Polskie Górnictwo Naftowe
i Gazownictwo SA

ANNUAL SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31ST 2010

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, March 3rd 2011

FINANCIAL HIGHLIGHTS
for the year ended December 31st 2010

	PLN		EUR	
	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009
I. Sales revenue	20,415,476	18,578,265	5,098,261	4,280,115
II. Operating profit/(loss)	1,622,755	373,282	405,243	85,998
III. Pre-tax profit/(loss)	2,026,607	723,268	506,095	166,629
IV. Net profit/(loss)	1,702,121	665,874	425,063	153,406
V. Comprehensive income	1,796,009	689,331	448,509	158,810
VI. Net cash provided by/used in operating activities	2,385,986	1,109,737	595,841	255,664
VII. Net cash provided by/used in investing activities	(1,336,068)	(2,412,862)	(333,650)	(555,882)
VIII. Net cash provided by/used in financing activities	(909,307)	920,194	(227,077)	211,997
IX. Total net cash flow	140,611	(382,931)	35,114	(88,221)
X. Earnings/(loss) and diluted earnings/(loss) per ordinary share (PLN / EUR)	0.29	0.11	0.07	0.03
	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2010	As at Dec 31 2009
XI. Total assets	25,550,931	24,183,549	6,451,767	5,886,653
XII. Liabilities and provisions for liabilities	6,887,218	6,843,846	1,739,064	1,665,899
XIII. Non-current liabilities	1,758,351	1,638,725	443,994	398,891
XIV. Current liabilities	5,128,867	5,205,121	1,295,070	1,267,008
XV. Equity	18,663,713	17,339,703	4,712,702	4,220,754
XVI. Share capital	5,900,000	5,900,000	1,489,786	1,436,152
XVII. Weighted average number of shares ('000)	5,900,000	5,900,000	5,900,000	5,900,000
XVIII. Book value per share and diluted book value per share (PLN / EUR)	3.16	2.94	0.80	0.72
XIX. Dividend per share declared or paid (PLN / EUR)	0.08	0.09	0.02	0.02

Items of the income statement, the statement of comprehensive income and the 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 mid EUR 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

	Dec 31 2010	Dec 31 2009
Average exchange rate for the period	4.0044	4.3406
Exchange rate at the end of the period	3.9603	4.1082

INCOME STATEMENT
for the year ended December 31st 2010

	Note	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009
		(PLN '000)	
Sales revenue	**3**	**20,415,476**	**18,578,265**
Raw and other materials used	4	(11,148,537)	(11,006,178)
Employee benefits	4	(857,651)	(774,764)
Depreciation and amortisation		(589,080)	(610,099)
Contracted services	4	(5,799,915)	(5,381,194)
Cost of products and services for own needs		20,674	13,710
Net other operating expenses	4	(418,212)	(446,458)
Total operating expenses		**(18,792,721)**	**(18,204,983)**
Operating profit/(loss)		**1,622,755**	**373,282**
Finance income	5	538,696	699,891
Finance expenses	5	(134,844)	(349,905)
Pre-tax profit/(loss)		**2,026,607**	**723,268**
Income tax	6	(324,486)	(57,394)
Net profit/(loss)		**1,702,121**	**665,874**
Earnings/loss and diluted earnings/loss per share attributable to holders of ordinary shares	8	0.29	0.11

STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31st 2010

	Note	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009
		(PLN '000)	
Net profit/(loss)		**1,702,121**	**665,874**
Currency translation differences on foreign operations		2,200	(2,366)
Valuation of hedging instruments		42,036	-
Valuation of financial instruments		71,160	31,880
Deferred tax related to other comprehensive income		(21,508)	(6,057)
Other		-	-
Other comprehensive net income		**93,888**	**23,457**
Total comprehensive income		**1,796,009**	**689,331**

STATEMENT OF FINANCIAL POSITION
As at December 31st 2010

	Note	Dec 31 2010	Dec 31 2009
ASSETS		(PLN '000)	
Non-current assets			
Property, plant and equipment	10	10,940,921	9,726,870
Investment property	11	3,441	3,778
Intangible assets	12	81,941	68,954
Financial assets available for sale	13	6,408,689	6,219,361
Other financial assets	14	2,260,801	2,417,571
Deferred tax asset	15	291,447	299,660
Other non-current assets	16	51,557	35,892
Total non-current assets		**20,038,797**	**18,772,086**
Current assets			
Inventories	17	879,349	1,110,220
Trade and other receivables	18	3,968,880	3,687,081
Current income tax receivable	19	-	161,546
Prepayments and accrued income	20	18,803	9,370
Financial assets available for sale	21	-	-
Derivative financial instruments	33	77,635	18,002
Cash and cash equivalents	22	565,854	425,243
Non-current assets held for sale	23	**1,613**	**1**
Total current assets		**5,512,134**	**5,411,463**
Total assets		**25,550,931**	**24,183,549**
EQUITY AND LIABILITIES			
Equity	**24**		
Share capital		5,900,000	5,900,000
Currency translation differences on foreign operations		(748)	(2,948)
Share premium account		1,740,093	1,740,093
Other capital reserves		9,245,707	8,983,114
Retained earnings/(losses)		1,778,661	719,444
Total equity		**18,663,713**	**17,339,703**
Non-current liabilities			
Loans, borrowings and debt securities	25	279	2,619
Provisions	26	1,175,485	1,084,367
Deferred income	27	76,193	3,941
Deferred tax liability	28	491,539	531,260
Other non-current liabilities	29	14,855	16,538
Total non-current liabilities		**1,758,351**	**1,638,725**
Current liabilities			
Trade and other payables	30	2,921,635	2,359,695
Loans, borrowings and debt securities	25	1,218,692	1,904,065
Derivative financial instruments	33	104,443	260,428
Current tax liability	19	135,705	-
Provisions	26	156,263	134,652
Deferred income	27	592,129	546,281
Total current liabilities		**5,128,867**	**5,205,121**
Total liabilities		**6,887,218**	**6,843,846**
Total equity and liabilities		**25,550,931**	**24,183,549**

STATEMENT OF CASH FLOWS
for the year ended December 31st 2010

	Note	Jan 1–Dec 31 2010	Jan 1–Dec 31 2009
		(PLN ‘000)	
Cash flows from operating activities			
Net profit/(loss)		1,702,121	665,874
Adjustments:			
Depreciation and amortisation		589,080	610,099
Net foreign exchange gains/(losses)		(35,880)	(271,334)
Net interest and dividend		(483,576)	(237,519)
Profit/(loss) on investing activities		212,917	235,356
Current income tax		324,486	57,394
Income tax paid		(80,250)	(394,647)
Other items, net	31	(19,116)	649,718
Net cash provided by/(used in) operating activities before changes in working capital		**2,209,782**	**1,314,941**
Change in working capital:			
Change in receivables, net	31	(426,385)	(10,986)
Change in inventories	31	230,870	469,507
Change in provisions	31	(1,784)	(42,495)
Change in current liabilities	31	325,777	(617,651)
Change in prepayments	31	(6,616)	(6,185)
Change in deferred income	31	54,342	2,606
Net cash provided by/(used in) operating activities		**2,385,986**	**1,109,737**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		2,127	44,733
Sale of shares in related undertakings		-	5
Sale of shares in other undertakings		-	132
Sale of short-term securities		2,141	6,297
Acquisition of property, plant and equipment and intangible assets		(1,786,922)	(1,932,514)
Acquisition of shares in related undertakings		(117,319)	(379,962)
Acquisition of short-term securities		-	-
Decrease in loans advanced		2,497,261	266,586
Increase in loans advanced		(2,372,593)	(679,827)
Inflows from forward and futures contracts		110,786	113,107
Outflows on forward and futures contracts		(133,882)	(120,540)
Interest received		96,448	70,017
Dividend received		292,855	164,434
Proceeds from finance lease		15,865	40,111
Other items, net		57,165	(5,441)
Net cash provided by/(used in) investing activities		**(1,336,068)**	**(2,412,862)**
Cash flows from financing activities			
Net proceeds from issue of shares, other equity instruments and additional contributions to equity		-	-
Increase in loans and borrowings		-	1,140,000
Issue of debt securities		1,210,229	
Repayment of loans and borrowings		(1,900,895)	-
Redemption of debt securities		-	-
Decrease in finance lease liabilities		(3,564)	(3,123)
Inflows from forward and futures contracts		-	-
Outflows on forward and futures contracts		-	-
Dividend paid		(132,006)	(148,501)
Interest paid		(49,351)	(58,742)
Other items, net		(33,720)	(9,440)
Net cash provided by/(used in) financing activities		**(909,307)**	**920,194**
Net change in cash		**140,611**	**(382,931)**
Net foreign exchange gains/(losses)		-	313
Cash and cash equivalents at beginning of period		**425,243**	**808,174**
Cash and cash equivalents at end of period		**565,854**	**425,243**

STATEMENT OF CHANGES IN EQUITY
for the year ended December 31st 2010

	Equity					
	Share capital	Currency translation differences on foreign operations	Share premium	Other capital reserves	Retained earnings (losses)	**Total**
	(PLN '000)					
As at Jan 1 2010	**5,900,000**	**(2,948)**	**1,740,093**	**8,983,115**	**719,444**	**17,339,704**
Transfers	-	-	-	170,904	(170,904)	**-**
Payment of dividend to shareholders	-	-	-	-	(472,000)	**(472,000)**
Comprehensive income for 2010	-	2,200	-	91,688	1,702,121	**1,796,009**
As at Dec 31 2010	**5,900,000**	**(748)**	**1,740,093**	**9,245,707**	**1,778,661**	**18,663,713**
As at Jan 1 2009	**5,900,000**	**(582)**	**1,740,093**	**8,953,301**	**588,560**	**17,181,372**
Transfers	-	-	-	3,991	(3,991)	**-**
Payment of dividend to shareholders	-	-	-	-	(531,000)	**(531,000)**
Comprehensive income for 2009	-	(2,366)	-	25,822	665,875	**689,331**
As at Dec 31 2009	**5,900,000**	**(2,948)**	**1,740,093**	**8,983,114**	**719,444**	**17,339,703**

PGNiG S.A.'s FINANCIAL STATEMENTS – ADDITIONAL INFORMATION as at December 31st 2010

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

On October 30th 1996, the Company was entered in the commercial register maintained by the District Court for the Capital City of Warsaw, 16th Commercial Division, under No. RHB 48382. On November 14th 2001, by virtue of the decision of the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, PGNiG S.A. was entered into the Register of Entrepreneurs of the National Court Register under No. KRS 0000059492.
The Company's Industry Identification Number REGON is 012216736 and its Tax Identification Number NIP is 525-000-80-28.

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

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

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

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

1) extraction of crude petroleum,
2) extraction of natural gas,
3) service activities incidental to oil and gas extraction,
4) mining of sulphur-bearing ores,
5) other mining and quarrying n.e.c.,
6) production of refined petroleum products,
7) processing of refined petroleum products,
8) service activities in the area of installing, repair and maintenance of machinery for mining, quarrying and construction,
9) production of electricity,
10) transmission of electricity,
11) distribution of electricity,
12) production of gas fuels,
13) distribution of gas fuels through mains,
14) production of heat (steam and hot water),
15) distribution of heat (steam and hot water),
16) test drilling and boring,
17) general construction work related to linear engineering structures: pipelines, power supply lines, electric traction lines and telecommunication transmission lines,
18) construction of central heating and ventilation installations,
19) construction of gas installations,
20) maintenance and repair of motor vehicles,

21) retail sale of fuels,
22) wholesale of solid, liquid and gas fuels and related products,
23) wholesale of intermediate products,
24) other specialised wholesale,
25) hotels and motels, with restaurant,
26) hotels and motels, without restaurant,
27) freight transport by road by specialised vehicles,
28) freight transport by road by universal vehicles,
29) transport via pipelines,
30) cargo storage and warehousing at other storage facilities,
31) activities of travel agencies,
32) wireline telecommunications,
33) mobile telecommunications,
34) data transmission and communication,
35) radio communication,
36) research and experimental development on technical sciences,
37) geological and exploration activities,
38) geodetic and cartographic activities,
39) letting of own property,
40) management of residential real estate,
41) management of non-residential real estate,
42) buying and selling of own real estate,
43) activities of libraries other than public libraries,
44) archive activities,
45) museums activities,
46) technical testing and analysis,
47) lease of particular items of the Company's property used for electricity and gas transmission,
48) other financial intermediation,
49) management activities of holding companies,
50) printing n.e.c.,
51) service activities related to printing,
52) auxiliary graphic activities,
53) services related to installation, repair and maintenance of measuring, controlling, checking, testing and navigating instruments and appliances,
54) construction of heating, water, ventilation and gas installations,
55) activities of agents involved in the sale of fuels, ores, metals and industrial chemicals,
56) activities of agents involved in the sale of a variety of goods
57) wholesale of hardware, plumbing and heating equipment and supplies
58) other retail sale in non-specialised stores
59) financed lease,
60) activities auxiliary to financial intermediation related to insurance and pension funding
61) renting of machinery and equipment
62) data processing
63) data base activities,
64) other computer related activities,
65) accounting and book-keeping activities,
66) advertising,
67) call centre activities,
68) miscellaneous business activities n.e.c.,
69) management of real estate on a fee or contract basis,
70) other provision of lodging n.e.c.

1.2. Duration of the Company

The duration of the Company is unspecified.

1.3. Period Covered by these Financial Statements

These financial statements present data covering the annual period from January 1st to December 31st 2010, along with comparative data for the period from January 1st to December 31st 2009.

1.4. Statement whether These Financial Statements Contain Aggregated Data

PGNiG S.A. has a number of branches. As at December 31st 2010, PGNiG S.A.'s corporate structure comprised the Head Office of Warsaw and the following branches:

- Lower Silesian Gas Trading Division and its gas sales units;
- Upper Silesian Gas Trading Division and its gas sales units;
- Carpathian Gas Trading Division and its gas sales units;
- Mazovian Gas Trading Division and its gas sales units;
- Greater Poland Gas Trading Division and its gas sales units;
- Odolanów Branch;
- Sanok Branch;
- Zielona Góra Branch;
- Storage System Operator;
- Central Measurement and Testing Laboratory in Warsaw;

as well as the following foreign branches:

- Operator Branch in Pakistan;
- Algieria Branch;
- Egypt Branch;
- Denmark Branch.

On January 1st 2011 a new branch was established within the structures of PGNiG S.A., namely the Emergency Rescue Station Branch in Kraków (Oddział Ratownicza Stacja Górnictwa Otworowego w Krakowie). It was established based on an organised part of business in the form of the Emergency Rescue Station, purchased by PGNiG S.A. from Poszukiwania Nafty i Gazu Kraków Sp. z o.o. The Branch will engage in activities related to rescue operations in well mining and in work aimed at preventing any direct hazard to the safety of employees, safe operation of well mining units, or safety in general.

The presented financial statements of PGNiG S.A. covers all of the above entities and were prepared based on financial data derived from integrated accounting books of the Company's domestic branches and three foreign branches and based on the financial statements of the branch in Pakistan. As at the balance-sheet date, the data derived from the statements of financial position of the foreign branches was translated into the Polish złoty using the mid-exchange rate quoted by the National Bank of Poland (NBP) for a given currency for the balance-sheet date, while the items of the income statement were translated using the exchange rate computed as the arithmetic mean of mid-exchange rates as at the last day of each month in the financial year. Currency translation differences resulting from the translation were posted to the revaluation capital reserve.

PGNiG S.A., as the Parent Undertaking, also prepares consolidated financial statements containing the data of 26 subsidiary undertakings (including two capital groups and four indirect subsidiaries), one associated undertaking and one jointly-controlled undertaking.

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

Pursuant to the provisions of PGNiG S.A.'s Articles of Association, its Management Board is composed of two to seven members. The number of members is determined by the body appointing the Management Board. The 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 December 31st 2010, PGNiG S.A.'s Management Board was composed of five members:

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

The following changes in the composition of PGNiG S.A.'s Management Board occurred in 2010:

On April 26th 2010, the Supervisory Board of PGNiG S.A. received Mr Mirosław Dobrut's resignation from the position of Vice-President of PGNiG S.A.'s Management Board, responsible for Gas and Trade, with effect from April 30th 2010. The reason for the resignation was the appointment of Mr Mirosław Dorbut for the position of President of the Management Board of SGT EUROPOL GAZ S.A. of Warsaw, by the company's Extraordinary General Shareholders Meeting on April 20th 2010.

On July 19th 2010, the Supervisory Board of PGNiG S.A. appointed Mr Marek Karabuła as Vice-President of the Management Board.

On August 16th 2010, the Supervisory Board of PGNiG received a resignation by Mr Waldemar Wójcik from the position of Vice-President of the Management Board of PGNiG S.A. in charge of Oil Mining with effect from August 15th 2010.

On December 1st 2010, in connection with the expiry of the Management Board's term, the Supervisory Board of PGNiG S.A. resolved to open a qualification process with a view to selecting candidates for the following positions:

- President of the Management Board of PGNiG S.A.,
- Member of the Management Board of PGNiG S.A. in charge of finance,
- Member of the Management Board of PGNiG S.A. in charge of production,
- Member of the Management Board of PGNiG S.A. in charge of strategy and sales.

On January 12th 2011, the qualification process was completed. By virtue of a decision of the Supervisory Board, current President of the Management Board of PGNiG S.A. Michał Szubski was re-elected for another term of office, which starts on March 13th 2011 and expires on March 13th 2014.

Furthermore, the Company's current Vice-Presidents, i.e. Sławomir Hinc, Radosław Dudziński and Marek Karabuła, were appointed as Members of the Management Board of PGNiG S.A. for the new term of office.

On December 28th 2010, the Supervisory Board of PGNiG S.A. resolved to begin, as of January 4th 2011, the procedure of election of the Management Board Member representing the employees.

Following elections held from January 31st to February 2nd and from February 14th to February 16th 2011, PGNiG S.A.'s employees re-appointed Mirosław Szkałuba as their representative on the Management Board.

The term of office of the current Management Board expires on March 12th 2011.

From December 31st 2010 to the date of these financial statements there were no changes in the composition of the Management Board of PGNiG S.A.

During the next term, starting from March 13th 2011 and expiring on March 13th 2014, the composition of the Management Board of PGNiG S.A. will be as follows:

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

1.6. Commercial Proxies

As at December 31st 2010, the following persons served as commercial proxies for PGNiG S.A.:

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

In 2010, there were no changes regarding commercial proxies for PGNiG S.A.

The granted powers of proxy are joint powers of proxy, i.e. for the effectiveness of legal actions a commercial proxy must act jointly with a member of PGNiG S.A.'s Management Board.

From December 31st 2010 to the date of these financial statements, there were no changes regarding commercial proxies for PGNiG S.A.

1.7. 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 December 31st 2010, 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 change in the composition of PGNiG S.A.'s Supervisory Board occurred in 2010:

On July 19th 2010, the Company received Mr Marek Karabuła's resignation from membership of the Supervisory Board of PGNiG S.A. The reason for the resignation was his appointment to the Management Board of PGNiG S.A.

On December 28th 2010, the Supervisory Board of PGNiG S.A. resolved to begin, as of January 4th 2011, the procedure of election of the Supervisory Board members elected by the employees.

Following employee vote held from January 31st to February 2nd 2011, three of the current employee-elected members of the Supervisory Board of PGNiG (Agnieszka Chmielarz, Mieczysław Kawecki and Jolanta Siergiej) were re-appointed for another term.

The term of office of PGNiG S.A.'s current Supervisory Board expires on April 30th 2011.

From December 31st 2010 to the date of these financial statements, there were no changes in the composition of the Supervisory Board of PGNiG S.A.

1.8. Shareholder Structure of PGNiG S.A.

As at the date of release of consolidated financial statements for 2010, the State Treasury was the only shareholder holding 5% or more of the total vote at the General Shareholders Meeting of PGNiG S.A.

(PLN '000)

PGNiG S.A.'s shareholder structure:

Entity	Registered office	Number of shares	% of share capital held	%of votes held votes
As at Dec 31 2010				
State Treasury	Warsaw	4,273,650,532	72,43%	72,43%
Others	-	1,626,349,468	27,57%	27,57%
Total	**-**	**5,900,000,000**	**100,00%**	**100,00%**
As at Dec 31 2009				
State Treasury	Warsaw	4,303,686,368	72.94%	72.94%
Others	-	1,596,313,632	27.06%	27.06%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**

1.9. Going-Concern Assumption

These financial statements were prepared based on the assumption that the Company would continue as a going concern for the foreseeable future. As at the date of approval of these financial statements, there were no circumstances which would indicate any threat to the continuation of the Company's business.

1.10. Mergers of Companies

In 2010, there were no mergers of PGNiG S.A. with any other companies.

1.11. Approval of the Financial Statements

These financial statements will be submitted to PGNiG S.A.'s Management Board for authorisation on March 21st 2011.

2. THE APPLIED ACCOUNTING POLICIES

2.1. Basis for the Preparation of the Financial Statements

These financial statements have been prepared in accordance with the historical cost convention, except with respect to financial assets available for sale and financial derivatives measured at fair value.

These financial statements have been presented in the Polish 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 financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at December 31st 2010.

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

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

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 Company 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 Company's business and are effective for annual reporting periods beginning on or after January 1st 2010. The newly adopted standards are presented below.

- IFRS 1 (revised) First-Time Adoption of International Financial Reporting Standards – endorsed by the EU on November 25th 2009 (effective for annual periods beginning on or after January 1st 2010),
- IFRS 3 (revised) Business Combinations – endorsed by the EU on June 3rd 2009 (effective for annual periods beginning on or after July 1st 2009),
- Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters – endorsed by the EU on June 23rd 2010 (effective for annual periods beginning on or after January 1st 2010),
- Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions – endorsed by the EU on March 23rd 2010 (effective for annual periods beginning on or after January 1st 2010),
- Amendments to IAS 27 Consolidated and Separate Financial Statements – endorsed by the EU on June 3rd 2009 (effective for annual periods beginning on or after July 1st 2009),
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items – endorsed by the EU on September 15th 2009 (effective for annual periods beginning on or after July 1st 2009),
- Amendments to various standards and interpretations: Improvements to IFRSs 2009 – amendments made as part of the process of making annual improvements to the IFRSs, published on April 16th 2009 (amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16), aimed chiefly at eliminating any inconsistencies and clarification of wording – endorsed by the EU on March 23rd 2010 (effective for annual periods beginning on or after January 1st 2010),
- IFRIC 12 Service Concession Arrangements – endorsed by the EU on March 25th 2009 (effective for annual periods beginning on or after March 30th 2009),
- IFRIC 15 Agreements for the Construction of Real Estate – endorsed by the EU on July 22nd 2009 (effective for annual periods beginning on or after January 1st 2010),

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation – endorsed by the EU on June 4th 2009 (effective for annual periods beginning on or after July 1st 2009),
- IFRIC 17 Distributions of Non-cash Assets to Owners – endorsed by the EU on November 26th 2009 (effective for annual periods beginning on or after November 1st 2009),
- IFRIC 18 Transfers of Assets from Customers – endorsed by the EU on November 27th 2009 (effective for annual periods beginning on or after November 1st 2009).

The application of the above standards and interpretations has not caused any material changes in the Company's accounting policies or in the presentation of its financial statements.

2.2.2. Standards and Interpretations Published and Endorsed for Use in the EU but Not Yet Effective

While preparing these financial statements, the Company did not apply the following standards, amendments and interpretations which have been published and endorsed for application in the EU but have not yet become effective:

- 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).

With the exception of IAS 24, the Company decided not to apply early the above standards, amendments to standards, and interpretations.

