PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

# INDIVIDUAL ANNUAL 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 | 18 038 820 | 15 119 944 | 5 107 109 | 4 003 374 |
| II. Profit on operating activities | 292 949 | 2 117 971 | 82 939 | 560 785 |
| III. Profit before tax | 564 871 | 2 421 032 | 159 925 | 641 027 |
| IV. Net profit | 546 236 | 2 154 921 | 154 649 | 570 568 |
| V. Net cash flows from operating activities | 266 843 | 2 032 943 | 75 548 | 538 271 |
| VI. Net cash flows from investment activities | (1 099 629) | (1 469 260) | (311 324) | (389 022) |
| VII. Net cash flows from financing activities | 585 708 | (2 501 927) | 165 824 | (662 446) |
| VIII. Total net cash flows | (247 078) | (1 938 244) | (69 952) | (513 197) |
| IX. Profit per ordinary share (in PLN/EUR) | 0,09 | 0,37 | 0,03 | 0,10 |
| X. Diluted profit per ordinary share (in PLN/EUR) | 0,09 | 0,37 | 0,03 | 0,10 |
| | **As of 31 December 2008** | **As of 31 December 2007** | **As of 31 December 2008** | **As of 31 December 2007** |
| IX. Total assets | 23 440 498 | 23 564 336 | 5 617 989 | 6 578 542 |
| X. Liabilities and provisions for liabilities | 6 259 126 | 5 768 368 | 1 500 126 | 1 610 376 |
| XI. Non-current liabilities | 2 028 428 | 1 858 507 | 486 154 | 518 846 |
| XII. Current liabilities | 4 236 128 | 3 909 861 | 1 015 273 | 1 091 530 |
| XIII. Equity | 17 181 372 | 17 795 968 | 4 117 863 | 4 968 165 |
| XIV. Share capital | 5 900 000 | 5 900 000 | 1 414 054 | 1 647 125 |
| XV. Number of shares (weighted average in '000) | 5 900 000 | 5 900 000 | 5 900 000 | 5 900 000 |
| XVI. Book value per share (in PLN/EUR) | 2,91 | 3,02 | 0,70 | 0,84 |
| XVII. Diluted book value per share (in PLN/EUR) | 2,91 | 3,02 | 0,70 | 0,84 |
| XVIII. 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 |

## 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** | **12** | **18 038 820** | **15 119 944** |
| Raw materials and consumables used | 13 | (11 119 336) | (7 837 267) |
| Employee benefits | 13 | (678 721) | (513 071) |
| Amortization/depreciation | | (577 069) | (577 560) |
| External services | 13 | (5 365 118) | (3 871 614) |
| Manufacturing cost of benefits for internal purposes | | 6 388 | 8 962 |
| Other operating expenses (net) | 13 | (12 015) | (211 423) |
| **Total operating expenses** | | **(17 745 871)** | **(13 001 973)** |
| **Profit on operating activities** | | **292 949** | **2 117 971** |
| Financial revenues | 14 | 379 770 | 481 542 |
| Financial expenses | 14 | (107 848) | (178 481) |
| **Profit before tax** | | **564 871** | **2 421 032** |
| Income tax | 15 | (18 635) | (266 111) |
| **Net profit** | | **546 236** | **2 154 921** |
| Earnings per share allocated to ordinary shareholders | 17 | | |
| - basic from net profit | | 0,09 | 0,37 |
| - diluted from net profit | | 0,09 | 0,37 |

