PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

# CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2008

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Management Board

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

Warsaw, 7 April 2009

## SELECTED FINANCIAL DATA
## for the period ended 31 December 2008

| | PLN | | EUR | |
|---|---|---|---|---|
| | **Period from 1 January 2008 to 31 December 2008** | **Period from 1 January 2007 to 31 December 2007** | **Period from 1 January 2008 to 31 December 2008** | **Period from 1 January 2007 to 31 December 2007** |
| I. Net revenues from sales of products, goods and materials | 18 432 048 | 16 652 134 | 5 218 439 | 4 409 059 |
| II. Profit on operating activities | 800 678 | 860 982 | 226 686 | 227 966 |
| III. Profit before tax | 935 366 | 1 002 728 | 264 819 | 265 497 |
| IV. Net profit | 865 742 | 916 065 | 245 107 | 242 551 |
| V. Net cash flows from operating activities | 1 492 920 | 3 028 891 | 422 672 | 801 973 |
| VI. Net cash flows from investment activities | (2 208 895) | (2 455 582) | (625 377) | (650 175) |
| VII. Net cash flows from financial activities | 551 970 | (2 547 655) | 156 272 | (674 554) |
| VIII. Total net cash flows | (164 005) | (1 974 346) | (46 433) | (522 756) |
| IX. Profit per ordinary share (in PLN/EUR) | 0,15 | 0,16 | 0,04 | 0,04 |
| X. Diluted profit per ordinary share (in PLN/EUR) | 0,15 | 0,16 | 0,04 | 0,04 |
| | **As of 31 December 2008** | **As of 31 December 2007** | **As of 31 December 2008** | **As of 31 December 2007** |
| XI. Total assets | 29 745 277 | 28 401 901 | 7 129 057 | 7 929 062 |
| XII. Liabilities and provisions for liabilities | 9 029 352 | 7 380 136 | 2 164 067 | 2 060 339 |
| XIII. Non-current liabilities | 4 058 629 | 3 879 566 | 972 732 | 1 083 073 |
| XIV. Current liabilities | 4 970 723 | 3 500 570 | 1 191 335 | 977 266 |
| XV. Equity | 20 715 925 | 21 021 765 | 4 964 990 | 5 868 723 |
| XVI. Share capital | 5 900 000 | 5 900 000 | 1 414 054 | 1 647 125 |
| XVII. Number of shares (weighted average in '000) | 5 900 000 | 5 900 000 | 5 900 000 | 5 900 000 |
| XVIII. Book value per share (in PLN/EUR) | 3.51 | 3.56 | 0.84 | 0.99 |
| XIX. Diluted book value per share (in PLN/EUR) | 3.51 | 3.56 | 0.84 | 0.99 |
| XX. Declared or paid dividend per share (in PLN/EUR) | 0.19 | 0.17 | 0.05 | 0.05 |

Income statement and cash flow statement items were translated at the average EUR exchange rate calculated as the arithmetic average of average rates announced by the National Bank of Poland (NBP) as at the last day of each month during the given financial period. Balance sheet items were translated at the EUR exchange rate published by the National Bank of Poland as at the end of the given period.

### Average PLN/EUR exchange rates defined by the NBP

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Average exchange rate during the period | 3.5321 | 3.7768 |
| Exchange rate as at the end of the period | 4.1724 | 3.5820 |

## CONSOLIDATED INCOME STATEMENT
## for the period ended 31 December 2008

| | Notes to the financial statements | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|---|
| | | (in PLN '000) | |
| **Sales revenues** | **3** | **18 432 048** | **16 652 134** |
| Raw materials and consumables used | 4 | (11 631 681) | (8 331 611) |
| Employee benefits | 4 | (2 161 954) | (2 014 073) |
| Amortization/depreciation | | (1 424 944) | (1 430 273) |
| External services | 4 | (2 789 154) | (2 692 524) |
| Manufacturing cost of benefits for internal purposes | | 739 034 | 686 944 |
| Other operating expenses (net) | 4 | (362 671) | (2 009 615) |
| **Total operating expenses** | | **(17 631 370)** | **(15 791 152)** |
| **Profit on operating activities** | | **800 678** | **860 982** |
| Financial revenues | 5 | 213 238 | 248 264 |
| Financial expenses | 5 | (78 771) | (90 492) |
| Share in profits/(losses) of entities measured using the equity method | 6 | 221 | (16 026) |
| **Profit before tax** | | **935 366** | **1 002 728** |
| Income tax | 7 | (69 624) | (86 663) |
| **Net profit** | | **865 742** | **916 065** |
| Attributable to: | 9 | | |
| Equity holders of the parent | | 865 297 | 915 032 |
| Minority interest | | 445 | 1 033 |
| | | **865 742** | **916 065** |
| Earnings per share attributable to ordinary equity holders of the parent | 9 | | |
| - basic from net profit | | 0.15 | 0.16 |
| - diluted from net profit | | 0.15 | 0.16 |

## CONSOLIDATED BALANCE SHEET
## As at 31 December 2008

| | Note | 31 December 2008 | 31 December 2007 |
|---|---|---|---|
| | | (in PLN '000) | |
| **ASSETS** | | | |
| **Non-current assets (long-term)** | | | |
| Property, plant and equipment | 11 | 20 587 027 | 18 715 509 |
| Investment property | 12 | 8 181 | 10 578 |
| Intangible assets | 13 | 151 721 | 84 636 |
| Investments in associates measured using the equity method | 6 | 556 882 | 557 529 |
| Financial assets available for sale | 14 | 42 935 | 19 997 |
| Other financial assets | 15 | 676 634 | 2 292 154 |
| Deferred tax asset | 16 | 514 867 | 419 814 |
| Other non-current assets | 17 | 35 343 | 30 873 |
| **Total non-current assets (long-term)** | | **22 573 590** | **22 131 090** |
| **Current assets (short-term)** | | | |
| Inventories | 18 | 1 721 259 | 1 215 980 |
| Trade and other receivables | 19 | 3 716 923 | 3 331 046 |
| Current tax receivables | 20 | 59 614 | 17 499 |
| Prepayments and accruals | 21 | 70 262 | 82 355 |
| Financial assets available for sale | 22 | 6 495 | 22 406 |
| Derivative assets | 36 | 174 186 | 17 442 |
| Cash and bank balances | 23 | 1 421 939 | 1 583 635 |
| Non-current assets held for sale | 24 | 1 009 | 448 |
| **Total current assets (short-term)** | | **7 171 687** | **6 270 811** |
| **Total assets** | | **29 745 277** | **28 401 901** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 26 | 5 900 000 | 5 900 000 |
| Exchange differences from translation of foreign operations | | (53 374) | (44 525) |
| Surplus from sale of shares above face value | | 1 740 093 | 1 740 093 |
| Other reserves | | 10 729 053 | 3 478 081 |
| Retained earnings | | 2 391 123 | 9 939 427 |
| **Equity (attributed to equity holders of the parent)** | | **20 706 895** | **21 013 076** |
| Minority interest | | 9 030 | 8 689 |
| **Total equity** | | **20 715 925** | **21 021 765** |
| **Non-current liabilities** | | | |
| Borrowings and debt securities | 27 | 41 055 | 31 377 |
| Provisions | 29 | 1 501 939 | 1 153 805 |
| Deferred income | 30 | 1 139 332 | 1 142 366 |
| Deferred tax provision | 31 | 1 352 241 | 1 530 359 |
| Other non-current liabilities | 32 | 24 062 | 21 659 |
| **Total non-current liabilities** | | **4 058 629** | **3 879 566** |
| **Current liabilities** | | | |
| Trade and other payables | 33 | 3 222 540 | 2 407 981 |
| Borrowings and debt securities | 27 | 871 755 | 106 724 |
| Liabilities due to derivative financial instruments | 36 | 16 723 | 36 185 |
| Current tax liabilities | 20 | 47 552 | 281 399 |
| Provisions | 29 | 173 382 | 181 220 |
| Deferred income | 30 | 638 771 | 487 061 |

(in PLN'000)

| | | |
|---|---|---|
| **Total current liabilities** | **4 970 723** | **3 500 570** |
| **Total liabilities** | **9 029 352** | **7 380 136** |
| **Total equity and liabilities** | **29 745 277** | **28 401 901** |

## CONSOLIDATED CASH FLOW STATEMENT
## for the period ended 31 December 2008

| | Notes to the financial statements | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|---|
| | | (in PLN '000) | |
| **Cash flows from operating activities** | | | |
| Net profit | | 865 742 | 916 065 |
| Adjusted by: | | | |
| Share in profits/(losses) of entities measured using the equity method | | (221) | 16 026 |
| Amortization/depreciation | | 1 424 944 | 1 430 273 |
| Net foreign exchange gains/losses | | 43 521 | 61 145 |
| Net interest and dividends | | (141 569) | (226 892) |
| Profit/loss on investing activities | | (83 701) | 1 407 233 |
| Income tax for the current period | | 69 624 | 86 663 |
| Income taxes paid | | (609 555) | (482 222) |
| Other net items | | (105 779) | 43 844 |
| **Net cash generated by operating activities before movements in working capital** | | **1 463 006** | **3 252 135** |
| Movements in working capital: | | | |
| Net change in receivables | 34 | (501 898) | (923 627) |
| Change in inventories | 34 | (505 236) | 136 734 |
| Change in provisions | 34 | 38 555 | 44 530 |
| Change in current liabilities | 34 | 861 225 | 180 350 |
| Change in cost prepayments | 34 | (10 948) | (48 806) |
| Change in deferred income | 34 | 148 216 | 387 575 |
| **Net cash generated by operating activities** | | **1 492 920** | **3 028 891** |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of property, plant and equipment as well as intangible assets | | 21 048 | 33 762 |
| Proceeds from disposal of shares in entities not included in consolidation | | - | - |
| Proceeds from disposal of short-term securities | | 73 682 | 51 304 |
| Payments to acquire property, plant and equipment as well as intangible assets | | (2 579 468) | (2 979 987) |
| Payments to acquire shares in entities not included in consolidation | | (78 000) | (12) |
| Payments to acquire short-term securities | | - | - |
| Received interest | | 135 164 | 232 705 |
| Received dividends | | 4 770 | 24 759 |
| Proceeds from finance lease | | 92 840 | 179 330 |
| Other net items | | 121 069 | 2 557 |
| **Net cash (used in)/generated by investing activities** | | **(2 208 895)** | **(2 455 582)** |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of equity shares and other capital instruments as well as capital contributions | | - | - |
| Proceeds from borrowings | | 807 316 | 40 287 |
| Repayment of borrowings | | (37 469) | (2 335 664) |
| Proceeds from issue of debt securities | | - | - |
| Redemption of debt securities | | - | - |
| Repayment of liabilities due to finance leases | | (34 825) | (39 836) |
| Inflows related to derivatives | | - | - |
| Outflows related to derivatives | | - | - |
| Paid dividends | | (171 006) | (153 002) |
| Interest paid | | (9 737) | (43 337) |
| Other net items | | (2 309) | (16 103) |
| **Net cash (used in)/generated by financing activities** | | **551 970** | **(2 547 655)** |
| **Net changes in cash and bank balances** | | **(164 005)** | **(1 974 346)** |

(in PLN'000)

| | | |
|---|---|---|
| Net foreign exchange differences | 2 309 | 18 903 |
| **Cash and bank balances at the beginning of the financial period** | **1 584 868** | **3 559 214** |
| **Cash and bank balances at the end of the financial period** | **1 420 863** | **1 584 868** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## for the period ended 31 December 2008

| | Equity (attributed to equity holders of the parent) | | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Exchange differences from translation of foreign operations | Share premium | Other reserves | Retained earnings | **Total** | | |
| | (in PLN '000) | | | | | | | |
| **1 January 2008** | **5 900 000** | **(44 525)** | **1 740 093** | **3 478 081** | **9 939 427** | **21 013 076** | **8 689** | **21 021 765** |
| Exchange differences from translation of foreign operations | - | (8 849) | - | - | - | **(8 849)** | - | **(8 849)** |
| Measurement of financial instruments | - | - | - | (40 759) | - | **(40 759)** | - | **(40 759)** |
| Payment of dividend by an associate consolidated using the equity method | - | - | - | - | (868) | **(868)** | - | **(868)** |
| Other changes | - | - | - | - | (2) | **(2)** | 2 | **-** |
| Reclassifications | - | - | - | 7 291 731 | (7 291 731) | **-** | - | **-** |
| Payment of dividends to equity holders | - | - | - | - | (1 121 000) | **(1 121 000)** | (106) | **(1 121 106)** |
| Net profit | - | - | - | - | 865 297 | **865 297** | 445 | **865 742** |
| **31 December 2008** | **5 900 000** | **(53 374)** | **1 740 093** | **10 729 053** | **2 391 123** | **20 706 895** | **9 030** | **20 715 925** |
| | | **(44 525)** | | | | | | |
| **1 January 2007** | **5 900 000** | **(15 609)** | **1 740 093** | **2 890 068** | **10 631 137** | **21 145 689** | **7 671** | **21 153 360** |
| Exchange differences from translation of foreign operations | - | (28 916) | - | - | - | **(28 916)** | - | **(28 916)** |
| Payment of dividend by an associate consolidated using the equity method | - | - | - | - | (15 729) | **(15 729)** | - | **(15 729)** |
| Other changes | - | - | - | - | - | **-** | - | **-** |
| Reclassifications | - | - | - | 588 013 | (588 013) | **-** | - | **-** |
| Payment of dividends to equity holders | - | - | - | - | (1 003 000) | **(1 003 000)** | (15) | **(1 003 015)** |
| Net profit | - | - | - | - | 915 032 | **915 032** | 1 033 | **916 065** |
| **31 December 2007** | **5 900 000** | **(44 525)** | **1 740 093** | **3 478 081** | **9 939 427** | **21 013 076** | **8 689** | **21 021 765** |

**NOTES**
**As at 31 December 2008**

# 1. GENERAL INFORMATION

## 1.1. PGNiG CAPITAL GROUP

Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG S. A.", the "Company"; the "Parent") is the Parent of PGNiG Capital Group (the "Capital Group", the "Group") with its registered office in 01-224 Warsaw, , ul. Marcina Kasprzaka 25. As of 23 September 2005, due to the sale of a new issue of shares on the Warsaw Stock Exchange ("WSE"), PGNiG S. A. was transformed from a entity wholly-owned by the State Treasury into a public company.

The Parent was created as a result of the transformation of the state enterprise operating under the name Polskie Górnictwo Naftowe i Gazownictwo into an entity wholly owned by the State Treasury. The transformation act and by-laws were drawn up in the form of a notarized deed on 21 October 1996.

In signing the act pursuant to which the state enterprise was transformed into a joint stock company the Minister of State Treasury executed the decisions specified in the Prime Minister's Ordinance of 30 September 1996 on the transformation of the state enterprise Polskie Górnictwo Naftowe i Gazownictwo with its registered office in Warsaw into a joint-stock company wholly owned by the State Treasury (Dz. U. No. 116 from 1996, item 553).

The Company was entered in the Commercial Register kept by the District Court for Warsaw, XVI Business Division on 30 October 1996, under number RHB 48382. Currently, the Company is entered in the Register of Entrepreneurs kept by the District Court for Warsaw, XII Business Division of the National Court Register under number KRS 0000059492.
The Company was assigned the statistical number REGON 012216736.

The joint stock company is the legal successor of the state enterprise. The assets and liabilities of the state enterprise were contributed to the joint stock company and recognized in the accounting records at amounts specified in the closing balances of the state enterprise.

The Company's core business involves exploration for and production of oil and gas, import, warehousing and sale of gaseous fuel.

The Capital Group is the only vertically integrated enterprise in the Polish gas sector and is the leader in areas of the gas sector in Poland. Polskie Górnictwo Naftowe i Gazownictwo S.A. is the Capital Group's parent.

The Capital Group's business involves explorations for deposits, natural gas and crude oil production from domestic deposits, import, warehousing as well as trading and distribution of gaseous fuels. The Capital Group is the main importer of gaseous fuels from Russia, Central Asia, Norway, Germany and the main producer of natural gas from domestic deposits. Natural gas and crude oil production is one of the key factors that ensures the Company's competitive position on the liberalized natural gas market.

Trading and distribution of natural gas, which are the Capital Group's core business along with the production of natural gas and crude oil, are regulated by the Energy Law and therefore subject to licensing. This also means that the Capital Group's revenue is dependent upon the level of gas fuel tariffs approved by the President of the Energy Regulatory Office. Exploration and production activities are regulated by the Geological and Mining Law and conducted based on granted concessions.

## 1.2. Description of the organization of the Capital Group, indicating entities included in consolidation

As at 31 December 2008 PGNiG Capital Group included PGNiG S.A. as the Parent as well as 33 companies whose activities focus on production and services, including:
- 26 PGNiG S.A. subsidiaries;
- 7 PGNiG S.A. indirect subsidiaries

Presented below are PGNiG Capital Group entities as at 31 December 2008.

(in PLN'000)

## PGNiG Capital Group entities

| | Company | Share capital (in PLN) | Share of PGNiG S.A. in the company's share capital (in PLN) | Percentage of share capital held by PGNiG S.A. | Percentage of PGNiG S.A. votes |
|---|---|---|---|---|---|
| | **PGNiG S.A. 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)] | 497 327 000.00 | 497 327 000.00 | 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. | 655 063 000.00 | 655 063 000.00 | 100.00% | 100.00% |
| 12 | Górnośląska Spółka Gazownictwa Sp. z o.o. | 1 288 680 000.00 | 1 288 680 000.00 | 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. | 1 251 738 000.00 | 1 251 738 000.00 | 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." | 3 700 000.00 | 1 887 000.00 | 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. | 176 000.00 | 90 000.00 | 51.14% | 51.14% |
| | **PGNiG S.A. indirect subsidiaries** | | | | |
| 27 | GEOFIZYKA Kraków Libya JSC (LYD)[1)] | 1 000 000.00[2)] | 600 000.00 | 60.00% | 60.00% |
| 28 | Geofizyka Torun Kish Ltd (Rial) [1)] | 10 000 000.00 | 10 000 000.00[3)] | 100.00% | 100.00% |
| 29 | Oil Tech International F.Z.E. (USD) [1)] | 20 000.00 | 20 000.00 | 100.00% | 100.00% |
| 30 | Zakład Gospodarki Mieszkaniowej Sp. z o.o. (Piła) | 1 806 500.00 | 1 806 500.00 | 100.00% | 100.00% |
| 31 | GAZ Sp. z o.o. (Błonie) | 300 000.00 | 153 000.00 | 51.00% | 51.00% |
| 32 | GAZ MEDIA Sp. z o.o. (Wołomin) | 300 000.00 | 153 000.00 | 51.00% | 51.00% |
| 33 | Naft-Stal Sp. z o.o. | 667 500.00 | 450 000.00 | 67.40% | 67.40% |

[1)]Values in foreign currencies.

[2)]Capital paid: LYD 300,000.00, of which LYD 180,000.00 paid by GEOFIZYKA Kraków sp. z o.o.

[3)]Capital not paid

(in PLN'000)

## The entities of the Capital Group included in consolidation as at the end of 2008

| Name of the Company | Country | Percentage share in the share capital | |
|---|---|---|---|
| | | 31 December 2008 | 31 December 2007 |
| **Subsidiaries** | | | |
| Geofizyka Kraków Sp. z o. o. 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 Sp. z o.o. 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. | Netherlands | 100.00% | 100.00% |
| Dolnośląska Spółka Gazownictwa Sp. z o.o. | Poland | 100.00% | 100.00% |
| Górnośląska Spółka Gazownictwa Sp. z o.o. | Poland | 100.00% | 100.00% |
| Karpacka Spółka Gazownictwa Sp. z o.o. | Poland | 100.00% | 100.00% |
| Mazowiecka Spółka Gazownictwa Sp. z o.o. | 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% |
| Polskie LNG Sp. z o.o.4) | Poland | - | 100.00% |
| **Subsidiaries of BN Naftomontaż Krosno Sp. z o. o. (a subsidiary)** | | | |
| Naft-Stal Sp. z o.o. | Poland | 59.88% | 59.88% |
| **Co-subsidiaries and associates measured in line with the equity method** | | | |
| SGT EUROPOL GAZ S.A. 1) | Poland | 49.74% | 49.74% |
| GAS - TRADING S.A. | Poland | 43.41% | 43.41% |

1)Including 48% direct share and a 1,74%% indirect share through GAS-TRADING S.A.

2)GEOFIZYKA Kraków Sp. z o. o. Capital Group includes Geofizyka Kraków Sp. z o.o. and its subsidiary GEOFIZYKA Kraków Libya JSC.

3)Poszukiwania Nafty i Gazu Kraków Sp. z o. o. Capital Group includes Poszukiwania Nafty i Gazu Kraków Sp. z o. o. and its subsidiary Oil Tech International - F.Z.E.

4)Consolidated until 8 December 2008, i.e. the date of being sold to GAZ-SYSTEM S.A.

### 1.3. Changes in the structure of the business entity, including due to mergers, acquisitions or sale of entities of the issuer's capital group, long-term investments, division, restructuring and discontinuation of activity

The key changes in the structure of the PGNiG Capital Group in 2008 included:

- An increase in the share capital of Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. (at present Mazowiecka Spółka Gazownictwa Sp. z o. o.) by PLN 286,531 thousand to the level of PLN 1,217,350 thousand. The increase in the share capital of the company was registered in the National Court Register on 24 February 2008; A subsequent increase in the company's share capital by PLN 34,388 thousand, to PLN 1,251,738 thousand was registered on 9 September 2008;

- An increase in the share capital of Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o. (at present Karpacka Spółka Gazownictwa Sp. z o. o.) by PLN 165,363 thousand to the level of PLN 1,476,112 thousand. The increase in the share capital of the company was registered in the National Court Register on 12 February 2008; A subsequent increase in the company's share capital by PLN 8,841 thousand, to PLN 1,484,953 thousand was registered on 22 August 2008;

- An increase in the share capital of Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. (at present Pomorska Spółka Gazownictwa Sp. z o. o.) by PLN 165,363 thousand to the level of PLN 1,476,112 thousand. The increase in the share capital of the company was registered in the National Court Register on 12 February 2008; A subsequent increase in the company's share capital by PLN 18,555 thousand, to PLN 614,696 thousand was registered on 4 August 2008;

- An increase in the share capital of Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. (at present Dolnośląska Spółka Gazownictwa Sp. z o. o.) by PLN 104,697 thousand to the level of PLN 651,145 thousand. The increase in the share capital of the company was registered in the National Court Register on 9 April 2008; A subsequent increase in the company's share capital by PLN 3,918 thousand, to PLN 655,063 thousand was registered on 30 October 2008;

- An increase in the share capital of Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o. (at present Wielkopolska Spółka Gazownictwa Sp. z o. o.) by PLN 131,128 thousand to the level of PLN 978,287 thousand. The increase in the share capital of the company was registered in the National Court Register on 27 May 2008; A subsequent increase in the company's share capital by PLN 54,899 thousand, to PLN 1,033,186 thousand was registered on 22 January 2009;

- An increase in the share capital of Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. (at present Górnośląska Spółka Gazownictwa Sp. z o. o.) by PLN 91,366 thousand to the level of PLN 1,288,680 thousand. The increase in the share capital of the company was registered in the National Court Register on 25 June 2008;

- An increase in the share capital of Geofizyka Kraków Sp. z o.o. by PLN 30,000 thousand to the level of PLN 64,400 thousand. The increase in the share capital of the company was registered in the National Court Register on 2 April 2008;

- An increase in the share capital of Polskie LNG Sp. z o.o. by PLN 11,000 thousand to the level of PLN 50,000 thousand. The increase in the share capital of the company was registered in the National Court Register on 7 January 2008. On 28 April 2008 an agreement was concluded between PGNiG S.A. and OGP GAZ – SYSTEM S.A. regarding sale of 100% shares in Polskie LNG Sp. z o.o. OGP GAZ – SYSTEM S.A. as an acquirer assumed 50,000 shares with face value of PLN 1,000 each on 8 December 2008.

Other changes in the share of PGNiG S.A. in the companies were related to the following operations:

- On 5 February 2008 the Extraordinary Shareholders' Meeting of Polski Serwis Płynów Wiertniczych Sp. z o.o. passed a resolution on the redemption of 50 shares in PPiEZRiG PETROBALTIC S.A. without reducing the company's share capital. Based on a court decision of 10 March 2008 PPiEZRiG PETROBALTIC S.A. was removed from the National Court Register as a shareholder of Polski Serwis Płynów Wiertniczych Sp. z o.o. As a result, the share of PGNiG S.A. in the votes at the Shareholders' Meeting increased to the level of 15.56%;

- On 31 March 2008 ZRUG Warszawa S.A. under liquidation was removed from the National Court Register;

- On 24 April 2008 Zakład Remontowy Urządzeń Gazowniczych Wrocław Sp. z o.o. in bankruptcy was removed from the National Court Register.

- On 29 May 2008 an increase in the share capital of ZRUG Zabrze Sp. z o.o. by PLN 2,500 thousand was recorded in the National Court Register. As PGNiG S.A. did not participate in this operation, its share in the share capital of the company reduced to the level of 11.43%;

- On 18 June 2008 Management Board of Zakłady Azotowe w Tarnowie – Mościcach S.A. allocated to PGNiG S.A. 4,000,001 B series shares with face value of PLN 5.00 each and issue price of PLN 19.50 each, constituting 10.23% of the share capital of Zakłady Azotowe w Tarnowie – Mościcach S.A. The increase of the aforementioned company's share capital was registered in the National Court Register on 22 July 2008. The total investment value amounted to PLN 78 million.

Additionally:

- On 4 February 2008 in Netherlands, amendments to the Articles of Association of PGNiG Finance B.V. were registered; the new Articles of Association include the change of the company name to Polish Oil And Gas Company Libya B.V. and a total change of its core business. At present, the Company's core business includes: production, transport, refining and sales of hydrocarbons.

- On 23 January 2008 a court decision was issued on declaring WALCOWNIA RUR JEDNOŚĆ Sp. z o.o. bankrupt. The decision entered into force on 16 April 2008.

**1.4. Composition of the Management Board of PGNiG S.A.:**

According to the Company's By-laws, the Management Board of PGNiG S.A. is composed of two to seven people. The number of the members in the Management Board is defined by the entity that appoints the Management Board. Members of the Management Board are appointed for a joint three year term. Members of the Management Board or the entire Management Board are appointed by the Supervisory Board. Each of the Members of the Management Board can be dismissed or suspended by the Supervisory Board or the General Shareholders Meeting. During the period in which the State Treasury is the Company's shareholder and the Company employs 500 persons on average per year, the Supervisory Board appoints one person selected by the employees to the Management Board for one term.

As at 31 December 2008 the Management Board of PGNiG S.A. was composed of five persons:

- Michał Szubski - Chairman of the Board;
- Mirosław Dobrut – Vice Chairman of the Management Board in Charge of Gas Production and Trade;
- Radosław Dudziński – Vice Chairman of Management Board in Charge of Strategy;
- Sławomir Hinc – Vice Chairman of the Management Board in Charge of Finance;
- Mirosław Szkałuba – Vice Chairman of the Board in Charge of HR and Restructuring.

The following changes in the composition of the Management Board of PGNiG S.A. took place in 2008:

During a meeting on 12 March 2008, the Supervisory Board of PGNiG S.A. dismissed Krzysztof Głogowski, Zenon Kuchciak, Sławomir Niedbalec and Tadeusz Zwierzyński from the positions in the Management Board. At the same time, on 12 March 2008 the Supervisory Board of PGNiG S.A. appointed the following persons to the Management Board of PGNiG S.A.: Michał Szubski, Mirosław Dobrut, Radosław Dudziński and Sławomir Hinc.

On 20 March 2008, the Supervisory Board of PGNiG S.A. dismissed Jan Anysz from the Management Board of PGNiG S. A. and simultaneously appointed Mirosław Szkałuba, who was selected by the employees of PGNiG S. A.

The following changes in composition of the Management Board of PGNiG S.A. took place after 31 December 2008:

On 28 January 2009, the Supervisory Board of PGNiG S. A. appointed Waldemar Wójcik a Member of the Management Board.

As at the date of these financial statements, the composition of the Management Board of PGNiG S.A. was as follows:

- Michał Szubski - Chairman of the Board;
- Mirosław Dobrut – Vice Chairman of the Management Board; in Charge of Gas Production and Trade;
- Radosław Dudziński – Vice Chairman of Management Board in Charge of Strategy;
- Sławomir Hinc – Vice Chairman of the Management Board in Charge of Finance;
- Mirosław Szkałuba – Vice Chairman of the Board in Charge of HR and Restructuring;
- Waldemar Wójcik – Vice Chairman of the Board in Charge of Oil Mining.

### 1.5. Proxies of PGNiG S.A.

As at 31 December 2008, the Company's proxies were:

- Ewa Bernacik;
- Marek Dobryniewski;
- Stanisław Radecki;
- Waldemar Wójcik.

The following changes of the proxies of PGNiG S.A. took place in 2008:

On 3 January 2008, the Management Board of PGNiG S. A. appointed the following persons as the Company's proxies: Jan Czerepok, Marek Dobryniewski and Waldemar Wójcik.

On 17 March 2008, the proxy granted to Jan Czerepok was revoked. On 25 April 2008, the proxy granted to Bogusław Marzec was revoked.

On 29 April 2008 the Management Board of PGNiG S.A. appointed Stanisław Radecki as the Company's proxy.

The following changes PGNiG S.A. proxies took place after 31 December 2008:

On 14 February 2009, the power of proxy granted to Marek Dobryniewski and Waldemar Wójcik was revoked. At the same time, the Management Board of PGNiG S.A. granted Tadeusz Kulczyk and Zbigniew Król with the power of proxy.

As at the date of these financial statements, PGNiG S.A. was represented by the following proxies:

- Ewa Bernacik;
- Zbigniew Król;
- Tadeusz Kulczyk;
- Stanisław Radecki.

The powers of proxy are joint, i.e. in order for documents to be effective from the legal point of view, they must be signed by a proxy and a Member of the Management Board of PGNiG S.A.

### 1.6. Composition of the Supervisory Board of PGNiG S.A.

According to the Company's By-laws, the Supervisory Board of PGNiG S.A. is composed of five to nine members appointed by the Shareholders Meeting for the period of a three year joint term ofoffice. As long as the State Treasury remains the Company's shareholder, the State Treasury is represented by the Minister of State Treasury, acting in cooperation with the Minister of Economy, who is authorized to appoint and dismiss one member of the Supervisory Board.

One member of the Supervisory Board appointed by the Shareholders Meeting should meet the following conditions:

1) should be elected according to the procedure referred to in § 36 clause 3 of the By-laws of PGNiG S.A.;,
2) cannot be the Company's Related Party or its subsidiary;
3) cannot be a Related Party to the parent or parent's subsidiary; or
4) cannot be a person in any relationship with the Company or any of the entities listed in point 2) and 3), which could significantly affect the ability of such person holding the position of member of the Supervisory Board to pass unbiased decisions.

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

Pursuant to § 36 clause 3 of the By-laws of PGNiG S.A., the member of the Supervisory Board who should meet the above criteria is elected by way of a separate vote. The right to submit written nominations of candidates to the Supervisory Board who must meet the above conditions to the Chairman of the General Shareholders' Meeting is reserved for shareholders who are present at the General Shareholders' Meeting summoned to select such a member. If the shareholders do not elect candidates, candidates to the Supervisory Board that should meet the aforementioned conditions are proposed by the Supervisory Board.

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

**As of 31 December 2008, the Supervisory Board consisted of nine members:**

- Stanisław Rychlicki - Chairman of the Supervisory Board;
- Marcin Moryń – Vice 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;
- Maciej Kaliski - 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.

The following changes in the composition of the Supervisory Board of PGNiG S.A. took place in 2008:

On 7 February 2008, Mirosław Szkałuba resigned from the position of Member of the Supervisory Board.