Application of the Revised IAS 24

While preparing these financial statements, the Company chose to use the option of early application of the amendments to IAS 24.

- Amendments to IAS 24 *Related Party Disclosures* – simplifying disclosure requirements for government-related entities and clarifying the definition of a related party – endorsed by the EU on July 19th 2010 (effective for annual periods beginning on or after January 1st 2011).

In these financial statements, the Company has applied the exemption specified in par. 25–27 of the revised IAS 24 concerning disclosure requirements in relation to parties related to the State Treasury.

As at December 31st 2010, the State Treasury controlled the Company by holding 72.43% of its shares. The State Treasury has control, joint control or significant influence over many entities cooperating with the Company. Pursuant to the exemption under par. 25 of the revised IAS 24, in these financial statements the Company has not disclosed information on the amount of transactions and outstanding balances nor any other information referred to in par. 18 of IAS 24, instead it has described the nature of such transactions and listed the entities with whom the Company generated the highest turnovers in day-to-day operations in 2010 and 2009 (see Note 36.3).

As at the date of these financial statements, the only transaction requiring higher level of detail to be disclosed in under par. 27 of IAS 24 is the non-cash dividend paid by the Company to the State Treasury. See Note 9.

2.2.3. Standards and Interpretations not yet Endorsed for Use by the EU

The IFRSs endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB), except to the extent of the following standards, amendments and interpretations, which as at December 31st 2010 had not yet been endorsed for use:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1st 2013),
- Amendment 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),
- Amendment to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after July 1st 2011),

(PLN '000)

- Amendment to IAS 12 Income Tax – Deferred Tax: Realisation of Assets (effective for annual periods beginning on or after January 1st 2012),
- Amendments to various standards and interpretations: Improvements to IFRSs 2010 – amendments made as part of the process of making annual improvements to the IFRSs, published on May 6th 2010 (amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, and IFRIC 13), aimed chiefly at eliminating any inconsistencies and clarification of wording (effective for annual periods beginning on or after January 1st 2011).

The Company estimates that the above standards, interpretations and amendments to standards would not have had any material effect on the Company'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 Company 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 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 PGNiG S.A.

2.3.1. 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 2.3.3.).

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 Company 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 Company 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.

(PLN '000)

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.

2.3.2. 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 Company 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 Company 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.

2.3.3. Borrowing Costs

As from January 1st 2009, the Company capitalises borrowing costs. Until the end of 2008, in line with the model recommended in IAS 23, the Company 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.

2.3.4. Investment Property

Investment property is the property (land, building, part of a building, or both) treated by the Company, 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 Company 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 Company depreciates investment property based on the straight-line method over the following useful economic life periods:

Buildings and structures	2–40 years

2.3.5. Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance, controlled by the Company and which will cause an inflow of economic benefits to the Company 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 Company 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 Company. 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 Company as revision of accounting estimates and are charged to profit or loss in the period in which such estimates are revised.

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

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

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

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

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

2.3.6. 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.

2.3.6.1. The Company as a Lessor

Finance leases are disclosed in the statement of financial position as receivables, at amounts equal to net investment in the lease 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 Company'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.

2.3.6.2. The Company as a Lessee

Assets used under a finance lease are recognised as the Company'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.

2.3.7. Impairment of Property, Plant and Equipment and Intangible Assets

As at each balance sheet date, the Company 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.

2.3.8. Financial Assets

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

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

2.3.8.1. Financial Assets Measured at Fair Value Through Profit or Loss

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

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

- acquired principally for the purpose of selling it in the near term;

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

The Company classifies the following financial assets as held for trading:
- derivatives with positive valuation which are not measured pursuant to the principles of hedge accounting (e.g. 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.

2.3.8.2. Investments Held to Maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payment terms and fixed maturity that the Company 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 Company 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.

2.3.8.3. 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 Company 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.

2.3.8.4. Loans and Receivables

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

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

Uncollectible receivables are 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.

2.3.8.5. 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.

2.3.9. Impairment of Financial Assets

As at each balance sheet date, the Company 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.

2.3.10. Hedge Accounting

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

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

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

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

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

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

The selected hedging instruments include purchased fix/float commodity swaps and Asian commodity call options (European style).

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.

2.3.11. Interests in Joint Ventures

A joint venture is a contractual relationship between two or more parties, under which such parties undertake an economic activity and jointly control such activity. Strategic financial, 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.

2.3.12. Inventories

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

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

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

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

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

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

2.3.13. 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 Company 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.

2.3.14. Cash and Cash Equivalents

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

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

2.3.15. Non-Current Assets Held for Sale

The Company 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 recognised in profit or loss, 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.

2.3.16. 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 Company.

Share capital is disclosed at par value and in the amount specified in the Articles of Association of the Company 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 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 Company recognises the aforementioned reductions in profit of the year 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.

2.3.17. 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.

2.3.18. Provisions

Provisions are created when the Company has a present obligation (legal or constructive) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of funds 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 revalued at each balance sheet date in order to ensure that the estimated amount is as accurate as possible.

The Company 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.

2.3.18.1. Provision for Well Decommissioning Costs

Being under the obligation to eliminate effects of its geological and mining activities, the Company creates a provision for future well and auxiliary infrastructure decommissioning costs and makes 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 Company 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.

2.3.18.2. Provision for Length-of-Service Awards and Retirement Severance Pays

The Company 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 Company. 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 Company made the following assumptions:

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

2.3.18.3. Provision for Gas Allowances for Former Employees

Until the end of 2010, the Company 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.

2.3.18.4. 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.

2.3.18.5. Provision for Penalties

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

2.3.18.6. 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 Company calculates the additional cost which it would incur if such events occurred and creates a provision for that purpose.

2.3.18.7. Provision for Claims under Extra-Contractual Use of Land

In the ordinary course of business, the Company owns technical equipment located on land properties owned by third parties, which are often natural persons.

Where possible, the Company 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 Company recorded a significant increase in the number of claims submitted by land property owners for compensation for use of transmission easements by the Company. Apart from the compensation paid to land property owners under the agreements on establishment of transmission easements, the Company pays compensation under extra-contractual use of land properties.
Given the above, in 2010, in accordance with the materiality rule, the Company estimated the amount of the provision for claims under extra-contractual use of land.
When calculating the amount of the provision, the Company 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 Company analysed the following: estimate surveys of claim amounts made by expert appraisers; the Company's own calculation 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 Company will be required to pay may significantly differ from the recognised amount of the related provision.

2.3.18.8. Other Provisions

The Company 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 Company's internal resolutions.

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

The Company reviews provisions at each balance-sheet date in order to reflect the current best estimate. If the effect of changes in the time value of money is material, provisions are discounted. Where discounting is used, the net book value of a provision increases in each period to reflect the passage of time. This increase is recognised as cost.

Long-term provisions are discounted by the Company 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.

2.3.19. Accruals and Deferrals

Under deferrals, the Company discloses costs incurred upfront that relate in full or in part to future reporting periods. Deferrals 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 unused 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 Company recognises deferred income for the purposes of disclosing the income in future reporting periods at the time of income realisation.

In deferred income, PGNiG S.A. includes deferred income from forecast gas sales and from additional charges for non-accepted gas under existing take-or-pay contracts.

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

2.3.20. 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 Company, that is salaries and wages, and other current employee benefits, as well as accrued expenses and public dues.

2.3.21. 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.

2.3.21.1. 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 Company 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.

2.3.21.2. 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.

2.3.22. 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.

2.3.22.1. 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.

2.3.22.2. 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.

2.3.22.3. Interest Revenue

Interest revenue 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.

2.3.22.4. Dividends

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

2.3.22.5. Lease Revenue

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

2.3.23. 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.

2.3.24. Employee Benefits

Short-term employee benefits paid by the Company 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.

2.3.25. 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 not be subject to deduction/taxation. Tax is calculated based on the tax rates effective in a given financial year.

Deferred tax is calculated using the balance-sheet method as future tax liability or asset, resulting from differences between balance-sheet 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 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.

2.3.26. Foreign Currencies

The functional currency (measurement currency) and the reporting currency of PGNiG S.A. 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 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 transaction date. 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 Company enters into forwards and option contracts.

The functional currencies of the foreign branches are as follows: the Pakistan rupee (PKR) for the Operator Branch in Pakistan, the Polish złoty (PLN) for the Branches in Egypt, Denmark and Algeria. As at the balance sheet date, assets and liabilities of the Branch in Pakistan 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.

2.3.26. 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 three Company's segments subject to reporting in accordance with the IFRS are as follows:

a) *Production Segment.* The segment encompasses extracting hydrocarbons from reserves and preparing products for sale. The segment covers the entire process of extracting natural gas and crude oil from reserves, including development of and production from the reserves.

b) *Trade and Storage Segment*. 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 segment's activities comprise also 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) *Other Operations.* The segment provides services aimed at ensuring accurate and reliable measurements of natural gas.

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. 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 Company of the accounting policies described in Section 2.3 of the Financial Statements, the Company made certain assumptions as to the uncertainty and the estimates which had the most material effect on the amounts disclosed in the financial statements.

Accordingly, there is a risk that there might be significant changes in the next reporting periods, mainly concerning the following areas:

2.4.1. Additional Contributions to the Equity of PI GAZOTECH Sp. z o.o.

In 2010, 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. As the date of these financial statements, no final decision was 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 additional contributions in the amount of PLN 52,000 thousand. The proceedings started on March 7th 2006 and have been held before the Regional Court of Warsaw, the Warsaw Court of Appeals and the Supreme Court. In response to a cassation complaint filed by PGNiG S.A., in the ruling of May 14th 2009 the Supreme Court allowed PGNiG S.A.'s objection that the agenda for the General Shareholders Meeting of PI GAZOTECH Sp. z o.o. held on April 23rd 2004 lacked the necessary detail, reversed the ruling issued by the Warsaw Court of Appeals on February 4th 2008 and remanded the case for re-examination by the Court of Appeals. On October 13th 2009, the Court of Appeals reversed the ruling issued by the Regional Court and remanded the case for re-examination by the Regional Court. On June 25th 2010, the Regional Court granted PGNiG S.A.'s claims and declared the resolutions concerning share redemption and additional contributions invalid. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court in Warsaw, together with a request for court fee exemption.

Proceedings based on PGNiG S.A.'s action against PI GAZOTECH Sp. z o.o. to rescind or assert invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated January 19th 2005, whereunder PGNiG S.A. is obliged to pay additional contributions in the amount of PLN 26,000 thousand, were held before the Regional Court and the Court of Appeals of Warsaw. By virtue of the ruling of October 31st 2008, the Regional Court dismissed PGNiG S.A.'s action. The Company filed an appeal against the ruling. The measures to safeguard the claim were maintained until the ruling became final. PGNiG S.A. advised the Court of Appeals of the ruling issued by the Supreme Court on May 14th 2009, which is of relevance for the discussed case. On July 30th 2009, the Court of Appeals reversed the Regional Court's ruling and remanded the case for re-examination by the Regional Court. By virtue of its ruling of October 18th 2010, the Regional Court in Warsaw rescinded the resolution on additional contributions. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court in Warsaw, together with a request for court fee exemption. By virtue of its decision of November 24th 2010, the Regional Court dismissed the request. On December 30th 2010, PI GAZOTECH Sp. z o.o. lodged an appeal against the decision of the Regional Court.

Proceedings based upon PGNiG S.A.'s action against PI GAZOTECH Sp. z o.o. to rescind or assert invalidity of the resolution of the General Shareholders Meeting of PI GAZOTECH Sp. z o.o., dated October 6th 2005, whereunder PGNiG S.A. is obliged to pay additional contributions in the amount of PLN 6,552 thousand, instigated before the Regional Court of Warsaw were concluded in the first instance. 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 proceedings to maintain the safeguarding measures have been pending before the Court of Appeals and the Regional Court of Warsaw since July 22nd 2008. On February 17th 2009, PGNiG S.A. filed a complaint concerning the Regional Court's repeated reversal of the decision concerning implementation of the safeguarding measures. On April 23rd 2009, the Warsaw Court of Appeals once more reversed the Regional Court's decision reversing the decision concerning implementation of the safeguarding measures, and referred the case to the District Court of Warsaw. PGNiG S.A. advised the Court of Appeals of the ruling issued by the Supreme Court on May 14th 2009, which is of relevance for the discussed case. In its ruling of December 21st 2009, the Court of Appeals reversed the Regional Court's unfavourable ruling and remanded the case for re-examination by the Regional Court. By virtue of its decision of May 25th 2010, the Court of Appeals once again changed the District Court's decision and dismissed the request for reversing the decision concerning implementation of the safeguarding measures.

In connection with the foregoing, in the financial statements for 2010 the Company retained in the accounting books a PLN 84,552 thousand liability and receivable from PI GAZOTECH Sp. z o.o. on additional contribution to equity, and a PLN 84,552 thousand impairment loss recognised on that receivable.

In connection with the implementation of the safeguarding measures PI GAZOTECH Sp. z o.o. is not entitled to any interest on additional contribution to equity. As a result, the Company released the entire amount (i.e. PLN 13,017.5 thousand) of the provision for potential interest liabilities.

2.4.2. Impairment of Non-Current Assets

The Company's key operating assets include the mining assets and gas storage facilities. These assets were tested for impairment. The Company computed and recognised material impairment losses on the assets, based on an assessment of their current and future usefulness, planned decommissioning and sales. 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. For information on the value of recognised impairment losses see Note 10.2.

2.4.3. Useful Lives of Tangible Assets

Note 2.3.1. of these financial statements presents useful lives of key groups 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 volumes and value of natural gas supplied to retail customers.

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

2.4.5. Provision for Decommissioning Costs and Environmental Protection

The provision for future well decommissioning costs and the provision for environmental liabilities presented in Note 26 represent significant items among the provisions disclosed in these 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 Company owns technical equipment installed on land properties owned by third parties, which are often natural persons.

Where possible, the Company 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 Company recorded a significant increase in the number of claims submitted by land property owners for compensation for use of transmission easements by the Company. Apart from the compensation paid to land property owners under the agreements on establishment of transmission easements, the Company pays compensation under extra-contractual use of land properties.
Given the above, in 2010, in accordance with the materiality rule, the Company estimated the amount of the provision for claims under extra-contractual use of land.
When calculating the amount of the provision, the Company 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 Company analysed the following: estimate surveys of claim amounts made by expert appraisers; Company's own calculation 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 Company will be required to pay may significantly differ from the recognised amount of the related provision.

2.4.7. 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,
- impeding the development of market conditions necessary for the emergence or growth of competition,

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

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 as at the end of 2010, 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.

2.5. Presentation Changes in the Financial Statements

Presentation Changes in the Income Statement

The Company changed the 2009 income statement to ensure comparability of the data for the previous reporting period with the data for the current period.
In 2010, the Company changed the presentation of the costs of gas fuel transport via the gas transit pipeline on the basis of which the price for gas fuel is calculated.

Therefore, the Company made an appropriate reclassification in the 2009 income statement and moved an amount of PLN 103,740 thousand from contracted services to raw and other materials used. The pre-tax profit and net profit remained unchanged.

Presentation Changes - Reporting Segments

Following the changes introduced in 2010 and concerning the manner of accounting for the produced gas sold by the Trade and Storage Segment, the Company made the necessary adjustment to the data for 2009 to ensure its comparability with the current period.

The adjustment consisted in decreasing the value of inter-segment sales in the Production segment by PLN 162,861 thousand, and decreasing by the same amount the value of other expenses in the Trade and Storage segment and the amounts of eliminations. The adjustment resulted in a reduction of the Production segment's result and a concurrent increase in the Trade and Storage segment's result by PLN 162,861 thousand. Other items and figures remained unchanged.

(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 certain items of the assets, equity and liabilities of the Company's business segments for the periods ended December 31st 2010 and December 31st 2009.

Year ended December 31st 2010	**Production**	**Trade and Storage**	**Other**	**Eliminations**	**Total**
Income statement					
Sales to external customers	1,479,748	18,932,836	2,892	-	20,415,476
Sales to other segments	1,113,243	-	-	(1,113,243)	-
Total segment revenue	2,592,991	18,932,836	2,892	(1,113,243)	20,415,476
Depreciation and amortisation	(446,159)	(142,603)	(318)	-	(589,080)
Other costs	(1,322,223)	(17,989,401)	(5,260)	1,113,243	(18,203,641)
Total segment costs	(1,768,382)	(18,132,004)	(5,578)	1,113,243	(18,792,721)
Operating profit/(loss)	**824,609**	**800,832**	**(2,686)**	**-**	**1,622,755**
Net finance expenses					403,852
Pre-tax profit/loss					**2,026,607**
Income tax					(324,486)
Net profit/(loss)					**1,702,121**
Statement of financial position					
Segment's assets	8,367,843	10,403,940	1,377	-	18,773,160
Unallocated assets					6,486,324
Deferred tax assets					291,447
Total assets					**25,550,931**
Total equity					18,663,713
Segment liabilities	1,450,343	3,486,073	146	-	4,936,562
Unallocated liabilities					1,459,117
Deferred tax liability					491,539
Total equity and liabilities					**25,550,931**
Other information					
Capital expenditure on property, plant and equipment and intangible assets	(1,233,850)	(552,998)	(74)	-	**(1,786,922)**
Impairment losses on assets	(990,233)	(1,110,288)	(6)	-	**(2,100,527)**
Impairment losses on unallocated assets					**(1,675,674)**

(PLN '000)

Year ended December 31st 2009	Production	Trade and Storage	Other	Eliminations	Total
Income statement					
Sales to external customers	1,230,812	17,344,766	2,687	-	18,578,265
Sales to other segments	1,092,178	-	-	(1,092,178)	-
Total segment revenue	2,322,990	17,344,766	2,687	(1,092,178)	18,578,265
Depreciation and amortisation	(466,058)	(143,797)	(244)	-	(610,099)
Other costs	(1,594,720)	(17,087,481)	(4,861)	1,092,178	(17,594,884)
Total segment costs	(2,060,778)	(17,231,278)	(5,105)	1,092,178	(18,204,983)
Operating profit/(loss)	**262,212**	**113,488**	**(2,418)**	**-**	**373,282**
Net finance expenses					349,986
Pre-tax profit/(loss)					**723,268**
Income tax					(57,394)
Net profit/(loss)					**665,874**
Statement of financial position					
Segment's assets	7,437,365	10,207,818	1,343	-	17,646,526
Unallocated assets					6,237,363
Deferred tax assets					299,660
Total assets	**7,437,365**	**10,207,818**	**1,343**	**-**	**24,183,549**
Total equity					17,339,703
Segment liabilities	1,265,984	2,879,065	426	-	4,145,475
Unallocated liabilities					2,167,111
Deferred tax liability					531,260
Total equity and liabilities	**1,265,984**	**2,879,065**	**426**	**-**	**24,183,549**
Other information					
Capital expenditure on property, plant and equipment and intangible assets	(1,143,046)	(789,104)	(364)	-	**(1,932,514)**
Impairment losses on assets	(841,893)	(1,068,893)	-	-	**(1,910,786)**
Impairment losses on unallocated assets					**(1,682,174)**

(PLN '000)

3.2. Information on Geographical Areas

The Company's business activity focuses on domestic sales. In 2010, the revenue from export sales of products, goods for resale and materials to external customers accounted for 2.30% (2% in 2009) of the total net revenue from sales of products, goods for resale and materials to external customers. The Company carries out exports sales mainly to Germany, Belgium and Switzerland.

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Domestic sales	**19,946,299**	**18,206,885**
Gas	19,214,078	17,592,339
Crude Oil	467,836	361,609
Helium	13,319	11,626
Propane-butane gas	50,489	37,194
Gasoline	3,227	2,664
LNG	30,019	21,418
Gas storage services	31,702	23,524
Geophysical and geological services	20,809	26,398
Hotel services	5,449	5,523
Other services	94,181	109,018
Other products	6,104	6,757
Materials and goods for resale	9,086	8,815
Export sales	**469,177**	**371,380**
Gas	56,516	41,212
Crude Oil	370,806	300,025
Helium	30,732	25,448
LNG	88	-
Geophysical and geological services	6,396	480
Other products and services	4,639	4,215
Total	**20,415,476**	**18,578,265**

A majority of the Company's non-current assets (other than financial instruments) are also located in Poland. The value of non-current assets located abroad as at December 31st 2010 represented 0.37% of the total value of non-current assets (0.39% as at December 31st 2009).

	Dec 31 2010	Dec 31 2009
Value of non-current assets other than financial instruments located in Poland	11,326,801	10,096,093
Value of non-current assets other than financial instruments located abroad	42,506	39,061
Total	**11,369,307**	**10,135,154**

3.3. Key Customers

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

(PLN '000)

4. OPERATING EXPENSES

4.1. Raw and other materials used

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Cost of gas sold	(11,004,594)	(10,858,467)
Other raw and other materials used	(143,943)	(147,711)
Total	**(11,148,537)**	**(11,006,178)**

4.2. Employee Benefits

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Salaries and wages	(613,906)	(562,065)
Social security and other benefits	(243,745)	(212,699)
Total	**(857,651)**	**(774,764)**

4.3. Contracted Services

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Purchases of transmission and distribution services	(4,887,587)	(4,271,805)
Other contracted services	(912,328)	(1,109,389)
Total	**(5,799,915)**	**(5,381,194)**

4.4. Other Net Operating Expenses

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in provisions, net	(12,832)	32,596
Change in impairment losses, net	(143,116)	(590,106)
Taxes and charges	(151,521)	(167,093)
Interest related to operating activities	90,612	94,376
Net foreign exchange gains/(losses) related to operating activities	81,355	58,512
Gain/(loss) on valuation and execution of hedging transactions related to operating activities	(155,561)	34,754
Value of goods for resale and materials sold	(10,258)	(7,371)
Income from current settlement of deferred income recognised in the statement of financial position	1,339	153
Gains/(losses) on disposal of non-financial non-current assets	(8,800)	13,655
Difference on valuation of assets distributed as dividend	24,422	3,607
Change in prepayments and inventories	4,224	4,275
Income from compensations, penalties	9,799	126,362
Cost of compensations, penalties	(106,409)	(850)
Other expenses, net	(41,466)	(49,328)
Total	**(418,212)**	**(446,458)**

(PLN '000)

5. FINANCE INCOME AND EXPENSES

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Finance income	**538,696**	**699,891**
Gain on valuation and execution of forward transactions	-	-
Interest revenue	193,791	73,990
Foreign exchange gains	46,871	267,071
Investment revaluation	2,255	155,675
Gain on disposal of investments	2,250	6,329
Dividends and other profit distributions	292,855	164,433
Other finance income*	674	32,393
Finance expenses	**(134,844)**	**(349,905)**
Loss on valuation and execution of forward transactions	(120,969)	(264,544)
Interest expenses	(3,538)	(36,359)
Foreign exchange losses	-	-
Investment revaluation	(2,948)	(36,472)
Commissions on loans	(693)	(766)
Other finance expenses	(6,696)	(11,764)
Net finance income/expense	**403,852**	**349,986**

* The 2009 amount includes PLN 27,482 thousand of derecognised currency translation differences on revaluation of shares in foreign operations made in the previous years in connection with the change introduced in 2009 and concerning the method of valuation of shares in foreign currencies.

