PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31ST 2009

CONTENTS

Members of the Management Board

President of the Management Board	Michał Szubski	....
Vice-President of the Management Board	Mirosław Dobrut	....
Vice-President of the Management Board	Radosław Dudziński	....
Vice-President of the Management Board	Sławomir Hinc	....
Vice-President of the Management Board	Mirosław Szkałuba	....
Vice-President of the Management Board	Waldemar Wójcik	....

Warsaw, March 3rd 2010

FINANCIAL HIGHLIGHTS
for the year ended December 31st 2009

	PLN		EUR	
	Jan 1–Dec 31 2009	Jan 1–Dec 31 2008	Jan 1–Dec 31 2009	Jan 1–Dec 31 2008
I. Sales revenue	19,290,441	18,432,048	4,444,188	5,218,439
II. Operating profit\loss	1,333,773	800,678	307,278	226,686
III. Pre-tax profit\loss	1,442,103	935,366	332,236	264,819
VI. Net profit\loss attributable to owners of the parent	1,201,959	865,297	276,911	244,981
V. Net profit\loss	1,203,606	865,742	277,290	245,107
VI. Comprehensive income attributable to owners of the parent	1,215,680	814,821	280,072	230,690
VII. Total comprehensive income	1,217,327	815,266	280,451	230,816
VIII. Net cash provided by/(used in) operating activities	2,554,924	1,492,920	588,611	422,672
IX. Net cash provided by/(used in) investing activities	(3,637,658)	(2,208,895)	(838,054)	(625,377)
X. Net cash provided by/(used in) financing activities	858,187	551,970	197,712	156,272
XI. Total net cash flow	(224,547)	(164,005)	(51,732)	(46,433)
XII. Net profit/(loss) and diluted net earnings/(loss) per share attributable to owners of the parent (PLN/EUR)	0.20	0.15	0.05	0.04
	As at Dec 31 2009	As at Dec 31 2008	As at Dec 31 2009	As at Dec 31 2008
XIII. Total assets	31,082,170	29,745,277	7,565,885	7,129,057
XIV. Liabilities and provisions for liabilities	9,680,122	9,029,352	2,356,293	2,164,067
XV. Non-current liabilities	3,779,920	4,058,629	920,092	972,732
XVI. Current liabilities	5,900,202	4,970,723	1,436,201	1,191,335
XVII. Equity	21,402,048	20,715,925	5,209,592	4,964,990
XVIII. Share capital	5,900,000	5,900,000	1,436,152	1,414,054
XIX. Weighted average number of shares ('000)	5,900,000	5,900,000	5,900,000	5,900,000
XX. Book value per share and diluted book value per share (PLN / EUR)	3.63	3.51	0.88	0.84
XXI. Dividend per share declared or paid (PLN / EUR)	0.09	0.19	0.02	0.05

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 2009	Dec 31 2008
Average exchange rate for the period	4.3406	3.5321
Exchange rate at end of the period	4.1082	4.1724

CONSOLIDATED INCOME STATEMENT
for the period ended December 31st 2009

	Note	Jan 1–Dec 31 2009	Jan 1–Dec 31 2008
		(PLN '000)	
Sales revenue	**3**	**19,290,441**	**18,432,048**
Raw and other materials used	4	(11,418,994)	(11,631,681)
Employee benefits	4	(2,454,298)	(2,161,954)
Depreciation and amortisation		(1,496,212)	(1,424,944)
Contracted services	4	(3,067,370)	(2,789,154)
Cost of products and services for own needs		900,131	739,034
Other operating expenses, net	4	(419,925)	(362,671)
Total operating expenses		**(17,956,668)**	**(17,631,370)**
Operating profit/(loss)		**1,333,773**	**800,678**
Finance income	5	203,315	213,238
Finance expenses	5	(94,626)	(78,771)
Share in profit/(loss) of undertakings valued with equity method	6	(359)	221
Pre-tax profit/(loss)		**1,442,103**	**935,366**
Corporate income tax	7	(238,497)	(69,624)
Net profit/(loss)		**1,203,606**	**865,742**
Attributable to:			
equity holders of the parent		1,201,959	865,297
minority interests		1,647	445
Profit/loss and diluted profit/loss per share attributable to ordinary shareholders of the parent	9	0.20	0.15

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period ended December 31st 2009

	Note	Jan 1–Dec 31 2009	Jan 1–Dec 31 2008
		(PLN '000)	
Net profit/(loss)		**1,203,606**	**865,742**
Currency translation differences on foreign operations		(12,102)	(8,849)
Valuation of hedging instruments		-	-
Valuation of financial instruments		31,880	(50,320)
Deferred tax related to other comprehensive income		(6,057)	9,561
Other		-	(868)
Other comprehensive net income/(loss)		**13,721**	**(50,476)**
Total comprehensive income		**1,217,327**	**815,266**
Attributable to:			
Equity holders of the parent		1,215,680	814,821
Minority interests		1,647	445

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31st 2009

	Note	Dec 31 2009	Dec 31 2008
		(PLN '000)	
ASSETS			
Non-current assets			
Property, plant and equipment	11	22,888,917	20,587,027
Investment property	12	7,480	8,181
Intangible assets	13	173,459	151,721
Investments in associated undertakings valued with equity method	6	556,523	556,882
Financial assets available for sale	14	89,789	42,935
Other financial assets	15	299,879	676,634
Deferred tax asset	16	599,893	514,867
Other non-current assets	17	49,373	35,343
Total non-current assets		**24,665,313**	**22,573,590**
Current assets			
Inventories	18	1,258,870	1,721,259
Trade and other receivables	19	3,680,039	3,716,923
Current income tax receivable	20	199,413	59,614
Prepayments and accrued income	21	55,253	70,262
Financial assets available for sale	22	7,467	6,495
Derivative financial instruments	36	18,002	174,186
Cash and cash equivalents	23	1,196,325	1,421,939
Non-current assets held for sale	24	1,488	1,009
Total current assets		**6,416,857**	**7,171,687**
Total assets		**31,082,170**	**29,745,277**
EQUITY AND LIABILITIES			
Equity			
Share capital	26	5,900,000	5,900,000
Currency translation differences on foreign operations		(51,162)	(39,060)
Share premium account		1,740,093	1,740,093
Other capital reserves		11,455,447	10,729,053
Retained earnings/(losses)		2,347,193	2,376,809
Equity (attributable to equity holders of the parent)		**21,391,571**	**20,706,895**
Equity attributable to minority interests		10,477	9,030
Total equity		**21,402,048**	**20,715,925**
Non-current liabilities			
Loans, borrowings and debt securities	27	44,086	41,055
Provisions	28	1,315,759	1,501,939
Deferred income	29	1,132,997	1,139,332
Deferred tax liability	30	1,268,432	1,352,241
Other non-current liabilities	31	18,646	24,062
Total non-current liabilities		**3,779,920**	**4,058,629**
Current liabilities			
Trade and other payables	32	2,733,417	3,222,540
Loans, borrowings and debt securities	27	1,984,077	871,755
Liabilities under derivative financial instruments	35	260,428	16,723
Current tax liability	20	47,409	47,552
Provisions	28	240,240	173,382
Deferred income	29	634,631	638,771
Total current liabilities		**5,900,202**	**4,970,723**
Total liabilities		**9,680,122**	**9,029,352**
Total equity and liabilities		**31,082,170**	**29,745,277**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the period ended December 31st 2009

	Note	Jan 1–Dec 31 2009	Jan 1–Dec 31 2008
		(PLN '000)	
Cash flows from operating activities			
Net profit/(loss)		1,203,606	865,742
Adjustments:			
Share in net profit/(loss) of undertakings valued with equity method		359	(221)
Depreciation and amortisation		1,496,212	1,424,944
Net foreign exchange gains/(losses)		(248,944)	43,521
Net interest and dividend		12,727	(141,569)
Profit/(loss) on investing activities		(211,674)	(83,701)
Current income tax		238,497	69,624
Income tax paid		(556,033)	(609,555)
Other items, net	33	684,638	(105,779)
Net cash provided by/(used in) operating activities before changes in working capital		**2,619,388**	**1,463,006**
Change in working capital:			
Change in receivables, net	33	61,810	(501,898)
Change in inventories	33	462,389	(505,236)
Change in provisions	33	(8,111)	38,555
Change in current liabilities	33	(570,873)	861,225
Change in prepayments	33	979	(10,948)
Change in deferred income	33	(10,658)	148,216
Net cash provided by/(used in) operating activities		**2,554,924**	**1,492,920**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		23,936	21,048
Sale of shares in non-consolidated undertakings		137	-
Sale of short-term securities		12,108	73,682
Acquisition of property, plant and equipment and intangible assets		(3,840,760)	(2,579,468)
Acquisition of shares in non-consolidated undertakings		(5,098)	(78,000)
Acquisition of short-term securities		(5,000)	-
Interest received		47,168	135,164
Dividend received		8,287	4,770
Proceeds from financed lease		40,111	92,840
Other items, net		81,453	121,069
Net cash provided by/(used in) investing activities		**(3,637,658)**	**(2,208,895)**
Cash flows from financing activities			
Net proceeds from issue of shares, other equity instruments and additional contributions to equity		-	-
Increase in loans and borrowings		1,178,927	807,316
Issue of debt securities		-	-
Decrease in loans and borrowings		(66,618)	(37,469)
Redemption of debt securities		-	-
Decrease in financed lease liabilities		(36,380)	(34,825)
Inflows from derivative financial instruments		-	-
Outflows on derivative financial instruments		-	-
Dividend paid		(148,501)	(171,006)
Interest paid		(67,888)	(9,737)
Other items, net		(1,353)	(2,309)
Net cash provided by/(used in) financing activities		**858,187**	**551,970**
Net change in cash		**(224,547)**	**(164,005)**
Net foreign exchange gains/(losses)		(1,067)	2,309
Cash and cash equivalents at beginning of period		**1,420,863**	**1,584,868**
Cash and cash equivalents at end of period		**1,196,316**	**1,420,863**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended December 31st 2009

	Equity (attributable to equity holders of the parent)						Equity attributable to minority interests	Total equity
	Share capital	Currency translation differences on foreign operations	Share premium account	Other capital reserves	Retained earnings (losses)	**Total**		
	(PLN '000)							
As at Jan 1 2009	**5,900,000**	**(39,060)**	**1,740,093**	**10,729,053**	**2,376,809**	**20,706,895**	**9,030**	**20,715,925**
Transfers	-	-	-	700,571	(700,575)	**(4)**	4	**-**
Payment of dividend to shareholders	-	-	-	-	(531,000)	**(531,000)**	(204)	**(531,204)**
Comprehensive income for 2009	-	(12,102)	-	25,823	1,201,959	**1,215,680**	1,647	**1,217,327**
As at Dec 31 2009	**5,900,000**	**(51,162)**	**1,740,093**	**11,455,447**	**2,347,193**	**21,391,571**	**10,477**	**21,402,048**
As at Jan 1 2008	**5,900,000**	**(44,525)**	**1,740,093**	**3,478,081**	**9,939,427**	**21,013,076**	**8,689**	**21,021,765**
Transfers	-	14,314	-	7,291,731	(7,306,045)	**-**	-	**-**
Payment of dividend to shareholders	-	-	-	-	(1,121,000)	**(1,121,000)**	(106)	**(1,121,106)**
Comprehensive income for 2008	-	(8,849)	-	(40,759)	864,427	**814,819**	447	**815,266**
As at Dec 31 2008	**5,900,000**	**(39,060)**	**1,740,093**	**10,729,053**	**2,376,809**	**20,706,895**	**9,030**	**20,715,925**

CONSOLIDATED FINANCIAL STATEMENTS – ADDITIONAL INFORMATION
as at December 31st 2009

1. GENERAL INFORMATION

1.1. Company Name, Core Business and Key Registry Data

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

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

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

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

The PGNiG Group remains the only vertically integrated company in the Polish gas sector, holding the leading position in all segments of the domestic gas sector. Polskie Górnictwo Naftowe i Gazownictwo S.A. is the parent company of the Group.

The scope of the PGNiG Group's business comprises oil and gas exploration, oil and gas extraction from fields in Poland, as well as import, storage and distribution of and trade in gas fuels. The PGNiG Group is both the main importer of gas fuel from Russia, Central Asia, Norway and Germany, and the main producer of natural gas from Polish fields. Natural gas and crude oil production are among the key factors ensuring the Company a competitive position on the liberalised gas market.

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

1.2. Duration of the PGNiG Group

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

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

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

1.3. Period Covered by these Consolidated Financial Statements

These consolidated financial statements cover the period from January 1st to December 31st 2009, whereas the comparable data cover the period from January 1st to December 31st 2008.

(PLN '000)

1.4. Indication whether These Consolidated Financial Statements Contain Aggregated Data

These financial statements contain the aggregated data of the Parent Undertaking, twenty three subsidiary undertakings (including one indirect subsidiary), one associated undertaking and one co-subsidiary.

1.5. Organisation of the PGNiG Group and Its Consolidated Undertakings

As at December 31st 2009, the PGNiG Group comprised PGNiG S.A., as the Parent Undertaking, and 35 production and service companies, including:

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

The following table presents the list of the PGNiG Group members as at December 31st 2009

Companies of the PGNiG Group

	Company	Share capital (PLN)	Value of shares held by PGNiG S.A. (PLN)	% of share capital held by PGNiG S.A.	% of votes held by PGNiG S.A.
	PGNiG S.A.'s subsidiaries				
1	Poszukiwania Nafty i Gazu Jasło Sp. z o.o.	100,000,000.00	100,000,000.00	100.00%	100.00%
2	Poszukiwania Nafty i Gazu Kraków Sp. z o.o.	105,231,000.00	105,231,000.00	100.00%	100.00%
3	Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.	60,000,000.00	60,000,000.00	100.00%	100.00%
4	GEOFIZYKA Kraków Sp. z o.o.	64,400,000.00	64,400,000.00	100.00%	100.00%
5	GEOFIZYKA Toruń Sp. z o.o.	66,000,000.00	66,000,000.00	100.00%	100.00%
6	Poszukiwania Naftowe Diament Sp. z o.o.	62,000,000.00	62,000,000.00	100.00%	100.00%
7	Zakład Robót Górniczych Krosno Sp. z o.o.	26,903,000.00	26,903,000.00	100.00%	100.00%
8	PGNiG Norway AS (NOK)[1)]	951,327,000.00	951,327,000.00	100.00%	100.00%
9	Polish Oil and Gas Company - Libya B.V. (EUR)[1)]	20,000.00	20,000.00	100.00%	100.00%
10	INVESTGAS S.A.	502,250.00	502,250.00	100.00%	100.00%
11	Dolnośląska Spółka Gazownictwa Sp. z o.o.	658,384,000.00	658,384,000.00	100.00%	100.00%
12	Górnośląska Spółka Gazownictwa Sp. z o.o.	1,300,338,000.00	1,300,338,000.00	100.00%	100.00%
13	Karpacka Spółka Gazownictwa Sp. z o.o.	1,484,953,000.00	1,484,953,000.00	100.00%	100.00%
14	Mazowiecka Spółka Gazownictwa Sp. z o.o.	1,255,800,000.00	1,255,800,000.00	100.00%	100.00%
15	Pomorska Spółka Gazownictwa Sp. z o.o.	614,696,000.00	614,696,000.00	100.00%	100.00%
16	Wielkopolska Spółka Gazownictwa Sp. z o.o.	1,033,186,000.00	1,033,186,000.00	100.00%	100.00%
17	B.S. i P.G. Gazoprojekt S.A.	4,000,000.00	3,000,000.00	75.00%	75.00%
18	BUG Gazobudowa Sp. z o.o.	39,220,000.00	39,220,000.00	100.00%	100.00%
19	Zakład Urządzeń Naftowych Naftomet Sp. z o.o.	23,500,000.00	23,500,000.00	100.00%	100.00%
20	Geovita Sp. z o.o.	86,139,000.00	86,139,000.00	100.00%	100.00%
21	Budownictwo Naftowe Naftomontaż Sp. z o.o.	44,751,000.00	39,751,000.00	88.83%	88.83%
22	Górnictwo Naftowe Sp. z o.o.	50,000.00	50,000.00	100.00%	100.00%
23	NYSAGAZ Sp. z o.o.	6,800,000.00	3,468,000.00	51.00%	51.00%
24	ZRUG Sp. z o.o. (Pogórska Wola)	4,300,000.00	4,300,000.00	100.00%	100.00%
25	BUD-GAZ PPUH Sp. z o.o.	51,760.00	51,760.00	100.00%	100.00%
26	PPUiH TURGAZ Sp. z o.o. in liquidation	176,000.00	90,000.00	51.14%	51.14%
27	PGNiG Energia S.A.	5,000,000.00	5,000,000.00	100.00%	100.00%
	PGNiG S.A.'s indirect subsidiaries				
28	GEOFIZYKA Kraków Libya JSC (LYD)[1)]	1,000,000.00[2)]	600,000.00	60.00%	60.00%
29	Geofizyka Torun Kish Ltd (Rial) [1)]	10,000,000.00	10,000,000.00[3)]	100.00%	100.00%
30	Oil Tech International F.Z.E. (USD) [1)]	20,000.00	20,000.00	100.00%	100.00%
31	Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła)	1,806,500.00	1,806,500.00	100.00%	100.00%
32	GAZ Sp. z o.o. (Błonie)	300,000.00	153,000.00	51.00%	51.00%
33	GAZ MEDIA Sp. z o.o. (Wołomin)	300,000.00	153,000.00	51.00%	51.00%
34	NAFT-STAL Sp. z o.o.	667,500.00	450,000.00	67.40%	67.40%
35	Powiśle Park Sp. z o.o. (Warsaw)	81,131,000.00	81,131,000.00	100.00%	100.00%

[1)] Figures shown in foreign currencies.

[2)] Paid-in share capital of LYD 300,000.00, of which LYD 180,000.00 was paid in by GEOFIZYKA Kraków Sp. z o.o.

[3)] Share capital not paid in.

(PLN ‘000)

Consolidated Undertakings of the Group as at the End of 2009

Company	Country	% of share capital held	
		Dec 31 2009	Dec 31 2008
Subsidiaries			
GK GEOFIZYKA Kraków [2]	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 [3]	Poland	100.00%	100.00%
Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.	Poland	100.00%	100.00%
Zakład Robót Górniczych Krosno Sp. z o.o.	Poland	100.00%	100.00%
Poszukiwania Naftowe Diament Sp. z o.o.	Poland	100.00%	100.00%
PGNiG Norway AS	Norway	100.00%	100.00%
Polish Oil And Gas Company – Libya B.V.	The Netherlands	100.00%	100.00%
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Górnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Karpacka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
GK Mazowiecka Spółka Gazownictwa [4]	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%
BUG Gazobudowa Sp. z o. o. Zabrze	Poland	100.00%	100.00%
Budownictwo Naftowe Naftomontaż Sp. z o.o.	Poland	88.83%	88.83%
Zakład Urządzeń Naftowych Naftomet Sp. z o.o.	Poland	100.00%	100.00%
B.S. i P.G. Gazoprojekt S.A.	Poland	75.00%	75.00%
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%	-
Subsidiary of subsidiary BN Naftomontaż Krosno Sp. z o. o.			
NAFT-STAL Sp. z o.o.	Poland	59.88%	59.88%
Jointly-controlled and associated undertakings valued with equity method			
SGT EUROPOL GAZ S.A. [1]	Poland	49.74%	49.74%
GAS - TRADING S.A.	Poland	43.41%	43.41%

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

[2] The GEOFIZYKA Kraków Group comprises Geofizyka Kraków Sp. z o.o. and its subsidiary – GEOFIZYKA Kraków Libya JSC.

[3] 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.

[4] The Mazowiecka Spółka Gazownictwa Group comprises Mazowiecka Spółka Gazownictwa Sp. z o.o. and its subsidiary, Powiśle Park Sp. z o.o., which has been consolidated since Q1 2009.

1.6. Changes in the Group’s Structure, Including Changes Resulting from Mergers, Acquisitions or Disposals of the Group Undertakings, as well as Long-Term Investments, Demergers, Restructuring or Discontinued Operations

In 2009, the main changes in the structure of the PGNiG Group included:

- Registration with the National Court Register of a share capital increase (effected in 2008) at Wielkopolska Spółka Gazownictwa Sp. z o.o. by PLN 54,899 thousand, to PLN 1,033,186 thousand. The increase was entered in the National Court Register on January 22nd 2009; the newly issued shares were acquired by PGNiG S.A. in exchange for a contribution of non-current assets comprising the components of a transmission or distribution network.

- Share capital increase at Dolnośląska Spółka Gazownictwa Sp. z o.o. by PLN 3,321 thousand, to PLN 658,384 thousand. The increase was entered in the National Court Register on May 12th 2009.

- Share capital increase at Mazowiecka Spółka Gazownictwa Sp. z o.o. by PLN 4,062 thousand, to PLN 1,255,800 thousand. The increase was entered in the National Court Register on May 11th 2009.

- Registration with the National Court Register of a PLN 10,808 thousand share capital increase (effected in 2008) and a PLN 850 thousand share capital increase at Górnośląska Spółka Gazownictwa Sp. z o.o, to PLN 1,300,338 thousand. The PLN 10,808 thousand share capital increase was entered in the National Court Register on June 22nd 2009, while the PLN 850 thousand share capital increase was not entered in the National Court Register as at December 31st 2009 (it was entered in the National Court Register on January 4th 2010). The newly issued shares were acquired by PGNiG S.A. in exchange for a contribution of non-current assets comprising the components of a transmission or distribution network.

- Share capital increase at NYSAGAZ Sp. z o.o. by PLN 3,100 thousand (the Group's contribution was PLN 1,581 thousand), to PLN 6,800 thousand; the increase was entered in the National Court Register on September 16th 2009.

- Share capital increase at PGNiG Norway AS by NOK 454,000 thousand or PLN 224,548 thousand (translated at the exchange rate quoted by the National Bank of Poland on September 28th 2009), to NOK 951,327 thousand. The share capital increase was registered by the competent court on November 5th 2009.

- On December 7th 2009, PGNiG Energia S.A. w organizacji (in organistion) was established; the company's share capital amounts to PLN 5,000 thousand and is divided into 50,000 shares with a par value of PLN 100 per share. All the shares were acquired by PGNiG S.A. As at December 31st 2009, the company was not entered in the National Court Register (it was registered on January 11th 2010).

- In 2009, Mazowiecka Spółka Gazownictwa Sp. z o.o. and Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A. established a special purpose vehicle operating under the name Powiśle Park Sp. z o.o. of Warsaw, which has been designated to construct MSG Sp. z o.o.'s head office as well as residential apartments and office and commercial space for sale. The company was established for the period required to complete the investment project. The share capital of the company amounts to PLN 78,131 thousand. MSG Sp. z o.o. acquired 76,131 shares in the company's share capital, with a par value of PLN 1,000 per share, for a total of PLN 76,131 thousand, while B.S. i P.G. Gazoprojekt S.A. acquired 2,000 shares in the company's share capital, with a par value of PLN 1,000 per share, for a total of PLN 2,000 thousand. Powiśle Park Sp. z o.o. was entered in the National Court Register on March 18th 2009.

- On December 17th 2009, the Extraordinary General Shareholders Meeting of Powiśle Park Sp. z o.o. adopted a resolution on a share capital increase by PLN 3,000 thousand, to PLN 81,131 thousand, by way of issuing 3,000 new shares with a par value of PLN 1,000 per share; the newly issued shares were acquired by B.S. i P.G. Gazoprojekt S.A. and paid up with a cash contribution. As a result, Mazowiecka Spółka Gazownictwa Sp. z o.o.'s share in the share capital of Powiśle Park Sp. z o.o. fell to 93.8%, whereas B.S. i P.G. Gazoprojekt S.A.'s share rose to 6.2%. Until the date of these financial statements, the share capital increase has not been entered in the National Court Register.