The Extraordinary Shareholders Meeting of PGNiG S.A. dismissed the following persons from the Supervisory Board on 15 February 2008: Piotr Szwarc, Jarosław Wojtowicz, Andrzej Rościszowski, Wojciech Arkuszewski. At the same time, the Extraordinary Shareholders' Meeting of PGNiG S.A. appointed the following persons to the Supervisory Board on 15 February 2008: Stanisław Rychlicki and Grzegorz Banaszek.

On 28 April 2008, the Extraordinary Shareholders Meeting of PGNiG S.A. dismissed Grzegorz Banaszek, Kazimierz Chrobak, Mieczysław Kawecki, Marcin Moryń, Mieczysław Puławski, and Stanisław Rychlicki from the positions of Members of the Supervisory Board as of 29 April 2008, following termination of their office.

On 30 April 2008, the Extraordinary Shareholders' Meeting appointed Grzegorz Banaszek, Agnieszka Chmielarz, Mieczysław Kawecki, Hubert Konarski, Marcin Moryń, Mieczysław Puławski, Stanisław Rychlicki, Jolanta Siergiej and Joanna Stuglik to the positions of Members of the Supervisory Board for a joint term of office commencing on 30 April 2008.

On 18 November 2008, Joanna Stuglik and Hubert Konarski were dismissed from the Supervisory Board and replaced by Maciej Kaliski and Marek Karabuła.

There were no changes in the composition of the Supervisory Board of PGNiG S.A. after 31 December 2008.

## 2. INFORMATION ON THE APPLIED ACCOUNTING PRINCIPLES

### 2.1. Basis of the preparation of the consolidated financial statements

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) as at 31 December 2008.

Pursuant to IAS 1 "Presentation of financial statements", IFRS consist of International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The scope of information disclosed in these financial statements complies with provisions of IFRS and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities and conditions of considering information required by non-member state regulations as equivalent (Dz. U. No. 33, item 259).

The key accounting principles applied by PGNiG Capital Group are presented below.

The consolidated financial statements are presented in PLN, and all figures, unless stated otherwise, are presented in PLN thousands. Any potential differences between totals and their components arise from rounding.

The financial statements of the Group have been prepared under the going concern assumption for the period of at least 12 months after the balance sheet date as regards the Parent and the subsidiaries.
As at the date of signing the financial statements, the parent's Management Board was not aware ofany facts and circumstances that could indicate that, as a result of intended or compulsory

discontinuation or significant limitation of existing operations, the continuity of the Company's operations during 12 months after the balance sheet date could be threatened.

The financial statements will be signed and presented to the Management Board of the Parent for approval on 30 April 2009.

**Statement of compliance**

The International Financial Reporting Standards consist of standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee.

During the current year the Group adopted all new and verified standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee as approved for application in the European Union, applicable to the Company's operations and to annual reporting periods beginning on or after 1 January 2008. The adoption of new and verified standards and interpretations did not result in changes in the Group's accounting principles affecting the figures disclosed in the financial statements for previous years and the current year.

### 2.2. Effect of new standards and interpretations on the financial statements of the Group

The following interpretations are effective as at of 31 December 2008:

- IAS 39 (revised) Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – reclassification of financial assets (applicable to reclassifications carried out as at or after 1 July 2008).
- IAS 39 (revised) Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – reclassification of financial assets, effective date and transitional provisions (effective 1 July 2008).
- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions" (applicable to annual periods beginning on or after 1 March 2007).
- IFRIC 12 "Service Concession Arrangements" (applicable to annual periods beginning on or after 1 January 2008).
- IFRIC 14 "IRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".
  IFRIC 1 applies for the first time to annual periods beginning on or after 1 January 2008.

Adopting of the above interpretations did not result in material changes in the Group's accounting policy.

When approving the financial statements, the Group did not adopt the following standards and interpretations published and endorsed by EU that have not come into effect:

- IFRS 8 "Operating Segments" endorsed by EU on 21 November 2007 (effective 1 January 2009).
- IFRS 1 (revised) "First-time adoption of IFRS" and IAS 27 "Consolidated and separate financial statements" endorsed by EU on 23 January 2009 (effective 1 January 2009).
- IFRS (2008) "Revisions to International Financial Reporting Standards" endorsed by EU on 23 January 2009 (most of the revisions are effective 1 January 2009).
- IAS 32 (revised) Financial Instruments: Presentation" and IAS 1 (revised) "Presentation of financial statements" endorsed by EU on 21 January 2009 (effective 1 January 2009).
- IAS 1 (revised) "Presentation of financial statements" endorsed by EU on 17 December 2008 (effective 1 January 2009).
- IAS 23 (revised) "Borrowing Costs" endorsed by EU on 10 December 2008 (effective 1 January 2009).
- IFRS 2 (revised) "Share-based Payment" endorsed by EU on 16 December 2008 (effective 1 January 2009).
- IFRIC 13 "Customer Loyalty Programmes" endorsed by EU on 16 December 2008 (effective 1 January 2009).

The Group assessed the effects of these interpretations and changes in standards and concluded that the changes in IAS 1, IFRS 8 and IAS 23 may affect the presentation of the financial statements upon application. Effective from 1 January 2009 the Group's reporting will include the proposed amendments.

According to the Group's estimates the remaining changes would not have a material impact on the consolidated financial statements if adopted by the Group as at the balance sheet date. The Group does not intend to adopt these standards and interpretations before their effective date.

IFRS as endorsed by the EU do not differ significantly from the current regulations adopted by the International Accounting Standards Board, except for the following standards, which as at 7 April 2009 had not yet been endorsed:

- IFRS 3 (revised) "Business Combinations" (effective 1 July 2009);
- IFRS 1 (revised) "First-time Adoption of IFRS" (effective 1 July 2009);
- IFRS 7 (revised) "Financial Instruments: Disclosures" (effective 1 January 2009);
- IAS 27 (revised) "Consolidated and Separate Financial Statements" (effective 1 July 2009);
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement" (effective 1 July 2009);
- IAS 39 (revised) "Reclassification of Financial Assets" and to IFRS 7 "Financial Instruments: Disclosures: (effective 1 July 2008);
- IFRIC 9 (revised) "Reassessment of Embedded Derivatives" and to IAS 39 "Financial Instruments: Recognition and Measurement" (effective 30 June 2009);
- IFRIC 12 "Service Concession Arrangements" (effective 1 January 2009);
- IFRIC 15 "Arrangements for the Construction of Real Estate" (effective 1 January 2009);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective 1 October 2008);
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective 1 July 2009);
- IFRIC 18 "Transfer of Assets from Customers" (effective 30 June 2009).

According to the Group's estimates, the above standards, revisions to standards and interpretations would not materially impact the financial statements if adopted as at the balance sheet date.

At the same time, apart from regulations endorsed by the EU, there is hedge accounting of the portfolio of financial assets or liabilities not endorsed by the EU.

According to the Group's estimates, implementation of hedge accounting principles 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 of the balance sheet date.

### 2.3. Accounting principles applied

**Consolidation principles**

The consolidated financial statements include the financial statements of PGNiG S.A. acting as the Parent and the financial statements of the entities controlled by the Parent (or controlled by the Parent's subsidiaries) prepared as at 31 December 2008, except for subsidiaries, whose impact on the consolidated financial statements would not be material. An entity is considered to be controlled whenever the Parent has the ability to influence the financial and operational policy of the entity to generate benefits from its operations.

As at the date of acquisition, assets and liabilities plus equity of the acquiree are measured at their fair value. The surplus of the acquisition price over the fair value of the acquired identifiable net assets of the entity is recognized as goodwill. In case the acquisition price is lower than the fair value of identifiable net assets acquired from the entity, the difference is recognized as profit in the income statement for the period when the acquisition took place. The share of minority equity holders is disclosed in appropriate proportions of the fair value of the assets and equity. In subsequent periods losses attributable to individual minority equity holders over the value of their shares are charged to the Parent's equity.

Whenever necessary the financial statements of the subsidiaries or associates are adjusted in order to standardize the accounting principles applied by the entity with the accounting principles applied by the Parent.

All transactions, balances, revenues and expenses related to operations between related parties included in consolidation are eliminated from consolidation.
The profit or loss of the entities acquired or sold during the year is recognized in the consolidated financial statements from the moment of their acquisition and until their sale.
In case a subsidiary is no longer controlled, the consolidated financial statements should disclose the profit or loss for the part of the year covered by the financial statements when the Parent exercised such control.
Minority interest in 2008 includes the part of shares in BSiPG Gazoprojekt S.A., BN Naftomontaż Sp. z o. o. and Naft-Stal Sp. z o.o. that do not belong to the Capital Group.

**Investments in associates**

An associate is an entity which the Parent can influence significantly, but with respect to which it does not exercise control, by participating both in the development of the financial and operational policy of such an associate, and which is not a joint venture. The financial interest of the Group in its associates is measured using the equity method, except for instances when an investment is classified as held for trading (see below). Investments in associates are measured at acquisition price after adjustment for changes in the Group's share in net assets which took place until the balance sheet date, less the impairment of individual investments. Losses of associates exceeding the value of the Group's share in such associates are not recognized.
The surplus of the acquisition price over the fair value of identifiable net assets of an associate as at the acquisition date is recognized under goodwill. When the acquisition price is lower than the fair value of identifiable net assets of an associate as at the acquisition date, the difference is recognized as profit in the income statement for the period when the acquisition was effected.

Profits and losses resulting from transactions between the Group and an associate are subject to consolidation eliminations in line with the Group's share in such an associate's equity. The balance sheet dates of the associates and the Group are identical and both the entities apply uniform accounting principles. Whenever necessary the financial statements of associates are adjusted in order to standardize the accounting principles applied by such an entity with the accounting principles applied by the Parent. Losses incurred by an associated entity can imply the impairment of its assets which results in the necessity to create an appropriate revaluation write-down.

**Interests in joint ventures**

The Group's interest in a joint venture is recognized in line with the equity method based on the principles described under investments in associates.

**Translation of items denominated in foreign currencies**

The Polish zloty (PLN) is the functional and presentation currency used by PGNiG S.A. and its subsidiaries, except for POGC Libya B.V. and PGNiG Norway AS. Transactions denominated in foreign currencies are initially recognized at the exchange rate of the functional currency as at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate of the functional currency as at the balance sheet date. All exchange differences are recognized in the consolidated income statement, except for exchange differences arising from the translation of assets and liabilities plus equity of foreign entities. These differences are recognized directly in equity until the moment of disposing of shares in these entities. Non-monetary items measured at historical cost in foreign currencies are translated at the exchange rate as at the initial transaction date. Non-monetary items measured at fair value in foreign currencies are translated at the exchange rate as at the fair value determination date.
The Parent uses foreign currency forwards and options to hedge against risks resulting from exchange rate fluctuations (accounting principles applied by the Capital Group with respect to derivative financial instruments are provided below).

The Pakistani rupee (PKR) is the functional currency of the Operator Branch in Pakistan and PLN for the Branch in Denmark, Egypt and Algeria, whereas the euro (EUR) and the Norwegian Krone (NOK) are the functional currencies of the subsidiaries (POGC Libya B.V. and PGNiG Norway AS), respectively. As at the balance sheet date the assets and liabilities of these foreign entities are translated into the presentation currency of PGNiG S.A. at the exchange rate ruling at the balance sheet date, whereas their income statements are translated at the average exchange rate for a given financial year. Forex differences resulting from such translations are recognized directly in equity as a separate item. Upon disposal of a foreign operation, accumulated deferred forex differences recognized in equity and related to the foreign operation are recognized in the income statement.

**Property, plant and equipment**

Property, plant and equipment is initially measured at acquisition price or manufacturing cost (historical cost measurement model).

The acquisition price or manufacturing cost includes the costs incurred on purchase or manufacture of property, plant and equipment and further expenditure incurred in order to increase the asset's useful life, replace its major components or its renovation. The acquisition price or manufacturing cost of property, plant and equipment does not include interest on borrowings and exchange differences related to the manufacture of property, plant and equipment components, which are charged to theincome statement upon their incurrence.

Spare parts and service equipment are disclosed under inventories and recognized in the income statement upon use. Material spare parts and emergency equipment qualifies for recognition as property, plant and equipment, if the Group expects to use such items for over a year and if it is possible to allocate them to individual components of property, plant and equipment.

The Group does not increase the carrying amount of property, plant and equipment by their current maintenance costs, which are charged to the income statement upon incurrence. Current maintenance costs of property, plant and equipment, i.e. repair and maintenance, include labor cost and costs of used materials and they can include the cost of immaterial spare parts.

Upon the initial recognition of an item of property, plant and equipment as an asset, the Group recognizes it at acquisition price or manufacturing cost less accumulated depreciation and impairment loss.

Depreciation is calculated for all property, plant and equipment, except for land and fixed assets under construction, during the estimated economic useful life of these assets using the straight-line method:

| | |
|---|---|
| Buildings and structures | 2 – 40 years |
| Plant and equipment, vehicles and other | 2 – 35 years |

Property, plant and equipment used under leases or similar agreements and classified as the entity's assets are depreciated over the asset's useful life, not longer however, than over the term of the agreement.

Upon disposal or liquidation of property, plant and equipment, the historical cost and accrued depreciation are derecognized from the balance sheet, while any gains or losses are charged to the income statement.

Fixed assets under construction are measured at acquisition price or the amount of total expenses directly connected with their manufacture, less impairment. Fixed assets under construction are not depreciated until they have been completed and commissioned.

*Exploration and prospecting expenditure*

Natural gas and oil exploration and prospecting expenditure includes geological work aimed at finding and documenting the deposit and are settled using the geological success method.
The Group recognizes expenditure incurred on initial land analysis (seismic work, development and drawing up of geological maps) directly as cost in the income statement for the period in which such expenditure was incurred.
The Group recognizes bore hole expenditure incurred during exploration and prospecting in assets, as fixed assets under construction.
Previously activated expenditure for bore holes deemed as negative are charged by the Group to the income statement for the period in which such bore holes were deemed negative.

After natural gas and/or oil production has been proven technically feasible and commercially legitimate, the Group reclassifies mineral resource exploration and assessment assets to fixed assets or intangible assets, depending to what such assets refer to.

**Borrowing costs**

Borrowing costs are recognized under expenses at the moment they are incurred in line with the benchmark treatment defined in IAS 23.

**Investment property**

Investment property is the property (land, building, part of a building, or both) treated by the Company as a source of rental income or held for capital appreciation or both. Investment property is initially recognized at acquisition price plus transaction costs.

The Group has decided to measure its investment property based on the cost model and after initial recognition measures all its investment property in line with the requirements of IAS 16 defined for such a model i.e. at acquisition price or manufacturing cost less accumulated depreciation and impairment loss.
Investment property is derecognized upon its disposal or decommissioning, if no benefits are expected in the future from its sale. All gains and losses arising from the derecognition of investment property are charged to the income statement for the period in which such property is derecognized.

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

| | |
|---|---|
| Buildings and structures | 2 – 40 years |

**Intangible assets**

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

The Group initially recognizes intangible assets at acquisition price or manufacturing cost. Subsequent to initial recognition, the Group measures intangible assets at acquisition price or manufacturing cost less amortization and total impairment loss.

The above amortization method reflects the manner in which the economic benefits associated with an intangible asset are used by the Group; however if the use of such benefits cannot be reliably determined, the straight-line method is applied. The adopted amortization method is applied consistently over subsequent periods, unless there is a change in the expected manner in which economic benefits will be used.

The amortization period and method are verified at least at the end of each financial year. If the expected useful life of an asset is significantly different from previous estimates, the amortization period is changed. If the manner in which economic benefits are expected to be used over time has altered significantly, the amortization method is changed accordingly, to reflect such an alteration. The above changes are recognized by the Group as changes of accounting estimates and are charged to the income statement for the period in which such estimates are changed.

The following economic useful lives are typically applied in the amortization of intangible assets:

| | |
|---|---|
| Acquired licenses, patents and similar items | 2-15 years |
| Acquired computer software | 2-10 years |
| Land perpetual usufruct | 40-99 years |

The perpetual usufruct right acquired free of charge pursuant to an administrative decision issued based on the Law of 20 September 1990 amending the Law on land management and property expropriation is recognized by the Group in off balance sheet records only.
Land perpetual usufruct right acquired in exchange for consideration is presented as intangible assets and amortized during its useful life. The useful life of the surplus of the first payment over the annual perpetual usufruct fee is equal to the perpetual usufruct period determined in the perpetual usufruct right agreement.
The period of land perpetual usufruct acquired for a fee from an entity other than the State Treasury or local government unit is equal to the period from the usufruct acquisition date to the last day of the perpetual usufruct period determined in the perpetual usufruct agreement.

Intangible assets with an indefinite useful life are not subject to amortization.
Intangible assets with an indefinite useful life as well as intangible assets which are not yet used are subject to periodic (once a year) testing for impairment.

*R&D expenses*

R&D expenses are not subject to capitalization and are presented in the income statement as costs in the period, in which they were incurred.
R&D expenses are capitalized only when:

- a precisely specified project is realized (e.g. software or new procedures);
- it is likely that the asset will generate future economic benefits; and
- costs connected with the project can be reliably estimated.

R&D expenses are amortized using the straight-line method over their economic useful life.
If it is impossible to isolate the item of assets manufactured by the entity itself, R&D expenses as recognized in the income statement in the period, in which they were incurred.

**Leases**

Leases are classified as finance lease, when the terms and conditions of the agreement transfer in principal all potential benefits as well as risk resulting from being the owner onto the lessee. All other forms of leases are treated as operating leases.

*The Group as a Lessor*

Assets provided to other entities under finance leases are recognized in the balance sheet under receivables in the amount of the net lease investment, less the principal portion of lease payments for a given financial period calculated to reflect the fixed periodical return rate on the unsettled portion of the net lease investment.
Revenues from interest payable due to finance leases are recognized in appropriate periods using the fixed rate of return on the net value of the Company's investment due to leases.

Revenues due to operating leases are recognized in the income statement using the straight line method during the period resulting from the lease contract.

*The Group as a Lessee*

Assets used under finance leases are treated as the Group's assets and are measured at fair value upon their acquisition, not higher however than the current value of minimum lease payments. The resulting liabilities toward the Lessor are presented in the balance sheet under finance lease liabilities. Lease payments have been broken down into the interest and principal, so that the interest rate on the remaining liability is fixed. Financial expenses are charged to the income statement.

Payments from operating leases are recognized in the income statement using the straight line method during the period resulting from the lease contract.

**Financial assets**

If market practice foresees the delivery of financial assets after a precisely specified period following the transaction date, investments in financial assets are recognized in the accounting records and derecognized from the accounting records upon the conclusion of the purchase or sale transaction.
All investments are measured initially at purchase price adjusted by transaction costs. Investments are classified as "held for trading" or "available for sale" and measured at fair value at the balance sheet date. Gains and losses resulting from changes in the fair value are recognized in the income statement for a given period.
Financial assets with fixed or determinable payments and fixed maturity are classified as investments "held to maturity" provided that the Group definitively intends to and is capable of holding them until this date.
Long-term investments held to maturity are measured at adjusted acquisition price determined using the effective interest rate. Discounts or bonuses obtained upon the acquisition of the investment and settled over the period during which it was held to maturity are taken into account when determining the adjusted acquisition price. Gains or losses from investments measured at adjusted acquisition price are recognized in revenues during their settlement in the period and upon their derecognition from the balance sheet or upon the occurrence of impairment.
Positive measurement of derivatives which are not classified as hedging instruments is conducted at fair value through the financial result and disclosed at fair value, including the recognition of fair value changes in the income statement. Positive measurement of derivatives is disclosed in separate items of current assets.

**Non-current assets held for sale**

The Group classifies a non-current asset (or a group of assets for disposal) as held for sale if its carrying amount will be recovered primarily through a sale transaction rather than is further use.

Such is the case, if the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or a group of assets for disposal), while its sale is highly probable.

An asset (or a group of assets for disposal) is classified as held for sale after an appropriate decision is passed by a duly authorized body under the Company's By-laws / Articles of Association – the Company's Management Board, Supervisory Board or Shareholders' Meeting/General Shareholders' Meeting. In addition, an asset (or a group of assets for disposal) must be actively offered for sale at a reasonable price as regards its present fair value. Additionally, it should be expected that the sale will be effected within one year from the date of such classification.

The Group does not depreciate non-current assets after they have been classified as held for sale.

**Inventories**

The value of inventories in the warehouse is determined at acquisition price or manufacturing cost or at net realizable value, whichever lower, less impairment resulting from reduction of is economic usefulness. The acquisition price or manufacturing cost includes all costs of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition.
Net realizable value is the difference between the estimated selling price in the ordinary course of business and the estimated costs of completion and the estimated costs necessary to execute the sales transaction.

Gas fuel in storage facilities is measured separately for each storage facility at the weighted average price of gas fuel acquisition.

The release of gas fuel for internal consumption in Underground Gas Storage Facilities (UGSF) as well as balance sheet differences are measured by the Company's Head Office at the weighted average acquisition price, which consists of the cost of acquiring gas fuel from all sources abroad, actual cost of production from domestic sources, the cost of denitration and the cost of acquisition from other domestic sources. The release of gas fuel for external sales is measured at gas fuel acquisition cost, i.e. the average actual acquisition price.

**Trade and other receivables**

Trade receivables are initially recognized at fair value. Upon initial recognition, receivables are measured at amortized cost using the effective interest rate method. Measurement differences are charged to the income statement. 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 based on the probability of their recovery, if there is objective evidence that the receivables will not be fully recovered.
Revaluation write-downs of receivables for gas deliveries to small customers (low consumption of gas), settled in line with tariff groups 1-4, are calculated on a statistical basis. Write-downs are created based on an analysis of historical data regarding settlement of receivables during the year. Using the results of the analysis, repayment ratios are calculated, and on this basis, the aging analysis of receivables is prepared.
The Group creates revaluation write-downs for gas delivery receivables from customers from tariff groups 5-7 which are overdue by more than 90 days. Their amounts are calculated individually based on the Group's information on the debtor's financial position.
A 100% write-down is created for all accrued interest.
Revaluation write-downs on receivables are charged to other operating expenses or financial expenses, respectively, according to the type of receivables, to which the revaluation write-down applies.
Irrecoverable receivables are charged to losses upon the assessment of their irrecoverability.
Writing-off or derecognition of receivables due their o expiry or irrecoverability results in the reduction of previously created write-downs.
Receivables redeemed or written-off due to expiry or irrecoverability which were not written down or were partially written down are classified as other operating expenses or financial expenses, as appropriate.

**Cash and bank balances**

Cash and bank balances disclosed in the balance sheet include cash at bank and in hand as well as short-term financial assets with high liquidity and the initial maturity not exceeding three months, easily convertible to specified cash amounts and subject to an insignificant value fluctuation risk.
The balance of cash and bank balances disclosed in the consolidated cash flow statement consists of the aforementioned cash and bank balances, less unpaid overdraft facilities.

**Impairment**

The Group tests its assets for impairment at each balance sheet date. If circumstances indicating impairment exist, the recoverable amount of a given asset is estimated in order to determine the potential impairment loss. When an asset does not generate cash flows which are highly independent from the cash flows generated by other assets, the analysis is conducted for the cash flow generating group of assets to which such an asset belongs.

Intangible assets with indefinite useful lives are tested for impairment on an annual basis and whenever there is an indication that an asset may be impaired.
The recoverable amount is determined as the higher of the two following amounts: The fair value less costs to sell or the value in use. The last value corresponds to the present value of the estimated future cash flows discounted using a discount rate that reflects the current market time value of money and risks specific for the given asset.
If the recoverable amount of an asset (or asset group) is lower than its net carrying amount, the book value is reduced to the recoverable amount. The related impairment loss is recognized as a cost in the period, when the impairment occurred.
Upon the reversal of impairment, the net value of an asset (group of assets) is increased to the newly estimated recoverable value, however no higher than the net value of this asset which would be determined if impairment was not recognized in previous years. Reversed impairment loss is recognized under revenues.

**Equity**

Equity is recorded in the accounting records by type and in accordance with principles specified in legal regulations and in the Parent's By-laws.
Share capital is disclosed at face value in amounts complying with the Parent's By-laws and the entry in the commercial register.
Declared but not transferred capital contributions are recognized as called up share capital. Own shares and called-up share capital reduce the value of the Parent's equity.
The share premium is created from the surplus of the issue price of shares over their face value less issue costs.
Share issue costs incurred upon establishment of a joint stock company or increase in the share capital are charged to the share premium up to the share premium amount, while the remaining amount is charged to other reserves.
The effects of measurement resulting from the first time adoption of IFRS and all changes in revalued property, plant and equipment as well as intangible assets are charged to retained earnings/losses.
In accordance with IAS, previous year net profit can be allocated only to capital or dividends for shareholders. The option foreseen by the Polish legal system under which profit can be allocated to the Company's Social Benefits Fund, Restructuring Fund, employee profit-sharing schemes or other purposes is not reflected in IAS. Therefore, the Group recognizes 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 recognized in payroll cost, while funds transferred to the Company's Social Benefits Fund are recognized under employee benefits costs.

**Borrowings**

Interest bearing bank loans are recorded at the value of obtained inflows less the direct cost of obtaining these funds. Following initial recognition interest-bearing loan facilities and loans are recognized at adjusted acquisition price using the effective interest rate. The adjusted acquisition price includes borrowing costs as well as discounts and premiums received upon the settlement of the liability.
The difference between net inflows and redemption value is disclosed in financial revenues or expenses over the loan term.

**Provisions**

Provisions are created when a potential liability (legal or constructive) of a reliably estimated value, which will most likely result in the outflow of assets generating economic benefits from the Company, is generated as a result of future events. The value of created provisions is verified at the balance sheet date in order to be adjusted to the current forecast.
The Group measures its provisions by discounting them, if the effect of changes in the time value of money is material; using a pre-tax discount rate which reflects current market estimates of the time value of money as well as risks related to a given liability which are not reflected in the most appropriate cost estimate. If a provision is discounted, increases in its value over time are recognized as borrowing costs. The discount rate should not bear the risk by which future estimated cash flows have been adjusted.
When provisions pertain to the cost of liquidating production related assets, the initial value of the provision increases the value of the respective fixed asset. Subsequent adjustments of the provision resulting from changes of estimates are also treated as a fixed asset value adjustment.
A detailed description of the bases of the Group's provisions is provided in point 29.

**Prepayments and accruals**

The Capital Group's constituent entities create prepayments for expenses pertaining to future reporting periods. They are presented in the balance sheet as a separate item of assets.
Accruals are liabilities related to goods or services which have been obtained/received, but not yet paid for, billed or formally agreed on with the supplier, together with amounts payable to employees (e.g. amounts related to accrued remuneration for paid vacation). These settlements are recognized in the balance sheet under equity and liabilities jointly with trade and other liabilities.
The Capital Group's constituent entities recognize deferred income in order to allocate revenues to future reporting periods upon realization.
The Parent's deferred income includes the value of revenues related to future periods due to forecasted gas sales and additional payments for uncollected gas resulting from take or pay contracts.
DSO Companies classify the value of gas infrastructure received free of charge (by 1998) and connection fees as deferred income. Respective revenues are realized together with created depreciation charges on the aforementioned service lines. These settlements are disclosed in the balance sheet as a separate item of liabilities and equity.

**Trade and other liabilities**

Trade liabilities are liabilities payable for goods or services which have been obtained/received and have been billed or formally agreed upon with the supplier.
Other liabilities include mainly liabilities resulting from the current activity of the Group's companies, i.e. payroll and other current employee benefits as well as accruals and public law liabilities.

**Financial liabilities**

Financial liabilities are measured at amortized cost, excluding derivatives (negative measurement). Negative measurement of derivatives which are not classified as hedging instruments is conducted at fair value through the financial result and disclosed at fair value, including the recognition of fair value changes in the income statement.

**Sales revenues**

Revenues are recognized in the amount of the potential reliably estimated economic benefits that will be obtained by the Group from a particular transaction. The following criteria are also applied to the recognition of revenues:

*Sale of goods and products*

Sales revenues are recognized at fair value of payments due or received and represent receivables for services, products and goods supplied under regular business operations less discounts, VAT and other sale-related taxes (excise duty). Sales of goods and products are recognized at the moment of delivery of goods and transfer of the related ownership title.
In order to ensure classification of gas sales revenue to a correct reporting period, as at the balance sheet date volume of gas supplied to individual customers is estimated in accordance with so-called "purchase method".
Additional sales not invoiced within the given reporting period is determined based on gas collection characteristics of individual customers in comparable reporting periods. The value of estimated sales of gas is arrived at as a product of the number assigned to individual tariff groups and rates defined in the valid tariff.

*Services*

Revenues from services are recognized according to their actual stage of completion as at the balance sheet date. If services include an indefinable number of actions performed within a finite period, revenues are recognized on a straight line basis (equally distributed) over the entire period. If a certain action is more important than other actions, the recognition of revenues is deferred until the action is performed. If the result of the service-related transaction cannot be reliably estimated, revenues from the transaction are recognized only up to the amount of incurred expenses, which the entity expects to recover.

*Interest*

Interest revenue is recognized incrementally with respect to the principal, in line with the effective interest rate method.

*Dividends*

Dividend revenue is recognized when the cum dividend is established.

*Rental income*

Income from the rental of investment property is recognized in accordance with conditions resulting from concluded leases.

**Construction contracts**

Revenues from contracts are measured at the fair value of received or due payments.
If the outcome of a construction contract can be reliably measured, revenues and expenses are recognized in relation to the stage of completion of the contract as at the balance sheet date. The stage of completion is measured as the proportion of incurred costs to the total estimated contract costs except for cases when such a methodology would not reflect the actual stage of completion. Any changes in the scope of work, claims and bonuses are recognized at levels agreed upon with the client.
If a contract value cannot be reliably estimated, contractual revenues are recognized in accordance with the probable level of contract costs which will be covered. Contract related costs are recognized as expenses of the period in which they were incurred.
If there is a probability that contract related costs will exceed revenues, the expected loss on the contract is immediately recognized as an expense.

**Government grants**

Government grants to non-current assets are presented in the balance sheet as deferred income and gradually charged to the income statement over their expected useful life in the form of equal annual write-offs.

**Income tax**

The statutory appropriations include: due corporate income tax and deferred tax.
The current tax liability is calculated based on the tax base for a given financial year. Tax profit (loss) differs from net book profit (loss) due to the exclusion of taxable revenues and expenses classified as tax-deductible in the following years as well as items of expenses and revenues which will never be subject to taxation. Tax charges are calculated based on tax rates applicable in a given financial year.
Deferred tax is calculated based on the balance-sheet method as tax payable or refundable in the future based on the difference between the carrying amount of assets and liabilities and their corresponding tax values used for the calculation of the tax base.
A provision for deferred tax is created on all temporary positive differences subject to taxation, whereas deferred tax assets are recognized up to the amount of probable negative temporary differences that may reduce future taxable income. Tax assets or liabilities do not occur if the temporary difference results from goodwill or the initial recognition of another asset or liability in a transaction which does not affect either the tax or accounting profit/loss. The deferred tax provision is recognized based on temporary tax differences arising as a result of investments in subsidiaries and associates as well as joint ventures, unless the Group is capable of controlling the reversal of temporary differences and it is likely that in the foreseeable future the temporary difference will not be reversed.
The value of the deferred tax asset is subject to analysis as at every balance sheet date and if the expected future tax income is insufficient to realize the asset or its part, a relevant write-down is created.
Deferred tax is calculated based on tax rates applicable when the given asset is realized or the liability becomes due. Deferred income tax is charged to the income statement, except for cases when it is related to items directly recognized in equity. In this case, deferred tax is also charged directly to equity.

**2.4. Main reasons for uncertainty of the estimate data**

During the Group's development of the accounting policy described above, the Company made the following assumptions regarding uncertainty and estimates which had the most significant impact on values presented in the financial statements. Due to the above, there is a risk of material changes in the future periods regarding mainly the following areas:

*Capital contributions to PI GAZOTECH Sp. z o.o.*

In 2008, cases filed by PGNiG S.A. were pending regarding the cancellation or revocation of resolutions passed by the Extraordinary Shareholders' Meeting of PI GAZOTECH Sp. z o.o.

regarding contribution to the company's capital. By the date of the financial statements, the cases had not been decided.