6. CORPORATE INCOME TAX

	Note	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Pre-tax profit/(loss)		2,026,607	723,268
Tax rate applicable in the period		19%	19%
Tax calculated at the applicable tax rate		(385,054)	(137,421)
Permanent differences between pre-tax profit/(loss) and tax base		60,568	80,027
Corporate income tax disclosed in the income statement		**(324,486)**	**(57,394)**
Current income tax	6.1.	(377,501)	(272,675)
Deferred income tax	6.2.	53,015	215,281
Effective tax rate		16%	8%

6.1. Current Income Tax

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Profit/(loss) before tax	**2,026,607**	**723,268**
Differences between profit/(loss) before tax and tax base	(64,259)	711,851
Revenue not recognised in taxable income	(1,478,957)	(447,938)
Non-tax deductible expenses	2,381,544	2,251,711
Taxable revenue not recognised as revenue for accounting purposes	152,948	119,364
Tax deductible expenses, not recognised as expenses for accounting purposes	(1,049,180)	(1,209,916)
Deductions from income	(70,614)	(1,370)
Income tax base	**1,962,348**	**1,435,119**
Tax rate applicable in period	19%	19%
Corporate income tax	(372,846)	(272,673)
Increases, reliefs, exemptions, allowances and reductions in/of corporate income tax	(4,655)	(2)
Current income tax disclosed in tax return for period	(377,501)	(272,675)
Current income tax disclosed in the income statement	**(377,501)**	**(272,675)**

(PLN '000)

6.2. Deferred Income Tax

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Origination and reversal of deferred tax due to deductible temporary differences	**3,278**	**4,495**
Provisions for future liabilities	17,588	(7,268)
Impairment losses on financial assets, receivables and tangible assets under construction	3,737	(7,924)
Costs of FX risk and interest rate risk hedges	(19,100)	47,812
Foreign exchange losses	-	(25,559)
Costs related to sales taxable in subsequent month	-	-
Tax loss for current period	-	-
Other	1,053	(2,566)
Origination and reversal of deferred tax due to taxable temporary differences	**49,737**	**210,786**
Difference between tax and accounting value of non-current assets	36,094	115,446
Finance lease income	26,455	55,694
Positive valuation of FX and interest rate risk hedges*	(4,361)	26,869
Foreign exchange gains	-	2,946
Accrued interest	68	12,614
Income related to tax obligation arising in subsequent month	(8,518)	(2,942)
Other	(1)	159
Deferred income tax disclosed in the income statement	**53,015**	**215,281**

* Excluding the change in deferred income tax posted directly under equity PLN (21,508) thousand related to the valuation of financial instruments (PLN (6,057) thousand in 2009).

The current reporting period covered the tax period from January 1st 2010 to December 31st 2010. A 19% corporate income tax rate was applicable in 2010 to businesses operating in Poland. In the comparable period, i.e. 2009, 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.

The Company's foreign branches 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, the tax rates effective in 2010 and 2009 ranged from 25% to 41% of tax base. Foreign branches did not pay corporate income tax in 2010 and 2009.

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.

7. DISCONTINUED OPERATIONS

In 2010, the Company did not discontinue any activities and is not planning to discontinue any of its existing operations.

8. EARNINGS/(LOSS) PER SHARE

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

Diluted earnings/(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 – Dec 31 2010	Jan 1 – Dec 31 2009
Net profit/loss attributable to equity holders of the Company	1,702,121	665,874
Net profit/loss attributable to equity holders of the Company used for calculating diluted earnings/loss per share	1,702,121	665,874
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 per share for financial period attributable to holders of ordinary shares in the Company (PLN)	0.29	0.11
Diluted earnings per share for financial period attributable to holders of ordinary shares in the Company (PLN)	0.29	0.11

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

Start date	End date	Number of outstanding ordinary shares ('000)	Number of days	Weighted average number of shares ('000)
Dec 31 2010				
Jan 1 2010	Dec 31 2010	5,900,000	365	5,900,000
Total			**365**	**5,900,000**
Dec 31 2009				
Jan 1 2009	Dec 31 2009	5,900,000	365	5,900,000
Total			**365**	**5,900,000**

9. DIVIDEND PAID AND PROPOSED TO BE PAID

Dividends paid in the period	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Dividend per share paid (PLN)	0.08	0.09
Number of shares ('000)	5,900,000	5,900,000
Dividend paid (PLN '000), including:	472,000	531,000
- in-kind dividend paid to the State Treasury	339,994	382,499
- cash dividend paid to the State Treasury	2,683	6,137
- cash dividend paid to other shareholders of the Company	129,323	142,364

Dividend for 2009 was paid on October 4th 2010 and dividend for 2008 was paid on October 2nd 2009.

The effect of the surplus of assets distributed as in-kind dividend over the net book value disclosed in the statement of financial position as at the dividend payment date on the result for individual reporting periods is presented in Note 4.4.

Until the date of these financial statements, no decision has been made concerning the distribution of profit for 2010.

(PLN '000)

10. PROPERTY, PLANT AND EQUIPMENT

	Dec 31 2010	Dec 31 2009
Land	23,597	22,000
Buildings and structures	5,171,059	5,071,837
Plant and equipment	1,354,023	1,293,321
Vehicles and other	85,226	97,412
Total tangible assets	**6,633,905**	**6,484,570**
Tangible assets under construction	4,307,016	3,242,300
Total property, plant and equipment	**10,940,921**	**9,726,870**

PGNiG S.A. currently operates eight underground gas storage facilities (UGS). Seven of them are located in worked out natural gas deposits, and one, Underground Gas Storage Cavern Facility Mogilno, is located in salt caverns (chambers lixiviated in a salt diapir).

Natural gas stored in underground gas storage facilities comprises working gas and gas necessary for the safe operation of the facility.

Working gas is gas which has been injected into a facility within its working capacity and may be withdrawn from the facility during the gas drawing cycle.

Gas necessary for the safe operation of the facility comprises gas from the local deposit (in the quantity specified in the approved geological documentation) supplemented by gas injected to achieve the technical and geological parameters required for proper operation of the facility. This applies to UGS facilities located in worked out natural hydrocarbon deposits. In the case of the facility located in a salt diapir (UGS Mogilno), gas necessary for safe operation of the facility was injected into storage chambers during the first injection cycle, with concurrent debrining.

The target quantity of gas necessary for safe operation of each facility is treated as a buffer having a constant size over the entire period of facility operation.

(PLN ‘000)

10.1 TANGIBLE ASSETS

Dec 31 2010	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
As at Jan 1 2010, net of amortisation and impairment losses	22,000	5,071,837	1,293,321	97,412	**6,484,570**
Increase	360	152,832	539	6	**153,737**
Decrease	(338)	(103,853)	(10,489)	(1,710)	**(116,390)**
Transfers from tangible assets under construction and between groups	1,422	530,628	228,992	12,116	**773,158**
Impairment loss	153	(73,687)	(12,622)	(256)	**(86,412)**
Depreciation for financial year	-	(406,698)	(145,718)	(22,342)	**(574,758)**
As at Dec 31 2010, net of depreciation and impairment losses	**23,597**	**5,171,059**	**1,354,023**	**85,226**	**6,633,905**
As at Jan 1 2010					
Gross value	24,337	7,857,297	2,216,519	177,650	**10,275,803**
Accumulated depreciation and impairment loss	(2,337)	(2,785,460)	(923,198)	(80,238)	**(3,791,233)**
Net book value as at Jan 1 2010	**22,000**	**5,071,837**	**1,293,321**	**97,412**	**6,484,570**
As at Dec 31 2010					
Gross value	25,781	8,380,885	2,413,776	184,210	**11,004,652**
Accumulated depreciation and impairment loss	(2,184)	(3,209,826)	(1,059,753)	(98,984)	**(4,370,747)**
Net book value as at Dec 31 2010	**23,597**	**5,171,059**	**1,354,023**	**85,226**	**6,633,905**

(PLN '000)

Dec 31 2009	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total
As at Jan 1 2009, net of amortisation and impairment losses	36,495	5,588,763	1,338,078	91,754	**7,055,090**
Increase	-	83,751	(6,391)	540	**77,900**
Decrease	(16,440)	(186,296)	16,153	(2,254)	**(188,837)**
Transfers from tangible assets under construction and between groups	2,071	341,199	184,949	31,792	**560,011**
Impairment loss	(126)	(329,106)	(87,801)	(2,261)	**(419,294)**
Depreciation for financial year	-	(426,474)	(151,667)	(22,159)	**(600,300)**
As at Dec 31 2009, net of depreciation and impairment losses	**22,000**	**5,071,837**	**1,293,321**	**97,412**	**6,484,570**
As at Jan 1 2009					
Gross value	38,747	7,688,478	2,056,179	155,698	**9,939,102**
Accumulated depreciation and impairment loss	(2,252)	(2,099,715)	(718,101)	(63,944)	**(2,884,012)**
Net book value as at Jan 1 2009	**36,495**	**5,588,763**	**1,338,078**	**91,754**	**7,055,090**
As at Dec 31 2009					
Gross value	24,337	7,857,297	2,216,519	177,650	**10,275,803**
Accumulated depreciation and impairment loss	(2,337)	(2,785,460)	(923,198)	(80,238)	**(3,791,233)**
Net book value as at Dec 31 2009	**22,000**	**5,071,837**	**1,293,321**	**97,412**	**6,484,570**

(PLN '000)

10.2. 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 2010	2,338	449,417	87,801	5,852	**545,408**	337,276	**882,684**
Increase	-	84,652	15,936	479	**101,067**	110,675	**211,742**
Decrease	(153)	(10,965)	(3,314)	(223)	**(14,655)**	-	**(14,655)**
As at Dec 31 2010	**2,185**	**523,104**	**100,423**	**6,108**	**631,820**	**447,951**	**1,079,771**
As at Jan 1 2009	2,212	120,311	-	3,591	**126,114**	381,018	**507,132**
Increase	13,914	361,211	96,672	3,347	**475,144**	(43,736)	**431,408**
Decrease	(13,788)	(32,105)	(8,871)	(1,086)	**(55,850)**	(6)	**(55,856)**
As at Dec 31 2009	**2,338**	**449,417**	**87,801**	**5,852**	**545,408**	**337,276**	**882,684**

As at the beginning of the period, impairment loss on tangible assets amounted to PLN 545,408 thousand, including:
- PLN 412,640 thousand on assets used directly in production,
- PLN 28,015 thousand on underground gas storage facilities,
- PLN 104,753 thousand on other tangible assets.

The current period saw a PLN 101,067 thousand increase in impairment losses (including PLN 32,641 thousand related to assets used directly in production), and a PLN (14,655) thousand decrease in impairment losses (including PLN (14,655) thousand decrease related to assets directly used in production). Changes in assets used directly in production were connected with the update of adopted assumptions, review of impairment evidence or disposal of assets.

As at the end of the period, impairment losses on tangible assets amounted to PLN 631,820 thousand, including:
- PLN 430,626 thousand on assets used directly in production,
- PLN 38,418 thousand on underground gas storage facilities,
- PLN 162,776 thousand on other tangible assets.

Out of the amount of impairment losses on tangible assets under construction as at the end of 2010, PLN 425,464 thousand related to capitalised cost of drilling work (as at the end of 2009, the impairment was PLN 315,772 thousand).

(PLN '000)

11. INVESTMENT PROPERTY

	Dec 31 2010	Dec 31 2009
As at beginning of period, net of depreciation and impairment losses	3,778	5,395
Increase	-	-
Decrease	-	(2,272)
Transfers from property, plant and equipment	100	(42)
Impairment loss	(2)	1,175
Depreciation for financial year	(435)	(478)
As at end of period, net of depreciation and impairment losses	**3,441**	**3,778**
As at beginning of period		
Gross value	5,063	7,574
Accumulated depreciation and impairment loss	(1,285)	(2,179)
Net book value	**3,778**	**5,395**
As at end of period		
Gross value	5,184	5,063
Accumulated depreciation and impairment loss	(1,743)	(1,285)
Net book value	**3,441**	**3,778**

The Company's investment property includes office/amenity buildings partly held for rent, as well as industrial buildings and structures. As at the end of the reporting period, the net book value of the office/amenity buildings recognised as investment property amounted to PLN 1,328 thousand (PLN 1,483 thousand in 2009), whereas the net book value of industrial buildings and structures as at the end of the reporting period amounted to PLN 2,113 thousand (PLN 2,294 thousand in 2009).

In the reporting period, the Company derived PLN 2,013 thousand in revenue from rental of investment property (PLN 1,784 thousand in 2009).

Operating expenses incurred in connection with the rental of investment property amounted to PLN 1,343 thousand in the reporting period (PLN 1,272 thousand in 2009).

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

(PLN '000)

12. INTANGIBLE ASSETS

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 amortisation and impairment losses	-	-	36,289	32,665	**68,954**
Increase	-	-	-	-	**-**
Decrease	-	-	(47)	(75)	**(122)**
Transfers from tangible assets under construction and between groups	-	-	127	27,345	**27,472**
Impairment loss	-	-	(360)	(116)	**(476)**
Depreciation for financial year	-	-	(469)	(13,418)	**(13,887)**
As at Dec 31 2010, net of depreciation and impairment losses	**-**	**-**	**35,540**	**46,401**	**81,941**
As at Jan 1 2010					
Gross value	-	-	37,339	80,845	**118,184**
Accumulated depreciation and impairment loss	-	-	(1,050)	(48,180)	**(49,230)**
Net book value as at Jan 1 2010	**-**	**-**	**36,289**	**32,665**	**68,954**
As at Dec 31 2010					
Gross value	-	-	37,417	107,611	**145,028**
Accumulated depreciation and impairment loss	-	-	(1,877)	(61,210)	**(63,087)**
Net book value as at Dec 31 2010	**-**	**-**	**35,540**	**46,401**	**81,941**

* Furthermore, the Company holds perpetual usufruct right to land, obtained free of charge, which is disclosed as an off-balance-sheet item. As at December 31st 2010, the estimated value of this right amounted to PLN 338,370 thousand (PLN 337,880 thousand as at the end of 2009).

(PLN ‘000)

Dec 31 2009	Development expense	Goodwill	Perpetual usufruct right to land – acquired for consideration	Other intangible assets	**Total**
As at Jan 1 2009, net of amortisation and impairment losses	-	-	36,860	23,219	**60,079**
Increase	-	-	(3)	-	**(3)**
Decrease	-	-	(1,041)	(4)	**(1,045)**
Transfers from tangible assets under construction and between groups	-	-	1,090	18,331	**19,421**
Impairment loss	-	-	(161)	(16)	**(177)**
Depreciation for financial year	-	-	(456)	(8,865)	**(9,321)**
As at Dec 31 2009, net of depreciation and impairment losses	**-**	**-**	**36,289**	**32,665**	**68,954**
As at Jan 1 2009					
Gross value	-	-	37,397	62,642	**100,039**
Accumulated depreciation and impairment loss	-	-	(537)	(39,423)	**(39,960)**
Net book value as at Jan 1 2009	**-**	**-**	**36,860**	**23,219**	**60,079**
As at Dec 31 2009					
Gross value	-	-	37,339	80,845	**118,184**
Accumulated depreciation and impairment loss	-	-	(1,050)	(48,180)	**(49,230)**
Net book value as at Dec 31 2009	**-**	**-**	**36,289**	**32,665**	**68,954**

(PLN '000)

12.1. Property, Plant and Equipment Used under Finance Lease

	Dec 31 2010				Dec 31 2009			
	Initial value of capitalised finance lease	Depreciation	Impairment loss	**Net book value**	Initial value of capitalised finance lease	Depreciation	Impairment loss	**Net book value**
Buildings and structures	-	-	-	**-**	-	-	-	**-**
Plant and equipment	-	-	-	**-**	-	-	-	**-**
Vehicles and other	10,622	(7,879)	(333)	**2,410**	10,774	(4,581)	(495)	**5,698**
	10,622	**(7,879)**	**(333)**	**2,410**	**10,774**	**(4,581)**	**(495)**	**5,698**

12.2. Impairment Losses on Intangible Assets

	Development expense	Goodwill	Perpetual usufruct right to land – acquired for consideration	Other intangible assets	**Total**
As at Jan 1 2010	-	-	232	16	**248**
Increase	-	-	360	116	**476**
Decrease	-	-	-	-	**-**
As at Dec 31 2010	**-**	**-**	**592**	**132**	**724**
As at Jan 1 2009	-	-	71	-	**71**
Increase	-	-	170	16	**186**
Decrease	-	-	(9)	-	**(9)**
As at Dec 31 2009	**-**	**-**	**232**	**16**	**248**

(PLN '000)

13. NON-CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Dec 31 2010	Dec 31 2009
Unlisted shares (gross)	7,811,102	7,688,863
Listed shares available for sale (gross)	78,000	78,000
Other financial assets available for sale (gross)	142,541	142,663
Total, gross	**8,031,643**	**7,909,526**
Unlisted shares (net)*	6,203,823	6,085,566
Listed shares available for sale (net)**	130,720	59,560
Other financial assets available for sale (net)*	74,146	74,235
Total, net	**6,408,689**	**6,219,361**

* Net of impairment loss.
** Measurement at market value included.

"Other financial assets available for sale" include financial assets available 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.

The item "Listed shares available for sale (net)" relates to shares in Zakłady Azotowe w Tarnowie-Mościcach S.A. of Tarnów (ZAT). The result of valuation of the ZAT shares (up by PLN 71,160 thousand on the end of 2009) was disclosed under revaluation reserve. The Company treats the holding as a long-term investment for which there is an active market, therefore any changes in its measurement following from changes in its current market value are recognised directly in the Company's equity, until a decision to dispose of the holding is made.

14. OTHER FINANCIAL ASSETS

	Dec 31 2010	Dec 31 2009
Finance lease receivables (Note 14.1.)	30,538	283,285
Loans advanced	2,230,126	2,135,618
Amounts receivable under sale of tangible assets	6,673	7,392
Other non-current investments	17	16
Other	47	60
Total, gross	**2,267,401**	**2,426,371**
Impairment loss	(6,600)	(8,800)
Total, net	**2,260,801**	**2,417,571**

14.1. 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 S.A. The leased assets include real estate, movables, and economic rights. The agreement was concluded for 17 years.

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:

	Dec 31 2010	Dec 31 2009
Interest payment	14,414	42,235
Principal payment	15,865	40,112
Total	**30,279**	**82,347**

(PLN '000)

The table below presents finance lease receivables by payment periods:

	Dec 31 2010	Dec 31 2009
- less than 1 year	2,335	23,093
- 1 to 5 years	9,549	82,741
- over 5 years	20,989	200,544
Total, including:	**32,873**	**306,378**
- current receivables	2,335	23,093
- non-current receivables	30,538	283,285

15. DEFERRED TAX ASSETS

	Dec 31 2010	Dec 31 2009
Provisions for gas allowances	-	3,878
Provisions for length-of-service awards and severance pays	21,706	21,235
Provision for unused holidays	2,182	1,996
Provision for gas pitch	11,160	14,439
Provision for well decommissioning costs	115,765	96,330
Other provisions	19,611	14,959
Impairment losses on tangible assets	82,150	64,082
Impairment losses on shares	11,844	26,014
Other impairment losses	614	775
Accrued interest on loans and liabilities	1,163	95
Unpaid salaries and wages, including contributions to the Social Insurance Institution (ZUS)	208	294
Valuation of forward contracts	23,903	50,989
Valuation of listed shares	-	3,504
Connection charge	289	309
Other	852	761
Total	**291,447**	**299,660**

16. OTHER NON-CURRENT ASSETS

	Dec 31 2010	Dec 31 2009
Commissions on loans, borrowings, notes, guarantees, etc.	10,839	8
Charges for establishment of mining usage rights	6,114	5,503
Connection charge	5,372	4,565
Granting access to geological information	27,877	25,616
Costs of future advertising and marketing activities	1	94
Other prepayments and accrued income	1,354	106
Total	**51,557**	**35,892**

(PLN ‘000)

17. INVENTORIES

	Dec 31 2010	Dec 31 2009
Materials	871,865	1,102,381
at cost, including:	875,096	1,106,462
- gas fuel	753,078	968,901
at net realisable value, including:	871,865	1,102,381
- gas fuel	753,078	968,901
Semi-finished products and work in progress	-	-
at cost	-	-
at net realisable value	-	-
Finished products	7,064	7,218
at cost	7,064	7,218
at net realisable value	7,064	7,218
Goods for sale	420	621
at cost	420	621
at net realisable value	420	621
Total inventories, at the lower of cost or net realisable value	**879,349**	**1,110,220**

17.1. Change in Inventories in Period

	Dec 31 2010	Dec 31 2009
Inventories at cost, at beginning of period	1,114,300	1,582,974
Purchase	12,925,564	12,043,228
Other increases	54,338	58,989
Inventories charged to expenses of period	(12,595,228)	(11,963,152)
Sale	(9,226)	(7,913)
Other decreases	(607,168)	(599,825)
Inventories at cost, at end of period	**882,580**	**1,114,301**

18. TRADE AND OTHER RECEIVABLES

	Dec 31 2010	Dec 31 2009
Trade receivables from other undertakings	4,278,847	3,893,032
Trade receivables from related undertakings	106,005	87,918
VAT receivable	297,765	202,687
Taxes, customs and social security receivable	4,553	4,738
Due and payable portion of loans advanced to related undertakings	136,989	223,178
Finance lease receivables	2,335	23,093
Other receivables from related undertakings	87,271	86,741
Other receivables	73,345	191,117
Total gross receivables	**4,987,110**	**4,712,504**
Impairment loss on doubtful receivables (Note 18.1)	**(1,018,230)**	**(1,025,423)**
Total net receivables	**3,968,880**	**3,687,081**
Including:		
Trade receivables from other undertakings	3,449,940	3,137,153
Trade receivables from related undertakings	59,429	40,905
VAT receivable	297,764	202,687
Taxes, customs and social security receivable	4,553	4,738
Due and payable portion of loans advanced to related undertakings	112,967	202,456
Finance lease receivables	2,335	23,093
Other receivables from related undertakings	1,571	1,059
Other receivables	40,321	74,990

Standard payment deadline applied by the Company with respect to receivables in the usual course of sale is 14 days.

(PLN '000)

18.1. Impairment Losses on Receivables

	Dec 31 2010	Dec 31 2009
Impairment losses at beginning of period	(1,025,423)	(987,751)
Increase in impairment loss	(90,862)	(291,397)
Reversal of impairment loss	80,538	182,130
Use of impairment loss	19,717	73,245
Transfers between current and non-current portions	(2,200)	(1,650)
Impairment losses at end of period	**(1,018,230)**	**(1,025,423)**

19. CURRENT INCOME TAX

	Dec 31 2010	Dec 31 2009
Current income tax payable at beginning of period	-	-
Change in current income tax receivable	(161,546)	121,972
Current income tax receivable at beginning of period	161,546	39,574
Current income tax receivable at end of period	-	161,546
Corporate income tax (expense in the period)	377,501	272,675
Income tax paid in the period	(80,250)	(394,647)
Current income tax payable at end of period	**135,705**	**-**

20. ACCRUALS AND DEFERRED INCOME

	Dec 31 2010	Dec 31 2009
Property insurance	268	366
Commissions on loans, borrowings, notes, guarantees, etc.	7,590	821
Rents and lease charges payable in advance	305	324
Granting access to geological information	3,763	3,052
Software maintenance and upgrades	3,861	2,753
Charges for establishment of mining usage rights	256	197
Donation	-	575
Costs of future advertising and marketing activities	825	215
Other expenses settled over time	1,935	1,067
Total	**18,803**	**9,370**

21. CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Dec 31 2010	Dec 31 2009
Unlisted shares (gross)	-	-
Investment fund units (gross)	-	-
Treasury bonds and bills (gross)	-	-
Total, gross	**-**	**-**
Unlisted shares (net)	-	-
Investment fund units (net)	-	-
Treasury bonds and bills (net)	-	-
Total, net	**-**	**-**

* Net of impairment losses.