Other changes in the size of PGNiG S.A.'s shareholding in the Group companies were related to the following transactions:

- On March 12th 2009, POGC-Libya BV and PGNiG S.A. concluded a contribution agreement whereby PGNiG S.A. undertook to make an additional payment for shares of EUR 47,500 thousand. On the same day, the companies executed an annex to the loan agreement of June 18th 2008 which sets forth new arrangements as to the loan maturity date and the repayment currency. Under the agreement and the annex referred to above, on the date of their execution a portion of the amount payable by PGNiG S.A. under its obligation to make the additional payment was set off against the amount owed by POGC-Libya BV under the loan (principal plus interest). The balance of additional payment was paid in three instalments. The first instalment of EUR 11,603 thousand was paid on March 19th 2009, while the second and third instalments, EUR 10,000 thousand each, were paid on July 1st 2009 and October 1st 2009, respectively;

- On April 22nd 2009, the Extraordinary General Shareholders Meeting of PPUiH TURGAZ Sp. z o.o. adopted a resolution to dissolve the company and place it in liquidation;

- On August 31st 2009, the court issued a decision on the deletion of TENET 7 Sp. z o.o. (in liquidation) from the Register of Entrepreneurs of the National Court Register;

- On September 24th 2009, the Extraordinary General Shareholders Meeting of Agencja Rozwoju Regionalnego Karpaty S.A. resolved to dissolve and liquidate the company;

- Under an agreement of October 23rd 2009, PGNiG S.A. disposed of 10 shares in Agencja Rozwoju Pomorza S.A. of Gdańsk to the Gdańsk Province authorities; the value of the transaction PLN 132.1 thousand. The shares accounted for 0.64% of the company's share capital. The ownership rights to the shares were transferred to the purchaser on October 30th 2009;

- A share capital increase at IZOSTAL S.A. by PLN 12,000 thousand, to PLN 41,488 thousand. The increase was entered in the National Court Register on December 18th 2009. PGNiG S.A. did not participate in the share capital increase, so its share in the share capital fell to 3.28%.

1.7. 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 annualised average headcount exceeds 500, the Supervisory Board appoints one person elected by the Issuer's employees to serve on the Management Board during its term.

As at December 31st 2008, PGNiG S.A.'s Management Board was composed of six members:

- Michał Szubski – President of the Management Board
- Mirosław Dobrut - Vice-President for Gas and Trade,
- Radosław Dudziński - Vice-President for Strategy,
- Sławomir Hinc - Vice-President for Finance,
- Mirosław Szkałuba - Vice-President for Social Dialogue and Assets,
- Waldemar Wójcik - Vice-President for Oil Mining.

The following change in the composition of PGNiG S.A.'s Management Board occurred in 2009:

At the meeting held on January 28th 2009, the Supervisory Board of PGNiG S.A. appointed Waldemar Wójcik as a member of the Management Board.

From December 31st 2009 to the date of these financial statements there have been no changes in the composition of the Management Board of PGNiG S.A.

1.8. Proxies

As at December 31st 2009, the following persons served as proxies for PGNiG S.A.:

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

The following changes regarding proxies for PGNiG S.A. occurred in 2009:

On February 14th 2009, the Management Board of PGNiG S.A. revoked the powers of proxy granted to Waldemar Wójcik and Marek Dobryniewski, and appointed Tadeusz Kulczyk and Zbigniew Król as proxies.

On April 28th 2009, the Management Board of PGNiG S.A. revoked the powers of proxy granted to Zbigniew Król and appointed Mieczysław Jankiel as proxy.

On December 31st 2009, the powers of proxy granted to Stanisław Radecki were revoked.

From December 31st 2009 to the date of these financial statements there have been no changes regarding proxies for PGNiG S.A.:

As at the date of these financial statements, the following persons served as proxies for PGNiG S.A.:

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

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

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

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

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

1) He or she should be elected in accordance with the procedure set forth in Par. 36.3 of PGNiG S.A.'s Articles of Association;
2) He or she may not be a Related Party or a Subsidiary of the Company or any of its 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 such person's 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 post of a Supervisory Board member who satisfies these criteria may be submitted to the Chairman of the General Shareholders Meeting by the shareholders present at the General Shareholders Meeting whose agenda includes the election of such Supervisory Board member. If there are no candidates for the position of an independent Supervisory Board member proposed by the shareholders, candidates to the Supervisory Board who satisfy the criteria defined above are put forward 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 2009, the Supervisory Board was composed of eight 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,
- Marek Karabuła – Member of the Supervisory Board,
- Mieczysław Puławski – Member of the Supervisory Board,
- Jolanta Siergiej – Member of the Supervisory Board.

In 2009, the following change occurred in the composition of the Supervisory Board of PGNiG S.A.:

On June 16th 2009, Maciej Kaliski resigned from his position as Member of the Supervisory Board of PGNiG S.A.

From December 31st 2009 to the date of these financial statements, there have been no changes in the composition of PGNiG S.A.'s Supervisory Board.

(PLN '000)

1.10. Shareholder Structure of PGNiG S.A.

As at December 31st 2009, PGNiG S.A.'s shareholder structure was as follows:

Shareholder	Registered office	Number of shares	% share capital held	% of voting rights held
State Treasury	Warsaw	4,303,686,368	72.94%	72.94%
Other	-	1,596,313,632	27.06%	27.06%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**

1.11. Going-Concern Assumption

These consolidated financial statements were prepared based on the assumption that the Group members would continue as going concerns in the foreseeable future. As at the date of approval of these financial statements, there are no circumstances which would indicate any threat to the continuation of their businesses.

1.12. Mergers of Commercial-Law Companies

There were no mergers of the Parent Undertaking and the Group companies with any other commercial-law companies.

11.13. Approval of the Financial Statements

These financial statements will be submitted to the Parent Undertaking's Management Board for disclosure approval on March 22nd 2010.

2. INFORMATION ON THE APPLIED ACCOUNTING POLICIES

2.1. Basis for the Preparation of the Consolidated Financial Statements

These financial statements were prepared in accordance with the historical cost convention with the exception of financial assets available for sale, financial derivatives which were measured at fair value, and loans and receivables measured at adjusted acquisition price.
The data disclosed in these consolidated financial statements are expressed in the złoty (PLN), while all values, unless indicated otherwise, are expressed in thousands of złoty (PLN '000). Differences, if any, between the total amounts and the sum of particular items are due to rounding off.

2.1.1. Compliance Statement

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union as at December 31st 2009. According to IAS 1 *Presentation of Financial Statements*, the IFRSs comprise the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).
The scope of information disclosed in these consolidated financial statements is consistent with the provisions of the IFRS and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. No. 33, item 259).

2.1.2. Consolidation Methods

The consolidated financial statements comprise the financial statements of PGNiG S.A. as the parent undertaking and the financial statements of companies controlled by the parent undertaking (or by subsidiary undertakings of the parent undertaking), prepared as at December 31st 2009, with the exception of the subsidiaries whose effect on the consolidated financial statements would not be material.

Subsidiary undertakings are consolidated with full method from the acquisition date, which is the date of assuming control over the company, until the date of the loss of control over the subsidiary. Whether a given company is controlled by the parent undertaking is determined on the basis of the ability of the parent undertaking to exercise influence on the financial and operational policies of the subsidiary in order to derive benefits from its operations. As at the acquisition date, assets, equity and liabilities of the acquired undertaking are valued at fair value. Excess of the acquisition cost over fair value of the identifiable acquired net assets is disclosed as goodwill. If the acquisition cost is lower than fair value of the identifiable acquired net assets, the difference is disclosed as profit in the income statement for the period in which the acquisition took place.
Minority interests represent the portion of profit or loss and net assets that are not held by the Group. Minority interests are presented in separate items of the income statement, the statement of comprehensive income and the statement of changes in equity.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent undertaking, with the use of consistent accounting policies. If necessary, the financial statements of subsidiaries or associated undertakings are adjusted to ensure that the accounting rules applied by a given undertaking are the same as those applied by the parent undertaking.

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

Net profit (loss) of undertakings acquired or sold during the year is disclosed in the consolidated financial statements from the acquisition date to the disposal date. If the parent undertaking loses control over a subsidiary undertaking, the consolidated financial statements include the results for the part of the year covered by the financial statements in which the Group still held such control.

2.2. Changes in Applied Accounting Policies and Changes to the Scope of Disclosure

2.2.1. First-Time Adoption of Standards and Interpretations

In the current year, the Group has adopted all the new and updated standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee presented below, which have been endorsed by the EU, apply to the

Group's business and are effective for annual reporting periods beginning on or after January 1st 2009.

- IFRS 8 *Operating Segments* – endorsed by the EU on November 21st 2007 (effective for annual periods beginning on or after January 1st 2009)
- Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* – endorsed by the EU on January 23rd 2009 (effective for annual periods beginning on or after January 1st 2009)
- Amendments to IFRS 4 *Insurance Contracts* and IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* – endorsed by the EU on November 27th 2009 (effective for annual periods beginning on or after January 1st 2009)
- IFRS (2008) *Amendments to International Financial Reporting Standards* – amendments made as part of the process of making annual improvements to the Standards, published on May 22nd 2008 (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41), aimed chiefly at eliminating any inconsistencies and clarification of wording – endorsed by the EU on January 23rd 2009 (most of the amendments are effective for annual periods beginning on or after January 1st 2009)
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* – endorsed by the EU on January 21st 2009 (effective for annual periods beginning on or after January 1st 2009)
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets – Effective Date and Transition* – endorsed by the EU on September 9th 2009 (effective as of July 1st 2008)
- IAS 1 (revised) *Presentation of Financial Statements – A Revised Presentation* – endorsed by the EU on December 17th 2008 (effective for annual periods beginning on or after January 1st 2009)
- IAS 23 (revised) *Borrowing Costs* – endorsed by the EU on December 10th 2008 (effective for annual periods beginning on or after January 1st 2009)
- Amendments to IFRS 2 *Share-Based Payment – Vesting Conditions and Cancellations* – endorsed by the EU on December 16th 2008 (effective for annual periods beginning on or after January 1st 2009)
- Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* (effective for annual periods ending on or after June 30th 2009)
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* – endorsed by the EU on June 1st 2007 (effective for annual periods beginning on or after March 1st 2008)
- IFRIC 13 *Customer Loyalty Programmes* – endorsed by the EU on December 16th 2008 (effective for annual periods beginning on or after January 1st 2009)
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – endorsed by the EU on December 16th 2008 (effective for annual periods beginning on or after January 1st 2009)

With the exception of revised IAS 1 and revised IAS 23, the application of the above standards and interpretations has not caused any material changes in the Group's accounting policy and in the presentation of its financial statements.

Application of the Revised IAS 1

Amendment to IAS 1 *Presentation of Financial Statements* covers changes in terminology in the primary financial statements and changes in disclosure of the balance sheet, the income statement and the statement of changes in equity.

In connection with the application of the amended IAS 1, the consolidated statement of changes in equity in these consolidated financial statements discloses only transactions with owners. Other items are presented separately in the consolidated statement of comprehensive income.

(PLN '000)

Furthermore, the Group introduced the following changes in the primary financial statements:

Previous name	Present name
Income statement	Income statement*
-	Statement of comprehensive income*
Balance sheet	Statement of financial position
Cash flow statement	Statement of cash flows
Statement of changes in equity	Statement of changes in equity

*The Group decided to present two separate statements: the income statement and the statement of comprehensive income.

In connection with the change of the balance sheet name, the term "carrying amount" was renamed as "net book value".

Application of the Revised IAS 23

Beginning from January 1st 2009, the borrowing costs directly attributable to the acquisition, production or construction of a qualifying asset are capitalised as a part of cost of the asset. Until the end of 2008, in line with the model recommended in IAS 23 the Group recognised borrowing costs as expense in the period in which they were incurred. As of January 1st 2009, the Group capitalises borrowing costs. In 2009, the capitalised borrowing costs amounted to PLN 22.9m.

Application of IFRS 8

On January 1st 2009, IFRS 8 *Operating Segments* replaced IAS 14 *Segment Reporting*. IFRS 8 requires the disclosure of information on the Group's operating segments based on internal reports reviewed by Chief Operating Decision Makers and used for making decisions on the allocation of resources and assessment of the segments' performance. Published amounts should correspond to the amounts included in the internal reports for the Chief Operating Decision Makers and they need not follow the IFRS. IAS 14 required the disclosure of information on business and geographical segments.

The structure of the PGNiG Group's operations is divided into four segments:

- Exploration and Production Segment
- Trade and Storage Segment
- Distribution Segment
- Other Activities Segment

For a detailed description of the business segments, allocation of subsidiaries to the segments and key financial data of the individual segments see the Directors' Report on the Group's Operations.

There have been no changes in the identification of reporting segments since the publication of the latest annual financial statements.

The Group performs an assessment of the segments' performance based on revenue, capital expenditure, EBIT, and EBITDA. Revenue and capital expenditure are measured as in the consolidated financial statements. In accordance with the IFRS, EBIT and EBITDA are not a formal measure of financial performance. EBIT is the operating profit and EBITDA is the operating profit before depreciation and amortisation and reversal/recognition of impairment losses on goodwill and other non-current assets. The Group's finances and income tax (though the Group formally is not a group for tax purposes) are managed centrally for the entire Group and are not allocated to the operating segments. For the financial information on the operating segments which is used by the Chief Operating Decision Makers to assess the segments see Note 3 of this Report.

2.2.2. Standards and Interpretations Published and Endorsed for Use in the EU but not yet Effective

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

- 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 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 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 IAS 39 *Financial Instruments: Recognition and Measurement* – endorsed by the EU on September 15th 2009 (effective for annual periods beginning on or after July 1st 2009)
- 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 June 30th 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 Group decided no to apply the standards, changes to standards and interpretations at an earlier date.

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), with the exception of the following standards, amendments and interpretations, which as at December 31st 2009 had not been endorsed for application:

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after January 1st 2013)
- IFRS (2009) *Amendments to International Financial Reporting Standards* – amendments made as part of the process of annual improvements to the Standards, published on April 16th 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16), aimed chiefly at eliminating inconsistencies and clarification of wording (most of the amendments are effective for annual periods beginning on or after January 1st 2010)
- Amendments to *IAS 24 Related Party Disclosures* – simplification of requirements concerning disclosures by state-related entities and clarification of the definition of a related party (effective for annual periods beginning on or after January 1st 2011)
- Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* – Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after January 1st 2010)
- Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* – Limited Exemption for First-time Adopters Concerning Disclosures of Comparable Data Required under IFRS 7 (effective for annual periods beginning on or after July 1st 2010)
- Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* (effective for annual periods beginning on or after January 1st 2010)
- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – prepayments related to minimum funding requirements (effective for annual periods beginning on or after January 1st 2011)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods ending on or after July 1st 2010).

The Group estimates that the above standards, interpretations and amendments to those standards would not have a material bearing on the financial statements if they were applied by the company as at the balance sheet date.

At the same time, the regulations endorsed by the EU do not cover hedge accounting of the portfolio of financial assets or liabilities.

According to the Group's estimates, implementation of hedge accounting policies applicable to financial assets and liabilities portfolios in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* would not have had a material effect on the consolidated financial statements, if endorsed by the EU as at the balance sheet date.

2.3. Accounting Policies

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

2.3.1. Investments in Associated Undertakings

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

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

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

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

2.3.2. Interests in Joint Ventures

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

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

2.3.3. Translation of Items Denominated in Foreign Currencies

The functional currency (measurement currency) and the reporting currency of PGNiG S.A. and its subsidiary undertakings, with the exception of POGC Libya B.V. and PGNiG Norway AS, is the Polish złoty (PLN). The transactions denominated in foreign currencies are initially disclosed at the exchange rate of the functional currency effective as at the transaction date. Cash assets and liabilities denominated in foreign currencies are translated at the exchange rate of the functional currency effective as at the balance sheet date. All foreign exchange gains and losses are charged to the consolidated income statement, except for the foreign exchange gains and losses from the translation of assets, equity and liabilities of foreign undertakings, which, until the disposal of interests in such undertaking, are disclosed directly in equity. Non-cash items valued at their historical cost in foreign currency are translated at the exchange rate effective as at the date of the initial transaction. Non-cash items valued at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.

To hedge against foreign currency risk, the Parent Undertaking enters into forwards and option contracts (see below: accounting policies for derivative financial instruments applied by the Group).

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

2.3.4. Property, Plant and Equipment

Property, plant and equipment include tangible assets and expenditure on assets under construction, which the undertaking is planning to use in its business activity and for administrative purposes for the 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 costs incurred in relation to the production of a tangible asset, including 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 their historical cost). Cost includes 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 third-party financing is also disclosed at cost (see note 2.3.6.).

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

The Group does not increase the net book value of property, plant and equipment items to account for the 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. the 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.

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

Property, plant and equipment, except for land and tangible assets under construction are depreciated using the straight-line method over their estimated economic useful lives:

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

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

2.3.5. Exploration and Evaluation Assets

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

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

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

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

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

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2.3.6. Borrowing Costs

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

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

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

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

The above cost capitalisation policies do not apply to:

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

2.3.7. Investment Property

Investment property is the property (land, building, part of a building, or both) treated by the 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 Group has selected the acquisition cost model to measure its investment property and, after initial recognition, measures all its investment property in line with the requirements of IAS 16 defined for that model, i.e. at cost less accumulated depreciation and impairment losses.

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

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

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

Buildings and structures	2–40 years

2.3.8. Intangible Assets

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

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

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

Research expense is recognised in profit or loss when incurred

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

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

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

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

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

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

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

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

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

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

2.3.9. Leases

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

2.3.9.1. The Group as a Lessor

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

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

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

2.3.9.2. The Group as a Lessee

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

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

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

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

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

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

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

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

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

2.3.11. Financial Assets

Due to their nature and purpose, the Group's financial assets are classified to the following categories:
- financial assets measured at fair value through profit or loss,
- investments held to maturity,
- financial assets available for sale,
- loans and receivables,
- positive valuation of derivatives.

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

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

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

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

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

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

2.3.11.2. Investments Held to Maturity

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

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

- other financial assets.

2.3.11.3. Financial Assets Available for Sale

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

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

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

2.3.11.4. Loans and Receivables

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

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

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

Uncollectible receivables are recognised as loss if deemed unrecoverable. Write-down or cancellation of past due or uncollectible receivables reduces the impairment losses which had been previously recognised on such receivables.
Past due or uncollectible receivables which have been cancelled or written down and with respect to which no impairment losses have been recognised or the impairment losses that have been recognised were lower than full amounts of the receivables, are charged to other operating or finance expenses, as appropriate.

2.3.11.5. Positive Valuation of Derivatives

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

2.3.12. Impairment of Financial Assets

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

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

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

If the amount of impairment loss on financial assets, except for financial instruments held for sale, is reduced, the previously recognised loss is reversed through profit or loss. The reversal does not drive the carrying amount of the financial asset above the amount that would have been the amortised cost of the asset as at the date of reversal had no impairment losses been recognised.
The amount of the impairment loss on investments in equity instruments is not subject to reversal through profit or loss. Any increase in fair value is made after the recognition of impairment loss and disclosed directly in equity.

2.3.13. Hedge Accounting

As of April 1st 2009, the Parent Undertaking started to apply hedge accounting with respect to cash flows related to foreign exchange transactions.

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

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

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

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

2.3.14. Inventories

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

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

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

The gas fuel in the storage facilities is valued 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 valued at the average actual acquisition cost, which comprises costs of purchase of gas fuel from all foreign sources, actual costs of its production from domestic sources, costs of nitrogen removal and costs of its acquisition from other domestic sources.

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

2.3.15. Trade and Other Receivables

Trade receivables are initially recognised at fair value. Following initial recognition, receivables are measured at amortised cost using the effective interest rate method. Measurement differences are charged to profit or loss. The Group does not discount receivables maturing in less than 12 months from the balance sheet date and in cases when 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 created due to their expiry or irrecoverability reduces previously recognised impairment losses on such receivables. Receivables cancelled or written off due to their expiry or irrecoverability with respect to which no impairment losses have been recognised or the impairment losses that have been recognised were lower than the full amounts of receivables, are charged to other operating expenses or finance expenses, as appropriate.

2.3.16. Cash and Cash Equivalents

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

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

2.3.17. Non-Current Assets Held for Sale

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

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

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

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

2.3.18. Equity

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

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

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

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

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

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

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

2.3.19. Bank Loans and Borrowings

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

2.3.20. Provisions

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

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

The Group creates the following provisions:

- provision for well decommissioning costs
- provision for length-of-service awards and retirement severance pays
- provision for gas allowances to former employees
- provision for environmental protection liabilities
- provision for penalties
- provision for potential liability
- other provisions.

2.3.20.1. Provision for Well Decommissioning Costs

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

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

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

The Mine Decommissioning Fund is created based on the Amendment of July 27th 2001 to the Mining and Geological Law. Contributions to the Fund are charged at 10% of the value of the tax depreciation of mining assets in correspondence with other operating expenses.

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

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

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

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

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

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

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

2.3.20.3. Provision for Gas Allowances to Former Employees

The Parent Undertaking pays gas allowances to its former employees who had retired by the end of 1995. This allowance scheme will be in effect until 2010, after which the Parent Undertaking will discontinue to pay the allowances. The provision for the cost of gas allowances is determined in accordance with the actuarial valuation principles applied to estimate the amount of the provision for length-of-service awards and retirement severance pays.

2.3.20.4. Provision for Environmental Protection Liabilities

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

2.3.20.5. Provision for Penalties

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

2.3.20.6. Provision for Potential Liability

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

2.3.20.7. Other Provisions

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

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

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

2.3.21. Accruals and Deferrals

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

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

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

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

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

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

2.3.22. Trade and Other Payables

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

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

2.3.23. Financial Liabilities

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

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

2.3.23.1. Financial Liabilities Measured at Fair Value through Profit and Loss Account

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;
- is a derivative (except for a derivative that is a designated as an effective hedging instrument).

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

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

2.3.23.2. Financial Liabilities Measured at Amortised Cost

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

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

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

The difference between net funding and redemption value is disclosed under finance income or expenses over the term of the loan or borrowing.

2.3.24. Sales Revenue

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

2.3.24.1. Sales of Goods and Products

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

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

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

2.3.24.2. Rendering of Services

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

2.3.24.3. Interest 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.

2.3.24.4. Dividends

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

2.3.24.5. Lease Revenue

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

2.3.25. Government Grants

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

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

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

2.3.26. Employee Benefits

Short-term employee benefits paid by the Group include:

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

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

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

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

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

2.3.27. Income Tax

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

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

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

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

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

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

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

2.3.28. Operating Segments

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

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

b) *Trading and storage*. The segment encompasses the sale of natural gas, either from imports or domestic sources, and operation of underground gas storage facilities for trading purposes. Since the completion of the trading business integration process, the sale of natural gas has been conducted by PGNiG S.A. For the segment’s purposes, three underground gas storage facilities are used: in Mogilno, Wierzchowice and Husów. Work related to the operation and expansion of the said facilities is performed by PGNiG S.A. and INVESTGAS S.A. (a Group member). The segment’s activities comprise the sale of methane-rich and nitrogen-rich gas fed into the transmission and distribution system. Gas trading business is governed by the Energy Law, with prices established on the basis of tariffs approved by the President of URE.

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

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

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

A segment’s liabilities comprise all operating liabilities, including primarily trade payables, salaries and wages, and tax liabilities, both due and accrued, as well as any provisions for liabilities which can be assigned to a particular segment.
A segment’s assets or liabilities do not include deferred tax.
Internal transactions within a segment have been eliminated.
All transactions between the segments are effected based on prices agreed internally.

2.4. Key Reasons for Uncertainty of Estimates

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

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

In 2009 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, the proceedings were pending.

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.

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, held before the Regional Court of Warsaw. By virtue of the ruling of October 31st 2008, the Regional Court dismissed PGNiG S.A.'s action. PGNiG S.A. 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 and 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.

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 held 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 District 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.

In connection with the foregoing, in the 2009 financial statements the Parent Undertaking 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, as well as revalued its provision for potential payable interest, increasing it to PLN 13,017.5 thousand (from PLN 5,459 thousand at the end of 2008).

2.4.2. Impairment of Non-Current Assets

The Group's key operating assets include the mining assets, the transmission infrastructure and gas fuel storage facilities. These assets were tested for impairment. The Group computed and recognised material impairment losses on the assets, based on an assessment of their current and future usefulness or planned decommissioning and sales. All relevant information on the value of the recognised impairment losses is included in Note 11.2.
In the case of the mining assets, there is uncertainty connected with the estimates of natural gas and crude oil resources, on the basis of which the related cash flows are estimated. Any changes in the estimates of the resources directly affect the amount of the impairment losses on the mining assets.
Another significant uncertainty is connected with the risk that the Energy Regulatory Authority might change its decision as to the prices of the gas fuel distribution services. Any change in those prices would materially affect the cash flows at the distribution companies, which could lead to the necessity to remeasure the impairment losses on the distribution assets.