On 4 February 2008 the Appeal Court dismissed the appeal of PGNiG S.A. regarding the case on revocation of the resolutions passed by the Extraordinary Shareholders' Meeting of PI GAZOTECH Sp. z o.o. of 23 April 2004, including the resolution obliging PGNiG S.A. to make a capital contribution of PLN 52,000 thousand for the benefit of that company. The judgment is valid. The claims ceased to be secured through suspension of the execution of the resolutions on capital contributions upon the Appeal Court judgment. On 8 July 2008 a plea of nullity was filed in respect to the judgment of the Appeal Court of 4 February 2008. By the date of the financial statements, the Company had not received any information regarding the decision of the Appeal Court.

On 5 February 2008 the Appeal Court in Warsaw dismissed the appeal of PGNiG S.A. regarding the case on the non-existence of a resolution regarding share redemption, passed by the Shareholders' Meeting of PI GAZOTECH Sp. z o.o. on 23 April 2004. The judgment is valid. On 27 May 2008 a plea of nullity was filed in respect to the judgment of the Appeal Court of 5 February 2008. On 5 December 2008, the Court decided to dismiss the plea of nullity of 27 May 2008. This means that the Company's claim was legally and finally dismissed.

In a decision of 31 October 2008, the District Court dismissed the claim of PGNiG S.A. against PI GAZOTECH Sp. z o.o. regarding cancellation of a resolution passed by the Shareholders' Meeting of PI GAZOTECH Sp. z o.o. of 19 January 2005, obliging PGNiG S.A. to make a capital contribution of PLN 25.999 thousand. On 13 January 2009, the Company filed an appeal against the decision of the District Court. By the date of the financial statements, the Company had not received any information regarding the decision of the Appeal Court.

In the case regarding cancellation of a resolution passed by the Shareholders' Meeting of PI GAZOTECH Sp. z o.o. of 6 October 2005, obliging PGNiG S.A. to make a capital contribution of PLN 6,552 thousand, on 30 May 2008, the District Court dismissed the claim of PGNiG S.A. and cancelled a decision on securing PGNiG S.A. claim. On 22 January 2008, the Company filed an appeal against the proceeding, and on 29 July 2008, against the decision of the District Court. On 12 November, the Appeal Court accepted the Company's appeal against the decision of the District Court of 30 May 2008 regarding cancellation of the decision on securing the claim and forwarded the case to the District Court for re-examining. On 14 January 2009, the District Court cancelled the decision on securing the claim. The Company motioned for justification of the District Court's decision. As regards the appeal against the decision of 30 May 2008, by the date of the financial statements, the Company did not receive any information from the Appeal Court.

On 20 October 2008, a claim was filed regarding cancellation of resolutions passed by Shareholders Meeting of PI GAZOTECH Sp. z o.o. of 19 September 2008. The grounds of the claim were limited to strictly formal issues (the meeting being called by unauthorized individuals, and resolutions passed with the use of a provision giving privilege to shares held by Abit-Invest S.A., which was contrary to the equal treatment principle applicable to shareholders of a capital-based company). By the date of the financial statements, the cases had not been decided.

On 7 November 2008, the Company motioned to the District Court to decide that the votes arising from shares in PI GAZOTECH Sp. z o.o. held by Fundusz Kapitałowy Abit-Inwest S.A. were not privileged. By the date of the financial statements, the cases had not been decided.

Due to the above, the financial statements for 2008 include the Parent's liability and receivables from PI GAZOTECH Sp. z o.o. due to capital contributions in the amount of PLN 82,472 thousand as well as a revaluation write-down of PLN 82,472 thousand corresponding to the receivables in question. Additionally, the Parent increased the value of the provision for potential expenses to the amount of PLN 2,408 thousand (from the level of PLN 924 thousand as at the end of 2007).

*Impairment of non-current assets*

The Group's basic operating assets include mine assets, transmission infrastructure and gas storage facilities. These assets were tested for impairment. The Group calculated and recognized impairment losses in the accounting records based on the assessment of their useful life, planned liquidation or disposal. Assumptions regarding usefulness, liquidation and disposal of certain assets may change. Appropriate information regarding the value of impairment loss has been provided in Note 11.2.
As regards the mine assets, an uncertainty exists as to the estimates applied to gas and oil resources, based on which cash flows related to such assets are estimated. A change in the estimates related to resources directly affects the amount of revaluation write-downs created on mine assets.

Additionally, the risk that the decision of the Energy Regulatory Office as to the level of prices for gaseous fuel distribution services may change accounts for that uncertainty considerably. The price change has a significant impact on the change in cash flows of the distribution companies, which may require an update of revaluation write-downs on the distribution assets.

*Useful life of property, plant and equipment*

Depreciation rates applied to the main groups of fixed assets were presented in point 2.3 of the financial statements. The useful lives of fixed assets were defined based on assessments of technical services responsible for their operation. These estimates are connected with uncertainty regarding the future operating environment, technological changes and market competition, which may result in a modified assessment of the economic useful life of assets and their remaining useful life, which may significantly impact the value of these assets and future depreciation costs.

*Estimated sales of gas*

In order to ensure classification of gas sales revenue to a correct reporting period, as at the balance sheet date volume of gas supplied to individual customers is estimated.
The value of uninvoiced gas supplied to individual customers is estimated based on their previous collection characteristics in comparable reporting periods. There is a risk that actual gas sales figures may differ from the estimates. This may result in recognizing additional estimated but unrealized sales in the period profit/loss.

*Provisions for environmental protection*

A provision for costs of well reclamation and other environmental provisions as described in note 29 constitutes a material item of the financial statements. The provision is based on estimates of future liquidation and reclamation costs, which is highly dependent on the discount rate and estimated cash flow period.

*Impairment of shares in SGT EUROPOL GAZ S.A.*

The Parent conducted impairment tests of the shares in SGT EUROPOL GAZ S. A. using the discounted cash flows method. The calculations were based on data included in the financial plan of SGT EUROPOL GAZ S. A. for the years 2006–2019 as described in detail in Note 6. Results of impairment tests performer indicate significant differences depending on assumptions regarding future cash flows, discount rate and estimated cash flow period. As a result, the tests may significantly impact future value of shares.

## 2.5. Changes of presentation in the financial statements

### Changes in income statement presentation

The Company introduced changes in the income statement for 2007 in order to ensure the comparability of data for the comparative and current period.

The Group introduced changes to presentation of financial expenses due to measurement and settlement of derivative transactions hedging the foreign exchange rate in purchasing of imported gas.
Exchange differences and expenses related to the measurement and settlement of derivative transactions in line with IAS should adjust the income statement items they refer to. Such a presentation of expenses ensures a clear picture of the Group, which limits presentation of the financial expenses to those related to contracting or granting loans, whereas the operating expenses include costs directly related to this activity, e.g. realized exchange differences on purchase of foreign currencies in order to pay for imported gas. Therefore, the change is consistent with the adopted presentation of exchange differences on trade settlements, which have been presented under operating activity.
Therefore, in the income statement for the first half of 2007, the Group reclassified revenues and expenses related to trade liabilities settlement (including those arising from the purchase of gas) and measurement of derivatives hedging trade liabilities (gas purchase) reclassifying them from financial revenues or expenses to "Other operating expenses (net)". As a result, operating profit/loss in both comparative periods presented in the report changed. The profit/loss before tax and net profit/loss did not change.

The Group introduced changes to presentation of measurement and settlement of derivative transactions hedging foreign assets. Before, measurement and settlement of the transactions was presented in financial activities, while forex differences regarding hedged assets were recognized in operating activities. Since the hedging items regard assets used in operating activities, currently the Group presents them in operating activities of the income statement. Therefore, the Group reclassified corresponding items in the 2007 income statement. In the Company's opinion, the change allows better reflecting operating and financial profit/loss of the Group in the financial statements.

(in PLN'000)

Additionally, the Group changed the presentation of discount regarding provisions for liquidation of fixed assets. Before, changes of the discount-related portion of the provision had been presented as financial operations in the income statement. Currently, it is presented in operating activity along with other changes regarding the provision. Therefore, the Group reclassified corresponding items in the 2007 income statement.

Changes in the operating profit/loss and net profit/loss result from the introduction of the above changes in presentation are presented in the table below.

| | Period from 1 January 2007 to 31 December 2007 | | | | |
|---|---|---|---|---|---|
| **Income statement (selected items)** | **Previously presented amounts** | Reclassification of exchange gains/losses on measurement and settlement of derivatives related to gas purchases* | Reclassification of measurement and settlement of derivatives related to foreign assets** | **Reclassification of discount regarding provisions for liquidation of non-current assets**** | **Amounts after adjustments** |
| Other operating expenses (net) | (2 019 001) | (7 930) | 13 391 | 3 925 | (2 009 615) |
| **Total operating expenses** | **(15 800 538)** | **(7 930)** | **13 391** | **3 925** | **(15 791 152)** |
| **Profit on operating activities** | **851 596** | **(7 930)** | **13 391** | **3 925** | **860 982** |
| Financial revenues | 282 287 | (16 707) | (13 391) | (3 925) | 248 264 |
| Financial expenses | (115 129) | 24 637 | - | - | (90 492) |
| **Profit before tax** | **1 002 728** | **-** | **-** | **-** | **1 002 728** |
| Income tax | (86 663) | - | - | - | (86 663) |
| **Net profit** | **916 065** | **-** | **-** | **-** | **916 065** |

* The change impacts the trade and storage segment.

** The change impacts the exploration and production segment (increases the profit/loss by PLN 4,687 thousand) and the trade and storage segment (decreases the profit/loss by PLN 762 thousand).

**Cash flow statement presentation changes**

In relation to the change in presentation of profit/loss on derivatives hedging exchange rate at the purchase of imported gas, the Group introduced relevant changes to the cash flow statement. The amounts currently realized on derivative transactions hedging the exchange rate at the purchase of imported gas are presented in operating activities, while realized transactions hedging loan amounts are presented in investment activities. Therefore, the amount of PLN 200 thousand (PLN 301 thousand inflows and PLN 101 thousand outflows) was reclassified from 2007 income statement to "Other net items" under operating activities. The change resulted in a drop in cash from financing activity accompanied with an increase in cash from operating activities by PLN 200 thousand.
The change in the net cash balance and other items did not change as a result of the above reclassifications.

**Changes in segment reporting presentation**

Additionally, the Group reclassified capital expenditure for property, plant and equipment and intangible assets in its segment reporting for 2007. The value of expenditure incurred on fixed assets under construction related to expenditure on wells in the amount of PLN 254,940 thousand was reclassified from the segment "trade and storage" to "exploration and production".
Such expenditure is recognized in the trade segment but in fact these assets are used in the exploration segment following their commissioning. Hence, the Group recognized such expenditure in 2008 in the exploration and production segment and applied relevant adjustments to the comparative data for 2007.

The Group adjusted presentation of overstated trade amount in exploration and production segment in the 2007 segment reporting. The adjustment involved reclassification of the same amount of PLN 376,301 thousand from inter-segment sales and other segment costs to the elimination column; therefore, the change does not impact the segment profit/loss or other reported amounts. The adjustment results from the amount of eliminated intercompany trade in the amount of PLN 188,105 thousand with the opposite sign.

## 3. SEGMENT REPORTING

It has been decided that segment reporting will be conducted by business segments. The Group operates in the following four segments:

a*) Exploration and production.* This segment involves acquisition of hydrocarbons from deposits as well as preparation of products for sale. It covers the entire natural gas and oil production process from deposits, from geological analyses, geophysical testing and drilling up to development and exploitation of deposits. Activities related to exploration and production are conducted by both PGNiG S.A. and the Capital Group entities providing this type of services.

b) *Trading and storage.* This segment involves sales of natural gas imported and produced from domestic deposits and uses underground gas storage facilities for commercial purposes. As a result of the completion of the trade integration process, PGNiG S.A. is in charge of natural gas sales. The segment uses three underground gas storage facilities located in Mogilno, Wierzchowice and Husów. PGNiG S.A. and INVESTGAS S. A. (a constituent company of the Capital Group) administer and expand the gas storage facilities. The segment is responsible for sales of high-methane an nitrated gas in the transmission and distribution systems. Gas trading activity is conducted based on the provisions of the Energy Law, whereas the prices are determined in accordance with the tariffs approved by the President of the Energy Regulatory Office.

c) *Distribution* This segment focuses mainly on natural gas transmission via the distribution network. Six companies – Gas Companies – are responsible for natural gas distribution. These companies supply gas to households, industrial and wholesale clients. Additionally, the companies are in charge of maintenance, repairs and development of the distribution network.

d) *Other activities.* This segment is in charge of designing and construction of facilities, machines and equipment for the mining, fuel and energy industries as well as provision of services related to the hotel and catering industry. The aforementioned activities are conducted mainly by the companies of the Capital Group.

Segment assets include all operating assets used by a given segment, including mainly cash, receivables, inventories as well as fixed assets less depreciation charges and revaluation write-downs. While most assets can be directly allocated to individual segments, the value of assets used by two or more segments is allocated to individual segments based on the extent the respective segments use these assets.

Segment liabilities include any operating liabilities, mainly trade, payroll and tax liabilities, both due and accrued as well as any provisions for liabilities that can be allocated to a given segment.
Both segment assets and segment liabilities are net of deferred tax.
Intra-segment transactions were eliminated.
All transactions between segments are concluded based on internally agreed prices.

### 3.1. Business segments

The following tables present data on revenues, costs and profits as well as certain assets and liabilities broken down into the Group's business segments for periods ended 31 December 2008 and 31 December 2007.
In Q1 and Q2 of 2007, the Gas Companies in the Capital Group were in charge of both natural gas trading and distribution. As a result of legal unbundling of the gas distribution activity from the trade activity in mid 2007, the gas trade activity of the Capital Group was integrated in PGNiG S.A. The Gas Companies were transformed into Distribution System Operators (DSO). Due to the above, inthe following segment reporting pertaining to the comparative period ended 31 June 2007 the distribution segment includes also revenues and expenses related to Q1 and Q2 2007, related to the gas sold, whereas in the segment reporting pertaining to the current period the distribution segment includes only revenues and expenses related to the distribution service while revenues and expenses related to the gas sold are presented in the trade and storage segment.

(in PLN'000)

| Period ended 31 December 2008 | Prospecting and production | Trade 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 |
| Inter-segment sales | 1 429 715 | 603 609 | 3 031 602 | 205 986 | (5 270 912) | - |
| Total segment revenues | 3 558 920 | 16 719 791 | 3 059 365 | 364 884 | (5 270 912) | 18 432 048 |
| Amortization/depreciation | (586 439) | (138 558) | (690 721) | (9 226) | - | (1 424 944) |
| Other expenses | (2 054 039) | (17 091 128) | (1 949 933) | (342 970) | 5 231 644 | (16 206 426) |
| Total segment expenses | (2 640 478) | (17 229 686) | (2 640 654) | (352 196) | 5 231 644 | (17 631 370) |
| **Result on the segment operating activities** | **918 442** | **(509 895)** | **418 711** | **12 688** | **(39 268)** | **800 678** |
| Net financial expenses | | | | | | 134 467 |
| Share in profits/(losses) of entities measured using the equity method | | 221 | | | | 221 |
| **Profit before tax** | | | | | | **935 366** |
| Income tax | | | | | | (69 624) |
| **Net profit** | - | - | - | - | - | **865 742** |
| **Balance sheet** | | | | | | |
| Segment assets | 10 007 258 | 9 985 923 | 10 187 503 | 280 628 | (2 004 906) | 28 456 406 |
| Investments in entities measured using the equity method | | 556 882 | | | | 556 882 |
| Unallocated assets | | | | | | 217 122 |
| Deferred tax assets | | | | | | 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 provision | | | | | | 1 352 241 |
| **Total liabilities and equity** | **-** | **-** | **-** | **-** | **-** | **29 745 277** |
| **Other segment information** | | | | | | |
| Capital expenditure on property, plant and equipment and intangible assets | (1 453 750) | (225 258) | (879 372) | (21 088) | - | **(2 579 468)** |
| Revaluation write-downs on assets | (2 588 441) | (2 072 672) | (10 888 031) | (5 486) | - | **(15 554 630)** |
| Revaluation write-downs on unallocated assets | | | | | | (53 346) |

(in PLN'000)

| **Period ended 31 December 2007** | **Prospecting and production** | **Trade and storage** | **Distribution** | **Other** | **Eliminations** | **Total** |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| Sales to external customers | 2 054 235 | 9 468 768 | 5 013 685 | 115 446 | - | 16 652 134 |
| Inter-segment sales | 1 475 122 | 4 416 236 | 1 643 624 | 218 236 | (7 753 218) | - |
| Total segment revenues | 3 529 357 | 13 885 004 | 6 657 309 | 333 682 | (7 753 218) | 16 652 134 |
| Amortization/depreciation | (582 467) | (126 746) | (711 187) | (9 873) | - | (1 430 273) |
| Other expenses | (1 927 746) | (12 571 274) | (7 257 185) | (315 469) | 7 710 795 | (14 360 879) |
| Total segment expenses | (2 510 213) | (12 698 020) | (7 968 372) | (325 342) | 7 710 795 | (15 791 152) |
| **Result on the segment operating activities** | **1 019 144** | **1 186 984** | **(1 311 063)** | **8 340** | **(42 423)** | **860 982** |
| Net financial expenses | | | | | | 157 772 |
| Share in profits/(losses) of entities measured using the equity method | | (16 026) | | | | (16 026) |
| **Profit before tax** | | | | | | **1 002 728** |
| Income tax | | | | | | (86 663) |
| **Net profit** | | | | | | **916 065** |
| **Balance sheet** | | | | | | |
| Segment assets | 9 058 665 | 11 777 275 | 9 183 395 | 279 444 | (2 938 092) | 27 360 687 |
| Investments in entities measured using the equity method | | 557 529 | | | | 557 529 |
| Unallocated assets | | | | | | 63 871 |
| Deferred tax assets | | | | | | 419 814 |
| **Total assets** | | | | | | **28 401 901** |
| Total equity | | | | | | 21 021 765 |
| Segment liabilities | 2 183 691 | 3 655 773 | 2 377 749 | 105 937 | (2 938 092) | 5 385 058 |
| Unallocated liabilities | | | | | | 464 719 |
| Deferred tax provision | | | | | | 1 530 359 |
| **Total liabilities and equity** | | | | | | **28 401 901** |
| **Other segment information** | | | | | | |
| Capital expenditure on property, plant and equipment and intangible assets | (1 941 110) | (205 956) | (822 178) | (10 743) | - | **(2 979 987)** |
| Revaluation write-downs on assets | (2 661 341) | (2 617 292) | (10 531 312) | (5 488) | - | **(15 815 433)** |
| Revaluation write-downs on unallocated assets | | | | | | (55 628) |

(in PLN'000)

### 3.2. Geographical segments

The Group operates mostly in Poland. Revenues from the export sales of products, goods and materials in 2008 represent 5.21% (6.94% in 2007) of total net revenues from the sales of products, goods and materials.

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Domestic sales | 17 470 943 | 15 496 872 |
| High-methane gas | 15 007 748 | 13 343 694 |
| Nitrated gas | 1 343 745 | 1 255 456 |
| Crude oil | 430 388 | 335 142 |
| Helium | 12 280 | 12 270 |
| Propane-butane gas | 42 578 | 43 712 |
| Gasoline | 2 950 | 1 650 |
| Decompressed gas | 20 209 | 18 513 |
| Geophysical and geological services | 124 493 | 45 079 |
| Exploration services | 137 381 | 75 018 |
| Construction and assembly services | 56 603 | 25 095 |
| Design services | 17 241 | 10 971 |
| Hotel services | 37 054 | 33 043 |
| Other services | 172 933 | 251 067 |
| Other products | 44 758 | 22 193 |
| Goods and materials | 20 582 | 23 969 |
| Export sales | 961 105 | 1 155 262 |
| High-methane gas | 28 380 | 27 877 |
| Nitrated gas | - | - |
| Crude oil | 345 199 | 442 731 |
| Helium | 15 295 | 18 228 |
| Propane-butane gas | - | - |
| Gasoline | - | - |
| Decompressed gas | 61 | - |
| Geophysical and geological services | 236 345 | 326 534 |
| Exploration services | 306 050 | 302 632 |
| Construction and assembly services | 7 438 | 14 098 |
| Design services | - | 875 |
| Hotel services | - | - |
| Other services | 7 832 | 6 197 |
| Other products | 12 803 | 14 114 |
| Goods and materials | 1 702 | 1 976 |
| **Total** | **18 432 048** | **16 652 134** |

The Group' sales are addressed mainly to the following countries: Switzerland, Great Britain, India, Kazakhstan, Libya, Egypt, Pakistan, Mozambique, Germany, the Czech Republic, Ukraine, Belgium, Norway, Hungary, Austria and Slovenia.

In addition, the majority of the Group's assets are located in Poland. As at 31 December 2008, the value of assets located abroad accounted for 6.19% of the total assets (4.68% as at 31 December 2007).

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Assets located in Poland | 29 904 046 | 27 072 496 |
| Assets located abroad* | 1 841 231 | 1 329 405 |
| **Total** | **29 745 277** | **28 401 901** |

* Of which the amount of PLN 1,412,335 thousand was related to PGNiG Norway AS as at 31 December 2008 (1,075,353 as at the end of 2007).

The operations of the Group's constituent entities in Poland are not regionally diversified as regards risk and ROI level. Therefore, the Group presents information by business segments only.

(in PLN'000)

## 4. OPERATING EXPENSES

### 4.1. Raw materials and consumables used

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Gas purchase | (10 982 923) | (7 727 120) |
| Consumption of other materials | (648 758) | (604 491) |
| **Total** | **(11 631 681)** | **(8 331 611)** |

### 4.2. Employee benefits

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Payroll | (1 637 925) | (1 488 811) |
| Social security and other benefits | (524 029) | (525 262) |
| **Total** | **(2 161 954)** | **(2 014 073)** |

### 4.3. External services

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Purchase of transmission services | (1 367 121) | (1 464 580) |
| Other external services | (1 422 033) | (1 227 944) |
| **Total** | **(2 789 154)** | **(2 692 524)** |

### 4.4. Other operating expenses (net)

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Change in net provisions | (173 602) | 47 906 |
| Change in net write-downs* | (53 592) | (1 517 347) |
| Taxes and charges | (450 238) | (462 908) |
| Net interest on operating activities | 162 075 | 308 245 |
| Net exchange differences on operating activities | (107 511) | (51 480) |
| Profit/loss on derivatives related to operating activity | 360 451 | (128 412) |
| Value of goods and materials sold | (21 924) | (51 854) |
| Revenues from the current settlement of deferred income recognized in the balance sheet | 76 282 | 76 952 |
| Difference from measurement of assets handed over as a dividend | 14 881 | 226 567 |
| Provision for costs related to withdrawal of assets from lease | 48 448 | (229 975) |
| Profit/loss on disposal of non-financial non-current assets | (30 909) | (19 395) |
| Property and casualty insurance | (33 274) | (35 501) |
| Business trips within the country and abroad | (50 221) | (52 237) |
| Change in inventories | 7 942 | (16 703) |
| Other net expenses | (111 479) | (103 473) |
| **Total** | **(362 671)** | **(2 009 615)** |

* Data for 2007 include DCF revaluation write down on to the Gas Companies' assets in the amount of PLN (1,317,341) thousand.

(in PLN'000)

## 5. FINANCIAL REVENUES AND EXPENSES

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Financial revenues** | **213 238** | **248 264** |
| Profit on derivatives | - | - |
| Interest income | 70 864 | 90 800 |
| Exchange gains | 10 629 | - |
| Revaluation of investments | 58 211 | 79 675 |
| Gain on disposal of investments | 68 395 | 50 194 |
| Dividends and profit sharing | 4 770 | 27 027 |
| Other financial revenues | 369 | 568 |
| **Financial expenses** | **(78 771)** | **(90 492)** |
| Loss on derivatives | - | - |
| Interest expense | (17 153) | (44 108) |
| Exchange losses | - | (20 014) |
| Revaluation of investments | (52 726) | (16 245) |
| Loss on disposal of investment | - | - |
| Commissions on loans | (1 897) | (7 502) |
| Costs of granted guarantees | (1 576) | (1 201) |
| Other financial expenses | (5 419) | (1 422) |
| **Profit/loss on financing activity** | **134 467** | **157 772** |

## 6. MEASUREMENT OF ASSOCIATES USING THE EQUITY METHOD

### 6.1. Carrying value of investments in associated entities measured using the equity method

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| **SGT EUROPOL GAZ S.A.** | | |
| Share of PGNiG S.A. Capital Group in the company's share capital* | 49,74% | 49,74% |
| Core business | Gas fuel transmission | Gas fuel transmission |
| Measurement of shares using the equity method | 1 389 089 | 1 522 822 |
| Acquisition price | 38 400 | 38 400 |
| Share in changes in capital | 1 427 489 | 1 561 222 |
| Impairment write-down | (888 789) | (1 022 522) |
| **Carrying amount of investment** | **538 700** | **538 700** |
| **GAS TRADING S.A.** | | |
| Share of PGNiG S.A. Capital Group in the company's share capital | 43,41% | 43,41% |
| Core business | Trade | Trade |
| Measurement of shares using the equity method | 16 891 | 17 538 |
| Acquisition price | 1 291 | 1 291 |
| Share in changes in capital | 18 182 | 18 829 |
| Impairment write-down | - | - |
| **Carrying amount of investment** | **18 182** | **18 829** |
| **Total carrying amount of investment** | **556 882** | **557 529** |

* Including a 48% direct share and a 1.74% indirect share through GAS - TRADING S.A.

(in PLN'000)

### 6.2. Reconciliation of investments in associates measured using the equity method

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Opening balance of the investment's carrying amount** | 557 529 | 589 284 |
| Dividend paid by **GAS-TRADING S.A.** | (868) | (15 729) |
| **Measurement charged to profit/loss, including:** | **221** | **(16 026)** |
| Measurement of **SGT EUROPOL GAZ S.A.** | - | (17 300) |
| Measurement of **GAS TRADING S.A.** | 221 | 1 274 |
| **Closing balance of the investment's carrying amount** | **556 882** | **557 529** |

The Parent estimated its share in the equity of SGT EUROPOL GAZ S.A. based on the value of such equity resulting from the financial statements of SGT EUROPOL GAZ S.A. as at 31 June 2008 prepared in line with the Accounting Act, adjusted by differences in the accounting principles applied in the Group as well as the results on intragroup transactions. The differences in accounting principles concerned the recognition of interest expenses in the net value of fixed assets. The Group applies the benchmark approach for recognizing borrowing costs (IAS 23), under which the gross value of fixed assets does not include borrowing costs. Subsequently, the Parent conducted impairment tests of the shares in SGT EUROPOL GAZ S. A. using the discounted cash flows method. The calculations were based on data included in the financial plan of SGT EUROPOL GAZ S. A. for the years 2006–2019. Discounted cash flows include all cash flows generated by SGT EUROPOL GAZ S.A., including those related to servicing external funding sources bearing an interest (interest costs and repayment of loans and borrowings). As at 31 December 2008, in using the equity method, the Parent calculated the value of its stake in the co-subsidiary's equity at PLN 1,427,489 thousand.

The results of impairment tests show significant differences depending on the adopted assumptions.

For reasons beyond the Company's control, the assumptions adopted in the measurement of the value of shares include a significant uncertainty related to material fluctuations in exchange rates and tariff policy changes.
Considering the above, the carrying amount of SGT EUROPOL GAZ S.A. measured by the Parent as at 31 December 2008 in line with the DCF method amounted to PLN 538,700 thousand. The measurement did not change as compared to the measurement conducted as at 31 December 2007.

## 7. INCOME TAX

The Capital Group does not constitute a taxable capital group under Polish regulations. Each of the constituent entities of the Group is a separate taxpayer.

### 7.1. Income tax disclosed in the income statement

| | Note | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|---|
| Profit before tax | | 935 366 | 1 002 728 |
| Tax rate applicable in the period | | 19% | 19% |
| Tax according to the applicable tax rate | | (177 720) | (190 518) |
| Permanent differences between the gross profit (loss) and tax base | | 108 096 | 103 855 |
| **Tax liability disclosed in the income statement** | | **(69 624)** | **(86 663)** |
| Current income tax | 7.2. | (333 593) | (578 753) |
| Deferred income tax | 7.3. | 263 969 | 492 090 |
| Effective tax rate | | 7% | 9% |

(in PLN'000)

### 7.2. Current income tax

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Profit before tax (consolidated) | 935 366 | 1 002 728 |
| Consolidation adjustments | 935 | 182 376 |
| Differences between the gross profit/loss and income tax base | 678 928 | 1 776 266 |
| Revenues not included in taxable income | 1 933 153 | 2 178 306 |
| Costs not classified as tax-deductible | (2 821 351) | (4 030 691) |
| Taxable income not classified as revenues for accounting purposes | 1 152 784 | 1 637 765 |
| Tax-deductible expenses not classified as expenses for accounting purposes | (1 364 702) | (1 671 381) |
| Deductions from income | 2 648 | (42 503) |
| Income tax base | 1 615 229 | 2 961 370 |
| Tax rate for the given period | 19% | 19% |
| Income tax | (306 894) | (562 660) |
| Increases, releases, exemptions, deductions and reductions in taxes | (26 699) | (16 093) |
| Current income tax disclosed in the tax return for the period | (333 593) | (578 753) |
| **Current income tax recognized in the income statement** | **(333 593)** | **(578 753)** |

### 7.3. Deferred income tax

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Origination and reversal of deferred tax due to negative temporary differences*** | **85 720** | **(33 625)** |
| Provisions due to payment of pension allowances | (3 852) | (3 990) |
| Provisions due to payment of severance and jubilee bonuses | (6 949) | 6 537 |
| Provision for payment of termination benefits | (3 114) | 344 |
| Provision for unused paid vacation | 667 | 1 059 |
| Provision for liquidation of wells | 19 775 | (13 177) |
| Other provisions | 12 733 | 4 844 |
| Revaluation write-downs on fixed assets | 3 754 | 2 581 |
| Revaluation write-down on shares | (643) | (96) |
| Revaluation write-downs on interest on receivables | - | 520 |
| Costs of hedging transactions for FX and interest rate risk | (3 365) | (3 552) |
| Expenses related to transactions hedging FX and interest rate risk | - | (19 217) |
| Exchange losses | 6 217 | 11 997 |
| Interest accrued on loans and liabilities | 33 | (953) |
| Connection fee | 10 101 | 18 941 |
| Tax loss | (4 752) | 4 752 |
| Unpaid salaries | 2 736 | 294 |
| Costs related to sales where the tax liability is originated in the subsequent month | - | (29 599) |
| Hyperinflationary remeasurement of deferred income | (1 027) | (1 027) |
| Investment allowances (Norway) | 50 034 | 15 168 |
| Other | 3 372 | (29 051) |
| **Origination and reversal of deferred tax due to positive temporary differences** | **178 249** | **525 715** |
| Exchange gains on credit facilities and deposits | (2 522) | 426 |
| Interest accrued on loans | (2 055) | (968) |
| Interest accrued on receivables | 4 | (498) |
| Positive valuation of hedging transactions for FX and interest rate risk | (23 759) | 852 |
| Revenue arising from tax obligation falling due in the following month | 4 205 | 68 260 |
| Difference between the tax and accounting value of non-current assets | 204 461 | 473 497 |
| Other | (2 085) | (15 854) |
| **Deferred income tax disclosed in the consolidated income statement** | **263 969** | **492 090** |

* Without a change in the deferred tax of PLN 9,200 thousand recognized directly in the capital and related to measurement of financial instruments and differences on translation of deferred tax of foreign companies.

The current reporting period covered the tax period from 1 January 2008 to 31 December 2008. A 19%% CIT rate was applicable in 2008 for businesses operating in Poland. In the comparative period in 2007, the tax rate was also 19%.

