PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30TH 2011

TABLE OF CONTENTS

Members of the Management Board

President of the Management Board	Michał Szubski	
Vice-President of the Management Board	Radosław Dudziński	
Vice-President of the Management Board	Sławomir Hinc	
Vice-President of the Management Board	Marek Karabuła	
Vice-President of the Management Board	Mirosław Szkałuba	

Warsaw, August 26th 2011

FINANCIAL HIGHLIGHTS
for the year ended June 30th 2011

	PLN		EUR	
	Jan 1–Jun 30 2011	**Jan 1–Jun 30 2010**	**Jan 1– Jun 30 2011**	**Jan 1– Jun 30 2010**
I. Sales revenue	11,523,362	10,761,916	2,904,585	2,687,657
II. Operating profit/(loss)	1,072,795	1,201,671	270,409	300,103
III. Pre-tax profit/(loss)	1,239,611	1,216,630	312,457	303,838
IV. Net profit/loss attributable to owners of the parent	1,003,474	991,870	252,936	247,707
V. Net profit/(loss)	1,004,863	994,225	253,286	248,296
VI. Comprehensive income attributable to owners of the parent	1,084,192	1,078,153	273,282	269,256
VII. Total comprehensive income	1,085,581	1,080,508	273,632	269,844
VIII. Net cash provided by/(used in) operating activities	2,256,511	2,638,455	568,778	658,922
IX. Net cash provided by/(used in) investing activities	(2,107,855)	(1,439,794)	(531,307)	(359,571)
X. Net cash provided by/(used in) financing activities	(487,518)	(302,302)	(122,884)	(75,496)
XI. Total net cash	(338,862)	896,359	(85,414)	223,855
XII. Net earnings/(loss) and diluted net earnings/(loss) per share attributable to owners of the parent (PLN/EUR)	0.17	0.17	0.04	0.04
	As at Jun 30 2011	**As at Dec 31 2010**	**As at Jun 30 2011**	**As at Dec 31 2010**
XIII. Total assets	34,337,952	34,316,239	8,613,343	8,665,060
XIV. Liabilities and provisions for liabilities	10,445,901	10,796,769	2,620,253	2,726,250
XV. Non-current liabilities	5,299,454	4,973,340	1,329,317	1,255,799
XVI. Current liabilities	5,146,447	5,823,429	1,290,936	1,470,451
XVII. Equity	23,892,051	23,519,470	5,993,090	5,938,810
XVIII. Share capital	5,900,000	5,900,000	1,479,958	1,489,786
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)	4.05	3.99	1.02	1.01
XXI. Dividend per share declared or paid (PLN/EUR)	0.12	0.08	0.03	0.02

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

Items of the statement of financial position were translated using the EUR 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 2011	Dec 31 2010	Jun 30 2010
Average exchange rate for the period	3.9673	4.0044	4.0042
Exchange rate at end of the period	3.9866	3.9603	4.1458

(PLN '000)

CONSOLIDATED INCOME STATEMENT
for the period ended June 30th 2011

	Note	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
		unaudited	unaudited
Sales revenue	**3**	**11,523,362**	**10,761,916**
Raw and other materials used	4	(6,890,056)	(5,940,676)
Employee benefits	4	(1,380,222)	(1,282,851)
Depreciation and amortisation		(776,896)	(745,201)
Contracted services	4	(1,567,526)	(1,518,088)
Cost of products and services for own needs		481,410	361,441
Net other operating expenses	4	(317,277)	(434,870)
Total operating expenses		**(10,450,567)**	**(9,560,245)**
Operating profit/(loss)		**1,072,795**	**1,201,671**
Finance income	5	192,689	34,841
Finance expenses	5	(25,478)	(19,510)
Share in net profit/(loss) of equity-accounted undertakings	6	(395)	(372)
Pre-tax profit/(loss)		**1,239,611**	**1,216,630**
Income tax	7	(234,748)	(222,405)
Net profit/(loss)		**1,004,863**	**994,225**
Attributable to:			
Owners of the parent		1,003,474	991,870
Non-controlling interests		1,389	2,355
Earnings/loss and diluted earnings/loss per share attributable to holders of ordinary shares of the parent	9	0.17	0.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period ended June 30th 2011

	Note	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
		unaudited	unaudited
Net profit/(loss)		**1,004,863**	**994,225**
Currency translation differences on foreign operations		(14,150)	17,977
Valuation of hedging instruments		169,803	87,888
Valuation of financial instruments		(52,689)	(3,560)
Deferred tax related to other comprehensive income		(22,246)	(16,022)
Other comprehensive income, net		**80,718**	**86,283**
Total comprehensive income		**1,085,581**	**1,080,508**
Attributable to:			
Owners of the parent		1,084,192	1,078,153
Non-controlling interests		1,389	2,355

(PLN ‘000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at June 30th 2011

	Note	Jun 30 2011	Dec 31 2010
		unaudited	audited
ASSETS			
Non-current assets			
Property, plant and equipment	11	26,686,607	25,662,220
Investment property	12	9,507	9,915
Intangible assets	13	240,895	246,710
Investments in equity-accounted associated undertakings	6	555,433	555,828
Financial assets available for sale	14	51,179	170,442
Other financial assets	15	9,663	39,868
Deferred tax assets	16	729,597	676,817
Other non-current assets	17	74,856	71,075
Total non-current assets		**28,357,737**	**27,432,875**
Current assets			
Inventories	18	1,513,396	1,049,567
Trade and other receivables	19	2,590,029	4,061,187
Current income tax receivable	20	227,972	229,666
Prepayments and accrued income	21	263,181	78,801
Financial assets available for sale	22	30,474	8,833
Derivative financial instrument assets	34	316,271	77,873
Cash and cash equivalents	23	1,034,496	1,373,292
Non-current assets held for sale	24	4,396	4,145
Total current assets		**5,980,215**	**6,883,364**
Total assets		**34,337,952**	**34,316,239**
EQUITY AND LIABILITIES			
Equity			
Share capital	25	5,900,000	5,900,000
Currency translation differences on foreign operations		(71,470)	(57,320)
Share premium account		1,740,093	1,740,093
Other capital reserves		14,178,039	12,268,163
Retained earnings/(losses)		2,135,613	3,655,110
Equity attributable to equity holders of the parent		**23,882,275**	**23,506,046**
Equity attributable to non-controlling interests		9,776	13,424
Total equity		**23,892,051**	**23,519,470**
Non-current liabilities			
Loans, borrowings and debt securities	26	1,196,058	969,864
Provisions	27	1,571,986	1,501,164
Deferred income	28	1,097,743	1,089,192
Deferred tax liabilities	29	1,412,053	1,392,010
Other non-current liabilities	30	21,614	21,110
Total non-current liabilities		**5,299,454**	**4,973,340**
Current liabilities			
Trade and other payables	31	3,187,935	3,291,472
Loans, borrowings and debt securities	26	632,082	1,229,237
Derivative financial instrument liabilities	34	162,237	104,443
Current tax liabilities	20	126,565	225,972
Provisions	27	309,106	289,647
Deferred income	28	728,522	682,658
Total current liabilities		**5,146,447**	**5,823,429**
Total liabilities		**10,445,901**	**10,796,769**
Total equity and liabilities		**34,337,952**	**34,316,239**

(PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS
for the period ended June 30th 2011

	Note	Jan 1–Jun 30 2011 unaudited	Jan 1–Jun 30 2010 unaudited
Cash flows from operating activities			
Net profit/(loss)		1,004,863	994,225
Adjustments:			
Share in profit/(loss) of equity-accounted undertakings		395	,372
Depreciation and amortisation		776,896	745,201
Net foreign exchange gains/(losses)		(25,494)	(115,927)
Net interest and dividends		(5,326)	(6,251)
Gain/(loss) from investing activities		34,685	59,614
Current income tax		234,748	222,405
Income tax paid		(382,594)	3,118
Other items, net	32	136,574	93,222
Net cash provided by/(used in) operating activities before changes in working capital		**1,774,747**	**1,995,979**
Change in working capital:			
Change in receivables, net	32	1,513,276	1,094,587
Change in inventories	32	(463,829)	(124,784)
Change in provisions	32	42,492	9,026
Change in current liabilities	32	(429,723)	(115,033)
Change in prepayments	32	(192,047)	(203,316)
Change in deferred income	32	11,595	(18,004)
Net cash provided by/(used in) operating activities		**2,256,511**	**2,638,455**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		12,608	10,760
Sale of shares in non-consolidated undertakings		153,339	,254
Sale of short-term securities		-	10,726
Acquisition of property, plant and equipment and intangible assets		(2,276,056)	(1,475,555)
Acquisition of shares in non-consolidated undertakings		(18,872)	(446)
Acquisition of short-term securities		(22,720)	(5,250)
Interest received		1,121	9,514
Dividends received		1,298	87
Proceeds from finance lease		1,228	10,030
Other items, net		40,199	86
Net cash provided by/(used in) investing activities		**(2,107,855)**	**(1,439,794)**
Cash flows from financing activities			
Net proceeds from issue of shares, other equity instruments and additional contributions to equity		-	-
Increase in loans and borrowings		288,759	1,677,396,
Issue of debt securities		497,566	-
Repayment of loans and borrowings		(131,435)	(1,930,396)
Redemption of debt securities		(1,090,517)	-
Decrease in finance lease liabilities		(16,769)	(19,397)
Inflows from forward and futures contracts		-	-
Outflows on forward and futures contracts		-	-
Dividends paid		-	-
Interest paid		(35,264)	(29,561)
Other items, net		142	(344)
Net cash provided by/(used in) financing activities		**(487,518)**	**(302,302)**
Net change in cash		**(338,862)**	**896,359**
Net foreign exchange gains/(losses)		66	1,153
Cash and cash equivalents at beginning of period		**1,372,918**	**1,196,316**
Cash and cash equivalents at end of period		**1,034,056**	**2,092,675**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended June 30th 2011

	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 (losses)	Total		
	(PLN '000)							
As at Jan 1 2011 (audited)	**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-controlling interests	-	-	-	-	-	**-**	(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 H1 2011	-	(14,150)	-	94,868	-	**80,718**	-	**80,718**
As at Jun 30 2011 (unaudited)	**5,900,000**	**(71,470)**	**1,740,093**	**14,178,039**	**2,135,613**	**23,882,275**	**9,776**	**23,892,051**
As at Jan 1 2010 (audited)	**5,900,000**	**(51,162)**	**1,740,093**	**11,455,447**	**2,382,452**	**21,426,830**	**10,477**	**21,437,307**
Transfers	-	-	-	712,524	(712,531)	**(7)**	7	**-**
Payment of dividend to owners	-	-	-	-	(472,000)	**(472,000)**	(503)	**(472,503)**
Net profit/loss for H1 2010	-	-	-	-	991,870	**991,870**	2,355	**994,225**
Other comprehensive income, net, for H1 2010	-	17,977	-	68,306	-	**86,283**	-	**86,283**
As at Jun 30 2010 (unaudited)	**5,900,000**	**(33,185)**	**1,740,093**	**12,236,277**	**2,189,791**	**22,032,976**	**12,336**	**22,045,312**

CONSOLIDATED FINANCIAL STATEMENTS – ADDITIONAL INFORMATION as at June 30th 2011

1. GENERAL INFORMATION

1.1. Company name, core business and key registry data

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

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

PGNiG S.A. shares are listed on the Warsaw Stock Exchange.

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

The PGNiG Group remains the only vertically integrated company in the Polish gas sector, holding the leading position in all segments of the domestic gas sector. Polskie Górnictwo Naftowe i Gazownictwo 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 gaseous fuels. The PGNiG Group is both the main importer of gaseous 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 licence and its revenue depends on the tariff rates for gaseous fuels approved by the Polish Energy Regulatory Office. Exploration and production activities are conducted on a licence basis, subject to the provisions of the Polish Geological and Mining Law.

1.2. Duration of the PGNiG Group

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

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

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

1.3. Period covered by these consolidated financial statements

These interim consolidated financial statements present data as at June 30th 2011 and for the period from January 1st 2011 to June 30th 2011, as well as the comparative data for the corresponding periods of 2010.

(PLN '000)

1.4. Statement whether these financial statements contain consolidated data

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

1.5. Organisation of the PGNiG Group and its consolidated undertakings

As at June 30th 2011, the PGNiG Group comprised PGNiG S.A., as the Parent Undertaking, and 40 production and service companies, including:

- 27 subsidiaries of PGNiG S.A.
- 13 indirect subsidiaries of PGNiG S.A.

The following table presents the list of the PGNiG Group members as at June 30th 2011.

Companies of the PGNiG Group

	Company	Share capital (PLN)	Value of shares held by PGNiG S.A. (PLN)	% of share capital held by PGNiG S.A.	% of total vote held by PGNiG S.A.
	PGNiG S.A.'s subsidiaries				
1	Poszukiwania Nafty i Gazu Jasło Sp. z o.o.	100,000,000	100,000,000	100%	100%
2	Poszukiwania Nafty i Gazu Kraków Sp. z o.o.	105,231,000	105,231,000	100%	100%
3	Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.	60,000,000	60,000,000	100%	100%
4	GEOFIZYKA Kraków Sp. z o.o.	64,400,000	64,400,000	100%	100%
5	GEOFIZYKA Toruń Sp. z o.o.	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	951,327,000 (NOK) [1]	951,327,000 (NOK) [1]	100%	100%
9	Polish Oil and Gas Company - Libya B.V.	20,000 (EUR)[1]	20,000 (EUR)[1]	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.	614,696,000	614,696,000	100%	100%
16	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000	1,033,186,000	100%	100%
17	Geovita Sp. z o.o.	86,139,000	86,139,000	100%	100%
18	PGNiG Technologie Sp. z o.o.	120,398,000	120,398,000	100%	100%
19	PGNiG Energia SA	20,000,000	20,000,000	100%	100%
20	BUD-GAZ P.P.U.H. Sp. z o.o.	51,760	51,760	100%	100%
21	POGC Trading GmbH	10, 000,000 (EUR) [1]	10, 000,000 (EUR) [1]	100%	100%
22	PGNiG Finance AB (publ)	500,000 (SEK)[1]	500,000 (SEK)[1]	100%	100%
23	PGNiG SPV 1 Sp. z o.o.	20,000	20,000	100%	100%
24	Operator Systemu Magazynowania Sp. z o.o.	1,000,000	1,000,000	100%	100%
25	Polskie Elektrownie Gazowe Sp. z o.o.	1,212,000	1,212,000	100%	100%
26	BSiPG Gazoprojekt S.A.	4,000,000	3,000,000	75%	75%
27	NYSAGAZ Sp. z o.o.	6,800,000	3,468,000	51%	51%
	PGNiG S.A.'s indirect subsidiaries				
28	BUG Gazobudowa Sp. z o.o.	39,220,000	39,220,000	100%	100%
29	Zakład Urządzeń Naftowych Naftomet Sp. z o.o.	23,500,000	23,500,000	100%	100%
30	ZRUG Sp. z o.o. (Pogórska Wola)	9,244,000	9,244,000	100%	100%
31	Geofizyka Toruń Kish Ltd (Rial)	10, 000,000 (IRR) [1]	10, 000,000 (EUR) [1]	100%	100%
32	Oil Tech International F.Z.E.	20,000 (USD)[1]	20,000 (USD) [1]	100%	100%
33	Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła)	1,806,500	1,806,500	100%	100%
34	Biogazownia Ostrowiec Sp. z o.o.	105,000	105,000	100%	100%
35	Powiśle Park Sp. z o.o. (Warsaw)	81,131,000	81,131,000	100%	100%
36	Budownictwo Naftowe Naftomontaż Sp. z o.o.	44,751,000	44,751,000	100%	100%
37	Poltava Services LLC	20,000 (EUR)[1]	19,800 (EUR)[2]	99%	99%
38	CHEMKOP Sp. z o.o. Kraków	3,000,000	2,550,000	85%	85%
39	GAZ Sp. z o.o. (Błonie)	300,000	153,000	51%	51%
40	GAZ MEDIA Sp. z o.o. (Wołomin)	300,000	153,000	51%	51%

[1] Figures in foreign currencies.

[2] Share capital not paid up.

(PLN ‘000)

Consolidated undertakings of the Group in H1 2011

Company	Based in	% of share capital held by PGNiG S.A.	
PGNiG S.A. (Parent Undertaking)	Poland		
PGNiG S.A.’s subsidiaries		**Jun 30 2011**	**Jun 30 2010**
GEOFIZYKA Kraków Sp. z o.o.	Poland	100.00%	100.00%
GEOFIZYKA Toruń Sp. z o.o.	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu Jasło Sp. z o.o.	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu Kraków Group[1)]	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.	Poland	100.00%	100.00%
Zakład Robót Górniczych Krosno Sp. z o.o.	Poland	100.00%	100.00%
Poszukiwania Naftowe Diament Sp. z o.o.	Poland	100.00%	100.00%
PGNiG Norway AS	Norway	100.00%	100.00%
Polish Oil And Gas Company – Libya B.V.	The Netherlands	100.00%	100.00%
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Górnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Karpacka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
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 Sp. z o.o.	Poland	100.00%	100.00%
INVESTGAS S.A.	Poland	100.00%	100.00%
PGNiG Energia S.A.	Poland	100.00%	100.00%
PGNiG Technologie Sp. z o.o.	Poland	100.00%	100.00%
POGC Trading GmbH	Germany	100.00%	-
Operator Systemu Magazynowania Sp. z o.o.	Poland	100.00%	-
Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A.	Poland	75.00%	75.00%
PGNiG S.A.'s indirect subsidiaries			
BUG Gazobudowa Sp. z o.o. Zabrze	Poland	100.00%	100.00%
Zakład Urządzeń Naftowych Naftomet Sp. z o.o.	Poland	100.00%	100.00%
ZRUG Sp. z o.o. (Pogórska Wola)	Poland	100.00%	100.00%
Budownictwo Naftowe Naftomontaż Sp. z o.o.	Poland	100.00%	88.83%
NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation) [3)]	Poland	-	59.88%
Jointly-controlled and associated undertakings accounted for using the equity method			
SGT EUROPOL GAZ S.A. [4)]	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 Sp. z o. o. and its subsidiary Oil Tech International - F.Z.E.

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

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

[4)] Including a 48.00% direct interest and 1.74% 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 undertakings, as well as long-term investments, demergers, restructurings or discontinuation of operations

The key changes in the PGNiG Group's structure which occurred in H1 2011 are indicated below.

- On February 9th 2011, by virtue of a court decision, TE-MA WOC Małaszewicze Terespol Sp. z o.o. w likwidacji (in liquidation) was deleted from the register of entrepreneurs of the National Court Register.
- On February 10th 2011, POGC Trading GmbH was entered in the Court Register maintained by the District Court of Munich.
- On February 11th 2011, the District Court for Katowice-Wschód in Katowice issued a decision declaring the completion of the bankruptcy proceedings with respect to Huta Szkła Szczakowa S.A. of Jaworzno. On June 7th 2011, the District Court for Katowice-Wschód in Katowice issued a decision to delete the company from the National Court Register.
- On April 15th 2011, 4,000,001 shares in Zakłady Azotowe w Tarnowie-Mościcach S.A., with a par value of PLN 5 per share, were sold at PLN 37 per share. The shares represented 10.23% of the company's share capital.
- On April 29th 2011, the share capital increase at PGNiG Energia S.A. was entered in the National Court Register. The company's share capital was increased by PLN 14,000 thousand to PLN 20,000 thousand; all the new issue shares were acquired by PGNiG S.A.
- On April 29th 2011, PGNiG S.A. acquired shares in Goldcup 5839 AB of Stockholm, a company with a share capital of SEK 500 thousand. On June 20th 2011, a change of the company's name to PGNiG Finance AB was registered. The company's purpose is to raise financing through an issue of Eurobonds and to grant a loan to PGNiG S.A.
- On May 5th 2011, 680,000 shares in IZOSTAL S.A. of Zawadzkie were sold at PLN 7 per share. The shares represented 2.08% of the company's share capital.
- On June 7th 2011, an agreement was made to sell 1 share in Zakład Kuźnia Matrycowa Sp. z o.o. to Metallum Corporation, for PLN 570 thousand. PGNiG S.A. had held 1.49% of the company's share capital.
- On June 17th 2011, the conditions precedent to the agreement on purchase of PGNiG SPV1 Sp. z o.o. shares by PGNiG S.A. were met. The company's share capital equals PLN 20 thousand. Currently, the ownership changes are being registered in the National Court Register.
- On June 29th 2011, PGNiG Technologie Sp. z o.o. (wholly-owned by PGNiG S.A.) purchased from non-controlling shareholders 11.07% of shares in Budownictwo Naftowe Naftomontaż Sp. z o.o. for PLN 5,632.4 thousand. Following that transaction, as at June 30th 2011 PGNiG Technologie Sp. z o.o. held 100% of the shares in Budownictwo Naftowe Naftomontaż Sp. z o.o.
- On June 23rd 2011, Poszukiwania Nafty i Gazu Kraków Sp. z o.o. (a wholly-owned subsidiary of PGNiG S.A.) established Poltava Services LLC, a subsidiary undertaking in Ukraine. PNiG Kraków Sp. z o.o. holds 99% of the shares in Poltava Services LLC.

Other changes in equity interests held by the PGNiG Group in H1 2011:

- In March 2011, PGNiG S.A. was notified that on October 8th 2010 the competent court had registered a share capital increase at Zakłady Przemysłu Jedwabniczego Dolwis S.A. following a conversion of debt into shares. This way PGNiG S.A. acquired 109,204 shares in the company, representing 6.11% of its share capital. On April 29th 2011, the District Court of Jelenia Góra repealed an arrangement made earlier between the debtor (Zakłady Przemysłu Jedwabniczego DOLWIS S.A.) and its creditors, and changed a previous decision declaring the company's bankruptcy, specifying the manner of conducting bankruptcy proceedings (by liquidation of the company's assets).
- On February 16th 2011, IZOSTAL S.A. floated 12,000,000 new Series K shares. As PGNiG S.A. did not participate in the share capital increase at the company, its share of the total vote at the company's general shareholders meeting fell to 2.08%.

- On March 22nd 2011, an agreement was executed providing for the sale of 3,314 shares in AUTOSAN S.A. of Sanokto Sobiesław ZASADA S.A., for a total consideration of PLN 9 thousand. The shares represented 0.04% of the company's share capital.
- Following changes in the shareholder structure of Agencja Rynku Energii S.A., PGNiG S.A.'s share of the total vote at the company's general shareholders meeting rose to 16.78%.

1.7. Composition of the Management Board of PGNiG S.A.

Pursuant to PGNiG S.A.'s Articles of Association, its Management Board is composed 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 their duties by the Supervisory Board or the General Shareholders Meeting.
As long as the State Treasury remains a shareholder of the Company and the Company's average annual headcount exceeds 500, the Supervisory Board appoints one person elected by the Company's employees to serve on the Management Board during its term.

As at June 30th 2011, PGNiG S.A.'s Management Board was composed of five members:

- Michał Szubski – President of the Management Board
- Radosław Dudziński – Vice-President, Strategy
- Sławomir Hinc – Vice-President, Finance
- Marek Karabuła – Vice-President, Petroleum Mining
- Mirosław Szkałuba – Vice-President, Trade

The following events relating to the composition of PGNiG S.A.'s Management Board occurred in H1 2010:

On January 12th 2011, the Supervisory Board of PGNiG S.A. appointed the President and the members of PGNiG S.A.'s Management Board for a new term of office starting on March 13th 2011. The following persons were appointed for the three-year term:

- Michał Szubski – President of the Management Board
- Radosław Dudziński – Member of the Management Board
- Sławomir Hinc – Member of the Management Board
- Marek Karabuła – Member of the Management Board

In the period January-February 2011, elections were carried out to choose the Management Board nominee representing the employees. Mirosław Szkałuba was re-elected as the employees' representative.

From December 31st 2011 to the date of these financial statements there were no changes in the composition of the Management Board of PGNiG S.A.

1.8. Commercial proxies

As at June 30th 2011, the following persons served as commercial proxies for PGNiG S.A.:

- Ewa Bernacik,
- Mieczysław Jakiel,
- Tadeusz Kulczyk.

In H1 2011, there were no changes regarding commercial proxies for PGNiG S.A.

The granted powers of proxy are joint powers of proxy, i.e. for a legal action to be effective, a commercial proxy must act jointly with a member of PGNiG S.A.'s Management Board.

From June 30th 2011 to the date of these financial statements there were no changes regarding commercial proxies for PGNiG S.A.

1.9. Composition of the Supervisory Board of PGNiG S.A.

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

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

1) He or she should be elected in accordance with the procedure set forth in Par. 36.3 of PGNiG S.A.'s Articles of Association;
2) He or she may not be a Related Party of the Company or any of the Company's subsidiaries;
3) He or she may not be a Related Party of the parent undertaking or other subsidiary of the parent undertaking; or
4) He or she may not have any links to the Company or to any of the entities specified in items 2) and 3) above which could materially affect his/her ability to make impartial decisions in his/her capacity as a Supervisory Board member.

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

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

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

As at June 30th 2011, the Supervisory Board was composed of seven members:

- Stanisław Rychlicki – Chairman of the Supervisory Board,
- Marcin Moryń – Deputy Chairman of the Supervisory Board,
- Mieczysław Kawecki – Secretary of the Supervisory Board,
- Grzegorz Banaszek – Member of the Supervisory Board,
- Agnieszka Chmielarz – Member of the Supervisory Board,
- Mieczysław Puławski – Member of the Supervisory Board,
- Jolanta Siergiej – Member of the Supervisory Board.

The following events relating to the composition of PGNiG S.A.'s Supervisory Board occurred in H1 2010:

Following the elections held at the end of January and beginning of February 2011 to elect candidates for Supervisory Board members representing PGNiG S.A.'s employees, Agnieszka Chmielarz, Mieczysław Kawecki and Jolanta Siergiej were reappointed as the employee representatives.

