-	476	(786)	(14)	-	(476)
Other financial assets	509	76	-	-	-	(76)	-	-	-
Trade and other receivables	156,557	11,220	7,446	560	4,257	(11,220)	(7,446)	(560)	(4,257)
Financial assets held for trading	537	81	-	-	-	(81)	-	-	-
Derivative financial instrument assets**	180,701	360,992	-	-	-	-	-	471,240	-
Cash and cash equivalents	148,241	15,216	3,756	1,809	1,456	(15,216)	(3,756)	(1,809)	(1,456)
Effect on financial assets before tax		**388,371**	**11,216**	**2,369**	**6,189**	**(27,379)**	**(11,216)**	**468,871**	**(6,189)**
19% tax		(73,791)	(2,131)	(450)	(1,176)	5,202	2,131	(89,086)	1,176
Effect on financial assets after tax		**314,580**	**9,085**	**1,919**	**5,013**	**(22,177)**	**(9,085)**	**379,785**	**(5,013)**
Total currencies					*330,597*				*343,510*
Financial liabilities									
Loans, borrowings and debt securities (including finance lease)	3,641,942	330,725	214,196	-	1,370	(330,725)	(214,196)	-	(1,370)
Trade and other payables	988,207	18,472	110,769	16,662	2,329	(18,472)	(110,769)	(16,662)	(2,329)
Liabilities under derivative financial instruments**	323,173	-	24,190	471,240	-	364,898	14,187	-	-
Effect on financial liabilities before tax		**349,197**	**349,155**	**487,902**	**3,699**	**15,701**	**(310,778)**	**(16,662)**	**(3,699)**
19% tax		(66,347)	(66,340)	(92,701)	(703)	(2,983)	59,048	3,166	703
Effect on financial liabilities after tax		**282,850**	**282,815**	**395,201**	**2,996**	**12,718**	**(251,730)**	**(13,496)**	**(2,996)**
Total currencies					*963,862*				*(255,504)*
Total increase/decrease		31,730	(273,730)	(393,282)	2,017	(34,895)	242,645	393,281	(2,017)
Total currencies					**(633,265)**				**599,014**
Exchange rates as at the balance-sheet date and their change:									
EUR/PLN	4.2613	-	4.9005	4.9005	4.9005	-	3.6221	3.6221	3.6221
USD/PLN	3.3885	3.8968	-	3.8968	3.8968	2.8802	-	2.8802	2.8802
NOK/PLN	0.5655	0.6503	0.6503	-	0.6503	0.4807	0.4807	-	0.4807

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

** In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on the income statement. 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 book value as at Dec 31 2011	Currency risk							
	Exchange rate change by:	*15%*				*-15%*			
		for EUR	*for USD*	*for NOK*	*for other currencies*	*for EUR*	*for USD*	*for NOK*	*for other currencies*
Financial assets									
Financial assets available for sale*	6,065	-	-	-	-	-	-	-	-
Other financial assets	385	-	58	-	-	-	(58)	-	-
Trade and other receivables	493,664	46,838	13,856	3,643	9,712	(46,838)	(13,856)	(3,643)	(9,712)
Financial assets held for trading	-	-	-	-	-	-	-	-	-
Derivative financial instrument assets**	243,372	27,550	143,590	-	-	-	-	421,521	-
Cash and cash equivalents	293,678	5,539	11,471	21,728	5,314	(5,539)	(11,471)	(21,728)	(5,314)
Effect on financial assets before tax		**79,927**	**168,975**	**25,371**	**15,026**	**(52,377)**	**(25,385)**	**396,150**	**(15,026)**
19% tax		(15,186)	(32,105)	(4,821)	(2,855)	9,952	4,823	(75,268)	2,855
Effect on financial assets after tax		**64,741**	**136,870**	**20,550**	**12,171**	**(42,425)**	**(20,562)**	**320,882**	**(12,171)**
Total currencies					*234,332*				*245,724*
Financial liabilities									
Loans, borrowings and debt securities (including finance lease)	1,535,708	2,949	225,541	-	1,866	(2,949)	(225,541)	-	(1,866)
Trade and other payables	975,064	60,113	53,076	27,783	5,287	(60,113)	(53,076)	(27,783)	(5,287)
Liabilities under derivative financial instruments**	413,344	-	-	421,521	-	4,109	46,521	-	-
Effect on financial liabilities before tax		**63,062**	**278,617**	**449,304**	**7,153**	**(58,953)**	**(232,096)**	**(27,783)**	**(7,153)**
19% tax		(11,982)	(52,937)	(85,368)	(1,359)	11,201	44,098	5,279	1,359
Effect on financial liabilities after tax		**51,080**	**225,680**	**363,936**	**5,794**	**(47,752)**	**(187,998)**	**(22,504)**	**(5,794)**
Total currencies					**646,490**				**(264,048)**
Total increase/decrease		13,661	(88,810)	(343,386)	6,377	5,327	167,436	343,386	(6,377)
Total currencies					**(412,158)**				**509,772**
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

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

** In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on the income statement. 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

	Jun 30 2012			
Exchange rate	*for EUR*	*for USD*	*for EUR*	*for USD*
Exchange rate change by:	15%		-15%	
Effect on equity, before tax	107,245	455,025	(81,187)	(290,596)
19% tax	(20,377)	(86,455)	15,425	55,213
Effect on financial assets/liabilities after tax	86,868	368,570	(65,762)	(235,383)
Total currencies		**455,438**		**(301,145)**

	Dec 31 2011			
Exchange rate	*for EUR*	*for USD*	*for EUR*	*for USD*
Exchange rate change by:	15%		-15%	
Effect on equity, before tax	61,140	368,540	(50,607)	(265,100)
19% tax	(11,617)	(70,023)	9,615	50,369
Effect on financial assets/liabilities after tax	49,523	298,518	(40,992)	(214,731)
Total currencies		**348,040**		**(255,723)**

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 lead to an increase in equity through other comprehensive income. A 15% drop in the PLN/USD and PLN/EUR exchange rates would lead to a decrease in 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 H1 2012, a 25% volatility was assumed for such instruments (30% as at December 31st 2011).

The tables below present an analysis of sensitivity of energy commodity derivatives to price changes for H1 2012 and for 2011.