Regulations on VAT, CIT and social security contributions are subject to frequent changes, and there is often no reference to established regulations or legal precedents. Additionally, the applicable regulations include ambiguities which give rise to discrepancies in the legal interpretation of tax regulations both among the state authorities and between the state authorities and companies. Tax and other settlements (e.g. customs or foreign currency settlements) can be subject to inspection by authorities entitled to impose high fines. Liabilities assessed as a result of inspections have to be settled together with high interest. As a result, the tax risk in Poland is higher than in countries where the tax system is more mature. There are no formal procedures in Poland enabling taxpayers to determine the final value of their tax liability. Tax settlements may be subject to inspection during a period of five years. Consequently, the amounts presented in the financial statements can change at a later date, after they have been finally assessed by tax authorities.

Foreign subsidiaries and branches of the Parent and of Polish subsidiaries are subject to tax regulations of the countries of their operation and to double taxation treaty regulations. In 2008 and 2007 tax rates applicable to foreign branches of subsidiaries ranged from 30% to 37% of the tax base. In 2008 and 2007, the foreign branches of the Parent did not pay income tax.

For PGNiG Norway AS, the margin interest rate is 78% of the tax base, the reason being that its operations on the continental shelf is taxed under two separate tax systems:

- Income tax (28% tax rate);
- Oil tax (an additional 50% tax rate).

The high tax rate is related, though, to several investment allowances and tax deductions, such as:

- Opportunity to apply a high depreciation rate (16.67% per year), i.e. commencing depreciation immediately after investment outlays are incurred. In the first year, the company is entitled to full annual depreciation regardless of the outlay date.
- An opportunity to apply an investment allowance of 7.5% for the period of four years under the oil tax regime. The allowance relates to investment outlays incurred in relation to the Norwegian Continental Shelf (NCS) (except from exploration costs) and amounts to 30% of spends subject to depreciation (7.5% times four - for four years). The allowance is deducted only from the oil tax base (the 50% rate) and does not apply to the standard CIT. It is to be an incentive for further investments in NCS. If the allowance amount exceeds income generated in the given year, it can be deducted in subsequent years.
- Total spends incurred for exploration of the field may be immediately deducted from revenue. If a company does not generate income allowing deduction of the exploration expenses (as PGNiG AS at present), it is entitled to immediate return of 78% of exploration costs. The return is made in cash, and the transfer to the company's bank account shall be effected by the end of the year following the tax returns one.
- Financial expenses may be deducted under both taxation systems.

Therefore, PGNiG Norway AS commenced depreciation of its investments and applied the allowance in 2008, initially recognizing them as deferred tax (in the amount recorded under "Investment allowance (Norway)" in table 7.2.). Once revenue is generated (i.e. after 2011), the amounts will be deducted from the current tax base.
Importantly, the Norwegian tax system allows settlement of loss without time limitation. Additionally, losses incurred after 2002 bear interest. For such losses, interest is calculated as risk-free interest increased by a markup including income tax (28%). In other words, losses incurred by PGNiG Norway AS in the years 2007-2011 increased by interest will reduce its current tax payable once production from the Skarv field starts up.
The balance of deferred tax presented in the financial statements is reduced by the adjustment arising from temporary differences whose realization for tax purposes is not certain.

## 8. DISCONTINUED OPERATIONS

The Group did not discontinue any operations in 2008, nor is it planning to discontinue any of its current operations.

## 9. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the reporting period attributable to ordinary equity holders of the Parent by the weighted average number of issued ordinary shares that existed during the financial period.
Diluted earnings per share are calculated by dividing the net profit (loss) for the reporting period attributable to ordinary equity holders (after the deduction of interest on redeemable preference shares which are convertible into ordinary shares) by the weighted average number of issued ordinary shares that existed during the period (adjusted by the effect of diluted shares and redeemable preference shares that are convertible to ordinary shares).

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Net profit attributable to equity holders of the Parent | 865 297 | 915 032 |
| Net profit attributable to equity holders of the Parent used for calculating diluted earnings per share | 865 297 | 915 032 |
| Weighted average number of ordinary shares used for calculating basic earnings per share ('000) | 5 900 000 | 5 900 000 |
| Weighted average number of ordinary shares used for calculating diluted earnings per share ('000) | 5 900 000 | 5 900 000 |
| Basic earnings for the financial year per share attributable to ordinary equity holders of the Parent | 0.15 | 0.16 |
| Diluted earnings for the financial period per share attributable to ordinary equity holders of the Parent | 0.15 | 0.16 |

The weighted average number of shares was calculated in the manner presented in the following table:

| Start date | End date | Number of ordinary shares on the market ('000) | Number of days | Weighted average number of shares ('000) |
|---|---|---|---|---|
| **31 December 2008** | | | | |
| 2008-01-01 | 2008-12-31 | 5 900 000 | 366 | 5 900 000 |
| **Total** | | | **366** | **5 900 000** |
| | | | | |
| **31 December 2007** | | | | |
| 2007-01-01 | 2007-12-31 | 5 900 000 | 365 | 5 900 000 |
| **Total** | | | **365** | **5 900 000** |

## 10. DIVIDENDS PAID AND PROPOSED

| **Dividends declared and paid in the period** | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Dividend paid per share (in PLN) | 0,19 | 0,17 |
| Number of shares ('000) | 5 900 000 | 5 900 000 |
| Dividend value in PLN '000, including: | 1 121 000 | 1 003 000 |
| - dividend in kind paid to the State Treasury | 949 994 | 849 998 |
| - cash dividend paid to the State Treasury | 6 | 2 |
| - cash dividend paid to other equity holders | 171 000 | 153 000 |

Dividend for 2007 was paid on 1 October 2008, and for 2006 was paid on 1 October 2007.

The effect on the result for the periods due to the surplus of the value of assets handed over as in-kind dividends over the net book value in the balance sheet as at the dividend payment date was presented in note 4.4.

By the date of these financial statements, no decision was made regarding 2008 profit distribution / loss coverage.

(in PLN'000)

## 11. PROPERTY, PLANT AND EQUIPMENT

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Land | 82 372 | 83 570 |
| Buildings and structures | 13 557 215 | 12 542 252 |
| Technical equipment and machinery | 2 322 574 | 2 129 116 |
| Vehicles and other | 903 316 | 860 554 |
| **Total fixed assets** | **16 865 477** | **15 615 492** |
| Fixed assets under construction | 3 721 550 | 3 100 017 |
| **Total property, plant and equipment** | **20 587 027** | **18 715 509** |

### FIXED ASSETS

| **31 December 2008** | Land | Buildings and structures | Technical equipment and machinery | Vehicles and other | **Total** |
|---|---|---|---|---|---|
| As at 1 January 2008, including depreciation | 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)** |
| Reclassification from fixed 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 the financial year | (977) | (907 848) | (341 933) | (148 039) | **(1 398 797)** |
| **As at 31 December 2008, including accumulated depreciation** | **82 372** | **13 557 215** | **2 322 574** | **903 316** | **16 865 477** |
| | | | | | |
| As at 1 January 2008 | | | | | |
| Initial value | 91 877 | 28 486 648 | 3 857 286 | 1 609 789 | **34 045 600** |
| Accumulated depreciation and impairment loss | (8 307) | (15 944 396) | (1 728 170) | (749 235) | **(18 430 108)** |
| **Net carrying amount as at 1 January 2008** | **83 570** | **12 542 252** | **2 129 116** | **860 554** | **15 615 492** |
| | | | | | |
| As at 31 December 2008 | | | | | |
| Initial value | 91 488 | 29 962 452 | 4 320 545 | 1 764 607 | **36 139 092** |
| Accumulated depreciation and impairment loss | (9 116) | (16 405 237) | (1 997 971) | (861 291) | **(19 273 615)** |
| **Net carrying amount as at 31 December 2008** | **82 372** | **13 557 215** | **2 322 574** | **903 316** | **16 865 477** |

(in PLN'000)

| **31 December 2007** | Land | Buildings and structures | Technical equipment and machinery | Vehicles and other | **Total** |
|---|---|---|---|---|---|
| As at 1 January 2007, including depreciation | 88 469 | 13 899 904 | 2 119 767 | 879 491 | **16 987 631** |
| Increase | 132 | 102 578 | 11 297 | 4 071 | **118 078** |
| Decrease | (5 305) | (103 244) | (50 552) | (40 320) | **(199 421)** |
| Reclassification from fixed assets under construction and between groups | 2 215 | 850 083 | 405 927 | 170 614 | **1 428 839** |
| Impairment loss | (964) | (1 284 344) | (20 495) | (12 879) | **(1 318 682)** |
| Depreciation for the financial year | (977) | (922 725) | (336 828) | (140 423) | **(1 400 953)** |
| **As at 31 December 2007, including accumulated depreciation** | **83 570** | **12 542 252** | **2 129 116** | **860 554** | **15 615 492** |
| | | | | | |
| As at 1 January 2007 | | | | | |
| Initial value | 94 947 | 27 651 578 | 3 520 586 | 1 493 880 | **32 760 991** |
| Accumulated depreciation and impairment loss | (6 478) | (13 751 674) | (1 400 819) | (614 389) | **(15 773 360)** |
| **Net carrying amount as at 1 January 2007** | **88 469** | **13 899 904** | **2 119 767** | **879 491** | **16 987 631** |
| | | | | | |
| As at 31 December 2007 | | | | | |
| Initial value | 91 877 | 28 486 648 | 3 857 286 | 1 609 789 | **34 045 600** |
| Accumulated depreciation and impairment loss | (8 307) | (15 944 396) | (1 728 170) | (749 235) | **(18 430 108)** |
| **Net carrying amount as at 31 December 2007** | **83 570** | **12 542 252** | **2 129 116** | **860 554** | **15 615 492** |

(in PLN'000)

### 11.1. Property, plant and equipment used under finance leases

The Capital Group uses the following property, plant and equipment under finance leases.

| | 31 December 2008 | | | | 31 December 2007 | | |
|---|---|---|---|---|---|---|---|
| | Initial value of capitalized finance leases | Depreciation | Revaluation write-down | Net carrying amount | Initial value of capitalized finance leases | Depreciation | Net carrying amount |
| Buildings and structures | - | - | - | - | 9 252 | (3 240) | 6 012 |
| Technical equipment and machinery | 98 010 | (28 619) | - | 69 391 | 103 053 | (43 183) | 59 870 |
| Vehicles and other | 19 302 | (3 310) | (490) | 15 502 | 16 832 | (6 327) | 10 505 |
| | **117 312** | **(31 929)** | **(490)** | **84 893** | **129 137** | **(52 750)** | **76 387** |

(in PLN'000)

### 11.2. Revaluation write-downs on property, plant and equipment

| | Land | Buildings and structures | Technical equipment and machinery | Vehicles and other | **Total fixed assets** | Fixed assets under construction | **Total property, plant and equipment** |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2008** | 4 400 | 12 381 403 | 627 224 | 267 989 | **13 281 016** | 379 105 | **13 660 121** |
| 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 31 December 2008** | **4 380** | **12 353 217** | **597 358** | **257 391** | **13 212 346** | **395 291** | **13 607 637** |
| | | | | | | | |
| **As at 1 January 2007** | 3 436 | 11 097 059 | 606 729 | 255 110 | **11 962 334** | 273 834 | **12 236 168** |
| Increase | 1 974 | 1 876 146 | 190 120 | 28 458 | **2 096 698** | 127 164 | **2 223 862** |
| Decrease | (1 010) | (591 802) | (169 625) | (15 579) | **(778 016)** | (21 893) | **(799 909)** |
| **As at 31 December 2007** | **4 400** | **12 381 403** | **627 224** | **267 989** | **13 281 016** | **379 105** | **13 660 121** |

The opening value of revaluation write-downs on property, plant and equipment was equal to PLN 13,281,016 thousand, including:
- assets used directly in production activity – PLN 2,061,567 thousand;
- distribution assets – PLN 10,479,748 thousand;
- other assets – PLN 739,701 thousand.

Revaluation write-downs were increased during the current year by PLN 360,287 thousand (of which PLN 238,459 thousand was related to assets used directly in production) and decreased by PLN (428,957) thousand (of which PLN (330,862) thousand was related to assets used directly in production).
Due to the transfer of contributions in kind consisting of transmission and distribution network components, the corresponding revaluation write-downs in the amount of PLN 397,751 thousand were reclassified from the Parent to the distribution companies.

The closing balance of revaluation write-downs on fixed assets amounted to PLN 13,212,346 thousand, of which:
- assets used directly in production activity – PLN 1,969,164 thousand;
- distribution assets – PLN 10,444,209 thousand;
- other assets – PLN 798,973 thousand.

As at the end of 2008, the revaluation write-downs on fixed assets under construction included PLN 361,362 thousand related to capitalized outlays on wells (as at the end of 2007 this write-down amounted to PLN 347,402 thousand).

(in PLN'000)

## 12. INVESTMENT PROPERTY

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Opening balance, including depreciation | 10 578 | 6 765 |
| Increase | 1 759 | - |
| Decrease | (4 357) | (5) |
| Reclassifications from/to property, plant and equipment | 160 | 4 512 |
| Impairment loss | 575 | 15 |
| Depreciation for the financial year | (534) | (709) |
| **Closing balance, including accumulated depreciation** | **8 181** | **10 578** |

| | | |
|---|---|---|
| Opening balance | | |
| Initial value | 14 398 | 9 505 |
| Accumulated depreciation and impairment loss | (3 820) | (2 740) |
| **Net carrying amount** | **10 578** | **6 765** |

| | | |
|---|---|---|
| Closing balance | | |
| Initial value | 11 334 | 14 398 |
| Accumulated depreciation and impairment loss | (3 153) | (3 820) |
| **Net carrying amount** | **8 181** | **10 578** |

The Group's investment property includes social and office buildings partially designated for rent, industrial buildings and structures as well as land. The carrying amount of social and office buildings recognized as investment property as at the end of the current period amounted to PLN 4,201 thousand (PLN 4,285 thousand at the end of 2007), whereas the carrying amount of industrial buildings and structures as at the end of the current period amounted to PLN 3,755 thousand (PLN 4,392 thousand as at the end of 2007). The value of land and land perpetual usufruct right amounted to PLN 225 thousand as at the end of the current period (PLN 1,901 thousand as at the end of 2007).

In the current period, the Group generated revenues from investment property rental in the amount of PLN 2,942 thousand (PLN 2,813 thousand in the first half of 2007).

Operating expenses related to investment property and associated with rental income amounted to PLN 2,478 thousand in the current period (PLN 1,959 thousand in the first half of 2007).

Due to the immaterial nature of investment property in the balance sheet, the Group does not measure such property in order to determine its fair value.

(in PLN'000)

## 13. INTANGIBLE ASSETS

| **31 December 2008** | R&D expenses | Goodwill | Other intangible assets | **Total** |
|---|---|---|---|---|
| As at 1 January 2008, including depreciation | 1 132 | - | 83 504 | **84 636** |
| Increase | - | - | 24 144 | **24 144** |
| Decrease | - | - | (22 495) | **(22 495)** |
| Reclassification from fixed assets under construction and between groups | 548 | - | 90 396 | **90 944** |
| Impairment loss | - | - | 105 | **105** |
| Depreciation for the financial year | (221) | - | (25 392) | **(25 613)** |
| **As at 31 December 2008, including accumulated depreciation** | **1 459** | **-** | **150 262** | **151 721** |
| | | | | |
| As at 1 January 2008 | | | | |
| Initial value | 2 145 | - | 189 805 | **191 950** |
| Accumulated depreciation and impairment loss | (1 013) | - | (106 301) | **(107 314)** |
| **Net carrying amount as at 1 January 2008** | **1 132** | **-** | **83 504** | **84 636** |
| | | | | |
| As at 31 December 2008 | | | | |
| Initial value | 2 693 | - | 280 790 | **283 483** |
| Accumulated depreciation and impairment loss | (1 234) | - | (130 528) | **(131 762)** |
| **Net carrying amount as at 31 December 2008** | **1 459** | **-** | **150 262** | **151 721** |

(in PLN'000)

| 31 December 2007 | R&D expenses | Goodwill | Other intangible assets | Total |
|---|---|---|---|---|
| As at 1 January 2007, including depreciation | 592 | - | 80 215 | **80 807** |
| Increase | - | - | 4 110 | **4 110** |
| Decrease | - | - | (1 821) | **(1 821)** |
| Reclassification from fixed assets under construction and between groups | 883 | - | 37 030 | **37 913** |
| Impairment loss | - | - | (7 762) | **(7 762)** |
| Depreciation for the financial year | (343) | - | (28 268) | **(28 611)** |
| **As at 31 December 2007, including accumulated depreciation** | **1 132** | **-** | **83 504** | **84 636** |
| | | | | |
| As at 1 January 2007 | | | | |
| Initial value | 1 262 | - | 141 974 | **143 236** |
| Accumulated depreciation and impairment loss | (670) | - | (61 759) | **(62 429)** |
| **Net carrying amount as at 1 January 2007** | **592** | **-** | **80 215** | **80 807** |
| | | | | |
| As at 31 December 2007 | | | | |
| Initial value | 2 145 | - | 189 805 | **191 950** |
| Accumulated depreciation and impairment loss | (1 013) | - | (106 301) | **(107 314)** |
| **Net carrying amount as at 31 December 2007** | **1 132** | **-** | **83 504** | **84 636** |

### 13.1. Revaluation write-downs on intangible assets

| **R&D costs** | R&D costs | Goodwill | Other intangible assets | **Total** |
|---|---|---|---|---|
| **As at 1 January 2008** | - | - | 8 032 | **8 032** |
| Increase | - | - | 15 | **15** |
| Decrease | - | - | (120) | **(120)** |
| **As at 31 December 2008** | **-** | **-** | **7 927** | **7 927** |
| | | | | |
| **As at 1 January 2007** | - | - | 270 | **270** |
| Increase | - | - | 7 762 | **7 762** |
| Decrease | - | - | - | **-** |
| **As at 31 December 2007** | **-** | **-** | **8 032** | **8 032** |

(in PLN'000)

## 14. NON-CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Unlisted shares (gross value) | 11 004 | 18 696 |
| Listed shares available for sale (gross value) | 78 000 | - |
| Other financial assets available for sale (gross value) | 56 316 | 54 121 |
| **Total gross value** | **145 320** | **72 817** |
| | | |
| Unlisted shares (net value)* | 8 153 | 13 264 |
| Listed shares available for sale (net value)** | 27 680 | - |
| Other financial assets available for sale (net value)* | 7 102 | 6 733 |
| **Total net value** | **42 935** | **19 997** |

* Less revaluation write-down.
** Shares in Zakłady Azotowe in Tarnów

"Other financial assets available for sale" include financial assets available for sale, which do not meet the conditions allowing their classification as current financial assets or non-current financial assets held for sale, since the date of their potential disposal is unknown.

"Listed shares available for sale" include shares in Zakłady Azotowe Mościce S.A. in Tarnów. Negative valuation of shares in Zakłady Azotowe Tarnów was recognized in revaluation reserve. The Group recognized value decrease as revaluation, not impairment, bearing in mind a short period of holding the shares (since June 2008). Investment in the entity is treated as long-term one with an active market; therefore, changes in the value of investment resulting from changes in its current market value are recognized directly in equity until a decision is made to dispose of it.

## 15. OTHER FINANCIAL ASSETS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Finance leases receivables (note 15.1.) | 674 484 | 2 288 845 |
| Originated loans | - | 2 070 |
| Receivables from sale of fixed assets | - | - |
| Receivables from guarantees and security | 62 | 1 230 |
| Long-term deposits | 251 | 211 |
| Other | 1 879 | 1 868 |
| **Total gross value** | **676 676** | **2 294 224** |
| Impairment loss | (42) | (2 070) |
| **Total net value** | **676 634** | **2 292 154** |

### 15.1. Finance leases

The lease contract of 6 July 2005 signed between PGNiG S.A. and OGP Gaz - System Sp. z o.o. (currently OGP Gaz – System S.A.) is an element of the "PGNiG S.A. restructuring and privatization program" approved by the Council of Ministers on 5 October 2004. Transmission activity was unbundled from production and trade activities through the transfer of transmission assets for use to Gaz-System S.A. The lease covers property, movables and property rights. The contract was concluded for a period of 17 years.
The sum of payments, less discount, determined as at the contract date and due within its period exceeds 90% of the market value of its subject as at that date. Therefore, the lease is recognized as a finance lease in accordance with IAS 17. Lease payments include the principal and interest. The interest portion is calculated based on WIBOR 3M rates applicable in the month preceding the month to which the calculated lease installment pertains plus a markup.

Inflows from the lease of the transmission system:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Interest installment | 125 374 | 219 085 |
| Principal installment | 92 840 | 188 177 |
| **Total** | **218 214** | **407 262** |

(in PLN'000)

The table below presents finance lease receivables by maturity:

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| - up to 1 year | 52 385 | 163 772 |
| - between 1 and 5 years | 185 603 | 593 676 |
| - over 5 years | 488 881 | 1 695 169 |
| **Total** | **726 869** | **2 452 617** |
| - current receivables | 52 385 | 163 772 |
| - non-current receivables | 674 484 | 2 288 845 |

## 16. DEFERRED TAX ASSET

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Provisions due to payment of pension allowances | 7 775 | 11 628 |
| Provisions due to payment of severance and jubilee bonuses | 60 723 | 70 299 |
| Provision for payment of termination benefits | - | 3 141 |
| Provision for unused paid vacation | 6 546 | 5 892 |
| Provision for liquidation of wells | 95 531 | 75 756 |
| Other provisions | 38 384 | 25 651 |
| Revaluation write-downs on fixed assets | 74 265 | 71 765 |
| Revaluation write-down on shares | 9 594 | 10 236 |
| Revaluation write-downs on interest on receivables | 53 | 544 |
| Costs related to sales where the tax liability is originated in the subsequent month | 3 421 | 6 911 |
| Exchange losses | 25 870 | 19 528 |
| Interest accrued on loans and liabilities | 224 | 180 |
| Connection fee | 66 180 | 59 973 |
| Unpaid remuneration with Social Security premiums | 19 424 | 17 276 |
| Tax loss | - | 4 752 |
| Hyperinflationary remeasurement of deferred income | 10 788 | 11 815 |
| Investment allowances (Norway) | 65 418 | 15 168 |
| Other | 30 671 | 9 299 |
| **Total** | **514 867** | **419 814** |

## 17. OTHER NON-CURRENT ASSETS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Geological information | 28 244 | 24 688 |
| Fees for establishing mining usufruct | 3 618 | 722 |
| Reusable materials | 125 | 3 580 |
| Other prepayments | 3 356 | 1 883 |
| **Total** | **35 343** | **30 873** |

## 18. INVENTORIES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Materials | | |
| At acquisition price, including: | 1 718 379 | 1 226 794 |
| - gas fuel | 1 378 648 | 975 966 |
| At net realizable value including: | 1 703 697 | 1 193 990 |
| - gas fuel | 1 378 648 | 958 302 |
| Semi-finished products and work in progress | - | |
| At acquisition price/manufacturing cost | 11 007 | 15 658 |
| At net realizable value | 10 888 | 14 465 |
| Finished products | - | |
| At acquisition price/manufacturing cost | 5 444 | 6 143 |
| At net realizable value | 5 384 | 6 087 |
| Goods | - | |
| At acquisition price | 1 437 | 1 702 |
| At net realizable value | 1 290 | 1 438 |
| **Total inventories, at the lower of the following two values: at purchase price (manufacturing cost) and net realizable value** | **1 721 259** | **1 215 980** |

(in PLN'000)

## 19. TRADE AND OTHER RECEIVABLES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Trade receivables | 3 888 697 | 3 536 650 |
| Trade receivables from related parties | 46 632 | 48 463 |
| VAT receivables | 363 433 | 283 221 |
| Receivables from other taxes, customs duty and social security | 9 192 | 6 080 |
| Due portion of originated loans | 136 869 | 141 536 |
| Receivables from associates measured using the equity method | 3 840 | 2 378 |
| Finance lease receivables | 52 385 | 163 772 |
| Other receivables from related parties | 83 638 | 85 798 |
| Other receivables | 165 838 | 149 499 |
| **Total gross receivables** | **4 750 524** | **4 417 397** |
| Including gross receivables from related parties (note 39.1) | 270 979 | 278 175 |
| **Revaluation write-downs on doubtful receivables (note 19.1.)** | **(1 033 601)** | **(1 086 351)** |
| **Total net receivables** | **3 716 923** | **3 331 046** |
| including: | | |
| Trade receivables | 3 216 506 | 2 805 602 |
| Trade receivables from related parties | 2 822 | 3 689 |
| VAT receivables | 363 433 | 283 221 |
| Receivables from other taxes, customs duty and social security | 9 192 | 6 080 |
| Due portion of originated loans | - | - |
| Receivables from associates measured using the equity method | 3 840 | 2 378 |
| Finance lease receivables | 52 385 | 163 772 |
| Other receivables from related parties | 37 | 2 193 |
| Other receivables | 68 708 | 64 111 |
| Including net receivables from related parties (note 39.1) | 6 699 | 8 260 |

Trade receivables arise mainly from the sale of gaseous fuel and distribution services.

Standard terms of payment for receivables related to regular sales in the Capital Group are equal to 14-30 days.

### 19.1. Revaluation write-downs on receivables

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Opening balance of revaluation write-down | (1 086 351) | (1 064 025) |
| Revaluation write-down created | (149 921) | (421 785) |
| Revaluation write-down released | 186 600 | 395 934 |
| Revaluation write-down applied | 17 944 | 8 172 |
| Reclassification between current and non-current portion | (1 873) | (4 647) |
| **Closing balance of revaluation write-down** | **(1 033 601)** | **(1 086 351)** |

## 20. CURRENT TAX SETTLEMENTS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Opening balance of current tax liabilities | 281 399 | 184 556 |
| Change in current tax receivables* | 42 115 | 312 |
| Opening balance of current tax receivables | 17 499 | 17 187 |
| Closing balance of current tax receivables | 59 614 | 17 499 |
| Income tax (cost of the period) | 333 593 | 578 753 |
| Income tax paid in the period | (609 555) | (482 222) |
| **Closing balance of current tax liabilities** | **47 552** | **281 399** |

*The Capital Group is not a taxable capital group and therefore CIT assets and liabilities are not netted off.

(in PLN'000)

## 21. PREPAYMENTS AND ACCRUALS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Real property tax | 24 | - |
| Deposit development costs | 25 392 | 27 879 |
| Property and casualty insurance | 7 961 | 7 276 |
| Measurement of long-term contracts | 17 571 | 5 342 |
| Geological information | 3 020 | 2 375 |
| Prepayments related to leased fixed assets | - | 18 174 |
| Repairs carried forward | 33 | 2 932 |
| Software support and update | 1 413 | 3 357 |
| Rent and fees | 2 514 | 1 852 |
| Financial expenses carried forward | 116 | 207 |
| Other expenses carried forward | 12 218 | 12 961 |
| **Total** | **70 262** | **82 355** |

## 22. CURRENT FINANCIAL AVAILABLE FOR SALE ASSETS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Unlisted shares (gross value) | - | 6 678 |
| Listed shares (gross value) | - | - |
| Short-term deposit (gross value) | 113 | 45 |
| Investment fund units (gross value) | 7 662 | 18 491 |
| Treasury bills (gross value) | - | - |
| **Total gross value** | **7 775** | **25 214** |
| | | |
| Unlisted shares (net value)* | - | 3 870 |
| Listed shares (net value)* | - | - |
| Short-term deposit (net value) | 113 | 45 |
| Investment fund units (net value) | 6 382 | 18 491 |
| Treasury bills (net value) | - | - |
| **Total net value** | **6 495** | **22 406** |

*Less revaluation write-down

## 23. CASH AND BANK BALANCES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Cash in hand and at bank | 155 600 | 211 570 |
| Bank deposits | 763 022 | 725 002 |
| High liquidity short-term securities* | 496 010 | 635 800 |
| Other cash** | 7 307 | 11 263 |
| **Total** | **1 421 939** | **1 583 635** |

* Bills (commercial, treasury, NBP, etc.), certificates of deposit maturing within 3 months.
** Cash in transit and checks and bills of exchange maturing within 3 months.

Group constituent companies deposit cash in renown Polish and international banks, therefore the occurrence of concentration risk with respect to deposited cash is limited.