On April 20th 2011, the Annual General Shareholders Meeting of PGNiG S.A. reappointed the Company's current Supervisory Board members to serve for another three-year term of office. The new Supervisory Board formally constituted itself at its first meeting held on May 5th 2011.

From June 30th 2011 to the date of these financial statements there were no changes in the composition of the Supervisory Board of PGNiG S.A.

(PLN '000)

1.10. Shareholder structure of PGNiG S.A.

As at the date of release of these consolidated financial statements for H1 2011, the only shareholder holding 5% or more of the total vote at the General Shareholders Meeting of PGNiG S.A. was the State Treasury.

PGNiG S.A.'s shareholder structure is as follows:

Shareholder	Registered office	Number of shares	% of share capital held	% of votes held
As at June 30 2011				
State Treasury	Warsaw	4,272,416,557	72.41%	72.41%
Other	-	1,627,583,443	27.59%	27.59%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**
As at Dec 31 2010				
State Treasury	Warsaw	4,273,650,532	72.43%	72.43%
Other	-	1,626,349,468	27.57%	27.57%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**

1.11. Going-concern assumption

These interim consolidated financial statements have been prepared based on the assumption that the Group members will 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 H1 2011, there were no mergers between the Parent Undertaking or the Group companies and any other commercial-law companies.

1.13. Approval of the financial statements

These financial statements will be submitted to the Parent Undertaking's Management Board for disclosure approval on August 31st 2011.

2. INFORMATION ON THE APPLIED ACCOUNTING POLICIES

2.1. Basis for the preparation of the consolidated financial statements

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

2.1.1. Compliance statement

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at June 30th 2011.

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

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

2.1.2. Consolidation methods

These consolidated financial statements comprise the financial statements of PGNiG S.A. (Parent Undertaking) and the financial statements of companies controlled by the Parent Undertaking (or by the subsidiary undertakings of the Parent Undertaking), other than subsidiaries whose effect on the consolidated financial statements would be immaterial, prepared as at June 30th 2011.

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

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

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

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

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

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

2.2.1. First-time adoption of standards and interpretations

In the current year, the Group has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting

Interpretations Committee, and endorsed by the EU, which apply to the Group's business and are effective for annual reporting periods beginning on or after January 1st 2011. The newly adopted standards are presented below.

- Amendments to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* – endorsed by the EU on December 23rd 2009 (effective for annual periods beginning on or after February 1st 2010),
- Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters* – endorsed by the EU on June 30th 2010 (effective for annual periods beginning on or after July 1st 2010).
- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement* – endorsed by the EU on July 19th 2010 (effective for annual periods beginning on or after January 1st 2011),
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – endorsed by the EU on July 23rd 2010 (effective for annual periods beginning on or after July 1st 2010).
- Amendments to various standards and interpretations *Improvements to International Financial Reporting Standards (2010)* – amendments made as part of the process of making annual improvements to the Standards, published on May 6th 2010 (IFRS1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, and IFRIC 13) aimed chiefly at eliminating any inconsistencies and clarification of wording, endorsed by the EU on February 18th 2011 (effective for annual periods beginning on or after July 1st 2010 or January 1st 2011, depending the standard/interpretation).

With the exception of the revised IAS 1, the application of the above standards and interpretations has not caused any material changes in the Group's accounting policies or in the presentation of its financial statements.

Application of the revised IAS 1

The revised IAS 1 requires profit or loss and other comprehensive income, so far presented as one item, to be disclosed as separate items in the statement of changes in equity. Application of this amendment to these financial statements has not affected previously disclosed figures. The only change introduced involved singling out two items, "Net profit/loss" and "Other comprehensive income, net" from the item "Comprehensive income" in the statement of changes in equity. This separation facilitates reconciliation of changes in equity with the income statement and the statement of comprehensive income.

2.2.2. Standards and interpretations which have been published and approved for use in the EU but are not yet effective

As at the date of preparation of these financial statements, there were no standards, amendments or interpretations which have been published and endorsed for application in the EU but have not yet become effective.

2.2.3. Standards and interpretations 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), with the exception of the following standards, amendments and interpretations, which as at June 30th 2011 had not yet been approved for use by the EU:

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after January 1st 2013);
- 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 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective for annual periods beginning on or after July 1st 2011);
- 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 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after January 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 estimates that the above standards, interpretations and amendments to standards would not have had any material effect on the Group's financial statements if they had been applied as at the balance-sheet date.

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

2.3. Accounting policies

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

2.3.1. Investments in associated undertakings

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

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

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

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

2.3.2. Interests in joint ventures

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

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

2.3.3. Translation of items denominated in foreign currencies

The functional currency (measurement currency) and the reporting currency of PGNiG S.A. and its subsidiary undertakings, with the exception of POGC Libya BV and PGNiG Norway AS, is the Polish złoty (PLN). Transactions denominated in foreign currencies are initially disclosed at the exchange rate of the functional currency effective as at the transaction date. Cash assets and liabilities denominated in foreign currencies are translated at the exchange rate of the functional currency effective as at the balance sheet date. All foreign exchange gains and losses are charged to the consolidated income statement, except for foreign exchange gains and losses on translation of assets, equity and liabilities of foreign undertakings, which, until the disposal of interests in such undertakings, are disclosed directly in equity. Non-cash items valued at their historical cost in a foreign currency are translated at the exchange rate effective as at the date of the initial transaction. Non-cash items valued at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.
To hedge against foreign currency risk, the Parent Undertaking enters into forwards and option contracts (see below: accounting policies for derivative financial instruments applied by the Group).

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

2.3.4. Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

2.3.5. Exploration and evaluation assets

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

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

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

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

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

2.3.6. Borrowing costs

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

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

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

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

The above cost capitalisation policies do not apply to:

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

2.3.7. Investment property

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

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

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

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

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

Buildings and structures	2 - 40 years

2.3.8. Intangible assets

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

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

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

Research expense is recognised in profit or loss when incurred.

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

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

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

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

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

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

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

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

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

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

2.3.9. Leases

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

2.3.9.1. The Group as a lessor

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

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

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

2.3.9.2. The Group as a lessee

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

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

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

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

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

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

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

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

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

2.3.11. Financial assets

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

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

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

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

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

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

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

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

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

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

2.3.11.2. Investments held to maturity

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

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

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

2.3.11.3 Financial assets available for sale

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

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

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

2.3.11.4 Loans and receivables

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

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

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

Uncollectible receivables are recognised as loss if deemed unrecoverable. Writing off or cancellation of receivables due to their expiry or irrecoverability reduces previously recognised impairment losses on such receivables.
Receivables cancelled or written off due to their expiry or irrecoverability with respect to which no impairment losses have been recognised or the impairment losses that have been recognised were lower than the full amounts of receivables, are charged to other operating expenses or finance expenses, as appropriate.

2.3.11.5. Positive valuation of derivatives

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

2.3.12. Impairment of financial assets

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

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

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

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

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

2.3.13. Hedge accounting

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

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

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

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

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

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

Commodity hedging instruments designated for hedge accounting include purchased swap (buy fix / sell float) contracts for the Gasoil 0.1% index and the Fuel Oil 1% Barges FOB Rotterdam (Platt's) index, purchased Asian commodity call options for the Gasoil 0.1% index and the Fuel Oil 1% Barges FOB Rotterdam (Platt's) index, zero-cost option structures (collars) involving a combination of purchased Asian commodity call options and issued Asian commodity put options for the Gasoil 0.1% index and the Fuel Oil 1% Barges FOB Rotterdam (Platt's) index.

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

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

2.3.15. Trade and other receivables

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

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

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

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

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

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

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

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

2.3.16. Cash and cash equivalents

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

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

2.3.17. Non-current assets held for sale

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

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

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

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

2.3.18. Equity

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

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

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

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

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

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

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

2.3.19. Bank loans and borrowings

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

2.3.20. Provisions

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

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

The Group creates the following provisions:

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

2.3.20.1 Provision for well decommissioning costs

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

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

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

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

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

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

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

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

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

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

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

2.3.20.3. Provision for gas allowances for former employees

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

2.3.20.4. Provision for environmental protection liabilities

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

2.3.20.5. Provision for penalties

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

2.3.20.6. Provision for potential liability

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

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

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

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

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

Given the above, in accordance with the materiality rule, the Group estimates and recognises in its accounting books the amount of the provision for claims under extra-contractual use of land.

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

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

2.3.20.8. Other provisions

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

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

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

2.3.21. Accruals and deferrals

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

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

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

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

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

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

2.3.22. Trade and other payables

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

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

2.3.23. Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

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

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

2.3.23.2. Financial liabilities measured at amortised cost

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

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

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

2.3.24. Sales revenue

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

2.3.24.1. Sales of goods and products

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

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

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

2.3.24.2. Rendering of services

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

2.3.24.3. Interest income

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

2.3.24.4. Dividends

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

2.3.24.5. Lease income

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

2.3.25. Government grants

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

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

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

2.3.26. Employee benefits

Short-term employee benefits paid by the Group include:

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

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

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

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

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

2.3.27. Income tax

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

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

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

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

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

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

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

2.3.28. Operating segments

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

a) *Exploration and Production.* The segment encompasses extracting hydrocarbons from reserves and preparing products for sale. The segment covers the entire process of exploring and extracting natural gas and crude oil from reserves, including geological surveys, geophysical research and drilling work, and development of and production from the reserves. The exploration and production activities are conducted by PGNiG S.A., 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, sales of natural gas have been conducted by PGNiG S.A. The segment operates three underground gas storage facilities (Mogilno, Wierzchowice and Husów). The facilities are operated and any extension work on the facilities is conducted by PGNiG S.A. and INVESTGAS S.A. (a Group member). The segment's activities comprise the sale of high-methane and nitrogen-rich gas fed into the transmission and distribution system. Gas trading business is governed by the Energy Law, with prices established on the basis of tariffs approved by the President of URE.

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

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

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

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

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

Internal transactions within a segment have been eliminated.

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

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 2011, actions were pending instituted by PGNiG S.A., to rescind or assert invalidity of resolutions of the Extraordinary General Shareholders Meeting of PI GAZOTECH Sp. z o.o. concerning additional contributions to this company's equity. By the date of these financial statements, no final decisions had been awarded.

PGNiG S.A.'s action instituted against PI GAZOTECH Sp. z o.o. to rescind or assert invalidity of the resolutions of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated April 23rd 2004, including the resolution obliging PGNiG S.A. to pay an additional contribution of PLN 52,000 thousand. The proceedings were held in turn before the Regional Court of Warsaw, the Warsaw Court of Appeals and the Supreme Court. On June 25th 2010, the Regional Court granted PGNiG S.A.'s claims and declared the resolution concerning share redemption and the resolution concerning the additional contributions 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. The Regional Court of Warsaw accepted the appeal for consideration. On July 4th 2011, PGNiG S.A. filed with the Warsaw Court of Appeals a response to the appeal.

Proceedings instigated by PGNiG S.A. against PI GAZOTECH Sp. z o.o. to rescind or assert invalidity of the resolution of the Extraordinary General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated January 19th 2005, whereunder PGNiG S.A. was obliged to pay an additional contribution of PLN 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 additional contributions. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, along with a petition to be exempt from court fees. The Regional Court of Warsaw accepted the appeal for consideration. On June 28th 2011, PGNiG S.A. filed a response to the above appeal with the Warsaw Court of Appeals.

Proceedings instigated by PGNiG S.A. against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated October 6th 2005, whereunder PGNiG S.A. was obliged to pay an additional contribution 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. During its session held on April 11th 2011, the Regional Court issued a decision suspending the proceedings to rescind or declare invalidity of the resolution on additional contributions.

In connection with the foregoing, in the financial statements for H1 2011 the Parent Undertaking 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 gaseous fuel storage facilities. These assets were tested for impairment. The Group computed and recognised material impairment losses on the assets, based on an assessment of their current and future usefulness or planned decommissioning and sales. For information on the value of recognised impairment losses see Note 11.2.

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

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

2.4.3. Useful lives of tangible assets

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

2.4.4. Estimating natural gas sales

In order to correctly recognise revenue on sales of natural gas in the appropriate reporting period, as at the balance sheet date estimates are made of the natural gas volumes supplied to retail customers.
The value of the natural gas which has been supplied to retail customers but has not been invoiced, is estimated on the basis of the customers’ consumption patterns seen to date in comparable reporting periods. There exists a risk that the actual final volume of the gaseous fuel sold might differ from the estimate. Therefore result for the given period might account for a portion of the estimated sales volume which will never be realised.

2.4.5. Provision for decommissioning costs and environmental protection

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

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

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

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

In the last several years, the Group recorded a significant increase in the number of claims submitted by land property owners for compensation for use of transmission easements by the Group companies. Apart from the compensation paid to land property owners under the agreements on establishment of transmission easements, the Group pays compensation under extra-contractual use of land properties.
Given the above, in accordance with the materiality rule, the Group estimated the amount of the provision for claims under extra-contractual use of land as at the end of 2010. In H1 2011, the Group revalued the provision.
When calculating the amount of the provision, the Group took into consideration any justified claims submitted, in respect of which the exchange of correspondence has continued for the last three years.
To estimate the amount of the provision, the Group analysed the following: estimate surveys of claim amounts made by expert appraisers; Group companies’ own calculations based on the size of the controlled area, in which a given piece of equipment was installed, expressed in square meters; amount of annual rent per square meter for similar land in a given municipality; period of extra-contractual use of land (not more than ten years); historical data on the ratio of payments related to the submitted claims and the average amount of paid compensation.

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

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

As part of measurement of the value of SGT EUROPOL GAZ S.A. shares, the Parent Undertaking tested these shares for impairment, using the discounted cash flow method and relying in its calculations on the SGT EUROPOL GAZ S.A.'s net profit figure derived from the Inter-governmental Protocol dated 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 S.A., which consisted in inhibiting sale of gas against the interest of other business players or consumers and impeding the development of market conditions necessary for the emergence or growth of competition by refusing to sell gaseous fuel under a comprehensive agreement to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw. As at the date of these financial statements, the proceedings were still pending.

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

PGNiG S.A. did not create any provision for that purpose in H1 2011, as the Company believes that the above charges are groundless and that it is not likely that they will lead to an obligation causing an outflow of funds.

2.4.9. Dispute between the Parent Undertaking 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 S.A. for the payment of PLN 14,747.36 thousand plus interest and cost of proceedings. The disputed amount represents the equivalent of the contractual penalties for delays in the performance of a contract, deducted by PGNiG S.A. from the remuneration 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, material delays in the performance of the contract, which constituted grounds for charging the contractual penalties.
In addition, according to PGNiG S.A., the plaintiff's claims have become prescribed.

On July 27th 2011, the Company filed its response to the claim, requesting that the action be dismissed in its entirety. Until the date of these financial statements, no hearing date has been set.

Considering the above, the Parent Undertaking has not recognised the amount of the claim in its accounting books and has not created any provisions for the claim.

2.5. Presentation changes in the financial statements

In the financial statements for H1 2011, the Company has not introduced any changes in the comparative financial data relative to the data disclosed in previously published financial statements.

(PLN '000)

3. OPERATING SEGMENTS

3.1. Reportable segments

The tables below set forth data on the revenues, costs and profits/losses, as well as the assets, equity and liabilities of the Group's reportable segments for the periods ended June 30th 2011 and June 30th 2010.

Period ended June 30th 2011	**Exploration and Production**	**Trade and Storage**	**Distribution**	**Other Activities**	**Eliminations**	**Total**
Income statement						
Sales to external customers	1,275,300	10,094,607	54,570	98,885	-	11,523,362
Sales to other segments	564,415	152,905	1,777,189	160,229	(2,654,738)	-
Total segment revenue	1,839,715,	10,247,512	1,831,759	259,114	(2,654,738)	11,523,362
Depreciation and amortisation	(297,248)	(62,092)	(410,445)	(7,111)	-	(776,896)
Other costs	(1,095,993)	(10,050,313)	(919,338)	(249,204)	2,641,177	(9,673,671)
Total segment costs	(1,393,241)	(10,112,405)	(1,329,783)	(256,315)	2,641,177	(10,450,567)
Operating profit/(loss)	**446,474**	**135,107**	**501,976**	**2,799**	**(13,561)**	**1,072,795**
Net finance expenses						167,211
Share in net profit/(loss) of equity-accounted undertakings		(395)				(395)
Pre-tax profit/loss						**1,239,611**
Income tax						(234,748)
Net profit/(loss)						**1,004,863**
Statement of financial position						
Segment's assets	13,572,901	10,088,566	12,516,599	420,715	(3,914,521)	32,684,260
Investments in equity-accounted undertakings		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	3,175,454	2,311,339	107,411	(3,914,521)	3,750,465
Unallocated liabilities						5,283,383
Deferred tax liabilities						1,412,053
Total equity and liabilities						**34,337,952**
Other information						
Capital expenditure on property, plant and equipment and intangible assets	(1,328,124)	(488,277)	(452,701)	(6,954)	-	**(2,276,056)**
Impairment losses on assets	(1,257,863)	(1,832,766)	(84,886)	(11,563)	-	**(3,187,078)**
Impairment losses on unallocated assets						**(37,241)**

(PLN '000)

Period ended June 30th 2011	Exploration and Production	Trade and Storage	Distribution	Other Activities	Eliminations	Total
Income statement						
Sales to external customers	1,055,219	9,552,903,	43,225	110,569	-	10,761,916
Sales to other segments	596,719	178,349,	1,791,684	98,024	(2,664,776)	-
Total segment revenue	1,651,938	9,731,252,	1,834,909	208,593	(2,664,776)	10,761,916
Depreciation and amortisation	(300,115)	(67,118)	(372,478)	(5,490)	-	(745,201)
Other costs	(1,012,042)	(9,321,528)	(936,303)	(187,407)	2,642,236	(8,815,044)
Total segment costs	(1,312,157)	(9,388,646)	(1,308,781)	(192,897)	2,642,236	(9,560,245)
Operating profit/(loss)	**339,781**	**342,606,**	**526,128**	**15,696**	**(22,540)**	**1,201,671**
Net finance expenses						15,331
Share in net profit/(loss) of equity-accounted undertakings		(372)				(372)
Pre-tax profit/(loss)						**1,216,630**
Income tax						(222,405)
Net profit/(loss)						**994,225**
Statement of financial position						
Segment's assets	11,733,397	10,115,296,	11,478,227	320,524	(3,168,583)	30,478,861
Investments in equity-accounted undertakings		556,151,				556,151
Unallocated assets						224,129
Deferred tax assets						725,250
Total assets						**31,984,391**
Total equity						22,045,312
Segment liabilities	1,719,412	2,975,309,	2,074,560	84,976	(3,168,583)	3,685,674
Unallocated liabilities						4,986,167
Deferred tax liabilities						1,267,238
Total equity and liabilities						**31,984,391**
Other information						
Capital expenditure on property, plant and equipment and intangible assets	(853,362)	(233,233)	(385,074)	(3,886)	-	**(1,475,555)**
Impairment losses on assets	(933,715)	(2,195,344)	(849,489)	(3,778)	-	**(3,982,326)**
Impairment losses on unallocated assets						**(53,269)**

(PLN ‘000)

3.2. Information on geographical areas

The Company’s business activity focuses on domestic sales (Poland). In the first half of 2011, the revenue from export sales of products, goods for resale and materials to external customers accounted for 3.70% (4.43% in the first half of 2010) of the total net revenue from sales of products, goods for resale and materials to external customers.

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Domestic sales	11,096,757	10,284,913
High-methane gas	9,637,584	9,111,680
Nitrogen-rich gas	627,509	603,306
Crude Oil	311,218	210,887
Helium	9,027	6,178
Propane-butane gas	24,208	22,286
Gasoline	1,716	1,877
LNG	15,056	13,832
Gas storage services	15,253	16,122
Geophysical and geological services	174,829	55,635
Exploration services	79,053	41,110
Construction and erection	55,929	60,278
Design services	18,350	18,606
Hotel services	13,845	15,590
Other services	60,025	65,591
Other products	13,631	9,320
Materials and goods for resale	8,850	7,630
Connection charge	30,674	24,985
Export sales	426,605	477,003
High-methane gas	33,048	29,387
Nitrogen-rich gas	-	-
Crude Oil	161,126	163,229
Helium	17,329	15,276
Propane-butane gas	-	-
Gasoline	-	-
LNG	-	-
Gas storage services	-	-
Geophysical and geological services	34,946	80,711
Exploration services	160,805	167,018
Construction and erection	10,574	6,873
Design services	71	215
Hotel services	-	-
Other services	3,751	12,064
Other products	4,955	1,952
Materials and goods for resale	-	278
Connection charge	-	-
Total	**11,523,362**	**10,761,916**

The Group sells its products and services to customers in the following countries: Switzerland, Kazakhstan, Germany, Czech Republic, India, Uganda, Pakistan, Mozambique, Ukraine, Belgium, Slovenia, Egypt, Norway and Russia.

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 2011 represented 12.54% of the total value of non-current assets other than financial instruments (12.22% as at December 31st 2010).

	Jun 30 2011	Dec 31 2010
Value of non-current assets other than financial instruments located in Poland	23,560,442	22,752,207
Value of non-current assets other than financial instruments located abroad*	3,376,567	3,166,638
Total	**26,937,009**	**25,918,845**

*As at June 30th 2011, PLN 3,170,046 thousand was attributable to PGNiG Norway AS (PLN 2,877,710 thousand as at the end of 2010).

(PLN '000)

3.3. Key customers

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

4. OPERATING EXPENSES

4.1. Raw and other materials used

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Cost of gas sold	(6,562,077)	(5,668,521)
Other raw and other materials used	(327,979)	(272,155)
Total	**(6,890,056)**	**(5,940,676)**

4.2. Employee benefits

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Salaries and wages	(1,004,772)	(934,379)
Social security and other benefits	(375,450)	(348,472)
Total	**(1,380,222)**	**(1,282,851)**

4.3. Contracted services

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Purchases of transmission services from OGP Gaz-System S.A.	(764,496)	(787,666)
Costs of dry wells written off	(139,589)	(90,085)
Other contracted services	(663,441)	(640,337)
Total	**(1,567,526)**	**(1,518,088)**

4.4. Net other operating expenses

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Change in impairment losses, net	(60,020)	(165,754)
Change in provisions, net	(12,904)	2,308
Taxes and charges	(371,572)	(353,457)
Net interest related to operating activities	37,189	41,480
Net foreign exchange gains/(losses) related to operating activities	17,363	124,827
Gain/(loss) on derivative instruments related to operating activities	(30,250)	(155,504)
Value of goods for resale and materials sold	(15,069)	(9,580)
Income from current settlement of deferred income recognised in the statement of financial position	32,491	32,699
Difference on valuation of assets distributed as dividend	-	-
Gains/(losses) on disposal of non-financial non-current assets	,(5,586)	(11,105)
Property insurance	(30,332)	(16,429)
Domestic and international business trips	(23,945)	(25,542)
Change in inventories	162,354	147,663
Income from compensations, penalties, fines etc.	61,315	13,456,
Cost of compensations, penalties, fines, etc.	(8,007)	(3,752)
Other expenses, net	(70,304)	(56,180)
Total	**(317,277)**	**(434,870)**

(PLN '000)

5. FINANCE INCOME AND EXPENSES

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Finance income	**192,689**	**34,841**
Gain on valuation and execution of forwards and futures	-	-
Interest income	25,051	27,303
Foreign exchange gains	89,449	-
Investment revaluation	1,385	,674
Gain on disposal of investments	73,074	1,243
Dividends and other profit distributions	2,506	5,312
Other finance income	1,224	309
Finance expenses	**(25,478)**	**(19,510)**
Loss on valuation and execution of forwards and futures	-	-
Interest expenses	(15,744)	(6,892)
Foreign exchange losses	-	(4,840)
Investment revaluation	(346)	(3,390)
Loss on disposal of investments	-	-
Commissions on loans	(5,646)	,(393)
Costs related to guarantees issued	(1,948)	(2,935)
Other finance expenses	(1,794)	(1,060)
Net finance income/expense	**167,211**	**15,331**

6. EQUITY METHOD VALUATION OF ASSOCIATED UNDERTAKINGS

6.1. Net book value of interests in equity-accounted associated undertakings

	Jun 30 2011	Dec 31 2010
SGT EUROPOL GAZ S.A.		
PGNiG Group's interest*	49.74%	49.74%
Core business	Gaseous fuel transmission	Gaseous fuel transmission
Valuation of interests using equity method	1,421,422	1,456,855
Cost	38,400	38,400
Share in change in equity	1,459,822	1,495,255
Impairment losses	(921,122)	(956,555)
Net book value of investment	**538,700**	**538,700**
GAS-TRADING S.A.		
PGNiG Group's interest	43.41%	43.41%
Core business	Trade	Trade
Valuation of interests using equity method	15,442	15,837
Cost	1,291	1,291
Share in change in equity	16,733	17,128
Impairment losses	-	-
Net book value of investment	**16,733**	**17,128**
Total net book value of investments	**555,433**	**555,828**

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

(PLN '000)

6.2. Reconciliation of the value of interests in equity-accounted associated undertakings

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Net book value of investments as at beginning of period	555,828	556,523
Dividend paid by **GAS-TRADING S.A.**	-	-
Valuation recognised in the income statement, including:	**(395)**	**(372)**
Valuation of **SGT EUROPOL GAZ S.A.**	-	-
Valuation of **GAS-TRADING S.A.**	(395)	(372)
Net book value of investments as at end of period	**555,433**	**556,151**

The Parent Undertaking 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 2011 in accordance with the Polish Accountancy Act, adjusted to reflect differences in the accounting policies applied within the Group and results on intra-Group transactions. The differences in the accounting policies concerned the recognition of interest expenses in the net value of property, plant and equipment (until the end of 2008). Until the end of 2008, the Group applied the standard approach (in accordance with IAS 23) and did not recognise borrowing costs in the initial value of property, plant and equipment. As of the beginning of 2009, the Group capitalises borrowing costs in the value of property, plant and equipment, therefore the adjustment consists in continued elimination of these costs with respect to the previous years. Subsequently, the Parent Undertaking tested 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 2011, the Parent Undertaking valued its equity interest in jointly-controlled undertaking SGT EUROPOL GAZ S.A. using the equity method at PLN 1,421,422 thousand. The company's value estimated as at the same date using the discounted cash flow method amounted to PLN 571,530 thousand.