2.4.3. Useful Lives of Tangible Assets

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

2.4.4. Estimating Natural Gas Sales

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

2.4.5. Provision for Decommissioning Costs and Environmental Protection

The provision for well decommissioning costs and other provisions for environmental protection liabilities described in Note 28 represent significant items among the provisions presented in the consolidated financial statements. These provisions are based on the estimates of future decommissioning and restoration costs, which significantly depend on the adopted discount rate and the estimated cash-flow period.

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

As part of measurement of the value of SGT EUROPOL GAZ S.A. shares, the Parent Undertaking tested these shares for impairment, using the discounted cash flow method and relying in its calculations on the data included in SGT EUROPOL GAZ S.A.'s budget for 2006–2019, as discussed in detail in Note 6. The results of the impairment tests show that the value of the shares varies considerably depending on the adopted assumptions as to future cash flows, the adopted discount rate and the estimated cash-flow period, which ultimately may have a material effect on the value of the shares in the future.

2.5. Changes in Presentation of the Financial Statements

Presentation Changes in Business Segment Reporting

Revenue of PLN 313,839 thousand disclosed in the Exploration and Production segment was reclassified and transferred from "Sales to other segments" to "Other costs", with the "Eliminations" column being adjusted accordingly. The change did not affect the profit/(loss) recorded by the segment or any other figures disclosed in the report, but it ensured a clearer view of the revenue and cost structure of the Exploration and Production segment. The reclassified amount represents revenue of the exploration companies in the Exploration segment, but for the production companies it becomes an expense, therefore it should be (and currently it is so indeed) disclosed under "Cost of products and services for own needs" (thus reducing costs) and not as revenue.

Except as described above, the Group made no other changes in presentation of the financial statements.

(PLN '000)

3. OPERATING SEGMENTS

3.1. Reportable Segments

The tables below set forth data on the revenues, costs and profits/losses, as well as the assets, equity and liabilities of the Group's reportable segments for the periods ended December 31st 2009 and December 31st 2008.

Period ended Dec 31 2009	Exploration and production	Trading and storage	Distribution	Other	Eliminations	Total
Income statement						
Sales to external customers	1,865,985	17,157,569	61,571	205,316	-	19,290,441
Sales to other segments	1,335,187	213,004	2,978,692	255,275	(4,782,158)	-
Total segment revenue	3,201,172	17,370,573	3,040,263	460,591	(4,782,158)	19,290,441
Depreciation and amortisation	(621,652)	(141,880)	(722,482)	(10,198)	-	(1,496,212)
Other costs	(2,242,915)	(17,278,701)	(1,272,981)	(429,228)	4,763,369	(16,460,456)
Total segment costs	(2,864,567)	(17,420,581)	(1,995,463)	(439,426)	4,763,369	(17,956,668)
Operating profit/(loss)	**336,605**	**(50,008)**	**1,044,800**	**21,165**	**(18,789)**	**1,333,773**
Net finance expenses						108,689
Share in net profit/(loss) of equity-accounted undertakings		(359)				(359)
Pre-tax profit/(loss)						**1,442,103**
Income tax						(238,497)
Net profit/(loss)	-	-	-	-	-	**1,203,606**
Statement of financial position						
Segment assets	11,062,509	10,200,569	11,039,126	366,061	(2,850,302)	29,817,963
Investments in equity-accounted undertakings		556,523				556,523
Unallocated assets						107,791
Deferred tax asset						599,893
Total assets	**-**	**-**	**-**	**-**	**-**	**31,082,170**
Total equity						21,402,048
Segment liabilities	1,608,413	2,920,963	1,872,373	136,451	(2,850,302)	3,687,898
Unallocated liabilities						4,723,792
Deferred tax liability						1,268,432
Total equity and liabilities	**-**	**-**	**-**	**-**	**-**	**31,082,170**
Other information						
Capital expenditure on property, plant and equipment and intangible assets	(1,913,366)	(779,674)	(1,127,447)	(20,273)	-	**(3,840,760)**
Impairment losses on assets	(891,201)	(1,999,064)	(840,663)	(4,552)	-	**(3,735,480)**
Impairment losses on unallocated assets						**(53,944)**

(PLN '000)

Period ended Dec 31 2008	Exploration and production	Trading and storage	Distribution	Other	Eliminations	Total
Income statement						
Sales to external customers	2,129,205	16,116,182	27,763	158,898	-	18,432,048
Sales to other segments	1,115,876	603,609	3,031,602	205,986	(4,957,073)	-
Total segment revenue	3,245,081	16,719,791	3,059,365	364,884	(4,957,073)	18,432,048
Depreciation and amortisation	(586,439)	(138,558)	(690,721)	(9,226)	-	(1,424,944)
Other costs	(1,740,200)	(17,091,128)	(1,949,933)	(342,970)	4,917,805	(16,206,426)
Total segment costs	(2,326,639)	(17,229,686)	(2,640,654)	(352,196)	4,917,805	(17,631,370)
Operating profit/(loss)	**918,442**	**(509,895)**	**418,711**	**12,688**	**(39,268)**	**800,678**
Net finance expenses						134,467
Share in net profit/(loss) of equity-accounted undertakings		221				221
Pre-tax profit/(loss)						**935,366**
Income tax						(69,624)
Net profit/(loss)	-	-	-	-	-	**865,742**
Statement of financial position						
Segment assets	10,007,258	9,985,923	10,187,503	280,628	(2,004,906)	28,456,406
Investments in equity-accounted undertakings		556,882				556,882
Unallocated assets						217,122
Deferred tax asset						514,867
Total assets						**29,745,277**
Total equity						20,715,925
Segment liabilities	2,966,720	3,433,856	2,194,396	109,959	(2,004,906)	6,700,025
Unallocated liabilities						977,086
Deferred tax liability						1,352,241
Total equity and liabilities						**29,745,277**
Other information						
Capital expenditure on property, plant and equipment and intangible assets	(1,453,750)	(225,258)	(879,372)	(21,088)	-	**(2,579,468)**
Impairment losses on assets	(527,823)	(1,881,643)	(1,406,907)	(5,486)	-	**(3,821,859)**
Impairment losses on unallocated assets						**(53,346)**

(PLN '000)

3.2. Geographical Areas

The Group's business activity focuses on domestic sales (Poland). The revenue from export sales of products, goods for resale and materials to external customers (to other countries) was 4.45% (5.21% in 2008) of the total net revenue from sales of products, goods for resale and materials to external customers.

	Jan 1 - Dec 31 2009	Jan 1 - Dec 31 2008
Domestic sales	18,431,488	17,470,943
High-methane gas	16,167,031	15,007,748
Nitrogen-rich gas	1,281,065	1,343,745
Crude oil	361,609	430,388
Helium	11,623	12,280
Propane-butane gas	36,823	42,578
Gasoline	2,664	2,950
LNG	21,366	20,209
Geophysical and geological services	55,486	124,493
Exploration services	100,996	137,381
Construction and erection	75,946	56,603
Design services	40,784	17,241
Hotel services	36,472	37,054
Other services	193,345	172,933
Other products	19,188	44,758
Materials and goods for resale	27,090	20,582
Export sales	858,953	961,105
High-methane gas	41,212	28,380
Nitrogen-rich gas	-	-
Crude oil	300,025	345,199
Helium	25,449	15,295
Propane-butane gas	-	-
Gasoline	-	-
LNG	-	61
Geophysical and geological services	170,031	236,345
Exploration services	275,880	306,050
Construction and erection	22,766	7,438
Design services	1,804	-
Hotel services	-	-
Other services	9,056	7,832
Other products	11,929	12,803
Materials and goods for resale	801	1,702
Total	**19,290,441**	**18,432,048**

The Group sells its products and services to the following countries: Switzerland, India, Kazakhstan, Germany, Pakistan, Egypt, Thailand, Slovenia, Uganda, Libya, Ukraine, Belgium, Czech Republic, Hungary, Slovakia, Russia, Norway, and Denmark.

The majority of the Group's non-current assets (other than financial instruments) are also located in Poland. The value of non-current assets located abroad as at December 31st 2009 amounted to 10.5% of the total value of assets (7.51% as at December 31st 2008).

	Dec 31 2009	Dec 31 2008
Value of non-current assets other than financial instruments located in Poland	20,647,131	19,189,034
Value of non-current assets other than financial instruments located abroad*	2,422,725	1,557,895
Total	**23,069,856**	**20,746,929**

* As at December 31st 2009, PLN 2,151,133 thousand was attributable to PGNiG Norway AS (PLN 1,260,534 thousand as at the end of 2008).

3.3. Key Customers

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

(PLN '000)

4. OPERATING EXPENSES

4.1. Raw and other materials used

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Cost of gas sold	(10,758,141)	(10,982,923)
Other raw and other materials used	(660,853)	(648,758)
Total	**(11,418,994)**	**(11,631,681)**

4.2. Employee Benefits

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Salaries and wages	(1,815,276)	(1,637,925)
Social security and other benefits	(639,022)	(524,029)
Total	**(2,454,298)**	**(2,161,954)**

4.3. Contracted Services

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Purchases of transmission services from OGP Gaz - System S.A.	(1,353,702)	(1,367,121)
Costs of dry wells written off	(264,650)	(152,073)
Other contracted services	(1,449,018)	(1,269,960)
Total	**(3,067,370)**	**(2,789,154)**

4.4. Other Net Operating Expenses

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Change in impairment charges, net	(139,322)	(53,592)
Change in provisions, net	13,508	(173,602)
Taxes and charges	(456,319)	(450,238)
Net interest related to operating activities	92,920	162,075
Net foreign exchange gains/(losses) related to operating activities	311,653	(107,511)
Gain/(loss) on derivative instruments related to operating activities	(229,771)	360,451
Value of goods for resale and materials sold	(22,590)	(21,924)
Income from current settlement of deferred income recognised in the statement of financial position	73,756	76,282
Difference on valuation of assets distributed as dividend	3,607	14,881
Provision for costs related to withdrawal of assets from lease	-	48,448
Gains/(losses) on disposal of non-financial non-current assets	6,414	(30,909)
Property insurance	(35,821)	(33,274)
Domestic and international business trips	(52,148)	(50,221)
Change in inventories	24,992	7,942
Income from compensations, penalties, fines etc.	141,390	11,455
Other expenses, net	(152,194)	(122,934)
Total	**(419,925)**	**(362,671)**

(PLN '000)

5. FINANCE INCOME AND EXPENSES

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Finance income	**203,315**	**213,238**
Gain on derivative instruments	-	-
Interest revenue	45,479	70,864
Foreign exchange gains	4,785	10,629
Investment revaluation	134,367	58,211
Gain on disposal of investments	6,329	68,395
Dividends and other profit distributions	8,311	4,770
Other finance income	4,044	369
Finance expenses	**(94,626)**	**(78,771)**
Loss on derivative instruments	-	-
Interest expenses	(47,346)	(17,153)
Foreign exchange losses	-	-
Investment revaluation	(37,199)	(52,726)
Loss on disposal of investments	-	-
Commissions on loans	(1,460)	(1,897)
Costs related to guarantees issued	(6,764)	(1,576)
Other finance expenses	(1,857)	(5,419)
Net finance income/expense	**108,689**	**134,467**

6. EQUITY METHOD VALUATION OF ASSOCIATED UNDERTAKINGS

6.1. Net Book Value of Interests in Equity-Accounted Associated Undertakings

	Dec 31 2009	Dec 31 2008
SGT EUROPOL GAZ S.A.		
PGNiG Group's interest*	49.74%	49.74%
Core business	Gas fuel transmission	Gas fuel transmission
Valuation of interests using equity method	1,436,380	1,389,089
Cost	38,400	38,400
Share in change in equity	1,474,780	1,427,489
Impairment charges	(936,080)	(888,789)
Net book value of investment	**538,700**	**538,700**
GAS-TRADING S.A.		
PGNiG Group's interest	43.41%	43.41%
Core business	Trade	Trade
Valuation of interests using equity method	16,532	16,891
Cost	1,291	1,291
Share in change in equity	17,823	18,182
Impairment charges	-	-
Net book value of investment	**17,823**	**18,182**
Total net book value of investments	**556,523**	**556,882**

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

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6.2. Reconciliation of the Value of Interests in Equity-Accounted Associated Undertakings

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Net book value of investments as at beginning of period	556,882	557,529
Dividend paid by **GAS-TRADING S.A.**	-	(868)
Valuation recognised in the income statement, including:	**(359)**	**221**
Valuation of **SGT EUROPOL GAZ S.A.**	-	-
Valuation of **GAS-TRADING S.A.**	(359)	221
Net book value of investments as at end of period	**556,523**	**556,882**

The Parent Undertaking estimated its equity interest in SGT EUROPOL GAZ S.A. on the basis of the value of the company's equity as shown in its financial statements prepared as at December 31st 2009 in accordance with the Polish Accountancy Act, adjusted to reflect differences in the accounting policies applied by the Group and results on intra-Group transactions. The differences in the accounting policies concerned the recognition of interest expenses in the net value of property, plant and equipment (until the end of 2008). Until the end of 2008, the Group applied the standard approach (in accordance with IAS 23) and did not recognise borrowing costs in the initial value of property, plant and equipment. As of the beginning of 2009, the Group capitalises borrowing costs in the value of property, plant and equipment, therefore the adjustment consists in continued elimination of these costs with respect to the previous years. Subsequently, the Parent Undertaking tested the interest in SGT EUROPOL GAZ S.A. for impairment using the discounted cash flow method on the basis of information included in SGT EUROPOL GAZ S.A.' s budget for 2006-2019. Discounted cash flow includes all cash flows generated by SGT EUROPOL GAZ S.A., including cash flow related to the servicing of interest-bearing external financing (interest expenses and repayment of principal amounts of loans and borrowings). As at December 31st 2009, the Parent Undertaking valued its interest in SGT EUROPOL GAZ S.A. using the equity method, at PLN 1,436,380 thousand.

The results of impairment tests differ significantly depending on adopted assumptions.

Due to changes in exchange rates and tariff policies, the assumptions adopted for the valuation of equity interests carry – for reasons beyond the Company's control – significant uncertainty.

Taking the above factors into account, as at December 31st 2009 the Parent Undertaking estimated the net book value of SGT EUROPOL GAZ S.A. using the discounted cash flow method at PLN 538,700 thousand. This valuation did not differ from the one performed as at December 31st 2008.

7. CORPORATE INCOME TAX

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

7.1. Income Tax Disclosed in the Income Statement

	Note	Jan 1–Dec 31 2009	Jan 1–Dec 31 2008
Pre-tax profit\loss		1,442,103	935,366
Tax rate applicable in the period		19%	19%
Tax calculated at the applicable tax rate		(274,000)	(177,720)
Permanent differences between pre-tax profit\(loss) and tax base		35,503	108,096
Corporate income tax disclosed in the consolidated income statement		**(238,497)**	**(69,624)**
Current income tax	7.2	(416,091)	(333,593)
Deferred income tax	7.3	177,594	263,969
Effective tax rate		17%	7%

(PLN '000)

7.2. Current Income Tax

	Jan 1–Dec 31 2009	Jan 1–Dec 31 2008
Pre-tax profit\loss (consolidated)	1,442,103	935,366
Consolidation adjustments	127,052	935
Differences between profit\(loss) before tax and tax base	251,325	678,928
Taxable revenue not recognised as revenue for accounting purposes	278,292	1,933,153
Tax deductible expenses, not recognised as expenses for accounting purposes	(1,899,726)	(2,821,351)
Revenue not recognised in taxable income	1,108,224	1,152,784
Non-tax deductible expenses	(2,956,528)	(1,364,702)
Deductions from income	24,455	2,648
Income tax base	1,820,480	1,615,229
Tax rate applicable in period	19%	19%
Corporate income tax	(345,891)	(306,894)
Increases, reliefs, exemptions, allowances and reductions in/of corporate income tax	(70,200)	(26,699)
Current income tax disclosed in tax return for period	(416,091)	(333,593)
Current income tax disclosed in consolidated income statement	**(416,091)**	**(333,593)**

7.3. Deferred Income Tax

	Jan 1–Dec 31 2009	Jan 1–Dec 31 2008
Origination and reversal of deferred tax due to deductible temporary differences	**96,657**	**85,720**
Impairment charges on financial assets, receivables and tangible assets under construction	(6,454)	3,111
Provisions for future liabilities	(7,807)	19,260
Costs of FX risk and interest rate risk hedges	47,812	(3,365)
Foreign exchange losses	(25,239)	6,217
Costs related to sales taxable in subsequent month	-	-
Investment incentives (Norway)	90,206	50,034
Tax loss for current period	-	(4,752)
Other	(1,861)	15,215
Origination and reversal of deferred tax due to taxable temporary differences	**80,937**	**178,249**
Difference between tax and accounting value of non-current assets	50,204	204,461
Positive valuation of FX risk and interest rate risk hedges	26,869	(23,759)
Foreign exchange gains on loans and deposits	4,786	(2,522)
Accrued interest	3,363	(2,051)
Income related to tax obligation arising in subsequent month	(2,927)	4,205
Other	(1,358)	(2,085)
Deferred income tax disclosed in consolidated income statement	**177,594**	**263,969**
Deferred income tax disclosed in other net comprehensive income, including:	**8,298**	**9,200**
- relating to valuation of financial instruments	(6,057)	9,561
- relating to differences on currency translation of deferred tax of foreign operations	14,355	(361)
Tax refund relating to investment incentives (Norway)	**(17,057)**	**-**
Total changes	**168,835**	**273,169**

The current reporting period covered the tax period from January 1st 2000 to December 31st 2009. A 19% corporate income tax rate was applicable in 2009 to businesses operating in Poland. In 2008, the CIT rate was also 19%.

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

Foreign subsidiaries and foreign branches of the Parent Undertaking and of Polish subsidiary undertakings are subject to tax regulations in force in the countries where they conduct their business activities and the provisions of double tax treaties. In the case of foreign branches of subsidiary undertakings, the tax rates effective in 2009 and 2008 ranged from 3% to 38% of tax base. Foreign branches of the Parent Undertaking did not pay corporate income tax in 2009 and 2008.

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

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

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

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

Therefore, PGNiG Norway AS began to amortise capital expenditure and applied the investment incentive already in 2008, provisionally recognising the expenditure and incentive as deferred tax (in the amount recorded under "Investment incentive (Norway)" in table 7.3.). Once revenue is generated (i.e. after 2011), these amounts will be deducted from the current tax base.
From the PGNiG Group's viewpoint, it is important that the Norwegian tax system permits deduction of losses without time limitation. Additionally, losses incurred after 2002 bear interest. With respect to such losses, interest rate is calculated as a risk-free interest rate increased by a margin, including income tax (28%). In other words, losses incurred by PGNiG Norway AS in 2007–2011, increased by interest, will reduce its current tax payable once production from the Skarv field is launched.
The balance of deferred tax presented in the financial statements is reduced by a valuation adjustment due to temporary differences whose realisation for tax purposes is not entirely certain.

8. DISCONTINUED OPERATIONS

In 2009, the Group did not cease any activities and is not planning to discontinue any of its existing operations.

9. EARNINGS\LOSS PER SHARE

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

the reporting period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

	Jan 1–Dec 31 2009	Jan 1–Dec 31 2008
Net profit\loss attributable to equity holders of the parent	1,201,959	865,297
Net profit\loss attributable to equity holders of the parent used for calculating diluted earnings\loss per share	1,201,959	865,297
Weighted average number of outstanding ordinary shares used for calculating basic earnings\loss per share ('000)	5,900,000	5,900,000
Weighted average number of outstanding ordinary shares used for calculating diluted earnings\loss per share ('000)	5,900,000	5,900,000
Basic earnings\loss per share for financial period attributable to holders of ordinary shares of the parent	0.20	0.15
Diluted earnings\loss per share for financial period attributable to holders of ordinary shares of the parent	0.20	0.15

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 2009				
Jan 1 2009	Dec 31 2009	5,900,000	365	5,900,000
Total			**365**	**5,900,000**
Dec 31 2008				
Jan 1 2008	Dec 31 2008	5,900,000	366	5,900,000
Total			**366**	**5,900,000**

10. DIVIDENDS PAID AND PROPOSED BY THE PARENT UNDERTAKING

Dividends declared and paid in the period	Jan 1–Dec 31 2009	Jan 1–Dec 31 2008
Dividend paid per share (PLN)	0.09	0.19
Number of shares ('000)	5,900,000	5,900,000
Dividend amount (PLN '000), including:	531,000	1,121,000
- in-kind dividend paid to the State Treasury	382,499	949,994
- cash dividend paid to the State Treasury	1	6
- cash dividend paid to other equity holders of the parent	148,500	171,000

The 2008 dividend was paid on October 2nd 2009, and the dividend for 2007 was distributed on October 1st 2008.

The effect on the result for the periods due to the excess of the value of assets transferred as in-kind dividend over the net book value shown in the statement of financial position as at the dividend payment date is presented in Note 4.4.

(PLN '000)

11. PROPERTY, PLANT AND EQUIPMENT

	Dec 31 2009	Dec 31 2008
Land	65,498	82,372
Buildings and structures	13,744,065	13,557,215
Plant and equipment	2,324,912	2,322,574
Vehicles and other	936,055	903,316
Total tangible assets	**17,070,530**	**16,865,477**
Tangible assets under construction	5,818,387	3,721,550
Total property, plant and equipment	**22,888,917**	**20,587,027**

TANGIBLE ASSETS

Dec 31 2009	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
As at Jan 1 2009, net of depreciation and impairment losses	82,372	13,557,215	2,322,574	903,316	**16,865,477**
Increase	-	32,871	9,808	107,041	**149,720**
Decrease	(16,821)	(168,765)	(24,231)	(129,196)	**(339,013)**
Transfers from tangible assets under construction and between groups	3,286	1,096,955	411,044	201,681	**1,712,966**
Impairment loss	(2,370)	184,693	(47,943)	13,067	**147,447**
Depreciation for the financial year	(969)	(958,904)	(346,340)	(159,854)	**(1,466,067)**
As at Dec 31 2009, net of depreciation and impairment losses	**65,498**	**13,744,065**	**2,324,912**	**936,055**	**17,070,530**
As at Jan 1 2009					
Gross value	89,427	19,003,262	3,773,102	1,541,040	**24,406,831**
Accumulated depreciation and impairment loss	(7,055)	(5,446,047)	(1,450,528)	(637,724)	**(7,541,354)**
Net book value as at Jan 1 2009	**82,372**	**13,557,215**	**2,322,574**	**903,316**	**16,865,477**
As at Dec 31 2009					
Gross value	76,001	20,307,452	4,138,796	1,661,929	**26,184,178**
Accumulated depreciation and impairment loss	(10,503)	(6,563,387)	(1,813,884)	(725,874)	**(9,113,648)**
Net book value as at Dec 31 2009	**65,498**	**13,744,065**	**2,324,912**	**936,055**	**17,070,530**

(PLN '000)

Dec 31 2008	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
As at Jan 1 2008, net of depreciation and impairment losses	83,570	12,542,252	2,129,116	860,554	**15,615,492**
Increase	1,988	1,129,077	66,973	14,463	**1,212,501**
Decrease	(3,621)	(284,105)	(17,483)	(20,799)	**(326,008)**
Transfers from tangible assets under construction and between groups	1,392	1,049,653	456,035	186,539	**1,693,619**
Impairment loss	20	28,186	29,866	10,598	**68,670**
Depreciation for financial year	(977)	(907,848)	(341,933)	(148,039)	**(1,398,797)**
As at Dec 31 2008, net of depreciation and impairment losses	**82,372**	**13,557,215**	**2,322,574**	**903,316**	**16,865,477**
As at Jan 1 2008					
Gross value*	89,816	17,527,458	3,309,843	1,386,222	**22,313,339**
Accumulated depreciation and impairment loss	(6,246)	(4,985,206)	(1,180,727)	(525,668)	**(6,697,847)**
Net book value as at Jan 1 2008	**83,570**	**12,542,252**	**2,129,116**	**860,554**	**15,615,492**
As at Dec 31 2008					
Gross value*	89,427	19,003,262	3,773,102	1,541,040	**24,406,831**
Accumulated depreciation and impairment loss	(7,055)	(5,446,047)	(1,450,528)	(637,724)	**(7,541,354)**
Net book value as at Dec 31 2008	**82,372**	**13,557,215**	**2,322,574**	**903,316**	**16,865,477**

*After netting.