Sensitivity of derivatives to commodity price fluctuations charged to income statement

	Net book value as at Jun 30 2012	**Price risk**			
	Price change by:	*25%*		*-25%*	
		Gasoil	Fueloil	Gasoil	Fueloil
Financial assets					
Assets under energy commodity derivatives	17,166	35,197	32,943	2,389	4,154
Effect on financial assets before tax		**35,197**	**32,943**	**2,389**	**4,154**
19% tax		(6,687)	(6,259)	(454)	(789)
Effect on financial assets after tax		**28,510**	**26,684**	**1,935**	**3,365**
Total commodities		*55,194*		*5,300*	
Financial liabilities					
Liabilities under energy commodity derivatives	75,929	-	-	-	-
Effect on financial liabilities before tax		**-**	**-**	**-**	**-**
19% tax		-	-	-	-
Effect on financial liabilities after tax					
Total commodities		-		-	
Total increase/decrease		28,510	26,684	1,935	3,365
Total commodities		***55,194***		***5,300***	

	Net book value as at Dec 31 2011	**Price risk**			
	Price change by:	*30%*		*-30%*	
		Gasoil	Fueloil	Gasoil	Fueloil
Financial assets					
Energy commodity derivative assets	41,257	86,089	72,428	-	-
Effect on financial assets before tax		**86,089**	**72,428**	**-**	**-**
19% tax		(16,357)	(13,761)	-	-
Effect on financial assets after tax		**69,732**	**58,667**	**-**	**-**
Total commodities		*128,399*		-	
Financial liabilities					
Energy commodity derivative liabilities	3,492	-	-	47,955	67,500
Effect on financial liabilities before tax		**-**	**-**	**47,955**	**67,500**
19% tax		-	-	(9,112)	(12,825)
Effect on financial liabilities after tax		**-**	**-**	**38,844**	**54,675**
Total commodities		-		*(93,519)*	
Total increase/decrease		**69,732**	**58,667**	***(38,844)***	***(54,675)***
Total commodities		***128,399***		***(93,519)***	

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

	Jun 30 2012			
Price change by:	25%		-25%	
	Gasoil	Fueloil	Gasoil	Fueloil
Effect on equity, before tax	89,792	58,795	(208,769)	(188,190)
19% tax	(17,061)	(11,171)	39,666	35,756
Effect on financial assets/liabilities after tax	**72,731**	**47,624**	**(169,103)**	**(152,434)**

	Dec 31 2011			
Price change by:	30%		-30%	
	Gasoil	Fueloil	Gasoil	Fueloil
Effect on equity, before tax	42,153	54,377	(47,276)	(3,644)
19% tax	(8,009)	(10,332)	8,982	692
Effect on financial assets/liabilities after tax	**34,144**	**44,045**	**(38,294)**	**(2,952)**

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% drop in the prices (30% drop for 2011) would lead to a decrease in 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 P&L.

The Group analysed the sensitivity of financial instruments under loans and notes in issue and variable-rate liabilities under lease agreements to interest rate changes of +/-100 bp for H1 2012 (the volatility assumed for 2011 was also +/-100 bp).

As at June 30th 2012, the sensitivity to interest rate changes of +/-100 bp of liabilities under loans and notes in issue as well as liabilities under lease agreements (based on a variable interest rate) was +/- PLN 89,568 thousand. Sensitivity of loans advanced to interest rate changes of +/-100 basis points was PLN +/- 753 thousand.

Sensitivity of financial instruments to interest rate changes

	Net book value	*Change by:*	
	As at Jun 30 2012	**+100 bp**	**-100 bp**
Loans advanced	75,290	753	(753)
Contracted loans	1,930,232	19,302	(19,302)
Notes issued	6,847,919	68,479	(68,479)
Lease liabilities	178,654	1,787	(1,787)
Total liabilities	**8,956,805**	**89,568**	**(89,568)**

	Net book value	*Change by:*	
	As at Dec 31 2011	**+100 bp**	**-100 bp**
Contracted loans	1,518,354	15,184	(15,184)
Notes issued	3,293,592	32,936	(32,936)
Lease liabilities	187,031	1,870	(1,870)
Total liabilities	**4,998,977**	**49,989**	**(49,989)**

34. DERIVATIVES

Measurement of derivatives

As required by the International Financial Reporting Standards, derivative instruments disclosed by the Parent in its financial statements are measured at fair value.
As at June 30th 2012, the Group held the following types of currency derivatives: cross currency interest rate swaps (CCIRS), purchased call options, purchased and sold currency forwards and collar option strategies (purchase of put options and sale of call options). In 2012 the Group has also hedged against commodity risk using Asian call options and risk reversal strategies (purchase of Asian commodity call options and sale of put options).