(in PLN'000)

## 24. NON-CURRENT ASSETS HELD FOR SALE

The following assets have been classified by the Capital Group as held for sale:

| Non-current asset (or group) | Expected disposal date | Carrying amount as at 31 December 2008 | Terms of disposal |
|---|---|---|---|
| Land and perpetual usufruct rights | First half of 2009 | 339 | tender |
| Buildings and structures | First half of 2009 | 386 | tender |
| Technical equipment and machinery | First half of 2009 | - | tender |
| Vehicles | First half of 2009 | 284 | tender |
| Other | First half of 2009 | - | tender |
| **Total** | | **1 009** | |

(in PLN'000)

# 25. CONTINGENT ASSETS

## 25. 1. Contingent receivables from received sureties and guarantees

| Provider of contingent receivables | Value of the received contingent receivables in the currency | Currency of the contingent receivables | Value of the received contingent receivables* in PLN | Expiry date of the contingent receivables | Type of granted contingent receivables |
|---|---|---|---|---|---|
| **Contingent receivables received by PGNiG S.A.** | | | | | |
| Minex Centrala Exportowo - Importowa S.A. | 1 035 | PLN | 1 035 | 27 July 2010 | *declaration of voluntary submission to enforcement |
| Zakład Elektroenergetyczny H. Cz. ELSEN Sp. z o. o. | 2 871 | PLN | 2 871 | 25 February 2009 | *declaration of voluntary submission to enforcement |
| GASLINIA Sp. z o. o. | 3 125 | PLN | 3 125 | 31 January 2009 | bank guarantee |
| GASLINIA Sp. z o. o. | 3 056 | PLN | 3 056 | 21 December 2017 | *declaration of voluntary submission to enforcement |
| KRI S.A. | 2 000 | PLN | 2 000 | 17 December 2017 | *declaration of voluntary submission to enforcement |
| KRI S.A. | 1 750 | PLN | 1 750 | 11 February 2009 | insurance guarantee |
| Linia K&K Sp. z o.o. | 896 | PLN | 896 | 5 February 2018 | *declaration of voluntary submission to enforcement |
| K.D.P. Sp. z o. o. | 5 000 | PLN | 5 000 | 31 December 2015 | *declaration of voluntary submission to enforcement |
| K.D.P. Sp. z o. o. | 5 725 | PLN | 5 725 | 31 December 2015 | *declaration of voluntary submission to enforcement |
| K.D.P. Sp. z o. o. | 7 000 | PLN | 7 000 | 31 December 2015 | *declaration of voluntary submission to enforcement |
| Media Odra Warta Sp. z o.o. | 3 000 | PLN | 3 000 | 31 December 2009 | bank guarantee |
| PZU Oddział Okręgowy w Łodzi | 920 | PLN | 920 | 30 June 2010 | performance bond |
| Winnicki Paweł "WINNICKI" | 536 | PLN | 536 | 30 January 2009 | performance bond |
| PBG S.A. | 2 722 | PLN | 2 722 | 16 October 2009 | insurance guarantee |
| PBG S.A. | 1 963 | PLN | 1 963 | 15 December 2009 | insurance guarantee |
| PBG S.A. | 85 217 | PLN | 85 217 | 30 April 2013 | performance bond |
| Syndicate: PBG S.A., Tecnimont S. p. A, Societe Francaise d'Etudes de Realisations d'Equipements Gaziers "SOFREGAZ" Plynoslav PARDUBICE HOLDING A. S. Plynoslav REGULACE PLYNU A. S. | 66 429 | PLN | 66 429 | 18 January 2013 | insurance guarantee |
| Gazomontaż SA | 531 | PLN | 531 | 4 December 2010 | performance bond |
| PUT Nafta-Gaz-Serwis in Sanok | 657 | PLN | 657 | 28 June 2009 | performance bond |
| INTERSPEED | 1 200 | PLN | 1 200 | 31 March 2009 | bank guarantee |
| Przedsiębiorstwo Robót Inżynieryjnych FART | 880 | PLN | 880 | 7 July 2009 | bank guarantee |
| Zakłady Przemysłu Wapienniczego TRZUSKAWICA SA | 2 000 | PLN | 2 000 | 31 December 2010 | bank guarantee |
| Zakłady Przemysłu Wapienniczego TRZUSKAWICA SA | 1 600 | PLN | 1 600 | unlimited | *declaration of voluntary submission to enforcement |
| STAR - DUST Sp. z o.o. | 5 100 | PLN | 5 100 | 31 December 2013 | *declaration of voluntary submission to enforcement |
| Ceramika Końskie Sp. z o.o. | 2 000 | PLN | 2 000 | 31 December 2008 | *declaration of voluntary submission to enforcement |
| MAN Trucks Sp. z o.o. | 951 | PLN | 951 | unlimited | bank guarantee |
| POLDIM S.A. | 608 | PLN | 608 | 31 December 2009 | bank guarantee |
| Kopalnia Wapienia "Czatkowice" Sp. z o.o. | 511 | PLN | 511 | unlimited | receivables transfer agreement |
| Zakłady Chemiczne "Alwernia" S.A. | 1 000 | PLN | 1 000 | 18 April 2011 | *declaration of voluntary submission to enforcement |
| Przedsiebiorstwo Energetyki Cieplnej "Geotermia Podhalańska" S.A. | 590 | PLN | 590 | 5 November 2010 | *declaration of voluntary submission to enforcement |

## 25. 1. Contingent receivables resulting from sureties and guarantees received (continued)

| Provider of contingent receivables | Value of the received contingent receivables in the currency | Currency of the contingent receivables | Value of the received contingent receivables* in PLN | Expiry date of the contingent receivables | Type of granted contingent receivables |
|---|---|---|---|---|---|
| Ceramika Tubądzin Sp. z o.o. Ozorków | 3 200 | PLN | 3 200 | unlimited | *declaration of voluntary submission to enforcement |
| Poland Central Unit | 550 | PLN | 550 | 31 December 2018 | *declaration of voluntary submission to enforcement |
| Przeds.Robót Drog. -Most. Sp. z o. o. | 592 | PLN | 592 | 14 February 2009 | insurance guarantee |
| Reckitt Beckiser Produktion (Poland) | 830 | PLN | 830 | 7 May 2009 | bank guarantee |
| Huta Szkła CZECHY S.A. | 950 | PLN | 950 | 31 December 2009 | bank guarantee |
| EWE ENERGIA Sp. z o.o. | 1 150 | PLN | 1 150 | 30 September 2009 | bank guarantee |

(in PLN'000)

| | | | | | |
|---|---|---|---|---|---|
| Homanit Polska sp. Zo. o. Sp. komandytowa | 2 250 | PLN | 2 250 | 31 March 2010 | bank guarantee |
| Porcelana Chodzież | 500 | PLN | 500 | max 12 months from the contract expiry date | *declaration of voluntary submission to enforcement |
| Farmutil | 2 000 | PLN | 2 000 | max 12 months from the contract expiry date | *declaration of voluntary submission to enforcement |
| BRENNTAG POLSKA Sp. z o.o. | 703 | PLN | 703 | 10 February 2009 | bank guarantee |
| PBG S.A.,Wysogotowo Przeźmierowio | 1 035 | PLN | 1 035 | 30 September 2008 | performance bond |
| ZRUG Sp. z o.o.Poznań | 796 | PLN | 796 | 30 November 2011 | performance bond |
| CETUS Energetyka Gazowa Sp. z o.o.Świerklany | 536 | PLN | 536 | 29 November 2011 | performance bond |
| Pol-Max SA Świebodzin | 750 | PLN | 750 | 31 December 2008 | bank guarantee |
| Other received guarantees and sureties (each with a value of less than PLN 500 thousand) | 26 478 | PLN | 26 478 | 2008-2018 | bank guarantees, performance bonds etc. |
| **Contingent liabilities received by Gas Companies** | | | | | |
| Energomontaż-Południe S.A. | 1 092 | PLN | 1 092 | 30 June 2009 | performance bond |
| CETUS Energetyka Gazowa Sp. z o.o. | 901 | PLN | 901 | 27 February 2009 | insurance guarantee |
| RZOUG GAZ-TECHNIKA Sp. z o.o. | 860 | PLN | 860 | 27 February 2009 | insurance guarantee |
| GAZOWNIA SERWIS Sp. z o.o. | 770 | PLN | 770 | 27 February 2009 | insurance guarantee |
| Górnośląski Zakład Obsługi Gazownictwa Sp. z o.o. in Zabrze | 901 | PLN | 901 | 27 February 2009 | insurance guarantee |
| TESGAS Sp. z o.o. | 1 079 | PLN | 1 079 | 4 June 2010 | bank guarantee |
| TESGAS S.A. | 735 | PLN | 735 | 30 April 2011 | insurance guarantee |
| Firma Budowlana Eugeniusz Dota | 673 | PLN | 673 | 10 June 2009 | insurance guarantee |
| Other (each below PLN 500 thousand) | 3 270 | PLN | 3 270 | 2008-2011 | bank guarantees, performance bonds etc. |
| **Contingent receivables received by the remaining companies from PGNiG S.A. Capital Group** | | | | | |
| FUNDACJA LUX VERITATIS | 14 000 | PLN | 14 000 | 31 May 2009 | bank guarantee |
| ATREM Sp.z o.o.Przeźmierowo | 717 | PLN | 717 | 5 November 2009 | performance bond |
| Przedsiębiorstwo Budownictwa Ogólnego i Usług Piotr Flens | 586 | PLN | 586 | 30 June 2009 | performance bond |
| Siemens Financial Service Gmbh | 742 | PLN | 742 | 3 April 2009 | performance bond |
| Siemens Financial Service Gmbh | 3 711 | PLN | 3 711 | 3 April 2009 | performance bond |
| Other (each below PLN 500 thousand) | 2 560 | PLN | 2 561 | 2008-2011 | bank guarantees, performance bonds etc. |
| **Total** | | | **285 576** | | |

* Declaration of voluntary submission to enforcement in line with Article 777 § 1 point 4 of the Civil Proceedings Code

## 25. 2. Contingent receivables due to received bills of exchange

| Entity for which the bill-of-exchange was issued | Value of the bill-of-exchange granted in currency | Currency of the bill of exchange | Value of the granted bill-of-exchange in PLN | Bill of exchange expiry date |
|---|---|---|---|---|
| **Bills of exchange received by PGNiG S.A.** | | | | |
| K.D.P. Sp. z o. o. | 4 181 | PLN | 4 181 | 10 November 2009 |
| Systemy Grzewcze PHU "BEST" | 500 | PLN | 500 | unlimited |
| K&K Sp. z o.o. | 3 000 | PLN | 3 000 | unlimited |
| Fabryka Porcelany Wałbrzych S.A. | 1 000 | PLN | 1 000 | 31 December 2009 |
| Fabryka Porcelany Wałbrzych S.A. | 800 | PLN | 800 | 21 August 2012 |
| HUTA SZKŁA LUCYNA Zakład NYSA | 800 | PLN | 800 | unlimited |
| Porcelana Śląska Sp. z o.o. Katowice | 3 461 | PLN | 3 461 | unlimited |
| ZP Jopex Franciszek Jopek Zabrze | 1 944 | PLN | 1 944 | unlimited |
| Huta Będzin S.A. Będzin | 510 | PLN | 510 | unlimited |
| Jopex Sp. z o.o. | 1 029 | PLN | 1 029 | unlimited |
| Uzdrowisko Krynica "Żegiestów" S.A. | 500 | PLN | 500 | unlimited |
| Kuźnia "Glinik" Sp. z o.o. Gorlice | 1 000 | PLN | 1 000 | unlimited |
| Huta Szkła "MAKORA" s.j. Krosno | 1 000 | PLN | 1 000 | unlimited |
| Huta Szkła Deco-Glass Krosno | 2 000 | PLN | 2 000 | unlimited |
| Spółdzielnia Mleczarska Ryki | 532 | PLN | 532 | 4 April 2018 |
| Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji w Lublinie Sp. z o.o. | 500 | PLN | 500 | 14 August 2018 |
| DEKORGLASS DZIAŁDOWO S.A. | 790 | PLN | 790 | unlimited |
| ZPJ Wistil S.A. | 500 | PLN | 500 | 31 January 2009 |
| Other bills of exchange received (each below PLN 500 thousand) | 5 483 | PLN | 5 483 | 2008-2011 |
| **Bills of exchange received by Gas Companies** | | | | |
| ZRUG Spółka z o.o. Poznań | 2 289 | PLN | 2 289 | 2008-2011 |
| Gazobudowa Sp. z o.o. Poznań | 706 | PLN | 706 | 2005-2010 |
| PHARMGAS Sp.z o.o. Poznań | 2 159 | PLN | 2 159 | 2008-2011 |
| PBG S.A. | 1 436 | PLN | 1 436 | 2008-2011 |
| TESGAS Sp.z o.o. Przeźmierowo | 1 213 | PLN | 1 213 | 2008-2011 |
| PHARMAGAZ POZNAŃ | 723 | PLN | 723 | 28 December 2009 |
| PUH INTER-TECH Komorniki | 699 | PLN | 699 | 2007-2010 |
| PHARMGAS Sp.z o.o. Poznań | 524 | PLN | 524 | 30 January 2012 |
| Other bills of exchange received (each below PLN 500 thousand) | 3 574 | PLN | 3 574 | 2008-2010 |
| **Bills of exchange received by other companies from PGNiG S.A. Capital Group** | | | | |
| IZOSTAL S.A. Zawadzkie | 1 500 | PLN | 1 500 | 6 September 2012 |
| Other bills of exchange received (each below PLN 500 thousand) | 2 423 | PLN | 2 423 | 2008-2012 |
| **Total** | | | **46 776** | |

## 26. SHARE CAPITAL

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Total number of shares in '000 | 5 900 000 | 5 900 000 |
| Face value per share in PLN | 1 | 1 |
| Total share capital | 5 900 000 | 5 900 000 |

(in PLN'000)

## 27. BORROWINGS AND DEBT SECURITIES

| | Currency | 31 December 2008 | 31 December 2007 | Effective interest rate | Repayment/redemption date | 31 December 2008 | 31 December 2007 | Collateral |
|---|---|---|---|---|---|---|---|---|
| **Non-current** | | Value in the currency | | | | Value in PLN | | |
| Lease liabilities | PLN | 17 880 | 10 733 | 6 - 9% | 2008-2010 | 17 880 | 10 733 | - |
| Lease liabilities | CHF | 5 029 | 5 998 | 8% on average | 11 July 2010 | 14 087 | 12 963 | - |
| Lease liabilities | USD | 3 068 | 3 154 | Libor 1M | 20 September 2012 | 9 088 | 7 681 | - |
| **Total non-current** | | | | | | **41 055** | **31 377** | |

| | Currency | 31 December 2008 | 31 December 2007 | Effective interest rate | Repayment/redemption date | 31 December 2008 | 31 December 2007 | Collateral |
|---|---|---|---|---|---|---|---|---|
| **Current** | | Value in currency | | | | Value in PLN | | |
| Current portion of lease liabilities | PLN | 11 356 | 21 803 | 6 - 9% | 2009 | 11 356 | 21 803 | - |
| Current portion of lease liabilities | CHF | 4 418 | 4 868 | 8% on average | 2009 | 12 376 | 9 659 | - |
| Current portion of lease liabilities | USD | 1 359 | 413 | Libor 1M | 2009 | 4 027 | 1 848 | - |
| Loan facility at Pekao S.A. Kraków branch | PLN | 17 869 | 20 890 | Wibor 1M+0.3 | 31 December 2010 | 17 869 | 20 890 | capped mortgage |
| Loan facility at Societe Generale S.A. | PLN | 341 | 2 768 | Wibor 1M+0.5 | 31 December 2010 | 341 | 2 768 | assignment of receivables, blank bill of exchange |
| Overdraft facility at Bank Handlowy S.A. | PLN | 2 268 | - | Wibor 1M+0.5 | 8 February 2009 | 2 268 | - | assignment of receivables, blank bill of exchange |
| Overdraft facility at Millennium S.A. | PLN | 7 560 | 9 304 | WIBOR 1M+0.50 | 23 December 2009 | 7 560 | 9 304 | POA for the current account |
| Overdraft facility at Raiffeisen Bank Polska S.A. | PLN | 3 291 | - | Wibor 1M+0.40 | 29 May 2009 | 3 291 | - | blank bill of exchange |
| Working capital loan at BRE S.A. | PLN | 2 600 | - | Wibor 1M+0.40 | 24 August 2009 | 2 600 | - | blank bill of exchange |
| Overdraft facility at Bank Societe Generale S.A. | PLN | 1 911 | - | Wibor 1M+0.40 | 29 May 2009 | 1 911 | - | POA for the current account |
| Overdraft facility at Pekao S.A. | PLN | 23 | 192 | Wibor 1M+0.3 | 30 September 2009 | 23 | 192 | registered pledge; assignment of receivables up to 50% |
| Overdraft facility at Pekao S.A. | PLN | 4 041 | 3 946 | Wibor 1M+0.7 | 31 January 2009 | 4 041 | 3 946 | bill of exchange and registered pledge |
| Working capital loan at Pekao S.A. | PLN | 5 501 | 4 000 | Wibor 1M+0.7 | 31 January 2009 | 5 501 | 4 000 | bill of exchange and registered pledge |
| Overdraft facility at Bank Societe Generale S.A. | USD | - | 1 484 | Libor 1M+0.4 | 31 August 2008 | - | 3 615 | assignment of receivables |
| Overdraft facility at Pekao S.A. | PLN | 19 878 | 19 462 | Wibor 1M+0.40 | 31 December 2009 | 19 878 | 19 462 | assignment of receivables |
| Loan facility at ING Bank Śląski S.A. | PLN | - | 4 801 | WIBOR 1M+1.2 | 27 November 2008 | - | 4 801 | blank bill of exchange; assignment of receivables |
| Overdraft facility at BRE S.A. | PLN | - | 1 236 | WIBOR 1M+1.2 | 13 November 2008 | - | 1 236 | cash deposits, mortgage, assignment of the insurance policy |
| Working capital loan at BRE S.A. | PLN | - | 3 000 | WIBOR 1M+1.2 | 30 April 2008 | - | 3 000 | cash deposits, mortgage, assignment of the insurance policy |
| Short-term loan at ING Bank Śląski S.A. | PLN | 4 532 | 200 | WIBOR 1M+0.65 | 28 August 2009 | 4 532 | 200 | bill of exchange and registered pledge |
| Overdraft at BGK S.A. Piła | PLN | 12 533 | - | WIBOR3M+0.3 | 31 May 2010 | 12 533 | - | capped mortgage, registered pledge, assignment of receivables |
| Limit on Visa cards in Kredyt Bank | PLN | 148 | - | Limit on Visa cards | | 148 | - | - |
| Overdraft on current account at BZ WBK S.A. Wrocław | PLN | 908 | - | ,WIBOR+1.2% | 31 January 2009 | 908 | - | registered pledge on participation units; POA on current account |
| Loan facility at Konsorcjum Kredytowe (Bank Handlowy) | PLN | 760 592 | - | 6.36% | 26 January 2009 | 760 592 | - | Guarantees of gas companies |
| **Total current** | | | | | | **871 755** | **106 724** | |

(in PLN'000)

In addition, the Group had credit lines, as listed in the note below.

### 27.1. Amount of granted and unused loan facilities

| Bank | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | Amount of granted loan facilities | Amount of unused loan facilities | Amount of granted loan facilities | Amount of unused loan facilities |
| Komercni Banka a.s. Ostrava, the Czech Republic | - | - | 1 348 | 1 348 |
| PEKAO S.A. | - | - | 4 500 | 4 308 |
| Bank Handlowy S.A. | - | - | 6 000 | 6 000 |
| BRE Bank S.A. | - | - | 2 000 | 764 |
| BZ WBK S.A. | - | - | 2 000 | 2 000 |
| PEKAO S.A. | 21 000 | 3 131 | - | - |
| Societe Generale S.A. | 3 000 | 2 659 | 3 000 | 232 |
| Bank Handlowy S.A. | 5 000 | 2 732 | - | - |
| Millennium S.A. | 10 000 | 2 440 | 10 000 | 696 |
| RAIFFEISEN BANK S.A. | 6 000 | 2 709 | 6 000 | 6 000 |
| BRE Bank S.A. | 6 000 | 3 400 | 5 000 | 5 000 |
| Societe Generale S.A. | 6 000 | 4 089 | 5 000 | 5 000 |
| PEKAO S.A. | 5 000 | 959 | - | - |
| PEKAO S.A. | 10 000 | - | 8 000 | 54 |
| ING Bank Śląski S.A. | 12 000 | 7 768 | - | - |
| PEKAO S.A. | 20 000 | 122 | 20 000 | 538 |
| Societe Generale S.A. | 3 615 | 3 615 | 3 653 | 38 |
| BankBGK | 25 000 | 12 467 | 10 000 | 10 000 |
| PEKAO S.A. | 6 000 | 5 977 | - | - |
| BRE Bank S.A. | 11 000 | 8 985 | - | - |
| KREDYT BANK SA | 3 000 | 2 814 | - | - |
| ING Bank Śląski S.A. | 5 000 | 5 000 | 5 000 | 199 |
| BZ WBK | 3 900 | 2 992 | - | - |
| PKO BP S.A. | 500 | 500 | - | - |
| PEKAO S.A (formerly BPH S.A.) | - | - | 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 |
| PKO BP S.A. | 30 000 | 30 000 | 40 000 | 40 000 |
| PEKAO S.A. | 40 000 | 40 000 | 40 000 | 40 000 |
| Societe Generale S.A. | 40 000 | 40 000 | 40 000 | 40 000 |
| BRE Bank S.A. | 40 000 | 40 000 | 40 000 | 40 000 |
| Consortium of banks (agent: Bank Handlowy S.A. in Warsaw)* | 2 503 440 | 1 705 093 | 3 223 800 | 3 223 800 |
| **Total** | **2 895 455** | **2 007 452** | **3 595 301** | **3 545 977** |

* A loan facility for EUR 600 million with maturity date 27 July 2010 from 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. branch in Poland, ING Bank Śląski S.A., West LB AG, Bank BPH S.A., Bank Millennium S.A., Nordea Bank Polska S.A., Landesbank Sachsen Girozentrale, DnB NOR Bank ASA).

Although unused in full, the credit lines increase the Group's security as regards the payment of current liabilities.

(in PLN'000)

## 28. FINANCE LEASE LIABILITIES (DISCLOSED UNDER LIABILITIES)

| | 31 December 2008 | | |
|---|---|---|---|
| Maturity: | Value of (discounted) payments disclosed in the balance sheet) | Interest | Value of actual installments to be paid |
| up to 1 year | 27 759 | 2 368 | 30 127 |
| from 1 year to 5 years | 41 055 | 2 188 | 43 243 |
| over 5 years | - | - | - |
| **Total** | **68 814** | **4 556** | **73 370** |

| | 31 December 2007 | | |
|---|---|---|---|
| Maturity: | Value of (discounted) payments disclosed in the balance sheet) | Interest | Value of actual installments to be paid |
| up to 1 year | 33 310 | 2 184 | 35 494 |
| from 1 year to 5 years | 31 371 | 1 361 | 32 732 |
| over 5 years | 6 | - | 6 |
| **Total** | **64 687** | **3 545** | **68 232** |

(in PLN'000)

## 29. PROVISIONS

| | Jubilee bonuses and retirement severance | Provision for gas allowances | Provision for termination benefits | Provision for well reclamation costs | Provision for fines imposed by the Office for Competition and Consumer Protection | Provisions for environmental protection | Provision for potential transmission service liabilities | Central Restructuring Fund | Other | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2008 | 358 872 | 61 199 | 16 000 | 706 834 | 2 000 | 84 535 | 22 500 | 7 540 | 75 545 | **1 335 025** |
| Created during the year | 47 491 | 1 073 | 57 | 413 993 | - | 55 339 | 21 800 | - | 104 505 | **644 258** |
| Reclassifications | - | - | - | - | - | - | - | - | - | **-** |
| Applied | (89 274) | (21 349) | (16 057) | (79 396) | (2 000) | (6 021) | - | (780) | (89 085) | **(303 962)** |
| | | | | | | | | | | **-** |
| **As at 31 December 2008** | **317 089** | **40 923** | **-** | **1 041 431** | **-** | **133 853** | **44 300** | **6 760** | **90 965** | **1 675 321** |
| 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 31 December 2008** | **317 089** | **40 923** | **-** | **1 041 431** | **-** | **133 853** | **44 300** | **6 760** | **90 965** | **1 675 321** |
| Non-current | 304 020 | 38 802 | 11 467 | 684 552 | - | 81 276 | - | - | 33 688 | **1 153 805** |
| Current | 54 852 | 22 397 | 4 533 | 22 282 | 2 000 | 3 259 | 22 500 | 7 540 | 41 857 | **181 220** |
| **As at 31 December 2007** | **358 872** | **61 199** | **16 000** | **706 834** | **2 000** | **84 535** | **22 500** | **7 540** | **75 545** | **1 335 025** |

(in PLN'000)

**Provision for jubilee bonuses and retirement severance**

Constituent entities of the Capital Group implemented a jubilee bonus and retirement severance scheme. Respective payments are charged to the income statement in such a way as to distribute the cost of jubilee bonuses and retirement severance over the entire period of employment in respective companies. Costs resulting from the aforesaid benefits are determined using the actuarial projected unit credit method.

The technical interest rate assumed for calculation of the discounted value of future payment due in relation to pension severance was established as 2.0% as a resultant of return on long-term treasury bonds with annual profitability of 6.5% and annual inflation rate of 4.4% (in 2007, the assumed rate was 3.8% as a resultant of 5.7% and 1.8%, respectively).

The provision for jubilee bonuses is disclosed in the current amount of liabilities resulting from actuarial calculations. The balance of provisions for retirement severance is recognized in the balance sheet in the net amount of the liability, i.e. after adjustment by unrecognized actuarial gains and losses and past employment costs– non-eligible benefits.
Unrecognized actuarial gains and losses as well as past employment costs are charged to the current income statement for 15 years.

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| **Jubilee bonuses** | | |
| Opening balance of liability disclosed in the balance sheet | 263 096 | 240 476 |
| Interest expense | 11 576 | 9 138 |
| Current employment costs | 9 490 | 16 247 |
| Past employment costs | 1 303 | - |
| Paid benefits | (43 485) | (38 633) |
| Actuarial gains/losses | (25 082) | 42 885 |
| Gains/losses due to limitations and settlements | - | (7 017) |
| Other (a subsidiary excluded from consolidation) | (4) | - |
| Closing balance of liability disclosed in the balance sheet | **216 894** | **263 096** |
| **Retirement severance** | | |
| Opening balance of liability disclosed in the balance sheet | 95 776 | 97 024 |
| Current employment costs | 6 219 | 5 750 |
| Interest expense | 5 152 | 4 015 |
| Net actuarial profit/loss recognized during the year | 954 | 75 |
| Paid benefits | (10 220) | (8 286) |
| Past employment costs | 2 314 | 909 |
| Gains/losses due to limitations and settlements | - | (3 711) |
| Closing balance of liability disclosed in the balance sheet | **100 195** | **95 776** |
| **Total closing balance of liability disclosed in the balance sheet** | **317 089** | **358 872** |

As at the end of 2008, following the completion of the employment restructuring program in PGNiG SA Capital Group, the Group changed the method of revaluating jubilee award and pension severance provisions.
According to the Company, the new method is better suited to the needs of PGNiG SA Capital Group.
Key changes involved modification of the following assumptions:

- Assumptions regarding probability of turnover and Retirement: at present, based on information provided by the Group entities with regard to employees, whose job relationship terminated in the years 2005-2008, turnover and retirement probability tables were built divided into sex, total years in service, years in service with the Group and remuneration. The turnover probability table does not include cases related to implementing of the restructuring plans and organizational changes introduced over last years. Previously, the retirement tables were only based on age and sex of employees and based on 1993-1999 separation data including 2004-2007 headcount restructuring;
- Death rate assumptions: at present, the calculations are based on standard life span tables, whereas previously they were based on the data provided by the Group entities.
- Payroll increase assumptions: at present, the calculations are based on market trends, whereas previously they were based on trends observed in the Group entities.

- Discount ratio: at present, 2% level has been assumed (the decrease resulting from a change in interest on securities and in inflation); previously it was 3.8%.

The Company estimated that the amount of jubilee bonus and pension severance provisions of the Group calculated in accordance with the previous approach would amount to PLN 388,717 as at 31 December 2008 (instead of PLN 317,089 recognized in the balance sheet). Had the Group recognized provisions calculated in line with the previous approach, instead of a decrease by PLN 41,783 thousand compared to the end of 2007, the provisions would have grown by PLN 29,845 thousand, reducing the Group's 2008 net operating profit/loss by PLN 71,628 thousand, and the net profit/loss by PLN 58,019 thousand.

**Provision for gas allowances to former employees**

The Parent pays allowance for gas to its employees who retired by the end of 1995. This payment system will be in force until 2010; thereafter the Parent will cease to pay the allowances. The value of the provision for gas allowances is determined in accordance with actuarial valuation principles applied in the estimation of the provision for jubilee bonuses and retirement severance.

**Provision for payment of termination benefits**

The Capital Group constituent entities create a provision for termination benefits paid to employees laid off in connection with the employment restructuring program. The provision is estimated based on planned employment reduction and the amount of one-off severance payments.
The provision for costs of termination benefits is recognized only when the Group has presented the detailed and formal restructuring plan to all interested parties.
Following actual completion of the employment restructuring in 2008, the Group has released the provision. Additional details on the restructuring are presented in note 41.

**Other provisions for retirement and similar benefits**

The Capital Group constituent entities also create provisions for retirement and similar benefits, including the provision for group layoff severance pay.

**Provision for well reclamation costs**

The Parent creates a provision for future costs of well reclamation and for contributions to the Mine Liquidation Fund.
The provision for well reclamation costs is calculated based on the average cost of well reclamation in particular mining facilities over the last three years, adjusted by forecasted CPI and changes in the time value of money. A three year time horizon was adopted in these calculations due to the varied number of reclaimed wells and their reclamation costs in individual years.
The gross value of the provision is charged to the relevant fixed asset. Subsequent adjustments of the provision resulting from changes of estimates are also treated as a fixed asset value adjustment.
The Mine Liquidation Fund is creased based on the Act of 27 July 2001 amending the Mining and Geological Law. Write-offs to the Mine Liquidation Fund are created at 3-10% of the value of the tax depreciation of mining assets in correspondence with other operating expenses.
The value of the provision for well reclamation cost is adjusted by unused write-offs to the Mine Liquidation Fund.
Following the change of the discount rate used to revalue jubilee bonus and pension severance provision at the end of 2008, the discount rate used to calculate the well reclamation provision changed respectively. The change in the discount rate from 3.8% to 2% resulted in a significant increase of the well reclamation provision by PLN 111,711 thousand. The remaining increase resulted mainly from a significant growth of the average well reclamation cost. For the Sanok Branch, the cost increased by 31% to PLN 321.45 thousand in 2008 from PLN 245.11 thousand in 2007; for Zielona Góra Branch, the cost increased by 29% to PLN 802.97 in 2008 compared to PLN 622.26 thousand in 2007.

**Provision for fines from the Office for Competition and Consumer Protection**

As at 1 January 2008, the balance of provision related only to the fine imposed by the Chairman of the Office for Competition and Consumer Protection for a competition restricting practice involving abuse of the Company's dominant position on the domestic gas transmission market in the form of refusing PHZ Bartimpex S.A. transmission services in relation to gas produced abroad. On 31 January 2007, the Competition and Consumer Protection Court decided to fine PGNiG S.A.

(in PLN'000)

Since on 27 March 2008, the Appeal Court dismissed the appeal of PGNiG S.A. against the decision, the Company paid a fine to the Office for Competition and Consumer Protection applying the entire provision created for this purpose.

**Provisions for environmental protection**

The Capital Group constituent companies create provisions for future liabilities due to the reclamation of contaminated soil or elimination of hazardous substances if there is a relevant legal or constructive obligation. The created provision reflects potential costs foreseen to be incurred, estimated and verified periodically according to current prices.

**Provision for potential transmission service liabilities**

Following a court case of SGT EUROPOL GAZ S.A. against a decision of the President of the Energy Regulatory Office regarding gas transmission tariffs in 2007, the Parent calculated additional costs to be incurred by PGNiG S.A. if the 2007 tariff is revoked. Based on the last valid tariff from the second half of 2005, the additional payment for gas transmission in 2007 is estimated at PLN 22,500 thousand. Therefore, in 2007 PGNiG S.A. created a provision of PLN 22,500 thousand for the above payment. Since the above case was still pending at the end of 2008, PGNiG S.A. has maintained the provision in its accounting records, and at the end of 2008 increased it by the estimated additional payment for gas transmission services in 2008 in the amount of PLN 21,800 thousand.

**Central Restructuring Fund**

The Central Restructuring Fund was created in order to provide termination benefits for employees covered by the Restructuring Program. Detailed principles of the fund's operation as well as the catalogue of increases and expenses are specified in the Company's internal resolutions.

**Other provisions**

The Capital Group constituent entities create other provisions for future, probable expenses related to commercial activity.

## 30. DEFERRED INCOME

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| **Non-current** | | |
| Non-depreciated value of gas service lines financed by customers | 646 792 | 707 721 |
| Connection fee | 487 461 | 427 203 |
| Other | 5 079 | 7 442 |
| **Total non-current** | **1 139 332** | **1 142 366** |
| | | |
| **Current** | | |
| Non-depreciated value of gas service lines financed by customers | 60 377 | 60 888 |
| Connection fee | 24 412 | 15 720 |
| Gas sales forecast | 540 029 | 396 612 |
| Other | 13 953 | 13 841 |
| **Total current** | **638 771** | **487 061** |

## 31. DEFERRED TAX PROVISION

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Exchange gains | 5 170 | 2 619 |
| Accrued interest | 3 624 | 1 605 |
| Positive valuation of hedging transactions for FX and interest rate risk | 26 871 | 3 112 |
| Revenue arising from tax obligation falling due in the following month | 8 774 | 13 338 |
| Difference between the tax and accounting value of non-current assets | 1 300 010 | 1 502 548 |
| Other | 7 792 | 7 137 |
| **Total** | **1 352 241** | **1 530 359** |

(in PLN'000)

## 32. OTHER NON-CURRENT LIABILITIES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Liabilities due to licenses, rights to geological information and mining usufruct | 21 741 | 20 577 |
| Other non-current liabilities | 2 321 | 1 082 |
| **Total** | **24 062** | **21 659** |

## 33. TRADE AND OTHER PAYABLES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Trade liabilities | 1 475 214 | 885 061 |
| Trade liabilities to related parties | 7 697 | 9 894 |
| VAT liabilities | 934 766 | 800 840 |
| Liabilities due to other taxes, customs duty and social security | 138 739 | 124 204 |
| Liabilities due to dividend for the owner | - | - |
| Payroll liabilities | 52 487 | 40 421 |
| Liabilities due to unused paid vacation | 28 744 | 32 164 |
| Liabilities due to purchase of non-financial non-current assets | 228 827 | 271 484 |
| Liabilities due to purchase of non-financial non-current assets from related parties | 37 253 | 34 092 |
| Liability due to capital contribution adopted by resolution* | 82 472 | 82 472 |
| Liabilities to associates measured using the equity method | 7 955 | 27 794 |
| Other liabilities to related parties | 7 148 | 910 |
| Accruals and advances for deliveries | 124 025 | 66 734 |
| Other | 97 213 | 31 911 |
| **Total** | **3 222 540** | **2 407 981** |
| Including related parties (Note 39.1.) | 142 525 | 155 162 |

* Disputed contribution to the capital of Gazotech Sp. z o.o., details provided in note 2.4.