11.1. Property, Plant and Equipment Used under Finance Lease

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

	Dec 31 2009				Dec 31 2008			
	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	108,689	(38,063)	-	70,626	98,010	(28,619)	-	69,391
Vehicles and other	31,632	(6,926)	(495)	24,211	19,302	(3,310)	(490)	15,502
	140,321	**(44,989)**	**(495)**	**94,837**	**117,312**	**(31,929)**	**(490)**	**84,893**

(PLN '000)

11.2. Impairment Losses on Property, Plant and Equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total tangible assets**	Tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2009	2,319	1,394,026	49,915	33,823	**1,480,083**	395,291	**1,875,374**
Increase	16,158	373,061	96,698	5,057	**490,974**	422	**491,396**
Decrease	(13,788)	(557,754)	(48,755)	(18,124)	**(638,421)**	(49,638)	**(688,059)**
As at Dec 31 2009	**4,689**	**1,209,333**	**97,858**	**20,756**	**1,332,636**	**346,075**	**1,678,711**
As at Jan 1 2008*	2,339	1,422,212	79,781	44,421	**1,548,753**	379,105	**1,927,858**
Increase	886	303,260	52,778	3,363	**360,287**	81,420	**441,707**
Decrease	(906)	(331,446)	(82,644)	(13,961)	**(428,957)**	(65,234)	**(494,191)**
As at Dec 31 2008*	**2,319**	**1,394,026**	**49,915**	**33,823**	**1,480,083**	**395,291**	**1,875,374**

*After netting.

Netting. When preparing the financial statements in accordance with the IFRS for the first time, the Company determined deemed cost at fair value. When determining the fair value, the Company assessed the feasibility of recovering the determined value of tangible assets; if the determined amount was irrecoverable, the Company would make an appropriate revaluation adjustment and present it as impairment loss. In 2009, the Group reduced the initial value and impairment charge by this adjustment as at January 1st 2008.

As at the beginning of the period, impairment loss on tangible assets amounted to PLN 1,480,083 thousand, including:

- PLN 88,584 thousand on assets used directly in production,
- PLN 1,360,789 thousand on distribution assets,
- PLN 30,710 thousand on other tangible assets.

The current period saw a PLN 490,974 thousand increase in impairment losses (including PLN 379,906 thousand related to assets used directly in production), and a PLN 638,421 thousand decrease in impairment losses (including PLN 55,850 thousand decrease related to assets directly used in production and PLN 579,777 thousand related to distribution assets).

As at the end of the period, impairment losses on tangible assets amounted to PLN 1,332,636 thousand, including:
- PLN 412,640 thousand on assets used directly in production,
- PLN 780,121 thousand on distribution assets,
- PLN 139,875 thousand on other tangible assets.

Impairment charges on tangible assets under construction in the amount of PLN 315,772 thousand related to capitalised cost of drilling work (as at the end of 2008, the impairment loss was PLN 361,362 thousand).

(PLN '000)

12. INVESTMENT PROPERTY

	Dec 31 2009	Dec 31 2008
As at beginning of period, net of depreciation and impairment losses	8,181	10,578
Increase	-	1,759
Decrease	(2,327)	(4,357)
Transfers to/from property, plant and equipment	1,055	160
Impairment loss	1,175	575
Depreciation for financial year	(604)	(534)
As at end of period, net of depreciation and impairment losses	**7,480**	**8,181**
As at beginning of period		
Gross value	11,066	14,130
Accumulated depreciation and impairment loss	(2,885)	(3,552)
Net book value	**8,181**	**10,578**
As at end of period		
Gross value	9,829	11,066
Accumulated depreciation and impairment loss	(2,349)	(2,885)
Net book value	**7,480**	**8,181**

The Group's investment property includes office/amenity buildings partly held for rent, as well as industrial buildings and structures, and land. As at the end of the reporting period, the net book value of the office/amenity buildings recognised as investment property amounted to PLN 4,963 thousand (PLN 4,201 thousand as at the end of 2008), whereas the net book value of industrial buildings and structures as at the end of the reporting period amounted to PLN 2,294 thousand (PLN 3,755 thousand as at the end of 2008). Meanwhile, the value of land and perpetual usufruct rights to land was PLN 223 thousand as at the end of the reporting period (PLN 225 thousand as at the end of 2008).

In the reporting period, the Group generated PLN 4,141 thousand revenue from rental of investment property (PLN 2,942 thousand in 2008).

Operating expenses incurred in generating revenue from rental of investment property amounted to PLN 2,529 thousand in the reporting period (PLN 2,478 thousand in 2008).

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

(PLN '000)

13. INTANGIBLE ASSETS

Dec 31 2009	Development expense	Goodwill	Perpetual usufruct right to land*	Other intangible assets	**Total**
As at Jan 1 2009, net of amortisation and impairment losses	1,459	-	51,134	99,128	**151,721**
Increase	-	-	4,878	6,213	**11,091**
Decrease	-	-	(9,388)	(9,444)	**(18,832)**
Transfers from tangible assets under construction and between groups	1,110	-	2,573	47,944	**51,627**
Impairment loss	-	-	(179)	7,572	**7,393**
Amortisation for financial year	(372)	-	(635)	(28,534)	**(29,541)**
As at Dec 31 2009, net of amortisation and impairment losses	**2,197**	**-**	**48,383**	**122,879**	**173,459**
As at Jan 1 2009					
Gross value	2,693	-	66,200	214,396	**283,289**
Accumulated amortisation and impairment loss	(1,234)	-	(15,066)	(115,268)	**(131,568)**
Net book value as at Jan 1 2009	**1,459**	**-**	**51,134**	**99,128**	**151,721**
As at Dec 31 2009					
Gross value	3,793	-	68,496	272,442	**344,731**
Accumulated amortisation and impairment loss	(1,596)	-	(20,113)	(149,563)	**(171,272)**
Net book value as at Dec 31 2009	**2,197**	**-**	**48,383**	**122,879**	**173,459**

* Furthermore, the Group holds perpetual usufruct right to land, obtained free of charge, which is disclosed as an off-balance-sheet item. As at December 31st 2009, the estimated value of this right amounted to PLN 481,425 thousand (PLN 481,758 thousand as at the end of 2008).

(PLN '000)

Dec 31 2008	Development expense	Goodwill	Perpetual usufruct right to land	Other intangible assets	**Total**
As at Jan 1 2008, net of amortisation and impairment losses	1,132	-	13,691	69,813	**84,636**
Increase	-	-	18,730	5,414	**24,144**
Decrease	-	-	(15,638)	(6,857)	**(22,495)**
Transfers from tangible assets under construction and between groups	548	-	34,695	55,701	**90,944**
Impairment loss	-	-	105	-	**105**
Amortisation for financial year	(221)	-	(449)	(24,943)	**(25,613)**
As at Dec 31 2008, net of amortisation and impairment losses	**1,459**	**-**	**51,134**	**99,128**	**151,721**
As at Jan 1 2008					
Gross value*	2,145	-	25,555	164,250	**191,950**
Accumulated amortisation and impairment loss	(1,013)	-	(11,864)	(94,437)	**(107,314)**
Net book value as at Jan 1 2008	**1,132**	**-**	**13,691**	**69,813**	**84,636**
As at Dec 31 2008					
Gross value*	2,693	-	66,394	214,396	**283,483**
Accumulated amortisation and impairment loss	(1,234)	-	(15,260)	(115,268)	**(131,762)**
Net book value as at Dec 31 2008	**1,459**	**-**	**51,134**	**99,128**	**151,721**

*After netting.

13.1. Impairment Losses on Intangible Assets

	Development expense	Goodwill	Perpetual usufruct right to land	Other intangible assets	**Total**
As at Jan 1 2009	-	-	99	7,588	**7,687**
Increase	-	-	188	15	**203**
Decrease	-	-	(9)	(7,587)	**(7,596)**
As at Dec 31 2009	**-**	**-**	**278**	**16**	**294**
As at Jan 1 2008*	-	-	204	7,588	**7,792**
Increase	-	-	15	-	**15**
Decrease	-	-	(120)	-	**(120)**
As at Dec 31 2008*	**-**	**-**	**99**	**7,588**	**7,687**

*After netting.

(PLN '000)

14. NON-CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Dec 31 2009	Dec 31 2008
Unlisted shares (gross)	26,873	11,004
Listed shares available for sale (gross)	78,101	78,000
Other financial assets available for sale (gross)	56,524	56,316
Total, gross	**161,498**	**145,320**
Unlisted shares (net)*	23,084	8,153
Listed shares available for sale (net)**	59,608	27,680
Other financial assets available for sale (net)*	7,097	7,102
Total, net	**89,789**	**42,935**

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

"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 potential disposal was not known.

Under "Listed shares available for sale", gross amount of PLN 78,000 thousand (PLN 59,560 thousand net) relates to shares in Zakłady Azotowe Mościce S.A. of Tarnów (ZAT). Gains on valuation of the ZAT shares in 2009 were disclosed under revaluation reserve. The Group treats the investment in this undertaking 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 Group's equity, until a decision to dispose of the investment is made.

15. OTHER FINANCIAL ASSETS

	Dec 31 2009	Dec 31 2008
Finance lease receivables (Note 15.1.)	283,285	674,484
Loans advanced	8,075	-
Amounts receivable under sale of tangible assets	7,392	-
Non-current deposits	554	251
Amounts receivable under licences and mining usufruct rights	-	1,435
Other	591	506
Total, gross	**299,897**	**676,676**
Impairment loss	(18)	(42)
Total, net	**299,879**	**676,634**

15.1. Finance Lease

With a view to implementing the PGNiG Restructuring and Privatisation Programme adopted by the Polish Council of Ministers on October 5th 2004, a lease agreement was executed on July 6th 2005 between PGNiG S.A. and OGP Gaz - System Sp. z o.o. (currently OGP Gaz – System S.A.). The transmission business and production and trading business were separated by leasing 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 the 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 2009	Dec 31 2008
Interest payment	42,235	125,374
Principal payment	40,111	92,840
Total	**82,346**	**218,214**

(PLN '000)

The table below set forth finance lease receivables by payment periods:

	Dec 31 2009	Dec 31 2008
- less than 1 year	23,093	52,385
- from 1 to 5 years	82,741	185,603
- more than 5 years	200,544	488,881
Total	**306,378**	**726,869**
- current receivables	23,093	52,385
- non-current receivables	283,285	674,484

16. DEFERRED TAX ASSET

	Dec 31 2009	Dec 31 2008
Provisions for gas allowances	3,878	7,775
Provisions for length-of-service awards and retirement severance pays	61,166	60,723
Provision for unused holidays	3,539	6,546
Provision for well decommissioning costs	101,472	95,531
Other provisions	40,584	38,384
Impairment losses on tangible assets	65,816	74,265
Impairment losses on shares	9,822	9,594
Impairment losses on interest on receivables	2,165	53
Negative valuation of derivatives	50,989	3,421
Foreign exchange losses	630	25,870
Accrued interest on loans and liabilities	161	224
Connection charge	76,553	66,180
Unpaid salaries and wages, including contributions to the Social Insurance Institution (ZUS)	5,479	19,424
Revaluation of prepayments/deferred income due to hyperinflation	9,761	10,788
Investment incentives (Norway)	148,901	65,418
Other	18,977	30,671
Total	**599,893**	**514,867**

17. OTHER NON-CURRENT ASSETS

	Dec 31 2009	Dec 31 2008
Granting access to geological information	25,616	28,244
Charges for establishment of mining usage rights	5,503	3,618
Connection charge	17,000	2,363
Other prepayments and accrued income	1,254	1,118
Total	**49,373**	**35,343**

18. INVENTORIES

	Dec 31 2009	Dec 31 2008
Materials		
at cost, including:	1,255,118	1,718,379
- gas fuel	968,901	1,378,648
at net realisable value, including:	1,238,084	1,703,697
- gas fuel	968,901	1,378,648
Semi-finished products and work in progress		
at cost	11,097	11,007
at net realisable value	11,018	10,888
Finished products		
at cost	8,484	5,444
at net realisable value	8,421	5,384
Goods for sale		
at cost	1,530	1,437
at net realisable value	1,347	1,290
Total inventories, at the lower of cost or net realisable value	**1,258,870**	**1,721,259**

(PLN '000)

18.1. Change in Inventories in Period

	Dec 31 2009	Dec 31 2008
Inventories at cost, at beginning of period	**1,736,267**	**1,245,043**
Purchase	12,495,563	13,550,754
Other increases	160,045	120,000
Inventories charged to expenses of period	(12,389,432)	(12,886,719)
Sale	(25,184)	(20,226)
Other decreases	(701,030)	(272,585)
Inventories at cost, at end of period	**1,276,229**	**1,736,267**

19. TRADE AND OTHER RECEIVABLES

	Dec 31 2009	Dec 31 2008
Trade receivables	4,078,728	3,888,697
Trade receivables from related undertakings	51,134	44,552
VAT receivable	227,757	363,433
Other taxes, customs and social security receivable	12,498	9,192
Due and payable portion of loans advanced to related undertakings	20,547	136,869
Receivables from equity-accounted associated undertakings	2,626	3,840
Finance lease receivables	23,093	52,385
Other receivables from related undertakings	7,545	1,166
Prepayments for tangible assets under construction	74,833	8,391
Additional contribution to equity of subsidiary undertaking payable under a relevant resolution*	84,552	84,552
Receivables under breach of contract	87,466	-
Other receivables	111,978	157,447
Total gross receivables, including:	**4,782,757**	**4,750,524**
Gross receivables (including due and payable portion of loans) from related undertakings (Note 38.1)	166,404	270,979
Impairment loss on doubtful receivables (Note 19.1)	**(1,102,718)**	**(1,033,601)**
Total net receivables	**3,680,039**	**3,716,923**
including:		
Trade receivables	3,278,713	3,216,506
Trade receivables from related undertakings	9,567	2,822
VAT receivable	227,757	363,433
Other taxes, customs and social security receivable	12,497	9,192
Due and payable portion of loans advanced to related undertakings	1,476	-
Receivables from equity-accounted associated undertakings	2,625	3,840
Finance lease receivables	23,093	52,385
Other receivables from related undertakings	31	37
Prepayments for tangible assets under construction	74,833	8,391
Additional contribution to equity of subsidiary undertaking payable under a relevant resolution*	-	-
Receivables under breach of contract	-	-
Other receivables, including:	49,447	60,317
Net receivables (including due and payable portion of loans) from related undertakings (Note 38.1)	13,699	6,699

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

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

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

(PLN '000)

19.1. Impairment Losses on Receivables

	Dec 31 2009	Dec 31 2008
Impairment losses at beginning of period	(1,033,601)	(1,086,351)
Creation of impairment charge	(346,934)	(149,921)
Reversal of impairment charge	201,978	186,600
Use of impairment charge	75,878	17,944
Transfers between current and non-current portions	(39)	(1,873)
Impairment losses at end of period	**(1,102,718)**	**(1,033,601)**

20. CURRENT INCOME TAX

	Dec 31 2009	Dec 31 2008
Current income tax payable at beginning of period	47,552	281,399
Change in current income tax receivable*	139,799	42,115
Current income tax receivable at beginning of period	59,614	17,499
Current income tax receivable at end of period	199,413	59,614
Corporate income tax (expense in the period)	416,091	333,593
Income tax paid in the period	(556,033)	(609,555)
Current income tax payable at end of period	**47,409**	**47,552**

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

(PLN ‘000)

21. ACCRUALS AND DEFERRED INCOME

	Dec 31 2009	Dec 31 2008
Oil and gas field development costs	1,242	25,392
Property insurance	7,577	7,961
Valuation of long-term contracts	13,331	17,571
Granting access to geological information	3,052	3,020
Software licences, maintenance and upgrades	7,231	1,413
Rents and charges	1,228	2,514
Finance expenses settled over time	845	116
Costs of contract performance preparation	9,344	2,390
Other expenses settled over time	11,403	9,885
Total	**55,253**	**70,262**

22. CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Dec 31 2009	Dec 31 2008
Unlisted shares (gross)	-	-
Listed shares (gross)	-	-
Short-term deposit (gross)	142	113
Investment fund units (gross)	8,000	7,662
Treasury bills (gross)	-	-
Total (gross)	**8,142**	**7,775**
Unlisted shares (net)*	-	-
Listed shares (net)*	-	-
Short-term deposit (net)	142	113
Investment fund units (net)	7,325	6,382
Treasury bills (net)	-	-
Total (net)	**7,467**	**6,495**

* Net of impairment losses.

23. CASH AND CASH EQUIVALENTS

	Dec 31 2009	Dec 31 2008
Cash in hand and at banks	328,074	155,600
Bank deposits	862,527	763,022
Highly liquid short-term securities *	-	496,010
Other cash**	5,724	7,307
Total	**1,196,325**	**1,421,939**

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

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

24. NON-CURRENT ASSETS HELD FOR SALE

The net book value of the Group’s assets classified as non-current assets held for sale amounted to PLN 1,488 thousand (PLN 1,009 thousand as at the end of 2008). These chiefly include buildings and land usufruct rights planned to be sold in the first half of 2010.

(PLN '000)

25. CONTINGENT ASSETS

25.1. Contingent Receivables under Guarantees and Sureties Received

Company transferring contingent receivable	Amount of contingent receivables received in the original currency	Currency of contingent receivables	Amount of contingent receivables received* in PLN	Contingent receivable expiry date	Contingent receivables under
Contingent receivables received by PGNiG S.A.					
ING Bank Śląski	108,900	PLN	108,900	January 7th 2012	Performance bond
Bank Pekao S.A.	85,217	PLN	85,217	April 30th 2013	Performance bond
PZU S.A.	66,429	PLN	66,429	January 18th 2013	Insurance performance bond
InterRisk Towarzystwo Ubezpieczeń S.A.	8,000	PLN	8,000	November 26th 2010	Insurance guarantee
Glas Trosch Holding AG	8,000	PLN	8,000	June 30th 2011	Guarantee letter/surety
Dresdner Bank S.A.	6,000	PLN	6,000	December 31st 2010	Bank guarantee
TUiR Warta S.A.	2,722	PLN	2,722	October 15th 2010	Performance bond covering due contract performance and removal of defects
Bank Pekao S.A.	2,364	PLN	2,364	January 31st 2010	Bank guarantee
Fortis Bank Polska S.A.	2,250	PLN	2,250	March 31st 2010	Bank guarantee
ING Bank Śląski S.A.	2,000	PLN	2,000	December 31st 2010	Bank guarantee
PZU S.A.	1,950	PLN	1,950	September 14th 2010	Performance bond covering due contract performance and removal of defects
Bank Handlowy w Warszawie S.A.	1,910	PLN	1,910	unspecified	Performance bond
TU Euler Hermes S.A.	1,841	PLN	1,841	October 15th 2010	Performance bond covering due contract performance and removal of defects
PZU S.A.	1,400	PLN	1,400	February 11th 2010	Insurance guarantee
ING Bank Śląski S.A.	1,200	PLN	1,200	March 31st 2010	Bank guarantee
Deutsche Bank Polska S.A.	951	PLN	951	unspecified	Payment guarantee
Millennium Bank S.A.	920	PLN	920	June 30th 2010	Performance bond
Bank Handlowy w Warszawie S.A.	830	PLN	830	May 7th 2010	Bank performance bond
Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.	796	PLN	796	November 30th 2011	Insurance guarantee
Małopolski Oddział Wojewódzki NFZ w Krakowie (Kraków Province Division of the National Health Fund in Kraków)	737	PLN	737	November 30th 2010	Payment guarantee
ING Bank Ślaski S.A.	608	PLN	608	June 30th 2010	Bank guarantee
TU Allianz Polska S.A.	555	PLN	555	June 30th 2010	Performance bond
TU InterRisk S.A.	536	PLN	536	October 27th 2012	Insurance guarantee
TUiR WARTA S.A.	531	PLN	531	December 4th 2010	Performance bond
Alior Bank S.A. (Warsaw)	530	PLN	530	August 31st 2010	Bank guarantee
Nordea Bank Polska S.A.	519	PLN	519	February 17th 2011	Performance bond
Nordea Bank Polska S.A.	519	PLN	519	February 17th 2011	Bank guarantee, performance bond
DZ BANK Polska S.A.	515	PLN	515	unspecified	Bank guarantee
Południowy Koncern Energetyczny S.A., Siersza Trzebinia Power Plant	511	PLN	511	unspecified	Payment guarantee
Fortis Bank Polska S.A.	500	PLN	500	June 24th 2010	Bank guarantee
Other receivables (each below PLN 500 thousand)	19,847	PLN	19,847	2010-2015	Bank guarantees, performance bonds, insurance guarantees, bid bond etc.

(PLN '000)

25.1. Contingent Claims under Guarantees and Sureties Received (continued)

Company transferring contingent receivable	Amount of contingent receivables received in the original currency	Currency of contingent receivables	Amount of contingent receivables received* in PLN	Contingent receivable expiry date	Contingent receivables under
Contingent receivables received by Gas Companies					
Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.	699	PLN	699	December 31st 2011	Performance bond
InterRisk Towarzystwo Ubezpieczeń S.A.	777	PLN	777	December 31st 2011	Performance bond
Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.	1,171	PLN	1,171	July 31st 2010	Performance bond
Polskie Towarzystwo Ubezpieczeń S.A.	854	PLN	854	November 30th 2010	Performance bond
PZU S.A.	1,339	PLN	1,339	February 12th 2013	Performance bond
Svenska Handelsbanken AB Spółka Akcyjna Oddział w Polsce	1,079	PLN	1,079	June 4th 2010	Bank guarantee
InterRisk Towarzystwo Ubezpieczeń S.A.	735	PLN	735	April 30th 2011	Insurance guarantee
Other claims (under PLN 500 thousand)	7,396	PLN	7,396	2009-2029	Bank guarantees, performance bonds etc.
Contingent receivables received by other PGNiG Group companies					
Siemens Financial Service Gmbh	4,612	PLN	4,612	March 9th 2010	Performance bond
Siemens Financial Service Gmbh	4,612	PLN	4,612	March 9th 2010	Performance bond
Siemens Financial Service Gmbh	4,612	PLN	4,612	March 9th 2010	Performance bond
Siemens Financial Service Gmbh	608	PLN	608	October 27th 2011	Performance bond
EULER HERMES S.A.	1,439	PLN	1,439	April 30th 2010	Performance bond
PZU S.A.	1,287	PLN	1,287	April 30th 2010	Performance bond
Other receivables (below PLN 500 thousand)	4,094	PLN	4,094	2010-2015	Bank guarantees, performance bonds etc.
Total			**364,902**		

As at the end of the previous period, contingent receivables under guarantees and sureties received amounted to PLN 214,993 thousand.