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	
					Jun 30 2012	Dec 31 2011
Cross Currency Interest Rate Swap						
Borrowing	5,080,770	NOK	1 - 3 years	0.5197	576 (314,580)	- (410,877)
Euronotes	500,000	EUR	over 3 years	4.1580	61,534	-
					(252,470)	**(410,877)**
Forward transactions						
Borrowing	201,306	NOK	3 - 6 months	0.5913	3,763	-
Payments for gas	23,000	EUR	up to 1 month	4.2685	1,538	-
Payments for gas	97,000	EUR	1 - 3 months	4.2835	3,565	-
Payments for gas	6,000	EUR	3 - 6 months	4.2834	257	-
Payments for gas	100,000	USD	up to 1 month	3.3765	6,141	-
Payments for gas	350,000	USD	1 - 3 months	3.2807	50,740	-
Payments for gas	110,000	USD	3 - 6 months	3.2478	21,137	-
Payments for gas	97,000	EUR	1 - 3 months	4.2835	(1,970)	-
Payments for gas	100,000	USD	up to 1 month	3.3765	(4,387)	-
Payments for gas	350,000	USD	1 - 3 months	3.2807	(2,193)	-
EUR/PLN	164	EUR	Sep 24 2012	4.4344	(21)	-
EUR/PLN	131	EUR	Oct 1 2012	4.4388	(16)	-
EUR/PLN	584	EUR	Jan 7 2013	4.3501	(7)	-
Payments for gas	65,000	EUR	Q1 2012	4.4455	-	(1,013)
Payments for gas	295,000	USD	Q1 2012	3.2356	-	59,245
Payments for gas	20,000	USD	Q2 2012	3.4076	-	985
Financial liabilities of PN Diament	131	USD	2011	2.7848	-	87
Foreign receivables of PGNiG Technologie	2,434	EUR	2011	4.4255	-	11
					78,547	**59,315**
Call options						
Payments for gas	10,000	EUR	up to 1 month	4.3450	160	-
Payments for gas	35,000	EUR	1 - 3 months	4.3540	1,722	-
Payments for gas	120,000	USD	up to 1 month	3.4608	3,382	-
Payments for gas	180,000	USD	1 - 3 months	3.3916	19,710	-
Payments for gas	40,000	USD	3 - 6 months	3.4125	6,456	-
Payments for gas	51,000	EUR	Q1 2012	4.3624	-	8,661
Payments for gas	36,000	EUR	Q2 2012	4.5681	-	3,423
Payments for gas	580,000	USD	Q1 2012	3.3044	-	123,511
Payments for gas	310,000	USD	Q2 2012	3.5328	-	46,054
					31,430	**181,649**
Put options						
Proceeds from sale in foreign currency	240	EUR	Aug 8 2012	strike price: PUT - 4.2850; CALL - 4.4500	11	-
Proceeds from sale in foreign currency	959	EUR	Dec 24 2012	strike price: PUT - 4.2950; CALL - 4.5000	10	-
Payments for gas	20,000	USD	Q1 2012	3.0030	-	(59)
					21	**(59)**

Derivative Instruments (continued)

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2012	Dec 31 2011
Call commodity options						
Payments for gas	208	HFO	up to 1 month	805.53	-	40
Payments for gas	561	HFO	1 - 3 months	831.85	-	146
Payments for gas	484	HFO	3 - 6 months	791.45	22	6,977
Payments for gas	612	HFO	6 - 12 months	751.62	6,274	1,703
Payments for gas	136	GO	up to 1 month	1114.49	-	48
Payments for gas	381	GO	1 - 3 months	1163.81	-	150
Payments for gas	351	GO	3 - 6 months	1107.75	49	3,144
Payments for gas	482	GO	6 - 12 months	1033.59	10,820	960
Payments for gas	635	HFO	Q1 2012	750.64	-	18,084
Payments for gas	724	HFO	Q2 2012	782.24	-	-
Payments for gas	499	GO	Q1 2012	1072.18	-	10,005
Payments for gas	505	GO	Q2 2012	1089.44	-	-
					17,165	**41,257**
Put commodity options						
Payments for gas	208	HFO	up to 1 month	515.03	-	(45)
Payments for gas	539	HFO	1 - 3 months	508.35	-	(235)
Payments for gas	354	HFO	3 - 6 months	562.82	(7,480)	(676)
Payments for gas	490	HFO	6 - 12 months	583.64	(24,403)	(218)
Payments for gas	136	GO	up to 1 month	772.10	-	(52)
Payments for gas	381	GO	1 - 3 months	753.44	-	(280)
Payments for gas	273	GO	3 - 6 months	812.38	(6,275)	(1,559)
Payments for gas	382	GO	6 - 12 months	840.01	(37,770)	(427)
Payments for gas	600	HFO	Q1 2012	553.46	-	-
Payments for gas	724	HFO	Q2 2012	526.47	-	-
Payments for gas	499	GO	Q1 2012	822.20	-	-
Payments for gas	505	GO	Q2 2012	803.80	-	-
					(75,928)	**(3,492)**
Total					**(201,235)**	**(132,207)**
	including:	premiums on options	assets		**72,863**	**127,943**
		positive valuation*	assets		**125,004**	**156,686**
		negative valuation	liabilities		**(399,102)**	**(416,836)**

* Includes reversal of positive valuation, but due to a surplus 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. Effects of valuation of open positions are taken to profit or loss for the period, or directly to equity if there is an effective portion which constitutes an effective hedge of changes in fair value of financial derivatives designated as cash flow hedges. 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 the income statement in the place of origination of the hedged item's costs. The non-effective portion and the fair value of transactions not designated as hedges is recognised under other items of the profit or loss of the period.

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Net gain/loss on valuation of derivative instruments – unrealised	90,506	(1,758)
Net gain/loss on derivative instruments – realised	(67,740)	10,349
Total net gain/loss on derivative instruments recognised in the income statement	**22,766**	**8,591**
of which:		
recognised in raw and other materials used	130,559	38,841
recognised in net other operating expenses	(133,336)	(30,250)
recognised in finance income or expenses	25,543	-
Net gain/loss on valuation of derivative instruments recognised in other comprehensive income –- unrealised	**(122,168)**	**169,803**
Total net gain/loss on derivative instruments recognised in equity	**(99,402)**	**178,394**

35. CONTINGENT LIABILITIES AND RECEIVABLES

35.1. Contingent receivables

	Jun 30 2012	Dec 31 2011
From related entities:		
under guarantees and sureties received	416	425
under promissory notes received	152,359	3,107
Other	-	-
Total contingent receivables from related entities	**152,775**	**3,532**
From other entities:		
under guarantees and sureties received	334,050	428,021
under promissory notes received	122,444	97,112
Other	195,704	156,032
Total contingent receivables from other entities	**652,198**	**681,165**
Total contingent assets	**804,973**	**684,697**

35.2. Contingent liabilities

	Jun 30 2012	Dec 31 2011
To related parties		
under guarantees and sureties issued	3,056	-
under promissory notes issued	-	-
Other	-	-
Total contingent liabilities to related parties	**3,056**	**-**
To other entities		
under guarantees and sureties issued*	10,270,164	10,571,035
under promissory notes issued	443,152	857,696
Other	17,592	-
Total contingent liabilities to other entities	**10,730,908**	**11,428,731**
Total contingent liabilities	**10,733,964**	**11,428,731**

* Contingent liabilities in foreign currencies were translated into the złoty at the exchange rates quoted by the National Bank of Poland respectively for June 29th 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 152,000 thousand). In addition, in H1 2012 contingent receivables under EU grants for investment projects awarded to gas distribution companies increased by PLN 34,982.8 thousand (PLN 156,032 thousand as at the end of 2011).