22. CASH AND CASH EQUIVALENTS

	Dec 31 2010	Dec 31 2009
Cash in hand and at banks	33,290	40,176
Bank deposits	530,502	381,444
Highly liquid short-term securities *	-	-
Other cash**	2,062	3,623
Total	**565,854**	**425,243**

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

23. NON-CURRENT ASSETS HELD FOR SALE

The table below presents items classified by the Company as non-current assets held for sale:

Item (or group) of non-current assets	Expected disposal date	Net book value as at Dec 31 2010	Terms of disposal
Land	-	-	-
Buildings and structures	2011	1,605	sale
Vehicles and other	2011	8	sale
Total		**1,613**	

As at the end of the comparable period (end of 2009), the value of non-current assets held for sale was PLN 1 thousand.

24. SHARE CAPITAL

	Dec 31 2010	Dec 31 2009
Total number of shares ('000)	5,900,000	5,900,000
Par value per share (PLN)	PLN 1	PLN 1
Total share capital	5,900,000	5,900,000

(PLN '000)

25. BANK LOANS, BORROWINGS AND DEBT SECURITIES

	Currency	Dec 31 2010	Dec 31 2009	Effective interest rate (%)	Maturity date	Dec 31 2010	Dec 31 2009	Security
Non-current	Amount in original currency					Amount in PLN		
Finance lease	PLN	9	951	10.00%	Mar 25 2012	9	951	
Finance lease	PLN	-	450	10.00%	Nov 20 2011	-	450	
Finance lease	PLN	-	240	2.77%	Jul 21 2011	-	240	
Finance lease	PLN	222	841	0.83%	May 30 2012	222	841	
Finance lease	PLN	-	50	0.83%	Nov 30 2011	-	50	
Finance lease	PLN	48	87	1M Wibor 3.75%	Dec 4 2012	48	87	
Total non-current						**279**	**2,619**	

	Currency	Dec 31 2010	Dec 31 2009	Effective interest rate (%)	Maturity date	Dec 31 2010	Dec 31 2009	Security
Current	Amount in original currency					Amount in PLN		
Credit facility[1]	PLN	-	759,566	1M Wibor + 0.2	Jul 27 2010	-	759,566	
Credit facility[1]	PLN	-	800,482	1M Wibor + 0.2	Jul 27 2010	-	800,482	
Credit facility[1]	PLN	-	240,316	1M Wibor + 0.2	Jul 27 2010	-	240,316	
Credit facility[1]	PLN	-	100,113	1M Wibor + 0.2	Jul 27 2010	-	100,113	
Finance lease	PLN	941	1,082	10.00%	Mar 25 2012	941	1,082	
Finance lease	PLN	450	449	10.00%	Nov 20 2011	450	449	
Finance lease	PLN	240	1,363	2.77%	Jul 21 2011	240	1,363	
Finance lease	PLN	619	560	0.83%	May 30 2012	619	560	
Finance lease	PLN	51	51	0.83%	Nov 30 2011	51	51	
Finance lease	PLN	-	40	1M Wibor 4.43%	Jul 31 2010	-	40	
Finance lease	PLN	43	43	1M Wibor 3.75%	Dec 4 2012	43	43	
Notes	PLN	19,947	-	1M Wibor + 0.95	Jan 21 2011	19,947	-	
Notes	PLN	59,923	-	1M Wibor + 1	Jan 5 2011	59,923	-	
Notes	PLN	39,970	-	1M Wibor + 0.99	Jan 6 2011	39,970	-	
Notes	PLN	597,884	-	1M Wibor + 1.15	Jan 26 2011	597,884	-	
Notes	PLN	498,624	-	1M Wibor + 1.15	Jan 21 2011	498,624	-	
Total current						**1,218,692**	**1,904,065**	

[1] Syndicated credit facility (Bank Handlowy S.A.)

The Company also had access to other credit facilities, listed in the note below.

(PLN '000)

25.1. Received Credit Facilities and Amounts Undrawn under the Credit Facilities

Bank	Dec 31 2010		Dec 31 2009	
	Received credit facilities	Undrawn amount	Received credit facilities	Undrawn amount
Pekao S.A.	40,000	40,000	40,000	40,000
PKO BP S.A.	40,000	40,000	40,000	40,000
Bank Handlowy S.A.	40,000	40,000	40,000	40,000
Societe Generale	40,000	40,000	40,000	40,000
Millennium S.A.	40,000	40,000	40,000	40,000
BRE Bank S.A.	40,000	40,000	40,000	40,000
ING Bank Śląski	40,000	40,000	-	-
Bank syndicate*	-	-	2,464,920	564,920
Total	**280,000**	**280,000**	**2,704,920**	**804,920**

[1] Syndicated credit facility (Bank Handlowy S.A.)

The credit facilities, while not used in full, enhance the Company's ability to meet its current liabilities.

25.2. Maturity of Finance Lease Liabilities (Recognised under Liabilities)

Maturity:	Dec 31 2010		
	(Discounted) payments disclosed in the statement of financial position	Interest	Lease payments due
up to 1 year	2,343	80	2,423
from 1 to 5 years	280	10	290
over 5 years	-	-	-
Total	**2,623**	**90**	**2,713**

Maturity:	Dec 31 2009		
	(Discounted) payments disclosed in the statement of financial position	Maturity:	(Discounted) payments disclosed in the statement of financial position
up to 1 year	3,587	193	3,780
from 1 to 5 years	2,619	85	2,704
over 5 years	-	-	-
Total	**6,206**	**278**	**6,484**

(PLN '000)

26. PROVISIONS

	Provision for length-of-service awards and retirement severance pays	Provision for gas allowances	Provision for well decommissioning costs	Provision for environmental protection liabilities	Provision for potential liability under transmission services	Central Restructuring Fund	Provision for claims under extra-contractual use of land	Other	**Total**
As at Jan 1 2010	111,765	20,410	916,231	75,993	34,391	10,450	-	49,779	**1,219,019**
Provisions created during the year	8,624	-	133,765	-	-	13,000	50,326	59,627	**265,342**
Transfers	-	-	-	-	-	-	359	(359)	**-**
Provisions used	(6,144)	(20,410)	-	(17,259)	(34,391)	(2,158)	-	(72,251)	**(152,613)**
As at Dec 31 2010	**114,245**	**-**	**1,049,996**	**58,734**	**-**	**21,292**	**50,685**	**36,796**	**1,331,748**
Non-current	98,759	-	1,017,925	44,507	-	-	-	14,294	**1,175,485**
Current	15,486	-	32,071	14,227	-	21,292	50,685	22,502	**156,263**
As at Dec 31 2010	**114,245**	**-**	**1,049,996**	**58,734**	**-**	**21,292**	**50,685**	**36,796**	**1,331,748**
Non-current	97,451	-	904,867	67,326	-	-	-	14,723	**1,084,367**
Current	14,314	20,410	11,364	8,667	34,391	10,450	-	35,056	**134,652**
As at Dec 31 2009	**111,765**	**20,410**	**916,231**	**75,993**	**34,391**	**10,450**	**-**	**49,779**	**1,219,019**

The technical rate adopted to calculate the discounted value of the future retirement severance pay obligations was 3.0%, as the resultant of the 6.07% annual return on assets and the 3.0% forecast annual salary growth (at the end of 2009 the adopted technical rate was 2.1%, as the resultant of 6.24% and 4.1%, respectively).

In 2010, a discount rate of 3.48% was applied to calculate the provision for well decommissioning costs incurred in Poland, as the resultant of the 6.07% 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 2009 the adopted discount rate was 3.65%, as the resultant of 6.24% and 2.5%, respectively).

Based on the information received from SGT EUROPOL GAZ S.A. concerning the estimated final amount of the charge for gas transmission services provided in the period January 1st 2006 - December 31st 2009, the Company determined that there no longer exists the risk of claims for any additional gas transmission charges for that period. As a result, as at the end of 2010 the provision for potential liability under transmission services was released in full.

(PLN '000)

In the ordinary course of business, the Company is the owner of technical equipment located on land properties owned by third parties, which are often natural persons.

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

Given the above, in 2010, pursuant to the materiality rule (and in accordance with the accounting policies presented in Note 2.3.20.7), the Company created a provision for claims under extra-contractual use of land in the amount of PLN 50,685 thousand (as at the end of 2010, the provision amounted to PLN 50,685 thousand).

Long-term provisions are discounted at the rate of 3.48%.

26.1. Actuarial Income Statement for the Provision for Length-of-Service Awards and Retirement Severance Pays

	Dec 31 2010	Dec 31 2009
Length-of-service awards		
Value of obligation shown in the statement of financial position at beginning of period	69,259	70,503
Interest cost	2,078	2,890
Current service cost	2,904	3,071
Benefits paid	(17,382)	(16,316)
Actuarial gain/loss	12,126	9,111
Gains/losses due to curtailments or settlements	-	-
Value of obligation shown in the statement of financial position at end of period	**68,985**	**69,259**
Retirement Severance Pays		
Value of obligation shown in the statement of financial position at beginning of period	42,506	38,706
Current service cost	2,323	2,243
Interest cost	1,735	2,223
Net actuarial gain/loss recognised during the year	490	478
Benefits paid	(2,525)	(1,875)
Past service cost	731	731
Gains/losses due to curtailments or settlements	-	-
Value of obligation shown in the statement of financial position at end of period	**45,260**	**42,506**
Total value of obligation shown in the statement of financial position at end of period	**114,245**	**111,765**

(PLN '000)

27. DEFERRED INCOME

	Dec 31 2010	Dec 31 2009
Non-current		
Net value of gas service lines acquired free of charge	201	221
Connection charge	1,497	1,600
Deferred income under uncollected gas fuel	10,609	2,008
Contractual penalties	-	28
Deferred income related to leased tangible assets	25	31
Subsidy	63,827	-
Other	34	53
Total non-current	**76,193**	**3,941**
Current		
Forecast gas sales	588,570	545,817
Connection charge	26	26
Accrued penalties	715	166
Land sold	-	-
Advance invoices	2,665	96
Other	153	176
Total current	**592,129**	**546,281**

Grants

In 2010, the Company 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.

As at December 31st 2010, the Company recognised PLN 63,815 thousand under financing for the Wierzchowice Underground Storage Facility.

The amount was charged to deferred income and will be recognised in operating income proportionately to the accumulated depreciation of the financed tangible assets.

28. DEFERRED TAX LIABILITY

	Dec 31 2010	Dec 31 2009
Foreign exchange gains	-	-
Accrued interest	6,135	6,202
Valuation of hedging instruments	4,361	-
Income related to tax obligation arising in subsequent month	20,220	11,702
Difference between tax and accounting value of non-current assets	450,806	513,356
Valuation of financial instruments	10,017	-
Other	-	-
Total	**491,539**	**531,260**

29. OTHER NON-CURRENT LIABILITIES

	Dec 31 2010	Dec 31 2009
Liabilities under licences, rights to geological information and mining usage rights	14,829	16,538
Other non-current liabilities	26	-
Total	**14,855**	**16,538**

(PLN '000)

30. TRADE AND OTHER PAYABLES

	Dec 31 2010	Dec 31 2009
Trade payables to other undertakings	769,238	665,644
Trade payables to related undertakings	472,398	404,232
VAT payable	909,097	748,190
Other taxes, duties and social security contributions payable	50,570	45,139
Wages and salaries payable	1,184	1,340
Amounts payable for unused holidays	11,482	10,503
Amounts payable under purchase of non-financial non-current assets	397,299	186,643
Amounts payable under purchase of non-financial non-current assets from related undertakings	170,676	146,851
Additional contribution to equity payable under a relevant resolution	84,552	93,795
Other amounts payable to related undertakings	1,211	1,565
Other amounts payable to other undertakings	15,762	19,589
Accruals and deferred income and prepaid deliveries	38,166	36,204
Total	**2,921,635**	**2,359,695**
Including related undertakings (Note 37.2.)	**728,837**	**646,443**

31. CAUSES OF DIFFERENCES BETWEEN THE CHANGES IN CERTAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION AND THE CHANGES IN THESE ITEMS DISCLOSED IN THE STATEMENT OF CASH FLOWS

Change in cash	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
1) Cash in statement of financial position at beginning of period	425,243	807,861
a) Net foreign exchange gains (losses) on cash at beginning of period*	-	(313)
Cash and cash equivalents in statement of cash flows at beginning of period (1-a)	**425,243**	**808,174**
2) Cash in statement of financial position at end of period	565,854	425,243
b) Net foreign exchange gains (losses) on cash at end of period	-	-
Cash and cash equivalents in statement of cash flows at end of period (2-b)	**565,854**	**425,243**
I. Change in cash in statement of financial position (2-1)	**140,611**	**(382,618)**
II. Change in net foreign exchange gains (losses) on cash (b-a)	-	313
Change in cash in statement of cash flows (I. - II.)	**140,611**	**(382,931)**

* 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 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in net receivables and other financial assets in statement of financial position	(125,029)	(401,028)
Change in lease receivables – adjustment to investment activity	(273,506)	(420,491)
Change in receivables under additional contributions to equity	-	-
Change in investment receivables under sale of intangible assets and property, plant and equipment	(35,069)	69,330
Change in loans advanced	7,219	741,203
Change in net receivables in statement of cash flows	**(426,385)**	**(10,986)**

(PLN '000)

Change in inventories	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in inventory in statement of financial position	230,870	469,507
Tangible assets under construction transferred to inventory – adjustment to investment activity	-	-
Change in inventory in statement of cash flows	**230,870**	**469,507**

Change in provisions	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in provisions in statement of financial position	112,729	(153,708)
Change in provision for well decommissioning costs which adjusts property, plant and equipment – adjustment to investment activity	(114,513)	111,213
Change in provisions in statement of cash flows	**(1,784)**	**(42,495)**

Change in current liabilities	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in current liabilities in statement of financial position	561,940	(436,800)
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	(234,480)	(171,608)
Change in non-current liabilities	(1,683)	-
Change in liabilities under additional contributions to equity		(9,243)
Change in current liabilities in statement of cash flows	**325,777**	**(617,651)**

Change in other assets and prepayments	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in other assets and prepayments in statement of financial position	(25,098)	(6,185)
Change in lease prepayments – adjustment to investment activity	54	-
Change in prepayments under expense (fees and commission) related to the note issuance programme – adjustment to investment activity	18,428	-
Change in other assets and prepayments in statement of cash flows	**(6,616)**	**(6,185)**

Change in deferred income	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Change in deferred income in statement of financial position	**118,100**	**2,598**
Change in deferred lease income – adjustment to investment activity	31	8
Change in deferred income – contribution adjustment – adjustment to investment activity	27	-
Change in deferred income – subsidies received for tangible assets - adjustment to investment activity	(63,816)	-
Change in deferred income in statement of cash flows	**54,342**	**2,606**

(PLN '000)

32. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

32.1. Financial Instruments by Category (net carrying values)

	Dec 31 2010	Dec 31 2009
Financial assets at fair value through profit or loss	-	-
Financial assets available for sale (unlisted shares)	6,277,969	6,159,801
Financial assets available for sale (listed shares)	130,720	59,560
Financial investments held to maturity	-	-
Loans and receivables	6,457,855	6,278,655
Positive value of derivatives*	77,635	18,002
Financial liabilities at amortised cost	3,183,128	3,477,745
Negative value of derivatives*	104,443	260,428

*Since April 1st 2009, the Company 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 are deemed identical to the respective fair values.

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

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Financial assets at fair value through profit or loss	-	-
Financial assets available for sale		
Impairment recognised in profit or loss for period	55	100
Financial investments held to maturity	-	-
Loans and receivables		
Interest on deposits, BSB, REPO	15,008	6,603
Interest on receivables*	90,746	94,490
Interest on loans advanced	178,783	67,387
Net income from short-term securities	-	(43)
Impairment losses on receivables	58,090	(212,823)
Impairment losses on loans	(748)	119,103
Foreign currency measurement of loans advanced in foreign currencies	36,232	243,335
Positive value of derivatives	196,079	140,373
Financial liabilities at amortised cost	(3,266)	(38,418)
Negative value of derivatives	(387,316)	(408,950)
Total effect on profit or loss	**183,663**	**11,157**

* Including PLN 14,421 thousand of interest on receivables under finance lease (PLN 42,242 thousand in 2009).

	Jan 1 – Dec 31 2010	Jan 1 – Dec 31 2009
Financial assets available for sale (valuation charged directly to equity)	71,160	31,880
Valuation of hedging instruments (valuation recognised directly under equity)	(21,508)	(6,057)
Total effect on equity	**49,652**	**25,823**

The revaluation of financial assets available for sale recognised directly in equity relates to shares in Zakłady Azotowe w Tarnowie-Mościcach S.A.

32.3. Objectives and Policies of Financial Risk Management

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

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

(PLN '000)

Credit risk

The Company 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 Company is generally limited to the amounts, if any, by which a third party's liabilities exceed the Company's liabilities. As a rule, the Company concludes transactions in financial instruments with multiple entities with high credit worthiness. The key criteria for the selection of counterparties include their financial standing as confirmed by rating agencies, as well as their market shares and reputation.

The Company is exposed to credit risk under:

- 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

	Dec 31 2010	Dec 31 2009
Loans advanced	2,367,115	2,358,796
Trade receivables	4,585,061	4,572,638
Deposits with other entities (bank deposits, BSB, REPO)	530,502	381,444
Positive value of derivatives	77,635	18,002
Financial guarantees issued	2,816,431	2,905,168

Exposure to credit risk under loans advanced is attributable to loans advanced to the subsidiary 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 Company's exposure to credit risk under such agreements. Loans are advanced 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 PGNiG Group's common interests.

The highest credit risk, in value terms, is related to receivables. A significant portion of receivables are receivables under sales of gas fuel.

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

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

The Company monitors on an ongoing basis customers' performance of their contractual obligations related to financial settlements. Under most of the agreements, the customer is obliged to make advance payments by the dates provided for in the agreement. At the end of the contractual settlement period, the customer is obliged to make payment for gas fuel actually received by the deadline provided for in the agreement. The standard payment 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:

(PLN ‘000)

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

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

The balance of receivables from customers is monitored on an ongoing basis, in line with internal procedures applicable at the Company. If a customer’s failure to make a payment when due has been identified, the Company takes appropriate measures to collect the debt.
The debt-collection measures are governed by “*The Guidelines for Monitoring and Collection of Receivables from Customers Buying Gas/Crude Oil/Other Products” and “Interest Receivable Management Procedure”.* During debt collection, legal tools are used and debt-collection measures are taken to assess the level and causes of associated risk. In this respect, standard steps of debt-collection are taken: a payment demand, a telephone call to the customer, notice and discontinuance of gas fuel supply with simultaneous termination of the agreement under Art. 6.3a of the Polish Energy Law. If these measures fail, the Company instigates court proceedings and files an application 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 December 31st 2010, receivables which are past due but not impaired, disclosed in the Company’s statement of financial position, stood at PLN 387,981 thousand (PLN 530,643 thousand as at the end of 2009).

Receivables past due but not impaired, as at December 31st 2010 – by length of delay

Period of delay	Dec 31 2010	Dec 31 2009
Up to 1 month	320,242	411,615
From 1 to 3 months	52,133	98,658
From 3 months to 1 year	13,662	18,143
from 1 to 5 years	1,944	2,227
over 5 years	-	-
Total net past due receivables	**387,981**	**530,643**

The Company 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 Company executes investment transactions. Moreover, the Company 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 2010, the Company invested its significant long-term excess liquidity in risk-free highly liquid instruments, including in particular treasury bills and treasury bonds.
The Company 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 Company's credit risk under purchased guarantees is practically limited to risk of default of the bank at which the Company has purchased the guarantee. However, the banks at which the Company has purchased guarantees are reputable institutions with high ratings; therefore, both the probability of default and the associated credit risk to the Company 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 Company has concluded a Framework Agreement or an ISDA Agreement, stipulating detailed terms of cooperation and threshold amounts.

Owing to the above measures, the Company expects to incur no material loss due to credit risk to which it is exposed.

Market Risk

The Company 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).

As at December 31st 2010, the Company held a financial instrument in the form of 4,000,001 shares in Zakłady Azotowe w Tarnowie-Mościciach S.A. (a company listed on the Warsaw Stock Exchange); the instrument carried the price risk. Given that the shares are held by the Company as a long-term equity holding and that there is no instrument available on the market which could be used as a hedge against price volatility, the Company did not hedge that risk. Changes in the value this financial instrument, recognised directly in equity, are presented in Note 33.2.

Currency risk

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

The non-current portion of the Company's financial receivables in 2010 was denominated in NOK and comprised a long-term loan advanced to PGNiG Norway AS in the amount of NOK 3,900,000 thousand, to be repaid by December 20th 2021. The currency risk is hedged with four CCIRS transactions. The transactions fully hedge the currency risk until 2014.

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

The hedging measures implemented by the Company are mainly intended to provide protection against the currency risk accompanying payments for gas fuel deliveries settled in foreign currencies. The Company's liabilities are hedged with forward transactions and option strategies.

Interest-Rate Risk

The Company defines interest-rate risk as the probability that its financial performance will be adversely affected by changes in interest rates.
As at December 31st 2010, the item with the largest exposure to interest-rate risk was the loan advanced to the Company's subsidiary PGNiG Norway AS. The Company has hedged the risk by executing four CCIRS transactions. The transactions fully hedge the interest-rate risk until 2014.

The interest-rate risk associated with other loans advanced by the Company was not significant.

In addition, as at December 31st 2010, the Company held corporate notes for an amount of PLN 1,100,000 thousand and intra-group notes worth PLN 120,000 thousand. Given the short maturities of the notes and periodic determination of debt cost, the related interest rate risk is immaterial to the Company.

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

Commodity Risk

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

In 2010, the Company began to thoroughly examine and hedge this risk category. To hedge against price risk, the Company 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 fuel 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 Company's profitability.

The Company monitors and plans its liquidity levels on a continuous basis. In order to hedge the liquidity risk, as at December 31st 2010 the Company was party to credit facility agreements for up to PLN 280,000 thousand (PLN 2,704,920 thousand in 2009). For more details, see Note 25.1.

Additionally, in order to optimise cash management, on December 1st 2010, the Company concluded with Bank Handlowy w Warszawie S.A. a note issuance programme agreement for a total amount of PLN 397,270 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 the end of 2010, debt under notes issued to Group companies stood at PLN 120,000 thousand.

In order to increase liquidity security, on June 10th 2010, the Company concluded a notes issue programme agreement. As at the end of 2010, debt under the agreement was PLN 1,100,000 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 S.A. and Unicredit AG. The issue date of the euro notes in 2011 will depend on the Company's liquidity needs and the situation on financial markets. Proceeds from the issue will be used to finance PGNiG S.A.'s investment programme.

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

The liquidity risk is managed in line with the "PGNiG S.A.'s Liquidity Management Procedure", implemented across the Company's organisational units. It offers a systematised set of measures designed to ensure proper liquidity management by: settlement of payments, preparation of cash-flow projections, optimum management of free cash flows, securing and restructuring of financing of day-to-day operations and investment projects, protection against the risk of a temporary liquidity loss due to unforeseen events, and servicing of credit agreements.