(PLN ‘000)

25.2. Contingent Receivables under Promissory Notes

Company to whose benefit the promissory note was issued	Promissory note amount in the original currency	Promissory note currency	Promissory note amount in PLN	Promissory note expiry date
Promissory notes issued to the benefit of PGNiG S.A. by:				
ZRUG Sp. z o.o. of Pogórska Wola	13,530	PLN	13,530	January 16th 2011
ZRUG Sp. z o.o. of Pogórska Wola	6,765	PLN	6,765	January 16th 2014
ZRUG Sp. z o.o. of Pogórska Wola	3,569	PLN	3,569	November 30th 2014
ZRUG Sp. z o.o. of Pogórska Wola	10,000	PLN	10,000	June 30th 2022
Bioagra S.A.	8,000	PLN	8,000	unspecified
Stocznia Marynarki Wojennej S.A.	5,000	PLN	5,000	unspecified
Porcelana Śląska Sp. z o.o. of Katowice	4,984	PLN	4,984	unspecified
K&K Sp. z o.o.	3,000	PLN	3,000	unspecified
Huta Szkła Deco-Glass Krosno	2,000	PLN	2,000	unspecified
Jopex Sp. z o.o.	1,812	PLN	1,812	unspecified
ZP Jopex Franciszek Jopek of Zabrze	1,177	PLN	1,177	unspecified
Kuźnia Glinik Sp. z o.o. of Gorlice	1,000	PLN	1,000	unspecified
Huta Szkła MAKORA s.j. of Krosno	1,000	PLN	1,000	unspecified
Huta Będzin S.A. of Będzin	985	PLN	985	unspecified
S.V.Z POLAND Sp. z o.o.	900	PLN	900	unspecified
Poland Smelting Technologies Polst Sp. z o.o.	800	PLN	800	December 21st 2010
HUTA SZKŁA LUCYNA Zakład NYSA	800	PLN	800	unspecified
DEKORGLASS DZIAŁDOWO S.A.	790	PLN	790	unspecified
Polmos SP.z o.o. of Lublin	680	PLN	680	unspecified
Huta Szkła Marta 2 Sp. z o. o. of Chełm	550	PLN	550	unspecified
Spółdzielnia Mleczarska Ryki	532	PLN	532	unspecified
Systemy Grzewcze PHU BEST	500	PLN	500	unspecified
Colgate-Palmolive Manufacturing Poland Sp. z o.o.	500	PLN	500	September 14th 2010
Uzdrowisko Krynica Żegiestów S.A.	500	PLN	500	unspecified
MPWiK w Lublinie Sp.z o.o.	500	PLN	500	unspecified
ZPJ Wistil S.A.	500	PLN	500	March 31st 2010
Mahle Polska Sp. z o.o.	500	PLN	500	unspecified
Other promissory notes (each below PLN 500 thousand)	11,230	PLN	11,230	2010, unspecified
Promissory notes issued to the benefit of Gas Companies				
PHARMGAS Sp.z o.o. of Poznań	723	PLN	723	May 30th 2011
ZRUG Spółka z o.o. of Poznań	1,516	PLN	1,516	2009-2013
TESGAS Sp.z o.o.	1,536	PLN	1,536	2009-2013
PBG Przeźmierowo	1,458	PLN	1,458	2009-2011
PHARMGAS Sp.z o.o. of Poznań	1,169	PLN	1,169	2009-2013
PHARMGAS Sp.z o.o. of Poznań	524	PLN	524	January 30th 2012
INTER-TECH Przedsiębiorstwo Usługowo-Handlowe	504	PLN	504	2009-2012
Other promissory notes (each below PLN 500 thousand)	1,521	PLN	1,521	2007-2012
Promissory notes issued to the benefit of other PGNiG Group companies				
IZOSTAL S.A. Zawadzkie	1,500	PLN	1,500	September 6th 2012
Other promissory notes (each below PLN 500 thousand)	2,191	PLN	2,191	2010-2012
Total			**94,746**	

As at the end of the previous period, contingent receivables under promissory notes amounted to PLN 46,776 thousand.

26. SHARE CAPITAL

	Dec 31 2009	Dec 31 2008
Total number of shares ('000)	5,900,000	5,900,000
Par value per share (PLN)	1	1
Total share capital	5,900,000	5,900,000

27. BANK LOANS, BORROWINGS AND DEBT SECURITIES

	Currency	Dec 31 2009	Dec 31 2008	Effective interest rate (%)	Maturity date	Dec 31 2009	Dec 31 2008	Security
Non-current		Amount in the original currency				Amount in PLN		
Lease liabilities	PLN	23,351	17,880	8% - 10%	2010-2014	23,351	17,880	Blank promissory note with a promissory note declaration
Lease liabilities	CHF	5,108	5,029	8% on average	2010-2013	14,130	14,087	Blank promissory note with a promissory note declaration
Lease liabilities	USD	1,615	3,068	1M Libor+margin	September 20th 2012	4,605	9,088	Blank promissory note with a promissory note declaration, direct debit authorisation
Credit facility from Pekao S.A.	PLN	2,000	-	1M Wibor+margin	April 30th 2014	2,000	-	Mortgage, assignment of rights under insurance policy, assignment of receivables under lease agreement, promissory note, power of attorney over bank account
Total non-current						**44,086**	**41,055**	

(PLN '000)

	Currency	Dec 31 2009	Dec 31 2008	Effective interest rate (%)	Maturity date	Dec 31 2009	Dec 31 2008	Security
Current		Amount in the original currency				Amount in PLN		
Current portion of lease liabilities	PLN	15,096	11,356	8% - 10%	2010	15,096	11,356	Blank promissory note with promissory note declaration
Current portion of lease liabilities	CHF	3,837	4,418	8% on average	2010	10,612	12,376	Blank promissory note with promissory note declaration
Current portion of lease liabilities	USD	981	1,359	1M Libor+margin	2010	2,797	4,027	Blank promissory note with promissory note declaration, direct debit authorisation
Lease liabilities	EUR	168	-	7% on average	2010	689	-	Blank promissory note with a promissory note declaration
Credit facility from Pekao S.A.	PLN	6,871	17,869	1M Wibor+margin	Dec 31 2010	6,871	17,869	Security (deposit) mortgage
Credit facility from Societe Generale S.A.	PLN	-	341	1M Wibor+margin	Dec 31 2009	-	341	Assignment of claims and blank promissory note
Overdraft facility from Bank Handlowy S.A.	PLN	-	2,268	1M Wibor+margin	Feb 8 2009	-	2,268	Assignment of claims and blank promissory note
Overdraft facility from Millennium S.A.	PLN	-	7,560	1M Wibor+margin	Dec 23 2009	-	7,560	Power of attorney over current account
Overdraft facility from Raiffeisen Bank Polska S.A.	PLN	-	3,291	1W Wibor+margin	May 29 2009	-	3,291	Blank promissory note
Working capital facility from BRE S.A.	PLN	-	2,600	1M Wibor+margin	Aug 21 2009	-	2,600	Blank promissory note
Overdraft facility from Societe Generale S.A.	PLN	-	1,911	1M Wibor+margin	May 31 2009	-	1,911	Power of attorney over current account
Working capital facility from Pekao S.A.	PLN	5,001	5,501	1M Wibor+margin	Dec 31 2010	5,001	5,501	Promissory note, registered pledge
Overdraft facility from Pekao S.A.	PLN	6,477	4,041	1M Wibor+margin	Dec 31 2010	6,477	4,041	Promissory note, registered pledge
Overdraft facility from ING Bank Śląski S.A.	PLN	5,057	4,232	1M Wibor+margin	Aug 26 2010	5,057	4,232	Promissory note, registered pledge
Overdraft facility from Pekao S.A.	PLN	1,384	19,878	1M Wibor+margin	Dec 31 2010	1,384	19,878	Mortgage, assignment of rights under insurance policy, blank promissory note with promissory note declaration, power of attorney over current account, assignment of claims
Overdraft facility from Pekao S.A.	PLN	-	23	1M Wibor+margin	Sep 30 2009	-	23	Registered pledge, assignment of receivables with a 50% limit
Overdraft facility from BGK S.A.	PLN	10,597	12,533	1M Wibor+margin	May 31 2010	10,597	12,533	Registered pledge, assignment of receivables, Security (deposit) mortgage, representation on submission to enforcement
Working capital facility from BGK S.A.	PLN	9,091	-	1M Wibor+margin	Jul 28 2012	9,091	-	Registered pledge, mortgage, power of attorney over current account, representation on submission to enforcement
Overdraft facility from Deutsche Bank Polska S.A.	PLN	157	-	O/N Wibor+margin	Oct 20 2010	157	-	Assignment of claims
Limit under Visa cards from Kredyt Bank S.A.	PLN	136	148	limit under VISA cards	-	136	148	-
Credit facility from ING Bank Śląski S.A.	PLN	5,244	-	1M Wibor+margin	Jan 31 2010	5,244	-	Blank promissory note, assignment of claims
Overdraft facility from Deutsche Bank Polska S.A.	PLN	2,748	-	1M Wibor+margin	Jan 4 2010	2,748	-	Blank promissory note, mortgage
Short-term loan from ING Bank Śląski S.A.	PLN	264	300	1M Wibor+margin	Jun 30 2010	264	300	Assignment of claims
Short-term loan from Getin Bank S.A.	PLN	54	-	1M Wibor+margin	Aug 16 2010	54	-	Transfer of ownership
Credit facility from PKO BP S.A.	PLN	724	-	1M Wibor+margin	Mar 31 2010	724	-	Security (deposit) mortgage
Credit facility from Pekao S.A.	PLN	600	-	1M Wibor+margin	Apr 30 2014	600	-	Mortgage, assignment of rights under insurance policy, assignment of claims under lease agreement, promissory note, power of attorney over bank account
Overdraft facility from BZ WBK S.A.	PLN	-	908	1M Wibor+margin	Sep 29 2009	-	908	Registered pledge over FI ARKA, power of attorney over bank account
Syndicated credit facility (Bank Handlowy)	PLN	1,900,478	760,592	1M Wibor+margin	Jul 27 2010	1,900,478	760,592	Guarantees from Gas Companies
Total current						**1,984,077**	**871,755**	

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

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

Bank	Dec 31 2009		Dec 31 2008	
	Received credit facilities	Undrawn amount	Received credit facility	Undrawn amount
PEKAO S.A.	21,000	14,129	21,000	3,131
Societe Generale S.A.	3,000	3,000	3,000	2,659
Komercni Banka AS	1,554	1,554	-	-
Bank Handlowy S.A.	-	-	5,000	2,732
Millennium S.A.	-	-	10,000	2,440
RAIFFEISEN BANK S.A.	-	-	6,000	2,709
BRE Bank S.A.	6,000	6,000	6,000	3,400
Societe Generale S.A.	6,000	6,000	6,000	4,089
Deutsche Bank Polska S.A.	6,000	6,000	-	-
Pekao S.A.	12,000	523	15,000	959
ING Bank Śląski S.A.	12,000	6,943	12,000	7,768
Pekao S.A.	20,000	18,616	20,000	122
Societe Generale S.A.	4,275	4,275	3,615	3,615
BankBGK	-	-	25,000	12,467
HSBC Polska	8,551	4,275	6,000	5,977
Deutsche Bank	3,000	2,700	-	-
Kredyt Bank S.A.	1,500	1,500	-	-
BRE Bank S.A.	-	-	11,000	8,985
Kredyt Bank S.A.	-	-	3,000	2,814
ING Bank Śląski S.A.	6,000	756	5,000	5,000
Deutsche Bank Polska S.A.	5,000	2,252	-	-
BZ WBK S.A.	3,900	3,900	3,900	2,992
PKO BP S.A.	900	176	500	500
Pekao S.A.	5,000	5,000	-	-
Societe Generale S.A.	40,000	40,000	40,000	40,000
Bank Handlowy S.A.	40,000	40,000	40,000	40,000
Millennium S.A.	40,000	40,000	40,000	40,000
Pekao S.A.	40,000	40,000	40,000	40,000
PKO BP S.A.	40,000	40,000	30,000	30,000
BRE Bank S.A.	40,000	40,000	40,000	40,000
Bank syndicate (agent: Bank Handlowy w Warszawie S.A.)*	2,464,920	564,920	2,503,440	1,705,093
Total	**2,830,600**	**892,519**	**2,895,455**	**2,007,452**

*A EUR 600m credit facility maturing on July 27th 2010, granted by a syndicate of banks (Bank Handlowy w Warszawie S.A., Bank Polska Kasa Opieki S.A., Calyon S.A., Fortis Bank (Nederland) N.V., Powszechna Kasa Oszczędności BP, Societe Generale S.A. Polish Branch, ING Bank Śląski S.A., West LB AG, Pekao S.A., Bank Millennium S.A., Nordea Bank Polska S.A., Landesbank Baden-Wurttemberg, DnB NOR Bank ASA).

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

Maturity	Dec 31 2009		
	(Discounted) payments disclosed in the statement of financial position	Interest	Lease payments due
up to 1 year	29,194	2,092	31,286
from 1 to 5 years	42,086	4,107	46,193
over 5 years	-	-	-
Total	**71,280**	**6,199**	**77,479**

Maturity	Dec 31 2008		
	(Discounted) payments disclosed in the statement of financial position	Interest	Lease payments due
up to 1 year	27,759	2,368	30,127
from 1 to 5 years	41,055	2,188	43,243
over 5 years	-	-	-
Total	**68,814**	**4,556**	**73,370**

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28. PROVISIONS

	Provision for length-of-service awards and retirement severance pays	Provision for gas allowances	Provision for well decommi-ssioning costs	Provision for penalty imposed by the Office for Competition and Consumer Protection	Provision for environmental protection liabilities	Provision for potential liability under transmission services	Central Restructuring Fund	Other	**Total**
As at Jan 1 2009	317,089	40,923	1,041,431	-	133,853	44,300	6,760	90,965	**1,675,321**
Provisions created during the year	51,360	-	13,098	179	3,833	-	5,000	133,918	**207,388**
Transfers	-	-	-	-	-	-	-	-	**-**
Provisions used	(47,406)	(20,513)	(138,298)	-	(11,586)	(9,909)	(1,310)	(97,688)	**(326,710)**
As at Dec 31 2009	**321,043**	**20,410**	**916,231**	**179**	**126,100**	**34,391**	**10,450**	**127,195**	**1,555,999**
Non-current	275,556	-	904,867	-	115,525	-	-	19,811	**1,315,759**
Current	45,487	20,410	11,364	179	10,575	34,391	10,450	107,384	**240,240**
As at Dec 31 2009	**321,043**	**20,410**	**916,231**	**179**	**126,100**	**34,391**	**10,450**	**127,195**	**1,555,999**
Non-current	301,710	19,516	1,017,468	-	129,015	-	-	34,230	**1,501,939**
Current	15,379	21,407	23,963	-	4,838	44,300	6,760	56,735	**173,382**
As at Dec 31 2008	**317,089**	**40,923**	**1,041,431**	**-**	**133,853**	**44,300**	**6,760**	**90,965**	**1,675,321**

The technical rate adopted to calculate the discounted value of the future retirement severance pay obligations was 2.1%, as the resultant of the 6.24% annual return on assets and the 4.1% forecast salary growth (in 2008 the adopted technical rate was 2.0%, as the resultant of 6.5% and 4.4%, respectively).

In 2009, a discount rate of 3.65% was applied to calculate the provision for well decommissioning costs, as the resultant of the 6.24% return on assets and the inflation rate assumed at the National Bank of Poland's continuous inflation target of 2.5% (in 2008 the adopted discount rate was 2.0%, as the resultant of 6.5% and the 4.4% planned annual inflation rate, respectively). The increase of the discount rate from 2.0% to 3.65% was the key factor behind the significant decrease in the provision for well decommissioning costs in 2009.

In connection with the approval of the 2008 gas transmission tariffs, in H1 2009 PGNiG S.A. received correction invoices from SGT EUROPOL GAZ S.A., increasing the cost of transmission services. This resulted in the use of the provision for potential liability under transmission services, in the amount of PLN 26,109 thousand. Concurrently, at the end of 2009 an additional provision was created for potential liability under transmission services rendered in 2009, in the amount of PLN 16,200 thousand.

In 2009, DSG Sp. z o.o. created a provision for the penalty imposed by the Office for Competition and Consumer Protection, which accused the company of abusing its position on the gas fuels market by demanding to be paid a 100% advance payment at the time of execution of a network connection agreement.

Non-current provisions are discounted at the rate of 3.65%.

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

	Dec 31 2009	Dec 31 2008
Length-of-service awards		
Value of obligation shown in the statement of financial position at beginning of period	216,894	263,096
Interest cost	8,893	11,576
Current service cost	8,846	9,490
Past service cost	-	1,303
Benefits paid	(49,748)	(43,485)
Actuarial gain/loss	26,029	(25,082)
Gains/losses due to curtailments or settlements	-	-
Other (deconsolidation of a subsidiary)	-	(4)
Value of obligation shown in the statement of financial position at end of period	**210,914**	**216,894**
Retirement Severance Pays		
Value of obligation shown in the statement of financial position at beginning of period	100,195	95,776
Current service cost	6,560	6,219
Interest cost	6,819	5,152
Net actuarial gain/loss recognised during the year	3,105	954
Benefits paid	(7,581)	(10,220)
Past service cost	1,031	2,314
Gains/losses due to curtailments or settlements	-	-
Value of obligation shown in the statement of financial position at end of period	**110,129**	**100,195**
Total value of obligation shown in the statement of financial position at end of period	**321,043**	**317,089**

29. DEFERRED INCOME

	Dec 31 2009	Dec 31 2008
Non-current		
Value of gas service lines financed by customers, not covered by depreciation charges	587,006	646,792
Connection charge	538,317	487,461
Other	7,674	5,079
Total non-current	**1,132,997**	**1,139,332**
Current		
Value of gas service lines financed by customers, not covered by depreciation charges	59,197	60,377
Connection charge	19,552	24,412
Forecast gas sales	545,817	540,029
Other	10,065	13,953
Total current	**634,631**	**638,771**

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30. DEFERRED TAX LIABILITY

	Dec 31 2009	Dec 31 2008
Foreign exchange differences	361	5,170
Accrued interest	282	3,624
Positive valuation of FX and interest rate risk hedges	-	26,871
Revenue related to tax obligation arising in subsequent month	11,702	8,774
Difference between tax and accounting value of non-current assets	1,250,048	1,300,010
Other	6,039	7,792
Total	**1,268,432**	**1,352,241**

31. OTHER NON-CURRENT LIABILITIES

	Dec 31 2009	Dec 31 2008
Liabilities under licences, rights to geological information and mining usage rights	16,537	21,741
Other non-current liabilities	2,109	2,321
Total	**18,646**	**24,062**
Including related undertakings (Note 38.1.)	64	-

32. TRADE AND OTHER PAYABLES

	Dec 31 2009	Dec 31 2008
Trade payables	899,524	1,475,214
Trade payables to related undertakings	11,405	5,617
VAT payable	860,122	934,766
Other taxes, duties and social security contributions payable	132,972	138,739
Dividend payable to owner	-	-
Wages and salaries payable	44,623	52,487
Amounts payable for unused holidays	28,691	28,744
Amounts payable under purchase of non-financial non-current assets	316,609	228,827
Amounts payable under purchase of non-financial non-current assets from related undertakings	31,221	37,253
Additional contribution to equity payable under a relevant resolution*	84,552	84,552
Amounts payable to equity-accounted associated undertakings	8,943	7,955
Other amounts payable to related undertakings	16,298	7,148
Accruals and deferred income and prepaid deliveries	243,290	124,025
Other	55,167	97,213
Total	**2,733,417**	**3,222,540**
Including related undertakings (Note 38.1.)	152,419	142,525

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

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

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
1) Cash in statement of financial position at beginning of period	1,421,939	1,583,635
a) Net foreign exchange gains (losses) on cash at beginning of period*	1,076	(1,233)
Cash and cash equivalents in statement of cash flows at beginning of period (1-a)	**1,420,863**	**1,584,868**
2) Cash in statement of financial position at end of period	1,196,325	1,421,939
b) Net foreign exchange gains (losses) on cash at end of period	9	1,076
Cash and cash equivalents in statement of cash flows at end of period (2-b)	**1,196,316**	**1,420,863**
I. Change in cash in statement of financial position (2-1)	(225,614)	(161,696)
II. Change in net foreign exchange gains (losses) on cash (b-a)	(1,067)	2,309
Change in cash in statement of cash flows (I. - II.)	**(224,547)**	**(164,005)**

* 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.

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Change in other financial assets in statement of financial position	**376,755**	**1,615,520**
Change in net receivables in statement of financial position	**36,884**	**(385,877)**
Change in lease receivables in financial assets – adjustment to investment activity	(391,199)	(1,614,361)
Change in lease receivables - adjustment to investment activity	(29,292)	(111,387)
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	67,601	(3,735)
Other	1,061	(2,058)
Change in net receivables in statement of cash flows	**61,810**	**(501,898)**

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Change in inventory in statement of financial position	**462,389**	**(505,279)**
Tangible assets under construction transferred to inventory - adjustment to investment activity	-	43
Change in inventory in statement of cash flows	**462,389**	**(505,236)**

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Change in provisions in statement of financial position	**(119,322)**	**340,296**
Change in provision for well decommissioning costs which adjusts property, plant and equipment - adjustment to investment activity	111,211	(301,940)
Change in provisions due to deconsolidation of Polskie LNG Sp. z o.o.	-	199
Change in provisions in statement of cash flows	**(8,111)**	**38,555**

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	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Change in current liabilities in statement of financial position	**(489,123)**	**814,559**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment		39,496
Change in liabilities due to deconsolidation of Polskie LNG Sp. z o.o.	(81,750)	7,170
Other	-	-
Change in current liabilities in statement of cash flows	**(570,873)**	**861,225**

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Change in other assets in statement of financial position	**(14,030)**	**(4,470)**
Change in prepayments in statement of financial position	**15,009**	**12,093**
Prepayments related to tangible assets leased to third parties – reclassification within operating activity	-	(18,487)
Change in prepayments due to deconsolidation of Polskie LNG Sp. z o.o.	-	(84)
Change in prepayments in statement of cash flows	**979**	**(10,948)**

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Change in deferred income in statement of financial position	**(10,475)**	**148,676**
Deferred income related to tangible assets leased to third parties – reclassification within operating activity	8	(39)
Non-current assets received free of charge	-	(577)
Change in deferred income due to deconsolidation of Polskie LNG Sp. z o.o.	(191)	156
Change in deferred income in statement of cash flows	**(10,658)**	**148,216**

Other net items in operating activity	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Derivatives	407,322	(255,835)
Expenditure on non-financial non-current assets which was charged to expense	236,675	184,562
Other	40,641	(34,506)
Total	**684,638**	**(105,779)**

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34. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

34.1. Financial Instruments by Category (net carrying values)

	Dec 31 2009	Dec 31 2008
Financial assets at fair value through profit or loss	-	-
Financial assets available for sale (unlisted shares)	30,181	15,255
Financial assets available for sale (listed shares)	59,608	27,680
Financial investments held to maturity	-	-
Loans and receivables	4,609,658	5,286,459
Positive value of derivatives*	18,002	174,186
Cash (cash in hand and cash at banks, cheques and cash in transit)	333,798	162,907
Financial liabilities at amortised cost	3,713,818	3,004,676
Negative value of derivatives*	260,428	16,723

*On April 1st 2009, the Parent Undertaking commenced to apply hedge accounting in line with IAS 39.

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

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

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Financial assets at fair value through profit or loss	-	-
Financial assets available for sale	47	353
Impairment recognised in profit or loss for period	47	353
Financial investments held to maturity	-	-
Loans and receivables	2,560	248,117
Interest on deposits, BSB, REPO	38,026	60,733
Interest on receivables*	95,127	163,600
Interest on loans advanced	7,453	10,095
Net income from short-term securities	6,297	64,167
Impairment losses on receivables	(236,816)	(81,201)
Impairment losses on loans	92,818	6,736
Foreign currency measurement of loans advanced in foreign currencies	(345)	23,987
Positive value of derivatives	210,165	612,715
Financial liabilities at amortised cost	(55,024)	(27,182)
Negative value of derivatives	(478,723)	(252,264)
Total effect on profit or loss	**(320,975)**	**581,739**

* Including PLN 42,235 thousand of interest on receivables under finance lease (PLN 125,374 thousand in 2008).

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Financial assets available for sale (valuation charged directly to equity)	31,880	(50,320)
Total effect on equity	**31,880**	**(50,320)**

The revaluation of financial instruments recognised directly in equity relates in entirety to shares in Zakłady Azotowe w Tarnowie-Mościcach S.A.

(PLN '000)

34.3. Financial Risk Management Objectives and Policies

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

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

Credit Risk

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

- loans advanced
- trade receivables
- deposits
- financial guarantees issued
- 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 2009	Dec 31 2008
Loans advanced	1,475	-
Deposits with other entities (bank deposits, BSB, REPO)	870,548	1,265,778
Trade receivables	3,737,635	4,020,681
Positive value of derivatives	18,002	174,186
Financial guarantees issued	8,089,326	8,276,643
Total	**12,716,986**	**13,737,288**

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

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

In order to minimise the risk of uncollectible receivables under sale of gas fuel, uniform rules pertaining to securing 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 Parent Undertaking conducts ongoing analyses of how customers perform their contractual obligations related to financial settlements. Under the majority 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:

- 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.;
- Surety.