Taking into account SGT EUROPOL GAZ S.A.'s actual current financial performance and applying the principle of prudence, the Parent Undertaking kept its previous estimate of the company's net book value at PLN 538,700 thousand. This valuation did not differ from the one at December 31st 2010.

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 2011	Jan 1–Jun 30 2010
Pre-tax profit/(loss)		1,239,611	1,216,630
Tax rate applicable in the period		19%	19%
Tax calculated at the applicable tax rate		(235,526)	(231,160)
Permanent differences between pre-tax profit/(loss) and tax base		778	8,755
Corporate income tax disclosed in the consolidated income statement		**(234,748)**	**(222,405)**
Current income tax	7.2.	(287,208)	(347,618)
Deferred income tax	7.3.	52,460	125,213
Effective tax rate		19%	18%

(PLN '000)

7.2. Current income tax

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Profit/(loss) before tax (consolidated)	1,239,611	1,216,630
Consolidation adjustments	590,968	300,458
Differences between profit/(loss) before tax and tax base	(460,870)	107,246
Taxable revenue not recognised as revenue for accounting purposes	111,777	112,803
Tax deductible expenses, not recognised as expenses for accounting purposes	(1,318,774)	(1,135,169)
Revenue not recognised in taxable income	295,387	7,375
Non-tax deductible expenses	(1,042,878)	(1,135,899)
Deductions from income	(1,364)	1,088
Income tax base	1,369,709	1,624,334
Tax rate applicable in period	19%	19%
Corporate income tax	(260,245)	(308,623)
Increases, reliefs, exemptions, allowances and reductions in/of corporate income tax	(26,963)	(38,995)
Current income tax disclosed in tax return for period	(287,208)	(347,618)
Current income tax disclosed in consolidated income statement	**(287,208)**	**(347,618)**

7.3. Deferred income tax

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Origination and reversal of deferred tax due to deductible temporary differences	**50,277**	**129,417**
Impairment losses on financial assets, receivables and tangible assets under construction	(1,781)	4,808
Provisions for future liabilities	6,907	1,216
Costs of FX risk and interest rate risk hedges	1,315	25,530
Foreign exchange losses	101	(89)
Costs related to sales taxable in subsequent month	-	-
Investment incentives (Norway)	33,889	88,408
Tax loss for current period	-	-
Other	9,846	9,544
Origination and reversal of deferred tax due to taxable temporary differences	**2,183**	**(4,204)**
Difference between tax and accounting value of non-current assets	4,186	5,314
Positive valuation of FX and interest rate risk hedges	(5,605)	(13,705)
Foreign exchange gains	(152)	(1,067)
Accrued interest	(151)	,(289)
Income related to tax obligation arising in subsequent month	17,606	7,108
Other	(13,701)	(1,565)
Deferred income tax disclosed in consolidated income statement	**52,460**	**125,213**
Deferred income tax disclosed in other net comprehensive income, including:	**(19,723)**	**(3,938)**
- relating to valuation of financial instruments	(22,246)	(16,022)
- relating to differences on currency translation of deferred tax of foreign operations	2,523	12,084
Tax refund relating to investment incentives (Norway)	**-**	
Deferred income tax charged to non-current assets (Norway)	**-**	**-**
Deferred income tax charged to current income tax receivable (Norway)	**-**	**-**
Transfer from current income tax receivable	**-**	**13,547**
Changes in the Group	**-**	**-**
Total changes	**32,737**	**134,822**

The current reporting period covered the tax period from January 1st to June 30th 2011. A 19% corporate income tax rate was applicable in H1 2011 to businesses operating in Poland. In the comparable period, i.e. H1 2010, the CIT rate was also 19%.

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

Foreign subsidiaries and foreign branches of the Parent Undertaking and of Polish subsidiary undertakings are subject to tax regulations in force in the countries where they conduct their business activities and the provisions of double tax treaties. In the case of foreign branches of subsidiary undertakings, the tax rates effective in H1 2011 and H1 2010 ranged from 3% to 38% of the tax base. Foreign branches of the Parent Undertaking did not pay corporate income tax in H1 2011 and H1 2010.

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

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

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

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

Therefore, PGNiG Norway AS began to amortise capital expenditure and applied the investment incentive already in 2008, recognising the expenditure and incentive as deferred tax (in the amount recorded under "Investment incentive (Norway)" in table 7.3.). Once revenue is generated (i.e. after 2011), these amounts will be deducted from the current tax base.
From the PGNiG Group's viewpoint, it is important that the Norwegian tax system permits deduction of losses without time limitation. Additionally, losses incurred after 2002 bear interest. With respect to such losses, interest rate is calculated as a risk-free interest rate increased by a margin, including income tax (28%). In other words, losses incurred by PGNiG Norway AS in 2007–2011, increased by interest, will reduce its current tax payable once production from the Skarv field is launched.

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

8. DISCONTINUED OPERATIONS

In H1 2011, the Group did not discontinue any activities and is not planning to discontinue any of its existing operations.

9. EARNINGS/LOSS PER SHARE

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

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Net profit/loss attributable to equity holders of the parent	1,003,474	991,870
Net profit/loss attributable to equity holders of the parent used for calculating diluted earnings/loss per share	1,003,474	991,870
Weighted average number of outstanding ordinary shares used for calculating basic earnings/loss per share ('000)	5,900,000	5,900,000
Weighted average number of outstanding ordinary shares used for calculating diluted earnings/loss per share ('000)	5,900,000	5,900,000
Basic earnings/loss per share for financial period attributable to holders of ordinary shares of the parent (PLN)	0.17	0.17
Diluted earnings/loss per share for financial period attributable to holders of ordinary shares of the parent (PLN)	0.17	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 2010				
Jan 1 2011	Jun 30 2011	5,900,000	181	5,900,000
Total			**181**	**5,900,000**
Jun 30 2010				
Jan 1 2010	Jun 30 2010	5,900,000	181	5,900,000
Total			**181**	**5,900,000**

10. DIVIDENDS PAID AND PROPOSED

Dividends declared in the period	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Dividend per share declared (PLN)	0.12	0.08
Number of shares ('000)	5,900,000	5,900,000
Dividend declared (PLN '000), including:	708,000	472,000
- in-kind dividend payable to the State Treasury	30,104	339,994
- cash dividend payable to the State Treasury and to other shareholders	677,896	132,006

The 2010 dividend record date was set for July 20th 2011 and the payment date – for October 6th 2011. The dividend for 2009 was paid on October 4th 2010.

(PLN '000)

11. PROPERTY, PLANT AND EQUIPMENT

	Jun 30 2011	Dec 31 2010
Land	50,876	50,617
Buildings and structures	14,321,032	14,506,236
Plant and equipment	2,377,921	2,449,873
Vehicles and other	972,699	979,530
Total tangible assets	**17,722,528**	**17,986,256**
Tangible assets under construction	8,964,079	7,675,964
Total property, plant and equipment	**26,686,607**	**25,662,220**

TANGIBLE ASSETS

Jun 30 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	6	77,410	17,757	22,573	**117,746**
Decrease	(142)	(60,302)	(8,446)	(5,053)	**(73,943)**
Transfers from tangible assets under construction and between groups	366	285,568	104,187	70,635	**460,756**
Impairment loss	29	(7,484)	(6,763)	(1,928)	**(16,146)**
Depreciation for financial year	-	(480,396)	(178,687)	(93,058)	**(752,141)**
As at Jun 30 2011, net of accumulated depreciation and impairment losses	**50,876**	**14,321,032**	**2,377,921**	**972,699**	**17,722,528**
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 book value as at Jan 1 2011	**50,617**	**14,506,236**	**2,449,873**	**979,530**	**17,986,256**
As at Jun 30 2011					
Gross value	53,032	21,849,614	4,623,974	1,869,097	**28,395,717**
Accumulated depreciation and impairment losses	(2,156)	(7,528,582)	(2,246,053)	(896,398)	**(10,673,189)**
Net book value as at Jun 30 2011	**50,876**	**14,321,032**	**2,377,921**	**972,699**	**17,722,528**

(PLN '000)

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

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 2011				Dec 31 2010			
	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	(14)	-	78	92	(9)	-	83
Plant and equipment	100,790	(11,017)	-	89,773	93,349	(21,877)	-	71,472
Vehicles and other	39,055	(10,191)	(354)	28,510	45,398	(12,432)	(333)	32,633
	139,937	**(21,222)**	**(354)**	**118,361**	**138,839**	**(34,318)**	**(333)**	**104,188**

(PLN ‘000)

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 2011	2,184	541,033	100,967	6,109	**650,293**	543,034	**1,193,327**
Increase	-	13,415	7,557	1,996	**22,968**	81,143	**104,111**
Decrease	(29)	(5,931)	,(794)	(68)	**(6,822)**	(25)	**(6,847)**
As at Jun 30 2011	**2,155**	**548,517**	**107,730**	**8,037**	**666,439**	**624,152**	**1,290,591**
		-	-	-	-	-	-
As at Jan 1 2010	4,689	1,209,333	97,858	20,756	**1,332,636**	346,075	**1,678,711**
Increase	-	105,599	16,003	483	**122,085**	196,959	**319,044**
Decrease	(2,505)	(773,899)	(12,894)	(15,130)	**(804,428)**	-	**(804,428)**
As at Dec 31 2010	**2,184**	**541,033**	**100,967**	**6,109**	**650,293**	**543,034**	**1,193,327**

At the beginning of the period, impairment losses on tangible assets amounted to PLN 650,293 thousand and included:
- PLN 430,626 thousand of impairment losses on assets used directly in production,
- PLN 7,976 thousand of impairment losses on distribution assets,
- PLN 211,691 thousand of impairment losses on other tangible assets.

New impairment losses recognised in the reporting period amounted to PLN 22,968 thousand (of which PLN 10,229 thousand related to assets used directly in hydrocarbon production and PLN 12,728 thousand related to other assets, i.e. transmission assets not transferred to OGP Gaz-System S.A. as well as unused assets or assets with unclear legal status). Impairment losses of PLN 6,822 thousand (mostly relating to other tangible assets) were reversed.

At the end of the period, impairment losses on tangible assets amounted to PLN 666,439 thousand and included:
- PLN 440,855 thousand of impairment losses on assets used directly in hydrocarbon production,
- PLN 6,517 thousand of impairment losses on distribution assets,
- PLN 219,067 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 2011, PLN 576,402 thousand related to capitalised cost of drilling work (as at the end of 2010, the impairment was PLN 501,592 thousand). Of that amount, PLN 422,562 thousand (PLN 425,464 thousand as at the end of 2010) related to drilling work carried out in Poland and PLN 153,840 thousand (PLN 76,065 thousand as at the end of 2010) – to drilling work carried out in Norway.

(PLN '000)

12. INVESTMENT PROPERTY

	Jun 30 2011	Dec 31 2010
At beginning of period, net of accumulated depreciation and impairment losses	9,915	7,480
Increase	-	-
Decrease	-	(614)
Transfers from/to property, plant and equipment	(61)	3,612
Impairment loss	-	(2)
Depreciation for financial year	(347)	(561)
At end of period, net of accumulated depreciation and impairment losses	**9,507**	**9,915**
At beginning of period		
Gross value	13,898	9,829
Accumulated depreciation and impairment losses	(3,983)	(2,349)
Net book value	**9,915**	**7,480**
At end of period		
Gross value	13,650	13,898
Accumulated depreciation and impairment losses	(4,143)	(3,983)
Net book value	**9,507**	**9,915**

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 book value of the office/amenity buildings classified as investment property amounted to PLN 4,128 thousand (PLN 4,164 thousand as at the end of 2010), whereas the net book value of the industrial buildings and structures was PLN 5,129 thousand (PLN 5,451 thousand as at the end of 2010). The value of land and perpetual usufruct rights to land was PLN 250 thousand as at the end of the reporting period (PLN 300 thousand as at the end of 2010).

In the reporting period, the Group generated PLN 2,653 thousand in revenue from lease of investment property (PLN 2,072 thousand in H1 2010).

Operating expenses incurred in generating revenue from lease of investment property amounted to PLN 1,466 thousand in the reporting period (PLN 1,244 thousand in H1 2010).

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.

(PLN '000)

13. INTANGIBLE ASSETS

Jun 30 2011	Development expense	Goodwill	Perpetual usufruct right to land – acquired against a consideration *	Other intangible assets	**Total**
As at Jan 1 2011, net of accumulated amortisation and impairment losses	2,214	-	73,474	171,022	**246,710**
Increase	-	-	-	60	**60**
Decrease	-	-	(73)	(1,914)	**(1,987)**
Transfers from tangible assets under construction and between groups	345	-	74	20,472	**20,891**
Impairment losses	-	-	(350)	(21)	**(371)**
Amortisation for financial year	(327)	-	(1,099)	(22,982)	**(24,408)**
As at Jun 30 2011, net of accumulated amortisation and impairment losses	**2,232**	**-**	**72,026**	**166,637**	**240,895**
As at Jan 1 2011					
Gross value	4,366	-	103,579	343,203	**451,148**
Accumulated amortisation and impairment losses	(2,152)	-	(30,105)	(172,181)	**(204,438)**
Net book value as at Jan 1 2011	**2,214**	**-**	**73,474**	**171,022**	**246,710**
As at Jun 30 2011					
Gross value	4,711	-	85,327	360,264	**450,302**
Accumulated amortisation and impairment losses	(2,479)	-	(13,302)	(193,627)	**(209,408)**
Net book value as at Jun 30 2011	**2,232**	**-**	**72,025**	**166,637**	**240,894**

* 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 2011, the estimated value of this right amounted to PLN 487,836 thousand (PLN 485,422 thousand as at the end of 2010).

(PLN '000)

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

13.1. Impairment losses on intangible assets

	Development expense	Goodwill	Perpetual usufruct right to land – acquired against a consideration	Other intangible assets	**Total**
As at Jan 1 2011	-	-	2,822	132	**2,954**
Increase	-	-	388	21	**409**
Decrease	-	-	(38)	-	**(38)**
As at Jun 30 2011	**-**	**-**	**3,172**	**153**	**3,325**
As at Jan 1 2010	-	-	278	16	**294**
Increase	-	-	2,544	-	**2,544**
Decrease	-	-	-	116	**116**
As at Dec 31 2010	**-**	**-**	**2,822**	**132**	**2,954**

(PLN '000)

14. NON-CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Jun 30 2011	Dec 31 2010
Unlisted shares (gross)	49,298	36,058
Listed shares available for sale (gross)	101	78,101
Other financial assets available for sale (gross)	39,078	56,379
Total, gross	**88,477**	**170,538**
Unlisted shares (net)*	45,910	32,670
Listed shares available for sale (net)**	44	130,765
Other financial assets available for sale (net)*	5,225	7,007
Total, net	**51,179**	**170,442**

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

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

Following the sale of 4,000,001 shares in Zakłady Azotowe of Tarnów-Mościce S.A. on April 15th 2011, the item "Listed shares available for sale (gross)" decreased by PLN 78,000 thousand, which is the acquisition cost of shares in Zakłady Azotowe of Tarnów-Mościce S.A. (ZAT). In H1 2011, the result on valuation of the ZAT shares (a gain of PLN 64,200 thousand), previously disclosed in revaluation reserve, was charged to the income statement.

15. OTHER FINANCIAL ASSETS

	Jun 30 3011	Dec 31 2010
Finance lease receivables (Note 15.1.)	-	30,538
Loans advanced	-	-
Amounts receivable under sale of tangible assets	6,338	6,673
Non-current deposits	500	754
Amounts receivable under licences and mining usufruct rights	-	-
Other	3,273	2,142
Total, gross	**10,111**	**40,107**
Impairment loss	(448)	(239)
Total, net	**9,663**	**39,868**

15.1. Finance Lease

With a view to implementing the PGNiG Restructuring and Privatisation Programme adopted by the Polish Council of Ministers on October 5th 2004, a lease agreement was executed on July 6th 2005 between PGNiG S.A. and OGP Gaz - System Sp. z o.o. (currently OGP Gaz – System S.A.). The transmission business was unbundled from the production and trading business by way of leasing of the transmission assets to Gaz-System SA. The leased assets include real estate, movables, and economic rights.
The agreement was concluded for 17 years. Following the adoption of "Poland's Energy Policy until 2030" by the Council of Ministers on November 9th 2009, the agreement on lease of the transmission system between PGNiG S.A. and OGP GAZ-SYSTEM S.A. had to be terminated early through the provision of a dividend in kind in 2011. The dividend in kind for 2010 was agreed to be provided on October 6th 2011. Moreover, PGNiG S.A. and OGP GAZ-SYSTEM S.A. agreed to terminate the Operating Lease Agreement by mutual consent on October 7th 2011.
As at the commencement of the lease term, the present value of minimum lease payments exceeded 90% of the fair value of the leased assets. As a result, the lease is recognised as finance lease, in accordance with IAS 17. The lease payment comprises interest and principal. The interest portion is determined on the basis of 3M WIBOR effective in the month preceding the month for which the lease payment is charged, plus margin.

Proceeds under transmission system lease agreement:

	Jun 30 3011	Jun 30 2010
Interest payment	1,093	9,325
Principal payment	1,228	10,030
Total	**2,321**	**19,355**

(PLN '000)

The table below presents finance lease receivables by payment periods:

	Jun 30 2011	Dec 31 2010
- less than 1 year	33,084	2,335
- 1 to 5 years	-	9,549
- over 5 years	-	20,989
Total	**33,084**	**32,873**
- current receivables	33,084	2,335
- non-current receivables	-	30,538

16. DEFERRED TAX ASSETS

	Jun 30 2011	Dec 31 2010
Provisions for gas allowances	47	47
Provisions for length-of-service awards and severance pays	65,107	62,301
Provision for unused holidays	1,894	3,784
Provision for well decommissioning costs	119,358	120,767
Other provisions	63,076	57,777
Impairment losses on tangible assets	84,929	84,441
Impairment losses on shares	6,871	9,819
Impairment losses on interest on receivables	4,330	4,307
Negative valuation of forwards and futures	25,218	23,903
Foreign exchange losses	822	751
Accrued interest on loans and liabilities	309	1,412
Connection charge	72,574	73,697
Unpaid salaries and wages, including contributions to the Social Insurance Institution (ZUS)	11,530	5,044
Revaluation of prepayments/deferred income due to hyperinflation	8,219	8,733
Investment incentives (Norway)	234,217	197,805
Other	31,096	22,229
Total	**729,597**	**676,817**

17. OTHER NON-CURRENT ASSETS

	Jun 30 2011	Dec 31 2010
Granting access to geological information	30,280	27,877
Charges for establishment of mining usage rights	12,215	6,114
Connection charge	22,838	23,466
Other prepayments and accrued income	9,523	13,618
Total	**74,856**	**71,075**

18. INVENTORIES

	Jun 30 2011	Dec 31 2010
Materials		
at cost, including:	1,503,943	1,040,511
- gaseous fuel	1,172,837	753,078
at net realisable value, including:	1,486,500	1,026,506
- gaseous fuel	1,172,837	753,078
Semi-finished products and work in progress		
at cost	18,528	13,556
at net realisable value	18,499	13,510
Finished products		
at cost	7,587	8,394
at net realisable value	7,232	8,207
Goods for sale		
at cost	1,187	1,350
at net realisable value	1,165	1,344
Total inventories at acquisition (or production) cost	**1,531,245**	**1,063,811**
Total inventories, at the lower of cost or net realisable value	**1,513,396**	**1,049,567**

(PLN '000)

18.1. Change in inventories in period

	Jan 1 – Jun 30 2011	Jan 1 – Jun 30 2010
Inventories at cost, at beginning of period	**1,063,811**	**1,276,229**
Purchase	8,125,555	6,968,487
Other increases	63,867	51,201
Inventories charged to expenses of period	(7,568,000)	(6,555,558)
Sale	(8,461)	(6,818)
Other decreases	(145,527)	(333,326)
Inventories at cost, at end of period	**1,531,245**	**1,400,215**

19. TRADE AND OTHER RECEIVABLES

	Jun 30 2011	Dec 31 2010
Trade receivables	2,998,991	4,519,383
Trade receivables from related undertakings	883	43,013
VAT receivable	213,287	326,943
Other taxes, customs and social security receivable	16,177	10,439
Due and payable portion of loans advanced to related undertakings	21,972	22,372
Receivables from equity-accounted associated undertakings	1,616	2,671
Finance lease receivables	33,084	2,335
Other receivables from related undertakings	1,444	234
Prepayments for tangible assets under construction	48,818	35,729
Additional contribution to equity of subsidiary undertaking payable under a relevant resolution*	84,552	84,552
Receivables under breach of contract	-	-
Other receivables	120,963	96,930
Total gross receivables	**3,541,787**	**5,144,601**
Including gross receivables (including due and payable portion of loans) from related undertakings (Note 37.1)	110,467	152,842
Impairment loss on doubtful receivables (Note 19.1)	**(951,758)**	**(1,083,414)**
Total net receivables	**2,590,029**	**4,061,187**
including:		
Trade receivables	2,253,230	3,657,085
Trade receivables from related undertakings	876	1,538
VAT receivable	213,287	326,943
Other taxes, customs and social security receivable	13,400	7,449
Due and payable portion of loans advanced to related undertakings	-	-
Receivables from equity-accounted associated undertakings	1,616	2,671
Finance lease receivables	33,084	2,335
Other receivables from related undertakings	1,222	11
Prepayments for tangible assets under construction	48,637	35,729
Additional contribution to equity of subsidiary undertaking payable under a relevant resolution*	-	-
Receivables under breach of contract	-	-
Other receivables	24,677	27,426
Including net receivables (including due and payable portion of loans) from related undertakings (Note 37.1)	3,714	4,220

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

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

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

(PLN '000)

19.1. Impairment losses on receivables

	Jun 30 2011	Dec 31 2010
Impairment losses at beginning of period	(1,083,414)	(1,102,718)
Recognition of impairment loss	(39,383)	(131,068)
Reversal of impairment loss	104,416	127,624
Use of impairment loss	66,629	21,757
Transfers between current and non-current portions	(6)	991
Impairment losses at end of period	**(951,758)**	**(1,083,414)**

20. CURRENT INCOME TAX

	Jun 30 2011	Dec 31 2010
1. Current income tax payable at beginning of period	225,972	47,409
2. Change in current income tax receivable (a.-b.-c.-d.-e.)*	(4,021)	43,513
a. Current income tax receivable at beginning of period	229,666	199,413
b. Current income tax receivable transferred to deferred income tax	-	(13,547)
c. Changes in the Group	-	287
d. Currency translation differences	2,327	-
e. Current income tax receivable at end of period	227,972	229,666
3. Deferred tax recognised under current income tax receivable	-	(207,059)
4. Corporate income tax (expense in the period)	287,208	558,184
5. Income tax paid in the period	(382,594)	(216,075)
Current income tax payable at end of period (1.-5. total)	**126,565**	**225,972**

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

21. ACCRUALS AND DEFERRALS

	Jun 30 2011	Dec 31 2010
Real estate tax	150,665	-
Contribution to the Company Social Benefits Fund	31,009	-
Valuation of long-term contracts	19,805	26,701
Software licences, maintenance and upgrades	11,603	11,054
Property insurance	6,042	9,095
Commissions on loans, borrowings, notes, etc.	7,316	7,590
Granting access to geological information	4,203	3,763
Rents and charges	1,163	1,191
Costs of contract performance preparation	1,736	407
Other expenses settled over time	29,639	19,000
Total	**263,181**	**78,801**

22. CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Jun 30 2011	Dec 31 2010
Unlisted shares (gross)	1,212	-
Listed shares (gross)	-	-
Short-term deposit (gross)	-	-
Investment fund units (gross)	29,262	1,839
Treasury bills (gross)	-	6,994
Total, gross	**30,474**	**8,833**
Unlisted shares (net)*	1,212	-
Listed shares (net)*	-	-
Short-term deposit (net)	-	-
Investment fund units (net)	29,262	1,839
Treasury bills (net)	-	6,994
Total (net)	**30,474**	**8,833**

* Net of impairment losses.

23. CASH AND CASH EQUIVALENTS

	Jun 30 2011	Dec 31 2010
Cash in hand and at banks	212,782	242,954
Bank deposits	817,759	1,126,187
Highly liquid short-term securities *	-	-
Other cash**	3,955	4,151
Total	**1,034,496**	**1,373,292**

* Bills (treasury, NBP bills, etc.), deposit certificates maturing in less than three months.
** Cash in transit, cheques and third-party notes maturing in less than three months.

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

24. NON-CURRENT ASSETS HELD FOR SALE

The net book value of the Group's assets classified as non-current assets held for sale amounted to PLN 4,396 thousand (PLN 4,145 thousand as at the end of 2010). These chiefly include buildings and land usufruct rights planned to be sold in H2 2011.