(PLN '000)

Liquidity risk is assessed through ongoing 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

	Dec 31 2010	Dec 31 2009
up to 1 year	3,167,994	3,458,588
from 1 to 5 years	13,637	16,528
over 5 years	1,497	2,629
Total	**3,183,128**	**3,477,745**

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

Derivative instruments by maturity

	Net book value as at 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)	-
*- currency options***	(34,613)	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
*- commodity options***	(7,626)	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
*- commodity swaps****	37,261	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- option premiums paid	76,044	-	-	-	-
Total	**(26,808)**	**29,242**	**65,626**	**(36,384)**	**-**

(PLN '000)

	Net book value as at Dec 31 2009*	Contractual cash flows, including:	up to 1 year	from 1 to 5 years	over 5 years
- interest rate swaps (IRS), used as risk hedging instruments	(254,584)	(246,734)	558	(247,292)	-
- inflows	-	1,859,021	98,030	1,760,991	-
- outflows	-	(2,105,755)	(97,472)	(2,008,283)	-
*- currency options***	(13,780)	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- option premiums paid	25,938	-	-	-	-
Total	(242,426)	(246,734)	558	(247,292)	-

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

Risk Management Policy

To ensure effective financial risk management, on February 17th 2003 the Company's Management Board implemented the "Policy of Financial Risk Management at PGNiG S.A." 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 Company and for ensuring compliance with the adopted policy.

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 amendments and updates of risk management policies, reviews the policies for their appropriateness from the point of view of Company's interest;
2. Management Board, which is responsible for the formal approval of the policies.

On December 28th 2010, the Management Board of the PGNiG S.A. 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 reliable range of changes that may occur with respect to particular currency risks, the Company 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 for 2010 (for 2009, the assumed volatility was also 15%). The half-year period reflects the frequency with which the Company discloses results of the sensitivity analysis of financial instruments in its reports.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2010 indicate that the net profit would have been lower by PLN 66,920 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 15%, ceteris paribus (profit lower by PLN 10,880 thousand due to stronger NOK, vs. profit's rise by PLN 54,276 thousand on the back of stronger USD, by PLN 22,989 thousand due to stronger EUR, and by PLN 535 thousand due to the strengthening of other currencies). The profit’s rise would be attributable mainly to higher positive valuation of derivatives denominated in USD and EUR used to hedge the Company’s trade liabilities. The negative effect of a change in NOK/PLN exchange rate is owed to slightly higher amount of negative valuation of derivatives hedging the loan advanced to PGNiG Norway AS than the amount of foreign exchange gains on valuation of the loan.

As at December 31st 2010, the net profit would have been lower by PLN 2,309 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies’ exchange rates decreased by 15%, ceteris paribus (profit higher by PLN 10,880 thousand due to weaker NOK and by PLN 165 thousand due to depreciation of EUR, vs. profit’s drop by PLN 12,818 thousand on the back of weaker USD and by PLN 535 thousand due to depreciation of other currencies). Such minor decline in profit would be due to proper matching of the amounts of hedging instruments with the amounts of hedged items (mainly a NOK-denominated loan under assets and trade liabilities denominated in USD and EUR). The hedging strategy is connected with the fact that the Company is a major importer of gas fuel and, as such, it hedges against the appreciation of the US dollar. In the case of NOK, a rise in positive valuation of derivatives hedging NOK/PLN exchange rate fluctuations would more than offset the increase in foreign exchange losses on revaluation of the NOK-denominated loan advanced to the Company’s subsidiary PGNiG Norway AS.

The loan advanced to PGNiG Norway AS was fully hedged by CCIRS transactions. The cash flows related to the loan and hedging transactions offset one another. As a result, the changes in positive (negative) valuation of the loan are offset by negative (positive) changes in the valuation of CCIRS transactions. In aggregate, the items are insensitive to the exchange rate and interest rate changes.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2009 indicate that the net profit would have been lower by PLN 29,119 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies’ exchange rates increased by 15%, ceteris paribus (profit lower by PLN 17,528 thousand on the back of stronger USD and by PLN 12,497 thousand due to stronger NOK, vs. profit's rise by PLN 700 thousand due to stronger EUR and by PLN 206 thousand due to the strengthening of other currencies). Lower profit would be chiefly attributable to higher positive valuation of derivatives denominated in NOK, which hedge the assets under the loan advanced to the Company’s subsidiary PGNiG Norway AS. The effect of change in the remaining currencies’ exchange rates would drive profit down due to higher amount of foreign exchange losses related to trade liabilities.

As at December 31st 2009, the net profit would have been higher by PLN 31,187 thousand, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies’ exchange rates decreased by 15%, ceteris paribus (profit higher by PLN 21,997 thousand on the back of weaker USD and by PLN 12,497 thousand due to weaker NOK, vs. profit's drop by PLN 3,101 thousand due to weaker EUR and by PLN 206 thousand due to the weakening of other currencies). Higher profit would be mainly attributable to a significantly stronger effect of a decline in trade liabilities denominated in USD than of an increase in the negative portion of the fair value of financial derivatives (negative fair value of option transactions in USD). This results from high amount of liabilities denominated in USD as at the end of 2009 as well as the fact that the Company is a major importer of gas fuel and, as such, it hedges against the appreciation of the US dollar. Moreover, the profit would improve due to higher positive valuation of derivatives hedging NOK/PLN exchange rate fluctuations, which would more than offset the increase in foreign exchange losses on revaluation of the NOK-denominated loan advanced to the Company’s subsidiary PGNiG Norway AS.

The loan advanced to PGNiG Norway AS was fully hedged by CCIRS transactions. The cash flows related to the loan and hedging transactions offset one another. As a result, the changes in positive (negative) valuation of the loan are offset by negative (positive) changes in the valuation of CCIRS transactions. In aggregate, the items are insensitive to the exchange rate and interest rate changes.

The following pages present detailed information on the analysis of sensitivity of currency financial instruments to exchange rate fluctuations in 2010 and 2009.

(PLN '000)

Sensitivity of Financial Instruments in Foreign Currencies to Exchange Rate Fluctuations Charged to Income Statement

	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**	768,397	-	-	-	-	-	-	-	-
Other financial assets	1,976,789	-	2	296,516	-	-	(2)	(296,516)	-
Trade and Other Receivables	178,513	13,932	7,704	5,087	54	(13,932)	(7,704)	(5,087)	(54)
Financial assets held for trading	-	-	-	-	-	-	-	-	-
Derivative financial instruments	30,342	31,195	117,044	-	-	-	-	315,036	-
Cash and Cash Equivalents	55,723	1,140	6,389	1	829	(1,140)	(6,389)	(1)	(829)
Effect on financial assets before tax		**46,267**	**131,139**	**301,604**	**883**	**(15,072)**	**(14,095)**	**13,432**	**(883)**
19% tax		(8,791)	(24,916)	(57,305)	(168)	2,864	2,678	(2,552)	168
Effect on financial assets after tax		**37,476**	**106,223**	**244,299**	**715**	**(12,208)**	**(11,417)**	**10,880**	**(715)**
Total currencies		*388,713*				*(13,460)*			
Financial liabilities									
Loans, borrowings and debt securities (including finance lease)	-	-	-	-	-	-	-	-	-
Trade and other payables	548,263	17,885	64,132	-	222	(17,885)	(64,132)	-	(222)
Liabilities under derivative financial instruments*	103,579	-	-	315,036	-	2,610	65,863	-	-
Effect on financial liabilities before tax		**17,885**	**64,132**	**315,036**	**222**	**(15,275)**	**1,731**	**-**	**(222)**
19% tax		(3,398)	(12,185)	(59,857)	(42)	2,902	(329)	-	42
Effect on financial liabilities after tax		**14,487**	**51,947**	**255,179**	**180**	**(12,373)**	**1,402**	**-**	**(180)**
Total currencies		*321,793*				*(11,151)*			
Total increase/decrease		**22,989**	**54,276**	**(10,880)**	**535**	**165**	**(12,819)**	**10,880**	**(535)**
Total currencies		**66,920**				**(2,309)**			
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

* In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on the income statement. In connection with the implementation of hedge accounting at the Company in 2009, part of the changes in the valuation of financial derivatives will be charged to equity through other comprehensive income. The effect of fluctuations in exchange rates on this portion of financial derivatives is presented in a separate table below.

** The item includes shares which as of the 2009 the Company will disclose at historical values, therefore the change in exchange rates will not have a bearing on the valuation of those assets and the result for the period.

(PLN '000)

	Net book value as at Dec 31 2009	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**	695,288	-	-	-	-	-	-	-	-
Other financial assets	1,822,059	-	2	273,307	-	-	(2)	(273,306)	-
Trade and Other Receivables	240,970	16,772	5,554	13,763	65	(16,772)	(5,554)	(13,762)	(65)
Financial assets held for trading	-	-	-	-	-	-	-	-	-
Derivative financial instruments	18,002	-	26,580	-	-	(1,821)	(21,064)	302,570	-
Cash and Cash Equivalents	57,311	825	7,131	81	559	(825)	(7,131)	(81)	(559)
Effect on financial assets before tax		**17,597**	**39,267**	**287,151**	**624**	**(19,418)**	**(33,751)**	**15,421**	**(624)**
19% tax		(3,343)	(7,461)	(54,559)	(119)	3,689	6,413	(2,930)	119
Effect on financial assets after tax		**14,254**	**31,806**	**232,592**	**505**	**(15,729)**	**(27,338)**	**12,491**	**(505)**
Total currencies		*279,157*				*(31,081)*			
Financial liabilities									
Loans, borrowings and debt securities (including finance lease)	-	-	-	-	-	-	-	-	-
Trade and other payables	512,489	15,590	60,906	7	369	(15,590)	(60,907)	(7)	(369)
Liabilities under derivative financial instruments*	260,428	1,143	-	302,572	-	-	-	-	-
Effect on financial liabilities before tax		**16,733**	**60,906**	**302,579**	**369**	**(15,590)**	**(60,907)**	**(7)**	**(369)**
19% tax		(3,179)	(11,572)	(57,490)	(70)	2,962	11,572	1	70
Effect on financial liabilities after tax		**13,554**	**49,334**	**245,089**	**299**	**(12,628)**	**(49,335)**	**(6)**	**(299)**
Total currencies		*308,276*				*(62,268)*			
Total increase/decrease		**700**	**(17,528)**	**(12,497)**	**206**	**(3,101)**	**21,997**	**12,497**	**(206)**
Total currencies		**(29,119)**				**31,187**			
Exchange rates as at the balance-sheet date and their change:									
EUR/PLN	4.1082	-	4.7244	4.7244	4.7244	-	3.4920	3.4920	3.4920
USD/PLN	2.8503	3.2778	-	3.2778	3.2778	2.4228	-	2.4228	2.4228
NOK/PLN	0.4946	0.5688	0.5688	-	0.5688	0.4204	0.4204	-	0.4204

* In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on the income statement. In connection with the implementation of hedge accounting at the Company as of April 1st 2009, part of the changes in the valuation of financial derivatives will be charged to equity through other comprehensive income. The effect of fluctuations in exchange rates on this portion of financial derivatives is presented in a separate table herein below.

** The item includes shares which as of the end of 2009 the Company will disclose at historical values, therefore the change in exchange rates will not have a bearing on the valuation of those assets and the result for the period.

(PLN '000)

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

	Dec 31 2010	
Exchange rate	for USD	
Exchange rate change by:	15%	-15%
Effect on equity, before tax	53,830	(11,506)
19% tax	(10,228)	2,186
Effect on financial assets/liabilities after tax	43,602	(9,319)

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 the Company uses derivatives whose effective portion valuation is charged to equity to protect itself against an increase in liabilities and expenses associated with USD-denominated purchases of gas fuel.
The Company assessed the sensitivity of energy commodity derivatives. For the purposes of the 2010 sensitivity analysis, a 25% volatility was assumed for the derivatives (no sensitivity analyses were carried out in prior periods as the Group held no energy commodity derivatives).
The table below presents findings of the analysis of sensitivity of energy commodity derivatives to price changes in 2010.

Sensitivity of Derivatives to Commodity Price Fluctuations Charged to Income Statement

	Net book value as at Dec 31 2010	**Price risk**			
	Price change by:	*25%*		*-25%*	
		Gasoil	Fueloil	Gasoil	Fueloil
Financial assets					
Assets under energy commodity derivatives	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					
Liabilities under energy commodity derivatives	863	-	-	-	-
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)***	

(PLN '000)

The table presents the impact of price changes on the Group's profit or loss. Some changes in the value of energy commodity derivatives affect directly equity.
The table below presents the effect of fluctuations of financial derivatives for commodity transactions on energy raw materials charged to equity.

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

	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	(15,316)	(5,351)	5,079	3,610
Effect on financial assets/liabilities after tax	65,292	22,814	(21,653)	(15,388)

Analysis of derivatives' sensitivity to fluctuations of financial derivatives for commodity transactions in energy raw materials charged to equity, as presented in the table above, indicates 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 Company uses derivatives whose effective portion valuation is charged to equity to protect itself against an increase in prices of energy raw materials, which represent the largest item of expenses in the Company 's income statement.

The Company analysed the sensitivity of financial instruments related to loans advanced, contracted loans and lease liabilities based on a floating interest rate to interest rate changes of +/-100 basis points for 2010 (the range for 2009 was +/-200 basis points).

As at December 31st 2010, the sensitivity of advanced loans to interest rate changes by +/-100 basis points was +/-PLN 0.33m, while the sensitivity of liabilities on floating-rate loans and leases to interest rate changes by +/-100 basis points was +/-PLN 0.03m.

As at December 31st 2009, the sensitivity of advanced loans to interest rate changes by +/-200 basis points was +/-PLN 8.31m, while the sensitivity of liabilities on floating-rate loans and leases to interest rate changes by +/-200 basis points was +/-PLN 38.13m.

Sensitivity of Financial Instruments to Interest Rate Changes

	Net book value	*change:*	
	As at Dec 31 2010	**+100 bp**	**-100 bp**
Loans advanced*	325,920	3,259	(3,259)
Contracted loans	-	-	-
Notes issued	1,216,348	-	-
Lease liabilities	2,623	26	(26)

	Net book value	*change:*	
	As at Dec 31 2009	**+200 bp**	**-200 bp**
Loans advanced*	415,550	8,311	(8,311)
Contracted loans	1,900,478	38,010	(38,010)
Lease liabilities	6,207	124	(124)

*The item does not include a loan advanced to PGNiG Norway AS as related interest rate risk exposure is fully hedged.

As it is impracticable to precisely assess commodity price risk, the sensitivity analysis with respect to that risk has not been carried out.

(PLN '000)

33. DERIVATIVES

Valuation methods

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

As at December 31st 2010, the Company held three types of currency derivatives: cross currency basis swaps, purchased call options and risk reversal strategies (purchase of call options and sale of put options). Currency call and put options were measured at fair value in accordance with the Garman-Kohlhagen model, based on market data such as interest rates, foreign-exchange rates and volatility as at December 31st 2010.

In order to hedge its commodity risk in 2010, the Company applied 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 were measured at fair value in accordance with the Turnbull-Wakeman model, based on market data such as commodity prices, foreign-exchange rates and volatility of commodity prices as at December 31st 2010.

Valuation to fair value was performed with the use of Exante application.

Hedge Accounting

As of April 1st 2009, the Company 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 2.3.10.

Derivative Instruments

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Dec 31 2010	Dec 31 2010
			Cross Currency Rate Swaps			
PGNiG Norway loan	NOK 930m	Dec 9 2010	Jan 15 2014	0.5056	(24,211)	-
PGNiG Norway loan	NOK 1,596m	Dec 13 2010	Jan 15 2014	0.5052	(39,070)	-
PGNiG Norway loan	NOK 674m	Dec 14 2010	Jan 15 2014	0.5040	(17,795)	-
PGNiG Norway loan	NOK 700m	Dec 15 2010	Jan 15 2014	0.5054	(16,797)	-
PGNiG Norway loan	NOK 300m	Nov 8 2007	Jan 17 2011*	0.4686	-	(13,119)
PGNiG Norway loan	NOK 300m	Nov 12 2007	Jan 17 2011*	0.4627	-	(14,978)
PGNiG Norway loan	NOK 300m	Nov 15 2007	Jan 17 2011*	0.4596	-	(15,939)
PGNiG Norway loan	NOK 300m	Nov 19 2007	Jan 17 2011*	0.4534	-	(17,859)
PGNiG Norway loan	NOK 300m	Nov 22 2007	Jan 17 2011*	0.4588	-	(16,187)
PGNiG Norway loan	NOK 300m	Nov 30 2007	Jan 17 2011*	0.4461	-	(20,091)
PGNiG Norway loan	NOK 344m	Jan 18 2008	Jan 17 2011*	0.4530	-	(20,539)
PGNiG Norway loan	NOK 344m	Jan 18 2008	Jan 17 2011*	0.4530	-	(20,554)
PGNiG Norway loan	NOK 330m	Jan 12 2009	Jan 16 2012*	0.4300	-	(30,620)
PGNiG Norway loan	NOK 330m	Jan 12 2009	Jan 16 2012*	0.4300	-	(30,803)
PGNiG Norway loan	NOK 330m	Jan 13 2009	Jan 16 2012*	0.4380	-	(27,615)
PGNiG Norway loan	NOK 322m	Jan 13 2009	Jan 16 2012*	0.4400	-	(26,280)
					(97,873)	**(254,584)**
			Call options			
Payments for gas	USD 10m	Jul 22 2010	Jan 10 2011	3.6600	-	-
Payments for gas	USD 10m	Jul 22 2010	Jan 20 2011	3.6800	-	-
Payments for gas	USD 10m	Jul 23 2010	Jan 20 2011	3.6000	-	-
Payments for gas	USD 10m	Jul 26 2010	Jan 10 2011	3.5500	-	-
Payments for gas	USD 10m	Jul 26 2010	Jan 10 2011	3.5500	-	-
Payments for gas	USD 10m	Jul 27 2010	Jan 10 2011	3.3000	-	-
Payments for gas	USD 10m	Jul 27 2010	Jan 10 2011	3.3000	-	-
Payments for gas	EUR 10m	Jul 27 2010	Jan 10 2011	4.2500	-	-
Payments for gas	USD 10m	Jul 29 2010	Jan 20 2011	3.3000	9	-
Payments for gas	USD 10m	Jul 29 2010	Jan 10 2011	3.2700	-	-

* The transactions were settled in December 2010.

(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	
					Dec 31 2010	Dec 31 2010
Payments for gas	USD 10m	Aug 2 2010	Feb 10 2011	3.3000	82	-
Payments for gas	USD 10m	Aug 2 2010	Feb 10 2011	3.4700	20	-
Payments for gas	EUR 10m	Aug 2 2010	Jan 10 2011	4.2000	-	-
Payments for gas	USD 10m	Aug 3 2010	Jan 20 2011	3.2500	19	-
Payments for gas	USD 10m	Aug 3 2010	Feb 10 2011	3.4500	24	-
Payments for gas	USD 10m	Aug 4 2010	Feb 10 2011	3.4600	22	-
Payments for gas	USD 10m	Aug 5 2010	Feb 18 2011	3.4700	37	-
Payments for gas	EUR 10m	Aug 16 2010	Feb 10 2011	4.2000	43	-
Payments for gas	USD 10m	Aug 17 2010	Feb 18 2011	3.3300	100	-
Payments for gas	EUR 10m	Aug 17 2010	Feb 18 2011	4.1700	78	-
Payments for gas	USD 10m	Aug 18 2010	Jan 20 2011	3.2700	14	-
Payments for gas	USD 10m	Aug 19 2010	Feb 18 2011	3.3000	122	-
Payments for gas	USD 10m	Aug 26 2010	Feb 18 2011	3.3700	77	-
Payments for gas	USD 10m	Aug 26 2010	Feb 10 2011	3.3600	51	-
Payments for gas	USD 10m	Sep 6 2010	Mar 10 2011	3.5600	62	-
Payments for gas	USD 10m	Sep 7 2010	Mar 10 2011	3.3500	184	-
Payments for gas	USD 10m	Sep 7 2010	Jan 10 2011	3.3000	-	-
Payments for gas	EUR 8m	Sep 9 2010	Mar 10 2011	4.1500	233	-
Payments for gas	USD 10m	Sep 10 2010	Mar 10 2011	3.3200	212	-
Payments for gas	USD 10m	Sep 17 2010	Feb 18 2011	3.2300	187	-
Payments for gas	USD 10m	Sep 17 2010	Mar 18 2011	3.2500	341	-
Payments for gas	USD 10m	Sep 17 2010	Mar 10 2011	3.2800	254	-
Payments for gas	USD 10m	Sep 20 2010	Mar 18 2011	3.2800	302	-
Payments for gas	USD 10m	Sep 21 2010	Mar 18 2011	3.2500	341	-
Payments for gas	USD 10m	Sep 21 2010	Feb 10 2011	3.2000	167	-
Payments for gas	USD 10m	Sep 22 2010	Feb 18 2011	3.1800	249	-
Payments for gas	USD 10m	Sep 22 2010	Mar 18 2011	3.4650	136	-
Payments for gas	USD 10m	Sep 23 2010	Mar 10 2011	3.2100	347	-
Payments for gas	USD 10m	Sep 28 2010	Jan 20 2011	3.3800	2	-
Payments for gas	USD 10m	Sep 29 2010	Mar 10 2011	3.3600	175	-
Payments for gas	USD 10m	Oct 14 2010	Mar 18 2011	3.2000	417	-
Payments for gas	USD 10m	Oct 14 2010	Jan 20 2011	3.1500	69	-
Payments for gas	USD 10m	Oct 14 2010	Feb 10 2011	2.9500	804	-
Payments for gas	USD 10m	Oct 14 2010	Jan 20 2011	2.9200	715	-
Payments for gas	USD 10m	Oct 25 2010	Jan 20 2011	2.9300	651	-
Payments for gas	USD 10m	Oct 25 2010	Jan 10 2011	2.9300	443	-
Payments for gas	USD 10m	Oct 28 2010	Jan 20 2011	2.9815	393	-
Payments for gas	USD 10m	Nov 4 2010	Jan 20 2011	2.8800	1,007	-
Payments for gas	EUR 8m	Nov 4 2010	Apr 8 2011	4.0700	512	-
Payments for gas	USD 10m	Nov 4 2010	Apr 8 2011	3.0000	1,116	-
Payments for gas	USD 10m	Nov 4 2010	Feb 10 2011	2.9500	804	-
Payments for gas	USD 10m	Nov 4 2010	Mar 10 2011	2.9800	957	-
Payments for gas	EUR 10m	Nov 5 2010	Feb 10 2011	4.0500	147	-
Payments for gas	USD 10m	Nov 5 2010	Mar 18 2011	3.0000	946	-
Payments for gas	EUR 9m	Nov 10 2010	Jan 20 2011	4.0000	189	-
Payments for gas	USD 10m	Nov 10 2010	Feb 18 2011	2.9900	717	-
Payments for gas	USD 10m	Nov 10 2010	Mar 18 2011	3.0300	835	-
Payments for gas	USD 10m	Nov 16 2010	Feb 18 2011	3.0500	514	-
Payments for gas	USD 10m	Nov 16 2010	Apr 8 2011	3.2500	465	-
Payments for gas	USD 10m	Nov 18 2010	Feb 18 2011	3.0300	574	-
Payments for gas	EUR 9m	Nov 18 2010	May 10 2011	4.1000	654	-
Payments for gas	USD 10m	Nov 19 2010	Feb 18 2011	3.0200	607	-
Payments for gas	USD 10m	Nov 22 2010	Feb 18 2011	3.0000	678	-
Payments for gas	USD 10m	Dec 1 2010	Mar 18 2011	3.2600	327	-
Payments for gas	USD 10m	Dec 1 2010	Feb 10 2011	3.2000	167	-
Payments for gas	USD 10m	Dec 1 2010	Feb 18 2011	3.2000	223	-
Payments for gas	USD 10m	Dec 2 2010	Jan 10 2011	3.1300	4	-

(PLN '000)