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

The balance of receivables from customers is monitored on an ongoing basis, in line with internal procedures applicable at the Parent Undertaking. If a customer's failure to make a payment when due has been identified, the Company takes appropriate measures to collect the debt.
The debt-collection measures are governed by "The Guidelines for Monitoring and Collection of Receivables from Customers Buying Gas/Crude Oil/Other Products" and "Interest Receivable Management Procedure". During debt collection, legal tools are used and debt-collection measures are taken to assess the level and causes of associated risk. In this respect, standard steps of debt-collection are taken: a payment demand, a telephone call to the customer, notice and discontinuance of gas fuel supply with simultaneous termination of the agreement under Art. 6.3a of the Polish Energy Law. If these measures fail, a suit is filed with the court and an application is filed to enter the customer in the National Register of Debts maintained by Biuro Informacji Gospodarczej S.A. of Wrocław.
Statutory interest is charged on delayed payments.
In the event of a temporary deterioration in a customer's financial standing, at the customer's request, an agreement is concluded providing for the repayment of debt in instalments and simultaneously negotiations are undertaken to receive additional contract performance security.
As a rule, no agreements on cancellation of principal and interest are currently concluded.
A customer's request 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 2009, receivables which are past due but not impaired, disclosed in the consolidated statement of financial position, stood at PLN 550,168 thousand (PLN 797,748 thousand as at the end of 2008).

(PLN '000)

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

Period of delay	Dec 31 2009	Dec 31 2008
Up to 1 month	417,986	639,081
From 1 to 3 months	101,394	152,019
From 3 months to 1 year	23,032	5,970
From 1 year to 5 years	7,756	587
Over 5 years	-	91
Total net past due receivables	**550,168**	**797,748**

The Group identifies, measures and minimises its credit exposure to individual banks with which it executes investment transactions. The reduction of credit exposure was achieved through the diversification of the portfolio of counterparties (mainly banks) with which the Group executes investment transactions. Moreover, the Group has concluded Framework Agreements with all banks with which it invests funds. These Framework Agreements stipulate detailed terms and conditions for execution and settlement of any financial transactions. In 2009, the Group invested its significant long-term excess liquidity in credit risk free highly liquid instruments, including in particular treasury bills and treasury bonds issued by the State Treasury.
The Group measures the related credit risk by regularly reviewing the banks' financial standings, as reflected in ratings assigned by rating agencies such as Fitch, Standards&Poor's and Moody's.

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

As in the case of the risk related to investment transactions, the risk under purchased guarantees is measured by regularly reviewing the financial standing of the banks issuing the guarantees.

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

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

Market Risk

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

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

Currency Risk

The Group defines currency risk as the probability that its financial performance will be adversely affected by changes in the price of one currency against another.
In 2009, some of the Group's financial liabilities towards financial institutions were denominated in the euro. The largest item of those liabilities was a credit facility in the amount of EUR 600m.
Trade payables under long-term contracts for gas fuel deliveries are denominated in the US dollar and the euro.
The scale of the Group's exposure to currency risk is significant, as further discussed in the section devoted to sensitivity analysis.
The hedging measures implemented by the Parent Undertaking are mainly intended to provide protection against exchange-rate volatility 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 Group defines interest-rate risk as the probability that its financial performance will be adversely affected by changes in interest rates.
As the interest-rate risk associated with loans advanced by the Group was not significant, the Group did not hedge that risk.
In 2009, the Parent Undertaking had a credit facility available to finance its operations. As at December 31st 2009, drawdowns under the facility amounted to PLN 1,900m. The facility bears interest at a variable rate of 1M WIBOR plus the bank's margin. Given that the interest-rate risk associated with the facility is negligible, it remains unhedged. Similarly, the Group did not hedge the interest-rate risk associated with loans contracted by its subsidiaries, which was also insignificant.
Market risk (including currency and interest-rate risk) is assessed by the Parent Undertaking on a daily basis, by monitoring VaR. VaR (Value at Risk) means that the maximum loss arising from a change in the market (fair) value will not exceed that value over the next n business days, given a specified probability level (e.g. 99%). VaR is estimated based on the variance–covariance approach, using the Mondrian application.

Commodity Risk

The Group defines commodity risk as the probability that its financial performance will be adversely affected by changes in commodity prices.
The price risk to which the Group is exposed, mainly in connection with its contracts for gas fuel deliveries, is substantial. It stems from volatility in the prices of oil products quoted on 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. Furthermore, the Polish Energy Law contains provisions permitting the Company to apply for a tariff amendment if the cost of purchasing gas fuel rises by more than 5% in one quarter.

In 2009, the Parent Undertaking did not identify in detail or hedge against commodity risk.
As at December 31st 2009, the Group 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), which was exposed to the price volatility risk. Given that the shares are held by the Company as a long-term equity investment and that there is no instrument available on the market which could be used as a hedge against volatility of their price, the Company did not hedge that risk. Changes in the value this financial instrument, recognised directly in equity, are presented in Note 34.2.

Liquidity Risk

The main objective behind the liquidity risk management is to monitor and plan the liquidity levels on an ongoing basis. The liquidity levels are monitored through projections of future cash-flow, covering a period of at least 12 months, which are regularly updated (once a month). PGNiG reviews the actual cash flows against projections at regular intervals – an exercise which comprises an analysis of unmet cash-flow targets, as well as the related causes and effects. The liquidity risk should not be equated exclusively with the risk of loss of liquidity by the Company. An equally serious threat is that of having excess structural liquidity, which could adversely affect the Group's profitability.
The Group monitors and plans its liquidity levels on a continuous basis. In order to protect itself against the liquidity risk, as at the end of December 31st 2009 the Group was party to credit facility agreements for up to PLN 2,830,600 thousand (PLN 2,895,455 thousand, as at the end of 2008). For more detailed information, refer to Note 27.1.
As at December 31st 2009, the Parent Undertaking had drawn PLN 1,900m under its EUR 600m credit facility. The other Group companies' drawdowns under their credit lines were much higher compared with the end of 2008.

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

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

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

Financial liabilities at amortised cost, by maturity

Dec 31 2009	Liabilities under loans and borrowings	Finance lease liabilities	Trade payables	**Total expenditure**
up to 1 year	1,954,883	31,285	2,733,417	4,719,585
from 1 to 5 years	2,000	46,194	16,017	64,211
over 5 years	-	-	2,629	2,629
Total	**1,956,883**	**77,479**	**2,752,063**	**4,786,425**

Dec 31 2008	Liabilities under loans and borrowings	Finance lease liabilities	Trade payables	**Total expenditure**
up to 1 year	843,996	30,127	3,222,540	4,096,663
from 1 to 5 years	-	43,243	17,810	61,053
over 5 years	-	-	6,252	6,252
Total	**843,996**	**73,370**	**3,246,602**	**4,163,968**

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

Derivative instruments by maturity

	Net book value as at Dec 31 2009	**Contractual cash flows, incl.:**	**up to 1 year**	**from 1 to 5 years**	**over 5 years**
-interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	(254,586)	(246,735)	558	(247,293)	-
- inflows	-	1,859,021	98,030	1,760,991	-
- outflows	-	(2,105,756)	(97,472)	(2,008,284)	-
*- currency options***	(13,778)	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- option premiums paid	25,938	-	-	-	-
Total	**(242,426)**	**(246,735)**	**558**	**(247,293)**	**-**

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	Net book value as at Dec 31 2008*	Contractual cash flows, incl.:	up to 1 year	from 1 to 5 years	over 5 years
-interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	2,527	68,633	9,961	58,672	-
- inflows	-	1,349,674	95,874	1,253,800	-
- outflows	-	(1,281,041)	(85,913)	(1,195,128)	-
*- currency options***	122,166	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
- option premiums paid	32,770	-	-	-	-
Total	**157,463**	**68,633**	**9,961**	**58 ,72**	**-**

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

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

Risk Management Policy

To ensure effective financial risk management, on February 17th 2003 the Management Board of the Parent Undertaking implemented the "Policy of Financial Risk Management at PGNiG S.A." which defines the distribution of functions and responsibilities between individual organisational units of the Company in the process of managing and monitoring the financial risk.

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

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

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

Sensitivity Analysis

To determine a reliable range of changes that may occur with respect to particular currency risk factors, the Parent Undertaking used the market (implied) volatility level for a half-year period and assumed 15% as the average value for the purpose of the sensitivity analysis as at the end of 2009 (for 2008, the assumed volatility was 30%). 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 2009 indicate that the net profit would have been lower by PLN 245.15m had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 15%, *ceteris paribus* (profit lower by PLN 234.56m on the back of stronger NOK and by PLN 16.7m due to stronger USD vs. profit's rise by PLN 6.32m due to stronger EUR and by PLN 0.21m due to the strengthening of other currencies).
The most significant factors with a bearing on the outcome of the sensitivity analysis are lower positive valuation and higher negative valuation of CCIRS derivatives hedging the loan advanced to PGNiG Norway AS, which is eliminated from the consolidated financial statements.

If the loan was recognised in the statement of financial position (which is the case in the non-consolidated financial statements), the cash flows related to the loan and hedging transactions would

offset one another. As a result, the changes in positive (negative) valuation of the loan would be offset by negative (positive) changes in the valuation of CCIRS transactions. In aggregate, the items would be insensitive to the exchange rate and interest rate changes.
Lower profit would be mainly attributable to an increase in the negative portion of the fair value of financial derivatives (negative fair value of swap transactions).
The adverse effect on the result of financial instruments in NOK would be slightly reduced by the increase in the positive portion of the fair value of financial derivatives executed on USD and EUR and the valuation of assets in those currencies.
With exchange rates higher by 15%, the positive portion of the fair value of financial derivatives executed on USD would grow and so would EUR/PLN and USD/PLN foreign exchange losses on trade payables. A slight increase would also be posted in the negative valuation of derivatives executed on EUR.

The net profit as at December 31st 2009 would be higher by PLN 247.22m if the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 15%, *ceteris paribus* (profit higher by PLN 234.56m on the back of weaker NOK and by PLN 21.17m due to weaker USD against a drop by PLN 8.72m due to weaker EUR and PLN 0.21m due to the depreciation of other currencies). The positive financial result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). The positive financial result would be slightly reduced by the decrease in the positive portion of the fair value of financial derivatives executed on USD hedging the liabilities and expenses related to purchases of gas fuel.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2008 indicated that the net profit would have been lower by PLN 271.51m had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 30%, *ceteris paribus* (profit lower by PLN 296.53m on the back of stronger NOK, by PLN 5.65m due to stronger USD and by PLN 0.28m due to the strengthening of other currencies, vs. its growth by PLN 30.94m due to stronger EUR).

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

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

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

The adverse effect on the result on financial instruments in NOK would be partially reduced by the increase in the positive portion of the fair value of financial derivatives executed on USD and EUR and the valuation of assets in those currencies. With the exchange rates higher by 30%, the positive portion of the fair value of financial derivatives executed on USD and EUR would grow and so would foreign exchange losses on trade payables related to those currencies.

The net profit as at December 31st 2008 would have been higher by PLN 419.73m had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 30%, ceteris paribus (profit higher by PLN 316.93m on the back of weaker NOK and by PLN 111.96m due to weaker USD vs. a PLN 9.43m drop due to weaker EUR and a PLN 0.28m growth due to the depreciation of other currencies). The positive financial result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). The positive financial result would be largely reduced by the decrease in the positive portion of the fair value of financial derivatives executed on USD hedging the liabilities and expenses related to purchases of gas fuel.

The following pages present detailed information on the analysis of sensitivity of the Group's currency financial instruments to exchange rate fluctuations in 2009 and 2008.

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Sensitivity of Financial Instruments in Foreign Currencies to Exchange Rate Fluctuations

	Net book value as at Dec 31 2009	**Currency risk**							
	Exchange rate change:	*15%*				*-15%*			
		for EUR	*for USD*	*for NOK*	*for other currencies*	*for EUR*	*for USD*	*for NOK*	*for other currencies*
Financial assets									
Financial assets available for sale**	13,819	-	-	-	-	-	-	-	-
Other financial assets	167	23	2	-	-	(23)	(2)	-	-
Trade and other receivables	315,160	19,063	8,926	13,729	5,555	(19,063)	(8,926)	(13,729)	(5,555)
Financial assets held for trading	-	-	-	-	-	-	-	-	-
Derivative financial instruments*	18,002	-	26,579	-	-	(1,821)	(21,063)	302,572	-
Cash and cash equivalents	291,372	6,510	7,954	27,541	1,701	(6,510)	(7,954)	(27,541)	(1,701)
Effect on financial assets before tax		**25,596**	**43,461**	**41,270**	**7,256**	**(27,417)**	**(37,945)**	**261,302**	**(7,256)**
Tax at 19%		(4,863)	(8,258)	(7,841)	(1,379)	5,209	7,210	(49,647)	1,379
Effect on financial assets after tax		**20,733**	**35,203**	**33,429**	**5,877**	**(22,208)**	**(30,735)**	**211,655**	**(5,877)**
Total currencies			*95,242*				*152,835*		
Financial liabilities									
Loans, borrowings and debt securities (including finance lease)	32,833	103	1,110	-	3,711	(103)	(1,110)	-	(3,711)
Trade and other payables	744,009	16,546	62,970	28,279	3,807	(16,546)	(62,970)	(28,279)	(3,807)
Liabilities under derivative financial instruments*	260,428	1,143	-	302,572	-	-	-	-	-
Effect on financial liabilities before tax		**17,792**	**64,080**	**330,851**	**7,518**	**(16,649)**	**(64,080)**	**(28,279)**	**(7,518)**
Tax at 19%	-	(3,381)	(12,175)	(62,862)	(1,428)	3,163	12,175	5,373	1,428
Effect on financial liabilities after tax		**14,411**	**51,905**	**267,989**	**6,090**	**(13,486)**	**(51,905)**	**(22,906)**	**(6,090)**
Total currencies			*340,395*				*(94,387)*		
Total increase/decrease		6,322	(16,702)	(234,560)	(213)	(8,722)	21,170	234,561	213
Total currencies			**(245,153)**				**247,222**		
Exchange rates as at the balance-sheet date and their change:									
EUR/PLN	4.1082	0.0000	4.1082	4.1082	4.1082	0.0000	4.1082	4.1082	4.1082
USD/PLN	2.8503	2.8503	0.0000	2.8503	2.8503	2.8503	0.0000	2.8503	2.8503
NOK/PLN	0.4946	0.4946	0.4946	0.0000	0.4946	0.4946	0.4946	0.0000	0.4946

* 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 Parent Undertaking as of April 1st 2009, part of the changes in the valuation of financial derivatives will be charged directly to equity. In the case of an increase in exchange rates by 15%, equity would grow by PLN 86,869 thousand (PLN 70,364 thousand after tax). In the case of a drop in exchange rates by 15%, equity would be lower by PLN 61,842 thousand (PLN 50,092 thousand after tax).
** The item includes shares which as of the present reporting period the Group 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.

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	Net book value as at Dec 31 2008	Currency risk							
	Exchange rate change:	*30%*				*-30%*			
		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	435	125	5	-	-	(125)	(5)	-	-
Other financial assets	-	-	-	-	-	-	-	-	-
Trade and other receivables	123,757	5,465	25,013	438	6,210	(5,465)	(25,013)	(438)	(6,210)
Financial assets held for trading	-	-	-	-	-	-	-	-	-
Derivative financial instruments	174,186	63,474	251,441	(7,489)	-	(36,921)	(113,871)	368,753	-
Cash and cash equivalents	92,830	10,826	4,602	7,302	5,119	(10,826)	(4,602)	(7,302)	(5,119)
Effect on financial assets before tax		**79,890**	**281,061**	**251**	**11,329**	**(53,337)**	**(143,491)**	**361,013**	**(11,329)**
Tax at 19%		(15,179)	(53,402)	(48)	(2,152)	10,134	27,263	(68,592)	2,152
Effect on financial assets after tax		**64,711**	**227,659**	**203**	**9,177**	**(43,203)**	**(116,228)**	**292,421**	**(9,177)**
Total currencies		*301,750*				*123,813*			
Financial liabilities									
Loans, borrowings and debt securities (including finance lease)	39,578	-	3,934	-	7,939	-	(3,934)	-	(7,939)
Trade and other payables	1,182,740	41,692	284,097	25,301	3,732	(41,692)	(284,097)	(25,301)	(3,732)
Liabilities under derivative financial instruments	16,723	-	-	341,033	-	-	6,322	(4,962)	-
Effect on financial liabilities before tax		**41,692**	**288,031**	**366,334**	**11,671**	**(41,692)**	**(281,709)**	**(30,263)**	**(11,671)**
Tax at 19%	-	(7,922)	(54,726)	(69,603)	(2,218)	7,922	53,525	5,750	2,218
Effect on financial liabilities after tax		**33,770**	**233,305**	**296,731**	**9,453**	**(33,770)**	**(228,184)**	**(24,513)**	**(9,453)**
Total currencies		*573,259*				*(295,920)*			
Total increase/decrease		30,941	(5,646)	(296,528)	(276)	(9,433)	111,956	316,934	276
Total currencies		**(271,509)**				**419,733**			
Exchange rates as at the balance-sheet date and their change:									
EUR/PLN	4.1724	5.4241	4.1724	4.1724	4.1724	2.9207	4.1724	4.1724	4.1724
USD/PLN	2.9618	2.9618	3.8503	2.9618	2.9618	2.9618	2.0733	2.9618	2.9618
NOK/PLN	0.4238	0.4238	0.4238	0.5509	0.4238	0.4238	0.4238	0.2967	0.4238

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The Group analysed the sensitivity of financial instruments related to loans advanced, contracted loans and lease liabilities based on a floating interest rate. To determine a reliable range of changes that may occur with respect to particular interest rate risk factors, the Group uses the average values of changes in interest rates in the previous year (excluding the interest rates in which no change has occurred). The average range of interest rate fluctuations used in the sensitivity analysis for 2009 was +/-200 basis points (the range for 2008 was +/-300 basis points).

As at December 31st 2009, the sensitivity of liabilities on floating-rate loans and leases to interest rate changes by +/-200 basis points was +/-PLN 40.55m.

As at December 31st 2008, the sensitivity of liabilities on floating-rate loans and leases to interest rate changes by +/-300 basis points was +/-PLN 27.38m.

Sensitivity of Financial Instruments to Interest Rate Changes

	Net book value as at Dec 31 2009	*change:* **+200 bp**	**-200 bp**
Contracted loans	1,956,883	39,138	(39,138)
Lease liabilities	71,280	1,426	(1,426)
Total	**2,028,163**	**40,564**	**(40,564)**

	Net book value as at Dec 31 2008	*change:* **+300 bp**	**-300 bp**
Contracted loans	843,996	25,320	(25,320)
Lease liabilities	68,814	2,064	(2,064)
Total	**912,810**	**27,384**	**(27,384)**

As it is impossible to make a precise assessment of commodity price risk, the sensitivity analysis with respect to that risk has not been carried out.

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35. DERIVATIVE INSTRUMENTS

Derivative Valuation Methods

In accordance with the International Financial Reporting Standards, in the financial statements the Parent Undertaking discloses all derivative instruments at fair value.

As at December 31st 2009, the Parent Undertaking held three types of derivative instruments: currency basis swaps, purchased call options and risk reversal strategies (purchase of call options and sale of put options). Valuation to fair value was performed with the use of Exante application.

Call and put options were measured at fair value in accordance with the Garman-Kohlhagen model on the basis of such market data as interest rates, foreign-exchange rates and volatility as at December 31st 2009.

Hedge Accounting

From April 1st 2009, the Parent Undertaking applies hedge accounting for cash flows in foreign-exchange transactions. The detailed policies are presented in Note 2.3.13. Since, as at December 31st 2009, the entity did not recognise the portion constituting effective hedging of changes in fair value of derivatives designated to hedge cash flows, all changes in the fair value of open derivatives were presented in the income statement for the current reporting period. Hedge accounting was not applied in the previous periods, therefore all fair value changes were charged to the income statement of a given reporting period.

Derivative Instruments

Hedge item	Par value in the currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at the instrument's fair value	
					Dec 31 2009	Dec 31 2008
			Cross Currency Interest Rate Swap			
PGNiG Norway loan	NOK 300m	Nov 8 2007	Jan 17 2011	0.4686	(13,119)	3,430
PGNiG Norway loan	NOK 300m	Nov 12 2007	Jan 17 2011	0.4627	(14,979)	(1)
PGNiG Norway loan	NOK 300m	Nov 15 2007	Jan 17 2011	0.4596	(15,939)	1,645
PGNiG Norway loan	NOK 300m	Nov 19 2007	Jan 17 2011	0.4534	(17,859)	(2,954)
PGNiG Norway loan	NOK 300m	Nov 22 2007	Jan 17 2011	0.4588	(16,187)	1,388
PGNiG Norway loan	NOK 300m	Nov 30 2007	Jan 17 2011	0.4461	(20,091)	(1,682)
PGNiG Norway loan	NOK 344m	Jan 18 2008	Jan 17 2011	0.4530	(20,539)	1,026
PGNiG Norway loan	NOK 344m	Jan 18 2008	Jan 17 2011	0.4530	(20,554)	(325)
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	(27,616)	-
PGNiG Norway loan	NOK 322m	Jan 13 2009	Jan 16 2012	0.4400	(26,280)	-
					(254,586)	**2,527**
			Call options			
Payments for gas	USD 10m	Jul 25 2008	Jan 9 2009	2.1900	-	7,738
Payments for gas	EUR 5m	Jul 25 2008	Jan 9 2009	3.3200	-	4,270
Payments for gas	USD 20m	Jul 28 2008	Jan 9 2009	2.3000	-	13,279
Payments for gas	USD 20m	Jul 28 2008	Jan 9 2009	1.9100	-	-
Payments for gas	USD 15m	Jul 28 2008	Jan 9 2009	2.2000	-	11,457
Payments for gas	USD 15m	July29 2008	Jan 9 2009	2.2200	-	11,158
Payments for gas	USD 15m	Jul 29 2008	Jan 20 2009	2.2200	-	11,197
Payments for gas	EUR 5m	Jul 29 2008	Jan 20 2009	3.3200	-	4,279
Payments for gas	USD 20m	Jul 31 2008	Jan 20 2009	2.3100	-	13,134
Payments for gas	USD 20m	Jul 31 2008	Jan 20 2009	2.2300	-	14,729
Payments for gas	USD 20m	Aug 1 2008	Jan 9 2009	2.3350	-	12,579
Payments for gas	EUR 6m	Sep 17 2008	Jan 9 2009	3.4500	-	4,345
Payments for gas	EUR 7m	Sep 17 2008	Feb 10 2009	3.4900	-	4,852

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Derivative Instruments – continued

Hedge item	Par value in the currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at the instrument's fair value	
					Dec 31 2009	Dec 31 2008
			Call options			
Payments for gas	EUR 8m	Sep 18 2008	Feb 20 2009	3.5050	-	5,463
Payments for gas	EUR 8m	Sep 19 2008	Mar 10 2009	3.4600	-	5,848
Payments for gas	EUR 9m	Sep 22 2008	Mar 20 2009	3.4400	-	6,785
Payments for gas	EUR 3m	Sep 23 2008	Feb 20 2009	3.4300	-	2,265
Payments for gas	USD 20m	Oct 15 2008	Feb 10 2009	2.8000	-	4,819
Payments for gas	USD 10m	Nov 5 2008	Feb 10 2009	3.0000	-	1,392
Payments for gas	USD 15m	Nov 5 2008	Jan 9 2009	3.3000	-	114
Payments for gas	USD 10m	Nov 13 2008	Feb 10 2009	3.4000	-	506
Payments for gas	USD 10m	Nov 13 2008	Jan 20 2009	3.3800	-	193
Payments for gas	USD 10m	Nov 14 2008	Feb 10 2009	3.3000	-	639
Payments for gas	USD 10m	Nov 14 2008	Feb 10 2009	3.3000	-	639
Payments for gas	USD 10m	Nov 17 2008	Jan 20 2009	3.3000	-	264
Payments for gas	USD 10m	Nov 17 2008	Feb 10 2009	3.3800	-	530
Payments for gas	USD 10m	Nov 24 2008	Feb 20 2009	3.4500	-	597
Payments for gas	USD 10m	Nov 24 2008	Feb 20 2009	3.4500	-	597
Payments for gas	USD 10m	Nov 25 2008	Mar 10 2009	3.4500	-	762
Payments for gas	USD 10m	Nov 25 2008	Mar 10 2009	3.4500	-	762
Payments for gas	USD 10m	Nov 25 2008	Feb 20 2009	3.4200	-	633
Payments for gas	USD 10m	Nov 26 2008	Mar 10 2009	3.4000	-	832
Payments for gas	USD 10m	Nov 27 2008	Mar 10 2009	3.3300	-	944
Payments for gas	USD 10m	Nov 28 2008	Mar 20 2009	3.4000	-	945
Payments for gas	USD 10m	Dec 8 2008	Mar 10 2009	3.4000	-	832
Payments for gas	USD 10m	Dec 8 2008	Mar 10 2009	3.4000	-	832
Payments for gas	USD 10m	Dec 8 2008	Feb 20 2009	3.3800	-	686
Payments for gas	USD 10m	Dec 9 2008	Feb 20 2009	3.4000	-	659
Payments for gas	USD 10m	Dec 9 2008	Feb 20 2009	3.4000	-	659
Payments for gas	USD 10m	Dec 12 2008	Mar 10 2009	3.4000	-	832
Payments for gas	USD 10m	Dec 15 2008	Mar 20 2009	3.4000	-	945
Payments for gas	USD 10m	Dec 15 2008	Mar 20 2009	3.4000	-	945
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 5m	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 5m	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	-