25. SHARE CAPITAL

	Jun 30 2011	Dec 31 2010
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

(PLN '000)

26. BANK LOANS, BORROWINGS AND DEBT SECURITIES

	Currency	Jun 30 2011	Dec 31 2010	Effective interest rate (%)	Maturity date	Jun 30 2011	Dec 31 2010	Security
Non-current		Amount in original currency				Amount in PLN		
Lease liabilities	PLN	19,963	18,128	1M Wibor+margin; 8 - 10%	2012-2015	19,963	18,128	Blank promissory note with a promissory note declaration, assignment of claims under an insurance policy
Lease liabilities	CHF	2,575	3,424	8% on average	2013	8,497	10,835	Blank promissory note with a promissory note declaration
Lease liabilities	USD	28,182	10,173	1M Libor+margin; 8% on average	2015-2018	77,549	30,154	Blank promissory note with a promissory note declaration, authorisation to debit a current account
Investment loan from Pekao S.A.	PLN	4,845	-	1M Wibor+margin	Sep 30 2013	4,845	-	Promissory note, registered pledge
Credit facility from Pekao S.A.	PLN	1,100	1,400	1M Wibor+margin	Apr 30 2014	1,100	1,400	Contractual ordinary mortgage, contractual ceiling mortgage, assignment of rights
Credit facility from Credit Agricole CIB-led bank syndicate[2]	USD	398,000	313,500	3M Libor+margin	Aug 31 2017	1,083,327	909,347	Pledge over shares in PGNiG Norway[3]
Investment loan from BGK S.A.	EUR	195	-	1M Euribor+margin	May 31 2016	777	-	Registered pledge, promissory note, power of attorney over bank account, representation on submission to enforcement
Total non-current						**1,196,058**	**969,864**	

	Currency	Jun 30 2011	Dec 31 2010	Effective interest rate (%)	Maturity date	Jun 30 2011	Dec 31 2010	Security
Current		Amount in original currency				Amount in PLN		
Current portion of lease liabilities	PLN	8,904	10,629	1M Wibor+margin; 8% on average	2011-2012	8,904	10,629	Blank promissory note with a declaration, assignment of claims under an insurance policy
Current portion of lease liabilities	CHF	1,689	1,684	8% on average	2011-2012	5,574	5,327	Blank promissory note with a declaration
Current portion of lease liabilities	USD	6,655	3,633	1M Libor+margin; 8% on average	2011-2012	18,311	10,769	Blank promissory note with a promissory note declaration, authorisation to debit a current account
Credit facility from Pekao SA	PLN	7,037	11,402	1M Wibor+margin	Dec 31 2011	7,037	11,402	Ceiling mortgage
Credit facility from Societe Generale SA	PLN	2,151	1,131	1M Wibor+margin	Aug 31 2011	2,151	1,131	Assignment of receivables, blank promissory note
Overdraft facility from Pekao S.A.	PLN	8,776	8,069	1M Wibor+margin	Aug 23 2011	8,776	8,069	Promissory note, registered pledge
Investment loan from Pekao S.A.	PLN	3,876	1,832	1M Wibor+margin	Sep 30 2013	3,876	1,832	Promissory note, registered pledge
Overdraft facility from Societe Generale S.A.	USD	2,704	633	1M Libor+margin	Aug 31 2011	7,440	1,878	Mortgage, blank promissory note, assignment of claims
Overdraft facility from Pekao S.A.	PLN	20,000	19,708	1M Wibor+margin	Dec 31 2011	20,000	19,708	Mortgage, assignment of rights under an insurance policy, blank promissory note with a declaration, power of attorney over a current account, assignment of claims
Overdraft facility from BRE S.A.	USD	2,183	3,013	1M Libor+margin	May 30 2012	6,007	8,932	Blank promissory note with a promissory note declaration, authorisation to debit a current account

(PLN '000)

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

	Currency	Jun 30 2011	Dec 31 2010	Effective interest rate (%)	Maturity date	Jun 30 2011	Dec 31 2010	Security
Current		Amount in original currency				Amount in PLN		
Short-term loan from the Employee Savings-and-Loan Association	PLN	500	500	4.80%	Aug 15 2012	500	500	-
Overdraft facility from BGK S.A.	PLN	-	13,187	3M Wibor+margin	May 31 2011	-	13,187	Registered pledge, assignment of receivables, ceiling mortgage, representation on submission to enforcement
Working capital credit facility from BGK S.A.	PLN	-	5,455	1M Wibor+margin	Jul 28 2012	-	5,455	Registered pledge, mortgage, power of attorney over bank account, representation on submission to enforcement
Overdraft facility from Pekao S.A.	PLN	8,872	6,000	1M Wibor+margin	Sep 30 2011	8,872	6,000	Transfer of claims
Investment loan from BGK S.A.	EUR	1,505	-	1M Euribor+margin	May 31 2016	6,000	-	Registered pledge, promissory note, power of attorney over bank account, representation on submission to enforcement
Overdraft facility from Kredyt Bank S.A.	PLN	163	182	VISA card limits	Dec 31 2011	163	182	-
Credit facility from Credit Agricole CIB-led syndicate[2]	USD	2,439	2,099	3M Libor+margin	Aug 31 2017	2,439	2,099	Pledge over shares in PGNiG Norway[3]
Investment loan from PKO BP S.A.	PLN	5,140	3,100	3M Wibor+margin	Sep 30 2011	5,140	3,100	Blank promissory note
Credit facility from ING Bank Śląski S.A.	PLN	5,923	5,880	1M Wibor+margin	Aug 31 2011	5,923	5,880	Blank promissory note, assignment of claims
Overdraft facility from Deutsche Bank Polska S.A.	PLN	6,745	4,891	1M Wibor+margin	Jan 4 2012	6,745	4,891	Blank promissory note, power of attorney over bank account, representation on submission to enforcement, assignment of claims
Overdraft facility from Pekao S.A.	PLN	6,795	4,864	1M Wibor+margin	Dec 31 2011	6,795	4,864	Blank promissory note, power of attorney over bank account
Short-term loan from Pekao S.A.	EUR	84	1,020	1M Euribor+margin	Jul 29 2011	336	4,038	Blank promissory note with a declaration, power of attorney over bank account
Short-term loan from PKO BP S.A.	PLN	-	818	1M Wibor+margin	Mar 31 2011	-	818	Ceiling mortgage
Short-term loan from Nordea Bank Polska S.A.	PLN	1,482	1,438	1M Wibor+margin	Jan 28 2012	1,482	1,438	Ceiling mortgage
Short-term loan from BRE S.A.	PLN	975	-	1M Wibor+margin	Apr 19 2012	975	-	Ceiling mortgage
Credit facility from Pekao S.A.	PLN	600	600	1M Wibor+margin	Apr 30 2014	600	600	Mortgage, assignment of claims
Series D110126A notes	PLN	-	597,884	1M Wibor+margin	Jan 26 2011	-	597,884	-
Series D110121A notes	PLN	-	498,624	1M Wibor+margin	Jan 21 2011	-	498,624	-
Series D1107725A notes	PLN	498,036	-	1M Wibor+margin	Jul 25 2011	498,036	-	-
Total current						**632,082**	**1,229,237**	

(PLN '000)

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 2011		Dec 31 2010	
	Received credit facilities	Undrawn amount	Received credit facilities	Undrawn amount
Pekao S.A.	25,000	11,419	25,000	13,598
Societe Generale S.A.	3,000	849	3,000	1,869
Komercni Banka AS	821	821	790	790
Pekao S.A.	6,000	6,000	6,000	6,000
Societe Generale S.A.	6,000	6,000	6,000	6,000
Deutsche Bank Polska S.A.	-	-	6,000	6,000
Pekao S.A.	29,000	10,224	29,000	19,098
Societe Generale S.A.	12,383	4,943	13,338	11,461
BRE BANK S.A.	9,631	3,624	10,374	1,443
Pekao S.A.	20,000	-	20,000	292
HSBC Polska	8,255	3,495	8,892	3,058
Pekao S.A.	3,000	2,800	-	-
Kredyt Bank S.A.	4,000	4,000	3,500	3,500
BRE BANK S.A.	3,100	3,100	-	-
BRE BANK S.A.	670	670	-	-
Credit Agricole CIB-led bank syndicate[1]	1,105,228	5,526,	1,187,912	255,105
ING Bank Śląski S.A.	6,000	77	6,000	120
Deutsche Bank Polska S.A.	7,000	255	5,000	110
Pekao S.A.	7,000	205	7,000	2,136
BZ WBK S.A.	3,900	3,900	3,900	3,900
PKO BP S.A.	-	-	818	-
Nordea S.A.	1,500	18	1,500	62
BRE BANK S.A.	1,000	25	-	-
Societe Generale S.A.	40,000	40,000	40,000	40,000
Bank Handlowy S.A.	40,000	40,000	40,000	40,000
Millennium S.A.	40,000	1,155	40,000	40,000
Pekao S.A.	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	38,469	40,000	40,000
ING Bank Śląski S.A.	40,000	40,000	40,000	40,000
Total	**1,542,488**	**307,575**	**1,624,024**	**614,542**

26.2. Maturity of finance lease liabilities (recognised under liabilities)

Maturing in:	Jun 30 2011		
	(Discounted) payments disclosed in the statement of financial position	Interest	Actual lease payments due
up to 1 year	32,789	3,825	36,614
from 1 to 5 years	88,295	8,819	97,114
over 5 years	17,714	1,988	19,702
Total	**138,798**	**14,632**	**153,430**

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

(PLN '000)

27. PROVISIONS

	Provision for length-of-service awards and retirement severance pays	Provision for well decommi-ssioning costs	Provision for penalty imposed by the Office for Competition and Consumer Protection	Provision for environmental protection liabilities	Provision for claims under extra-contractual use of land	Central Restructuring Fund	Other	**Total**
As at Jan 1 2011	327,415	1,117,441	179	134,284	79,964	21,292	110,236	**1,790,811**
Provisions created during the year	25,078	52,661	-	947	13,571	5,000	96,037	**193,294**
Transfers	-	-	-	-	-	-	-	**-**
Provisions used	(9,955)	(634)	-	(11,316)	(2,450)	(1,774)	(76,884)	**(103,013)**
As at Jun 30 2011	**342,538**	**1,169,468**	**179**	**123,915**	**91,085**	**24,518**	**129,389**	**1,881,092**
Non-current	291,983	1,145,895	-	106,241	8,931	-	18,936	**1,571,986**
Current	50,555	23,573	179	17,674	82,154	24,518	110,453	**309,106**
As at Jun 30 2011	**342,538**	**1,169,468**	**179**	**123,915**	**91,085**	**24,518**	**129,389**	**1,881,092**
Non-current	278,615	1,085,369	-	109,943	7,969	-	19,268	**1,501,164**
Current	48,800	32,072	179	24,341	71,995	21,292	90,968	**289,647**
As at Dec 31 2010	**327,415**	**1,117,441**	**179**	**134,284**	**79,964**	**21,292**	**110,236**	**1,790,811**

The technical rate adopted to calculate the discounted value of the future retirement severance pay obligations was 2.7%, as the resultant of the 5.8%annual return on assets and the 3.0% forecast annual salary growth (at the end of 2010 the adopted technical rate was 3%, as the resultant of 6.07% and 3.0%, respectively).

In H1 2010, a discount rate of 3.22% was applied to calculate the provision for well decommissioning costs incurred in Poland, as the resultant of the 5.8% 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 3.48%, as the resultant of 6.07% and 2.5%, respectively).

In H1 2011, the provision for decommissioning of wells accounted for in the financial statements of PGNiG Norway AS, a subsidiary operating in Norway, did not change. For these wells, PGNiG Norway AS calculated the provision using a discount rate of 3.74%.

(PLN '000)

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.

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

In H1 2011, the Group increased the provision for claims under extra-contractual use of land up to the amount of PLN 91,085 thousand (as at the end of 2010, the provision amounted to PLN 79,964 thousand).

Long-term provisions are discounted at the rate of 3.22%.

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

	Jun 30 2011	Dec 31 2010
Length-of-service awards		
Value of obligation shown in the statement of financial position at beginning of period	208,661	210,914
Interest cost	3,101	6,325
Current service cost	8,543	8,234
Past service cost	-	-
Benefits paid	(18,413)	(50,285)
Actuarial gain/loss	14,661	30,752
Gains/losses due to curtailments or settlements	(1,925)	-
Changes in the Group	-	2,721
Value of obligation shown in the statement of financial position at end of period	**214,628**	**208,661**
Retirement severance pays		
Value of obligation shown in the statement of financial position at beginning of period	118,754	110,129
Current service cost	7,041	6,829
Interest cost	2,772	5,320
Net actuarial gain/loss recognised during the year	3,105	3,168
Benefits paid	(4,534)	(7,851)
Past service cost	497	1,064
Gains/losses due to curtailments or settlements	275	-
Changes in the Group	-	95
Value of obligation shown in the statement of financial position at end of period	**127,910**	**118,754**
Total value of obligation shown in the statement of financial position at end of period	**342,538**	**327,415**

(PLN '000)

28. DEFERRED INCOME

	Jun 30 2011	Dec 31 2010
Non-current		
Value of gas service lines financed by customers, not covered by depreciation charges	510,638	539,765
Connection charge	459,951	470,225
Subsidies	106,791	63,827
Other	20,363	15,375
Total non-current	**1,097,743**	**1,089,192**
Current		
Value of gas service lines financed by customers, not covered by depreciation charges	53,368	51,927
Connection charge	18,055	18,273
Forecast gas sales	628,703	588,570
Other	28,396	23,888
Total current	**728,522**	**682,658**

Grants

In 2010, the Parent Undertaking and Instytut Nafty i Gazu (Oil and Gas Institute) as the Implementing Entity executed four agreements for partial financing of the following projects: Wierzchowice Underground Storage Facility, Strachocina Underground Storage Facility, Kosakowo Underground Gas Storage Cavern Facility, and Mogilno Underground Gas Storage Cavern Facility.
These four projects are to increase the storage capacities from the current 1.6bn cubic metres to over 3bn cubic metres in 2015.

By June 30th 2011, the Parent Undertaking recorded PLN 95,468 thousand (PLN 63,815 thousand as at the end of 2010) of received co-financing for the Wierzchowice Underground Gas Storage Facility and PLN 11,170 thousand of co-financing for the Strachocina Underground Gas Storage Facility. These amounts recognised in deferred income and will be taken to operating income gradually in proportion to the depreciation charges on the tangible assets financed.

29. DEFERRED TAX LIABILITY

	Jun 30 2011	Dec 31 2010
Foreign exchange gains	881	751
Accrued interest	495	344
Valuation of hedging and financial instruments	42,250	14,386
Income related to tax obligation arising in subsequent month	2,614	20,220
Difference between tax and accounting value of non-current assets	1,355,207	1,345,900
Other	10,606	10,409
Total	**1,412,053**	**1,392,010**

30. OTHER NON-CURRENT LIABILITIES

	Jun 30 2011	Dec 31 2010
Liabilities under licences, rights to geological information and mining usage rights	15,793	14,828
Other non-current liabilities	5,821	6,282
Total	**21,614**	**21,110**
Including related undertakings (Note 37.1.)	364	1,262

(PLN '000)

31. TRADE AND OTHER PAYABLES

	Jun 30 2011	Dec 31 2010
Trade payables	893,267	1,093,830
Trade payables to related undertakings	5,195	12,033
VAT payable	566,605	1,038,996
Other taxes, duties and social security contributions payable	272,857	157,914
Dividend payable to owner	708,007	-
Wages and salaries payable	75,551	59,440
Amounts payable for unused holidays	17,317	33,397
Amounts payable under purchase of non-financial non-current assets	218,124	602,930
Amounts payable under purchase of non-financial non-current assets from related undertakings	8,428	6,454
Additional contribution to equity payable under a relevant resolution*	84,552	84,552
Amounts payable to equity-accounted associated undertakings	6,733	7,917
Other amounts payable to related undertakings	1,432	,718
Accruals and deferred income and prepaid deliveries	233,437	139,980
Other	96,430	53,311
Total	**3,187,935**	**3,291,472**
Including related undertakings (Note 37.1.)	106,340	111,674

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

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

Change in cash	Jan 1– Jun 30 2011	Jan 1–Jun 30 2010
1) Cash in statement of financial position at beginning of period	1,373,292	1,196,325
a) Net foreign exchange gains (losses) on cash at beginning of period*	374	9
Cash and cash equivalents in statement of cash flows at beginning of period (1-a)	**1,372,918**	**1,196,316**
2) Cash in statement of financial position at end of period	1,034,496	2,093,837
b) Net foreign exchange gains (losses) on cash at end of period	440	1,162
Cash and cash equivalents in statement of cash flows at end of period (2-b)	**1,034,056**	**2,092,675**
I. Change in cash in statement of financial position (2-1)	(338,796)	897,512
II. Change in net foreign exchange gains (losses) on cash (b-a)	66	1,153
Change in cash in statement of cash flows (I. - II.)	**(338,862)**	**896,359**

* 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 2011	Jan 1–Jun 30 2010
Change in other financial assets in statement of financial position	**30,205**	**20,131**
Change in net receivables in statement of financial position	**1,471,158**	**1,101,100**
Change in lease receivables in financial assets – adjustment to investment activity	(30,538)	(17,974)
Change in lease receivables - adjustment to investment activity	30,749	1,194
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	8,951	(6,671)
Changes in the Group	2,751	(3,193)
Other	**1,513,276**	**1,094,587**
Change in net receivables in statement of cash flows	**30,205**	**20,131**

(PLN ‘000)

Change in inventories	Jan 1– Jun 30 2011	Jan 1–Jun 30 2010
Change in inventory in statement of financial position	**(463,829)**	**(124,784)**
Tangible assets under construction transferred to inventory - adjustment to investment activity	-	-
Change in inventory in statement of cash flows	**(463, 829)**	**(124,784)**

Change in provisions	Jan 1– Jun 30 2011	Jan 1–Jun 30 2010
Change in provisions in statement of financial position	**90,281**	**64,273**
Change in provision for well decommissioning costs which adjusts property, plant and equipment - adjustment to investment activity	(47,789)	(55,247)
Change in provisions in statement of cash flows	**42,492**	**9,026**

Change in current liabilities	Jan 1– Jun 30 2011	Jan 1–Jun 30 2010
Change in current liabilities in statement of financial position	**(103,537)**	**254,065**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	382,832	105,523
Change in dividends payable to owner	(708,000)	(472,000)
Other	(1,018)	(2,621)
Change in current liabilities in statement of cash flows	**(429,723)**	**(115,033)**

Change in prepayments	Jan 1– Jun 30 2011	Jan 1–Jun 30 2010
Change in other assets in statement of financial position	**(3,780)**	**428**
Change in prepayments in statement of financial position	**(184,381)**	**(203,744)**
Prepayments related to tangible assets leased to third parties – reclassification within operating activity	-	-
Expense (fees and commission) related to the note issuance programme	(3,886)	-
Change in prepayments in statement of cash flows	**(192,047)**	**(203,316)**

Change in deferred income	Jan 1– Jun 30 2011	Jan 1–Jun 30 2010
Change in deferred income in statement of financial position	**54,415**	**(18,007)**
Deferred income related to tangible assets leased to third parties – reclassification within operating activity	3	3
Non-current assets received free of charge	-	-
Subsidies received for property, plant and equipment	(42,823)	-
Change in deferred income in statement of cash flows	**11,595**	**(18,004)**

Other net items in operating activity	Jan 1– Jun 30 2011	Jan 1–Jun 30 2010
Derivatives	(10,985)	24,982
Expenditure on non-financial non-current assets which was charged to expense	139,294	59,551
Other	8,265	8,689
Total	**136,574**	**93,222**

(PLN '000)

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

33.1. Financial instruments by category (net carrying values)

	Jun 30 2011	Dec 31 2010
Financial assets at fair value through profit or loss	-	-
Financial assets available for sale (unlisted shares)	52,347	39,677
Financial assets available for sale (listed shares)	44	130,765
Financial investments held to maturity	-	-
Loans and receivables	3,220,026	4,901,683
Positive value of derivatives*	316,271	77,873
Cash (cash in hand and cash at banks, cheques and cash in transit)	216,737	247,105
Financial liabilities at amortised cost	4,105,359	4,221,936
Negative value of derivatives*	162,237	104,443

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

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

33.2. Net gains and losses relating to financial assets and liabilities

	Jan 1 – Jun 30 2011	Jan 1 – Jun 30 2010
Financial assets at fair value through profit or loss	-	-
Financial assets available for sale	21	-
Impairment recognised in profit or loss for period	21	-
Financial investments held to maturity	-	-
Loans and receivables	90,191	(59,406)
Interest on deposits, BSB, REPO	24,789	23,697
Interest on receivables*	37,627	41,908
Interest on loans advanced	263	3,606
Net income from short-term securities	525	1,474
Impairment losses on receivables	46,700	(120,110)
Impairment losses on loans	(19,055)	(11,666)
Foreign currency measurement of loans advanced in foreign currencies	(658)	1,685
Positive value of derivatives	275,762	175,163
Financial liabilities at amortised cost	73,626	(11,700)
Negative value of derivatives	(267,171)	(258,413)
Total effect on profit or loss	**172,429**	**(154,356)**

* Including PLN 1,093 thousand of interest on receivables under finance lease (PLN 9,325 thousand in H1 2010).

	Jan 1 – Jun 30 2011	Jan 1 – Jun 30 2010
Financial assets available for sale (valuation charged directly to equity)	(52,689)	(3,560)
Valuation of hedging instruments (valuation recognised directly under equity)	169,803	87,888
Total effect on equity	**117,114**	**84,328**

(PLN '000)

33.3. Financial risk management objectives and policies

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

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

Credit risk

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

The PGNiG Group is exposed to credit risk under:

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

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

Maximum exposure to credit risk

	Jun 30 2011	Dec 31 2010
Loans advanced	-	-
Deposits with other entities (bank deposits, BSB, REPO)	847,521	1,135,774
Trade receivables	2,372,505	3,765,909
Positive value of derivatives	316,271	77,873
Financial guarantees issued	2,862,877	2,867,934
Total	**6,399,174**	**7,847,490**

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

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

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

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

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

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

PGNiG S.A. uses the following contract performance security instruments:

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

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

The balance of receivables from customers is monitored on an ongoing basis, in line with internal procedures applicable at the Parent Undertaking. If a customer's failure to make a payment when due has been identified, the Company takes appropriate measures to collect the debt.
The debt-collection measures are governed by "*The Guidelines for Monitoring and Collection of Receivables from Customers Buying Gas/Crude Oil/Other Products" and "Interest Receivable Management Procedure"*. During debt collection, legal tools are used and debt-collection measures are taken to assess the level and causes of associated risk. In this respect, standard steps of debt-collection are taken: a payment demand, a telephone call to the customer, notice and discontinuance of gaseous 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 for cancellation of interest (with a value exceeding the equivalent of EUR 5,000) is forwarded to the Supervisory Board for approval in line with corporate procedures.

As at June 30th 2011, receivables which are past due but not impaired, disclosed in the consolidated statement of financial position, were PLN 373,849 thousand (PLN 421,623 thousand as at the end of 2010).

(PLN '000)

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

Period of delay	Jun 30 2011	Dec 31 2010
up to 1 month	248,314	333,555
from 1 to 3 months	93,207	60,240
from 3 months to 1 year	27,008	17,430
from 1 to 5 years	4,882	9,132
over 5 years	438	1,266
Total net past due receivables	**373,849**	**421,623**

The Group identifies, measures and minimises its credit exposure to individual banks with which it executes investment transactions. The reduction of credit exposure was achieved through diversification of the portfolio of counterparties (mainly banks) with which the Group executes investment transactions. Moreover, the Group has concluded Framework Agreements with all banks with which it invests funds. These Framework Agreements stipulate detailed terms and conditions for execution and settlement of any financial transactions. In H1 2011, the Group invested its significant long-term excess liquidity in risk-free highly liquid instruments, including in particular treasury bills and treasury bonds.
The Group measures the related credit risk by regularly reviewing the banks' financial standings, as reflected in ratings assigned by rating agencies such as Fitch, Standards&Poor's and Moody's.

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

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

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

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

Market risk

The Group defines market risk as the probability that its economic value or financial performance will be adversely affected by changes in the financial and commodity markets.
The main objective of the market risk management is to identify, measure, monitor and mitigate key sources of risk, including:

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

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.

In H1 2011, some of the Group's financial liabilities towards financial institutions were denominated in the US dollar. The largest item was a loan under a USD 400m credit facility, drawn by PGNiG Norway AS, a subsidiary undertaking.

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

The hedging measures implemented by the Group are mainly intended to provide protection against the currency risk accompanying payments for gaseous fuel deliveries settled in foreign currencies. The Group's liabilities are hedged with 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 the interest-rate risk associated with loans advanced by the Group was not significant, the Group did not hedge that risk.

As at June 30th 2011, the Group held corporate notes for an amount of PLN 500,000 thousand. Given the short maturities of the notes and periodic determination of debt cost, the related interest rate risk is immaterial to the Group.

As at the end of 2010, the USD 398,000 thousand credit facility contracted by a subsidiary undertaking, PGNiG Norway AS, was not hedged against interest rate fluctuations. The facility bears interest at 3M Libor plus margin. Consequently, a risk exists that financial expenses will increase if the 3M Libor rate rises.

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

Commodity risk

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

The price risk to which the Group is exposed, mainly in connection with its contracts for gaseous 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 gaseous fuel deliveries, the pricing formula relies on a weighted average of the prices from previous months, which mitigates the volatility risk.

Starting from 2010, the Group thoroughly identifies and hedges this risk category. To hedge against commodity price risk, in H1 2011 the Group used Asian call options settled as European options, risk reversal option strategies and commodity swaps.

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

Liquidity risk

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

The Group monitors and plans its liquidity levels on a continuous basis. In order to hedge the liquidity risk, as at June 30th 2011 the Group was party to credit facility agreements for up to PLN 1,542,488 thousand (PLN 1,624,024 thousand as at the end of 2010). For more details, see Note 26.1.