Payments for gas	USD 10m	Dec 2 2010	Feb 10 2011	3.1700	203	-
Payments for gas	USD 10m	Dec 2 2010	Jan 20 2011	3.1700	55	-
Payments for gas	USD 10m	Dec 2 2010	Apr 8 2011	3.2500	465	-

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Dec 31 2010	Dec 31 2010
Payments for gas	USD 10m	Dec 3 2010	Apr 20 2011	3.2000	620	-
Payments for gas	USD 10m	Dec 3 2010	Mar 18 2011	3.1700	470	-
Payments for gas	USD 10m	Dec 3 2010	Mar 10 2011	3.1800	396	-
Payments for gas	USD 10m	Dec 3 2010	Feb 18 2011	3.1700	264	-
Payments for gas	USD 10m	Dec 3 2010	Apr 20 2011	3.2200	582	-
Payments for gas	USD 10m	Dec 7 2010	Apr 8 2011	3.2000	549	-
Payments for gas	USD 10m	Dec 10 2010	Mar 18 2011	3.2000	417	-
Payments for gas	USD 10m	Dec 10 2010	Mar 10 2011	3.2000	363	-
Payments for gas	USD 10m	Dec 10 2010	Feb 18 2011	3.1900	236	-
Payments for gas	USD 10m	Dec 13 2010	Mar 10 2011	3.1800	396	-
Payments for gas	USD 10m	Dec 14 2010	Apr 20 2011	3.1400	752	-
Payments for gas	USD 10m	Dec 14 2010	Apr 8 2011	3.1800	588	-
Payments for gas	USD 10m	Dec 14 2010	May 10 2011	3.2500	627	-
Payments for gas	EUR 8m	Dec 14 2010	Mar 18 2011	4.1000	344	-
Payments for gas	EUR 8m	Dec 15 2010	Jun 10 2011	4.2000	515	-
Payments for gas	USD 10m	Dec 15 2010	Mar 18 2011	3.1400	531	-
Payments for gas	USD 10m	Dec 15 2010	Mar 10 2011	3.1380	476	-
Payments for gas	USD 10m	Dec 16 2010	May 10 2011	3.4600	353	-
Payments for gas	USD 10m	Dec 16 2010	Apr 8 2011	3.2000	549	-
Payments for gas	USD 10m	Dec 16 2010	Apr 20 2011	3.2300	564	-
Payments for gas	USD 10m	Dec 27 2010	Apr 20 2011	3.2260	572	-
Payments for gas	USD 10m	Dec 28 2010	Apr 20 2011	3.1950	630	-
Payments for gas	USD 10m	Jul 16 2009	Jan 8 2010	3.6000	-	-
Payments for gas	USD 10m	Jul 16 2009	Jan 8 2010	3.6000	-	-
Payments for gas	EUR 10m	Jul 20 2009	Jan 8 2010	4.6000	-	-
Payments for gas	USD 10m	Jul 20 2009	Jan 8 2010	3.6000	-	-
Payments for gas	USD 10m	Jul 24 2009	Jan 19 2010	3.5500	-	-
Payments for gas	USD 10m	Jul 28 2009	Jan 19 2010	3.5000	-	-
Payments for gas	USD 10m	Jul 31 2009	Jan 19 2010	3.3000	-	1
Payments for gas	USD 10m	Aug 3 2009	Feb 10 2010	3.3000	-	41
Payments for gas	USD 10m	Aug 3 2009	Jan 8 2010	3.2000	-	-
Payments for gas	EUR 10m	Aug 4 2009	Feb 10 2010	4.4000	-	77
Payments for gas	USD 10m	Aug 13 2009	Feb 10 2010	3.3000	-	41
Payments for gas	USD 10m	Aug 20 2009	Jan 19 2010	3.4000	-	-
Payments for gas	USD 10m	Aug 21 2009	Feb 19 2010	3.4000	-	34
Payments for gas	USD 10m	Aug 21 2009	Feb 10 2010	3.4000	-	18
Payments for gas	USD 10m	Aug 25 2009	Jan 8 2010	3.3000	-	-
Payments for gas	USD 10m	Sep 7 2009	Mar 10 2010	3.3000	-	131
Payments for gas	USD 10m	Sep 8 2009	Feb 10 2010	3.3000	-	41
Payments for gas	USD 10m	Sep 8 2009	Mar 10 2010	3.3300	-	113
Payments for gas	USD 10m	Sep 9 2009	Feb 10 2010	3.2000	-	85
Payments for gas	USD 10m	Sep 10 2009	Feb 19 2010	3.3300	-	55
Payments for gas	USD 10m	Sep 14 2009	Feb 19 2010	3.4000	-	34
Payments for gas	USD 10m	Sep 14 2009	Feb 19 2010	3.3000	-	68
Payments for gas	USD 10m	Sep 15 2009	Feb 19 2010	3.3000	-	68
Payments for gas	USD 10m	Sep 15 2009	Mar 10 2010	3.3000	-	131
Payments for gas	USD 10m	Sep 16 2009	Mar 19 2010	3.3000	-	166
Payments for gas	USD 10m	Sep 17 2009	Mar 19 2010	3.2800	-	181
Payments for gas	USD 10m	Sep 21 2009	Mar 19 2010	3.2500	-	205
Payments for gas	USD 10m	Sep 21 2009	Mar 10 2010	3.2500	-	166
Payments for gas	USD 10m	Oct 1 2009	Mar 10 2010	3.2500	-	166
Payments for gas	USD 10m	Oct 5 2009	Jan 19 2010	3.2000	-	4
Payments for gas	USD 10m	Oct 5 2009	Jan 19 2010	3.2000	-	4

(PLN '000)

Payments for gas	USD 10m	Oct 6 2009	Jan 8 2010	3.1000	-	-
Payments for gas	USD 10m	Oct 12 2009	Mar 19 2010	3.2500	-	205
Payments for gas	USD 10m	Oct 12 2009	Jan 8 2010	3.1200	-	-
Payments for gas	USD 10m	Oct 13 2009	Jan 8 2010	3.1000	-	-
Payments for gas	USD 10m	Oct 14 2009	Jan 8 2010	3.0800	-	1
Payments for gas	EUR 10m	Oct 14 2009	Mar 10 2010	4.5000	-	106
Payments for gas	USD 10m	Oct 15 2009	Jan 19 2010	3.0500	-	44

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Dec 31 2010	Dec 31 2010
Payments for gas	USD 10m	Oct 20 2009	Apr 9 2010	3.2700	-	280
Payments for gas	EUR 7m	Oct 20 2009	Jan 19 2010	4.4000	-	13
Payments for gas	EUR 6m	Oct 21 2009	Feb 19 2010	4.4000	-	124
Payments for gas	USD 10m	Oct 23 2009	Apr 9 2010	3.2700	-	280
Payments for gas	USD 10m	Oct 26 2009	Feb 10 2010	3.0500	-	221
Payments for gas	USD 10m	Nov 2 2009	Feb 10 2010	3.1000	-	164
Payments for gas	USD 10m	Nov 2 2009	Feb 19 2010	3.1000	-	216
Payments for gas	USD 10m	Nov 4 2009	Feb 19 2010	3.1200	-	194
Payments for gas	USD 10m	Nov 5 2009	Mar 19 2010	3.1700	-	283
Payments for gas	USD 10m	Nov 5 2009	Apr 20 2010	3.2000	-	395
Payments for gas	USD 10m	Nov 6 2009	Apr 20 2010	3.3500	-	247
Payments for gas	USD 10m	Nov 6 2009	May 10 2010	3.3500	-	319
Payments for gas	USD 10m	Nov 9 2009	Apr 20 2010	3.3000	-	289
Payments for gas	USD 10m	Nov 9 2009	May 10 2010	3.3000	-	366
Payments for gas	USD 10m	Nov 9 2009	Feb 19 2010	3.0000	-	364
Payments for gas	USD 10m	Nov 10 2009	Mar 10 2010	3.0500	-	398
Payments for gas	EUR 6m	Nov 10 2009	Apr 9 2010	4.4000	-	288
Payments for gas	EUR 6m	Nov 12 2009	May 10 2010	4.3800	-	400
Payments for gas	USD 10m	Nov 12 2009	May 10 2010	3.2500	-	421
Payments for gas	USD 10m	Nov 132009	Apr 9 2010	3.2000	-	353
Payments for gas	USD 10m	Nov 18 2009	Apr 9 2010	3.2000	-	353
Payments for gas	USD 10m	Nov 23 2009	Apr 20 2010	3.2000	-	395
Payments for gas	USD 10m	Nov 23 2009	May 20 2010	3.2000	-	534
Payments for gas	USD 10m	Nov 23 2009	May 20 2010	3.2300	-	493
Payments for gas	USD 10m	Nov 23 2009	May 20 2010	3.0500	-	814
Payments for gas	USD 10m	Nov 25 2009	Feb 10 2010	2.9500	-	400
Payments for gas	USD 10m	Nov 25 2009	Apr 9 2010	3.0000	-	701
Payments for gas	USD 10m	Nov 25 2009	May 10 2010	3.0500	-	750
Payments for gas	USD 10m	Dec 1 2009	May 20 2010	3.2000	-	534
Payments for gas	USD 10m	Dec 2 2009	Jun 10 2010	3.2100	-	604
Payments for gas	USD 10m	Dec 2 2009	Mar 19 2010	2.9900	-	583
Payments for gas	USD 10m	Dec 2 2009	Mar 19 2010	2.9900	-	583
Payments for gas	USD 10m	Dec 2 2009	May 10 2010	3.0500	-	750
Payments for gas	USD 10m	Dec 3 2009	Mar 10 2010	2.9500	-	626
Payments for gas	USD 10m	Dec 3 2009	Jun 18 2010	3.2100	-	636
Payments for gas	EUR 7m	Dec 3 2009	Mar 19 2010	4.2700	-	412
Payments for gas	USD 10m	Dec 8 2009	Mar 10 2010	3.0000	-	497
Payments for gas	EUR 6m	Dec 8 2009	Jun 10 2010	4.3500	-	536
					30 342	**18 002**

Put options						
Payments for gas	USD 10m	Jul 22 2010	Jan 10 2011	3.0150	(581)	-
Payments for gas	USD 10m	Jul 22 2010	Jan 20 2011	3.0230	(803)	-
Payments for gas	USD 10m	Jul 23 2010	Jan 20 2011	2.9915	(585)	-
Payments for gas	USD 10m	Jul 26 2010	Jan 10 2011	2.9975	(442)	-
Payments for gas	USD 10m	Jul 26 2010	Jan 10 2011	2.9900	(386)	-
Payments for gas	USD 10m	Aug 2 2010	Feb 10 2011	2.9055	(371)	-
Payments for gas	USD 10m	Aug 3 2010	Feb 10 2011	2.8750	(270)	-
Payments for gas	USD 10m	Aug 4 2010	Feb 10 2011	2.8900	(316)	-

(PLN '000)

Payments for gas	USD 10m	Aug 5 2010	Feb 18 2011	2.8790	(340)	-
Payments for gas	USD 10m	Sep 6 2010	Mar 10 2011	2.8550	(390)	-
Payments for gas	USD 10m	Sep 22 2010	Mar 18 2011	2.7600	(201)	-
Payments for gas	USD 10m	Sep 28 2010	Jan 20 2011	2.7780	(16)	-
Payments for gas	USD 10m	Sep 29 2010	Mar 10 2011	2.7650	(181)	-
Payments for gas	USD 10m	Oct 14 2010	Jan 20 2011	2.6050	-	-
Payments for gas	USD 10m	Oct 14 2010	Mar 18 2011	2.5920	(34)	-
Payments for gas	USD 10m	Nov 16 2010	Apr 8 2011	2.7500	(249)	-
Payments for gas	USD 10m	Dec 16 2010	May 10 2011	2.8200	(541)	-
Payments for gas	USD 10m	Jul 16 2009	Jan 8 2010	2.8030	-	(83)

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Dec 31 2010	Dec 31 2010
Payments for gas	USD 10m	Jul 16 2009	Jan 8 2010	2.8100	-	(99)
Payments for gas	USD 10m	Jul 20 2009	Jan 8 2010	2.7980	-	(73)
Payments for gas	USD 10m	Jul 24 2009	Jan 19 2010	2.7285	-	(58)
Payments for gas	USD 10m	Jul 28 2009	Jan 19 2010	2.6900	-	(27)
Payments for gas	USD 10m	Aug 20 2009	Jan 19 2010	2.7425	-	(75)
Payments for gas	USD 10m	Aug 21 2009	Feb 19 2010	2.7070	-	(214)
Payments for gas	USD 10m	Aug 21 2009	Feb 10 2010	2.6720	-	(113)
Payments for gas	USD 10m	Aug 25 2009	Jan 8 2010	2.6350	-	-
Payments for gas	USD 10m	Sep 7 2009	Mar 10 2010	2.7025	-	(293)
Payments for gas	USD 10m	Sep 8 2009	Feb 10 2010	2.6570	-	(94)
Payments for gas	USD 10m	Sep 8 2009	Mar 10 2010	2.6595	-	(208)
Payments for gas	USD 10m	Sep 10 2009	Feb 19 2010	2.6575	-	(131)
Payments for gas	USD 10m	Sep 14 2009	Feb 19 2010	2.6800	-	(165)
Payments for gas	USD 10m	Sep 16 2009	Mar 19 2010	2.6445	-	(214)
Payments for gas	USD 10m	Sep 17 2009	Mar 19 2010	2.6070	-	(158)
Payments for gas	USD 10m	Oct 20 2009	Apr 9 2010	2.5980	-	(204)
Payments for gas	USD 10m	Oct 23 2009	Apr 9 2010	2.5900	-	(192)
Payments for gas	USD 10m	Nov 6 2009	Apr 20 2010	2.6600	-	(343)
Payments for gas	USD 10m	Nov 6 2009	May 10 2010	2.6685	-	(423)
Payments for gas	USD 10m	Nov 9 2009	Apr 20 2010	2.6320	-	(286)
Payments for gas	USD 10m	Nov 9 2009	May 10 2010	2.6300	-	(339)
Payments for gas	USD 10m	Nov 12 2009	May 10 2010	2.5800	-	(249)
Payments for gas	USD 10m	Nov 13 2009	Apr 9 2010	2.5900	-	(192)
Payments for gas	USD 10m	Nov 18 2009	Apr 9 2010	2.5550	-	(147)
Payments for gas	USD 10m	Nov 23 2009	Apr 20 2010	2.5680	-	(185)
Payments for gas	USD 10m	Nov 23 2009	May 20 2010	2.5850	-	(285)
Payments for gas	USD 10m	Nov 23 2009	May 20 2010	2.5680	-	(257)
Payments for gas	USD 10m	Dec 1 2009	May 20 2010	2.5665	-	(255)
Payments for gas	USD 10m	Dec 2 2009	Jun 10 2010	2.5280	-	(239)
Payments for gas	USD 10m	Dec 3 2009	Jun 18 2010	2.5200	-	(243)
					(5,706)	**(5,844)**

Call commodity options						
Payments for gas	12000 MT Gasoil	Jun 10 2010	Jan 10 2011	685.0000	-	-
Payments for gas	12000 MT Fueloil	Jun 10 2010	Jan 10 2011	477.0000	-	-
Payments for gas	25000 MT Fueloil	Jul 20 2010	Mar 10 2011	500.0000	-	-
Payments for gas	25000 MT Gasoil	Jul 20 2010	Mar 10 2011	695.0000	430	-
Payments for gas	20000 MT Fueloil	Jul 20 2010	Mar 10 2011	500.0000	-	-
Payments for gas	20000 MT Gasoil	Jul 20 2010	Mar 10 2011	695.0000	344	-
Payments for gas	20000 MT Fueloil	Jul 21 2010	Apr 8 2011	507.0000	-	-
Payments for gas	20000 MT Gasoil	Jul 21 2010	Apr 8 2011	707.0000	-	-
Payments for gas	20000 MT Fueloil	Jul 21 2010	Mar 18 2011	507.0000	-	-

(PLN ‘000)

Payments for gas	20000 MT Gasoil	Jul 21 2010	Mar 18 2011	707.0000	-	-
Payments for gas	20000 MT Fueloil	Jul 23 2010	Mar 18 2011	507.0000	-	-
Payments for gas	20000 MT Gasoil	Jul 23 2010	Mar 18 2011	707.0000	-	-
Payments for gas	21000 MT Fueloil	Jul 26 2010	Apr 8 2011	505.0000	-	-
Payments for gas	21000 MT Gasoil	Jul 26 2010	Apr 8 2011	705.0000	-	-
Payments for gas	16000 MT Gasoil	Jul 27 2010	Jun 20 2011	750.0000	57	-
Payments for gas	16000 MT Fueloil	Jul 27 2010	Jun 20 2011	545.0000	-	-
Payments for gas	32000 MT Gasoil	Jul 27 2010	May 20 2011	750.0000	114	-

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Dec 31 2010	Dec 31 2010
Payments for gas	32000 MT Fueloil	Jul 27 2010	20 May 2011	545.0000	-	-
Payments for gas	33000 MT Gasoil	Jul 27 2010	Apr 20 2011	750.0000	117	-
Payments for gas	33000 MT Fueloil	Jul 27 2010	Apr 20 2011	545.0000	-	-
Payments for gas	23000 MT Gasoil	Oct 20 2010	Oct 7 2011	780.0000	1,153	-
Payments for gas	23000 MT Gasoil	Oct 20 2010	Sep 20 2011	780.0000	1,153	-
Payments for gas	23000 MT Fueloil	Oct 20 2010	Sep 20 2011	570.0000	64	-
Payments for gas	23000 MT Fueloil	Oct 20 2010	Oct 7 2011	570.0000	64	-
Payments for gas	24000 MT Gasoil	Oct 21 2010	Jul 8 2011	780.0000	322	-
Payments for gas	24000 MT Gasoil	Oct 21 2010	Jun 20 2011	780.0000	322	-
Payments for gas	13000 MT Gasoil	Oct 21 2010	May 10 2011	780.0000	174	-
Payments for gas	13000 MT Gasoil	Oct 21 2010	Apr 20 2011	780.0000	174	-
Payments for gas	23000 MT Fueloil	Oct 22 2010	Jul 8 2011	540.0000	13	-
Payments for gas	23000 MT Fueloil	Oct 22 2010	Jun 20 2011	540.0000	13	-
Payments for gas	13000 MT Fueloil	Oct 22 2010	May 10 2011	540.0000	7	-
Payments for gas	13000 MT Fueloil	Oct 22 2010	Apr 20 2011	540.0000	7	-
Payments for gas	30000 MT Fueloil	Oct 26 2010	Aug 10 2011	560.0000	129	-
Payments for gas	30000 MT Fueloil	Oct 26 2010	Jul 20 2011	560.0000	129	-
Payments for gas	30000 MT Gasoil	Oct 26 2010	Aug 10 2011	790.0000	1 209	-
Payments for gas	30000 MT Gasoil	Oct 26 2010	Jul 20 2011	790.0000	1 209	-
Payments for gas	25000 MT Gasoil	Oct 27 2010	Aug 19 2011	790.0000	1 007	-
Payments for gas	25000 MT Fueloil	Oct 29 2010	Sep 9 2011	555.0000	134	-
Payments for gas	25000 MT Fueloil	Oct 29 2010	Aug 19 2011	555.0000	134	-
Payments for gas	26000 MT Gasoil	Nov 8 2010	Sep 9 2011	800.0000	833	-
Payments for gas	10000 MT Gasoil	Nov 8 2010	Jun 10 2011	780.0000	134	-
Payments for gas	10000 MT Gasoil	Nov 8 2010	May 20 2011	780.0000	134	-
Payments for gas	10000 MT Fueloil	Nov 9 2010	Jun 10 2011	530.0000	15	-
Payments for gas	9000 MT Fueloil	Nov 9 2010	May 20 2011	530.0000	13	-
					9,608	**-**
			Put commodity options			
Payments for gas	16000 MT Gasoil	Jul 27 2010	Jun 20 2011	593.0000	-	-
Payments for gas	16000 MT Fueloil	Jul 27 2010	Jun 20 2011	420.0000	-	-
Payments for gas	32000 MT	Jul 27 2010	May 20 2011	594.0000	-	-

(PLN '000)

	Gasoil					
Payments for gas	32000 MT Fueloil	Jul 27 2010	May 20 2011	425.0000	-	-
Payments for gas	33000 MT Gasoil	Jul 27 2010	Apr 20 2011	606.0000	-	-
Payments for gas	33000 MT Fueloil	Jul 27 2010	Apr 20 2011	430.0000	-	-
Payments for gas	23000 MT Gasoil	Oct 20 2010	Oct 7 2011	640.5000	(22)	-
Payments for gas	23000 MT Gasoil	Oct 20 2010	Sep 202011	640.5000	(21)	-
Payments for gas	23000 MT Fueloil	Oct 20 2010	Sep 202011	412.0000	(15)	-
Payments for gas	23000 MT Fueloil	Oct 20 2010	Oct 7 2011	412.0000	(15)	-

Derivative Instruments (continued)

Hedged item	Par value in currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at fair value	
					Dec 31 2010	Dec 31 2010
Payments for gas	24000 MT Gasoil	Oct 21 2010	Jul 8 2011	645.0000	-	-
Payments for gas	24000 MT Gasoil	Oct 21 2010	Jun 20 2011	645.0000	-	-
Payments for gas	13000 MT Gasoil	Oct 21 2010	May 10 2011	647.0000	-	-
Payments for gas	13000 MT Gasoil	Oct 21 2010	Apr 20 2011	647.0000	-	-
Payments for gas	23000 MT Fueloil	Oct 22 2010	Jul 8 2011	426.0000	-	-
Payments for gas	23000 MT Fueloil	Oct 22 2010	Jun 20 2011	426.0000	-	-
Payments for gas	13000 MT Fueloil	Oct 22 2010	May 10 2011	435.0000	(1)	-
Payments for gas	13000 MT Fueloil	Oct 22 2010	Apr 20 2011	435.0000	(1)	-
Payments for gas	30000 MT Fueloil	Oct 26 2010	Aug 10 2011	432.0000	(89)	-
Payments for gas	30000 MT Fueloil	Oct 26 2010	Jul 20 2011	432.0000	(89)	-
Payments for gas	30000 MT Gasoil	Oct 26 2010	Aug 10 2011	640.7000	(28)	-
Payments for gas	30000 MT Gasoil	Oct 26 2010	Jul 20 2011	640.7000	(28)	-
Payments for gas	25000 MT Gasoil	Oct 27 2010	Aug 19 2011	632.0000	(14)	-
Payments for gas	25000 MT Fueloil	Oct 29 2010	Sep 9 2011	428.5000	(58)	-
Payments for gas	25000 MT Fueloil	Oct 29 2010	Aug 19 2011	428.5000	(58)	-
					(439)	
Commodity swaps						
Payments for gas	11600 MT Fueloil	Jul 16 2010	Jan 10 2011	468.7500	(424)	-
Payments for gas	11600 MT Gasoil	Jul 16 2010	Jan 10 2011	647.0000	299	-
Payments for gas	45000 MT Fueloil	Jul 20 2010	Feb 18 2011	468.0000	461	-
Payments for gas	45000 MT Gasoil	Jul 20 2010	Feb 18 2011	652.5000	6,412	-
Payments for gas	45000 MT Fueloil	Jul 20 2010	Feb 10 2011	469.0000	329	-
Payments for gas	45000 MT Gasoil	Jul 20 2010	Feb 10 2011	654.5000	6,152	-
Payments for gas	45000 MT Gasoil	Jul 20 2010	Jan 20 2011	654.5000	6,165	-
Payments for gas	45000 MT Fueloil	Jul 20 2010	Jan 20 2011	469.7500	229	-
Payments for gas	16000 MT Fueloil	Jul 28 2010	Jul 8 2011	471.5000	408	-
Payments for gas	16000 MT Gasoil	Jul 28 2010	Jul 8 2011	658.5000	3,176	-
Payments for gas	31000 MT Fueloil	Jul 28 2010	Jun 10 2011	471.5000	791	-
Payments for gas	31000 MT Gasoil	Jul 28 2010	Jun 10 2011	658.0000	6,203	-
Payments for gas	33000 MT Fueloil	Jul 28 2010	May 10 2011	473.0000	696	-
Payments for gas	33000 MT Gasoil	Jul 28 2010	May 10 2011	660.5000	6,363	-

(PLN '000)

				37,260	**-**
Total				**(26,808)**	**(242,426)**
	including:	premiums on options	assets	**76,044**	**25,938**
		positive valuation**	assets	**1,591**	**(7,936)**
		negative valuation	liabilities	**(104,443)**	**(260,428)**

** 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.

	Period from Jan 1 – Dec 31 2010	Period from Jan 1 – Dec 31 2009
Net gain/(loss) on valuation of derivative instruments – unrealised	(142,560)	(270,891)
Profit/(loss) on derivative instruments – realised	(48,677)	2,314
Total net gain/(loss) on derivative instruments recognised in the income statement	**(191,237)**	**(268,577)**
including:		
recognised under net other operating expenses	(155,561)	34,754
recognised under cost of raw and other materials used*	85,293	(38,787)
Result on valuation of derivative instruments recognised in other comprehensive income -– unrealised*	**34,049**	**-**
Total net gain/(loss) on derivative instruments recognised in equity	**(157,188)**	**(268,577)**

* The Company has applied hedge accounting since 2009.