(PLN '000)

Derivative Instruments – continued

Hedge item	Par value in the currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at the instrument's fair value	
					Dec 31 2009	Dec 31 2009
			Call options – continued			
Payments for gas	USD 10m	Sep 5 2009	Jan 19 2010	3.2000	4	-
Payments for gas	USD 10m	Sep 6 2009	Jan 8 2010	3.1000	-	-
Payments for gas	USD 10m	Sep 12 2009	Mar 19 2010	3.2500	205	-
Payments for gas	USD 10m	Sep 12 2009	Jan 8 2010	3.1200	-	-
Payments for gas	USD 10m	Sep 13 2009	Jan 8 2010	3.1000	-	-
Payments for gas	USD 10m	Sep 14 2009	Jan 8 2010	3.0800	1	-
Payments for gas	EUR 5m	Sep 14 2009	Mar 10 2010	4.5000	106	-
Payments for gas	USD 10m	Sep 15 2009	Jan 19 2010	3.0500	44	-
Payments for gas	USD 10m	Sep 20 2009	Apr 9 2010	3.2700	280	-
Payments for gas	EUR 7m	Sep 20 2009	Jan 19 2010	4.4000	13	-
Payments for gas	EUR 6m	Sep 21 2009	Feb 19 2010	4.4000	124	-
Payments for gas	USD 10m	Sep 23 2009	Apr 9 2010	3.2700	280	-
Payments for gas	USD 10m	Sep 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 13 2009	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	-
					18,002	**154,936**
			Put options			
Payments for gas	USD 20m	Jul 31 2008	Jan 20 2009	1.9230	-	-
Payments for gas	USD 20m	Aug 1 2008	Jan 9 2009	1.9300	-	-
Payments for gas	USD15m	Nov 5 2008	Jan 9 2009	2.4705	-	-
Payments for gas	EUR 5m	Jul 16 2009	Jan 8 2010	2.8030	(83)	-
Payments for gas	USD 15m	Jul 16 2009	Jan 8 2010	2.8100	(99)	-
Payments for gas	USD 15m	Jul 20 2009	Jan 8 2010	2.7980	(73)	-
Payments for gas	USD 15m	Jul 24 2009	Jan 19 2010	2.7285	(58)	-
Payments for gas	USD 15m	Jul 28 2009	Jan 19 2010	2.6900	(27)	-
Payments for gas	USD 15m	Aug 20 2009	Jan 19 2010	2.7425	(75)	-
Payments for gas	USD 15m	Aug 21 2009	Feb 19 2010	2.7070	(214)	-
Payments for gas	USD 15m	Aug 21 2009	Feb 10 2010	2.6720	(113)	-

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Derivative Instruments – continued

Hedge item	Par value in the currency	Date of hedging transaction	Maturity date	Exercise price (exercise price range)	Measurement at the instrument's fair value	
					Dec 31 2009	Dec 31 2009
			Put options – continued			
Payments for gas	USD 15m	Aug 25 2009	Jan 8 2010	2.6350	-	-
Payments for gas	USD 15m	Sep 7 2009	Mar 10 2010	2.7025	(292)	-
Payments for gas	USD 15m	Sep 8 2009	Feb 10 2010	2.6570	(94)	-
Payments for gas	USD 15m	Sep 8 2009	Mar 10 2010	2.6595	(207)	-
Payments for gas	USD 15m	Sep 10 2009	Feb 19 2010	2.6575	(131)	-
Payments for gas	USD 15m	Sep 14 2009	Feb 19 2010	2.6800	(165)	-
Payments for gas	USD 15m	Sep 16 2009	Mar 19 2010	2.6445	(214)	-
Payments for gas	USD 15m	Sep 17 2009	Mar 19 2010	2.6070	(158)	-
Payments for gas	USD 15m	Oct 20 2009	Apr 9 2010	2.5980	(204)	-
Payments for gas	USD 15m	Oct 23 2009	Apr 9 2010	2.5900	(192)	-
Payments for gas	USD 15m	Nov 6 2009	Apr 20 2010	2.6600	(343)	-
Payments for gas	USD 15m	Nov 6 2009	May 10 2010	2.6685	(423)	-
Payments for gas	USD 15m	Nov 9 2009	Apr 20 2010	2.6320	(286)	-
Payments for gas	USD 15m	Nov 9 2009	May 10 2010	2.6300	(339)	-
Payments for gas	USD 15m	Nov 12 2009	May 10 2010	2.5800	(249)	-
Payments for gas	USD 15m	Nov 13 2009	Apr 9 2010	2.5900	(192)	-
Payments for gas	USD 15m	Nov 18 2009	Apr 9 2010	2.5550	(147)	-
Payments for gas	USD 15m	Nov 23 2009	Apr 20 2010	2.5680	(185)	-
Payments for gas	USD 15m	Nov 23 2009	May 20 2010	2.5850	(285)	-
Payments for gas	USD 15m	Nov 23 2009	May 20 2010	2.5680	(257)	-
Payments for gas	USD 15m	Dec 1 2009	May 20 2010	2.5665	(255)	-
Payments for gas	USD 16m	Dec 2 2009	Jun 10 2010	2.5280	(239)	-
Payments for gas	USD 17m	Dec 3 2009	Jun 18 2010	2.5200	(243)	-
					(5,842)	**-**
Total					**(242,426)**	**157,463**
	including:	premiums on options	assets		**25,938**	**32,770**
		positive valuation*	assets		**(7,936)**	**141,416**
		negative valuation	liabilities		**(260,428)**	**(16,723)**

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

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 the event of delivery of derivative and the hedge item, the Company's equity is decreased/increased, and the effective value is recognized to profit and loss account to the place where the costs of the hedge item arise. The ineffective part and fair value of transactions which are not designated as hedge transactions are recognized in other item of the profit/loss for the period.

	Jan 1– Dec 31 2009	Jan 1– Dec 31 2008
Profit/(loss) on valuation of derivative instruments – unrealised	(270,890)	143,839
Profit/(loss) on derivative instruments – realised	2,332	216,612
Total profit/(loss) on derivative instruments recognised in the income statement	**(268,558)**	**360,451**
including:		
recognised in other net operating expenses	(229,771)	360,451
recognised in the costs of consumption of raw materials and materials*	(38,787)	-

*From April 1st 2009, the Parent Undertaking applies hedge accounting.

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36. CONTINGENT LIABILITIES

36.1. Contingent Liabilities under Issued Sureties and Guarantees

Beneficiary	Contingent liability granted in the currency	Currency of	Contingent liability* granted in the złoty	Expiry date	Type of contingent liability granted
Contingent liabilities granted by PGNiG S.A.					
NATIONAL OIL CORPORATION	108,000	USD	307,832	Jun 1 2013	guarantee
STATE OF NORWAY	627,556	EUR	2,578,124	Jan 1 2050	guarantee
POLISH BRANCH OF SOCIETE GENERALE S.A.	5,299	EUR	15,103	Jun 22 2010	guarantee surety
TMF NEDERLAND BV	1,000	EUR	4,108	Nov 30 2010	guarantee
Contingent liabilities granted by Gas Distribution Companies					
Contingent liabilities granted by Gas Distribution Companies	1,250,000	EUR	5,135,250	Jan 27 2012	repayment guarantee
Contingent liabilities granted by GeofizykA Kraków Sp. z o.o.					
Customs Office in Pakistan	800	USD	2,280	Dec 31 2010	customs duty guarantee
Oil India Limited Libya	664	EUR	2,728	Mar 23 2010	performance bond
Komercni Banka AS	5,000	CZK	777	Jan 26 2010	bid bond guarantee
Nafta Gbely AS Slovakia	170	EUR	698	May 27 2010	performance bond
KGHM HMS Bergabu AG	18	EUR	74	Mar 10 2010	tender guarantee
Contingent liabilities granted by Geofizyka Toruń Sp. z o.o.					
Oil India	558	USD	1,589	Nov 15 2010	bank guarantee
Oil India	1,801	USD	5,133	Apr 15 2010	bank guarantee
Cairn	1,240	USD	3,534	Feb 8 2010	bank guarantee
Cairn	1,194	USD	3,403	Nov 11 2010	bank guarantee
Oil India	333	USD	949	Apr 15 2010	bank guarantee
ADANI	1,259	USD	3,590	Jul 25 2010	bank guarantee
ADANI	20,000	THB	1,714	Feb 11 2010	bank guarantee
Oil India	658	USD	1,874	Dec 17 2010	bank guarantee
PPC	1,598	USD	4,555	Dec 17 2010	bank guarantee
Other (each below PLN 500 thousand)	2,223	INR	137	Feb 10 2010	bank guarantee
Other (each below PLN 500 thousand)	50	EUR	205	2010	bank guarantee
Other (each below PLN 500 thousand)	255	USD	727	2010	bank guarantee
Other (each below PLN 500 thousand)	451	PLN	451	2009-2012	bank guarantee
Contingent liabilities granted by PNiG Jasło Sp. z o.o.					
RWE DEA GmbH	550	EUR	2,260	Jun 4 2010	performance bond
Contingent liabilities granted by BUG Gazobudowa Zabrze Sp. z o.o.					
GAZ-SYSTEM S.A.	388	PLN	388	May 30 2012	performance bond
IMP Promont Montaza Lubljana	308	EUR	1,266	Mar 8 2013	performance bond
Hydrobudowa Polska S.A. Przeźmierowo	2,298	PLN	2,298	Dec 31 2010	performance bond
GAZ-SYSTEM S.A.	655	PLN	655	Dec 30 2012	performance bond
ALKATKraków	1,519	PLN	1,519	Sep 1 2015	performance bond
Contingent liabilities granted by PN Diament Sp. z o.o.					
GS Engineering&Construction Poland Sp. z o.o.	535	PLN	535	Feb 14 2010	performance bond
Other (each below PLN 500 thousand)	2,270	PLN	2,270	2009-2013	performance bond
Contingent liabilities granted by Geovita Sp. z o.o.					
PKO BP S.A.	1,300	PLN	1,300	Mar 31 2010	deposit mortgage
PKO BP S.A.	2,000	PLN	2,000	Mar 31 2010	transfer of ownership rights to a claim under an insurance contract
Total			**8,089,326**		

* Contingent liabilities in the foreign currency translated into the złoty at exchange rates quoted by the National Bank of Poland for December 31st 2009.

As at the end of the previous period, contingent liabilities under granted sureties and guarantees amounted to PLN 8,276,643 thousand.

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As at December 31st 2009, the agreement concluded by PGNiG S.A and Gas Distribution Companies on September 22nd 2005 (for guarantees supporting Loan Agreement concluded between PGNiG S.A. and a bank syndicate on July 27th 2005) was in force. The agreement concerns irrevocable and unconditional guarantees granted, jointly and severally, by the Companies to Bank Handlowy w Warszawie S.A. (the Facility Agent) for timely repayment of a loan of up to EUR 1,250,000 thousand by the date falling 18 months from the termination of the agreement for Facility Tranche A, i.e. by January 27th 2012. The Company repaid EUR 600,000 thousand of the term loan and secured availability of a renewable facility of the same amount. The renewable facility was used both in 2009 and 2008. The loan is secured with guarantees granted by Gas Distribution Companies.

Table 36.1. does not show bank guarantees which were issued at the request of the Parent Undertaking to beneficiaries to whom the Parent Undertaking carries material liabilities under agreements for provision of goods and services. As at December 31st 2009, the value of the bank guarantees was PLN 912,546 thousand (PLN 754,714 thousand as at December 31st 2008).

36.2. Contingent Liabilities under Promissory Notes Outstanding

Beneficiary	Amount of promissory note issued in the currency	Currency	Amount of promissory note issued in the złoty	Expiry date
Promissory notes issued by PGNiG S.A.				
Polska Agencja Rozwoju Przedsiębiorczości	2,557	PLN	2,557	Dec 31 2014
Promissory notes issued by PNiG Jasło Sp. z o.o.				
Bank Pekao S.A.	5,000	PLN	5,000	Dec 31 2010
Bank Pekao S.A.	7,000	PLN	7,000	Dec 31 2010
ING BANK ŚLĄSKI S.A.	12,000	PLN	12,000	Aug 26 2010
Promissory notes issued by PN Diament Sp. z o.o.				
BRE BANK S.A.	4,000	PLN	4,000	unspecified
Promissory notes issued by BUG Gazobudowa Zabrze Sp. z o.o.				
PKN Orlen S.A.	20	PLN	20	Mar 14 2010
TU ALLIANZ Polska S.A.	8,000	PLN	8,000	Mar 14 2010
ERGO HESTIA S.A.	6,000	PLN	6,000	unspecified
PKN Orlen S.A.	10	PLN	10	unspecified
ING BANK ŚLĄSKI S.A.	6,000	PLN	6,000	Jan 30 2010
Deutsche Bank Polska S.A.	5,000	PLN	5,000	Jan 30 2010
Bank Pekao S.A.	3,000	PLN	3,000	Dec 31 2009
Bank Pekao S.A.	1,600	PLN	6,573	Jul 31 2010
Bank Pekao S.A.	180	PLN	741	Aug 31 2013
GENERALI TU S.A.	4,000	PLN	4,000	Aug 31 2010
Promissory notes issued by BN Naftomontaż Krosno Sp. z o.o.				
TU InterRisk S.A.	647	PLN	647	2010-2012
Promissory notes issued by Geovita Sp. z o.o.				
PKO BP S.A.	1,000	PLN	1,000	Mar 31 2010
Total			**71,548**	

As at the end of the previous period, contingent liabilities under promissory notes outstanding amounted to PLN 63,920 thousand.

36.3. 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 years 2001–2009. The related liability, if any, including interest, which is not past due and is not recognised in the financial statements, amounted to PLN 127,514.3 thousand as at December 31st 2009 (as at the end of 2008, it was PLN 123,145.6 thousand).

(PLN '000)

Claims Related to Real Estate

In its business activities, the PGNiG Group uses facilities which can be located on land not owned by the Group. With respect to a part of these facilities, the Group does not hold a legal title to use the land on which the facilitates are located. In the future, the Group may be required to cover the cost of extra-contractual use of property or convert (wind up) facilities. The Group believes that it is impossible to provide a reliable assessment of potential liabilities thereunder due to an unspecified number of lots of land and the lack of consistency of court decisions. The Group recognises the costs of extra-contractual use of land in the financial statements when the legal status of the land is determined (e.g. by way of a settlement, a final court judgement, etc.). In the opinion of the Group, based on past experience it appears that the related charges, if any, will not have a material bearing on the Group's financial standing.

37. OFF-BALANCE SHEET LIABILITIES

37.1. Operating Lease Liabilities

	Dec 31 2009	Dec 31 2008
Payable in up to 1 year	-	18
Payable in 1 to 5 years	-	30
Payable in over 5 years	-	-
Total	**-**	**48**

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

	Dec 31 2009	Dec 31 2008
Contractual liabilities	3,810,209	3,071,099
Completion of agreements as at the balance-sheet date	914,763	302,909
Contractual liabilities subsequent to the balance-sheet date	**2,895,446**	**2,768,190**

(PLN '000)

38. INFORMATION ON RELATED UNDERTAKINGS

38.1. Transactions with Related Undertakings

Related undertaking		Sales to related undertakings	Purchases from related undertakings	Balance as at	Receivables from related undertakings, gross	Receivables from related undertakings, net	Loans to related undertaking, gross	Loans to related undertakings, net	Amounts payable to related undertakings
Associated undertakings consolidated with the equity method	Dec 31 2009	25,345	103,750	Dec 31 2009	2,626	2,625	-	-	8,943
	Dec 31 2008	26,814	74,554	Dec 31 2008	3,840	3,840	120,526	-	7,955
Non-consolidated subsidiary and associated undertakings	Dec 31 2009	42,292	225,632	Dec 31 2009	143,231	9,598	28,622	9,551	143,540
	Dec 31 2008	19,872	253,341	Dec 31 2008	130,270	2,859	16,343	-	134,570
Related undertakings – total	**Dec 31 2009**	**67,637**	**329,382**	Dec 31 2009	**145,857**	**12,223**	**28,622**	**9,551**	**152,483**
	Dec 31 2008	**46,686**	**327,895**	Dec 31 2008	**134,110**	**6,699**	**136,869**	**-**	**142,525**

The principal transactions with shareholders in 2009 and 2008 were dividend payments, as detailed in Note 10.

In 2009, the Parent Undertaking or its subsidiaries did not enter into any material non-arm's length transactions with related undertakings.
The Group prepares documentation for transactions with related undertakings in accordance with Art. 9a of the Act on Corporate Income Tax. The procedure is applied each time the PGNiG Group undertakings execute agreements (including framework agreements), annexes to agreements, orders (detailed agreements) or orders placed under framework agreements with related undertakings - if the total amount of amounts payable/receivable (to/from one contractor under one agreement) or its equivalent in the złoty exceeds in a calendar year an equivalent of EUR 100 thousand in the case of transactions involving goods and EUR 30 thousand in the case of transactions involving provision of services, sale or delivery of intangible assets. The Group applies the methods and manner of profit calculation and of defining the transaction price as specified in Art. 11 of the Act on Corporate Income Tax, that is the comparable uncontrolled price, resale price, and cost plus methods, as well as additional transactional profit methods (profit split, transactional net margin).

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

In 2009, PGNiG S.A. generated the highest turnover with the following undertakings in which the State Treasury holds equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM Spółka Akcyjna, 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.
The 2009 sales to these undertakings reached PLN 2,761m (14.3% of sales revenue), while the 2009 purchases from these undertaking amounted to PLN 1,403m (7.8% of operating expenses).
As at December 31st 2009, the carrying value of receivables was PLN 729m, while the value of liabilities as at December 31st 2009 was PLN 86m.

In 2008, PGNiG S.A. reported the highest turnover with the following undertakings in which the State Treasury holds equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM Spółka Akcyjna, Polski Koncern Naftowy ORLEN S.A., Rafineria Trzebinia S.A., Zakłady Azotowe ANWIL S.A., Zakłady Azotowe POLICE S.A., and Zakłady Azotowe PUŁAWY S.A.
The 2008 sales to these undertakings totalled PLN 3,019m (16.4% of sales revenue). Purchases from these undertakings in 2008 amounted to PLN 1,401m (7.9% of operating expenses).
As at December 31st 2008, the carrying value of receivables was PLN 1,119m, while the value of liabilities was PLN 84m.

38.3. Remuneration Paid to Members of Management and Supervisory Bodies at the Group Companies

	Jan 1 2009 – Dec 31 2009	Jan 1 2008 – Dec 31 2008
Remuneration paid to management staff	**28,751**	**20,799**
Parent undertaking	3,396	4,641
Subsidiary undertakings	14,714	13,570
Jointly-controlled undertaking	9,807	1,929
Associated undertakings	834	659
Remuneration paid to supervisory staff	**6,455**	**7,682**
Parent undertaking	337	312
Subsidiary undertakings	4,073	3,677
Jointly-controlled undertaking	1,313	3,119
Associated undertakings	732	574
Total	**35,206**	**28,481**

38.4. Loans Granted to Members of the Management and Supervisory Boards at the Group Companies

	Dec 31 2009	Dec 31 2008
Management Board members		
Interest rate (%)	1%-3.5%	1%-5%
Repayment period (years)	1.5-10 years	3-10 years
Value of outstanding loans	72	128
Supervisory Board members		
Interest rate (%)	0%-4%	0%-5%
Repayment period (years)	1.5-3 years	1.25-5 years
Value of outstanding loans	4	8
Total value of outstanding loans	**76**	**136**

(PLN '000)

38.5. Remuneration Paid to Members of Management and Supervisory Bodies of the Parent Undertaking

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 a proxy in the period from January 1st to January 28th 2009.

(PLN '000)

Name	Jan 1 – Dec 31 2008 Total amount of remuneration, additional benefits and bonuses paid in 2008	Total amount of remuneration for holding offices in subordinated undertakings in 2008	**Total remuneration paid in 2008**
Total remuneration paid to Management Board members, including:	**4,641.25**	**2,716.97**	**7,358.22**
Michał Szubski – President	211.37	240.04	**451.41**
Mirosław Dobrut – Vice-President	184.80	82.39	**267.19**
Radosław Dudziński – Vice-President	189.35	203.00	**392.35**
Sławomir Hinc – Vice-President	184.12	218.33	**402.45**
Mirosław Szkałuba – Vice-President	192.83	130.33	**323.16**
Ewa Bernacik – proxy	334.57	74.39	**408.96**
Marek Dobryniewski – proxy	342.25	37.24	**379.49**
Stanisław Radecki – proxy	401.39	37.24	**438.63**
Waldemar Wójcik – proxy	442.51	36.95	**479.46**
Persons who were Management Board members in 2009 but not as at Dec 31 2008:			
Krzysztof Głogowski	318.05	386.91	**704.96**
Jan Anysz	337.75	271.76	**609.51**
Zenon Kuchciak	315.85	323.64	**639.49**
Stanisław Niedbalec	268.22	270.33	**538.55**
Tadeusz Zwierzyński	318.59	174.69	**493.28**
Jan Czerepok	352.90	133.26	**486.16**
Bogusław Marzec	246.70	96.47	**343.17**
Total remuneration paid to Supervisory Board members, including:	**312.23**	**165.30**	**477.53**
Stanisław Rychlicki	32.65	48.49	**81.14**
Marcin Moryń	37.24	-	**37.24**
Mieczysław Kawecki	37.24	34.89	**72.13**
Agnieszka Chmielarz	24.96	21.65	**46.61**
Grzegorz Banaszek	32.65	-	**32.65**
Maciej Kaliski	4.65	-	**4.65**
Marek Karabuła	4.65	-	**4.65**
Mieczysław Puławski	37.24	-	**37.24**
Jolanta Siergiej	24.96	18.91	**43.87**
Persons who were Management Board members in 2008 but not as at Dec 31 2008:			
Wojciech Arkuszewski	4.73	-	**4.73**
Kazimierz Chrobak	12.27	2.00	**14.27**
Hubert Konarski	20.48	-	**20.48**
Andrzej Rościszewski	4.73	-	**4.73**
Joanna Stuglik	20.48	19.34	**39.82**
Mirosław Szkałuba	3.84	-	**3.84**
Piotr Szwarc	4.73	20.02	**24.75**
Jarosław Wojtowicz	4.73	-	**4.73**
Total	**4,953.48**	**2,882.27**	**7,835.75**

38.6. Fees Paid to the Audit Firm for the Mandatory Audit of the Annual Consolidated Financial Statements of the Group and for Other Services

The consolidated financial statements of the PGNiG Group and the financial statements of PGNiG S.A. for 2009 are audited by Deloitte Audyt Sp. z o.o. The agreement with the audit firm was signed on August 16th 2007, for three years (2007-2009). The agreement provided for:

- Audit of the financial statements for 2007, 2008, and 2009
- Review of the financial statements for Q1 2008, Q1 2009, and Q1 2010
- Review of the financial statements for H1 2007, H1 2008, and H1 2009

(PLN '000)

- Review of the financial statements for the first three quarters of 2007, 2008, and 2009.

The table below shows the fees paid or payable to the audit firm for 2008-2009.