Additionally, in order to optimise cash management at the Group, on December 1st 2010 the Parent Undertaking concluded with Bank Handlowy w Warszawie S.A. a notes issue programme agreement for a total amount of PLN 397,270 thousand. The programme amount was increased on June 1st 2011 to PLN 1,000,000 thousand. The agreement is valid until November 30th 2013. Under the programme, PGNiG S.A. issues short-term discount notes for its excessively liquid distribution companies. The first issue was carried out on December 22nd 2010. As at June 30th 2011, debt under notes issued to Group companies stood at PLN 650,200 thousand.

In order to increase liquidity security, on June 10th 2010, the Parent Undertaking concluded a notes issue programme agreement. As at June 30th 2011, debt under this agreement was PLN 500,00 thousand. The agreement is valid until July 31st 2013 and its total value is PLN 3,000,000 thousand.

Moreover, on September 17th 2010, a mandate agreement for an EMTN programme of up to EUR 1,200,000 thousand was executed. The agreement providing for arrangement of an EMTN programme and for the first issue of bonds was executed with three banks: Societe Generale S.A., BNP Paribas

(PLN '000)

S.A. and Unicredit AG. The expected issue date of the euro notes is Q3 2011. Proceeds from the issue will be used to finance PGNiG S.A.'s investment programme.

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

The liquidity risk is significantly mitigated through a liquidity management procedure, implemented across the Company's organisational units. The procedure streamlines 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 2011	Liabilities under loans, borrowings and notes issued	Finance lease liabilities	Trade payables	**Total expenditure**
up to 1 year	601,257	36,614	3,187,935	3,825,806
from 1 to 5 years	6,722	97,114	20,175	124,011
over 5 years	1,083,326	19,702	1,439	1,104,467
Total	**1,691,305**	**153,430**	**3,209,549**	**5,054,284**

Dec 31 2010	Liabilities under loans and borrowings	Finance lease liabilities	Trade payables	**Total expenditure**
up to 1 year	1,203,905	28,929	3,291,472	4,524,306
from 1 to 5 years	1,400	62,595	19,613	83,608
over 5 years	931,026	-	1,497	932,523
Total	**2,136,331**	**91,524**	**3,312,582**	**5,540,437**

Amounts in the above tables are presented in gross values (undiscounted).

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.

(PLN '000)

Derivative instruments by maturity

	Net book value as at Jun 30 2011	Contractual cash flows, including:	up to 1 year	from 1 to 5 years	over 5 years
*- interest rate swaps (IRS) and forward contracts, used as risk hedging instruments**	(129,977)	(17,747)	(3,418)	(14,329)	-
- inflows	-	2,266,566	91,700	2,174,866	-
- outflows	-	(2,284,313)	(95,118)	(2,189,195)	-
- forward transactions	(2,664)	(1,932)	(1,932)	-	-
- inflows	-	105,756	105,756	-	-
- outflows	-	(107,688)	(107,688)	-	-
*- currency options***	(25,290)	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
*- commodity options***	241,036	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
*- commodity swaps****	6,578	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- option premiums paid	64,351	-	-	-	-
- currency options	46,007	-	-	-	-
- commodity options	18,344	-	-	-	-
Total	**154,034**	**(19,679)**	**(5,350)**	**(14,329)**	**-**

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

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

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

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

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

Risk management policy

To ensure effective financial risk management, on February 17th 2003 the Management Board of the Parent Undertaking implemented the "Policy of Financial Risk Management at PGNiG S.A." which defines the distribution of functions and responsibilities between individual organisational units of the Company in the process of managing and monitoring the financial risk.
The Management Board is responsible for the financial risk management at the Parent Undertaking and for ensuring compliance with the adopted policy, however, specific activities related to the process of the risk management are the responsibility of individual organisational units.

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

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

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

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

Sensitivity analysis

To determine a reasonable range of changes that may occur with respect to particular currency and interest rate risks, the Group used the market implied volatility level for a half-year period and assumed 15% as the average value for the purpose of the sensitivity analysis as at the end of H1 2011 with respect to exchange rates (for the end of 2010, the assumed volatility was also 15%). The half-year period reflects the frequency with which the Company discloses results of financial instrument sensitivity analyses in its reports.

Results of the analysis of sensitivity to currency risk carried out as at June 30th 2011 show that net profit would have been lower by PLN 497,697 thousand, if the EUR, USD, NOK and other currencies appreciated against the złoty by 15%, all other variables remaining constant (profit lower by PLN 291,778 thousand due to stronger NOK, by PLN 196,866 thousand due to stronger USD, by PLN 7,832 thousand due to stronger EUR, and by PLN 1,221 thousand due to the appreciation 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 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).
The adverse effect on the result on financial instruments in NOK would be significantly augmented by an increase in valuation of the USD credit facility contracted by subsidiary PGNiG Norway AS, and slightly reduced by an increase in the valuation of assets in those currencies.

Contrary to prior periods, an increase in the positive portion of the fair value of financial derivatives in USD and EUR would not have a significant positive effect on the financial result, due to the fact that such amount is largely taken directly to equity (see table "Analysis of derivatives' sensitivity to fluctuations of exchange rates charged to equity"). At the same time, the financial result would still be adversely affected by the growth of foreign exchange losses on trade payables in EUR and USD.

As at June 30th 2011, net profit would have been higher by PLN 474,478 thousand, if the EUR, USD, NOK and other currencies depreciated against the złoty by 15%, all other variables remaining constant (profit higher by PLN 291,778 due to weaker NOK, by PLN 178,521 thousand due to weaker USD, by PLN 2,958 thousand due to weaker EUR, and by PLN 1,221 thousand due to depreciation of other currencies). A positive result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). The positive result would be significantly augmented by a decrease in valuation of the USD credit facility contracted by subsidiary PGNiG Norway AS, and a positive effect of higher foreign exchange gains on trade payables in EUR and USD. Given the existing contract portfolio (including primarily options), for USD a change in the positive portion of the fair value of financial derivatives hedging the liabilities and expenses related to purchases of gaseous fuel would not have any significant effect on the financial result.

Results of the analysis of sensitivity to currency risk carried out as at December 31st 2010 indicate that net profit would have been lower by PLN 288,218 thousand, if the EUR, USD, NOK and other currencies' exchange rates appreciated against the złoty by 15%, all other variables remaining constant (profit lower by PLN 264,650 thousand due to stronger NOK, by PLN 56,641 thousand due to stronger USD and by PLN 823 thousand due to the strengthening of other currencies, vs. profit rise by PLN 33,896 thousand due to stronger EUR).

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

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

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

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

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

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

The following pages present detailed information on the analysis of sensitivity of the Group's currency financial instruments to exchange rate fluctuations in H1 2011 and 2010.

(PLN ‘000)

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

	Net book value as at Jun 30 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	14,039	-	-	-	-	-	-	-	-
Other financial assets	320	-	48	-	-	-	(48)	-	-
Trade and other receivables	124,584	7,908	5,539	4,066	1,174	(7,908)	(5,539)	,(4,066)	(1,174)
Financial assets held for trading	-	-	-	-	-	-	-	-	-
Derivative financial instrument assets	25,370	(3,179)	(4,844)	-	-	-	-	338,194	-
Cash and cash equivalents	78,650	3,653	4,246	1,209	2,690	(3,653)	(4,246)	(1,209)	(2,690)
Effect on financial assets before tax		**8,382**	**4,989**	**5,275**	**3,864**	**(11,561)**	**(9,833)**	**332,919**	**(3,864)**
19% tax		(1,593)	(948)	(1,002)	(734)	2,197	1,868	(63,255)	734
Effect on financial assets after tax		**6,789**	**4,041**	**4,273**	**3,130**	**(9,364)**	**(7,965)**	**269,664**	**(3,130)**
Total currencies		*18,233*				*249,205*			
Financial liabilities									
Loans, borrowings and debt securities (including finance lease)	1,216,257	1,067	179,261	-	2,111	(1,067)	(179,261)	-	(2,111)
Trade and other payables	775,451	16,984	68,772	27,301	3,260	(16,984)	(68,772)	(27,301)	(3,260)
Derivative financial instrument liabilities	137,294	-	-	338,194	-	2,838	17,803	-	-
Effect on financial liabilities before tax		**18,051**	**248,033**	**365,495**	**5,371**	**(15,213)**	**(230,230)**	**(27,301)**	**(5,371)**
19% tax	-	(3,430)	(47,126)	(69,444)	(1,020)	2,891	43,744,	5,187	1,020
Effect on financial liabilities after tax		**14,621**	**200,907**	**296,051**	**4,351**	**(12,322)**	**(186,486)**	**(22,114)**	**(4,351)**
Total currencies		*515,930*				*(225,273)*			
Total increase/decrease		(7,832)	(196,866)	(291,778)	(1,221)	2,958	178,521	291,778	1,221
Total currencies		**(497,697)**				**474,478**			
Exchange rates as at the balance-sheet date and their change:									
EUR/PLN	3.9866	-	4.5846	4.5846	4.5846	-	3.3886	3.3886	3.3886
USD/PLN	2.7517	3.1645	-	3.1645	3.1645	2.3389	-	2.3389	2.3389
NOK/PLN	0.5128	0.5897	0.5897	-	0.5897	0.4359	0.4359	-	0.4359

(PLN '000)

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

(PLN '000)

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

	Jun 30 2011		Dec 31 2010	
Exchange rate	for USD		for USD	
Exchange rate change by:	15%	-15%	15%	-15%
Effect on equity, before tax	200,816	(41,557)	53,830	(11,506)
19% tax	(38,155)	7,896	(10,228)	2,186
Effect on financial assets/liabilities after tax	**162,661**	**(33,661)**	**43,602**	**(9,320)**

An analysis of derivatives' sensitivity to fluctuations of exchange rates charged to equity, as presented in the table above, indicates that a 15% increase in the USD/PLN exchange rate would cause an increase in equity through other comprehensive income. A 15% drop of the USD/PLN exchange rate would cause a reverse effect, that is a decrease in equity. This is attributable to the fact that to protect itself against an increase in the USD exchange rate, which is applied in the settlement and measurement of liabilities and expenses under purchases of gaseous fuel, the Parent Undertaking uses derivatives whose valuation (effective portion) is charged to equity.
The Group has analysed the sensitivity of energy commodity derivatives. For the purposes of the H1 2011 sensitivity analysis, a 30% volatility was assumed for the derivatives (25% as at the end of 2010).
The table below presents an analysis of sensitivity of energy commodity derivatives to price fluctuations in H1 2011 and in 2010.

Sensitivity of derivatives to commodity price fluctuations charged to income statement

	Net book value as at Jun 30 2011	**Price risk**			
	Price change by:	*30%*		*-30%*	
		Gasoil	Fueloil	Gasoil	Fueloil
Financial assets					
Energy commodity derivative assets	290,901	102,555	150,513	(97,450)	(106,111)
Effect on financial assets before tax		**102,555**	**150,513**	**(97,450)**	**(106,111)**
19% tax		(19,485)	(28,597)	18,516	20,161
Effect on financial assets after tax		**83,070**	**121,916**	**(78,934)**	**(85,950)**
Total commodities		*204,986*		*(164,884)*	
Financial liabilities					
Energy commodity derivative liabilities	24,943	-	-	-	-
Effect on financial liabilities before tax		**-**	**-**	**-**	**-**
19% tax		-	-	-	-
Effect on financial liabilities after tax		**-**	**-**	**-**	**-**
Total commodities		-		-	
Total increase/decrease		83,070	121,916	(78,934)	(85,950)
Total commodities		**204,986**		**(164,884)**	

(PLN '000)

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

The 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.

(PLN '000)

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

	Jun 30 2011			
Price change by:	30%		-30%	
	Gasoil	Fueloil	Gasoil	Fueloil
Effect on equity, before tax	270,833	158,049	(208,503)	(89,471)
19% tax	(51,458)	(30,029)	39,615	16,999
Effect on financial assets/liabilities after tax	**219,375**	**128,020**	**(168,888)**	**(72,472)**

The derivatives' sensitivity analysis to changes in prices of energy commodity derivatives charged to equity as at June 30th 2011, presented in the above table, shows that a 30% increase in commodity prices would cause an increase in equity through other comprehensive income. A 30% drop of commodity prices would cause a reverse effect, that is a decrease in equity. This is attributable to the fact that the Parent Undertaking uses derivatives whose valuation (effective portion) is charged to equity to protect itself against an increase in prices of energy commodities, which represent the largest item of expenses in the Group's income statement.

Compared with the sensitivity analysis carried out as at the end of 2010, higher figures are primarily attributable to higher volatility assumed (30% in H1 2011 relative to 25% as at the end of 2010) and a larger volume of derivatives held as at June 30th 2011.

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

The derivatives' sensitivity analysis to changes in prices of energy commodity derivatives charged to equity as at December 31st 2010, presented in the above table, shows that a 25% increase in commodity prices would cause an increase in equity through other comprehensive income. A 25% drop of commodity prices would cause a reverse effect, that is a decrease in equity. This is attributable to the fact that the Parent Undertaking uses derivatives whose valuation (effective portion) is charged to equity to protect itself against an increase in prices of energy commodities, which represent the largest item of expenses in the Group's income statement.

The Group has performed a sensitivity analysis for financial instruments including floating interest rate advanced loans, contracted loans and lease liabilities. To determine a reasonable range of changes that may occur with respect to particular interest rate risks, the Group has used a market implied volatility level for a half-year period. The average range of interest rate fluctuations used in the sensitivity analysis for H1 2011 was +/-60 basis points (the range for 2010 was +/-100 basis points).

As at June 30th 2011, the sensitivity of liabilities under floating-rate loans, leases and issued notes to interest rate changes by +/-60 basis points was +/-PLN 10,969 thousand.

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

(PLN '000)

Sensitivity of financial instruments to interest rate changes

	Net book value as at Jun 30 2011	*Change by:* +60 bp	-60 bp
Contracted loans	1,191,306	7,148	(7,148)
Notes issued	498,036	2,988	(2,988)
Lease liabilities	138,798	833	(833)
Total	**1,828,140**	**10,969**	**(10,969)**

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

34. DERIVATIVES

Measurement of derivatives

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

As at June 30th 2011, the Group held four types of currency derivatives: cross currency basis swaps, forwards, purchased call options and risk reversal strategies (purchase of call options and sale of put options). Currency call and put options have been measured at fair value using the Garman-Kohlhagen model, whereas forwards have been measured at fair value by discounting future cash flows separately for each currency. In both cases the measurement was performed based on market data such as interest rates, foreign-exchange rates and volatilities as at June 30th 2011.

Moreover, in order to hedge its commodity risk, in H1 2011 the Group used Asian call options, risk reversal strategies (purchase of Asian commodity call options and sale of put options) and commodity swaps. Asian commodity call and put options have been measured at fair value in accordance with the Turnbull-Wakeman model, based on market data such as commodity prices, foreign-exchange rates and volatilities as at June 30th 2011.

The fair-value measurement was performed using the Exante application.

Hedge accounting

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

Derivative Instruments

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value Jun 30 2011	Dec 31 2010
			Cross Currency Interest Rate Swap			
PGNiG Norway loan	NOK 930m	9 December 2010	15 January 2014	0.5056	(31,788)	(24,211)
PGNiG Norway loan	NOK 1,596m	13 December 2010	15 January 2014	0.5052	(52,257)	(39,071)
PGNiG Norway loan	NOK 674m	14 December 2010	15 January 2014	0.5040	(23,339)	(17,795)
PGNiG Norway loan	NOK 700m	15 December 2010	15 January 2014	0.5054	(22,593)	(16,797)
					(129,977)	**(97,874)**

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
Forward						
Payments for gas	NOK 70m	20 May 2011	29 December 2011	0.5027	(949)	-
Payments for gas	NOK 70m	20 May 2011	29 December 2011	0.5028	(943)	-
Payments for gas	NOK 70m	21 June 2011	29 December 2011	0.5053	(772)	-
					(2 664)	**-**
Call options						
Payments for gas	USD 10m	29 July 2010	20 January 2011	3.3000	-	9
Payments for gas	USD 10m	29 July 2010	10 January 2011	3.2700	-	-
Payments for gas	USD 10m	2 August 2010	10 February 2011	3.3000	-	82
Payments for gas	USD 10m	2 August 2010	10 February 2011	3.4700	-	20
Payments for gas	EUR 5m	2 August 2010	10 January 2011	4.2000	-	-
Payments for gas	USD 10m	3 August 2010	20 January 2011	3.2500	-	19
Payments for gas	USD 10m	3 August 2010	10 February 2011	3.4500	-	24
Payments for gas	USD 10m	4 August 2010	10 February 2011	3.4600	-	22
Payments for gas	USD 10m	5 August 2010	18 February 2011	3.4700	-	37
Payments for gas	EUR 5m	16 August 2010	10 February 2011	4.2000	-	43
Payments for gas	USD 10m	17 August 2010	18 February 2011	3.3300	-	100
Payments for gas	EUR 5m	17 August 2010	18 February 2011	4.1700	-	78
Payments for gas	USD 10m	18 August 2010	20 January 2011	3.2700	-	14
Payments for gas	USD 10m	19 August 2010	18 February 2011	3.3000	-	122
Payments for gas	USD 10m	26 August 2010	18 February 2011	3.3700	-	77
Payments for gas	USD 10m	26 August 2010	10 February 2011	3.3600	-	51
Payments for gas	USD 10m	6 September 2010	10 March 2011	3.5600	-	62
Payments for gas	USD 10m	7 September 2010	10 March 2011	3.3500	-	184
Payments for gas	USD 10m	7 September 2010	10 January 2011	3.3000	-	-
Payments for gas	EUR 8m	9 September 2010	10 March 2011	4.1500	-	233
Payments for gas	USD 10m	10 September 2010	10 March 2011	3.3200	-	212
Payments for gas	USD 10m	17 September 2010	18 February 2011	3.2300	-	187
Payments for gas	USD 10m	17 September 2010	18 March 2011	3.2500	-	341
Payments for gas	USD 10m	17 September 2010	10 March 2011	3.2800	-	254
Payments for gas	USD 10m	20 September 2010	18 March 2011	3.2800	-	302
Payments for gas	USD 10m	21 September 2010	18 March 2011	3.2500	-	341
Payments for gas	USD 10m	21 September 2010	10 February 2011	3.2000	-	167
Payments for gas	USD 10m	22 September 2010	18 February 2011	3.1800	-	249
Payments for gas	USD 10m	22 September 2010	18 March 2011	3.4650	-	136
Payments for gas	USD 10m	23 September 2010	10 March 2011	3.2100	-	347
Payments for gas	USD 10m	28 September 2010	20 January 2011	3.3800	-	2
Payments for gas	USD 10m	29 September 2010	10 March 2011	3.3600	-	175
Payments for gas	USD 10m	14 October 2010	18 March 2011	3.2000	-	417
Payments for gas	USD 10m	14 October 2010	20 January 2011	3.1500	-	69
Payments for gas	USD 10m	14 October 2010	10 February 2011	2.9500	-	804
Payments for gas	USD 10m	14 October 2010	20 January 2011	2.9200	-	715
Payments for gas	USD 10m	25 October 2010	20 January 2011	2.9300	-	651
Payments for gas	USD 10m	25 October 2010	10 January 2011	2.9300	-	443
Payments for gas	USD 10m	28 October 2010	20 January 2011	2.9815	-	393
Payments for gas	USD 10m	4 November 2010	20 January 2011	2.8800	-	1,007
Payments for gas	EUR 8m	4 November 2010	8 April 2011	4.0700	-	512
Payments for gas	USD 10m	4 November 2010	8 April 2011	3.0000	-	1,116
Payments for gas	USD 10m	4 November 2010	10 February 2011	2.9500	-	804
Payments for gas	USD 10m	4 November 2010	10 March 2011	2.9800	-	957
Payments for gas	EUR 5m	5 November 2010	10 February 2011	4.0500	-	147
Payments for gas	USD 10m	5 November 2010	18 March 2011	3.0000	-	946
Payments for gas	EUR 9m	10 November 2010	20 January 2011	4.0000	-	189

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
Call options (continued)						
Payments for gas	USD 10m	10 November 2010	18 February 2011	2.9900	-	717
Payments for gas	USD 10m	10 November 2010	18 March 2011	3.0300	-	835
Payments for gas	USD 10m	16 November 2010	18 February 2011	3.0500	-	514
Payments for gas	USD 10m	16 November 2010	8 April 2011	3.2500	-	465
Payments for gas	USD 10m	18 November 2010	18 February 2011	3.0300	-	574
Payments for gas	EUR 9m	18 November 2010	10 May 2011	4.1000	-	654
Payments for gas	USD 10m	19 November 2010	18 February 2011	3.0200	-	607
Payments for gas	USD 10m	22 November 2010	18 February 2011	3.0000	-	678
Payments for gas	USD 10m	1 December 2010	18 March 2011	3.2600	-	327
Payments for gas	USD 10m	1 December 2010	10 February 2011	3.2000	-	167
Payments for gas	USD 10m	1 December 2010	18 February 2011	3.2000	-	223
Payments for gas	USD 10m	2 December 2010	10 January 2011	3.1300	-	4
Payments for gas	USD 10m	2 December 2010	10 February 2011	3.1700	-	203
Payments for gas	USD 10m	2 December 2010	20 January 2011	3.1700	-	55
Payments for gas	USD 10m	2 December 2010	8 April 2011	3.2500	-	465
Payments for gas	USD 10m	3 December 2010	18 February 2011	3.1700	-	264
Payments for gas	USD 10m	3 December 2010	20 April 2011	3.2200	-	582
Payments for gas	USD 10m	3 December 2010	10 March 2011	3.1800	-	396
Payments for gas	USD 10m	3 December 2010	18 March 2011	3.1700	-	470
Payments for gas	USD 10m	3 December 2010	20 April 2011	3.2000	-	620
Payments for gas	USD 10m	7 December 2010	8 April 2011	3.2000	-	549
Payments for gas	USD 10m	10 December 2010	18 February 2011	3.1900	-	236
Payments for gas	USD 10m	10 December 2010	10 March 2011	3.2000	-	363
Payments for gas	USD 10m	10 December 2010	18 March 2011	3.2000	-	417
Payments for gas	USD 10m	13 December 2010	10 March 2011	3.1800	-	396
Payments for gas	EUR 8m	14 December 2010	18 March 2011	4.1000	-	344
Payments for gas	USD 10m	14 December 2010	10 May 2011	3.2500	-	627
Payments for gas	USD 10m	14 December 2010	8 April 2011	3.1800	-	588
Payments for gas	USD 10m	14 December 2010	20 April 2011	3.1400	-	752
Payments for gas	USD 10m	15 December 2010	10 March 2011	3.1380	-	476
Payments for gas	USD 10m	15 December 2010	18 March 2011	3.1400	-	531
Payments for gas	EUR 8m	15 December 2010	10 June 2011	4.2000	-	515
Payments for gas	USD 10m	16 December 2010	20 April 2011	3.2300	-	564
Payments for gas	USD 10m	16 December 2010	8 April 2011	3.2000	-	549
Payments for gas	USD 10m	16 December 2010	10 May 2011	3.4600	-	353
Payments for gas	USD 10m	27 December 2010	20 April 2011	3.2260	-	572
Payments for gas	USD 10m	28 December 2010	20 April 2011	3.1950	-	630
Payments for gas	USD 10m	25 January 2011	8 July 2011	3.2700	-	-
Payments for gas	EUR 7m	26 January 2011	8 July 2011	4.0500	25	-
Payments for gas	USD 10m	26 January 2011	8 July 2011	3.0500	-	-
Payments for gas	USD 10m	27 January 2011	8 July 2011	3.0500	-	-
Payments for gas	USD 10m	1 February 2011	20 July 2011	3.0500	5	-
Payments for gas	USD 10m	2 February 2011	20 July 2011	3.2300	-	-
Payments for gas	USD 10m	2 February 2011	10 August 2011	3.0750	40	-
Payments for gas	USD 10m	3 February 2011	10 August 2011	3.0800	38	-
Payments for gas	EUR 8m	7 February 2011	10 August 2011	4.0000	349	-
Payments for gas	USD 10m	23 February 2011	20 July 2011	3.0800	2	-
Payments for gas	USD 10m	24 February 2011	8 July 2011	3.0700	-	-
Payments for gas	USD 10m	25 February 2011	20 July 2011	3.0700	3	-
Payments for gas	USD 10m	25 February 2011	19 August 2011	3.0800	64	-
Payments for gas	USD 10m	28 February 2011	8 July 2011	3.1000	-	-
Payments for gas	USD 10m	28 February 2011	19 August 2011	3.3500	4	-
Payments for gas	USD 10m	1 March 2011	20 September 2011	3.3500	34	-
Payments for gas	USD 10m	3 March 2011	10 August 2011	3.0500	51	-