34. CONTINGENT LIABILITIES AND RECEIVABLES

34.1. Contingent receivables

	Dec 31 2010	Dec 31 2009
From related undertakings:		
under guarantees and sureties received	-	-
under promissory notes received	5,303,928	2,532,321
Total contingent receivables from related undertakings	**5,303,928**	**2,532,321**
From other undertakings:		
under guarantees and sureties received	339,038	329,589
under promissory notes received	62,539	48,240
Total contingent receivables from other undertakings	**401,577**	**377,829**
Total contingent assets	**5,705,505**	**2,910,150**

(PLN '000)

34.2. Contingent Liabilities

	Dec 31 2010	Dec 31 2009
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*	2,816,431	2,905,168
under promissory notes issued	676,047	2,557
Total contingent liabilities to other undertakings	**3,492,478**	**2,907,725**
Total contingent liabilities	**3,492,478**	**2,907,725**

* Contingent liabilities in foreign currencies were translated into the złoty at exchange rates quoted by the National Bank of Poland for December 31st 2010.

The amount of contingent liabilities under outstanding promissory notes increased significantly due to the issuance of four promissory notes for the total amount of PLN 673,490 thousand issued as a guarantee of proper performance by PGNiG S.A. of agreements for partial financing of gas storage projects (Wierzchowice, Strachocina, Mogilno and Kosakowo Underground Storage Facilities). The promissory notes were issued for Instytut Nafty i Gazu (Oil and Gas Institute) of Kraków.

34.3. 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 (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. The related liability, if any, including interest, which is not past due and is not recognised in the financial statements, amounted to PLN 136,802 thousand as at December 31st 2010 (as at the end of 2009, it was PLN 127,514.3 thousand).

35. OFF-BALANCE SHEET LIABILITIES

35.1. Operating Lease Liabilities

No operating lease liabilities were recognised.

35.2. Contractual Liabilities (Not Yet Disclosed in the Statement of Financial Position)

	Dec 31 2010	Dec 31 2009
Contractual liabilities	4,576,948	4,865,464
Completion of agreements as at the balance-sheet date	(2,154,641)	(1,406,823)
Contractual liabilities subsequent to the balance-sheet date	**2,422,307**	**3,458,641**

(PLN '000)

36. INFORMATION ON RELATED UNDERTAKINGS

PGNiG S.A. holds shares in production and service companies. As at December 31st 2010, PGNiG S.A. had 38 related undertakings, including:

- 25 subsidiary undertakings
- 13 other related undertakings.

36.1. Consolidated undertakings as at the end of 2010

Company	Country	% of share capital held by PGNiG S.A.	
PGNiG S.A. (parent undertaking)	Poland		
Subsidiaries of PGNiG S.A.		**Dec 31 2010**	**Dec 31 2009**
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%
GK Poszukiwania Nafty i Gazu Kraków [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.	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%
GK Mazowiecka Spółka Gazownictwa [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. [3)]	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%
Indirect subsidiaries of PGNiG S.A.			
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. (of Pogórska Wola)[4)]	Poland	100.00%	100.00%
Budownictwo Naftowe Naftomontaż Sp. z o.o.	Poland	88.83%	88.83%
NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation) [5)]	Poland	-	59.88%
Jointly-controlled and associated undertakings valued with equity method			
SGT EUROPOL GAZ S.A. [6)]	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)] Formerly Górnictwo Naftowe Sp. z o.o. The company was first consolidated in 2010.

[4)] The company was first consolidated in 2010.

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

[6)] Including a 48.00% direct interest and a 1.74% interest held indirectly through GAS-TRADING S.A.

(PLN '000)

36.2. Related-Party Transactions

Related party		Sales to related parties	Purchases from related parties	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
Undertakings consolidated with full method and equity method	Dec 31 2010	436,516	4,621,431	66,006	59,877	2,344,743	2,336,493	761,621
	Dec 31 2009	281,511	4,196,178	46,432	40,986	2,330,173	2,319,723	533,706
Other related undertakings – non-consolidated	Dec 31 2010	7,445	16,460	127,270	1,123	22,372	-	87,056
	Dec 31 2009	7,244	37,033	128,227	978	28,623	9,551	112,737
Related undertakings – total	**Dec 31 2010**	**443,961**	**4,637,891**	**193,276**	**61,000**	**2,367,115**	**2,336,493**	**848,677**
	Dec 31 2009	**288,755**	**4,233,211**	**174,659**	**41,964**	**2,358,796**	**2,329,274**	**646,443**

The principal transactions with shareholders in 2010 and 2009 were dividend payments, as detailed in Note 9.

In 2010, the Company did not enter into any material non-arm's length transactions with related parties.

The Company 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 Company 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)

36.3. Transactions with Undertakings in which the State Treasury Holds Equity Interests

Preparing the financial statements for 2010, the Company took advantage of the exemption provided for in paragraphs 25-27 of updated IAS 24 (also described in Note 2.2.1.).

The main transactions with undertakings in which the State Treasury holds equity interests were made in the ordinary course of the Company's business, i.e. trading in natural gas and sale of crue oil.

In 2010, PGNiG S.A. 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., and Zakłady Azotowe KĘDZIERZYN S.A.

In 2009, PGNiG S.A.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., and Zakłady Azotowe KEDZIERZYN S.A.

36.4. Remuneration, loans and similar benefits paid to members of management and supervisory bodies

	Jan 1–Dec 31 2010		
Name	Total amount of remuneration, additional benefits and bonuses paid in 2010	Total amount of remuneration for holding offices in subordinated undertakings in 2010	**Total remuneration paid in 2010**
Total remuneration paid to Management Board members, including:	**3,250.15**	**3,209.91**	**6,460.06**
Michał Szubski - President	368.04	950.13	**1,318.17**
Radosław Dudziński - Vice-President	343.42	687.62	**1,031.04**
Sławomir Hinc - Vice-President	333.92	687.62	**1,021.54**
Marek Karabuła - Vice-President*	110.97	53.46	**164.43**
Mirosław Szkałuba – Vice-President	401.53	203.68	**605.21**
Ewa Bernacik - proxy	356.22	82.96	**439.18**
Mieczysław Jakiel - proxy	394.27	41.45	**435.72**
Tadeusz Kulczyk - proxy	394.10	41.45	**435.55**
Persons who were Management Board members in 2010 but not as at Dec 31 2010:	-	-	
Mirosław Szkałuba – Vice-President	222.60	214.98	**437.58**
Waldemar Wójcik - Vice-President	325.08	246.56	**571.64**
Total remuneration paid to Supervisory Board members, including:	**336.79**	**199.31**	**536.10**
Stanisław Rychlicki	41.45	80.00	**121.45**
Marcin Moryń	41.45	-	**41.45**
Mieczysław Kawecki	41.45	38.92	**80.37**
Agnieszka Chmielarz	41.45	38.94	**80.39**
Grzegorz Banaszek	41.45	-	**41.45**
Mieczysław Puławski	41.45	-	**41.45**
Jolanta Siergiej	41.45	41.45	**82.90**
Persons who were Supervisory Board members in 2010 but not as at Dec 31 2010:	-	-	
Marek Karabuła*	46.64	-	**46.64**
Total	**3,586.94**	**3,409.22**	**6,996.16**

* On July 19th 2010, Marek Karabuła was appointed Vice-President of the Management Board.

(PLN '000)

Name	Jan 1–Dec 31 2009		
	Total amount of remuneration, additional benefits and bonuses paid in 2009	Total amount of remuneration for holding offices in subordinated undertakings in 2009	**Total remuneration paid in 2009**
Total remuneration paid to Management Board members, including:	**3,396.15**	**3,379.74**	**6,775.89**
Michał Szubski - President	322.02	820.78	**1,142.80**
Mirosław Dobrut – Vice-President	274.17	410.17	**684.34**
Radosław Dudziński - Vice-President	279.81	736.69	**1,016.50**
Sławomir Hinc - Vice-President	278.85	747.52	**1,026.37**
Mirosław Szkałuba – Vice-President	298.40	199.55	**497.95**
Waldemar Wójcik - Vice-President*	381.85	224.52	**606.37**
Ewa Bernacik - proxy	343.31	80.85	**424.16**
Mieczysław Jakiel - proxy	240.31	39.84	**280.15**
Tadeusz Kulczyk - proxy	334.79	33.20	**367.99**
Persons who were Management Board members in 2009 but not as at Dec 31 2009:			
Stanisław Radecki - proxy	541.84	39.84	**581.68**
Marek Dobryniewski - proxy	33.00	6.64	**39.64**
Zbigniew Król - proxy	67.80	40.14	**107.94**
Total remuneration paid to Supervisory Board members, including:	**337.06**	**217.15**	**554.21**
Stanisław Rychlicki	39.84	80.00	**119.84**
Marcin Moryń	39.84	-	**39.84**
Mieczysław Kawecki	39.84	52.16	**92.00**
Agnieszka Chmielarz	39.84	45.15	**84.99**
Grzegorz Banaszek	39.84	-	**39.84**
Marek Karabuła	39.84	-	**39.84**
Mieczysław Puławski	39.84	-	**39.84**
Jolanta Siergiej	39.84	39.84	**79.68**
Persons who were Supervisory Board members in 2009 but not as at Dec 31 2009:			
Maciej Kaliski	18.34	-	**18.34**
Total	**3,733.21**	**3,596.89**	**7,330.10**

*Including remuneration paid for holding the position of proxy in the period from January 1st to January 28th 2009.

During the financial year, the Company did not enter into any other material transactions with members of the Company's Management Board and supervisory bodies, their spouses, persons related to them through blood or marriage up to the second degree in the kinship line, persons related through adoption, custody or guardianship to a member of the Company's management and supervisory bodies, or companies in which such persons are material shareholders. The Company did not advance any loan to such persons.

36.5. Joint Ventures

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

In 2010, PGNiG S.A. continued cooperation with FX Energy Poland Sp. z o.o. in the following areas covered by licenses awarded to PGNiG S.A.:

- "Płotki" – under the Agreement for Joint Operations dated May 12th 2000; licence interests: PGNiGS.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 areas covered by licenses awarded to FX Energy Poland Sp. z o.o.:

- Block 255 – under Agreement for Joint Operations dated October 29th 1999 (FX Energy – 81.82%, PGNiG S.A. – 18.18%);
- "Ostrowiec" – under the Agreement for Joint Operations dated February 27th 2009, covering licence blocks nos. 163 and 164; licence interests: FX Energy – 51%, PGNiG S.A. – 49%.

In the "Płotki" area, hydrocarbons were produced from the Klęka field and the Roszków field. In 2010, production from the Klęka field was discontinued and decision was made to abandon the well and decommission the infrastructure. Total volume of natural gas produced from the Klęka field was approx. 76 million cubic meters. In the "Płotki"-"PTZ" area, production continued on the Zaniemyśl and Roszków gas fields.

With respect to the "Poznań" area, reprocessing and interpretation of the Żerków-Pleszew 3D seismic survey was completed. In 2010, natural gas production was commenced on the Środa WielkoPoland field (Środa WielkoPoland-4 well). Also, drilling of the Lisewo-1k borehole was commenced in 2010, which led to discovery of a new natural gas field at the beginning of 2011 The design documentation for the drilling of the Pławce-2 exploration well was prepared, with the drilling work scheduled for 2011. Plans for 2011 include start of production from the Kromolice and Kromolice S fields, completion of stage II of the Żerków-Pleszew 3D seismic survey, tests on the Lisewo-1k borehole, and drilling of the Pławce-2 4000m exploration.

Despite discontinued production from the Wilga field ("Block 255") and absence of hydrocarbon flows from the Ostrowiec-1 borehole, analyses of the available material continued during 2010 to identify any further exploration potential in these areas.

On September 30th 2010, FX Energy Poland Sp. z o.o. and PGNiG S.A. executed a cooperation agreement covering the licenses awarded to FX Energy Poland Sp. z o.o. (blocks 211, 212, 231 and 232). Interests held by the parties to the project: PGNiG S.A. - 50%, FX Energy - 50%. FX Energy Poland Sp. z o.o. is project operator. Drilling of the Kutno deep well is scheduled for 2011.

EuroGas Poland 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 2010, PGNiG S.A. continued cooperation with EuroGasPoland Sp. z o.o. and Energia Bieszczady Sp. z o.o. in the "Bieszczady" license area (the mining usufruct and licenses for exploration and appraisal of crude oil and natural gas deposits in that area are held by PGNiG S.A.). Interests held in the project: PGNiG S.A. (operator) – 51%, Eurogas Poland Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%.

In 2010, the processing and interpretation of Kostarowce-Zahutyń 2D seismic surveys ("Bieszczady" area) in the Carpathian region were completed and the drilling of the Niebieszczany-1 exploration well was commenced. Plans for 2011 assume acquisition of 340 km of 2D seismic data, completion of the drilling of the Niebieszczany-1 well and start of the drilling of the Puławy Górne-1 exploration 5000m well.

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

In 2010, 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 2010, in the "Sieraków" area, the Sieraków-4 well was worked over and tested. In early 2011, the drilling of the Sieraków-5 well was commenced. The drilling of the Sieraków-3 well is also planned for 2011.

Energia Karpaty Zachodnie Sp. z o.o. Sp. k., 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.

Energia Karpaty Wschodnie Sp. z o.o. Sp. k.,, registered office at ul. Śniadeckich 17, 00-654 Warsaw

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 2010, as part of cooperation between Energia Karpaty Zachodnie Sp. z o.o. Sp. k. and Energia Karpaty Wschodnie Sp. z o.o. Sp. k., reprocessing of 3,000 km of 2D profiles and analysis of borehole geophysical data from 113 old boreholes was performed. Plans for 2011 assume reprocessing of approx. 1,000 km of 2D seismic data and acquisition of approx. 250 km of new 2D seismic data in both licence areas.

In 2010, the Minister of Environment approved the following allocation of working interests (division of mining usufruct rights) among the parties to the agreements for joint operations regarding the following areas (allocation consistent with interests in the joint venture projects as established under the agreements):

- "Budzów", "Bielsko-Biała", "Bestwina" and "Cieszyn" – under Agreement for Joint Operations with Energia Karpaty Zachodnie Sp. z o.o. Sp. k.,
- "Mszana Dolna" and "Jordanów" – under Agreement for Joint Operations with Energia Karpaty Wschodnie Sp. z o.o. Sp. k.,
- "Płotki" – under Agreement for Joint Operations with FX Energy Poland Sp. z o.o.
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under Operating Agreement of Mining Users with FX Energy Poland Sp. z o.o. and Calenergy Resources Poland Sp. z o.o.,
- "Poznań" – under Agreement for Joint Operations with FX Energy Poland Sp. z o.o.

The division of mining usufruct among the parties to the operating agreements in proportion reflecting their respective shares in the joint venture defines the method of settlements for produced hydrocarbons. In addition, the ability to divide mining usufruct facilitates negotiations with potential E&P partners.

All assets, liabilities, income and expenses related to the joint ventures described above were presented in the statement of financial position and the income statement of PGNiG S.A. pro rata to its interest in a given joint venture.

36.6. Foreign Operations

PGNiG S.A.'s Interest in Foreign Operations

PGNiG S.A. recognises interests in foreign operations at historical values (without revaluating the interests as at each balance sheet date to reflect changes in curreny exchange rates). If impairment is idenfitied, the Company recognises an appropriate impairment charge. In the statement of financial position, the value of interests in foreing operations is presented net of impairment charges.

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 crude oil and natural gas, workover of wells and development and exploitation of fields in Ukraine.

The company's share capital amounts to UAH 11,146.8 thousand (equivalent to PLN 4,148.8 thousand, translated at the exchange rate of the National Bank of Poland quoted for December 31st 2010) 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 1,509.3 thousand, translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010). As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Company amounted to PLN 2,499.4 thousand. An impairment loss was recognised for the full value of the shares.

The company's shareholder structure is as follows:

- PGNiG 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 Ltawa Sp. z o.o. 0.01%

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

Dewon Z.S.A. conducts work at the Sakhalin field as part of a joint venture, under an agreement with NAK Nadra Ukrainy (the holder of the license for the production of hydrocarbons) and PoltavaNaftoGas-Geologia. On April 24th 2009, the license for work at the Sakhalin field 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 license 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 **1,184.8** thousand, translated at the mid exchange rate quoted by the National Bank of Poland for December 29th 2010 (the last exchange rate quoted in 2010), 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 580.6 thousand, translated at the exchange rate quoted by the National Bank of Poland for December 29th 2010). As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Company 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 was set up to provide 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 commenced operations. 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 792.1 thousand, translated at the mid exchange rate of the National Bank of Poland quoted for December 31st 2010), 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 gas 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 gas 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 Shareholders Meeting of InterTransGas GmbH adopted resolutions concerning approval of the business model for the construction of the Börnicke – Hintersee– Police gas pipeline, approval of the business plan for 2009 and contributions of EUR 3,000 thousand by the shareholders to the company's capital reserves. The recapitalisation takes the form of a contribution to the company's capital reserves, without issuance of new shares. Each of the shareholders paid the first tranche of EUR 750 thousand to the capital reserves in June 2009. The next tranche of EUR 2,250 thousand was paid by each shareholder in July 2010, after 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 rights and obligations of InterTransGas GmbH shareholders.

The decision concerning construction of the interconnector pipeline is expected to be made in 2011.

As at December 31st 2010, PGNiG S.A.'s interest in InterTransGas GmbH amounted to EUR 3,100 thousand (equivalent to PLN 12,852 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for December 31st 2010). As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Company amounted to 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. All the shares were acquired by PGNiG S.A. for a cash contribution made in December 2010. As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Company amounted to PLN 39,710 thousand.

The company's business is to consist in purchase and sale of, and trade in, gas, fuels and other forms of energy (related to such products in a physical form), as well as – for hedging purposes – trade in derivatives and financial products. On February 10th 2011 POGC Trading GmbH was registered in the commercial register in Munich.

Norway

On May 24th 2007, PGNiG S.A. 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), and in particular to perform the agreement of February 28th 2007 concluded between PGNiG S.A., Mobil Development Norway AS and ExxonMobil Produktion Norway Inc. providing for acquisition by the Company of interests in licence areas in the Norwegian Continental Shelf (which was effected on October 30th 2007), i.e. the Skarv, Snadd and Idun fields (licences: PL 212, PL 212B, PL 262). According to the joint–venture agreement (after combining the Skarv and Snadd fields with the Idun field) PGNiG Norway AS has a 12% interest in the production from the Skarv/Snadd/Idun field and is obliged to provide an equal share of capital expenditure. The other licence interests are held by British Petroleum (Operator)– 24%, StatoilHydro– 36% and E.ON Ruhrgas Norge– 28%.

In 2010, as part of the Skarv project first wells were drilled and gas and oil reserves were documented, as confirmed by the Norwegian Petroleum Directoriate. The field will be developed using a geostationary floating production, storage and offloading vessel (FPSO), built in a shipyard in South Korea. The Skarv project is one of the largest projects in Norway. Under the project, 16 wells are expected to be drilled, including seven oil extraction wells, five natural gas extraction wells and four injectors. At a later stage of the project's life, the injectors will be transformed into gas producers in order to fully exploit the existing reserves. First production revenues are expected in August 2011.

In January 2010, PGNiG Norway AS acquired a 15% interest in the PL 558 licence following completion of a licence round. The licence operator is E.ON Ruhrgas Norge (30%), with other partners including: Nexen Exploration Norge (15%), Det norske oljeselskap (20%) and Petoro (20%).

In June 2010, PGNiG Norway AS purchased a 10% interest in the Gro licence on the Norwegian Sea from Statoil Petroleum AS. The licence covers the area where the Gro natural gas deposit was discovered. The other interest holders are: Shell (50%), Statoil (30%), and Gaz de France SUEZ (10%).

In addition, in H1 2010, PGNiG Norway AS and its licence partners discovered new oil and gas deposit on the Norwegian Sea, called Snadd North, in the area covered by the PL 212 license, near the Skarv field. PGNiG Norway AS' interest in the field is 12%, and the other licence interests are held by British Petroleum – 24%, Statoil – 36% and E.ON Ruhrgas – 28%. The recoverable reserves of Snadd North are initially estimated at 9 to 16bn cubic metres of natural gas. Its development is expected to start in 2011.

On February 4th 2010, PGNiG Norway AS was granted the status of an operator on the Norwegian Continental Shelf, and now the company may apply for the operator status under the current and future licences. The award of the operator status followed a pre-qualification process, comprising assessment of PGNiG Norway AS's E&P competence.

In November 2010, the company submitted applications for three licences under the 21st Bidding Round. The round is expected to conclude in the first quarter of 2011.
As at the end of 2010, the company held interests in nine exploration and production licences on the Norwegian Continental Shelf and the Norwegian Sea.

In order to finance the purchase of an interest in the reserves of ExxonMobiland, the Company 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 Company 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 PGNiG S.A. 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.

Therefore, as at December 31st 2010, PGNiG Norway AS's total debt under the aforementioned loan amounted to NOK 3,900,000, i.e. the equivalent of PLN 1,977,690 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010).

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 2010, the company drew USD 313.5m 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.

PGNiG S.A. of Warsaw is the only shareholder in PGNiG Norway AS. PGNiG Norway AS's business consists in crude oil and natural gas production as well as other types of related activites. 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.

As at December 31st 2010, PGNiG S.A.'s equity interest in the subsidiary was NOK 951,327 thousand, that is PLN 482,417.9 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010). As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Company amounted to 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 B.V.). The company's sole shareholder is PGNiG S.A.. Its share capital is EUR 20 thousand, that is PLN 79.2 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010).

The Management Board of POGC – Libya B.V. took steps which led to the execution – in February 2008 – of an Exploration and Production Sharing Agreement (EPSA) with Libya's National Oil Corporation. The Agreement, setting out the terms and conditions of an exploration and production project in Libya, was executed in connection with the award (following a licensing round) of Block 113, covering an area of 5,494 square kilometres between the Murzuq and Gadamesh basins, near the Algerian border. The bid submitted by POGC – Libya B.V. 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.