	Jan 1 – Dec 31 2009	Jan 1 – Dec 31 2008
Audit of the annual consolidated financial statements	145	155
Audit of the annual non-consolidated financial statements	165	175
Other certification services, including review of financial statements	510	540
Tax advisory services	-	
Other services	125	288
Total	**945**	**1,158**

38.7 Non-Consolidated Joint Ventures

In 2009, PGNiG S.A. cooperated with the following companies in Poland: FX Energy Poland Sp. z o.o., EuroGas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o., Orlen Upstream Sp. z o.o., Energia Karpaty Zachodnie Sp. z o.o. Sp. k., Energia Karpaty Wschodnie Sp. z o.o. Sp. k.

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

In 2009, 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 Agreement for Joint Operations dated May 12th 2000 (PGNiG S.A. – 51%, FX Energy – 49%);
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under Operating Agreement for Mining Users dated October 26th 2005 (PGNiG S.A. – 51%, FX Energy – 24.5%, CalEnergy – 24.5%);
- "Poznań" – under Agreement for Joint Operations dated June 1st 2005 (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 Agreement for Joint Operations dated February 27th 2009, covering license block no. 163 and block no. 164 (FX Energy – 51%, PGNiG S.A. – 49%).

Under Agreement on Settlement of Payments for Natural Gas Produced from the "Kłęka-11" Well, PGNiG extracted gas from the Kłęka deposit. In addition, reprocessing and reinterpretation of seismic data in the "Płotki" area was completed.

In 2009, in the "Poznań" area, reprocessing and interpretation of 3D seismic data of Żerków-Pleszew was performed, drilling of the Kromolice-2 well was completed, as was reprocessing and interpretation of 2D seismic data of Lutynia-Taczanów. In the "Płotki" – "PTZ" area natural gas was produced from the Zaniemyśl deposit.

In 2009, production of natural gas from the Wilga deposit (Block 255) was finished and the drilling of the exploratory well Ostrowiec-1 in the "Ostrowiec" area was completed. The well was decommissioned for lack of evidence of hydrocarbons.

EuroGas Polska Sp. z o.o., with registered office at ul. Górnośląska 3, 43-200 Pszczyna.

Energia Bieszczady Sp. z o.o., with registered office at ul. Śniadeckich 17, 00-654 Warsaw.

In 2009, PGNiG S.A., under Bieszczady Joint Operations Agreement of June 1st 2007, in cooperation with Eurogas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o., completed 2D seismic surveys on Kostarowce-Zahutyń in the Carpathian Mountains area and commenced processing and interpretation of the data. The concessions and mining licenses for exploration and prospecting of crude oil and natural gas deposits in that area are held by PGNiG S.A.

Orlen Upstream Sp. z o.o., with registered office at ul. J. G. Bennetta 2B, 02-159 Warsaw.

On June 22nd 2009, the Company and Orlen Upstream Sp. z o.o. entered into an agreement regarding development of crude oil reserves in the Sieraków deposit, in the area covered by a license awarded to PGNiG S.A. PGNiG S.A. has a 51% interest in the project, while PKN Orlen S.A. holds the remaining stake of 49%. In 2009, workover of the Sieraków-4 well commenced.

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

On December 17th 2009, the Company and Energia Karpaty Zachodnie Sp. z o.o. Sp. k. entered into Agreement for Joint Operations with respect to the West Carpathian Mountains area. 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., with registered office at ul. Śniadeckich 17, 00-654 Warsaw.

On December 17th 2009, the Company and Energia Karpaty Wschodnie Sp. z o.o. Sp. k. entered into Agreement for Joint Operations with respect to the East Carpathian Mountains area. 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.

The joint ventures described above were not consolidated in 2009 and 2008, given that all assets, liabilities, income and expenses connected with them were presented in the statement of financial position and the income statement of the Parent Company on a pro rata basis to its interest in a given joint venture.

38.8. Foreign Operations

PGNiG S.A.'s Interest in Foreign Operations

Ukraine

Dewon Z.S.A. is a closely-held joint-stock company (not traded on a stock exchange), 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 3,966.0 thousand, translated at the exchange rate of the National Bank of Poland quoted for December 31st 2009) and is divided into 120.0 thousand shares with a par value of UAH 92.89 per share. PGNiG S.A. holds an UAH 4.055,2 thousand interest in the company (equivalent to PLN 1,442.8 thousand, translated at the exchange rate of the National Bank of Poland quoted for December 31st 2009). As at December 31st 2009, the book value of the shares amounted to PLN 2,499.4 thousand. An impairment charge was made 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. It exploits the Sakhalin gas condensate field located in Krasnokutskyi Raion, Kharkiv Oblasts. The Company extracts the hydrocarbons, produces natural gas and condensate, and then sells them on the Ukrainian market.

Dewon Z.S.A. has conducted work at the Sakhalin field as part of a joint venture, currently 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 held by NAK Nadra Ukrainy expired. Dewon Z.S.A has not produced gas from the field since. Despite numerous interventions of the Polish Embassy in Kiev and the representatives of the Polish government, until the date of these statements, no 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 1,120.2 thousand, translated at the mid exchange rate of the National Bank of Poland quoted for December 30th 2009, and is divided into 150.0 thousand 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 548.9 thousand, translated at the mid exchange rate of the National Bank of Poland quoted for December 30th 2009. As at December 31st 2009, the book value of the shares was PLN 879.0 thousand. An impairment charge was made for the full value of the shares.

The company's shareholder structure is as follows:

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

The company was established in 2000, at the initiative of Zakład Robót Górniczych of Krosno (until June 30th 2005, a branch of PGNiG S.A., currently a wholly-owned subsidiary of PGNiG S.A.). The company's core business consists in provision of services related to well processing and workover, wireline technology operations, wellhead maintenance, as well as light and middle drilling work with the use of PGNiG S.A.'s technological capabilities.

The company never conducted the operations for which it was established. On June 7th 2009, the shareholders resolved to dissolve the company and appoint a liquidator. At present, the liquidation of the company is pending.

Germany

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

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

Each partner acquired a 50% interest in each company. The share capital of each of the companies amounts to EUR 200 thousand (equivalent to PLN 893.9 thousand, translated at the mid exchange rate of the National Bank of Poland quoted for June 30th 2009), 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 interconnector 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 3m 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 outstanding balance will be paid as soon as the shareholders reach agreement concerning the terms of cooperation on the construction of the Germany – Poland interconnector pipeline, particularly with respect to their rights and obligations. The decision concerning construction of the interconnector pipeline is expected to be taken in 2011.

As at December 31st 2009, PGNiG S.A.'s interest in InterTransGas GmbH amounted to EUR 3,100 thousand (equivalent to PLN 13,855.8 thousand, translated at the mid exchange rate of the National Bank of Poland quoted for December 31st 2009). As at December 31st 2009, the book value of the shares was PLN 13,602.5 thousand.

Norway

On May 24th 2007, the Parent Undertaking established its Norwegian subsidiary PGNiG Norway AS, incorporated as a company with limited liability, a special purpose vehicle to implement PGNiG S.A.'s projects in the Norwegian Continental Shelf (NCS), and in particular to perform the agreement of February 28th 2007 between PGNiG S.A. on the one side and Mobil Development Norway AS and ExxonMobil Produktion Norway Inc. on the other side, concerning acquisition (which was effected on October 30th 2007) by the Company of interests in NCS license areas covering the Skarv, Snadd and Idun fields (licenses PL 212, PL 212B, PL 262). Under the joint venture agreement, following the Skarv/Snadd – Idun unitisation, PGNiG Norway AS holds rights to 11.9175% of the production from the Skarv/Snadd/Idun field and has the obligation to participate in capital expenditure in the same proportion. Other interest holders are: British Petroleum (Operator) – 24%, StatoilHydro – 36%, E.ON Ruhrgas Norge – 28%.

The fields contain oil and gas reserves (approx. 36 billion cubic meters of natural gas and approx. 15 million cubic meters of crude oil) which have been confirmed by the Norwegian Petroleum Directorate (NPD), and are currently at the development stage. In 2009, work continued on development of the Skarv field. As part of the fields development 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 fields' life, the injectors will be transformed into gas producers in order to fully exploit the existing reserves. The fields will be developed using a large production vessel (FPSO), with length of 292 meters and weight of 62 thousand tonnes, which is being constructed in a South-Korean shipyard. The vessel construction is scheduled to be completed in Q4 2010. First production revenues are expected in 2011.

Expenditure on development of the fields is estimated to amount to approximately USD 5 bn, of which the Group's share will be about USD 600 m.
As at December 31st 2009, the expenditure thus far incurred by the Group (through a subsidiary of the Parent Undertaking) and recognised in Group's statement of financial position was NOK 4,349,237 thousand, i.e. PLN 2,151,133 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2009), while the direct costs connected with this project and recognised in the income statement for 2009 were NOK 111,290 thousand, i.e. PLN 55,523 thousand (translated at the average exchange rate for NOK being the arithmetic mean of the exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the reporting period).

In 2009, PGNiG Norway AS acquired interests in two new licenses, including a 30% interest in the PL350 license and a 25% interest in the PL419 license. In January 2010, PGNiG Norway AS acquired a 15% interest in the PL558 license, located in the immediate vicinity of the Skarv field and the PL350 license. The PL558 license is operated by E.ON Ruhrgas Norge (30%), and the other interest holders are Nexen Exploration Norge (15%), Det norske oljeselskap (20%) and Petoro (20%).

As at the end of January 2010, PGNiG Norway AS held interests in eight exploration and production licenses on the Norwegian Continental Shelf.

In order to finance the purchase of the license interests and to cater for the investment needs, the Parent Undertaking advanced to PGNiG Norway AS a loan of NOK 3,800,000 thousand. The loan is disbursed in several tranches, and the repayment date has been set for December 2022. In 2009, the company received another tranche of NOK 1,312,000 thousand. By December 31st 2009, PGNiG Norway AS had received the full loan amount of NOK 3,800,000 thousand, which was equal to PLN 1,879,480 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2009). The loan bears interest at NIBOR 3M plus margin. On October 8th 2009, the General Shareholders Meeting of PGNiG Norway AS adopted a resolution to increase the company's share capital by NOK 454,000 thousand, to NOK 951,327 thousand. All the new shares were acquired by the Parent Undertaking in exchange for cash. This cash is to be used to finance further implementation of the Skarv project. The structure of financing of the company's activity complies with the rules concerning the dbt-equity relationship (thin capitalisation) which are effective in Norway.

PGNiG S.A. of Warsaw is the only owner of PGNiG Norway AS. PGNiG Norway AS's business consists in crude oil and natural gas production, other types of activities auxiliary to hydrocarbon extraction, and provision of related services. 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 2009, the Parent Undertaking’s capital interest in the subsidiary was NOK 951,327 thousand, that is PLN 470,526.3 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2009).

The Netherlands - Libya

PGNiG Finance B.V. was established on September 14th 2001 to service the issue of euro-denominated bonds by PGNiG S.A. PGNiG S.A. is its only shareholder. The company’s share capital is EUR 20 thousand, that is PLN 82.2 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2009).

In January 2008, the PGNiG S.A. Management Board adopted a resolution granting its consent to use PGNiG Finance B.V. for the purpose of conducting exploration and production activity in Libya. On the same date, the PGNiG S.A. 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 Management Board of Polish Oil and Gas Company – Libya B.V. took steps which led to the execution – in February 2008 – of an Exploration and Production Sharing Agreement (EPSA) with Libya’s National Oil Corporation. The Agreement, setting out the terms and conditions of an exploration and production project in Libya, was signed in connection with the award (following a licencing round) of Block 113, covering an area of 5,494 square kilometres between the Murzuq and Gadamesh basins, near the Algerian border. The bid submitted by the company included a commitment to carry out exploration work worth a total of USD 108,000 thousand, including acquisition of 3,000 kilometres of 2D seismic and 1,500 square kilometres of 3D seismic, as well as drilling of eight wells.

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

In February 2008, PGNiG S.A. issued a guarantee for the benefit of National Oil Corporation regarding the fulfillment by POGC–Libya B.V. of its work programme commitments worth USD 108,000 thousand, i.e. PLN 307,832.4 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2009).
In January 2009, the Libyan side approved the environmental and archaeological audit report. The approval makes it possible for Geofizyka Kraków Sp. z o.o. (a subsidiary of the PGNiG Group, which was awarded the contract on the basis of a bidding procedure) to commence the acquisition of 2D and 3D seismic.

The first stage of the seismic acquisition was completed in late 2009/early 2010. Concurrently, in Q4 2009 an annex to the agreement with Geofizyka Kraków was signed, providing for the execution of the second stage of the exploration seismic survey. In H2 2009, the processing of the seismic data began, followed in December 2009 by an analysis of the 2D and 3D data.

The value of those works in 2009 amounted to EUR 28,900 thousand, i.e. PLN 125,443 thousand (translated at the average exchange rate for the euro being the arithmetic mean of the exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the reporting period).

In March 2009, PGNiG S.A. Management Board adopted a resolution to increase POGC Libya BV’s equity by EUR 47,500 thousand, to be used primarily towards the expenditure on the 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 cash, in three instalments. The first instalment of EUR 11,603.3 thousand was transferred to POGC Libya B.V.’s account on March 19th 2009, the second instalment of EUR 10,000 thousand – on July 1st 2009, and the third instalment of EUR 10,000 thousand – on October 1st 2009.

As at December 31st 2009, the Parent Undertaking's capital interest in the company was EUR 47,520.0 thousand, that is PLN 195,221.7 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2009).

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

PGNiG S.A. is carrying out exploration work in Pakistan under an agreement on exploration and production of hydrocarbons within the Kirthar licence area, executed on May 18th 2005 between PGNiG S.A. and the Pakistani Government. The exploration work on the Kirthar block is being carried out jointly with Pakistan Petroleum Ltd. (the interests held by PGNiG S.A. and PPL are 70% and 30%, respectively, with the obligation to participate in the same respective proportion of costs). In 2009, the first exploration well Rehman-1 was drilled with positive results, and tests commenced to determine the likely performance of the well.

On December 6th 2007, PGNiG S.A. entered into an agreement on assignment of interest in the 1/05 exploration licence located in Denmark, becoming the licence operator. In March 2009, PGNiG S.A. acquired a 40% interest in the 1/05 licence in Denmark from Odin Energy AS. Currently, the interest holders are PGNiG S.A. (80%) and Nordsofonden (20%). In 2009, the 2D and 3D seismic was shot and processing of the seismic data began.

In 2007, PGNiG S.A. won the licencing round for the Bahariya exploration licence (Block 3) in Egypt. On May 17th 2009, PGNiG S.A. and the Egyptian Government signed an Exploration and Production Sharing Agreement (EPSA). In 2009, preparation started to reprocess 1,450 kilometres of 2D seismic and perform a gravimetric survey.

Foreign branches of the Group:

The Group has a number of foreign branches, which conduct operating activities or support the Group's development outside of Poland.

PGNiG S.A. – Parent Undertaking:
Operating Branch in Pakistan – Islamabad;
Branch in Egypt – Cairo;
Branch in Denmark – Copenhagen;
Branch in Algeria – Algiers.

Geofizyka Kraków Sp. z o.o.
Pakistan Branch – Islamabad;
Slovakia Unit – Bratislava;
Czech Republic Unit – Ostrava;
Libya Branch – Tripoli.

Geofizyka Toruń Sp. z o.o.
Branch in Thailand – Bangkok.

PNiG Jasło Sp. z o.o.
Branch in Libya – Tripoli.

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

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

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

POGC Libya BV
Branch in Libya.

(PLN '000)

39. EMPLOYMENT (NUMBER OF STAFF)

Employment as at end of period, by segments	Dec 31 2009	Dec 31 2008
Head Office*	833	837
Exploration and Production	10,800	10,725
Trade and Storage	4,128	4,088
including companies consolidated with the equity method	292	295
Distribution	13,851	13,746
Other	2,073	2,044
Total	**31,685**	**31,440**

* PGNiG S.A.'s Head Office is disclosed separately as it provides services to all segments.

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40. RESTRUCTIRING PROCCESS WITHIN THE GROUP

In January 2009, 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 of 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 may only be implemented under extraordinary circumstances and 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 (which includes a consent to commence payments of protection benefits, in accordance with the Programme's terms) is 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 2009, except for the special cases described below, no decisions on the implementation of the Programme at the Company's branches and Group's undertakings were made.

The special cases concerned undertakings which, in accordance with the Programme's terms, were permitted to implement the Programme provided that a relevant resolution was made by their General Shareholders Meeting, and whose poor financial situation rendered it impossible to cover all costs of employment streamlining required under the Programme without the financial aid provided under the Programme. As in the previous years, such undertakings, in accordance with the Programme's terms, may apply to obtain benefits payable to their former employees, with whom a work agreement was terminated, from the PGNiG S.A.'s capital reserve designated as Central Restructuring Fund ("CRF"), provided that the General Shareholders Meeting of PGNiG S.A. has given its consent for such steps to be taken. In accordance with the Programme's terms, ZUN Naftomet Sp. z o.o. exercised its right to apply for financial aid from the CRF to provide one-time protection benefits to 26 former employees of the company, amounting to PLN 1,088.2 thousand. The application was approved by virtue of a resolution adopted by the Extraordinary General Shareholders Meeting of PGNiG S.A.

In December 2009, PNiG Kraków Sp. z o.o. submitted a similar application. As certain opinions are required to be obtained from relevant organisational units and corporate approvals must be granted, the application is expected to be implemented at the end of the first quarter of 2010.

In 2009, in accordance with the objectives set forth in PGNiG S.A.'s Strategy, analytical and project work was performed to rearrange the structure of the Group by means of consolidation of companies with similar business profiles. One of the objectives of such projects was to make PGNiG S.A.'s companies stronger financially and improve their performance so that such companies are able to undertake key investment projects for the Polish oil and gas industry and exploration work in Poland and abroad in future years.

(PLN '000)

41. CAPITAL MANAGEMENT

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

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

	Dec 31 2009	Dec 31 2008
Loans and borrowings and finance lease liabilities	2,028,163	912,810
Trade and other payables	2,799,472	3,294,154
Cash and cash equivalents (-)	(1,196,325)	(1,421,939)
Net debt	**3,631,310**	**2,785,025**
Equity (attributable to owners of the parent)	**21,391,571**	**20,706,895**
Equity and net debt	**25,022,881**	**23,491,920**
Leverage	14.5%	11.9%

42. 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"), the Company'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 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 arose on October 1st 2008 and will expire on October 1st 2010.

Pursuant to Art. 36.1 of the Act, eligible employees may acquire free of charge up to 15% of the shares taken up by the State Treasury on the day on which the Company was entered in the relevant register, 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 contains 61,516 names.

As at end of December 31st 2009, the market value of the 750,000,000 shares was PLN 2,842,500 thousand (as the date of these financial statements, that is March 3rd 2010, the value of the shares was PLN 2,670,000 thousand).

As per the adopted timetable, the share delivery process commenced on April 6th 2009. As at December 31st 2009, 696,313,631 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 may not be traded before July 1st 2010, while the shares acquired free of charge by members of the Company's Management Board – before January 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 will be delivered from the pool held by the State Treasury. Thus the Company incurs only the administrative expenses related to the process of delivery of the shares to eligible employees.

Costs directly related to delivery of the the shares, incurred in 2009 and recognised in the income statement, amounted to PLN 1,852.8 thousand. This amount comprised the cost of press announcements (PLN 121.4 thousand), the cost of execution by CDM Pekao S.A. of agreements on free of charge disposal of the shares (PLN 1,309.9 thousand), and the cost of execution by the PGNiG Group employees of agreements on free of charge disposal of the shares (PLN 421.5 thousand).

43. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

a. On January 10th 2010, an application was submitted for the liquidation of Geofizyka Kraków Libia S.A. of Janzur, Al-Jifara District, Libya (an indirect subsidiary undertaking of PGNiG S.A. controlled through Geofizyka Kraków Sp. z o.o.) to the General People's Committee for Industry, Economy and Trade, the Office of the Central Commercial Register of the Great Socialist People's Libyan Arab Jamahiriya. Mr Ash-Sharif Ali bin Iyad, a legal auditor, was appointed the liquidator. Geofizyka Kraków Sp. z o.o. (a wholly-owned subsidiary of PGNiG S.A.) holds 60% of the share capital of its subsidiary, Geofizyka Kraków Libia S.A. On January 22nd 2010, PGNiG S.A. received a letter from the General People's Committee for Industry, Economy and Trade, dated January 19th 2010, to the effect that the indirect subsidiary of PGNiG S.A. operating under the name Geofizyka Kraków Libia S.A. was deleted from the Central Commercial Register of the Great Socialist People's Libyan Arab Jamahiriya.

b. On January 20th 2010, the Management Board of the Parent Undertaking was notified that, following completion of the APA 2009 licensing round, PGNiG Norway AS, a wholly-owned subsidiary of PGNIG S.A., was awarded a 15-percent interest in the PL558 exploration and production license located on the Norwegian Continental Shelf ("the License") by the Norwegian Ministry of Hydrocarbons and Energy. Direct operatorship of the license was awarded to E.ON Ruhrgas Norge AS (30-percent interest). The other partners are: Nexen Exploration Norge AS (15-percent interest), Det norske oljeselskap AS (20-percent interest) and Petoro AS (20-percent interest). Acquisition of the interest in the PL558 license is an important element of PGNiG Norway's strategy. The license area is located in the immediate vicinity of the Skarv field and is adjacent to the PL350 license, in which PGNiG Norway holds a 30-percent interest. PGNiG Norway was awarded the interest on the basis of a License Application, submitted to the Norwegian Ministry of Hydrocarbons and Energy jointly with E.ON Ruhrgas Norge AS. The geological concept was developed and the geophysical data interpreted solely by PGNiG Norway.

c. On January 27th 2010, given the very low air temperatures and significantly increased demand for natural gas, PGNiG S.A. reduced supplies of gas to Zakłady Chemiczne Police S.A. The decision was made under the valid contract between the companies, whereby the supplies may be reduced. Regular supplies under the contract were reseumed on February 1st 2010.

d. On January 27th 2010, a trilateral Memorandum of Understanding was signed in Moscow between PGNiG, OAO Gazprom Export of Moscow ("Gazprom Export") and System Gazociągów Tranzytowych EuRoPol GAZ S.A. of Warsaw ("EuRoPol GAZ"). The Memorandum of Understanding provides for:
   a. extending the term of the Yamal Contract ("the Contract") for the supply of natural gas from the Russian Federation to Poland until December 31st 2037;
   b. an option to increase the volume of natural gas supplies under the Contract up to 10.2 billion cubic meters of natural gas according to Polish standards (or 11 billion cubic meters according to the GOST standards).

   Furthermore, PGNiG and Gazprom Export agreed to introduce relevant amendments to the Contract. The Memorandum of Understanding lays the foundation for making the necessary changes in the Agreement of August 25th 1993 between the Government of the Russian Federation and the Government of the Republic of Poland on the construction of a pipeline system for the transit of Russian gas through the territory of Poland, and to the Additional Protocol of February 12th 2003. The Memorandum of Understanding also provides for extending the term of the contract for the transit of natural gas through the Polish section of the Yamal pipeline owned by EuRoPol GAZ until 2045, with other terms and conditions remaining unchanged.

e. On February 2nd 2010, the Company signed an annex to the agreement with Zakłady Chemiczne Police S.A. ("ZCh Police") of December 8th 2009 ("Annex"). Under the Annex, ZCh Police undertook to pay the amount due for the gas fuel supplied to it in January 2010, along with the accrued statutory interest, by March 5th 2010.

f. On February 10th 2010, the Management Board of PGNiG S.A. approved the set of arrangements laid down in the Trilateral Memorandum of Understanding executed by PGNiG, OAO Gazprom Export of Moscow and System Gazociągów Tranzytowych EuRoPol GAZ S.A. of Warsaw. The Trilateral Memorandum of Understanding was executed on January 27th 2010 in Moscow. In addition, PGNiG S.A. reports that the Supervisory Board, in its meeting held on February 10th 2010, accepted the arrangements laid down in the Trilateral Memorandum of Understanding and approved by the Management Board.

g. On February 12th 2010 PGNiG S.A. concluded agreements with six banks whereby the banks were mandated to arrange a bond issue programme with a value of up to PLN 3 billion and agreed to underwrite the issue. The issue proceeds will be used primarily to refinance a syndicated loan contracted on July 27th 2005 and maturing on July 27th 2010.