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
Call options (continued)						
Payments for gas	USD 10m	3 March 2011	9 September 2011	3.0800	141	-
Payments for gas	USD 10m	4 March 2011	9 September 2011	3.0700	150	-
Payments for gas	USD 10m	4 March 2011	19 August 2011	3.0400	90	-
Payments for gas	USD 10m	7 March 2011	20 September 2011	3.0500	209	-
Payments for gas	EUR 8m	7 March 2011	9 September 2011	4.1000	244	-
Payments for gas	USD 10m	18 March 2011	9 September 2011	3.3000	32	-
Payments for gas	USD 10m	21 March 2011	10 August 2011	3.0600	46	-
Payments for gas	USD 10m	24 March 2011	9 September 2011	3.1500	91	-
Payments for gas	USD 10m	25 March 2011	10 August 2011	3.1270	22	-
Payments for gas	USD 10m	25 March 2011	19 August 2011	2.9750	150	-
Payments for gas	USD 10m	29 March 2011	20 July 2011	2.9800	18	-
Payments for gas	USD 10m	7 April 2011	20 September 2011	2.9460	353	-
Payments for gas	USD 10m	8 April 2011	20 September 2011	2.9050	434	-
Payments for gas	USD 10m	8 April 2011	9 September 2011	2.8970	397	-
Payments for gas	USD 10m	12 April 2011	8 July 2011	2.8660	14	-
Payments for gas	USD 10m	12 April 2011	20 July 2011	2.8610	105	-
Payments for gas	USD 10m	12 April 2011	20 July 2011	2.8575	109	-
Payments for gas	USD 10m	28 April 2011	7 October 2011	3.0700	269	-
Payments for gas	USD 10m	28 April 2011	20 October 2011	3.0500	348	-
Payments for gas	USD 10m	28 April 2011	10 November 2011	3.0550	422	-
Payments for gas	USD 10m	29 April 2011	8 July 2011	2.7700	141	-
Payments for gas	USD 10m	29 April 2011	7 October 2011	2.8500	694	-
Payments for gas	USD 10m	29 April 2011	18 November 2011	2.8800	827	-
Payments for gas	EUR 7m	29 April 2011	20 July 2011	4.0000	174	-
Payments for gas	USD 10m	29 April 2011	8 December 2011	2.9000	862	-
Payments for gas	USD 10m	11 May 2011	20 October 2011	2.9300	555	-
Payments for gas	EUR 5m	12 May 2011	19 August 2011	4.0000	250	-
Payments for gas	EUR 5m	12 May 2011	10 October 2011	4.0300	337	-
Payments for gas	USD 10m	12 May 2011	19 August 2011	2.9000	259	-
Payments for gas	USD 10m	13 May 2011	8 July 2011	2.8500	22	-
Payments for gas	USD 10m	13 May 2011	19 August 2011	2.8800	298	-
Payments for gas	EUR 5m	13 May 2011	10 November 2011	4.0400	400	-
Payments for gas	USD 10m	26 May 2011	8 July 2011	2.8800	9	-
Payments for gas	USD 10m	26 May 2011	20 July 2011	2.9000	62	-
Payments for gas	USD 10m	26 May 2011	20 October 2011	2.9700	474	-
Payments for gas	USD 10m	26 May 2011	20 October 2011	2.9700	474	-
Payments for gas	USD 10m	26 May 2011	10 August 2011	2.9200	170	-
Payments for gas	USD 10m	26 May 2011	10 August 2011	2.9200	170	-
Payments for gas	USD 10m	2 June 2011	8 July 2011	2.8200	47	-
Payments for gas	USD 10m	2 June 2011	20 September 2011	2.8730	510	-
Payments for gas	USD 10m	3 June 2011	10 August 2011	2.8300	350	-
Payments for gas	USD 10m	3 June 2011	9 September 2011	2.8600	486	-
Payments for gas	USD 10m	3 June 2011	9 December 2011	2.9210	809	-
Payments for gas	USD 10m	3 June 2011	20 December 2011	2.9285	829	-
Payments for gas	USD 10m	6 June 2011	20 December 2011	2.9280	831	-
Payments for gas	USD 10m	6 June 2011	18 November 2011	2.8875	804	-
Payments for gas	USD 10m	7 June 2011	18 November 2011	2.8765	837	-
Payments for gas	USD 10m	8 June 2011	19 August 2011	2.8155	467	-
Payments for gas	USD 10m	9 June 2011	18 November 2011	2.8855	810	-
Payments for gas	USD 10m	17 June 2011	10 August 2011	2.9100	184	-
Payments for gas	USD 10m	17 June 2011	10 August 2011	2.9100	184	-
Payments for gas	USD 10m	17 June 2011	9 September 2011	2.9200	350	-
Payments for gas	USD 10m	17 June 2011	7 October 2011	3.0700	269	-
Payments for gas	USD 10m	17 June 2011	19 August 2011	2.8980	263	-

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value Jun 30 2011	Measurement at fair value Dec 31 2010
Call options (continued)						
Payments for gas	USD 10m	17 June 2011	20 September 2011	2.9170	409	-
Payments for gas	USD 10m	17 June 2011	9 December 2011	3.2000	341	-
Payments for gas	USD 10m	17 June 2011	10 November 2011	3.1300	327	-
Payments for gas	USD 10m	20 June 2011	20 September 2011	2.9235	396	-
Payments for gas	USD 10m	21 June 2011	7 October 2011	2.9360	476	-
Payments for gas	USD 10m	21 June 2011	10 November 2011	2.9430	625	-
Payments for gas	USD 10m	21 June 2011	10 November 2011	2.9380	636	-
Payments for gas	USD 10m	21 June 2011	7 October 2011	2.9120	528	-
Payments for gas	USD 10m	21 June 2011	7 October 2011	2.9120	528	-
Payments for gas	USD 10m	22 June 2011	18 November 2011	2.9520	640	-
Payments for gas	USD 10m	22 June 2011	9 September 2011	2.9000	390	-
Payments for gas	EUR 6m	22 June 2011	19 August 2011	4.0500	191	-
Payments for gas	EUR 8m	22 June 2011	20 September 2011	4.0700	342	-
Payments for gas	EUR 8m	22 June 2011	9 December 2011	4.1000	575	-
Payments for gas	USD 10m	22 June 2011	20 September 2011	2.9000	445	-
					25,316	**30,342**
Put options						
Payments for gas	USD 10m	22 July 2010	10 January 2011	3.0150	-	(581)
Payments for gas	USD 10m	22 July 2010	20 January 2011	3.0230	-	(803)
Payments for gas	USD 10m	23 July 2010	20 January 2011	2.9915	-	(585)
Payments for gas	USD 10m	26 July 2010	10 January 2011	2.9975	-	(442)
Payments for gas	USD 10m	26 July 2010	10 January 2011	2.9900	-	(386)
Payments for gas	USD 10m	2 August 2010	10 February 2011	2.9055	-	(371)
Payments for gas	USD 10m	3 August 2010	10 February 2011	2.8750	-	(270)
Payments for gas	USD 10m	4 August 2010	10 February 2011	2.8900	-	(316)
Payments for gas	USD 10m	5 August 2010	18 February 2011	2.8790	-	(339)
Payments for gas	USD 10m	6 September 2010	10 March 2011	2.8550	-	(390)
Payments for gas	USD 10m	22 September 2010	18 March 2011	2.7600	-	(201)
Payments for gas	USD 10m	28 September 2010	20 January 2011	2.7780	-	(16)
Payments for gas	USD 10m	29 September 2010	10 March 2011	2.7650	-	(181)
Payments for gas	USD 10m	14 October 2010	18 March 2011	2.5920	-	(34)
Payments for gas	USD 10m	14 October 2010	20 January 2011	2.6050	-	-
Payments for gas	USD 10m	16 November 2010	8 April 2011	2.7500	-	(249)
Payments for gas	USD 10m	16 December 2010	10 May 2011	2.8200	-	(541)
Payments for gas	USD 10m	25 January 2011	8 July 2011	2.6845	(22)	-
Payments for gas	USD 10m	2 February 2011	20 July 2011	2.6850	(105)	-
Payments for gas	USD 10m	28 February 2011	19 August 2011	2.6725	(244)	-
Payments for gas	USD 10m	1 March 2011	20 September 2011	2.6865	(409)	-
Payments for gas	USD 10m	18 March 2011	9 September 2011	2.7380	(589)	-
Payments for gas	USD 10m	21 March 2011	10 August 2011	2.7765	(652)	-
Payments for gas	USD 10m	24 March 2011	9 September 2011	2.7185	(499)	-
Payments for gas	USD 10m	25 March 2011	10 August 2011	2.7195	(364)	-
Payments for gas	USD 10m	28 April 2011	7 October 2011	2.5050	(86)	-
Payments for gas	USD 10m	28 April 2011	20 October 2011	2.5160	(121)	-
Payments for gas	USD 10m	28 April 2011	10 November 2011	2.5350	(186)	-
Payments for gas	USD 10m	17 June 2011	7 October 2011	2.6730	(430)	-
Payments for gas	USD 10m	17 June 2011	9 December 2011	2.6300	(465)	-
Payments for gas	USD 10m	17 June 2011	10 November 2011	2.6570	(481)	-

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
Put options (continued)						
Sales revenue of Geofizyka Kraków	EUR 0,453m	10 December 2010	14 January 2011	3.9949	-	7
Sales revenue of Geofizyka Kraków	EUR 1,235m	10 December 2010	14 February 2011	3.9762	-	79
Sales revenue of Geofizyka Kraków	EUR 0,094m	10 December 2010	15 March 2011	3.9587	-	9
Sales revenue of Geofizyka Kraków	EUR 0,399m	10 December 2010	15 April 2011	3.9548	-	31
Sales revenue of Geofizyka Kraków	EUR 0,357m	10 December 2010	16 May 2011	3.9549	-	35
Sales revenue of Geofizyka Kraków	EUR 0,415m	10 December 2010	15 June 2011	3.9579	-	41
Sales revenue of Geofizyka Kraków	EUR 0,308m	10 December 2010	15 July 2011	3.9472	54	36
					(4 599)	**(5 467)**
Commodity call options						
Payments for gas	20000 MT Gasoil	20 July 2010	10 March 2011	695.00	-	344
Payments for gas	25000 MT Gasoil	20 July 2010	10 March 2011	695.00	-	430
Payments for gas	33000 MT Gasoil	27 July 2010	20 April 2011	750.00	-	117
Payments for gas	32000 MT Gasoil	27 July 2010	20 May 2011	750.00	-	114
Payments for gas	16000 MT Gasoil	27 July 2010	20 June 2011	750.00	-	57
Payments for gas	23000 MT Fueloil	20 October 2010	7 October 2011	570.00	1,416	64
Payments for gas	23000 MT Fueloil	20 October 2010	20 September 2011	570.00	1,416	64
Payments for gas	23000 MT Gasoil	20 October 2010	20 September 2011	780.00	5,974	1,152
Payments for gas	23000 MT Gasoil	20 October 2010	7 October 2011	780.00	5,974	1,152
Payments for gas	13000 MT Gasoil	21 October 2010	20 April 2011	780.00	-	174
Payments for gas	13000 MT Gasoil	21 October 2010	10 May 2011	780.00	-	174
Payments for gas	24000 MT Gasoil	21 October 2010	20 June 2011	780.00	-	322
Payments for gas	24000 MT Gasoil	21 October 2010	8 July 2011	780.00	2,784	322
Payments for gas	13000 MT Fueloil	22 October 2010	20 April 2011	540.00	-	7
Payments for gas	13000 MT Fueloil	22 October 2010	10 May 2011	540.00	-	7

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
Commodity call options (continued)						
Payments for gas	23000 MT Fueloil	22 October 2010	20 June 2011	540.00	-	13
Payments for gas	23000 MT Fueloil	22 October 2010	8 July 2011	540.00	233	13
Payments for gas	30000 MT Gasoil	26 October 2010	20 July 2011	790.00	6,966	1,209
Payments for gas	30000 MT Gasoil	26 October 2010	10 August 2011	790.00	6,966	1,209
Payments for gas	30000 MT Fueloil	26 October 2010	20 July 2011	560.00	2,672	129
Payments for gas	30000 MT Fueloil	26 October 2010	10 August 2011	560.00	2,672	129
Payments for gas	25000 MT Gasoil	27 October 2010	19 August 2011	790.00	5,805	1,008
Payments for gas	25000 MT Fueloil	29 October 2010	19 August 2011	555.00	2,570	134
Payments for gas	25000 MT Fueloil	29 October 2010	9 September 2011	555.00	2,570	134
Payments for gas	10000 MT Gasoil	8 November 2010	20 May 2011	780.00	-	134
Payments for gas	10000 MT Gasoil	8 November 2010	10 June 2011	780.00	-	134
Payments for gas	26000 MT Gasoil	8 November 2010	9 September 2011	800.00	5,322	833
Payments for gas	9000 MT Fueloil	9 November 2010	20 May 2011	530.00	-	13
Payments for gas	10000 MT Fueloil	9 November 2010	10 June 2011	530.00	-	15
Payments for gas	4300 MT Gasoil	21 January 2011	8 July 2011	845.00	1,266	-
Payments for gas	8200 MT Fueloil	21 January 2011	8 July 2011	535.00	1,898	-
Payments for gas	13500 MT Gasoil	24 January 2011	20 July 2011	880.00	2,426	-
Payments for gas	13500 MT Gasoil	24 January 2011	10 August 2011	880.00	2,426	-
Payments for gas	24500 MT Fueloil	24 January 2011	20 July 2011	560.00	6,212	-
Payments for gas	24500 MT Fueloil	24 January 2011	10 August 2011	560.00	6,212	-
Payments for gas	19000 MT Gasoil	24 January 2011	19 August 2011	880.00	3,415	-
Payments for gas	19000 MT Gasoil	24 January 2011	9 September 2011	880.00	3,415	-
Payments for gas	24000 MT Fueloil	24 January 2011	19 August 2011	560.00	6,085	-
Payments for gas	24000 MT Fueloil	24 January 2011	9 September 2011	560.00	6,085	-
Payments for gas	21500 MT Fueloil	24 January 2011	20 September 2011	560.00	5,451	-
Payments for gas	21500 MT Fueloil	24 January 2011	7 October 2011	560.00	5,451	-
Payments for gas	20000 MT Gasoil	24 January 2011	20 September 2011	880.00	3,594	-
Payments for gas	20000 MT Gasoil	24 January 2011	7 October 2011	880.00	3,594	-
Payments for gas	30400 MT Gasoil	25 January 2011	20 October 2011	880.00	4,937	-
Payments for gas	24000 MT Fueloil	25 January 2011	20 October 2011	575.00	5,434	-
Payments for gas	24000 MT Fueloil	25 January 2011	10 November 2011	575.00	5,434	-

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
Commodity call options (continued)						
Payments for gas	30400 MT Gasoil	25 January 2011	10 November 2011	880.00	4,937	-
Payments for gas	31200 MT Gasoil	25 January 2011	18 November 2011	880.00	5,067	-
Payments for gas	31200 MT Gasoil	25 January 2011	9 December 2011	880.00	5,067	-
Payments for gas	31200 MT Gasoil	26 January 2011	10 January 2012	890.00	4,229	-
Payments for gas	6000 MT Fueloil	26 January 2011	20 July 2011	555.00	1,531	-
Payments for gas	6000 MT Fueloil	26 January 2011	10 August 2011	555.00	1,531	-
Payments for gas	4500 MT Fueloil	26 January 2011	19 August 2011	555.00	1,148	-
Payments for gas	4500 MT Fueloil	26 January 2011	9 September 2011	555.00	1,148	-
Payments for gas	4500 MT Fueloil	26 January 2011	20 September 2011	555.00	1,148	-
Payments for gas	4500 MT Fueloil	26 January 2011	7 October 2011	555.00	1,148	-
Payments for gas	29600 MT Fueloil	26 January 2011	20 December 2011	585.00	5,889	-
Payments for gas	29600 MT Fueloil	26 January 2011	10 January 2012	585.00	5,889	-
Payments for gas	29600 MT Fueloil	26 January 2011	18 November 2011	585.00	5,889	-
Payments for gas	29600 MT Fueloil	26 January 2011	9 December 2011	585.00	5,889	-
Payments for gas	31200 MT Gasoil	26 January 2011	20 December 2011	890.00	4,229	-
Payments for gas	19500 MT Gasoil	27 January 2011	20 October 2011	890.00	2,643	-
Payments for gas	19500 MT Gasoil	27 January 2011	10 November 2011	890.00	2,643	-
Payments for gas	5250 MT Gasoil	27 January 2011	20 July 2011	860.00	1,263	-
Payments for gas	5250 MT Gasoil	27 January 2011	10 August 2011	860.00	1,263	-
Payments for gas	19500 MT Gasoil	27 January 2011	18 November 2011	870.00	4,041	-
Payments for gas	19500 MT Gasoil	27 January 2011	9 December 2011	870.00	4,041	-
Payments for gas	35500 MT Fueloil	27 January 2011	18 November 2011	560.00	9,001	-
Payments for gas	35500 MT Fueloil	27 January 2011	20 December 2011	560.00	9,001	-
Payments for gas	32000 MT Fueloil	27 January 2011	20 October 2011	560.00	8,114	-
Payments for gas	32000 MT Fueloil	27 January 2011	10 November 2011	560.00	8,114	-
Payments for gas	6800 MT Gasoil	28 January 2011	20 October 2011	880.00	1,222	-
Payments for gas	6800 MT Gasoil	28 January 2011	10 November 2011	880.00	1,222	-
Payments for gas	35000 MT Fueloil	28 January 2011	10 January 2012	560.00	8,874	-
Payments for gas	35500 MT Fueloil	28 January 2011	9 December 2011	575.00	7,536	-
Payments for gas	19400 MT Gasoil	28 January 2011	20 December 2011	880.00	3,487	-
Payments for gas	19400 MT Gasoil	28 January 2011	10 January 2012	880.00	3,487	-
Payments for gas	52000 MT Gasoil	6 May 2011	20 January 2012	1,050.00	862	-
Payments for gas	92000 MT Gasoil	6 May 2011	10 February 2012	1,050.00	1,524	-
Payments for gas	56000 MT Fueloil	6 May 2011	20 January 2012	750.00	318	-
Payments for gas	40000 MT Gasoil	6 May 2011	17 February 2012	1,050.00	663	-
Payments for gas	56000 MT Fueloil	6 May 2011	10 February 2012	750.00	318	-
Payments for gas	56000 MT Fueloil	6 May 2011	17 February 2012	750.00	318	-

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
		Commodity call options (continued)				
Payments for gas	40000 MT Gasoil	10 May 2011	9 March 2012	1,100.00	258	-
Payments for gas	48000 MT Gasoil	10 May 2011	20 March 2012	1,100.00	310	-
Payments for gas	25500 MT Fueloil	10 May 2011	20 October 2011	710.00	462	-
Payments for gas	56000 MT Fueloil	10 May 2011	20 January 2012	780.00	114	-
Payments for gas	45000 MT Gasoil	10 May 2011	10 April 2012	1,100.00	290	-
Payments for gas	56000 MT Fueloil	10 May 2011	9 March 2012	780.00	114	-
Payments for gas	56000 MT Fueloil	11 May 2011	20 March 2012	790.00	79	-
Payments for gas	40000 MT Gasoil	11 May 2011	9 March 2012	1,150.00	92	-
Payments for gas	40000 MT Gasoil	11 May 2011	17 February 2012	1,150.00	92	-
Payments for gas	46000 MT Gasoil	11 May 2011	10 April 2012	1,150.00	106	-
Payments for gas	43000 MT Gasoil	11 May 2011	20 March 2012	1,150.00	99	-
Payments for gas	56000 MT Fueloil	11 May 2011	10 April 2012	790.00	79	-
Payments for gas	45000 MT Fueloil	12 May 2011	17 February 2012	780.00	91	-
Payments for gas	37000 MT Gasoil	12 May 2011	20 January 2012	1,100.00	239	-
Payments for gas	56000 MT Fueloil	13 May 2011	10 February 2012	780.00	114	-
Payments for gas	45000 MT Fueloil	13 May 2011	9 March 2012	780.00	91	-
Payments for gas	52000 MT Fueloil	16 May 2011	20 March 2012	770.00	150	-
Payments for gas	52000 MT Fueloil	16 May 2011	10 April 2012	770.00	150	-
Payments for gas	54000 MT Fueloil	16 May 2011	20 April 2012	780.00	809	-
Payments for gas	49500 MT Gasoil	17 May 2011	20 April 2012	1,100.00	2,750	-
Payments for gas	49500 MT Gasoil	17 May 2011	10 May 2012	1,100.00	2,750	-
Payments for gas	42300 MT Gasoil	17 May 2011	18 May 2012	1,100.00	2,350	-
Payments for gas	54000 MT Fueloil	17 May 2011	10 May 2012	770.00	972	-
Payments for gas	25500 MT Fueloil	17 May 2011	10 November 2011	700.00	621	-
Payments for gas	40000 MT Gasoil	20 May 2011	20 June 2012	1,100.00	2,223	-
Payments for gas	27000 MT Fueloil	20 May 2011	20 June 2012	770.00	486	-
Payments for gas	42000 MT Gasoil	23 May 2011	11 June 2012	1,100.00	2,334	-
Payments for gas	50000 MT Fueloil	23 May 2011	11 June 2012	770.00	900	-
Payments for gas	39000 MT Gasoil	23 May 2011	10 July 2012	1,100.00	2,167	-
Payments for gas	27000 MT Fueloil	23 May 2011	10 July 2012	770.00	486	-
Payments for gas	13500 MT Gasoil	25 May 2011	18 November 2011	1,050.00	82	-
Payments for gas	24000 MT Fueloil	2 June 2011	18 November 2011	710.00	435	-
Payments for gas	20000 MT Fueloil	2 June 2011	10 July 2012	800.00	205	-
Payments for gas	16000 MT Gasoil	16 June 2011	20 December 2011	1,100.00	23	-
Payments for gas	16000 MT Gasoil	16 June 2011	10 January 2012	1,100.00	23	-
Payments for gas	13000 MT Gasoil	16 June 2011	9 December 2011	1,100.00	19	-
Payments for gas	5000 MT Gasoil	16 June 2011	20 October 2011	1,100.00	7	-
Payments for gas	5000 MT Gasoil	16 June 2011	10 November 2011	1,100.00	7	-

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
Commodity call options (continued)						
Payments for gas	50000 MT Fueloil	16 June 2011	18 May 2012	850.00	186	-
Payments for gas	20000 MT Fueloil	16 June 2011	20 June 2012	850.00	74	-
Payments for gas	24000 MT Fueloil	21 June 2011	9 December 2011	780.00	34	-
Payments for gas	27900 MT Fueloil	21 June 2011	20 December 2011	780.00	40	-
Payments for gas	27900 MT Fueloil	21 June 2011	10 January 2012	780.00	40	-
					284,322	**9,607**
Commodity put options						
Payments for gas	23000 MT Fueloil	20 October 2010	7 October 2011	412.00	-	(15)
Payments for gas	23000 MT Fueloil	20 October 2010	20 September 2011	412.00	-	(15)
Payments for gas	23000 MT Gasoil	20 October 2010	20 September 2011	640.50	-	(21)
Payments for gas	23000 MT Gasoil	20 October 2010	7 October 2011	640.50	-	(21)
Payments for gas	24000 MT Gasoil	21 October 2010	8 July 2011	645.00	-	-
Payments for gas	13000 MT Fueloil	22 October 2010	20 April 2011	435.00	-	(1)
Payments for gas	13000 MT Fueloil	22 October 2010	10 May 2011	435.00	-	(1)
Payments for gas	23000 MT Fueloil	22 October 2010	8 July 2011	426.00	-	-
Payments for gas	30000 MT Gasoil	26 October 2010	20 July 2011	640.70	-	(28)
Payments for gas	30000 MT Gasoil	26 October 2010	10 August 2011	640.70	-	(28)
Payments for gas	30000 MT Fueloil	26 October 2010	20 July 2011	432.00	-	(89)
Payments for gas	30000 MT Fueloil	26 October 2010	10 August 2011	432.00	-	(89)
Payments for gas	25000 MT Gasoil	27 October 2010	19 August 2011	632.00	-	(14)
Payments for gas	25000 MT Fueloil	29 October 2010	19 August 2011	428.50	-	(58)
Payments for gas	25000 MT Fueloil	29 October 2010	9 September 2011	428.50	-	(58)
Payments for gas	13500 MT Gasoil	24 January 2011	20 July 2011	759.50	-	-
Payments for gas	13500 MT Gasoil	24 January 2011	10 August 2011	759.50	-	-
Payments for gas	24500 MT Fueloil	24 January 2011	20 July 2011	488.50	-	-
Payments for gas	24500 MT Fueloil	24 January 2011	10 August 2011	488.50	-	-
Payments for gas	19000 MT Gasoil	24 January 2011	19 August 2011	769.75	-	-
Payments for gas	19000 MT Gasoil	24 January 2011	9 September 2011	769.75	-	-
Payments for gas	24000 MT Fueloil	24 January 2011	19 August 2011	495.00	-	-
Payments for gas	24000 MT Fueloil	24 January 2011	9 September 2011	495.00	-	-
Payments for gas	21500 MT Fueloil	24 January 2011	20 September 2011	488.00	-	-
Payments for gas	21500 MT Fueloil	24 January 2011	7 October 2011	488.00	-	-
Payments for gas	20000 MT Gasoil	24 January 2011	20 September 2011	766.00	-	-
Payments for gas	20000 MT Gasoil	24 January 2011	7 October 2011	766.00	-	-
Payments for gas	30400 MT Gasoil	25 January 2011	20 October 2011	743.00	-	-
Payments for gas	24000 MT Fueloil	25 January 2011	20 October 2011	477.50	-	-
Payments for gas	24000 MT Fueloil	25 January 2011	10 November 2011	477.50	-	-