In February 2008, PGNiG S.A. issued a guarantee for the benefit of National Oil Corporation regarding the fulfilment by POGC–Libya B.V. of its work programme commitments worth USD 108,000 thousand, i.e. PLN 320,122.8 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010).

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 was commenced. Drilling work is scheduled to start at the beginning of 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 188,114.3 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010), to be used primarily towards the expenditure on exploration work in Libya. The equity increase was effected without issuing any new shares. 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 71,285.4 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010). The equity increase was effected without issuing any new shares. The additional funds are to be used chiefly to finance exploration work.

Due to the current political unrest in Libya, the Management Board of POGC Libya BV decided to evacuate all foreign employees from the country and establish a temporary office in Warsaw. Meanwhile, the Tripoli office is operated by local employees and remains open. As at the date of these financial statements, the final phase of 2D seismic data evaluation is performed, mainly by PGNiG S.A. (under a cooperation agreement). As future developments cannot be predicted, the Management Board of POGC Libya BV is monitoring the situation in Libya and will make suitable decisions and take the required actions depending on circumstances.
As at December 31st 2010, PGNiG S.A.'s equity interest in the subsidiary was EUR 65,520.0 thousand, that is PLN 259,478.9 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2010). As at December 31st 2010, the value of the shares as disclosed in the accounting books of the Company amounted to PLN 291,922.0 thousand.

PGNiG S.A.'s direct operations abroad – interests in exploration licences:

PGNiG S.A. 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 2010, testing conducted to assess the likely performance of the Rehman-1 exploration well were completed and 2D and 3D seismic surveys were performed. Commencement of workover of the Hallel-1 borehole is planned for 2011.

(PLN '000)

In Denmark, the Company continued exploration work in the area covered by licence 1/05 (interests held by PGNiG S.A. (operator) and Nordsofonden are 80% and 20%, respectively). In 2010, acquisition and processing of 2D and 3D seismic data was completed, and advanced processing of seismic data was performed. Drilling work is scheduled to start in 2011.

In Egypt, the Company carried out exploration work under its wholly-owned Bahariya licence (Block 3). The Company holds a 100% interest in the licence. In 2010, as part of exploratory work, 2,000 km of back-file 2D seismic materials were reprocessed and reinterpreted; gravimetric surveys were commenced. The work is scheduled for completion in 2011. In connection with the political situation in Egypt, in January 2011 PGNiG S.A. employees were temporarily withdrawn from the country, which, however, had no negative effect on the progress of the exploration activities..

Foreign branches of the Company:

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

Operating Branch in Pakistan – Islamabad
Branch in Egypt – Cairo
Branch in Denmark – Copenhagen
Branch in Algeria – Algiers.

37. EMPLOYMENT (NUMBER OF STAFF)

Employment as at end of period, by segments	Dec 31 2010	Dec 31 2009
Head Office of PGNiG S.A. *	840	833
Production	4,375	4,300
Trade and Storage	3,701	3,730
Other	39	37
Total	**8,955**	**8,900**

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

The Company employed on average 8,901 employees in 2010 (8,845 in 2009).

38. CAPITAL MANAGEMENT

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

PGNiG S.A. 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 Company, 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 PGNiG S.A.

	Dec 31 2010	Dec 31 2009
Loans and borrowings, finance lease liabilities and issue of debt securities	1,218,971	1,906,684
Trade and other payables	3,072,195	2,376,233
Cash and cash equivalents (-)	(565,854)	(425,243)
Net debt	**3,725,312**	**3,857,674**
Equity	**18,663,713**	**17,339,703**
Equity and net debt	**22,389,025**	**21,197,377**
Leverage	**16.64%**	**18.20%**

39. OTHER MATERIAL INFORMATION

39.1. Restructuring Process

In 2010, 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, became effective. Unlike the "Programme for Employment Restructuring and Employee Protection Measures for PGNiG S.A. Branches and Subsidiaries" implemented in the previous years, the Programme is based on the "stand-by" principle, which means that it can only 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.

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 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 December 31st 2010, no decisions on the implementation of the Programme at PGNiG S.A.'s branches were made.

39.2. Contracts for the Supply of Gas Fuel and Crude Oil

In 2010, PGNiG S.A. and Grupa Lotos S.A. signed a comprehensive agreement on supply of gas fuel, for an indefinite term. . The agreement provides for the supply of gas fuel starting from December 16th 2011. The annual supplies of natural gas to Grupa Lotos will be 403m m^3 in 2012 and the target annual volume is 447m m^3. The estimated value of the agreement in the period of five years amounts to approximately PLN 2,208m.

On July 30th 2010, PGNiG S.A. entered into a comprehensive agreement on supply of gas fuel with KGHM Polska Miedź S.A. of Lubin. The Agreement provides for the sale of natural gas to be used as power generation fuel and to be delivered to the Głogów and Polkowice collection points via the distribution network operated by Wielkopolska Spółka Gazownictwa Sp. z o.o. The target annual amount of gas to be delivered is 266m cubic metres. The Agreement is effective from its date until June 30th 2033, and contains a clause whereunder the start of gas deliveries may be rescheduled to a later date, between July 1st and December 31st 2012. The value of the Agreement is estimated at approximately PLN 4,000m. The estimated maximum contractual penalties may exceed 10% of the Agreement's value, depending on the quantities ordered but not collected by KGHM. The Agreement contains no provisions under which compensation in excess of the contractual penalties may be sought.

39.3. Contracts for the Purchase of Gas Fuel

In 2010, PGNiG S.A. imported gas mainly under the following agreements and contracts, that is the long- and short-term contracts for imports of gas from Russia and Germany, and medium-term agreements on gas supplies from German suppliers:

- the contract for supplies of gas to the Republic of Poland, with OOO Gazprom Export, dated September 25th 1996, in force until 2022;*
- the Lasów Contract for imports of gas, executed with VNG-Verbundnetz Gas AG, dated August 17th 2006, in force until October 1st 2016;
- the Lasów 2008 Contract for imports of gas, executed with VNG-Verbundnetz Gas AG, dated August 29th 2008, in force until October 1st 2011;
- the framework agreement with Vitol S.A., dated September 30th 2009. Under the framework agreement, an individual agreement was concluded on the supply of natural gas to the Lasów cross-border terminal between October 1st 2009 and October 1st 2011.

  * On October 29th 2010, PGNiG S.A. and OOO Gazprom Export signed an annex introducing the necessary changes to the Yamal Contract, concerning in particular an increase in annual supplies of natural gas in the period 2010–2037, with a breakdown of supplies by individual delivery points. Under the terms of the annex, OOO Gazprom Export has agreed to supply PGNiG S.A. with the following volumes of natural gas (according to GOST) :

  - in 2010 r. – 9,700m m^3,
  - in 2011 r. – 10,500m m^3,
  - in 2012–2022 – 11,000m m^3 (annually).

The annex also provides for a preferential price for PGNiG S.A. (relative to the applicable contract price) in the period 2010–2014 (inclusive) for the quantities of natural gas offtaken in a given year above the Minimum Annual Quantities and lifts the ban on re-export of natural gas.

In addition, with respect to gas which was not introduced to the transmission grid but was supplied to individual regions of Poland, the Company imported gas fuel under the following agreements and contracts:

- the agreement on natural gas supplies executed with NAK Naftogaz Ukrainy, dated October 26th 2004, in force until 2020. Gas imported under the agreement is supplied to consumers in the Hrubieszów area (According to the information received on December 30th 2011 from the operator of the Ukrainian transmission system, Lvivtransgaz, natural gas deliveries via the Zosin near Hrubieszów cross-border point were suspended as of 7:00 am (Polish time) on January 1st 2011.);
- the agreement on integrated gas supply services executed with Severomoravská plynárenská, a.s., dated March 27th 2008. The agreement took effect on April 1st 2008 and remained in force until December 31st 2009. The agreement is extended annually. By way of an annex, the agreement has been extended and will remain in force until December 31st 2011. Gas imported under the agreement is supplied to consumers in the commune of Branice;
- the agreement for the exchange of natural gas with VNG-Verbundnetz Gas AG, dated October 22nd 1992. The agreement was extended with annexes on an annual basis. The agreement provided for natural gas supplies to the areas close to the border between Germany and Poland. It expired on October 1st 2009 and was replaced with the following agreements:
- the Framework Agreement with VNG-Verbundnetz Gas AG, dated July 28th 2009. Under the Framework Agreement, the following two individual contracts were concluded:
  - individual contract for the purchase of natural gas at the Gubin delivery point in the period October 1st 2009 – October 1st 2011;
  - individual contract for the sale of natural gas at the Kamminke delivery point in the period October 1st 2009– October 1st 2011.

In 2010, PGNiG S.A. purchased domestically produced gas under agreements concluded with the same partners from which the Company purchased gas earlier. On January 21st 2010, TRIAS Sp. z o.o. assumed PGNiG S.A.'s rights and obligations under the agreement with PL Energia S.A.

Below are listed the agreements under which in 2010 PGNiG S.A. purchased domestically produced nitrogen-rich gas (classified in the Ls and Lw sub-groups) from entities outside the PGNiG Group:

- the natural gas sales agreement between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated December 18th 2000, concerning the field located in the Klęka area in Poland (the Klęka field);
- the natural gas sales agreement between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated December 8th 2005 (the Zaniemyśl field);
- the natural gas sales agreement between PGNiG S.A. and CalEnergy Resources Poland Sp. z o.o., dated December 8th 2005 (the Zaniemyśl field);
- the natural gas sales agreement between PGNiG S.A. and DPV Service Sp. z o.o., dated January 13th 2009 (the Antonin field);
- the natural gas sales agreement between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated June 19th 2009 (the Roszków field);
- Natural gas sales agreement executed between PGNiG S.A. and TRIAS Sp. z o.o. (formerly, P.L. Energia S.A.), dated June 29th 2009 (the Grabówka field);
- the natural gas sales agreement executed between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated December 8th 2010 (the Kromolice-Środa Wielkopolska-Kromolice field).

All agreements listed above will remain in force until the fields are depleted.

Since April 2010, due to technical problems no gas has been produced from the Klęka field by FX Energy Poland and, consequently, the company does not supply gas to PGNiG S.A.

On October 22nd 2010, PGNiG S.A. and SGT EuRoPol GAZ S.A. executed an annex to Agreement No. EI/DH/04/7718 – DF/HUM/15/2004 of July 1st 2004, on transmission of natural gas between PGNiG S.A. and SGT EuRoPol GAZ S.A., whereby the agreement was extended until December 31st 2022.

On December 29th 2010, PGNiG S.A. and Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A. of Warsaw ("Gaz-System") entered into two agreements:

1. Agreement No. 2010/UP/0013/E, covering the provision of high-methane gas transmission services and stipulating the terms and conditions of supply of the gas fuel to and its collection from the transmission system
2. Agreement No. 2010/UP/0008/L, covering the provision of nitrogen-rich gas transmission services and stipulating the terms and conditions of supply of the gas fuel to and its collection from the transmission system.

The Agreements will be effective from January 1st 2011 until December 31st 2014. Gas transmission will commence on January 1st 2011.

The settlement period will be a gas month running from 10pm on the last day of the month immediately preceding the current month until 10pm on the last day of the current month. The Agreements do not contain any specific terms or conditions which would differ from standard terms and conditions used in similar agreements. The Agreements provide for no contractual penalties.
The estimated value of Agreement No. 2010/UP/0013/E is approximately PLN 5,635bn. The estimated value of Agreement No. 2010/UP/0008/L is approximately PLN 329m. The estimated aggregate value of the two Agreements over their entire term is approximately PLN 5.96bn (VAT-exclusive).

39.4. Free of charge acquisition of PGNIG S.A. shares by eligible employees

Pursuant to the Act on Commercialisation and Privatisation of August 30th 1996 ("the Act"), PGNiG S.A.'s employees have the right to acquire, free of charge, 15% of the Company shares. This right is vested in "eligible employees", as defined in Art. 2.5 of the Act. The right to acquire shares free of charge arises after three months from the first disposal of shares by the State Treasury on general terms.

On June 30th 2008, the State Treasury disposed of one PGNiG S.A. share on general terms.

Consequently, in line with Art. 38.2 of the Act, the right to acquire the Company shares free of charge by eligible employees had arisen on October 1st 2008 and expired on October 1st 2010.

Pursuant to Art. 36.1 of the Act, eligible employees had the right to acquire free of charge up to 15% of the shares taken up by the State Treasury on the Company registration date, that is no more than 750,000,000 shares with a par value of PLN 1 per share. The list of eligible employees was drawn up in December 1997 and contained 61,516 names.

As at end of December 31st 2010, the market value of the 750,000,000 shares was PLN 2,677,500 thousand (as the date of these financial statements, that is March 3rd 2011, the value of the shares was PLN 2,940,000 thousand).

As per the adopted timetable, the share delivery process commenced on April 6th 2009. As at December 31st 2010, 726,349,467 shares were acquired (registered in securities accounts) by the eligible employees or their heirs.

Pursuant to Art. 38.3 of the Act, the shares acquired free of charge by the eligible employees could be traded after July 1st 2010, while the shares acquired free of charge by members of the Company's Management Board – until July 1st 2011.

The key principle of IFRS 2 Share-Based Payments is the recognition of costs related to employee benefits in the period when the cost is incurred. The statutory rights to acquire share free of charge were meant as a compensation for service provided by eligible employees in the period before the Act came into force, in particular the period before 1989, when Poland underwent a political transformation. In line with IFRS 2, the value of the programme should be defined as at the date of determining the number of shares allocated to individual employees, based on the fair value of the shares. In the case of PGNiG S.A., the shares are delivered from the pool held by the State Treasury. Thus the Company incurred only the administrative expenses related to the process of delivery of the shares to eligible employees.

Costs directly related to delivery of the shares, incurred in 2010 and recognised in the income statement, amounted to PLN 299.3 thousand, including:
- the cost of press announcements, PLN 20.00 thousand,
- the cost of execution by CDM Pekao S.A. of agreements on free of charge disposal of the shares, PLN 106.6 thousand,
- the cost of execution by the PGNiG Group employees of agreements on free of charge disposal of the shares, PLN 74.2 thousand,

- the cost of assimilation of the shares and their introduction to stock-exchange trading, PLN 98.5 thousand.

40. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. On January 3rd 2011, the Management Board of PGNiG S.A. ("PGNiG") 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 wholesale market by PGNiG.

According to the President of UOKiK, the abuse of dominant position on the domestic natural gas wholesale market by PGNiG consisted in:

- inhibiting sale of gas against the interest of other business players or consumers by refusing to sell gas fuel under a framework agreement to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw, which may be regarded as an anti-competitive practice defined in Art. 9.2.2 of the Competition and Consumer Protection Act of February 16th 2007 ("the Act");
- –impeding the development of market conditions favourable to the emergence or growth of competition by refusing to sell gas fuel under a framework agreement to an entrepreneur that intended to further resell the gas, i.e. NowyGaz Sp. z o.o. of Warsaw, which may be regarded as an anti-competitive practice defined in Art. 9.2.5 of the Act.

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.

On January 4th 2011, PGNiG S.A. filed an appeal with the Regional Court of Warsaw, the Competition and Consumer Protection Division, against a decision issued by the President of URE to impose a penalty on the Company for breach of the cross-border gas trading licence.

b. On January 12th 2011, annex 1 ("the Annex") to the trilateral agreement of January 27th 2010 between PGNiG S.A., OOO Gazprom Export of Moscow (“Gazprom Export”) and System Gazociągów Tranzytowych EuRoPol GAZ S.A. of Warsaw (“EuRoPol GAZ”) ("the Agreement") was executed. The Company released information on execution of the Agreement in Current Report No. 7/2010 of January 28th 2010.

The Annex was executed to align the provisions of the Agreement with the provisions of:

- the Protocol of October 29th 2010 on the amendments to the "Agreement between the Governments of the Russian Federation and the Republic of Poland concerning construction of a gas pipeline system for transmission of Russian gas across the territory of Poland, dated August 25th 1993";
- the Protocol of October 29th 2010 on amendments to the Additional Protocol to "the Agreement between the Governments of the Russian Federation and the Republic of Poland concerning construction of a gas pipeline system for transmission of Russian gas across the territory of Poland, dated August 25th 1993", executed on February 12th 2003 ("the Protocol to the Agreement");
- the Annex of October 29th 2010 to the Yamal Contract of September 25th 1996 between PGNiG and Gazprom Export ("the Annex to the Yamal Contract"), concerning increased volume of natural gas supplies.

Under the Annex:

- the Agreement between EuRoPol GAZ and GAZ-SYSTEM SA of Warsaw on assigning the role of the operator of the Polish section of the Yamal-Europe Transit Gas Pipeline System, dated October 25th 2010, will come into force;
- in the case of a change in the operator's role or any change in EuRoPol GAZ's shareholder structure or ownership title to assets which would conflict with the Protocol to the Agreement, the Annex to the Yamal Contract will become null and void, subject to prior notification that the Annex to the Yamal Contract has become null and void, made in writing and delivered to

PGNiG on behalf of Gazprom Export by a messenger or recognised international company providing courier services;

- PGNiG and EuRoPol GAZ will settle the payments for the gas transmission services rendered to PGNiG by EuRoPol GAZ in the period from January 1st 2006 to December 31st 2009 on the same terms and conditions as those applicable to the gas transmission services rendered to Gazprom Export,
- Gazprom Export undertook to make all reasonable efforts to conclude a new contract for the transmission of natural gas across the territory of Poland in the period from 2020 to 2045 in the amount of approx. 26bn m3 according to the Polish standard (i.e. 28bn m3 according to GOST). If Gazprom Export fails to conclude such contract or terminates such contract prior to its expiry, EuRoPol GAZ shall have the right to file claims and/or bring actions in connection with payments for the gas transmission services in the period from 2006 to 2009, and Gazprom shall not raise a plea that the claims have become time-barred.

c. In Q1 2011, PGNiG S.A. continued the issue of notes ("the Notes") under the Short-Term Note Issuance Programme of December 1st 2010 ("the Programme").

As at March 3rd 2011, the total par value of the Notes outstanding under the Programme was PLN 315,000 thousand. The notes included:

a) 400 notes with a total value of PLN 40,000 thousand, maturing on March 2nd 2011 and yielding 4.25% per annum, acquired by Górnośląska Spółka Gazownictwa Sp. z o.o., a wholly-owned subsidiary of PGNiG S.A.;

b) 900 notes with a total value of PLN 90,000 thousand, maturing on March 18th 2011 and yielding 4.20% per annum, acquired by Wielkopolska Spółka Gazownictwa Sp. z o.o., a wholly-owned subsidiary of PGNiG S.A.;

c) 500 notes with a total value of PLN 50,000 thousand, maturing on March 21st 2011 and yielding 4.20% per annum, acquired by Dolnośląska Spółka Gazownictwa Sp. z o.o a wholly-owned subsidiary of PGNiG S.A.;

d) 250 notes with a total value of PLN 25,000 thousand, maturing on March 15th 2011 and yielding 4.15% per annum, acquired by Wielkopolska Spółka Gazownictwa Sp. z o.o., a wholly-owned subsidiary of PGNiG S.A.;

e) 500 notes with a total value of PLN 50,000 thousand, maturing on March 22nd 2011 and yielding 4.20% per annum, acquired by Górnośląska Spółka Gazownictwa Sp. z o.o., a wholly-owned subsidiary of PGNiG S.A.;

f) 300 notes with a total value of PLN 30,000 thousand, maturing on March 11th 2011 and yielding 4.15% per annum, acquired by Górnośląska Spółka Gazownictwa Sp. z o.o., a wholly-owned subsidiary of PGNiG S.A.;

g) 300 notes with a total value of PLN 30,000 thousand, maturing on March 14th 2011 and yielding 4.15% per annum, acquired by Karpacka Spółka Gazownictwa Sp. z o.o., a wholly-owned subsidiary of PGNiG S.A..

The par value of one Note is PLN 100 thousand. All the Notes are denominated in the Polish złoty and have been offered in a private placement exclusively in the territory of Poland. The Notes are unsecured discount bearer notes in book-entry form, and will be redeemed at par value. PGNiG has no plans to introduce the Notes to public trading. The Note Issuance Programme is a tool designed to effectively manage short-term liquidity within the PGNiG Group.

d. On January 26th 2011, PGNiG Energia S.A. of Warsaw, as the last of the parties to the Annex to the Execution Agreement of the Project "Construction of a CCGT Unit in Stalowa Wola" ("the Annex"), obtained the corporate approvals for the Annex, which was signed on December 29th 2010. The other parties to the Annex, i.e. PGNiG, TAURON Poland Energia S.A. of Katowice and Elektrownia Stalowa Wola S.A. of Stalowa Wola, had earlier obtained all required corporate approvals. Therefore, the condition subsequent stipulated in the Annex, that the Annex shall expire if the parties thereto fail to obtain the required approvals from their relevant corporate bodies, has not been fulfilled.

In view of the foregoing, and in line with the provisions of the Annex, the Execution Agreement of the Project "Construction of a CCGT Unit in Stalowa Wola" will remain effective until March 31st 2011 with an option to extend it - under special circumstances - until June 30th 2011 by way of appropriate annexes to the Execution Agreement.

e. On March 2nd 2011, given the low air temperatures and increased demand for natural gas, PGNiG S.A. reduced supplies of gas to PKN Orlen S.A. The decision was made under the existing agreements between the companies, whereby the supplies may be reduced.

f. On March 3rd 2011, PGNiG S.A. signed with Zakłady Azotowe „Puławy” S.A. (“ZA Puławy”) an annex (“the Annex”) to Agreement No. 4/S/98 on Sale of Methane-Rich Natural Gas, dated January 14th 1999 (“the Agreement”), for an indefinite term.

   The Annex to the Agreement adds new definitions, including: contracted capacity, intermittent contracted capacity, continuous contracted capacity, declaration (*nominacja*), annual and weekly declaration, re-declaration, tariff, IRIESP (transmission network operation instruction), and emergency. Moreover, the Annex establishes a procedure for submitting annual and weekly declarations, redeclarations and ordering intermittent contracted capacity and continuous contracted capacity. The amendments to the Agreement also specify the rules governing the provision of intermittent contracted capacity to ZA Puławy and ZA Puławy's obligations relating to the supply of gas fuel on an intermittent basis.

   The Annex amends the Agreement by imposing on ZA Puławy an obligation to pay a contractual penalty to PGNiG if ZA Puławy fails to collect a minimum annual volume of gas fuel. The penalty amount would depend on the actual quantity uncollected in a given contractual year. Pursuant to the Agreement, payment of the contractual penalty excludes the injured Party's right to seek compensation in excess of the penalty amount.

   Furthermore, the Annex imposes on ZA Puławy an obligation to pay a contractual penalty to PGNiG if ZA Puławy fails to comply with any introduced limitations on intermittent contracted capacity. The penalty amount would depend on how much the contractual capacity is actually exceeded in the period when such limitations are effective. In the event that damage incurred due to ZA Puławy's failure to comply with any limitations on intermittent contracted capacity exceeds the penalty amount, ZA Puławy will be required to reimburse any sums paid by PGNiG to Operator Gazociągów Przesyłowych Gaz-System S.A. in connection with such non-compliance.

   The amendments introduced under the Annex became effective as of January 1st 2011.

   Other provisions of the Agreement remain unchanged The estimated value of the Agreement over a period of five years amounts to approximately PLN 4.94bn.