## 34. REASONS FOR DIFFERENCES BETWEEN BALANCE SHEET CHANGES IN CERTAIN ITEMS AND CHANGES ARISING FROM THE CASH FLOW STATEMENT

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| 1) Cash opening balance (balance sheet) | 1 583 635 | 3 539 078 |
| a) Opening balance of net exchange differences on cash* | (1 233) | (20 136) |
| **Opening balance of cash and bank balances in the cash flow statement (1-a)** | **1 584 868** | **3 559 214** |
| | | |
| 2) Cash closing balance (balance sheet) | 1 421 939 | 1 583 635 |
| b) Closing balance of net exchange differences on cash | 1 076 | (1 233) |
| **Closing balance of cash and bank balances in the cash flow statement (2-b)** | **1 420 863** | **1 584 868** |
| | | |
| **I. Change in the balance of cash in the balance sheet (2-1)** | (161 696) | (1 955 443) |
| II. Change in net exchange differences on cash (b-a) | 2 309 | 18 903 |
| **Change in the balance of cash in the cash flow statement (I. - II.)** | **(164 005)** | **(1 974 346)** |

* Negative amounts denote a surplus of exchange losses on cash and they are charged to the balance of cash in the balance sheet. These differences are eliminated in the cash flow statement.

(in PLN'000)

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Balance sheet change in other financial assets** | **1 615 520** | **983 225** |
| **Balance-sheet change in net receivables** | **(385 877)** | **(857 635)** |
| Change in lease receivables under financial assets - adjustment of investing activities | (1 614 361) | (983 280) |
| Change in the balance of lease liabilities – adjustment of investing activities | (111 387) | (55 151) |
| Change in investment receivables due to sale of intangible assets and property, plant and equipment | (3 735) | (6 857) |
| Change in receivables due to exclusion of Polskie LNG Sp. z o.o. from consolidation | (2 049) | - |
| Other | (9) | (3 929) |
| **Change in net receivables disclosed in the cash flow statement** | **(501 898)** | **(923 627)** |

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Balance-sheet change in inventory** | **(505 279)** | **135 223** |
| Fixed assets under construction reclassified to inventories – adjustments to investing activities | 43 | 1 511 |
| **Change in inventories disclosed in the cash flow statement** | **(505 236)** | **136 734** |

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Balance-sheet change in provisions** | **340 296** | **(18 622)** |
| Change in the provision for reclamation of wells adjusting property, plant and equipment - adjustment of investing activities | (301 940) | 63 152 |
| Change in receivables due to exclusion of Polskie LNG Sp. z o.o. from consolidation | 199 | - |
| **Change in provisions in the cash flow statement** | **38 555** | **44 530** |

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Balance sheet change in current liabilities** | **814 559** | **234 494** |
| Change in investment liabilities due to acquisition of intangible assets and property, plant and equipment | 39 496 | (53 110) |
| Change in receivables due to exclusion of Polskie LNG Sp. z o.o. from consolidation | 7 170 | - |
| Other | - | (1 034) |
| **Change in current liabilities disclosed in the cash flow statement** | **861 225** | **180 350** |

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Balance-sheet change in other assets** | **(4 470)** | **17 799** |
| **Balance sheet change in cost prepayments** | **12 093** | **(50 029)** |
| Prepayments related to leased fixed assets - reclassification within operating activity | (18 487) | (16 576) |
| Change in receivables due to exclusion of Polskie LNG Sp. z o.o. from consolidation | (84) | - |
| **Change in cost prepayments in the cash flow statement** | **(10 948)** | **(48 806)** |

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Balance sheet change in deferred income** | **148 676** | **387 575** |
| Deferred income from leased fixed assets – reclassification within operating activity | (39) | - |
| Non-current assets obtained free of charge | (577) | - |
| Change in deferred income due to exclusion of Polskie LNG Sp. z o.o. from consolidation | 156 | - |
| **Change in deferred income disclosed in the cash flow statement** | **148 216** | **387 575** |

(in PLN'000)

## 35. FINANCIAL INSTRUMENTS AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

### 35.1. Financial instruments – by category (carrying amount)

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Financial assets measured at fair value through profit or loss | - | - |
| Financial assets available for sale (unlisted shares) | 15 255 | 23 867 |
| Financial assets available for sale (listed shares) | 27 680 | - |
| Financial investments held to maturity | - | - |
| Loans and receivables | 5 286 459 | 6 713 237 |
| Positive value of derivatives | 174 186 | 17 442 |
| Cash (cash in hand and at bank as well as checks and cash in transit) | 162 907 | 222 833 |
| Financial liabilities measured at amortized cost | 3 004 676 | 1 570 112 |
| Negative value of derivatives* | 16 723 | 36 185 |

*The company does not apply hedge accounting.

The disclosed values of financial instruments do not differ at all or differ insignificantly from their fair value. Therefore, amounts presented in the table above may be considered identical to their fair value amounts.

### 35.2. Net gains and losses on financial assets and liabilities

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Financial assets measured at fair value through profit or loss | - | - |
| Financial assets available for sale | 353 | 471 |
| Impairment recognized in profit or loss for the period | 353 | 471 |
| Financial investments held to maturity | - | - |
| Loans and receivables | 248 117 | 465 848 |
| Interest on time deposits, BSB and REPO | 60 733 | 76 730 |
| Interest on receivables* | 163 600 | 308 998 |
| Interest on originated loans | 10 095 | 14 070 |
| Net revenues from short-term securities | 64 167 | 48 852 |
| Revaluation write-downs on receivables | (81 201) | (16 992) |
| Revaluation write-downs on loans | 6 736 | 63 735 |
| Measurement of originated foreign currency loans | 23 987 | (29 545) |
| Positive value of derivatives | 612 715 | 30 199 |
| Financial liabilities measured at amortized cost | (27 182) | (45 300) |
| Negative value of derivatives | (252 264) | (158 611) |
| **Total impact on profit/loss** | **581 739** | **292 607** |

* Including PLN 125,374 thousand of interest on finance lease receivables (PLN 219,085 thousand in 2007).

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Financial assets available for sale (measurement recognized directly in capital) | (50 320) | - |
| **Total impact on capitals** | **(50 320)** | **-** |

The full amount of change in measurement resulting from revaluation of financial instruments, recognized directly in capitals relates to the shares in Zakłady Azotowe w Tarnowie-Mościcach S.A.

(in PLN'000)

### 35.3. Objective and principles of financial risk management

The business operations of the Parent are associated with financial risks, including in particular:

- credit risk
- market risk, including:
  - interest rate risk;
  - currency risk;
  - commodity risk;
- liquidity risk.

***Credit risk***

Credit risk is defined as the probability of late settlement or failure to settle liabilities by a counterparty. Credit risk resulting from third parties being unable to meet their obligations under contracts related to the Group's financial instruments is in principle limited to the potential surplus of third parties' liabilities over those of the Group. The Capital Group follows the principle of entering into transactions in financial instruments with multiple companies of high creditworthiness. When selecting finance partners, first of all the Group takes into account their financial standing verified by rating agencies, market share and reputation.
The Group has the following credit risk exposure:

- originated loans;
- trade receivables;
- deposits;
- granted financial guarantees;
- concluded derivatives.

Presented below are the maximum exposures to credit risk for individual classes of financial instruments.

**Maximum credit risk exposure**

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Originated loans | - | - |
| Deposits in other entities (bank deposits, BSB, REPO) | 1 265 778 | 1 379 549 |
| Trade receivables | 4 020 681 | 5 333 688 |
| Positive value of derivatives | 174 186 | 17 442 |
| Granted financial guarantees | 8 276 643 | 7 902 149 |
| **Total** | **13 737 288** | **14 632 828** |

Exposure to credit risk due to originated loans results from loans granted by the Parent to subsidiaries and associates from the Capital Group. Loans are granted to these companies in line with internal procedure called "Principles of granting loans by Polskie Górnictwo Naftowe i Gazownictwo S.A. to companies from the Capital Group and with capital participation of PGNiG S.A." which defines detailed process of concluding and monitoring loan agreements, thus minimizing exposure of the Parent Company to the related credit risk. Loans are granted only after the applying companies have met specified terms and provided collateral. In addition, these companies support the shared interest of the Company, which significantly reduces the related credit risk.

The highest values of credit risk are related to receivables. Receivables from gas fuel sales effected by PGNiG S.A. are the largest item among receivables.

In order to minimize the risk of irrecoverability of receivables from sold gaseous fuel, uniform principles for gaseous fuel sales contracts are being introduced to secure trade receivables.

Prior to concluding sales contracts of material value, prospective clients are verified and their financial position analyzed based on generally available financial information (in the Register of Debtors) in order to determine a client's financial reliability. PGNiG S.A. requests special collateral, upon disclosure of the client entry in the Register of Debtors.

Clients are analyzed on an ongoing basis as to the fulfillment of contractual obligations related to financial settlements. The majority of concluded contracts require that clients make advance payments within deadlines provided for in contracts. At the end of the settlement period defined in the contract, clients have to pay for actually used gaseous fuel within deadlines determined in the contract. The standard payment period is 14 days from the invoice issuance date. Other payment periods are also used.

The Company is planning to verify the creditworthiness of all clients based on the company's financial documents for a given cycle (every 6 months or once a year). The objective is to determine the financial position of each client and assess the extent to which a client can contract debt before losing financial liquidity and to identify any indications that clients may be declared bankrupt.

PGNiG S.A. accepts the following instruments as performance bonds:
- Mortgages (ordinary, capped amount);
- Bank guarantees;
- Deposits;
- Ordinary and registered pledges;
- Insurance guarantees;
- Blank bills of exchange;
- Declarations of voluntary submission to enforcement pursuant to Article 777 of the Civil Proceedings Code;;
- Assignment of receivables arising from long-term contracts;
- Cash deposits on accounts indicated by PGNiG S.A.;
- Ratings;
- Sureties.

As regards new contracts, the form of collateral is agreed upon by PGNiG S.A. and the Client. Within the statutory process of harmonizing contracts with Energy Law requirements, negotiations will be undertaken with certain clients in order to establish or increase collateral.

The balance of receivables from clients is monitored on an ongoing basis, in line with the internal procedures applied in the Company. Appropriate debt collection procedures are undertaken if payment is delayed.
The debt collection procedures are undertaken based on "Guidelines for monitoring and collection of receivables from customers of gas/oil/other products" and the "Interest receivable management procedure". Appropriate legal instruments and collection measures aimed at assessing the level of the associated risk and its cause are utilized as part of debt collection procedures. Standard collection activities are undertaken in this respect: request for payment, telephone call with the client, notice and suspension of gaseous fuel deliveries as well as contract termination pursuant to Article 6 clause 3a of the Energy Law. As a last resort, court claims are lodged and the client is submitted to the National Debt Register operated by Biuro Informacji Gospodarczej SA in Wrocław.
Statutory interest is accrued on each delayed payment.
If a client is experiencing temporary financial problems, an agreement can be signed upon the client's request to divide the outstanding payment into installments and additional collateral is simultaneously negotiated.
As a rule, no agreements for the remittance of the principal amount and interest are signed.
Client requests to remit interest (exceeding the equivalent of EUR 5 000) are forwarded to the Supervisory Board for approval in accordance with corporate procedures.

At the end of 2008, the overdue unimpaired receivables recognized in the Group's balance sheet amounted to PLN 797,748 thousand (PLN 518,570 thousand as at the end of 2007).

(in PLN'000)

Age analysis of overdue unimpaired receivables as at 31 December 2008

| Overdue period | 31 December 2008 |
|---|---|
| up to 1 month | 639 081 |
| from 1 to 3 months | 152 019 |
| from 3 months to 1 year | 5 970 |
| from 1 year to 5 years | 587 |
| over 5 years | 91 |
| **Total net overdue receivables** | **797 748** |

The Group identifies, measures and minimizes its own credit risk exposure to individual banks in which it has deposits. Credit exposure was reduced by diversifying the portfolio of counterparties (in particular with regard to banks) with whom deposit transactions are concluded. The Group additionally signed Framework Agreements with all banks in which its funds are deposited. These agreements define the terms of concluding and settling all types of financial transactions. In 2008 the Group invested significant long-term surpluses of liquid cash in credit-risk-free instruments with high liquidity, in particular in treasury bills and bonds issued by the State Treasury.
The Group measures the related credit risk through ongoing verification of the financial standing of banks, reflected in changes in their financial ratings granted by the following rating agencies: Fitch, Standards&Poor's and Moody.

Credit risk resulting from granted guarantees, to which the Capital Group is exposed, is in principle limited to the risk that the bank in which the Group purchased the guarantees in question will default. However, the Group purchases guarantees in renowned banks with high ratings and therefore the probability of default and the related risk are insignificant.

The above risk is measured through the ongoing verification of the financial standing of banks which sell guarantees, similarly as with the risk related to deposit transactions.

Credit risk exposure resulting from concluded derivatives is equal to the carrying amount of their positive balance sheet measurement at fair value. Similarly as with deposit transactions, derivative transactions are concluded with renowned banks that have a good financial standing. In addition, Framework Agreements or ISDA master agreements, which regulate the principles of cooperation and define threshold values, have been concluded with all cooperating banks.

As a result of all these activities the Group does not anticipate any significant credit risk related losses.

## ***Market risk***

Market risk is defined as the probability of the unfavorable effect of changes on financial and commodity markets on the economic value or profit/loss of a business.
The core task in the market risk management process involves the identification, measurement, monitoring and mitigation of basic risk sources including:

- currency risk;
- interest rate risk;
- commodity (gas, crude oil) risk.

### *Currency risk*

Currency risk is defined as the probability of the unfavorable effect of FX fluctuations on a company's profit/loss.
In 2008, the Group took no significant loans denominated in foreign currencies.
Trade liabilities due to long-term gas fuel purchase contracts are denominated in USD and EUR.
The Group's exposure to currency risk is significant and is presented in the "Sensitivity analysis".
The key objective of the Parent's currency risk hedging activities is to protect it against exchange rate fluctuations inherent to foreign currency payments for gaseous fuel. The Company hedges its liabilities primarily using forwards and option-based strategies.

### *Interest rate risk*

Interest rate risk is defined as the probability of the unfavorable effect of interest rate fluctuations on a company's profit/loss.

Interest rate risk resulting from originated loans and received loan facilities was insignificant and the Capital Group did not hedge this risk.
In December 2008, the Parent took a loan facility, and as at 31 December 2008, its applied amount was PLN 760 million. The loan is based on WIBOR 1M plus 0.2% markup variable rate. The interest rate risk related to this loan is very small and as such, not collateralized. Interest rate risk resulting from originated loans and received loan facilities was insignificant and the Capital Group did not hedge this risk.
The Parent measures market (currency and interest rate) risk by monitoring VAR on a daily basis. VAR (Value At Risk) means that the maximum loss due to change of the market (fair) value of given probability (e.g. 99%) will not exceed the value in the period of n working days. VAR is estimated based on the variance – covariance method using the Mondrian application.

*Commodity risk*

Commodity risk is defined as the probability of the unfavorable effect of commodity price fluctuations on a company's profit/loss.
The Group's exposure to commodity risk associated mainly with gaseous fuel delivery contracts is substantial. Fluctuations in the prices of crude oil products on fuel markets are the main risk factor. In certain contracts the formula for calculating the purchase price of gas fuel limits the volatility of prices by using weighted average prices from previous months. Additionally the energy law enables entities to apply for the amendment of the tariff, if the gas purchase cost increases by more than 5% during one quarter.
In 2008, the Parent did not identify in detail and hedge this risk.
As at 31 December 2008 the Group held a financial instruments in the form of 4,000,001 shares of Zakłady Azotowe w Tarnowie-Mościcach S.A. listed on the Warsaw Stock Exchange, and exposed to price fluctuation risk. Since the Company treats the investment as a long-term one, and there is no appropriate instrument available on the market to hedge the company share prices, the Company did not hedge from the risk. The change of the instrument value, recognized directly in equity, is presented in Note 35.2.

*Liquidity risk.*

The key objective of the liquidity risk management process is the ongoing control and planning of liquidity. The liquidity level is controlled through the preparation of cash flows projections that cover a period of at least 12 months and are regularly updated every month. The realization of planned cash flows is verified on a regular basis and includes among others an analysis of unrealized cash flows, their causes and effects. Liquidity risk related threats should not be associated only with the loss of the Company's liquidity. Structural excessive liquidity, which negatively impacts the profitability of a company, is another significant threat.
The Capital Group controls and plans its financial liquidity level on an ongoing basis. As at 31 December 2008, the Group had agreements for loan facilities totaling to PLN 2,895,455 thousand (PLN 3,595,301 thousand in 2007) in order to hedge liquidity risk. Relevant details have been presented in note 27.1.
As at 31 December 2008, the Parent applied the amount of PLN 760 million from the loan facility of EUR 600 million. Other Capital Group companies applied their loan facilities in 2008 on a level slightly higher than as at the end of 2007.

In order to avoid excessive liquidity, the Capital Group invests cash surpluses mostly in profitable securities issued by the State Treasury and deposits in renowned banks.
The liquidity risk was significantly mitigated by the Management Board of the Parent approving the "Liquidity Management Procedure for PGNiG S.A." on 4 July 2007. The procedure was implemented in all organizational units and regulated activities that ensure proper liquidity management through: payments, cash flow projections, optimized free cash management, obtaining and restructuring funds for current business activities and investments, hedging the risk of temporary liquidity loss due to unexpected disruptions and servicing of concluded loan agreements.

The liquidity risk is measured based on ongoing detailed cash flow control, which takes into account probable cash flow dates and the planned net cash position.
The tables below present the analysis of financial liabilities by maturity.

(in PLN'000)

**Analysis of financial liabilities measured at amortized cost, by maturity.**

| 31 December 2008 | Loan liabilities | Finance lease liabilities | Trade liabilities | Total expenditure |
|---|---|---|---|---|
| up to 1 year | 843 996 | 30 127 | 3 222 540 | 4 096 663 |
| from 1 year 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** |

| 31 December 2007 | Loan liabilities | Finance lease liabilities | Trade liabilities | Total expenditure |
|---|---|---|---|---|
| up to 1 year | 73 414 | 35 494 | 2 407 981 | 2 516 889 |
| from 1 year to 5 years | - | 32 732 | 17 654 | 50 386 |
| over 5 years | - | 6 | 4 005 | 4 011 |
| **Total** | **73 414** | **68 232** | **2 429 640** | **2 571 286** |

In the current and comparative period the Group settled its loan liabilities on a timely basis. No contractual provisions which might lead to shortening of the repayment period were breached.

**Analysis of derivatives by maturity.**

| | **carrying amount as at 31 Decembe r 2008*** | **contractual cash flows, including:** | **up to 1 year** | **from 1 year to 5 years** | **over 5 years** |
|---|---|---|---|---|---|
| *- Interest Rate Swaps and forwards used for risk hedging purposes* | 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) | - |
| *- FX options*** | 122 166 | - | - | - | - |
| - inflows | - | - | - | - | - |
| - outflows | - | - | - | - | - |
| *- option premiums paid* | 32 770 | - | - | - | - |
| **Total** | **157 463** | **68 633** | **9 961** | **58 672** | **-** |

(in PLN'000)

| | carrying amount as at 31 December 2007* | contractual cash flows, including: | up to 1 year | from 1 year to 5 years | over 5 years |
|---|---|---|---|---|---|
| *- Interest Rate Swaps and forwards used for risk hedging purposes* | 12 733 | 62 850 | 61 278 | 1 572 | - |
| - inflows | - | 1 042 967 | 61 278 | 981 689 | - |
| - outflows | - | (980 117) | - | (980 117) | - |
| *- FX options*** | (32 537) | - | - | - | - |
| - inflows | - | - | - | - | - |
| - outflows | - | - | - | - | - |
| *- option premiums paid* | 1 061 | - | - | - | - |
| **Total** | **(18 743)** | **62 850** | **61 278** | **1 572** | **-** |

* Carrying value (positive measurement of assets minus negative measurement of assets) shows the fair value, i.e. swap transaction payments are discounted, whereas cash flows are left undiscounted.

** As regards FX options, due to their option character (cash flows are conditional upon FX rates at the time of option realization on the market), cash flows have not been presented.

No material risks were identified in the daily business operations of the Capital Group.

***Risk Management Policy***

In order to effectively manage financial risk, on 17 February 2003 the Parent's Management Board approved the "Financial Risk Management Policy for PGNiG S.A.", which defines the competencies and tasks assigned to individual organizational units in the process of financial risk management and control.
The Management Board is responsible for the Parent's financial risk management and compliance with the adopted policy, whereas risk management related duties are vested with individual organizational units.

The following units are responsible for compliance with the "Financial Risk Management Policy for PGNiG S.A." and its periodic revision:

1. the Risk Committee, which presents proposed principles, conducts an ongoing assessment of the adequacy of the risk policy and implements necessary modifications;
2. the Management Board, which formally approves the policy.

***Sensitivity analysis***

In order to determine a rational scope of swaps on individual currency risk factors, the Company used the (implied) market volatility for the period of six months and assumed the average ratio of 30% for sensitivity analysis as at the end of 2008 (for 2007, the assumed volatility ratio was 10%). The six-month period corresponds to frequency of disclosures regarding sensitivity of financial instruments in financial statements of the Company.

When conducting the analysis of sensitivity to currency risk as at 30 June 2008, one can observe that the net profit would have been lower by PLN 271.51 million had the exchange rate of EUR, USD and NOK as well as other currencies increased by 30% compared to PLN with all other variables remaining flat (profit decrease of PLN 296.53 million resulting from NOK appreciation and PLN 5.65 million due to the appreciation of USD, as well as by PLN 0.28 million due to appreciation of the other currencies with a simultaneous increase of PLN 30.94 million due to appreciation of EUR).
Decrease in the positive and increase in the negative measurement of CCIRS derivatives hedging a loan granted to PGNiG Norway AS (eliminated from the consolidated financial statements) has a key impact on the sensitivity analysis.
Had the loan been recognized in the balance sheet (as in the individual financial statements), the cash flows resulting from the loan and the hedging transactions would have been netted off, hence the changes in the positive (negative) measurement of the loan would have been netted off with

negative (positive) changes in CCIRS measurement. Together the items would not be sensitive to FX rate and interest rate fluctuations.
The lower profit would result primarily from an increase in the negative portion of the fair value of financial derivatives (negative fair value of swap transactions).
The negative impact on the result on financial instruments denominated in NOK would be partially reduced by an increase in the positive portion of the fair value of financial derivatives in USD and EUR as well as measurement of assets denominated in such currencies. As a result of a 30% rate increase, the positive portion of the fair value of financial derivatives in USD and EUR would increase, as well as exchange losses on trade liabilities denominated in these currencies.
The net profit as at 31 December 2008 would have been PLN 419.73 million higher had the exchange rate of EUR, USD, NOK dropped by 30% compared to PLN with all other variables remaining flat (PLN 316.93 million increase due to NOK depreciation and by PLN 111.96 million due to USD depreciation, with a simultaneous decrease of PLN 9.433 million due to EUR depreciation, and an increase of PLN 0.28 due to the depreciation of the other currencies). The positive result would result primarily from an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions denominated in NOK). The positive result would be considerably reduced by a decrease in the positive portion of the fair value of financial derivatives in USD, hedging liabilities and expenditure arising from gas fuel purchases.

When conducting the analysis of sensitivity to currency risk as at 31 December 2007, one can observe that the net profit would have been lower by PLN 46.85 million had the exchange rate of EUR, USD and NOK as well as other currencies increased by 10% compared to PLN with all other variables remaining flat (profit decrease of PLN 69.70 million resulting from NOK appreciation accompanied with an increase of PLN 20.65 million due to the appreciation of USD, as well as by PLN 2.14 million due to appreciation of EUR and of PLN 0.05 million due to appreciation of other currencies).
Positive and negative measurement of CCIRS derivatives hedging a loan granted to PGNiG Norway AS (eliminated from the consolidated financial statements) has a key impact on the sensitivity analysis.
Had the loan been recognized in the balance sheet (as in the individual financial statements), the cash flows resulting from the loan and the hedging transactions would have been netted off, hence the changes in the positive (negative) measurement of the loan would have been netted off with negative (positive) changes in CCIRS measurement. Together the items would not be sensitive to FX rate and interest rate fluctuations.
The lower profit would result primarily from an increase in the negative portion of the fair value of financial derivatives (negative fair value of swap transactions).
The negative impact on the result on financial instruments denominated in NOK would be partially reduced by an increase in the positive portion of the fair value of financial derivatives in USD and EUR as well as measurement of assets denominated in such currencies. As a result of a 10% rate increase, the negative portion of the fair value of financial derivatives in USD and EUR would decrease, whereas exchange losses on trade liabilities denominated in these currencies would increase.
The net profit as at 31 December 2007 would have been PLN 15.00 million higher had the exchange rate of EUR, USD, NOK and the other currencies dropped by 10% compared to PLN with all other variables remaining flat (PLN 69.70 million increase due to NOK depreciation with a simultaneous decrease of PLN 51.33 million due to USD depreciation, a decrease of PLN 3.31 million due to EUR depreciation and a decrease of PLN 0.05 due to the depreciation of the other currencies). The positive result would result primarily from an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions denominated in NOK). The positive result would be considerably reduced by an increase in the negative portion of the fair value of financial derivatives in USD, hedging the liabilities and expenditure due to gaseous fuel purchases.

Presented below are details of the analysis of sensitivity of the Group's financial instruments denominated in foreign currencies to FX rate fluctuations, for 2008 and 2007, respectively.

(in PLN'000)

## Analysis of sensitivity of the financial instruments denominated in foreign currencies to FX rate fluctuations

| | **Carrying amount as at 31 December 2008** | **Currency risk** | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *FX rate change by:* | *30%* | | | | *-30%* | | | |
| | | *for EUR* | *for USD* | *for NOK* | *for the other currencies* | *for EUR* | *for USD* | *for NOK* | *for the 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 assets | 174 186 | 63 474 | 251 441 | (7 489) | - | (36 921) | (113 871) | 368 753 | - |
| Cash and bank balances | 92 830 | 10 826 | 4 602 | 7 302 | 5 119 | (10 826) | (4 602) | (7 302) | (5 119) |
| **Impact on financial assets before tax** | | **79 890** | **281 061** | **251** | **11 329** | **(53 337)** | **(143 491)** | **361 013** | **(11 329)** |
| 19% tax | | (15 179) | (53 402) | (48) | (2 152) | 10 134 | 27 263 | (68 592) | 2 152 |
| **Impact 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 leases) | 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 due to derivative financial instruments | 16 723 | - | - | 341 033 | - | - | 6 322 | (4 962) | - |
| **Impact on financial liabilities before tax** | | **41 692** | **288 031** | **366 334** | **11 671** | **(41 692)** | **(281 709)** | **(30 263)** | **(11 671)** |
| 19% tax | - | (7 922) | (54 726) | (69 603) | (2 218) | 7 922 | 53 525 | 5 750 | 2 218 |
| **Impact 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 changes:*** | | | | | | | | | |
| EUR/PLN exchange rate | 3.3542 | 3.6896 | 3.3542 | 3.3542 | 3.3542 | 3.0188 | 3.3542 | 3.3542 | 3.3542 |
| USD/PLN exchange rate | 2.1194 | 2.1194 | 2.3313 | 2.1194 | 2.1194 | 2.1194 | 1.9075 | 2.1194 | 2.1194 |
| NOK/PLN exchange rate | 0.4197 | 0.4197 | 0.4197 | 0.4617 | 0.4197 | 0.4197 | 0.4197 | 0.3777 | 0.4197 |

(in PLN'000)

| | Carrying amount as at 31 December 2007 | Currency risk | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *FX rate change by:* | *10%* | | | | *-10%* | | | |
| | | *for EUR* | *for USD* | *for NOK* | *for the other currencies* | *for EUR* | *for USD* | *for NOK* | *for the other currencies* |
| **Financial assets** | | | | | | | | | |
| Financial assets available for sale | 9 029 | 36 | 867 | - | - | (36) | (867) | - | - |
| Other financial assets | - | - | - | - | - | - | - | - | - |
| Trade and other receivables | 165 545 | 1 958 | 8 498 | 243 | 5 855 | (1 958) | (8 498) | (243) | (5 855) |
| Financial assets held for trading | - | - | - | - | - | - | - | - | - |
| Derivative assets | 17 442 | 7 989 | 13 776 | (16 093) | - | (59) | (226) | 83 797 | - |
| Cash and bank balances | 91 671 | 1 193 | 4 611 | 2 839 | 525 | (1 193) | (4 611) | (2 839) | (525) |
| **Impact on financial assets before tax** | | **11 176** | **27 752** | **(13 011)** | **6 380** | **(3 246)** | **(14 202)** | **80 715** | **(6 380)** |
| 19% tax | | (2 123) | (5 273) | 2 472 | (1 212) | 617 | 2 698 | (15 336) | 1 212 |
| **Impact on financial assets after tax** | | **9 053** | **22 479** | **(10 539)** | **5 168** | **(2 629)** | **(11 504)** | **65 379** | **(5 168)** |
| *total currencies* | | *26 161* | | | | *46 078* | | | |
| **Financial liabilities** | | | | | | | | | |
| Loans, borrowings and debt securities (including finance leases) | 35 765 | - | 1 314 | - | 2 262 | - | (1 314) | - | (2 262) |
| Trade and other payables | 484 279 | 9 609 | 32 126 | 2 632 | 4 061 | (9 609) | (32 126) | (2 632) | (4 061) |
| Liabilities due to derivative financial instruments | 36 185 | (1 086) | (31 188) | 70 406 | - | 10 449 | 82 616 | (2 701) | - |
| **Impact on financial liabilities before tax** | | **8 523** | **2 252** | **73 038** | **6 323** | **840** | **49 176** | **(5 333)** | **(6 323)** |
| 19% tax | - | (1 619) | (428) | (13 877) | (1 201) | (160) | (9 343) | 1 013 | 1 201 |
| **Impact on financial liabilities after tax** | | **6 904** | **1 824** | **59 161** | **5 122** | **680** | **39 833** | **(4 320)** | **(5 122)** |
| *total currencies* | | *73 011* | | | | *31 071* | | | |
| ***Total increase/decrease*** | | 2 149 | 20 655 | (69 700) | 46 | (3 309) | (51 337) | 69 699 | (46) |
| ***total currencies*** | | **(46 850)** | | | | **15 007** | | | |
| ***Exchange rates as at the balance sheet date and their changes:*** | | | | | | | | | |
| EUR/PLN exchange rate | 3.5820 | 3.9402 | 3.5820 | 3.5820 | 3.5820 | 3.2238 | 3.5820 | 3.5820 | 3.5820 |
| USD/PLN exchange rate | 2.4350 | 2.4350 | 2.6785 | 2.4350 | 2.4350 | 2.4350 | 2.1915 | 2.4350 | 2.4350 |
| NOK/PLN exchange rate | 0.4497 | 0.4497 | 0.4497 | 0.4947 | 0.4497 | 0.4497 | 0.4497 | 1.9453 | 0.4497 |

(in PLN'000)

The Company tested sensitivity of financial instruments due to originated loans, borrowings taken and variable lease liabilities to interest rate changes by +/- 300 base points for 2008 (for 2007, the variability was set for +/-100 base points).

As at 31 December 2008, the sensitivity of floating rate loan and lease liabilities to an interest rate change by +/- 300 base points amounted to +/- PLN 27.38 million.

As at 31 December 2007, the sensitivity of floating rate loan and lease liabilities to an interest rate change by +/- 100 base points amounted to +/- PLN 1.38 million.

**Analysis of sensitivity of financial instruments to interest rate changes**

| | *carrying amount* | *change by* | |
|---|---|---|---|
| | *Balance as of 31 December 2008* | **+300 bp** | **-300 bp** |
| **Loans received** | 843 996 | 25 320 | (25 320) |
| **Lease liabilities** | 68 814 | 2 064 | (2 064) |
| **Total** | **912 810** | **27 384** | **(27 384)** |

| | *carrying amount* | *change by* | |
|---|---|---|---|
| | *balance as at 31 December 2007* | **+100 bp** | **-100 bp** |
| **Loans received** | 73 414 | 734 | (734) |
| **Lease liabilities** | 64 687 | 647 | (647) |
| **Total** | **138 101** | **1 381** | **(1 381)** |

As the commodity risk identification is inaccurate, no sensitivity analysis for this type of risk was conducted.

(in PLN'000)

## 36. HEDGING DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

### Derivative valuation methods

In accordance with International Financial Reporting Standards the Parent discloses all derivatives in the financial statements at fair value.