(PLN ‘000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
		Commodity put options (continued)				
Payments for gas	30400 MT Gasoil	25 January 2011	10 November 2011	743.00	-	-
Payments for gas	31200 MT Gasoil	25 January 2011	18 November 2011	742.00	-	-
Payments for gas	31200 MT Gasoil	25 January 2011	9 December 2011	742.00	-	-
Payments for gas	31200 MT Gasoil	26 January 2011	10 January 2012	752.00	-	-
Payments for gas	29600 MT Fueloil	26 January 2011	20 December 2011	484.00	-	-
Payments for gas	29600 MT Fueloil	26 January 2011	10 January 2012	484.00	-	-
Payments for gas	29600 MT Fueloil	26 January 2011	18 November 2011	484.00	-	-
Payments for gas	29600 MT Fueloil	26 January 2011	9 December 2011	484.00	-	-
Payments for gas	31200 MT Gasoil	26 January 2011	20 December 2011	752.00	-	-
Payments for gas	6800 MT Gasoil	28 January 2011	20 October 2011	776.00	-	-
Payments for gas	6800 MT Gasoil	28 January 2011	10 November 2011	776.00	-	-
Payments for gas	35500 MT Fueloil	28 January 2011	9 December 2011	488.50	-	-
Payments for gas	19400 MT Gasoil	28 January 2011	20 December 2011	771.50	-	-
Payments for gas	19400 MT Gasoil	28 January 2011	10 January 2012	771.50	-	-
Payments for gas	52000 MT Gasoil	6 May 2011	20 January 2012	830.00	(727)	-
Payments for gas	92000 MT Gasoil	6 May 2011	10 February 2012	820.50	(994)	-
Payments for gas	56000 MT Fueloil	6 May 2011	20 January 2012	578.00	(174)	-
Payments for gas	40000 MT Gasoil	6 May 2011	17 February 2012	821.00	(438)	-
Payments for gas	56000 MT Fueloil	6 May 2011	10 February 2012	552.00	(38)	-
Payments for gas	56000 MT Fueloil	6 May 2011	17 February 2012	557.00	(52)	-
Payments for gas	40000 MT Gasoil	10 May 2011	9 March 2012	836.00	(653)	-
Payments for gas	48000 MT Gasoil	10 May 2011	20 March 2012	843.00	(933)	-
Payments for gas	56000 MT Fueloil	10 May 2011	20 January 2012	562.00	(71)	-
Payments for gas	45000 MT Gasoil	10 May 2011	10 April 2012	836.00	(735)	-
Payments for gas	56000 MT Fueloil	10 May 2011	9 March 2012	561.00	(67)	-
Payments for gas	56000 MT Fueloil	11 May 2011	20 March 2012	560.00	(63)	-
Payments for gas	40000 MT Gasoil	11 May 2011	9 March 2012	845.50	(826)	-
Payments for gas	40000 MT Gasoil	11 May 2011	17 February 2012	837.00	(670)	-
Payments for gas	46000 MT Gasoil	11 May 2011	10 April 2012	835.00	(732)	-
Payments for gas	43000 MT Gasoil	11 May 2011	20 March 2012	827.00	(555)	-
Payments for gas	56000 MT Fueloil	11 May 2011	10 April 2012	562.00	(71)	-
Payments for gas	45000 MT Fueloil	12 May 2011	17 February 2012	548.00	(23)	-
Payments for gas	37000 MT Gasoil	12 May 2011	20 January 2012	804.00	(246)	-
Payments for gas	56000 MT Fueloil	13 May 2011	10 February 2012	557.00	(52)	-
Payments for gas	45000 MT Fueloil	13 May 2011	9 March 2012	547.00	(22)	-
Payments for gas	52000 MT Fueloil	16 May 2011	20 March 2012	541.50	(17)	-
Payments for gas	52000 MT Fueloil	16 May 2011	10 April 2012	543.00	(19)	-
Payments for gas	54000 MT Fueloil	16 May 2011	20 April 2012	533.50	(305)	-
Payments for gas	49500 MT Gasoil	17 May 2011	20 April 2012	816.00	(3,224)	-

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
			Commodity put options (continued)			
Payments for gas	49500 MT Gasoil	17 May 2011	10 May 2012	815.00	(3,187)	-
Payments for gas	42300 MT Gasoil	17 May 2011	18 May 2012	816.00	(2,755)	-
Payments for gas	54000 MT Fueloil	17 May 2011	10 May 2012	526.00	(237)	-
Payments for gas	40000 MT Gasoil	20 May 2011	20 June 2012	780.00	(1,673)	-
Payments for gas	27000 MT Fueloil	20 May 2011	20 June 2012	519.00	(93)	-
Payments for gas	42000 MT Gasoil	23 May 2011	11 June 2012	787.00	(1,924)	-
Payments for gas	50000 MT Fueloil	23 May 2011	11 June 2012	520.00	(178)	-
Payments for gas	39000 MT Gasoil	23 May 2011	10 July 2012	785.00	(1,741)	-
Payments for gas	27000 MT Fueloil	23 May 2011	10 July 2012	521.00	(100)	-
Payments for gas	13500 MT Gasoil	25 May 2011	18 November 2011	827.00	(91)	-
Payments for gas	20000 MT Fueloil	2 June 2011	10 July 2012	550.00	(188)	-
Payments for gas	16000 MT Gasoil	16 June 2011	20 December 2011	845.00	(191)	-
Payments for gas	16000 MT Gasoil	16 June 2011	10 January 2012	845.00	(191)	-
Payments for gas	13000 MT Gasoil	16 June 2011	9 December 2011	845.00	(155)	-
Payments for gas	5000 MT Gasoil	16 June 2011	20 October 2011	845.00	(60)	-
Payments for gas	5000 MT Gasoil	16 June 2011	10 November 2011	845.00	(60)	-
Payments for gas	50000 MT Fueloil	16 June 2011	18 May 2012	525.00	(212)	-
Payments for gas	20000 MT Fueloil	16 June 2011	20 June 2012	525.00	(85)	-
Payments for gas	24000 MT Fueloil	21 June 2011	9 December 2011	570.00	(31)	-
Payments for gas	27900 MT Fueloil	21 June 2011	20 December 2011	570.50	(37)	-
Payments for gas	27900 MT Fueloil	21 June 2011	10 January 2012	574.00	(46)	-
					(24,942)	**(438)**
			Commodity swap			
Payments for gas	11600 MT Gasoil	16 July 2010	10 January 2011	647.00	-	299
Payments for gas	11600 MT Fueloil	16 July 2010	10 January 2011	468.75	-	(424)
Payments for gas	45000 MT Fueloil	20 July 2010	20 January 2011	469.75	-	229
Payments for gas	45000 MT Gasoil	20 July 2010	20 January 2011	654.50	-	6,165
Payments for gas	45000 MT Gasoil	20 July 2010	10 February 2011	654.50	-	6,152
Payments for gas	45000 MT Fueloil	20 July 2010	10 February 2011	469.00	-	329
Payments for gas	45000 MT Gasoil	20 July 2010	18 February 2011	652.50	-	6,412
Payments for gas	45000 MT Fueloil	20 July 2010	18 February 2011	468.00	-	461
Payments for gas	33000 MT Gasoil	28 July 2010	10 May 2011	660.50	-	6,363
Payments for gas	33000 MT Fueloil	28 July 2010	10 May 2011	473.00	-	696
Payments for gas	31000 MT Gasoil	28 July 2010	10 June 2011	658.00	-	6,203

(PLN '000)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Jun 30 2011	Dec 31 2010
Commodity swap (continued)						
Payments for gas	31000 MT Fueloil	28 July 2010	10 June 2011	471.50	-	791
Payments for gas	16000 MT Gasoil	28 July 2010	8 July 2011	658.50	4,753	3,176
Payments for gas	16000 MT Fueloil	28 July 2010	8 July 2011	471.50	1,825	408
					6,578	**37,260**
Total					**154,034**	**(26,570)**
including:	premiums on options		assets		**64,351**	**76,043**
	positive valuation		assets		**251,920**	**1,830**
	negative valuation		liabilities		**(162,237)**	**(104,443)**

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

MT - metric tonnes.

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

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Net gain/(loss) on valuation of derivative instruments – unrealised	(1,758)	(76,015)
Profit/(loss) on derivative instruments – realised	10,349	(7,235)
Total net gain/(loss) on derivative instruments recognised in the income statement	**8,591**	**(83,250)**
including:		
recognised under net other operating expenses	(30,250)	(155,504)
recognised under cost of raw and other materials used	38,841	72,254
Result on valuation of derivative instruments recognised in other comprehensive income — unrealised*	**169,803**	**87,888**
Total net gain/(loss) on derivative instruments recognised in equity	**178,394**	**4,638**

(PLN '000)

35. CONTINGENT LIABILITIES AND RECEIVABLES

35.1. Contingent receivables

	Jun 30 2011	Dec 31 2010
From related undertakings:		
under guarantees and sureties received	-	-
under promissory notes received	157	152
Total contingent receivables from related undertakings	**157**	**152**
From other undertakings:		
under guarantees and sureties received	391,057	369,720
under promissory notes received	77,812	71,153
Total contingent receivables from other undertakings	**468,869**	**440,873**
Total contingent assets	**469,026**	**441,025**

35.2. Contingent liabilities

	Jun 30 2011	Dec 31 2010
To related undertakings		
under guarantees and sureties issued	-	-
under promissory notes issued	-	-
Total contingent liabilities to related undertakings	**-**	**-**
To other undertakings		
under guarantees and sureties issued*	2,862,877	2,867,934
under promissory notes issued	770,529	771,473
Total contingent liabilities to other undertakings	**3,633,406**	**3,639,407**
Total contingent liabilities	**3,633,406**	**3,639,407**

* Contingent liabilities in foreign currencies were translated into the złoty at exchange rates quoted by the National Bank of Poland for June 30th 2011 and December 31st 2010, as appropriate.

In H1 2011, there were no material changes in contingent liabilities.

As regards the guaranties issued, due to a slight depreciation of the złoty against the euro in H1 2011, the value of the guarantee provided to the state of Norway (EUR 627,556 thousand) increased by PLN 16,505 thousand. Concurrently, a slight appreciation of the złoty against the US dollar in H1 2011 resulted in a decrease of the value of the guarantee provided to National Oil Corporation Libya in 2008 (USD 108,000 thousand) by PLN 22,939 thousand.

35.3. Other contingent liabilities

Real estate tax

Pursuant to a decision of the Supreme Administrative Court in Warsaw of July 2nd 2001 undertaken by a bench of seven judges, excavations are not subject to real estate tax. Since wells are considered excavations for the purposes of oil and gas production, the local authorities (the communes (*gminy*)) in the area of operation of the Zielona Góra Branch resolved not to collect real estate tax thereunder; however some authorities decided that it is the well supporting infrastructure that is subject to taxation. The pipeline tax was introduced in 2001. In the previous years, the Zielona Góra Branch created provisions for claims of the local authorities due to real estate tax in the amount of PLN 821.3 thousand. Following a favourable outcome of court cases regarding this type of claims in the past, PGNiG S.A. reassessed the risk thereunder and, having considered it low, released the provision in 2007. However, the local authorities in the Podkarpacie region have never filed any such claims so far. Therefore, the mining plants located in Podkarpacie did not declare or account for real estate tax on excavations for the period from 2001 to 2010 and H1 2011. The related liability, if any, including interest, which is not past due and is not recognised in the financial statements, amounted to PLN 170,099 thousand as at June 30th 2011 (as at the end of 2010, it was PLN 136,802 thousand).

(PLN '000)

36. OFF-BALANCE SHEET LIABILITIES

36.1. Operating lease liabilities

	Jun 30 2011	Dec 31 2010
up to 1 year	4,397	-
from 1 to 5 years	8,484	-
over 5 years	42	-
Total	**12,923**	**-**

36.2. Contractual liabilities (not yet disclosed in the statement of financial position)

	Jun 30 2011	Dec 31 2010
Contractual liabilities	3,639,910	3,547,650
Completion of agreements as at the balance-sheet date	2,119,220	1,600,005
Contractual liabilities subsequent to the balance-sheet date	**1,520,690**	**1,947,645**

(PLN '000)

37. INFORMATION ON RELATED UNDERTAKINGS

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
Associated undertakings consolidated with the equity method	Jun 30 2011	11,534	-	Jun 30 2011	1,616	1,616	-	-	6,733
	Jun 30 2010	10,338	9	Dec 31 2010	2,671	2,671	-	-	7,917
Non-consolidated subsidiary and associated undertakings	Jun 30 2011	3,487	53,150	Jun 30 2011	86,879	2,098	21,972	-	99,971
	Jun 30 2010	31,087	131,393	Dec 31 2010	127,799	1,549	22,372	-	105,019
Related undertakings – total	**Jun 30 2011**	**15,021**	**53,150**	**Jun 30 2011**	**88,495**	**3,714**	**21,972**	**-**	**106,704**
	Jun 30 2010	**41,425**	**131,402**	**Dec 31 2010**	**130,470**	**4,220**	**22,372**	**-**	**112,936**

The principal transactions with shareholders in H1 2011and 2010 were dividend payments, discussed in detail in Note 10.

In H1 2011, the Parent Undertaking or its subsidiaries did not enter into any material non-arm's length transactions with related parties.

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

(PLN '000)

37.2. Transactions with undertakings in which the State Treasury holds equity interests

Since December 31st 2010, the Group has used the exemption provided for in paragraphs 25-27 of revised IAS 24 that simplifies the disclosure requirements for transactions with parties related to the Group through shareholder State Treasury. If there are no particular transactions with such entities, the Group is allowed under IAS 24 to disclose the minimum scope of information, as 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 2011, the Group generated the highest turnovers with the following undertakings 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.

In H1 2010, the PGNiG Group generated the highest turnover with the following undertakings 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 at the Group companies

	Jan 1–Jun 30 2011	Jan 1–Jun 30 2010
Remuneration paid to management staff	**14,470**	**12,223**
Parent undertaking	1,696	1,547
Subsidiary undertakings	10,890	7,213
Jointly-controlled undertaking	1,498	3,073
Associated undertakings	386	390
Remuneration paid to supervisory staff	**3,542**	**3,977**
Parent undertaking	145	166
Subsidiary undertakings	2,432	2,515
Jointly-controlled undertaking	599	930
Associated undertakings	366	366
Total	**18,012**	**16,200**

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

	Jun 30 2011	Dec 31 2010
Management Board members		
Interest rate (%)	1%–3.5%	1%–3.5%
Repayment period (years)	3–5 years	3–10 years
Value of outstanding loans	60	44
Supervisory Board members		
Interest rate (%)	0%–2%	0%–4%
Repayment period (years)	2–5 years	2–3 years
Value of outstanding loans	20	25
Total value of outstanding loans	**80**	**69**

37.5. Non-consolidated joint ventures

In 2011, PGNiG S.A. cooperated with the following companies in Poland: FX Energy Poland Sp. z o.o., EuroGas Polska Sp. z o.o., Energia Bieszczady Sp. z o.o., Orlen Upstream Sp. z o.o., and Aurelian Oil & Gas PLC (through subsidiaries 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 2011, PGNiG S.A. continued cooperation with FX Energy Poland Sp. z o.o. in the following areas covered by licences awarded to PGNiG S.A.:

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

and in the following areas covered by licences 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 S.A. – 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 S.A. – 49%,
- "Kutno" – under the Agreement for Joint Operations dated September 23rd 2010; licence interests: FX Energy – 50%, PGNiG S.A. – 50%,

As far as the "Płotki" and "Płotki" – "PTZ" areas are concerned, in H1 2011 production continued from the Roszków field in the "Płotki" area and from the Zaniemyśl field in the "Płotki" – "PTZ" area.

In the "Poznań" area, in H1 2011 gas production continued from the Środa Wielkopolska gas field and production of gas began from the Kromolice field. Work also began on development of the Winna Góra gas field. Drilling of the Lisewo-1k exploration borehole yielded a positive result. Furthermore, work started to drill the Pławce-2 exploration borehole with a planned depth of 4,000 metres in search for tight gas. 3D field work commenced in the Żerków-Pleszew area during H1 2011 as well.

In the "Warszawa-Południe" area work commenced in H1 2011 within block 254 to drill the Machnatka-2 exploration borehole with a planned depth of approximately 4,500 metres. Analytical work continued for the "Ostrowiec" area. In the "Kutno" area, preparatory work was conducted to drill a deep exploration borehole Kutno-2, with a planned depth of 6,450 metres.

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 2011, PGNiG S.A. continued cooperation with EuroGasPolska Sp. z o.o. and Energia Bieszczady Sp. z o.o. in the "Bieszczady" licence area (the mining usufruct and licences for exploration and appraisal of crude oil and natural gas deposits in that area are held by PGNiG S.A.). Interests held in the project: PGNiG S.A. (operator) – 51%, EuroGas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%.

In the "Bieszczady" licence area, work continued in H1 2011 to drill the Niebieszczany-1 deep borehole. Furthermore, 2D field work was carried out in the Paszowa-Brzegi Dolne area. 2D seismic work is planned to start in H2 2011 in the Jaśliska-Baligród area.

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

In H1 2011, PGNiG S.A. continued cooperation with Orlen Upstream Sp. z o.o. in the "Sieraków" area (PGNiG S.A. has a 51% interest in the project, while PKN Orlen S.A. holds the remaining 49%).

In the "Sieraków" area, the Sieraków-5 borehole was drilled in H1 2011. As no hydrocarbon flow was identified in the borehole, work was commenced to re-analyse the area.

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 S.A. cooperates with Energia Karpaty Zachodnie Sp. z o.o. Sp. k. in the following areas: "Budzów", "Bielsko-Biała", "Bestwina" and "Cieszyn". Energia Karpaty Zachodnie Sp. z o.o. Sp. k. acts as the Operator and holds a 60% interest in the project, while PGNiG S.A. holds a 40% interest. PGNiG S.A. cooperates with Energia Karpaty Wschodnie Sp. z o.o. Sp. k. in the "Mszana Dolna" and "Jordanów" areas. Energia Karpaty Wschodnie Sp. z o.o. Sp. k. acts as the Operator and holds an 80% interest in the project, while PGNiG S.A. holds a 20% interest.
In H1 2011, 136 km of 2D seismic was acquired in the "Karpaty Wschodnie" area and work commenced on processing of the data. Work also started on acquisition of a new 2D seismic survey in the Jordanów area.

None of the joint ventures described above were consolidated in H1 2011 or in 2010 as all their assets, liabilities, income and expenses were presented in the statement of financial position and the income statement of the Parent Undertaking pro rata to its interest in a given joint venture.

37.6. Foreign operations

PGNiG S.A.'s interest in foreign operations

Ukraine

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

The company's share capital amounts to UAH 11,146.8 thousand (equivalent to PLN 3,839.0 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011) and is divided into 120,000 shares with a par value of UAH 92.89 per share. PGNiG S.A. holds a UAH 4,055.2 thousand interest in the company (equivalent to PLN 1,396.6 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011). As at June 30th 2011, the value of the shares as disclosed in the accounting books of the Parent Undertaking amounted to PLN 2,499.5 thousand. An impairment loss was recognised for the full value of the shares.

The company's shareholder structure is as follows:

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

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

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

Oman

The share capital of **Sahara Petroleum Technology Llc** amounts to OMR 150.0 thousand (Omani rial), equivalent to PLN 1,085.0 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for June 29th 2011 (the last OMR exchange rate quoted in H1 2011), and is divided into 150,000 shares with a par value of OMR 1 per share. PGNiG S.A. holds an OMR 73.5 thousand interest in the company (equivalent to PLN 531.7 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011). As at June 30th 2011, the value of the shares as disclosed in the accounting books of the Parent Undertaking amounted to PLN 879.0 thousand. An impairment loss was recognised for the full value of the shares.

The company's shareholder structure is as follows:

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

The company was established in 2000, at the initiative of Zakład Robót Górniczych of Krosno (until June 30th 2005 a branch of PGNiG S.A., currently a wholly-owned subsidiary of PGNiG S.A.). The company's core business consists in provision of services related to well processing and workover, wireline technology operations, wellhead maintenance, as well as light and middle drilling work with the use of PGNiG S.A.'s technological capabilities.
The company never conducted the operations for which it was established. On June 7th 2009, the shareholders resolved to dissolve the company and appoint a liquidator. At present, the liquidation of the company is pending.

Germany

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

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

Each partner acquired a 50% interest in each company. The share capital of each of the companies amounts to EUR 200 thousand (equivalent to PLN 797.3 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for June 30th 2011), and their registered offices are located in Potsdam (InterGasTrade GmbH (IGT)) and Leipzig (InterTransGas GmbH (ITG).

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

InterTransGas GmbH was established for the purpose of constructing an inter connector pipeline between the Polish and European transmission systems, which is one of the solutions designed to diversify the supplies of gaseous fuels to Poland. At present, under a resolution of its shareholders, InterTransGas GmbH operates at minimum costs necessary to keep the company in operation. As soon as it is possible to build a gas pipeline to connect the Polish and German systems for gaseous fuels transmission, the company will be able to commence operations as provided for in its Articles of Association.
In 2007, pursuant to a resolution of the shareholders, the registered office of InterTransGas GmbH was relocated from Potsdam to Leipzig, Germany.

On January 29th 2009, the General Shareholders Meeting of InterTransGas GmbH adopted resolutions concerning approval of the business model for the construction of the Börnicke – Hintersee – Police gas transmission pipeline, approval of the business plan for 2009 and contributions of EUR 3,000 thousand by the shareholders to the company's capital reserves. The provision of additional equity, in the form of contributions to the company's capital reserves without an issue of new shares, was carried out in two tranches: in June 2009 and in July 2010. On June 30th 2010, the shareholders executed an Annex to the Shareholders Cooperation Agreement, defining in detail the terms of cooperation on the construction of the Germany – Poland interconnector pipeline, particularly with respect to the rights and obligations of the InterTransGas GmbH shareholders.

At present, work is under way on an economic and market feasibility study of construction of the interconnector pipeline.

As at June 30th 2011, PGNiG S.A.'s interest in InterTransGas GmbH amounted to EUR 3,100 thousand (equivalent to PLN 12,358.5 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for June 30th 2011). As at June 30th 2011, the value of the interest as disclosed in the Parent Undertaking's books was PLN 13,602.5 thousand.

On December 21st 2010, POGC Trading GmbH of Munich was incorporated, with a share capital of EUR 10,000 thousand (equivalent to PLN 39,866.0 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011). All the shares were acquired by PGNiG S.A. for a cash contribution paid in December 2010. As at June 30th 2011, the value of the shares as disclosed in the Parent Undertaking's books was PLN 39,710 thousand.

The company's business profile is to involve 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.

Norway

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

PGNiG S.A. of Warsaw is the sole shareholder in PGNiG Norway AS. PGNiG Norway AS's business comprises crude oil and natural gas production as well as other similar or related activities. PGNiG Norway AS may also engage in infrastructure projects related to transmission via subsea pipelines (e.g. construction and operation of gas pipelines), and conduct trading and financial activities and other types of activities at all stages of the crude oil and natural gas value chain.

PGNiG Norway AS was established in particular to perform the agreement executed on February 28th 2007 between PGNiG S.A., Mobil Development Norway AS and ExxonMobil Produktion Norway Inc. concerning the acquisition by the Company of licence interests in the Norwegian Continental Shelf covering the Skarv, Snadd and Idun fields (licences PL 212, PL 212B and PL 262). In line with the joint venture agreement, PGNiG Norway 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. At present, the proved recoverable reserves in the Skarv, Snadd and Idun fields, as confirmed by the Norwegian Petroleum Directorate (NPD), are estimated at about 36 million cubic metres of natural gas and 15 million tonnes of crude oil. 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 H1 2011, the floating production, storage and offloading vessel (FPSO) 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. Installation of the FPSO on location at sea and launch of production from the Skarv field is planned in the second half of 2011.

Furthermore, in H1 2011 an appraisal well was drilled in the Snadd North field, discovered in 2010. On the other hand, work in licence area PL419 was abandoned, given negative results from the exploration well which was drilled there.

Following licensing round awards, in H1 2011 PGNiG Norway AS acquired in the Norwegian Continental Shelf:

- a 20% interest in licence PL599, the direct operatorship of which was awarded to BG Norge AS (40% interest),
- a 30% interest in licence PL600, the direct operatorship of which was awarded to Dana Petroleum (70% interest).

On June 18th 2011, due to poor reservoir properties of the formations accumulating the gas discovered in licence area PL326, the interest holders decided not to proceed with any further work under this licence.

As at the end of June 2011, the company held in aggregate interests in 10 exploration and production licences, including a 20% interest in the Cancer licence and a 30% interest in the Vigro licence, awarded to it in Q1 2011 in the 21st licensing round.

In order to finance the purchase of an interest in hydrocarbon reserves of ExxonMobiland, the Parent Undertaking advanced to PGNiG Norway AS a loan of NOK 3,800,000 thousand. The loan was disbursed in tranches, and the repayment deadline was set for December 2022. After the third tranche of NOK 1,312,000 thousand was disbursed in January 2009, PGNiG Norway AS received the full loan amount of NOK 3,800,000 thousand.

On January 13th 2010, the Parent Undertaking granted the company another loan, the amount of NOK 786,000 thousand. The loan is disbursed in tranches upon notice by the company. In H1 2010, the company received NOK 460,000 thousand under the loan.

On August 27th 2010, PGNiG Norway AS and the Parent Undertaking executed another (third) loan agreement for NOK 4,400,000 thousand. The loan was used to repay the 2007 loan of NOK 3,800,000 thousand, with interest. The new loan is subordinated to the credit facility agreements concluded with banks, which means that the collateral established on assets securing the loan is second-ranking to the collateral securing the credit facilities, and the loan's principal may only be repaid after the credit facility has been repaid.

In H1 2011, NOK 210,000 thousand was advanced to PGNiG Norway AS.

As at June 30th 2011, PGNiG Norway AS's total debt under the aforementioned loan amounted to NOK 4,110,000 (equivalent to PLN 2,107,608 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011).

On August 31st 2010, PGNiG Norway AS concluded a USD 400m credit facility agreement with seven international banks. The credit facility is secured on the company's assets, including a pledge on Skarv licences and on the company shares. In addition, PGNiG S.A. issued a guarantee for the liabilities of its subsidiary and the credit facility is senior to other financial liabilities contracted by PGNiG Norway AS. Until the end of H1 2011, the company drew USD 398m under the credit facility. The proceeds were used mainly to prepare the Skarv field for production and repay the loan of January 2010, until production of hydrocarbons starts generating first revenue.
The structure of financing of the company's activity complies with the rules concerning the debt-equity relationship (thin capitalisation) which are effective in Norway.