The decrease in contingent liabilities in H1 2012 is primarily attributable to fluctuations in the exchange rates in which individual items are denominated; the depreciation of the Polish złoty against the euro in H1 2012 resulted in a decrease in contingent liabilities under a guarantee issued by the Parent in respect of payment of liabilities under the Euronotes (down by PLN 233,250 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 30th 2012). Also, individual items of contingent liabilities decreased as a result of expiry of some of promissory note agreements.

35.3. Other contingent liabilities

Real estate tax

In previous years, the Zielona Góra Branch recognised provisions for claims raised by the local authorities with respect to real estate tax in the amount of PLN 821.3 thousand. However, following favourable outcomes of court cases regarding such claims in the past, PGNiG SA reassessed the related risk and, having considered it low, released the provision in 2007. Local authorities in the Podkarpacie region have never filed any such claims so far. Therefore, the mining facilities located in Podkarpacie did not declare or account for real estate tax on underground workings for the period from 2001 to the first half of 2012.

The related liability, if any, including interest, which is not past due and is not recognised in the financial statements, was PLN 168,483 thousand as at June 30th 2012 (at the end of 2011: PLN 151,150 thousand). 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, and not constituting structures, may not be subject to real estate tax either on their own (understood as workings in the physical sense) or together with the devices fitted within them (understood as mining workings in the broader sense).

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

Therefore, mining workings understood in this way may not be subject to real estate tax, either as such or with the installations located inside them. In its ruling, the Polish Constitutional Tribunal concludes however that there are no plausible reasons which would generally be against the possibility to recognise facilities located in mining workings as structures, and that it is within the powers of tax authorities and administrative courts to resolve the matter. The judging panel made a reservation however, that only the following may be considered structures within the meaning of the Local Taxes and Charges Act:

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

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

36. OFF-BALANCE SHEET LIABILITIES

36.1. Operating lease liabilities

	Jun 30 2012	Dec 31 2011
up to 1 year	7,966	5,473
from 1 to 5 years	9,512	8,176
over 5 years	2	-
Total	**17,480**	**13,649**

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

	Jun 30 2012	Dec 31 2011
Commitments under executed agreements	5,991,458	4,118,297
Completion of agreements as at the balance-sheet date	(3,717,243)	(2,725,566)
Commitments under executed agreements subsequent to the balance-sheet date	**2,274,215**	**1,392,731**

37. RELATED ENTITIES

37.1. 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	Amounts payable to related parties
Equity-accounted associates	Jun 30 2012	13,360	(2)	Jun 30 2012	2,793	2,793	-	-	7,241
	Jun 30 2011	11,534	-	Dec 31 2011	1,510	1,510	-	-	7,283
Non-consolidated subsidiaries and associates	Jun 30 2012	6,018	(76,619)	Jun 30 2012	4,441	4,259	105,205	75,089	12,922
	Jun 30 2011	3,487	(53,150)	Dec 31 2011	2,551	2,369	28,822	-	42,801
Related parties – total	**Jun 30 2012**	**19,378**	**(76,621)**	**Jun 30 2012**	**7,234**	**7,052**	**105,205**	**75,089**	**20,163**
	Jun 30 2011	**15,021**	**(53,150)**	**Dec 31 2011**	**4,061**	**3,879**	**28,822**	**-**	**50,084**

The principal transactions with the Parent's shareholders in 2011 were dividend payments discussed in Note 10. In H1 2012, there were no material transactions with shareholders.

In 2012, the Parent or its subsidiaries did not enter 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 Act on Corporate Income Tax. 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 provision of services, sale or delivery of intangible assets. The Group applies the methods and manner of profit calculation and of defining the transaction price as specified in Art. 11 of the Act on Corporate Income Tax, that is the comparable uncontrolled price, resale price, and cost plus methods, as well as additional transactional profit methods (profit split, transactional net margin).

37.2. Transactions with 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 shareholder State Treasury, the Group takes advantage of the exemption provided for in paragraphs 25-27 of IAS 24. As there are no special transactions with such entities, the Company is authorised to present the minimum scope of information required in accordance with the revised IAS 24 (presented below).

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

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

In H1 2011, 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., Rafineria Trzebinia S.A., Zakłady Azotowe ANWIL S.A., Zakłady Azotowe PUŁAWY S.A., Zakłady Azotowe KĘDZIERZYN S.A., Zakłady Chemiczne POLICE S.A., Zakłady Azotowe w Tarnowie - Mościcach S.A., and PGE Elektrociepłownia Lublin-Wrotków Sp. z o.o.

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

	Jan 1 – Jun 30 2012	Jan 1 – Jun 30 2011
Remuneration paid to management staff	**17,280**	**14,470**
Parent	1,450	1,696
Subsidiaries	10,055	10,890
Jointly-controlled entities	5,365	1,498
Associates	410	386
Remuneration paid to supervisory staff	**4,465**	**3,542**
Parent	177	145
Subsidiaries	3,288	2,432
Jointly-controlled entities	634	599
Associates	366	366
Total	**21,745**	**18,012**

37.4. Loans granted to members of the management and supervisory boards of the Group companies

	Jun 30 2012	Dec 31 2011
Management Board members		
Interest rate (%)	1%-3%	0%-4%
Repayment period (years)	3–5 years	2–5 years
Value of outstanding loans	250	121
Supervisory Board members		
Interest rate (%)	0%-4%	0%-4%
Repayment period (years)	2–5 years	2–5 years
Value of outstanding loans	40	28
Total value of outstanding loans	**290**	**149**

37.5. Non-consolidated joint ventures

In H1 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., and 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.).