As at 31 December 2008, the Parent held 3 types of derivatives: Currency Basis Swaps, purchased Call options and the so called risk reversal strategies (purchased FX Call options and sold Put options). Measurement to fair value was conducted with the Risk Hedging application, whereas swap measurement was provided by banks being parties to the transactions.

The measurement of Call and Put options to fair value was conducted in line with the Garman-Kohlhagen model based on the following market data: interest rates, FX rates and volatility as at 31 December 2008.

### Hedge accounting

In 2008 the Capital Group did not apply hedge accounting principles. Therefore changes in the fair value of hedged financial instruments and hedging instruments were presented in the income statement for the reporting period.

### Derivatives

| Hedged instrument | Face value in foreign currency | Hedge start date | Maturity date | Instrument realization price or price range | Measurement at the instrument fair value | |
|---|---|---|---|---|---|---|
| | | | | | 31 December 2008 | 31 December 2007 |
| | | | **Call option*** | | | |
| payment for gas | USD 10 million | 25 July 2008 | 9 January 2009 | 2.1900 | 7 738 | - |
| payment for gas | EUR 5 million | 25 July 2008 | 9 January 2009 | 3.3200 | 4 270 | - |
| payment for gas | USD 20 million | 28 July 2008 | 9 January 2009 | 2.3000 | 13 279 | - |
| payment for gas | USD 20 million | 28 July 2008 | 9 January 2009 | 1.9100 | - | - |
| payment for gas | USD 15 million | 28 July 2008 | 9 January 2009 | 2.2000 | 11 457 | - |
| payment for gas | USD 15 million | 29 July 2008 | 9 January 2009 | 2.2200 | 11 158 | - |
| payment for gas | USD 15 million | 29 July 2008 | 20 January 2009 | 2.2200 | 11 197 | - |
| payment for gas | EUR 5 million | 29 July 2008 | 20 January 2009 | 3.3200 | 4 279 | - |
| payment for gas | USD 20 million | 31 July 2008 | 20 January 2009 | 2.3100 | 13 134 | - |
| payment for gas | USD 20 million | 31 July 2008 | 20 January 2009 | 1.9230 | - | - |
| payment for gas | USD 20 million | 31 July 2008 | 20 January 2009 | 2.2300 | 14 729 | - |
| payment for gas | USD 20 million | 1 August 2008 | 9 January 2009 | 2.3350 | 12 579 | - |
| payment for gas | USD 20 million | 1 August 2008 | 9 January 2009 | 1.9300 | - | - |
| payment for gas | EUR 6 million | 17 September 2008 | 9 January 2009 | 3.4500 | 4 345 | - |
| payment for gas | EUR 7 million | 17 September 2008 | 10 February 2009 | 3.4900 | 4 852 | - |
| payment for gas | EUR 8 million | 18 September 2008 | 20 February 2009 | 3.5050 | 5 463 | - |
| payment for gas | EUR 8 million | 19 September 2008 | 10 March 2009 | 3.4600 | 5 848 | - |
| payment for gas | EUR 9 million | 22 September 2008 | 20 March 2009 | 3.4400 | 6 785 | - |
| payment for gas | EUR 3 million | 23 September 2008 | 20 February 2009 | 3.4300 | 2 265 | - |
| payment for gas | USD 20 million | 15 October 2008 | 10 February 2009 | 2.8000 | 4 819 | - |
| payment for gas | USD 10 million | 5 November 2008 | 10 February 2009 | 3.0000 | 1 392 | - |
| payment for gas | USD 15 million | 5 November 2008 | 9 January 2009 | 3.3000 | 114 | - |
| payment for gas | USD 15 million | 5 November 2008 | 9 January 2009 | 2.4705 | - | - |
| payment for gas | USD 10 million | 13 November 2008 | 10 February 2009 | 3.4000 | 506 | - |
| payment for gas | USD 10 million | 13 November 2008 | 20 January 2009 | 3.3800 | 193 | - |
| payment for gas | USD 10 million | 14 November 2008 | 10 February 2009 | 3.3000 | 639 | - |
| payment for gas | USD 10 million | 14 November 2008 | 10 February 2009 | 3.3000 | 639 | - |
| payment for gas | USD 10 million | 17 November 2008 | 20 January 2009 | 3.3000 | 264 | - |
| payment for gas | USD 10 million | 17 November 2008 | 10 February 2009 | 3.3800 | 530 | - |
| payment for gas | USD 10 million | 24 November 2008 | 20 February 2009 | 3.4500 | 597 | - |
| payment for gas | USD 10 million | 24 November 2008 | 20 February 2009 | 3.4500 | 597 | - |
| payment for gas | USD 10 million | 25 November 2008 | 10 March 2009 | 3.4500 | 762 | - |
| payment for gas | USD 10 million | 25 November 2008 | 10 March 2009 | 3.4500 | 762 | - |
| payment for gas | USD 10 million | 25 November 2008 | 20 February 2009 | 3.4200 | 633 | - |
| payment for gas | USD 10 million | 26 November 2008 | 10 March 2009 | 3.4000 | 832 | - |
| payment for gas | USD 10 million | 27 November 2008 | 10 March 2009 | 3.3300 | 944 | - |
| payment for gas | USD 10 million | 28 November 2008 | 20 March 2009 | 3.4000 | 945 | - |
| payment for gas | USD 10 million | 8 December 2008 | 10 March 2009 | 3.4000 | 832 | - |
| payment for gas | USD 10 million | 8 December 2008 | 10 March 2009 | 3.4000 | 832 | - |
| payment for gas | USD 10 million | 8 December 2008 | 20 February 2009 | 3.3800 | 686 | - |
| payment for gas | USD 10 million | 9 December 2008 | 20 February 2009 | 3.4000 | 659 | - |
| payment for gas | USD 10 million | 9 December 2008 | 20 February 2009 | 3.4000 | 659 | - |
| payment for gas | USD 10 million | 12 December 2008 | 10 March 2009 | 3.4000 | 832 | - |
| payment for gas | USD 10 million | 15 December 2008 | 20 March 2009 | 3.4000 | 945 | - |
| payment for gas | USD 10 million | 15 December 2008 | 20 March 2009 | 3.4000 | 945 | |
| payment for gas | EUR 5 million | 10 August 2007 | 10 January 2008 | 3.8400 | - | 200 |
| payment for gas | EUR 5 million | 23 October 2007 | 10 March 2008 | 3.6800 | - | 317 |
| payment for gas | USD 10 million | 20 November 2007 | 18 April 2008 | 2.5800 | - | 419 |
| payment for gas | USD 10 million | 26 November 2007 | 18 April 2008 | 2.5700 | - | 413 |

(in PLN'000)

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | **154 936** | **1 349** |
| | | | **Collar** | | | |
| payment for gas | USD 10 million | 19 July 2007 | 10 January 2008 | 2.8600-2.6195 | - | (1 840) |
| payment for gas | USD 10 million | 19 July 2007 | 10 January 2008 | 2.8600-2.6185 | - | (1 830) |
| payment for gas | USD 10 million | 28 August 2007 | 10 January 2008 | 3.0000-2.6750 | - | (2 394) |
| payment for gas | USD 10 million | 7 September 2007 | 18 January 2008 | 2.9900-2.6550 | - | (2 187) |
| payment for gas | USD 10 million | 7 September 2007 | 8 February 2008 | 2.9900-2.6550 | - | (2 171) |
| payment for gas | USD 10 million | 7 September 2007 | 10 March 2008 | 2.9900-2.6490 | - | (2 105) |
| payment for gas | USD 10 million | 10 September 2007 | 18 January 2008 | 2.9900-2.6000 | - | (1 639) |
| payment for gas | USD 10 million | 11 September 2007 | 8 February 2008 | 2.9900-2.5945 | - | (1 581) |
| payment for gas | USD 10 million | 11 September 2007 | 10 March 2008 | 2.9900-2.5890 | - | (1 542) |
| payment for gas | USD 10 million | 12 September 2007 | 8 February 2008 | 2.9500-2.5815 | - | (1 456) |
| payment for gas | USD 10 million | 13 September 2007 | 8 February 2008 | 2.9500-2.5680 | - | (1 329) |
| payment for gas | USD 10 million | 13 September 2007 | 18 January 2008 | 2.9500-2.5690 | - | (1 332) |
| payment for gas | USD 10 million | 19 September 2007 | 10 March 2008 | 2.9000-2.5680 | - | (1 352) |
| payment for gas | USD 10 million | 20 September 2007 | 10 March 2008 | 2.8700-2.5690 | - | (1 360) |
| payment for gas | USD 10 million | 20 September 2007 | 18 January 2008 | 2.8700-2.5665 | - | (1 307) |
| payment for gas | USD 10 million | 2 October 2007 | 10 January 2008 | 2.8000-2.5599 | - | (1 244) |
| payment for gas | USD 10 million | 2 October 2007 | 20 February 2008 | 2.8000-2.5500 | - | (1 175) |
| payment for gas | EUR 5 million | 2 October 2007 | 8 February 2008 | 3.8700-3.7070 | - | (621) |
| payment for gas | USD 10 million | 10 October 2007 | 20 March 2008 | 2.8300-2.5300 | - | (1 035) |
| payment for gas | USD 10 million | 10 October 2007 | 20 March 2008 | 2.8300-2.5300 | - | (1 035) |
| payment for gas | USD 10 million | 23 October 2007 | 10 January 2008 | 2.7000-2.4755 | - | (433) |
| payment for gas | USD 10 million | 24 October 2007 | 20 February 2008 | 2.7500-2.4350 | - | (312) |
| payment for gas | USD 10 million | 5 November 2007 | 10 April 2008 | 2.7500-2.3705 | - | (171) |
| payment for gas | USD 10 million | 5 November 2007 | 20 February 2008 | 2.7500-2.3760 | - | (105) |
| payment for gas | USD 10 million | 6 November 2007 | 10 April 2008 | 2.7500-2.3380 | - | (102) |
| payment for gas | USD 10 million | 7 November 2007 | 20 February 2008 | 2.7500-2.2700 | - | (6) |
| payment for gas | USD 10 million | 9 November 2007 | 20 March 2008 | 2.7500-2.2765 | - | (21) |
| payment for gas | USD 10 million | 12 November 2007 | 10 April 2008 | 2.7500-2.3350 | - | (97) |
| payment for gas | USD 10 million | 12 November 2007 | 10 April 2008 | 2.7500-2.3400 | - | (106) |
| payment for gas | USD 10 million | 20 November 2007 | 9 May 2008 | 2.7700-2.3100 | - | (82) |
| payment for gas | USD 10 million | 28 November 2007 | 20 May 2008 | 2.7400-2.3100 | - | (79) |
| payment for gas | EUR 5 million | 28 November 2007 | 25 January 2008 | 3.7800-3.5630 | - | (69) |
| payment for gas | EUR 5 million | 29 November 2007 | 10 April 2008 | 3.7600-3.5830 | - | (167) |
| payment for gas | USD 10 million | 29 November 2007 | 18 January 2008 | 2.6500-2.3510 | - | (9) |
| payment for gas | EUR 5 million | 30 November 2007 | 22 February 2008 | 3.7400-3.5700 | - | (110) |
| payment for gas | USD 10 million | 30 November 2007 | 20 February 2008 | 2.7400-2.2850 | - | (10) |
| payment for gas | USD 10 million | 30 November 2007 | 20 March 2008 | 2.7400-2.2750 | - | (19) |
| payment for gas | EUR 5 million | 30 November 2007 | 25 March 2008 | 3.7500-3.5470 | - | (84) |
| payment for gas | USD 10 million | 30 November 2007 | 18 April 2008 | 2.7400-2.2730 | - | (28) |
| payment for gas | USD 10 million | 5 December 2007 | 9 May 2008 | 2.7300-2.2740 | - | (30) |
| payment for gas | EUR 5 million | 5 December 2007 | 9 May 2008 | 3.7500-3.5090 | - | (35) |
| payment for gas | USD 10 million | 7 December 2007 | 18 January 2008 | 2.6300-2.3100 | - | (1) |
| payment for gas | USD 10 million | 7 December 2007 | 20 February 2008 | 2.6600-2.3075 | - | (15) |
| payment for gas | USD 10 million | 7 December 2007 | 20 February 2008 | 2.6600-2.2860 | - | (5) |
| payment for gas | USD 10 million | 10 December 2007 | 18 January 2008 | 2.6400-2.3275 | - | (3) |
| payment for gas | USD 10 million | 10 December 2007 | 8 February 2008 | 2.6300-2.3050 | - | (5) |
| payment for gas | USD 10 million | 10 December 2007 | 18 April 2008 | 2.6500-2.3000 | - | (19) |
| payment for gas | EUR 5 million | 10 December 2007 | 18 April 2008 | 3.7600-3.4600 | - | (1) |
| payment for gas | USD 10 million | 11 December 2007 | 20 February 2008 | 2.6400-2.2930 | - | (4) |
| payment for gas | USD 10 million | 11 December 2007 | 20 May 2008 | 2.6600-2.2940 | - | (17) |
| payment for gas | USD 10 million | 11 December 2007 | 20 May 2008 | 2.6600-2.2980 | - | (22) |
| payment for gas | USD 10 million | 13 December 2007 | 9 May 2008 | 2.6600-2.2980 | - | (22) |
| payment for gas | USD 10 million | 13 December 2007 | 18 January 2008 | 2.6400-2.2990 | - | - |
| payment for gas | USD 10 million | 28 December 2007 | 10 April 2008 | 2.7000-2.2910 | - | (30) |
| payment for gas | USD 10 million | 28 December 2007 | 10 March 2008 | 2.7200-2.2980 | - | (26) |
| payment for gas | USD 10 million | 28 December 2007 | 9 May 2008 | 2.7100-2.2960 | - | (46) |
| | | | | | **-** | **(32 826)** |

(in PLN'000)

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | **Forward** | | | |
| Investment purchase | USD 1,54 million | | 5 May 2008 | 2.7495 | - | (484) |
| Investment purchase | USD 0.56 million | | 1 April 2008 | 2.7450 | - | (174) |
| | | | | | **-** | **(658)** |
| | | | **Cross Currency Interest Rate Swap** | | | |
| PGNiG Norway loan | NOK 300 million | 8 November 2007 | 17 January 2011 | 0.4686 | 3 430 | 4 605 |
| PGNiG Norway loan | NOK 300 million | 12 November 2007 | 17 January 2011 | 0.4627 | (1) | 4 833 |
| PGNiG Norway loan | NOK 300 million | 15 November 2007 | 17 January 2011 | 0.4596 | 1 645 | 2 522 |
| PGNiG Norway loan | NOK 300 million | 19 November 2007 | 17 January 2011 | 0.4534 | (2 954) | 1 868 |
| PGNiG Norway loan | NOK 300 million | 22 November 2007 | 17 January 2011 | 0.4588 | 1 388 | 2 265 |
| PGNiG Norway loan | NOK 300 million | 30 November 2007 | 17 January 2011 | 0.4461 | (1 682) | (2 701) |
| PGNiG Norway loan | NOK 300 million | 18 January 2008 | 17 January 2011 | 0.4530 | 1 026 | - |
| PGNiG Norway loan | NOK 300 million | 18 January 2008 | 17 January 2011 | 0.4530 | (325) | - |
| | | | | | **2 527** | **13 392** |
| Total | | | | | **157 463** | **(18 743)** |
| | including: | premiums on options* | assets | | **32 770** | **1 061** |
| | | positive measurement | assets | | **141 416** | **16 381** |
| | | negative measurement* | liabilities | | **(16 723)** | **(36 185)** |

* The portion of the premium related to derivatives with negative measurement is presented in assets.

Positive measurement of derivatives as at the period end is presented in the balance sheet in a separate current assets item. Negative measurement of derivatives is presented in the balance sheet in a separate current liabilities item. Effects of measurement of open items are recognized in profit/loss of the period. Upon realization of a derivative, the difference between the last measurement and the current realized value is recognized in the profit/loss of the period.

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Profit/loss on measurement of derivatives - unrealized | 143 839 | 30 199 |
| Profit/loss on derivatives - realized | 216 612 | (158 611) |
| **Total profit/loss on derivatives recognized in the income statement** | **360 451** | **(128 412)** |

(in PLN'000)

## 37. CONTINGENT LIABILITIES

### 37.1. Contingent liabilities arising from granted sureties and guarantees

| Borrower | Contingent liability granted in foreign currency | Currency of the contingent liability | Contingent liability * granted in PLN | Contingent liability expiry date | Type of contingent liability granted |
|---|---|---|---|---|---|
| **Contingent liabilities granted by PGNiG S.A.** | | | | | |
| PGNiG Norway AS | 627 556 | EUR | 2 618 413 | 1 January 2050 | guarantee |
| EUROPOL GAZ S.A. | 56 000 | PLN | 56 000 | 30 September 2012 | loan surety |
| Polish Oil and Gas Company - Libya B.V. | 108 000 | USD | 319 874 | 1 June 2013 | guarantee |
| Other (each below 500 k PLN) | 406 | EUR | 1 692 | 28 February 2010 | bank guarantee |
| **Contingent liabilities granted by Gas Companies** | | | | | |
| Contingent liabilities granted by Gas Companies | 1 250 000 | EUR | 5 215 500 | 27 January 2012 | repayment guarantee |
| **Contingent liabilities granted by Geofizyka Kraków Sp. z o.o.** | | | | | |
| Pakistani Customs Office | 800 | USD | 237 | 31 December 2009 | customs guarantee |
| Oil India Company LTD | 2 363 | USD | 6 998 | 31 August 2009 | performance bond |
| Oil India Limited Libya | 664 | EUR | 2 771 | 23 March 2010 | performance bond |
| Oil India Limited Libya | 1 000 | USD | 2 962 | 27 January 2009 | tender bond |
| Oil & Gas Development Company Pakistan | 1 470 | USD | 4 353 | 28 April 2009 | performance bond |
| Meezan Bank Limited | 100 | USD | 296 | 31 January 2009 | performance bond |
| Komercni Banka a.s. | 5 000 | CZK | 783 | 31 March 2009 | bank guarantee |
| **Contingent liabilities granted by Geofizyka Toruń Sp. z o.o.** | | | | | |
| Oil India | 1 386 | USD | 4 104 | 15 November 2010 | bank guarantee |
| CAIRN | 1 194 | USD | 3 536 | 11 November 2010 | bank guarantee |
| Cairn | 1 240 | USD | 3 673 | 8 February 2010 | bank guarantee |
| Oil India | 1 801 | USD | 5 334 | 15 September 2009 | bank guarantee |
| RIL | 640 | USD | 1 896 | 30 December 2009 | bank guarantee |
| ADANI | 1 259 | USD | 3 730 | 25 July 2010 | bank guarantee |
| Jubilant | 354 | USD | 1 048 | 5 October 2009 | bank guarantee |
| Oil India | 658 | USD | 1 948 | 17 December 2010 | bank guarantee |
| Comissioner | 2 223 | INR | 136 | 10 February 2009 | bank guarantee |
| ADANI | 650 | USD | 1 925 | 30 July 2009 | bank guarantee |
| GSPC | 1 156 | USD | 3 422 | 18 December 2009 | bank guarantee |
| GSPC | 1 974 | USD | 5 847 | 2 November 2009 | bank guarantee |
| Other (each below 500 k PLN) | 370 | USD | 1 095 | 2009-2010 | bank guarantee |
| Other (each below 500 k PLN) | 33 | PLN | 33 | 2009 | bank guarantee |
| **Contingent liabilities granted by PNiG Jasło Sp. z o.o.** | | | | | |
| PeBeKa S.A. | 987 | PLN | 987 | 4 December 2009 | performance bond |

(in PLN'000)

| | | | | | |
|---|---|---|---|---|---|
| RWE DEA GmbH | 550 | EUR | 2 295 | 17 April 2009 | performance bond |
| **Contingent liabilities granted by BUG Gazobudowa Zabrze Sp. z o.o.** | | | | | |
| GAZ-SYSTEM S.A. Warsaw | 388 | PLN | 388 | 30 May 2012 | performance bond |
| IMP Promont Montaza Lubljana | 128 | EUR | 533 | 8 March 2013 | performance bond |
| Hydrobudowa Polska SA Przeźmierowo | 2 298 | PLN | 2 298 | 31 December 2010 | performance bond |
| GAZ-SYSTEM Branch in Gdańsk | 655 | PLN | 655 | 30 December 2012 | performance bond |
| **Contingent liabilities granted by Naftomontaż Krosno Sp. z o.o.** | | | | | |
| MICROTECH Ltd SA Wrocław | 112 | PLN | 112 | 18 December 2009 | bill-of-exchange endorsement |
| **Contingent liabilities granted by Diament Sp. z o.o.** | | | | | |
| GS Engineering&Construktion | 535 | PLN | 535 | 14 February 2010 | performance bond |
| Other (each below 500 k PLN) | 1 234 | PLN | 1 234 | 2009-2011 | performance bond |
| | | | **8 276 643** | | |

*Contingent liabilities in foreign currency are translated at the NBP exchange rate as at 31 December 2008.

As at 31 December 2008 the agreement concluded by PGNiG S.A and Gas Companies on 22 September 2005, which concerned a guarantee in connection with the Loan Agreement concluded between PGNiG S.A. and a consortium of banks on 27 July 2005, was binding. The aforementioned agreement concerned a joint and several, irrevocable and unconditional guarantee granted by the Companies to Bank Handlowy w Warszawie S.A. (the Loan Agent) of the timely repayment of a loan up to the amount of EUR 1,250,000 thousand within 18 months after the termination date of the agreement for Loan Tranche A, i.e. by 27 January 2012. The Company repaid EUR 600,000 thousand of the term loan and simultaneously secured access to the same amount as part of a revolving loan. The loan is collateralized with guarantees granted by Gas Companies.

(in PLN'000)

The above table does not present bank guarantees issued per Parent's order to beneficiaries whom the Parent owed material liabilities arising from contracts on supplies of goods and services. As of 31 December 2008, such bank guarantees amounted to PLN 754,714, and PLN 1,051,920 as at 31 December 2007.

### 37.2. Contingent bill of exchange liabilities

| Entity for which the bill-of-exchange was issued | Value of the bill-of-exchange granted in currency | Currency of the bill of exchange | Value of the granted bill-of-exchange in PLN | Bill of exchange expiry date |
|---|---|---|---|---|
| **Bills of exchange issued by Geofizyka Kraków Sp. z o.o.** | | | | |
| ECS,BPH Leasing,Sogelege | 2 134 | PLN | 2 134 | 30 September 2012 |
| **Bills of exchange issued by Geofizyka Toruń Sp. z o.o.** | | | | |
| BRE BANK S.A. | 6 000 | PLN | 6 000 | 24 August 2009 |
| Raiffeisen Bank SA | 6 000 | PLN | 6 000 | 29 May 2009 |
| **Bills of exchange issued by PNiG Jasło Sp. z o.o.** | | | | |
| Bank PEKAO S.A. | 5 000 | PLN | 5 000 | 31 January 2009 |
| Bank PEKAO S.A. | 10 000 | PLN | 10 000 | 31 January 2009 |
| Bank PEKAO S.A. | 987 | PLN | 987 | 4 December 2009 |
| ING BANK ŚLĄSKI S.A. | 12 000 | PLN | 12 000 | 27 August 2009 |
| **Bills of exchange issued by Diament Sp. z o.o.** | | | | |
| BRE BANK S.A. | 4 000 | PLN | 4 000 | unlimited |
| **Bills of exchange issued by Wielkopolska Spółka Gazownictwa Sp. z o.o.** | | | | |
| Europejski Fundusz Leasingowy | 190 | PLN | 190 | 15 February 2009 |
| **Bills of exchange issued by Gazobudowa Zabrze Sp. z o.o.** | | | | |
| PKN Orlen | 20 | PLN | 20 | unlimited |
| TU ALLIANZ Polska S.A. Warsaw | 8 000 | PLN | 8 000 | 14 March 2009 |
| ERGO HESTIA Katowice | 1 000 | PLN | 1 000 | unlimited |
| PKN Orlen | 10 | PLN | 10 | unlimited |
| **Bills of exchange issued by Naftomontaż Krosno Sp. z o.o.** | | | | |
| TU InterRisk SA Kielce Branch | 6 382 | PLN | 6 382 | 7 May 2009 |
| Other (each below 500 k PLN) | 1 197 | PLN | 1 197 | 2009-2011 |
| **Bills of exchange issued by Geovita Sp. z o.o.** | | | | |
| PKO BP S.A. | 1 000 | PLN | 1 000 | 31 March 2010 |
| **Total** | | | **63 920** | |

### 37.3. Other contingent liabilities

#### Real property tax

Based on a decision of the Supreme Administrative Court in Warsaw of 2 July 2001 undertaken by 7 judges, excavations were not subject to real property tax. Since in the case of oil and gas production wells are excavations, local authorities from the Zielona Góra Branch's area of operation withdrew from the enforcement of real property tax; however some authorities have decided that well supporting infrastructure is subject to taxation.
Pipeline tax was introduced in 2001. In the previous years, the Zielona Góra Branch created provisions for the claims of the local authorities due to real estate tax in the amount of PLN 821.3 thousand. Following favorable outcome of court cases regarding the claim up to date, PGNiG S.A. re-assessed the risk of related claims and, having considered it low, released the provision in 2007. On the other hand, the local authorities in Podkarpacie have not filed any related claims so far. Therefore, mines located in Podkarpacie did not declare or account for a property tax on excavations for the years 2001-2008. As at the end of 2008, the Company recalculated the liability. The related current liability with interest, not recognized in the balance sheet, amounted to PLN 123,145.6 thousand as at 31 December 2008 (as at the end of 2007, it amounted to PLN 125,495.8 thousand).

#### Real property related claims

Additionally, claims have been lodged against PGNiG S.A. by land owners in relation to the following:

- land via which pipelines are planned to run;
- land where gas pipelines and other facilities have been installed.

Potential liabilities arising from claims concerning real property cannot be quantified due to the fact that such claims are often groundless (which is confirmed by expert opinions).

(in PLN'000)

## 38. OFF-BALANCE SHEET LIABILITIES

### 38.1. Operating lease liabilities

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| up to one year | 18 | 1 952 |
| from 1 to 5 years | 30 | 1 082 |
| over 5 years | - | - |
| **Total** | **48** | **3 034** |

### 38.2. Investment liabilities

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Contractual liabilities | 3 071 099 | 625 761 |
| Stage of contract completion as at the balance sheet date | 302 909 | 320 755 |
| **Contractual liabilities after the balance sheet date** | **2 768 190** | **305 006** |

(in PLN'000)

## 39. RELATED PARTIES

### 39.1. Related party transactions

| Related party | | Sales to related parties | Purchase from related parties | Gross receivables from related parties | Net receivables from related parties | Gross loans granted to related parties | Net loans granted to related parties | Liabilities to related parties |
|---|---|---|---|---|---|---|---|---|
| Associates consolidated using the equity method | 31 December 2008 | 36 001 | 510 515 | 3 840 | 3 840 | 120 526 | - | 7 955 |
| | 31 December 2007 | 50 302 | 96 113 | 2 378 | 2 378 | 131 083 | - | 27 794 |
| Subsidiaries and associates not included in consolidation | 31 December 2008 | 20 882 | 587 794 | 130 270 | 2 859 | 16 343 | - | 134 570 |
| | 31 December 2007 | 21 458 | 215 834 | 134 261 | 5 882 | 12 523 | - | 127 368 |
| **Total related parties** | **31 December 2008** | **56 883** | **1 098 309** | **134 110** | **6 699** | **136 869** | **-** | **142 525** |
| | **31 December 2007** | **71 760** | **311 947** | **136 639** | **8 260** | **143 606** | **-** | **155 162** |

The key transactions with shareholders in 2008 and 2007 included dividend payment presented in details in note 10.

In 2008, the Parent did not conclude any material transactions with related parties on non-arms-length terms.
Documentation of related party transactions developed by the Group complies with Article 9a of the CIT Act. The procedure is applied each time entities of PGNiG Capital Group conclude agreements (including framework agreements), annexes to agreements, place orders (conclude detailed agreements) or make orders based on framework agreements with related parties if the total amount payable/receivable (arising on a single contract with a single contractor) or its PLN equivalent exceeds the amount of EUR 100 thousand in the calendar year for goods transactions and EUR 30 thousand for transactions involving provision of services, selling or providing access to intangible assets. The Group calculates profit and the price of transaction subjects indicated in Article 11 of the CIT Act. i.e. comparable uncontrolled price, re-selling price, cost plus margin and additional transactional profit methods (profit distribution, transactional net margin).

### 39.2. Transactions with entities for which the State Treasury is a shareholder

In 2008 the Parent Entity entered into transactions involving the largest turnover with the following entities for which the State Treasury is a shareholder: Operator Gazociągów Przesyłowych „GAZ-SYSTEM" Sp. z o.o., Polski Koncern Naftowy ORLEN S.A., Rafineria Trzebinia S.A., Zakłady Azotowe ANWIL S.A., Zakłady Azotowe POLICE S.A., Zakłady Azotowe PUŁAWY S.A. Sales to the aforementioned entities in 2008 amounted to PLN 3,019 million, which accounted for 16.4% of the sales revenue (in 2007 PLN 2,634 million and 15.8% respectively). Purchases from the aforementioned entities in 2008 amounted to PLN 1,401 million, which accounted for 7.9% of the operating expense (in 2007 PLN

1,497 million and 9.5% respectively). As at 31 December 2008 the carrying amount of receivables was PLN 1,119 million (in 2007 PLN 2,792 million), whereas liabilities amounted to PLN 84 million (in 2007 PLN 110 million).

(in PLN'000)

### 39.3. Information on remuneration of members of management and supervisory bodies of the Capital Group constituent entities

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Remuneration paid to the management** | **21 015** | **21 854** |
| Parent | 4 641 | 1 780 |
| Subsidiaries | 13 570 | 11 364 |
| Co-subsidiary | 1 929 | 8 130 |
| Associates | 659 | 580 |
| **Remuneration paid to the supervisory bodies** | **7 682** | **9 235** |
| Parent | 312 | 305 |
| Subsidiaries | 3 677 | 3 287 |
| Co-subsidiary | 3 119 | 5 153 |
| Associates | 574 | 490 |
| **Total** | **28 697** | **31 089** |

### 39.4. Loans granted to Members of the Management and Supervisory Boards of the Capital Group constituent entities

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| **Members of the Management Boards** | | |
| Interest rate (%) | 1%-5% | 1%-5% |
| Repayment terms (period) | 3-10 years | 1.5-10 years |
| Value of loans remaining to be repaid | 128 | 110 |
| **Members of the Supervisory Boards** | | |
| Interest rate (%) | 0%-5% | 0%-5% |
| Repayment terms (period) | 1.25-5 years | 1.25-5 years |
| Value of loans remaining to be repaid | 8 | 17 |
| **Total value of loans remaining to be repaid** | **136** | **127** |

(in PLN'000)

### 39.5. Remuneration paid to Members of the Parent's Management and Supervisory Board

| | Period covered : 01 January 2008 to 31 December 2008 | | |
|---|---|---|---|
| Full name | Total compensation. additional benefits and bonuses paid in 2008 | Total remuneration due to duties performed in subsidiaries paid in 2008 | **Total remuneration paid in 2008** |
| **Management Board in total, including:** | **4 641.25** | **2 716,97** | **7 358,22** |
| Michał Szubski - Chairman of the Management Board | 211.37 | 240,04 | **451,41** |
| Mirosław Dobrut – Vice Chairman of the Management Board | 184.80 | 82,39 | **267,19** |
| Radosław Dudziński – Vice Chairman of Management Board | 189.35 | 203,00 | **392,35** |
| Sławomir Hinc – Vice Chairman of the Management Board | 184.12 | 218,33 | **402,45** |
| Mirosław Szkałuba – Vice Chairman of the Management Board | 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** |
| **Management Board members in 2008 not performing duties as at 31 December 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 Supervisory Board, 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** |
| **Supervisory Board members in 2008 not performing duties as at 31 December 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** |

(in PLN'000)

| Full name | Period covered : 01 January 2007 to 31 December 2007 | | |
|---|---|---|---|
| | Total compensation. additional benefits and bonuses paid in 2007 | Total remuneration due to duties performed in subsidiaries paid in 2007 | **Total remuneration paid in 2007** |
| **Management Board in total, including:** | **1 779.89** | **2 816.67** | **4 596.56** |
| Krzysztof Głogowski – Chairman of the Management Board | 222.74 | 840.75 | **1 063.49** |
| Jan Anysz – Member of the Management Board | 270.31 | 178.21 | **448.52** |
| Zenon Kuchciak – Member of the Management Board | 242.26 | 779.49 | **1 021.75** |
| Stanisław Niedbalec – Member of the Management Board | 251.72 | 377.95 | **629.67** |
| Tadeusz Zwierzyński – Member of the Management Board | 226.04 | 130.28 | **356.32** |
| Bogusław Marzec – Proxy* | 315.06 | 470.38 | **785.44** |
| Ewa Bernacik - Proxy | 251.76 | 39.61 | **291.37** |
| **Total Supervisory Board, including:** | **304.74** | **128.47** | **433.21** |
| Andrzej Rościszewski | 33.86 | - | **33.86** |
| Piotr Szwarc | 33.86 | 56.66 | **90.52** |
| Kazimierz Chrobak | 33.86 | 6.00 | **39.86** |
| Wojciech Arkuszewski | 33.86 | - | **33.86** |
| Mieczysław Kawecki | 33.86 | 31.95 | **65.81** |
| Marcin Moryń | 33.86 | - | **33.86** |
| Mieczysław Puławski | 33.86 | - | **33.86** |
| Szkałuba Mirosław | 33.86 | 33.86 | **67.72** |
| Jarosław Wojtowicz | 33.86 | - | **33.86** |
| **Total** | **2 084.63** | **2 945.14** | **5 029.77** |

### 39.6. Fees paid or payable to the auditing entity for the obligatory audit of the annual consolidated financial statements of the Capital Group and for other services

The consolidated financial statements of the PGNiG Capital Group and the financial statements of PGNiG S.A. for 2008 are audited by Deloitte Audyt Sp. z o.o. The agreement with the auditing entity was entered into for a period of three years (2007-209) on 16 August 2007. The scope of the agreement is as follows:

• audit of the financial statements for 2007, 2008, 2009

• review of the financial statements for Q1 2008, 2009, 2010

• review of the financial statements for the first half of 2007, 2008, 2009

• review of the financial statements for 3 quarters of 2007, 2008, 2009.