As at June 30th 2011, the Parent Undertaking's equity interest in the subsidiary was NOK 951,327 thousand, that is PLN 487,840.5 thousand (translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011). As at June 30th 2011, the value of the shares as disclosed in the accounting books of the Parent Undertaking was PLN 462,872.6 thousand.

The Netherlands - Libya

In January 2008, the PGNiG Management Board adopted a resolution granting its consent to use PGNiG Finance B.V. (established on September 14th 2001 to service the issue of Eurobonds issued by PGNiG S.A.) 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 BV). The company's sole shareholder is PGNiG S.A. Its share capital is EUR 20 thousand, that is PLN 79.7 thousand (translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011).

The Management Board of Polish Oil and Gas Company – Libya B.V. took steps which led to the execution – in February 2008 – of an Exploration and Production Sharing Agreement (EPSA) with Libya's National Oil Corporation. The Agreement, setting out the terms and conditions of an exploration and production project in Libya, was executed in connection with the award (following a licensing round) of Block 113, covering an area of 5,494 square kilometres between the Murzuq and Gadamesh basins, near the Algerian border. The bid submitted by the company included a commitment to carry out exploration work worth a total of USD 108,000 thousand, including acquisition of 3,000 square kilometres of 2D seismic and 1,500 square kilometres of 3D seismic, as well as drilling of eight wells.

Pursuant to the EPSA, if a commercial discovery of hydrocarbons is made within the licence area, the expenditures which the Agreement allocates to the licence as the basis for "cost recovery", incurred by the Parent Undertaking through POGC Libya BV, may be recovered from the production revenues (cost oil).

In February 2008, PGNiG S.A. issued a guarantee for the benefit of National Oil Corporation regarding the fulfilment by POGC Libya BV of its work programme commitments worth USD 108,000 thousand, i.e. PLN 297,183.6 thousand (translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011).

In 2010, phase I and II of the processing of 2D and 3D seismic data was completed. In addition, the location of the drilling site for the first two exploration wells was determined and work on the well drilling design documentation commenced. An environmental impact report was also ordered to be prepared for the location where the first wells were to be drilled. Drilling work was scheduled to start early in the second quarter of 2011.

In March 2009, the PGNiG Management Board adopted a resolution to increase POGC Libya BV's equity by EUR 47,500 thousand, i.e. PLN 189,363.5 thousand (translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011), to be used primarily towards the expenditure on exploration work in Libya. The equity increase was effected without issuing any new shares, by way of signing a contribution agreement (March 12th 2009). On the date of the resolution, a portion of the contribution to the company's reserve funds was offset against PGNiG S.A.'s receivables under a loan of USD 20,591 thousand, extended in 2008. The amount remaining after offsetting the contribution against the loan receivables (including interest) was paid to the company in 2009 in cash, in three instalments.

On February 1st 2010, POGC Libya BV and PGNiG S.A. entered into an agreement whereunder POGC Libya BV undertook to make an additional contribution to equity of EUR 18,000 thousand, i.e. PLN 71,758.8 thousand (translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011). The equity increase was effected without issuing any new shares. The additional funds were used chiefly to finance exploration work.

By February 2011 the Company acquired 3,000 km of 2D profiles and 1,087 sq km of 3D profiles, and carried out a number of geological analyses. Furthermore, in H1 2011 work was conducted in cooperation with PGNiG S.A. on evaluation of the 2D seismic data.

Because of the current events taking place in Libya, 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. Meanwhile, the Tripoli office is operated by local employees and remains open. 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. As future developments cannot be predicted, the Management Board of POGC Libya BV is monitoring the situation in Libya and in the entire region and will make the appropriate decisions and take the required actions depending on circumstances.

As at June 30th 2011, the Parent Undertaking's equity interest in the company was EUR 65,520.0 thousand (equivalent to PLN 261,202.0 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011). As at June 30th 2011, the value of the interest as disclosed in the Parent Undertaking's books was PLN 291,922.0 thousand.

Sweden

On April 29th 2011, PGNiG S.A. acquired shares in Goldcup 5839 AB of Stockholm, a company with a share capital of SEK 500 thousand (equivalent to PLN 217.5 thousand, translated at the exchange rate quoted by the National Bank of Poland for June 30th 2011).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 Eurobonds on the international markets, as well as to borrow funds and advance loans to private investors, other than as part of any activities which in Sweden require a licence. As at June 30th 2011, the value of the shares as disclosed in the Parent Undertaking's accounting books was PLN 219.5 thousand.

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

The Parent Undertaking conducts exploration work in Pakistan, in the area covered by the Kirthar licence, jointly with Pakistan Petroleum Ltd. (interests held by PGNiG S.A. (operator) and PPL are 70% and 30%, respectively). In H1 2011, work was under way on workover of the Hallel-1 borehole, and drilling of the Hallel-X1 vertical borehole commenced. During H1 2011, work was also conducted on processing of the 2D and 3D seismic data acquired in 2010. Processing of this data will continue and its interpretation will start in H2 2011.

In Denmark, the Parent Undertaking continued exploration work in the 1/05 licence area (interests held by PGNiG S.A. (operator) and Nordsofonden are 80% and 20%, respectively). A drilling plan was prepared in H1 2011 and submitted to Danish Energy Agency (DEA). Drilling of an exploration well started in the second half of 2011.

(PLN '000)

In Egypt, the Parent Undertaking conducted exploration work in the Bahariya licence area (Block 3) under an Exploration and Production Sharing Agreement with the government of Egypt of May 17th 2009. The Company holds a 100% interest in the licence. In connection with unstable political situation in Egypt, at the beginning of the year the Polish employees of the PGNiG S.A. Egypt Branch were temporarily withdrawn from the country, which, however, did not entail any delays in the exploration work. In H1 2011, field gravimetric surveys along with their interpretation were completed. 1,600 km of 2D profiles are planned to be acquired in the second half of the year.

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 S.A. – Parent Undertaking:
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

PNiG Jasło Sp. z o.o.
Branch in Libya – Tripoli
Branch in the Czech Republic – Ostrava

PNiG Kraków Sp. z o.o.
Branch in Pakistan – Karachi
Branch in Kazakhstan – Almaty
Branch in the Republic of Uganda

PNiG Piła Sp. z o.o.
Branch in India – Baroda
Branch in Egypt – Cairo

ZRG Krosno Sp. z o.o.
Branch in the Czech Republic – Ostrava

POGC Libya BV
Branch in Libya – Tripoli

38. EMPLOYMENT (NUMBER OF STAFF)

Employment as at end of period, by segments	Jun 30 2011	Dec 31 2010
Head Office of PGNiG S.A.*	844	840
Exploration and Production	11,737	11,592
Trade and Storage	4,088	4,107
including companies consolidated with the equity method	284	298
Distribution	13,871	13,881
Other	2,301	2,296
Total	**32,841**	**32,716**

*Head Office is disclosed separately as it provides services to all segments.

39. RESTRUCTURING PROCESS WITHIN THE GROUP

In H1 2011, the Programme for Employment Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3) ("the Programme"), adopted by the Extraordinary General Shareholders Meeting of PGNiG S.A. on December 11th 2008, was in force. The Programme is based on the "stand-by" principle, which means that it can be implemented in extraordinary circumstances, i.e. any decisions regarding its implementation can only be made where it would be justified by the scope of planned restructuring involving workforce downsizing and/or liquidation of positions.

(PLN '000)

In the case of PGNiG S.A., any decisions on the implementation of the Programme at the Head Office and PGNiG S.A.'s branches (which includes a consent to commence payments of protection benefits, in accordance with the Programme's terms) are made by the Management Board of PGNiG S.A. by way of a resolution.

Until the end of the reporting period, i.e. until June 30th 2011, no decisions on the implementation of the Programme at PGNiG S.A.'s branches and Group's undertakings were made, save for the special case described below.

The special case concerned undertakings which were listed in the terms of the Programme as entities entitled to implement the Programme, provided that a relevant resolution was adopted by their General Shareholders Meeting, and whose poor financial situation rendered it impossible to cover all costs of employment streamlining required under the Programme without the financial aid provided under the Programme. Such undertakings, in accordance with the Programme's terms, may apply for benefits due to their former employees, with whom a work agreement was terminated, to be paid out from the PGNiG S.A.'s capital reserve designated as the Central Restructuring Fund ("CRF"), subject to approval by the General Shareholders Meeting of PGNiG S.A.

ZUN Naftomet Sp. z o.o. exercised its right and applied for financial aid from the CRF on the terms and conditions specified in the Programme to finance one-off protection benefits to its 35 former employees, in an aggregate amount of PLN 1,774.1 thousand. The request was approved by the Extraordinary General Shareholders Meeting of PGNiG S.A. (Resolution No. 3/II/2011 of February 24th 2011) and implemented.

40. CAPITAL MANAGEMENT

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

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

	Jun 30 2011	Dec 31 2010
Loans and borrowings, finance lease liabilities and issue of debt securities	1,828,140	2,199,101
Trade and other payables	3,336,114	3,538,554
Cash and cash equivalents (-)	(1,034,496)	(1,373,292)
Net debt	**4,129,758**	**4,364,363**
Equity (attributable to owners of the parent)	**23,882,275**	**23,506,046**
Equity and net debt	**28,012,033**	**27,870,409**
Leverage	14.7%	15.7%

41. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. On July 4th 2011, the Management Board of PGNiG S.A. received a notification of instigation of anti-trust proceedings by the President of the Office of Competition and Consumer Protection ("UOKiK") concerning abuse of dominant position on the domestic natural gas retail market by PGNiG S.A.

   According to the President of the UOKiK, the abuse of dominant position on the domestic natural gas retail market involved the inhibition of development of market conditions favourable to the emergence or growth of competitors on the domestic wholesale and retail gas markets by securing that a comprehensive gas supply agreement may be terminated upon notice in such a way that if the notice is served after September 30th of a given year, the termination is effective as of the end of the year following the year in which the notice was served, which may be in conflict with Art. 9.2.5 of the Act on Competition and Consumer Protection and Art. 102 of the Treaty on the Functioning of the European Union (OJEU C 115, May 9th 2008).

Pursuant to Art. 106 of the Act, the President of UOKiK may, by way of a decision, impose a fine on an entrepreneur abusing its dominant position of not more than 10% of the revenue earned in the financial year preceding the date of the decision. The amount of the fine is determined taking into account the duration, extent and circumstances of the breach of statutory provisions, as well as any previous violations of these provisions.

Under Art. 50.3 of the Act, PGNiG S.A. had the right to respond to the charges within fourteen days from the date of receipt of the notification of instigation of anti-trust proceedings.

On July 18th 2011, PGNiG S.A. sent a response to the notification to the President of UOKiK, including the documents and information requested by the President of UOKiK in the notification. Furthermore, PGNiG requested the President of UOKiK to extend by 14 days the deadline for clarifying its position on the charges presented in the decision to instigate the anti-trust proceedings. As grounds for the request, PGNiG cited the need to review the materials and documents collected so far in the course of the preliminary investigation and anti-trust proceedings.

On August 1st 2011 PGNiG S.A. sent to the President of UOKiK a response to the notification of the instigation of anti-trust proceedings concerning abuse by PGNiG S.A. of its dominant position on the Polish retail market of natural gas (after UOKiK had agreed to extend the deadline for filing a response to the charges by 14 days).

In response to the charges included in the notification, PGNiG S.A. denied in full the charge of abusing its dominant position on the domestic retail market of gaseous fuel through the inhibition of development of market conditions conducive to the emergence or growth of competition on the domestic retail and wholesale gas markets by securing that a comprehensive gas supply agreement may be terminated upon notice in such a way that if the notice is served after September 30th of a given year, the termination is effective as of the end of the year following the year in which the notice was served.

PGNiG S.A. justified its position by presenting detailed technical and economic grounds for the adopted rules of terminating comprehensive agreements, which, in the Company's opinion, proves that the Company is not involved in any competition-restricting practices.

In view of the foregoing, PGNiG S.A. requested that the proceedings be discontinued, pursuant to Art. 105.1 of the of the Polish Code of Administrative Procedure in conjunction with Art. 83 of the Act on Competition and Consumer Protection of February 16th 2007.

b. On July 7th 2011, the Management Board of PGNiG S.A. was notified that one of the two conditions precedent under the Comprehensive Agreement for Supply of Gaseous Fuel (the "Agreement") executed between PGNiG S.A. and Elektrociepłownia Stalowa Wola S.A. of Stalowa Wola ("ECSW") had been fulfilled.

   The condition refers to the delivery by ECSW of the agreement on connection of the CCGT unit in Stalowa Wola to the transmission system operator's network.

   The fulfilment of this condition does not result in the entry into force of the Agreement, which will become effective upon fulfilment of both conditions precedent specified in the Agreement, as reported by PGNiG S.A. in Current Report No. 34/2011 of March 11th 2011.

c. On July 12th 2011, a corporate procedure was commenced in order to approve an Annex to the Programme for Employment Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009-2011, which will enable the Group to finance additional social benefits from the capital reserve designated as Central Restructuring Fund also for former employees of PGNiG S.A.

   On August 10th 2011, the Extraordinary General Shareholders Meeting of PGNiG S.A. adopted Resolution No. 6/VIII/2011 to approve the Annex to the Programme for Employment Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009-2011 (Stage 3).

d. On July 19th 2011, the Management Board of PGNiG S.A. issued a statement to SGT EUROPOL GAZ S.A. confirming that PLN 87,127.14 thousand was the full and final amount of settlement between PGNiG S.A. and SGT EUROPOL GAZ S.A. under Art. 3.3.3a of the agreement of January 27th 2010 executed between OOO Gazprom export, PGNiG S.A. and SGT EUROPOL GAZ S.A., as amended by Annex No. 1, concurrently calling upon SGT EUROPOL GAZ S.A. to make the payment. By the date of these financial statements, the amount of PLN 87,127.14 thousand was not paid to the Parent Undertaking's account.

e. On July 21st 2011, annexes (the "Annexes") were signed to the PLN 3,000,000 thousand Note Issue Programme agreements executed on June 10th 2010 with six banks, including Bank Polska Kasa Opieki SA, ING Bank Śląski SA, Powszechna Kasa Oszczędności Bank Polski SA, Bank Handlowy w Warszawie SA, Societe Generale SA, and BNP Paribas SA Polish Branch. The Note Issue Programme documentation includes a Guarantee Agreement and an Agency and Custody Agreement. Annexes to both agreements were signed.

   Under the Annexes, the maximum value of the Note Issue Programme was increased from PLN 3,000,000 thousand to PLN 5,000,000 thousand and the end of its term was postponed from July 31st 2013 to July 31st 2015.

   Notes will be issued to raise financing for PGNiG's day-to-day needs and to finance its equity investments following from the PGNiG Group's strategy.

f. On August 4th 2011, the Management Board of PGNiG S.A. was notified that PGNiG Norway AS, a subsidiary of PGNiG S.A., had received through the agency of Norske Shell AS a letter from the Norwegian Ministry of Energy and Petroleum wherein the ministry granted its approval for all the interest holders to discontinue work in the PL326 licence area on the Norwegian Continental Shelf.

   The PL326 licence was originally awarded in the 18th licensing round in 2004. Since 2004, an extensive exploration programme was implemented. Three large-scale 3D seismic surveys were performed and analysed, and two exploration wells were drilled in 2009 and 2010. Both of them confirmed the presence of gas in rock formations having poor reservoir properties.

   Following an analysis of the acquired data and of the results of the second exploration well, the majority of the licence interest holders resolved to discontinue work in the PLN326 licence area.

   The following companies held interests in the PL326 licence: Norske Shell AS (50% interest – operator), Statoil Petroleum AS (40% interest), GDF SUEZ E&P Norge AS (10% interest) and PGNiG Norway AS (10% interest).

   PGNiG Norway AS was awarded the PL326 licence on June 23rd 2010, as reported by PGNiG S.A. in Current Reports No. 35/2010 of June 24th 2010 and No. 63/2010 of September 21st 2010.

g. On August 19th 2011, Moody's Investors Service ("Moody's") revised its outlook on PGNiG S.A. from stable to negative, maintaining the Baa1 rating.

   According to Moody's, the change of the outlook reflects the threats associated with implementation of PGNiG S.A.'s expansion plans in the upstream segment (the exploration and production business), the related financing requirements, and higher business risk compared with the PGNiG Group's core business in terms of performance volatility.

   "The Update of Strategy for the PGNiG Group for 2011–2015" which the Company has published envisages investment expenditure of PLN 27bn, of which PLN 15bn is to be spent on oil and gas exploration and production in Poland and abroad. To date, annual capital expenditure usually ranged from PLN 3bn to PLN 4bn. Currently, the Strategy provides for both strong development of the Group's existing business, and for ventures in new areas, including the power generation industry.

   Moody's pays attention not only to PGNiG S.A.'s strong historical financial ratios, but also to considerable volatility of the Group's performance. The principal reason behind the performance volatility is regulated gas selling prices, which do not reflect changing costs of gas purchase under long-term contracts (these in turn depend on changing prices of crude oil and foreign exchange rates). Previously this had no decisive influence on PGNiG S.A.'s rating as the Company had a very strong financial position and low debt. Moody's argues however that the performance volatility may have a negative effect on the Group's ability to cope with any potential adverse developments in its business environment while it implements an ambitious investment programme. According to Moody's, taking into consideration that PGNiG S.A. plans to expand its upstream operations, the expected growth in the role of the Group's non-regulated business may undermine its creditworthiness.

   Moody's admits that in 2010 PGNiG S.A. generated good financial performance, nonetheless the agency expects that the difference between the tariff prices and the cost of acquisition of gas will hamper the Group's performance in 2011, despite the 12.7% rise in the tariff as of July 15th 2011. Moody's expects that limited cash generation by PGNiG S.A. combined with the ongoing investment programme will result in an increased debt level and deteriorated credit ratios compared with 2010.

Moody's believes that the Baa1 rating reflects the Group's dominant position on the natural gas market in Poland. This rating was assigned in view of the aforementioned performance volatility, the Group's strong dependence on gas imports (mainly from Russia), and the extensive investment programme. PGNiG S.A.'s current rating also reflects potential support from an owner, i.e. the State Treasury (A2, stable outlook).

Moody's has stated that at the current stage there is little likelihood that PGNiG S.A.'s rating outlook could be upgraded.

According to Moody's, PGNiG S.A.'s rating may be lowered in the following circumstances: PGNiG S.A.'s financial standing deteriorates, the Company incurs considerable financial debt in connection with an M&A transaction, the Company pays out an unexpectedly high dividend or makes substantial expenditure on exploration and production projects which turn out to be less effective than expected, or the probability of receiving support from the majority shareholder (the State Treasury) declines significantly.

h. On August 22nd 2011, PGNiG S.A. and a bank operating in Poland (the "Bank") entered into an Agreement on Sale of PGNiG S.A.'s Debt Claim from Zakłady Chemiczne Police S.A. without recourse to the Company. PGNiG S.A. entered into an agreement on sold a debt of PLN 81,847 thousand. The selling price of the debt comprises a principal of PLN 71,285 thousand and interest of PLN 10,562 thousand, less a net discount equal to 30% of the interest amount. The debt selling price was paid by the Bank on August 25th 2011. The price terms of the transaction do not differ from standard market terms.

   In PGNiG S.A.'s financial statements as at June 30th 2011 an impairment loss has been recognised in respect of the principal amount of the debt.

i. On August 23rd 2011, PGNiG S.A. and PGNiG SPV 1 Sp. z o.o. entered into an agreement on a loan (the "Loan") of up to PLN 3.78bn. The Loan is to be repaid by December 31st 2012 and bears interest at a rate based on 3M WIBOR plus margin. The Loan will be used to finance the acquisition by PGNiG SPV 1 Sp. z o.o. of an equity interest in Vattenfall Heat Poland S.A. of Warsaw and the transaction costs. PGNiG S.A. holds shares representing 100% of PGNiG SPV 1 Sp. z o.o.'s share capital and conferring the right to 100% of votes at its General Shareholders Meeting.

j. On August 23rd 2011, PGNiG SPV 1 Sp. z o.o., which is wholly-owned by PGNiG S.A., executed a preliminary share purchase agreement with Vattenfall AB (the "Agreement"), concerning 24,591,544 shares in Vattenfall Heat Poland S.A. of Warsaw (the "Shares"), which account for more than 99.8% of the company's share capital and confer the right to more than 99.8% of the total vote at its General Shareholders Meeting. The Agreement was signed as a result of the negotiations reported by the Company in Current Report No. 120/2011 of August 23rd 2011.

   The purchase price of the Shares as at the date of the Agreement was approximately PLN 2.96bn, which corresponded to an enterprise value of approximately PLN 3.5bn. The purchase price will be index linked to reflect the time value of money. The final purchase price will depend on the date when the transaction is ultimately closed. The Shares are registered shares with a par value of PLN 10.00 per share and a total par value of PLN 245,915 thousand.

   The ownership of the Shares will be transferred following execution of the final share purchase agreement, subject to a condition precedent, i.e. clearance of the transaction by the President of the Office of Competition and Consumer Protection. If the clearance is not obtained within nine months, the Agreement will expire.

   The Agreement contains representations and warranties, provisions relating to liability for default under the representations and warranties, as well as the right to withdraw from the Agreement in the event of a material adverse change stipulated in the Agreement, which are standard for this type of transactions. The Agreement does not contain any terms or conditions which would differ from standard terms and conditions used in similar agreements.

   The acquisition of the Shares will be financed by PGNiG SPV 1 with the loan from PGNiG S.A. referred to in the previous item.

   The PGNiG Group treats the acquisition of the Shares in Vattenfall Heat Poland S.A. as a long-term investment.

   The parties to the Agreement are not related parties.

The core business of Vattenfall Heat Poland S.A. is co-generation of heat and electricity. The company operates in Warsaw (Siekierki and Żerań CHP Plants, Kawęczyn and Wola Heat Generating Plants), as well as in Pruszków, where it also owns a distribution network. The installed thermal power of the generating units is approximately 4.8 GW, while the electric power is approximately 1 GW. Vattenfall Heat Poland S.A. satisfies around 75% of heat demand on the Warsaw market, with SPEC S.A. being its main customer.

k. On August 24th 2011, Moody's Investors Service ("Moody's") assigned a temporary, long-term rating of Baa1 with a negative outlook to the EUR 1.2bn issue programme of medium-term, unsubordinated and unsecured bonds ("the Programme") which will be issued by PGNiG Finance AB, a wholly-owned subsidiary of PGNiG S.A. According to Moody's, the temporary rating assigned to the Programme is connected with the unconditional and irrevocable guarantee which is to be provided by PGNiG S.A. to PGNiG Finance AB under the Programme. Due to the guarantee, the temporary rating assigned to the Programme reflects the guarantor's creditworthiness and the outlook for PGNiG S.A. (Baa1, negative outlook).

l. On August 25th 2011, the Management Board of PGNiG S.A. signed the documentation for an Eurobonds issue programme worth up to EUR 1,200,000 thousand (approximately PLN 4.99bn, translated at the mid-exchange rate quoted by the National Bank of Poland for August 25th 2011, Table No. 164/A/NBP/2011) (the "Programme") with PGNiG Finance AB of Stockholm (PGNiG's wholly-owned subsidiary) and three banks, including Societe Generale, BNP Paribas, and Unicredit Bank AG. Under a five-year Programme, PGNiG Finance AB will be able to issue fixed or floating rate bonds with maturities of up to 10 years. The proceeds raised by PGNiG Finance AB from the bond issue will be used to advance a loan to PGNiG S.A. PGNiG S.A. will use the loan to finance its general liquidity requirements.

m. On August 25th 2011, an agreement was signed under which PGNiG S.A. provided a guarantee of up to EUR 1,500,000 thousand (approximately PLN 6.24bn, translated at the mid-exchange rate quoted by the National Bank of Poland for August 25th 2011, Table No. 164/A/NBP/2011) in respect of the liabilities of PGNiG Finance AB of Stockholm (PGNiG S.A.'s subsidiary) under the Eurobonds which are to be issued as part of the Eurobonds issue programme. The guarantee is valid until December 31st 2026. The financial terms of the guarantee will be correlated with the terms of the Eurobond issues to be carried out by PGNiG Finance AB under the Programme. PGNiG S.A. holds 100% of shares in PGNiG Finance AB, representing 100% of the company's share capital and 100% of votes at its General Shareholders Meeting.

n. On August 26th 2011, the Management Board of PGNiG S.A. reported that the forecasts of 2011 crude oil production from the fields situated in Poland were reduced to approximately 460 thousand tonnes, from the originally projected 480 thousand tonnes (see Current Report No. 9/2011 of January 19th 2011).

   The adjustment of planned crude oil production from the Polish fields in 2011 follows from a temporary stoppage in collection by one of the customers of the gas obtained in the crude degassing process at the Dębno oil and gas production facility. Collection of this gas is the primary condition for steady operation of the facility (keeping the production of crude oil at a planned level). A further limitation of crude oil production followed as a result of an unplanned repair of the main crude oil storage tank at the Dębno oil and gas production facility, which prevented the feeding of crude oil into the pipeline and required production to be adjusted to the collection capabilities of those customers who receive crude oil by rail tankers.

   In 2011, the estimated gas production from domestic fields remains unchanged at 4.3 billion cubic meters.

   PGNiG S.A. also reports that the launch of production from the Skarv field, originally scheduled for August 2011, was postponed to the end 2011. As a result, the 2011 forecast for the production of oil and gas on the Norwegian Continental Shelf also needs to be updated. The production start date was changed in connection with tests carried out at the shipyard and additional work on the Skarv FPSO unit. The Skarv FPSO unit has been anchored at the Skarv field in the Norwegian Sea. As soon as the Company receives information from the Skarv field operator, it will publish updated information on the gas and oil production volume from the field.

   The oil and gas production forecast for 2012 remains unchanged.