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

In H1 2012, PGNiG SA continued cooperation with FX Energy Poland Sp. z o.o. in the following areas covered by licences awarded to PGNiG SA:

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

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

- "Warszawa-Południe" (blocks no. 234, 235, 254, 255 and 274N) under the Agreement for Joint Operations dated May 26th 2011 (to the extent relating to block 255, this agreement superseded the agreement of October 29th 1999); licence interests: FX Energy – 51%, PGNiG SA – 49%,
- "Ostrowiec" – under the Agreement for Joint Operations dated February 27th 2009, covering licence blocks no. 163 and 164; licence interests: FX Energy – 51%, PGNiG SA – 49%,
- "Kutno" – under the Agreement for Joint Operations dated September 30th 2010; licence interests: FX Energy – 50%, PGNiG SA – 50%,

In the first half of 2012, production continued from the Roszków field in the "Płotki" area, and from the Zaniemyśl field in the "Płotki" – "PTZ" area.
In the "Poznań" licence area, in H1 2012 gas production continued from the Środa Wielkopolska, Kromolice and Kromolice S fields. Work continued on development of Winna Góra, a new gas field, and development of the Lisewo field commenced. In the Pławce-2 tight gas exploration borehole preparations were under way to carry out a well stimulation operation. In the Żerków-Pleszew zone, processing of the second stage 3D seismic data was completed and work began on its interpretation. Also, drilling of a 4,075 m deep Komorze-3K borehole commenced. Drilling concluded in July 2012; the well will be tested in H2 2012. In the first half of 2012, 235 km of 2D seismic was acquired in the "Warszawa-Południe" area. Analytical work continued for the "Ostrowiec" area. In the "Kutno" area, drilling of the Kutno-2 deep exploration borehole was carried on.

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

In H1 2012, PGNiG SA continued cooperation with EuroGas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o. in the "Bieszczady" license area (the mining usufruct and licenses for exploration and appraisal of crude oil and natural gas deposits in that area are held by PGNiG SA). Interests held in the project: PGNiG SA (operator) – 51%, EuroGas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%.
In the „Bieszczady" area, 2D field work in the Jaśliska-Baligród zone was completed. In the Hoczew-Lutowiska zone, gravimetric field work and interpretation of the acquired data were completed. Partners in the project were also in discussions on the selection of the optimum procedure for testing the Niebieszczany-1 deep borehole.

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

In H1 2012, PGNiG SA continued cooperation with Orlen Upstream Sp. z o.o. in the "Sieraków" area (PGNiG SA has a 51% interest in the project, while PKN Orlen S.A. holds the remaining 49%).
In the "Sieraków" area, in H1 2012, after a revision of the scope of exploration work, the Sieraków-3 borehole was sited. The Sieraków-3 borehole will be drilled in the second half of 2012 instead of the earlier planned Sieraków-2 borehole.

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

PGNiG SA cooperates with Energia Karpaty Zachodnie Sp. z o.o. Sp. k. in the following areas: "Budzów", "Bielsko-Biała", "Bestwina" and "Cieszyn". Energia Karpaty Zachodnie Sp. z o.o. Sp. k. acts as the operator and holds a 60% interest in the project, and PGNiG SA holds a 40% interest. PGNiG SA cooperates with Energia Karpaty Wschodnie Sp. z o.o. Sp. k. in the "Mszana Dolna" and "Jordanów" areas. Energia Karpaty Wschodnie Sp. z o.o. Sp. k. acts as the operator and holds an 80% interest in the project, and PGNiG SA holds a 20% interest.

In H1 2012, a prospectivity analysis was carried out in the "Karpaty Zachodnie" area in preparation for the planned future drilling work, and 2D field seismic work in the Bestwina zone commenced. In the "Karpaty Wschodnie" area, the 2D seismic acquired from the Jordanów zone was processed, and its interpretation began. None of the joint ventures described above were consolidated in 2012 or 2011 because all of their assets, liabilities, income and expenses were presented in the statement of financial position and the income statement of the Parent pro rata to its interest in a given joint venture.

37.6. Foreign operations

<u>PGNiG SA's interests in foreign operations</u>

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

The company's share capital amounts to UAH 11,146.8 thousand (equivalent to PLN 4,705.1 thousand, translated at the exchange rate of the National Bank of Poland quoted for June 29th 2012) and is divided into 120,000 shares with a par value of UAH 92.89 per share. PGNiG SA holds a UAH 4,055.2 thousand interest in the company (equivalent to PLN 1,711.7 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 29th 2012). As at June 30th 2012, the value of the shares as disclosed in the accounting books of the Parent amounted to PLN 2,499.4 thousand. An impairment loss was recognised for the full value of the shares.

The company's shareholder structure is as follows:

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

The company commenced production of natural gas in November 2003 and continued its gas production 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 the production of hydrocarbons) and PoltavaNaftoGas-Geologia. On April 24th 2009, NAK Nadra Ukrainy's license to conduct work at the Sakhalin field expired. Since that date, Dewon Z.S.A has not conducted any production from the field. Despite numerous interventions of the Polish Embassy in Kiev and the representatives of the Polish government, until the date of these financial statements, no license has been granted under which Dewon Z.S.A. would be able to recommence work on the field. Discontinuation of the production from the field resulted in significant deterioration of the company's economic position.

Oman

The share capital of Sahara Petroleum Technology Llc amounts to OMR 150.0 thousand (Omani rial), equivalent to PLN **1,324.8** thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2012 (the last exchange rate quoted in H1 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 649.2 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2012, which was the last exchange rate quoted in H1 2012). As at June 30th 2012, the value of the shares disclosed in the accounting books of the Parent was PLN 879.0 thousand. An impairment loss was recognised for the full value of the shares.

The company’s shareholder structure is as follows:

- PGNiG SA 73,500 shares 49%
- Petroleum and Gas Technology llc 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 establish with a view to performing well servicing services such as application of enhanced recovery techniques or workovers, wireline services, wellhead maintenance services, as well as performing light and middle drilling work with the use of PGNiG SA’s technological potential.
The company has never commenced the operations for the purpose of which it was established. 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 852.3 thousand, translated at the mid-exchange rate of the National Bank of Poland quoted for June 29th 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 adopted resolutions concerning approval of the business model for the construction of the Börnicke – Hintersee– Police gas pipeline, approval of the business plan for 2009 and contribution of EUR 3,000 thousand 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 750 thousand to the capital reserves in June 2009. The next tranche of EUR 2,250 thousand was paid by each shareholder in July 2010, after the shareholders executed an Annex to the Shareholders Cooperation Agreement on June 30th 2010, defining in detail the terms of cooperation on the construction of the Germany – Poland Interconnector Pipeline, particularly with respect to rights and obligations of the ITG shareholders.