The fees paid or payable to the entity authorized to audit the financial statements for 2007-2008 are presented in the table below.

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2008 to 31 December 2008 |
|---|---|---|
| Audit of the annual consolidated financial statements | 155 | 185 |
| Audit of the annual individual financial statements | 175 | 205 |
| Other attestation services, including for the review of the financial statements | 540 | 440 |
| Tax advisory services | - | - |
| Other services | 288 | 26 |
| **Total** | **1 158** | **856** |

### 39.7. Joint ventures not included in consolidation

In 2008, PGNiG S.A. cooperated with the following companies in Poland: FX Energy Poland Sp. z o.o., EuroGas Polska Sp. z o.o., Energia Bieszczady Sp. z o.o.

**FX Energy Poland sp. z o.o., registered office:** Warsaw 00-613, ul. Chałubińskiego 8

In 2008, PGNiG S.A. continued joint work with FX Energy Poland Sp. z o.o. in the following areas:

- "Płotki" (Joint Operations Agreement of 12 May 2000 with subsequent amendments);
- "Płotki – PTZ" (the so called Extended Area of Zaniemyśl, Operating Agreement of Mine Users of 26 October 2005);
- "Poznań" (Joint Operations Agreement of 1 June 2005);
- Block 255 (Joint Operations Agreement of 29 October 1999).

Based on the "Agreement on settlements of natural gas produced from the "Klęka 11 well", the Klęka deposit was exploited. Additionally, reprocessing and reinterpretation of seismic data were continued within the "Płotki" area. Capacity measurements and deposit tests were conducted in the Roszków-1 well drilled in 2007. In 2008, the Roszków natural gas deposit of 0.9 billion cubic meters minable resources was documented.

Reprocessing and interpretation of seismic data was conducted in "Poznań" area in 2008 in order to prepare new sites for drilling in 2008 and subsequent years. In 2008, 2D seismic photographs were taken in Lutynia-Taczanów and 3D ones in Kórnik-Środa Wielkopolska and Żerków-Pleszew region. Drilling of three exploration wells: Grundy-2, Kromolice-1 and Środa Wielkopolska-6 was completed, and work on Kromolice-2 well commenced.

In 2008, the exploration of the Zaniemyśl natural gas deposit within the "Płotki" – "PTZ" area as well as production of natural gas from the Wilga (Block 255) deposit were continued

**EuroGas Polska Sp. z o.o., registered office:** Pszczyna 43-200, ul. Górnośląska 3
**Energia Bieszczady Sp. z o.o., registered office:** Warsaw 00-654, ul. Śniadeckich 17
In 2008, PGNiG S.A., Eurogas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o. conducted study work and geological and geophysical analyses in order to indicate areas places for prospecting and recognition of hydrocarbon beds in the "Bieszczady" area. Additionally, 2D seismic photos of Kostarowce-Zahutyń were taken. The licenses and mining usufruct right related to the prospecting for and recognition of oil and natural gas deposits in the above area belong to the operator, i.e. PGNiG S.A.

None the aforementioned joint ventures were included in consolidation in 2008 and 2007, as all the related assets, liabilities, revenues and expenses were recognized in the balance sheet and income statement of PGNiG S.A. proportionally to its share in the respective joint ventures.

### 39.8. Foreign operations

<u>PGNiG S.A.'s shares in foreign companies</u>

**Ukraine**

**"Dewon" Z.S.A**. is an unlisted joint stock company. It was established on 17 November 1999. The main objective and purpose of the company is to provide crude oil and natural gas production related services, well reconstruction services as well as management and exploration of the Ukrainian deposits.

The share capital of the Company amounts to UAH 11,146.8 thousand, i.e. PLN 5,366.1 thousand (based on the NBP's exchange rate of 31 December 2008) and is divided into 120.0 thousand shares with a face value of UAH 92.89 each. Capital commitment in the company amounts to UAH 4,055.2 thousand, i.e. PLN 1,952.2 thousand (based on the NBP's exchange rate of 31 December 2008).

The 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%

Natural gas production was launched by the Company in November 2003. Gas is produced from the Sakhalin gas condensate deposit in the Krasnokuck Region of the Kharkov Province (East Ukraine). The Company produces hydrocarbons, natural gas and condensate and sells these products on the Ukrainian market.

Exploitation of the Sachalinskoje deposit is included into the joint venture operations based on an agreement concluded between "Dewon" Z.S.A. and NAK "Nadra Ukrainy" (a hydrocarbon production license holder) and PoltavaNaftoGasGeologia. The license held by NAK "Nadra Ukrainy" was granted for two years, and it expires on 24 April 2009.

**Oman**

The share capital of Sahara Petroleum Technology Llc amounts to RO 150.0 thousand (Omani rial), i.e. PLN 1,155.7 thousand (based on the NBP's exchange rate of 31 December 2008) and is divided into 150.0 thousand shares with a face value of RO 1 each. The capital commitment of PGNiG S.A. in the company amounts to RO 73.5 thousand, i.e. PLN 566.3 thousand (based on the NBP's exchange rate of 31 December 2008). The 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, Oman.

The Company was founded by Zakład Robót Górniczych in Krosno (PGNiG S.A. branch until 30 June 2005, presently fully owned by PGNiG S.A.) in 2000. The company's main objective is to provide technical services related to reconditioning and reconstruction of wells, linear technique operations, maintenance of heads of exploration machines as well as light and medium drilling jobs using the technical potential of PGNiG S.A.
The Company has never started the activities for which it was established. Therefore, PGNiG S.A.'s objective is to liquidate the company and withdraw its shares.

**Germany**

On 1 July 2005, in Potsdam PGNiG S.A. and VNG-Verbundez Gas AG signed two incorporation agreements pursuant to German law:

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

Both partners assumed 50% of shares in each of the companies. The share capital of each of the incorporated companies amounts to EUR 200 thousand (i.e. PLN 834.5 thousand at the average exchange rate of the National Bank of Poland as at 31 December 2008). Their registered offices are located in Potsdam. The 50% share of PGNiG S.A. amounted to PLN 417.2 thousand as at the end of 2008.

InterGasTrade GmbH has not been entered into the commercial register.
On 9 August 2005, InterTransGas GmbH was entered into the commercial register in Potsdam. The scope of the company's activities includes the construction, operation and sale of transmission capacity.

InterTransGas GmbH was incorporated to build an interconnector between the Polish and European gas transmission system, which would constitute one of the elements of the diversification of gas supplies to Poland. At present, based on the Shareholders' decision, InterTransGas GmbH operates at minimum cost. When circumstances will enable the construction of a pipeline connecting the Polish and German transmission system, the company will be able to start its core activity defined in its Articles of Association.
In 2007, pursuant to the resolution of the Shareholders Meeting, the registered office of InterTransGas GmbH was moved from Potsdam to Leipzig.
In June 2008, the Shareholders' Meeting passed a resolution on the Shareholders' payment to the reserve capital in the amount of EUR 80 thousand.

**Norway**

On 24 May 2007, PGNiG S.A. formed a subsidiary in Norway – PGNiG Norway AS with registered office in Stavanger, Norway, a limited liability company acting as a special purpose entity for the operations of PGNiG in Norwegian Continental Shelf (NCS). The Company was registered on 9 June 2007.

As at 31 December 2008, capital exposure of PGNiG S.A. to the company amounted to NOK 497,327 thousand, i.e. PLN 210,767 thousand (at the NBP exchange rate of 31 December 2008).

PGNiG Norway enables the Capital Group to achieve the following goals:

- Gas supply diversification;
- Increased gas supply safety;
- International expansion in the oil and gas exploration and production sector;
- Development of international gas fuel trading operations.

PGNiG Norway AS was incorporated in particular to execute an agreement signed on 28 February 2007 between PGNiG S.A., Mobil Development Norway A/S and ExxonMobil Produktion Norway Inc. for the purchase of 15% shares in three concessions for Skarv, Snadd and Idun deposits in Norwegian Continental Shelf (license PL 212, PL 212B, PL 262). In line with the joint venture agreement, PGNiG Norway AS holds the title to 11.9175% (following uniting Skarv and Snadd deposits with Idun deposit on 14 September 2007) of the Skarv/Snadd/Idun production.
In 2008, PGNiG Norway AS continued development work on the deposits. For the purpose of purchasing shares in the fields and further investment, the Parent granted the company with a loan of NOK 3,800,000 thousand. The loan is extended in tranches, with the repayment deadline set for December 2022. In 2008, the Company received a subsequent loan tranche of NOK 688,000 thousand. The balance of loan received by PGNiG Norway AS as at 31 December 2008 was NOK 2,488,000 thousand, i.e. PLN 1,054,414 thousand (at the NBP exchange rate of 31 December 2008).
Polskie Górnictwo Naftowe i Gazownictwo S.A. with registered office in Warsaw is the sole shareholder of PGNiG Norway. The scope of PGNiG Norway's business operations includes in particular crude oil and natural gas production as well as other similar and related operations. PGNiG Norway AS can also take part in infrastructural projects such as the construction and operation of pipelines.

**Netherlands - Libya**

PGNiG Finance B.V. was incorporated on 14 September 2001 for PGNiG S.A. bond issue management (bonds denominated in EUR). PGNiG S.A. is the Company's sole shareholder. Its share capital amounts to EUR 20 thousand, i.e. PLN 83 thousand (at the NBP exchange rate of 31 December 2008).

In January 2008, the Management Board of PGNiG S.A. passed a resolution as regards granting a consent for using PGNiG Finance B.V. for the purpose of conducting exploration and production activities on the territory of Libya. On the same day the Management Board of PGNiG S.A. passed a Resolution regarding a change in the Articles of Association and the Management Board of PGNiG Finance B.V. as well as its opening a Libyan branch.
The change in the company's Articles of Association was registered in the Netherlands on 4 February 2008. The new Articles of Association changed the name of the Company 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. undertook measures resulting in the conclusion of the Exploration and Production Sharing Agreement (EPSA) in February 2008 with a Libyan company operating under the name National Oil Corporation. The Agreement defined the terms and condition for the execution of an exploration and production project in Libya due to winning a tender for a license in area 113 of 5,494 square kilometers, located at the border of theMurzuq and Gadamesh basins near the Algerian border. In line with the tender submitted, the company undertook to carry out prospecting work for the total amount of USD 108,000 thousand including: 3000 square kilometers of $^{2}$D seismics, 1500 square kilometers of 3D seismics and drilling of 8 wells.

In February 2008, PGNiG S.A. issued a guarantee for National Oil Corporation in relation to the fulfillment of POGC – Libya B.V. concession related obligations in the amount of USD 108,000 thousand, i.e. PLN 319,874 thousand (at the NBP exchange rate of 31 December 2008).

(in PLN'000)

In June 2008, PGNiG S.A. granted the Company a loan of USD 20,000 thousand, i.e. PLN 59,236 thousand (at the NBP exchange rate of 31 December 2008). In line with the presented Operations Plan for 2008, the loan is aimed to ensure the fulfillment of concession related obligations during the first year of the Company's operations.

The Group's share in exploration licenses:

*Norwegian Continental Shelf project*

PGNiG S.A. established a subsidiary in Norway – PGNiG Norway AS for the purpose of implementing the Norwegian Continental Shelf (NCS) project. On 30 October 2007, PGNiG Norway AS purchased from Mobil Development Norway A/S and Exxon Mobil Produktion Norway Inc 15% share in three license areas including Skarv and Snadd fields (marked PL 212, PL212B and PL 262). The remaining shares are held by: British Petroleum (Operator) – 30%, StatoilHydro – 30%, E.ON Ruhrgas Norge – 25%. The subsidiary's key business activity involves with exploration and production of oil and natural gas resources in NCS and participation in infrastructure projects related to maritime transmission.

The fields are developed by British Petroleum in cooperation with PGNiG Norway AS, StatoilHydro and E.ON Ruhrgas. Following utilization of Skarv and Snadd deposits with Idun at NCS, shares of each company in the production and prospecting area are as follows:

| | |
|---|---|
| British Petroleum (Operator) | 24% |
| StatoilHydro | 36% |
| E.ON Ruhrgas Norge | 28% |
| PGNiG Norway AS | 12%. |

At present, the production project is in the field development phase. Commencement of production is planned for 2011. The field development project includes 16 wells including seven for oil production, five for gas production and four injection wells (for pumping). In a later stage, the injection wells will be converted to gas exploitation ones for the purpose of full exploitation of the field. The drilling equipment mobilization is planned for 2009.

According to estimates, capital expenditure related to deposit development will amount to approx. USD 5 billion, of which approx. USD 600 million will be incurred by the Group. Capital expenditure incurred by the Group (through a subsidiary of PGNiG S.A.) and disclosed in the Group's balance sheet as at 31 December 2007 amounted to NOK 2,966,985 thousand, i.e. PLN 1,257,408 thousand (according to the NBP's exchange rate applicable on 31 December 2008), whereas the related direct costs recognized in the 2008 income statement amounted to NOK 91,796 thousand, i.e. PLN 39,151 thousand (translated at the average NOK exchange rate constituting the arithmetic mean of average exchange rates defined by the NBP for the last day of each month in the financial year).

*Other foreign exploration*

PGNiG S.A. is conducting exploration work in Pakistan based on the Agreement concluded between PGNiG S.A. and the Pakistani Government on 18 May 2005 as regards hydrocarbon exploration within the Kirthar concession regulated region. Exploration work within the Kirthar block is conducted together with Pakistan Petroleum Ltd., in accordance with the following distribution of shares and expenses: PGNiG S.A. 70% and PPL – 30%. Due to lack of equipment, drilling of the first Rahman -1 exploration well was postponed to Q1 2009.

On 6 December 2007, PGNiG S.A. concluded a share assignment agreement as regards the exploration license 1/05 on the territory of Denmark and became the operator. At present, the shares are as follows: PGNiG S.A.– 40%, Odin Energi A/S – 40%, Nordsofonden – a Danish government company – 20%. On 5 April based on a decision of the Danish Energy Agency, the aforementioned license was extended until 5 October 2009 provided that a 3D seismic photograph of an area of at least 50 km2 is taken. In the current year, archived 2D seismic materials were reprocessed in order to determine location of the 3D photo planned for 2009. On 3 April 2009 PGNiG S.A. purchased 40% of shares in the Danish concession from Odin Energi A/S. The value of the transaction was DKK 6.25 million, i.e. PLN 3.74 million (at the exchange rate of the National Bank of Poland as at 3 April 2009).

In 2007, PGNiG S.A. won a tender for the Bahariya exploration and production license (Block 3) in Egypt. The license applies to the total area of 4,414.4 square kilometers. Following the ratification of the PSA (Production Sharing Agreement), PGNiG S.A. plans to conduct reprocessing and 1,450 square kilometers of 2D seismic work.

(in PLN'000)

In 2007, PGNiG S.A. won an operator tender and was granted the right to conduct exploration work based on exploration and production license no. 113 located in the Murzuq oil basin (west Libya). On 4 February 2008 the change in the name of PGNiG Finance B.V. to Polish Oil And Gas Company Libya B.V. was registered for the project purposes. The Company was granted with a performance bond by PGNiG S.A. On 25 February 2008 POGC-Libya B.V. entered into the EPSA Agreement (Exploration and Production Sharing Agreement) with National Oil Corporation - a state-owned Libyan oil company. The Agreement was ratified by the Libyan government on 1 June 2008. Commencement of 2D and 3D seismic work took place in Q1 2009.

In February 2008, PGNiG S.A. signed a mandate letter with Iranian Offshore Oil Company (IOOC) regarding development of the Lavan gas and condensate deposit.

The Group's foreign branches:

The Group has foreign branches which conduct operating activity or support the development of the Group's operations abroad.

**PGNIG S.A. - Parent:**
Operator Branch in Pakistan – Islamabad;
Branch in Egypt – Cairo;
Branch in Denmark – Copenhagen.
Branch in Algeria – Alger.

**Geofizyka Kraków Sp. z o.o.**
Operator Branch in Pakistan - Islamabad;
Slovak Plant in Bratislava;
Czech Plant in Ostrava;
Libya Branch - Tripoli.

**Geofizyka Toruń Sp. z o.o.**
Branch in Jebel Ali – United Arab Emirates, Dubai;
Branch in Yemen – Sana, Al.-Amana Region;
Branch in Syria – Damascus,
Branch in Tahiland – 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.

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

## 40. EMPLOYMENT (NUMBER OF EMPLOYEES)

| **Number of employees as at the end of the period, by segments** | 31 December 2008 | 31 December 2007 |
|---|---|---|
| PGNiG S.A. Head Office* | 837 | 604 |
| Prospecting and production | 10 725 | 10 151 |
| Trade and storage | 4 088 | 4 104 |
| including companies consolidated using the equity method | 295 | 294 |
| Distribution | 13 746 | 13 538 |
| Other | 2 044 | 1 928 |
| **Total** | **31 440** | **30 325** |

* PGNiG S.A. Head Office provides services to all other segments and is therefore not allocated to any of these segments.

## 41. INFORMATION ON THE CAPITAL GROUP'S RESTRUCTURING PROCESS

In 2008, stage 2 of the employment restructuring in PGNiG Capital Group was completed. The completion had been initially planned for 2007, but had been extended to 2008 by a resolution of Extraordinary Shareholders Meeting. As a result of implementation of the Program, in the years 2000 – 2008, restructuring affected the total of 21,159 employees of PGNiG S.A. and Capital Group companies. Implementation of the Program significantly contributed to headcount reduction by the total of nearly 15,500 people, i.e. from approximately 42 thousand to 26.4 thousand of employees on unlimited job contracts.

(in PLN'000)

In 2008, market conditions stopped employment reduction in the Capital Group, and the number of new hires exceeded the number of employees included into the restructuring program. Program's evolving towards additional bonuses for early retirement was contradictory to business objectives of the Capital Group. Therefore, the Social Partners and Management Board of PGNiG S.A decided that the employment restructuring program was completed in its previous form after nine years of implementation.

In 2008, following negotiations with Social Partners, contents of "Employment rationalization and termination packages for employees of PGNiG Capital Group for the years 2009-2011 (stage 3) were determined. On 11 December 2008, Extraordinary Shareholders Meeting approved the Program, which is effective from 1 January 2009. Unlike former employment restructuring programs, the Program follows a "stand by" formula, for special cases that require an employer to apply a unified procedure defined in the Program for all companies.
The Program may be implemented in the given calendar year only following a relevant resolution of a competent body, in line with the company by-laws, and for branches of PGNiG S.A., following a resolution passed by the Management Board of PGNiG S.A. Decisions to implement the Program will be made "only in cases justified with the scale of projected restructuring measures related to headcount reduction and/or liquidation of jobs". Only when corporate procedures are fulfilled including competencies of labor unions, title to the so-called termination benefits is obtained.
By means of a separate resolution of the Extraordinary Shareholders Meeting, the life of Central Restructuring Fund reserve was extended to the years 2009-2011. As in previous years, the Fund may be used on terms defined by the Program, only following a specific resolution of the Extraordinary Shareholders Meeting, among others for former employees of Capital Group companies facing financial and economic problems.
The above assumptions were confirmed by an Agreement concluded in Warsaw on 22 December 2008 by and between PGNiG S.A. represented by the Chairman and Vice Chairman in Charge of HR and Restructuring and competent oil and gas mining labor unions represented by their Chairmen.

Changes in natural gas trade were introduced. As a result, the separate Trading Branch was liquidated and replaced with appropriate Head Office Departments and six field Gas Trading Branches (Oddział Obrotu Gazem): Dolnośląski in Wrocław, Górnośląski in Zabrze, Karpacki in Tarnów, Mazowiecki in Warsaw, Pomorski in Gdańsk, Wielkopolski in Poznań.

In line with directions as defined in Strategy of PGNiG S.A. (approved by the Management Board and published on 13 November 2008, report No. 87/2008) analytical and project work on organizing Capital Group structures through consolidation of companies with similar profiles was continued. One of project objectives is to establish operationally and financially sustainable companies that in future may carry put key investment and prospecting work of key importance for Polish gas and oil industry, both in Poland and abroad.

## 42. STATEMENT AND EXPLANATION OF DIFFERENCES BETWEEN DATA DISCLOSED IN THE FINANCIAL STATEMENTS AND COMPARATIVE FINANCIAL DATA AS WELL AS THE PREVIOUSLY PREPARED AND PUBLISHED FINANCIAL STATEMENTS

As compared to data presented in the financial statements for Q4 2008 published on 2 March 2008, the following changes have been introduced in these financial statements:

**Changes in operating profit**

| | |
|---|---|
| **Operating profit from the financial statements for Q4 2008** | **885 495** |
| a) Changes in revaluation write-downs on assets | (83 582) |
| b) Other | (1 235) |
| **Operating profit from the financial statements for 2008** | **800 678** |

**Changes in net profit for the financial period**

| | |
|---|---|
| **Net profit for the reporting period from the financial statements for Q4 of 2008** | **928 987** |
| a) Changes in revaluation write-downs on assets | (83 582) |
| b) Other | 7 837 |
| c) Income tax related to applied adjustments | 8 507 |

| | |
|---|---|
| d) Adjustment of deferred tax | 3 993 |
| **Net profit for the reporting period from the financial statements for 2008** | **865 742** |

The main adjustment of the profit/loss resulted from increased revaluation write-downs on receivables (PLN 46,071 thousand) and property, plant and equipment (PLN 35,786 thousand).
In the current reporting period, the Company reviewed the applied method of calculating estimated revenue from gas fuel supplies to individual customers.
Following the analysis, the Company adjusted previous years' overstated revenue estimates totaling to PLN 46,071 thousand. In line with IAS 8, changes in the estimates result from the current judgment and projected benefits related to the estimated revenue from gas fuel supplies to individual customers.
Following verification of cash flows generated by mining assets that provide the basis for impairment testing, the Parent increased revaluation write-downs on assets of several mines in the total amount of PLN 35,786 thousand.

(in PLN'000)

## 43. EQUTY MANAGEMENT

The main objective of the Group's equity management is to ensure its ability to operate as a going concern including the execution of planned investments, and at the same time, to increase its shareholder value.
The Group is monitoring the equity level with the leverage ratio, calculated as the ratio of net debt to total equity increased by net debt. According to the Company's principles, the leverage ratio may not exceed 35%. The net debt includes loans and credit facilities, finance lease liabilities, trade liabilities and other liabilities less cash and bank balances. Equity includes equity assigned to the shareholders of the Parent.

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Loans, borrowings and finance lease liabilities | 912 810 | 138 101 |
| Trade and other liabilities | 3 294 154 | 2 711 039 |
| Cash and bank balances (-) | (1 421 939) | (1 583 635) |
| **Net debt** | **2 785 025** | **1 265 505** |
| **Equity (attributed to equity holders of the parent)** | **20 706 895** | **21 013 076** |
| **Equity and net debt** | **23 491 920** | **22 278 581** |
| **Leverage ratio** | 11.9% | 5.7% |

## 44. INFORMATION REGARDING FREE-OF-CHARGE ACQUISITION OF SHARES IN PGNIG S.A. BY ENTITLED EMPLOYEES

Pursuant to the Act on commercialization and privatization of 30 August 1996 ("the Act") , Company employees are entitled to acquire 15% of its shares free of charge. The above title is vested with so called "entitled employees", i.e. those referred to in Article 2 point 5 of the Act. The title to acquire company shares free of charge is vested after three months from the date of the State Treasury disposing of first shares on general terms.

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

Therefore, pursuant to Article 38 point 2 of the Act, the entitled employee's title to acquire the Company shares free of charge is vested on 1 October 2008 and expires on 1 October 2009. Since on 12 February 2009, an amendment to the Act on commercialization and privatization of 19 December 2008 came into effect, pursuant to amended Article 38 clause 2, the termination of the title to acquire the Company shares free of charge was postponed until 1 October 2010.

Pursuant to Article 36 clause 1 of the Act, entitled employees can free of charge acquire 15% of shares assumed by the State Treasury as at the date of the Company being entered to the register, i.e. up to 750,000,000 shares with face value of PLN 1 each. The list of entitled employees was put together in December 1997 and includes 61,516 individuals. In line with the adopted schedule, the process of releasing shares is going to start on 6 April 2009.

As at the report date (7 April 2009), the market value of the above package amounted to PLN 2,512,500 thousand.

Pursuant to Article 38 clause 3 of the Act, shares acquired free of charge by entitled employees cannot be traded prior to 1 July 2010, whereas shares acquired free of charge by Management Board members cannot be traded prior to 1 January 2011.

The key principle of IFRS 2 "Share-based Payment" is recognizing the cost of employee benefits in the period they are actually received. The title to acquire company's shares free of charge established by the Act was originally intender to compensate entitled employees for the period prior to its coming into effect, in particular for the period prior to 1989, when the political and economic system in Poland was transformed. In line with IFRS 2, the value of the scheme should be defined as at the date of determining the number of shares per employee based on the fair value of the shares. For PGNiG S.A., the shares will be released from the pool held by the State Treasury. Therefore, the Company incurs only administrative costs related to the operation of releasing the shares to entitled employees.

## 45. POST-BALANCE SHEET DATE EVENTS

a. **Reduction of eastern gas deliveries and limiting supplies to large customers.** Following the "gas dispute" between Gazprom and Ukraine, from 2 January 2009, gas deliveries to PGNiG S.A. from the East were limited. As a result, the Company decided to reduce supplies of gas to Zakłady Azotowe Puławy S.A. and PKN ORLEN S.A. The reduction occurred between 7 and 9 January 2009. The Company kept its customers informed by communications no. 1/2009, 2/2009, 3/2009, 4/2009, 6/2009, 7/2009, 11/2009, 12/2009, 13/2009, 14/2009. According to the last one(as at the financial statements date) no. 29/2009, natural gas deliveries from the East reached 75% of the initially planned volume. This means that supplies contracted with RosUkrEnergo AG were not provided. The missing volume was supplied from underground gas tanks, which allowed full coverage of demand. Thus, by the financial statements date, demand for natural gas in Poland was fully met.

b. **Assuming shares in licenses** On 6 January 2009, PGNiG Norway AS informed the Parent about free-of-charge assuming of 30% of shares in PL350 license on the Norwegian Continental Shelf following an agreement concluded with StatoilHydro Petroleum AS. E.ON Ruhrgas Norge A/S (40% of shares) is the direct License operator. Other partners include StatoilHydro ASA (25% shares) and StatoilHydro Petroleum AS (5% of shares). Following a permit granted by the Norwegian Oil and Gas Ministry in February 2009 with regard to the free-of-charge assuming of 30% of shares in PL350 license, PGNiG Norway AS became a license owner effective 1 January 2009. On 13 February 2009 PGNiG Norway AS assumed 25% of shares in PL419 license on the Norwegian Continental Shelf based on an agreement concluded with Nexen Exploration Norge AS. In accordance with the agreement, PGNiG Norway assumed 25% of shares in the license for symbolic NOK 1.00 (the equivalent of PLN 0.5377 according to the average forex table of the National Bank of Poland no. 31/A/NBP/2009 of 13 February 2009). Nexen Exploration Norge AS (30% of shares) is the direct License operator, other partners being Wintershall Norge ASA (25% of shares) and Edison International Spa (20% of shares). The assuming of shares in LP419 License depends on a permit granted by the Norwegian Ministry of Hydrocarbons and Energy and the Norwegian Ministry of Finance.

c. On 22 January 2009, the District Court for Poznań-Nowe Miasto i Wilda in Poznań, VIII Business Division of the National Court Register, issued a decision regarding increase of the share capital of Wielkopolska Spółka Gazownictwa Sp. z o.o. („WSG"). The share capital of the entity was increased from PLN 978,287 thousand to PLN 1,033,186 thousand, i.e. by PLN 54,899 thousand, through the issuance of 54,899 (say: fifty-four-thousand-eight-hundred-ninety-nine) new, equal and indivisible shares with a face value of PLN 1,000 (say: PLN one thousand) each. The newly created shares were assumed by the sole shareholder - PGNiG S.A., and covered by a non-cash contribution in the form of non-current assets that constituted elements of the transmission ordistribution network. The book value of contributed-in-kind assets recorded in the accounting records of PGNiG S.A. amounts to PLN 54,899 thousand. After the registration of the increase in share capital of WSG Sp. z o.o., the total number of votes is equal to 1,033,186. PGNiG S.A. holds 100% of shares in PLNG, which represents 100% of votes at the shareholders meeting.

d. On 28 January 2009, the Supervisory Board of PGNiG S. A. appointed Waldemar Wójcik aMember of the Management Board, Vice President in Charge of Oil Production.

e. On 14 February 2009, the power of proxy granted to Marek Dobryniewski and Waldemar Wójcik was revoked. At the same time, the Management Board of PGNiG S.A. granted Tadeusz Kulczyk and Zbigniew Król with the power of proxy.

f. On 23 February, labor unions operating in PGNiG S.A. entered into the collective dispute with the employer. The dispute regards determining the payroll increase ratio in 2009 for PGNiG S.A. In light of the economic situation in Poland and the current standing of the Company, the Management Board decided not to include requests of the unions regarding determination of the payroll increase ratio of 11% per year, including 5.5% to be applied in the first half of 2009. Management Board stated to make every effort to find out solutions that would allow termination of the dispute in a manner including financial capacity of the Company.

g. On 2 March 2009, Management Board of PGNiG S.A. stated that the analysis of the ongoing natural gas production indicated a change in production projections for 2009, which will drop from approx. 4.6 billion cubic meters to about 4.3 billion cubic meters. The new production forecast results from the slight drop in demand for nitrated gas declared by some industrial clients provided with gas straight from the field. Additionally, the lower projection result from investments in development of new fields being postponed, and geological problems faced at currently exploited beds. At the same time, the Management Board stated that the natural gas production projection for 2010 amounted to 4.3 billion cubic meters.