On December 13th 2011, the General Meeting of InterTransGas GmbH adopted a resolution to withdraw EUR 3,800 thousand from capital reserves, and pay of 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 (wholly-owned subsidiary of VNG AG, whose business consists in the provision of transmission services) has been the German shareholder. ITG shares were transferred by VNG to ONTRAS in the process of unbundling the network operations from production and trading activities.

As at June 30th 2012, PGNiG SA's interest in InterTransGas GmbH amounted to EUR 1,200 thousand (equivalent to PLN 5,113.6 thousand, translated at the mid-exchange rate quoted by the National

Bank of Poland for June 29th 2012). As at June 30th 2012, the value of the shares as disclosed in the Parent's accounting books amounted to PLN 5,242.8 thousand.

On December 21st 2010, **POGC Trading GmbH** of Munich was incorporated, with a share capital of EUR 10,000 thousand (equivalent to PLN 42,613 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 29th 2012). All the shares were acquired by PGNiG SA in return for a cash contribution made in December 2010. As at June 30th 2012, the value of the shares as disclosed in the Parent's accounting books amounted to PLN 39,710.0 thousand.

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 continues the trading activities on the European natural gas market.

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

Norway

On May 24th 2007, the 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 holds the rights to 12% of the production (other interest holders are British Petroleum – 24% (operator), Statoil – 36% and E.ON Ruhrgas – 28%.) from the Skarv/Snadd/Idun field and has the obligation to participate in the investment expenditure in the same proportion. British Petroleum is the field operator. The field will be developed using a geostationary floating production, storage and offloading vessel (FPSO).

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

In March 2011, the floating production, storage and offloading (FPSO) unit which is to be used to produce hydrocarbons from the Skarv field, was transported to Norway. Installation of all the submarine structures (foundation slabs, pipelines, etc.) on the Skarv and Idun fields was also completed. As additional leak tests of the PFSO had to be carried at the Norwegian shipyard, and due to a delay in the installation of risers caused by adverse weather conditions, the launch of production was rescheduled for Q2 2012.

Following the conclusion of a licensing round, in H1 2012 PGNiG Norway AS acquired the following interests in the Norwegian Continental Shelf:

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

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

In total, as at the end of H1 2012, the company held interests in eleven exploration and production licences. The Skarv field, discovered in 1998, was its main asset. In 2007, the Skarv licence was extended to include the Idun field.

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

- Borrowings from the Parent. Since 2007, PGNiG SA has been granting loans to the company to finance its operations: in H1 2012, the amount of the loans was NOK 730,000 thousand (equivalent of PLN 412,815 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 29th 2012). As at June 30th 2012, PGNiG Norway AS's total debt under the loans advanced by the Parent was (including accrued interest) NOK 5,408,887 thousand (equivalent of PLN 3,058,725.4 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 29th 2012).
- Loan contracted under credit agreement with seven international banks for a total amount of USD 400,000 thousand. These funds were spent mainly on preparation of the Skarv field for the production launch and on repayment of the loan granted by the Parent in 2010.

The structure of financing of the company's activities complies with the rules concerning the debt to equity relationship (thin capitalisation) which are effective in Norway.

On September 8th 2011, the General Shareholders Meeting of PGNiG Norway AS adopted a resolution concerning increase of the company's share capital to NOK 1,092 million, and acquisition of all the new shares by PGNiG S.A.

As at the end of H1 2012, the Parent's equity interest in the subsidiary was NOK 1,092,000 thousand (equivalent of PLN 617,526 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 29th 2012). As at June 30th 2012, the value of the shares disclosed in the Parent's books was PLN 537,541.8 thousand.

The Netherlands - Libya

In January 2008, the PGNiG Management Board adopted a resolution granting its consent to use PGNiG Finance B.V. (established on September 14th 2001 to service the issue of Euronotes issued by PGNiG SA) for the purpose of conducting exploration and production activity in Libya. On the same date, the PGNiG Management Board adopted a resolution concerning the amendment to the Articles of Association and change of the Management Board of PGNiG Finance B.V., and setting up of the company's branch in Libya.
The amendments to the Articles of Association were registered in the Netherlands on February 4th 2008. In the new Articles of Association, the company's name was changed to **Polish Oil and Gas Company – Libya B.V.** (POGC – Libya B.V.). The company's sole shareholder is PGNiG SA. Its share capital is USD 26.7 thousand (equivalent of PLN 90.6 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 29th 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 108,000 thousand, 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 acquired 3,000 km of 2D profiles and 1,087 square kilometres of 3D profiles, and carried out a number of geological analyses. In H1 2011 work was conducted in cooperation with PGNiG SA on evaluation of the 2D seismic data.

Because of the events which had been taking place in Libya since mid-February 2011, the Management Board of POGC Libya BV made a decision to evacuate all international personnel from the country and 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. Once the force majeure ceases to apply, the parties have the obligation to enter into negotiations to set a new deadline for performance of the contractual obligations. In February 2012 the Management Board of POCG - Libya B.V. contacted the management of NOC to commence talks concerning resumption of the operations. At present, efforts are made to lift the force majeure clause and commence the first exploratory drilling.

In February 2011, POGC-Libya 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.

As at June 30th 2012, the Parent's equity interest in the subsidiary was EUR 65,520 thousand and USD 4,830 thousand (equivalent of PLN 295,567.7 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 29th 2012). As at June 30th 2012, the value of the shares disclosed in the Parent's books amounted to PLN 307,713.0 thousand.

Sweden

On April 29th 2011, PGNiG SA acquired shares in Goldcup 5839 AB of Stockholm, a company with a share capital of SEK 500 thousand (equivalent to PLN 242.8 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 29th 2012). On June 20th 2011, a change of the company's name to **PGNiG Finance AB**was registered.
The company's mission is to raise financing, including through the issue of Euronotes on the international markets, as well as to borrow funds and advance loans to private investors, other than as part of any activities which in Sweden require a licence. On September 30th 2011, a decision was made to increase the company's equity by making an additional contribution of EUR 60 thousand, i.e. PLN 255.7 thousand (translated at the exchange rate quoted by the National Bank of Poland for June 29th 2012), without issuing any new shares.

In February 2012, the company (in cooperation with PGNiG SA) issued the first tranche of Euronotes for EUR 500,000 thousand, i.e. PLN 2,130,650 thousand (translated at the exchange rate quoted by the National Bank of Poland for June 29th 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 June 29th 2012, the value of the shares as disclosed in the Parent's accounting books was PLN 481.0 thousand.

Parent's direct operations abroad – interests in exploration licences

The Parent conducts exploration work in Pakistan, in the Kirthar licence area, jointly with Pakistan Petroleum Ltd. (interests held by PGNiG SA (operator) and PPL are 70% and 30%, respectively). In H1 2012, workover of the Hallel-1 borehole was completed, as was the drilling of the horizontal Hallel-X1 borehole, where gas flow was obtained. 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 Pakistani licensing authority (Directorate General of Petroleum Concessions) classified the Rehman field as a deposit of unconventional tight gas. As a result, the interest holders can raise gas prices by 50% relative to the price of gas produced form conventional reserves.

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 carried out exploration work in the Bahariya licence (Block 3). The Company holds a 100% interest in the licence. In H1 2012, the seismic 2D field work was completed and the processing of the seismic data commenced. By the end of H1 2012, 2,300 km of 2D seismic data was acquired. The processing and interpretation of the 2D data are scheduled for H2 2012.

Foreign branches of the Group:

The companies of the PGNiG Group have a number of foreign branches, which conduct operating activities or support the Group’s development outside of Poland.

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

Geofizyka Kraków Sp. z o.o.
Operating Branch in Pakistan – Islamabad,
Branch in Slovakia – Bratislava,
Branch in the Czech Republic – Ostrava,
Branch in Libya – Tripoli.

Geofizyka Toruń Sp. z o.o.
Branch in Thailand – Bangkok,
Branch in Egypt – Cairo,
Branch in Syria – Damascus,

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

Poszukiwania Nafty i Gazu Kraków Sp. z o.o.
Branch in Pakistan – Karachi,
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 Libya – Tripoli.

38. EMPLOYMENT (NUMBER OF STAFF)

Employment as at end of the period, by segments	Jun 30 2012	Dec 31 2011
Exploration and Production	10,641	12,054
Trade and Storage	4,905	4,967
including companies accounted for using the equity method	288	288
Distribution	13,642	13,865
Generation	1,068	-
Other Activities	2,299	2,185
Total	**32,555**	**33,071**

39. RESTRUCTURING PROCESS WITHIN THE GROUP

In H1 2012, the Programme for Employment Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3) (the “Programme”), adopted by the Extraordinary General Meeting of PGNiG SA on December 11th 2008, was continued. 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.

In the case of PGNiG SA, any decisions to implement the Programme at the Head Office and branches of PGNiG SA (which includes a consent to commence redundancy payments on such terms as specified in the Programme) are made by the PGNiG Management Board by way of a resolution.

The costs of redundancy payments to which laid-off employees are entitled under the Programme are covered from a capital reserve designated as Central Restructuring Fund (“CRF”), which is at the disposal of the General Meeting of PGNiG SA, or with other funds accumulated for that purpose by entities participating in the Programme. By virtue of Resolution of the Extraordinary General Meeting of PGNiG SA of December 7th 2011, the term of the CRF was extended for the validity period of the Programme until December 31st 2015.

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 employment streamlining expenses. The functioning of such funds is governed by the rules applicable to the CRF.

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

In the reporting period, the following three companies covered by the Programme filed requests to implement the Programme:

- PGNiG SA – for one-off redundancy payments, totalling PLN 2,755 thousand, for 50 former employees of the Head Office, who were made redundant as part of the employment streamlining programme. Currently, the corporate procedure concerning payment of the benefits is under way;
- ZRG Krosno Sp. z o.o. – for one-off redundancy payments, totalling PLN 1,580 thousand, for 31 former employees of the company, who were made redundant as part of the restructuring programmes. Currently, the corporate procedure concerning payment of the benefits is under way;
- PGNiG Technologie SA – for one-off redundancy payments, totalling PLN 2,651 thousand, for 58 former employees of the company, who were made redundant as part of the restructuring programmes. As for most of the employees covered by the restructuring programme the employment contracts will be terminated on December 31st 2012, the corporate procedure concerning payment of the benefits will commence in Q4 2012.

40. CAPITAL MANAGEMENT

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

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

	Jun 30 2012	Dec 31 2011
Loans, borrowings, finance lease liabilities and liabilities under debt securities in issue	8,956,805	4,998,977
Trade and other payables	3,070,137	3,432,510
Cash and cash equivalents (-)	(1,369,469)	(1,504,792)
Net debt	**10,657,473**	**6,926,695**
Equity (attributable to owners of the parent)	**24,391,355**	**24,489,851**
Equity and net debt	**35,048,828**	**31,416,546**
Leverage	30.4%	22.0%

41. ACQUSITION OF SHARES IN PGNIG TERMIKA S.A. (FORMERLY VATTENFALL HEAT POLAND S.A.)

Business combination

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 2,957,456 thousand. Under the final share purchase agreement, that price was increased by 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 3,016,700 thousand.

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 transferred

	Jan 11 2012
Cash	3,016,700
Total consideration transferred	**3,016,700**
Purchase of shares from minority interests in H1 2012	1,595
Total consideration transferred, as shown in the statement of cash flows	**3,018,295**

b. Identifiable acquired assets and assumed liabilities

	Jan 11 2012
Property, plant and equipment	2,762,219
Investment property	6,330
Intangible assets	840,588
Inventories	357,784
Receivables	280,350
Derivative financial instrument assets	429
Cash and cash equivalents	188,495
Prepayments and accrued income	14,114
Deferred tax assets	29,630
Trade and other payables	(995,392)
Provisions	(125,440)
Accruals and deferred income	(71)
Deferred tax liabilities	(380,155)
Total net identifiable assets	**2,978,881**

The fair values of the above items of acquired assets and assumed liabilities may change, because the process of accounting for the acquisition cost has not been completed before the end of the reporting period.

In accordance with paragraph 45 of IFRS 3, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer should report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer should retrospectively adjust the provisional

amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer should also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period may not exceed one year from the acquisition date.

Given the possible occurrence of the circumstances described above, the process of accounting for the acquisition of PGNiG Termika S.A. has not been completed, so the values presented above may be subject to change.

c. Goodwill

PGNiG SPV 1 Sp. z o. o. has provisionally estimated the goodwill as at the acquisition date as:

- the fair value of the consideration transferred, increased by:
- the fair value of non-controlling interests in the acquiree, less:
- the fair value of identifiable acquired assets and assumed liabilities.

The goodwill recognised in connection with the acquisition has been determined in the following manner:

	Jan 11 2012
Total acquisition cost	3,016,700
Fair value of identifiable net assets	(2,978,881)
Non-controlling interests at fair value	4,717
Goodwill	**42,536**

The goodwill as at the transaction date, provisionally estimated at PLN 42,536 thousand, 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 H1 2012, PGNiG SPV 1 Sp. z o.o. incurred PLN 10,848 thousand in costs connected with the acquisition. These included mainly costs of advisory services, tax on actions under civil law (transfer tax), and brokerage fees. These costs were reflected in the PGNiG Group's profit or loss for the financial year ended June 30th 2012.

e. Non-controlling interests

Non-controlling interests in PGNiG Termika S.A., of 0.16%, have been measured at fair value as at the acquisition date.

The fair value of the shares has been determined based on the provisions of the preliminary share purchase agreement, pursuant to which 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 PLN 4,717 thousand.

f. Acquired receivables

Main classes of receivables	**Gross value**	**Impairment loss**	**Fair value**
Trade receivables	276,082	(1,556)	274,526
Other receivables	5,824	-	5,824

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

g. Intangible assets

PGNiG SPV 1 Sp. z o.o. recognises identifiable intangible assets acquired as part of the acquisition separately from goodwill.

As a result of the acquisition, intangible assets of PLN 241,826 thousand 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 will be amortised in the subsequent reporting periods, 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 H1 2012, PLN 111,668 thousand was charged as amortisation expense upon the use of the identified assets.

Category	Value
Carbon emission allowances allocated for 2012	193,827
Coal purchase agreements	18,851
Electricity sales agreements	2,600
Certificate of origin sale agreements	26,548
Total	**241,826**

h. Property, plant and equipment

As part of the acquisition transaction, 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 entity used despite not holding the ownership title to it. The fair value of the land and perpetual usufruct rights is PLN 54,721 thousand. 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 10,117 thousand.

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

Given the fact that 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 June 30th 2012.

42. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

1. On July 4th 2012, the Parent entered into a framework agreement concerning shale hydrocarbon exploration and production (the "Agreement"). The Agreement was executed between PGNiG SA, KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. (hereinafter jointly referred to as the "Parties").

   Pursuant to the Agreement, the Parties will cooperate in the area of exploration for, appraisal and production of hydrocarbons from geological formations covered by PGNiG SA's licence for oil and gas exploration and appraisal in the Wejherowo area (the "Wejherowo Licence"). Close cooperation between the partners in the Wejherowo Licence area will cover about 160 sq km (the "Cooperation Area"). In addition, the Agreement gives preference to the Parties as regards cooperation in the rest of the Wejherowo Licence area (except where PGNiG SA conducts hydrocarbon exploration, appraisal and production on its own, and excluding the vicinity of Opalino and Lubocino, where PGNiG SA already conducts exploration operations).

   The Agreement provides that cooperation would ultimately take the form of a limited partnership which would carry out hydrocarbon production following a successful exploration phase. It is the Parties' intention that once obtained by PGNiG SA, the hydrocarbon production licence would be

transferred onto the partnership. Each Party will be guaranteed involvement in the process of supervising the implementation of the KCT Project, in particular through participation in the operational committee appointed for that purpose.

Estimated expenditure on gas exploration, appraisal and production at the first three Cooperation Area sites (the Kochanowo, Częstkowo and Tępcz pads) will amount to PLN 1,720,000 thousand. Detailed terms of the cooperation, including the detailed project budget and schedule, the share of expenditure to be incurred by individual Parties under the agreed budget, distribution of profits generated by the project and provisions concerning liability (including contractual penalties) incurred in the case of non-performance of certain contractual obligations (especially by PGNiG SA), are to be determined by the Parties within four months of the Agreement date. If the detailed arrangements are not made, the Agreement may be terminated by any of the Parties. 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 30th 2012, the Agreement will expire.

2. On July 19th 2012, PGNiG Norway AS, a wholly-owned subsidiary of PGNiG SA, and its licence partners made a new gas discovery in the Snadd Outer prospect, within the PL212E licence area. The discovery lies close to the Snadd North gas field and borders the Skarv oil and gas field, which is being prepared for production launch.

   Recoverable reserves of the Snadd Outer field have been preliminarily estimated by the operator at between 1.2 and 2.3 billion cubic metres of natural gas (between 7.5 and 15 million barrels of oil equivalent). PGNiG Norway AS's interest in the newly discovered field is 15%.

   The drilling work was preceded by detailed geological and geophysical surveys performed by PGNiG Norway AS and its licence partners: BP Norge AS, E.ON E&P Norge AS and Statoil ASA. The well confirmed the presence of sandstones with good reservoir properties, saturated with high-methane natural gas.

   Within the next several months, the licence partners will complete a comprehensive evaluation of the Snadd Outer reserves, which will enable them to estimate the probability of their future development. The close proximity of Snadd Outer to the Skarv field may facilitate its development together with the Snadd North and Snadd South reserves.

   Production tests on the Snadd North field are due to commence after the launch of production from the Skarv field, which is scheduled for Q4 2012. The test results will provide data enabling the development of and production from the Snadd fields.

3. On July 30th 2012, the notes issued by PGNiG SA in June were floated on the Catalyst market, on the multilateral trading facility operated by BondSpot.

   The notes were issued under the five-year PLN 4,500,000 thousand Notes Issuance Programme of May 22nd 2012. The issue arrangers include ING Bank Śląski S.A. and Bank Polska Kasa Opieki S.A.

   The notes have been subscribed for by pension funds (53.44%), insurance companies (32%), banks (10%) and investment funds (4.56%).