## BALANCE SHEET
## As at 31 December 2008

| | Notes to the financial statements | 31 December 2008 | 31 December 2007 |
|---|---|---|---|
| | | (in PLN '000) | |
| **ASSETS** | | | |
| **Non-current assets (long-term)** | | | |
| Property, plant and equipment | 19 | 9 038 674 | 8 568 916 |
| Investment property | 20 | 5 395 | 4 445 |
| Intangible assets | 21 | 60 079 | 33 059 |
| Financial assets available for sale | 22 | 5 690 924 | 4 787 372 |
| Other financial assets | 23 | 2 065 541 | 3 340 711 |
| Deferred tax asset | 24 | 301 222 | 261 208 |
| Other non-current assets | 25 | 32 735 | 25 755 |
| **Total non-current assets (long-term)** | | **17 194 570** | **17 021 466** |
| **Current assets (short-term)** | | | |
| Inventories | 26 | 1 579 726 | 1 061 156 |
| Trade and other receivables | 27 | 3 638 083 | 4 355 638 |
| Current tax receivables | 28 | 39 574 | - |
| Prepayments | 29 | 6 342 | 24 056 |
| Financial assets available for sale | 30 | - | 29 341 |
| Derivative assets | 43 | 174 186 | 17 442 |
| Cash and bank balances | 31 | 807 861 | 1 055 001 |
| Assets classified as held for sale | 32 | **156** | **236** |
| **Total current assets (short-term)** | | **6 245 928** | **6 542 870** |
| **Total assets** | | **23 440 498** | **23 564 336** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 34 | 5 900 000 | 5 900 000 |
| Exchange differences from translation of foreign operations | | (582) | (1 510) |
| Surplus from sale of shares above face value | | 1 740 093 | 1 740 093 |
| Other reserves | | 8 953 301 | 3 344 146 |
| Retained earnings | | 588 560 | 6 813 239 |
| **Total equity** | | **17 181 372** | **17 795 968** |
| **Non-current liabilities** | | | |
| Borrowings and debt securities | 35 | 3 783 | 80 |
| Provisions | 36 | 1 248 785 | 901 112 |
| Deferred income | 37 | 6 063 | 7 645 |
| Deferred tax provision | 38 | 742 045 | 929 093 |
| Other non-current liabilities | 39 | 22 322 | 20 577 |
| **Total non-current liabilities** | | **2 022 998** | **1 858 507** |
| **Current liabilities** | | | |
| Trade and other payables | 40 | 2 790 711 | 3 174 026 |
| Borrowings and debt securities | 35 | 763 191 | 4 316 |
| Liabilities due to derivative financial instruments | 43 | 16 723 | 35 527 |
| Current tax liabilities | 28 | - | 187 174 |
| Provisions | 36 | 123 942 | 111 838 |
| Deferred income | 37 | 541 561 | 396 980 |
| **Total current liabilities** | | **4 236 128** | **3 909 861** |

(in PLN'000)

| | | |
|---|---|---|
| **Total liabilities** | **6 259 126** | **5 768 368** |
| **Total equity and liabilities** | **23 440 498** | **23 564 336** |

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

| | Additional information | 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 | | 546 236 | 2 154 921 |
| Adjusted by: | | | |
| Amortization/depreciation | | 577 069 | 577 560 |
| Net foreign exchange gains/losses | | 37 739 | 59 182 |
| Net interest and dividends | | (275 985) | (440 253) |
| Profit/loss on investing activities | | (101 727) | 91 085 |
| Income tax for the current period | | 18 635 | 266 111 |
| Income taxes paid | | (462 883) | (384 324) |
| Other net items | | (74 932) | 219 484 |
| **Net cash generated by operating activities before movements in working capital** | | **264 152** | **2 543 766** |
| Movements in working capital: | | | |
| Net change in receivables | 41 | (220 101) | (1 334 826) |
| Change in inventories | 41 | (518 570) | 180 427 |
| Change in provisions | 41 | 57 837 | 31 495 |
| Change in current liabilities | 41 | 548 409 | 289 857 |
| Change in cost prepayments | 41 | (7 752) | (20 906) |
| Change in deferred income | 41 | 142 868 | 343 130 |
| **Net cash generated by operating activities** | | **266 843** | **2 032 943** |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of property, plant and equipment as well as intangible assets | | 3 915 | 14 844 |
| Proceeds from disposal of shares in associates | | 52 000 | - |
| Proceeds from disposal of short-term securities | | 64 167 | 48 855 |
| Payments to acquire property, plant and equipment as well as intangible assets | | (1 161 888) | (872 302) |
| Acquisition of shares in related parties | | (30 000) | (326 936) |
| Payments to acquire short-term securities | | - | - |
| Proceeds from loan repayment | | 189 876 | 144 910 |
| Expenses due to originated loans | | (519 400) | (1 119 028) |
| Received interest | | 157 601 | 245 272 |
| Received dividends | | 50 513 | 217 468 |
| Proceeds from finance lease | | 92 840 | 179 330 |
| Other net items | | 747 | (1 673) |
| **Net cash flow form investing activities** | | **(1 099 629)** | **(1 469 260)** |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of equity shares and other capital instruments as well as capital contributions | | - | - |
| Proceeds from borrowings | | 760 000 | - |
| Repayment of borrowings | | - | (2 303 637) |
| Proceeds from issue of debt securities | | - | - |
| Redemption of debt securities | | - | - |
| Repayment of liabilities due to finance leases | | (1 388) | (109) |
| Inflows related to derivatives | | - | - |
| Outflows related to derivatives | | - | - |
| Paid dividends | | (171 006) | (153 002) |
| Interest paid | | (153) | (35 618) |
| Other net items | | (1 745) | (9 561) |
| **Net cash (used in)/generated by financing activities** | | **585 708** | **(2 501 927)** |

(in PLN'000)

| | | |
|---|---|---|
| **Net changes in cash and bank balances** | **(247 078)** | **(1 938 244)** |
| Net foreign exchange differences | (62) | 23 560 |
| **Cash and bank balances at the beginning of the financial period** | **1 055 252** | **2 993 496** |
| **Cash and bank balances at the end of the financial period** | **808 174** | **1 055 252** |

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

| | Equity | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Exchange differences from translation of foreign operations | Share premium | Other reserves | Retained earnings (losses) | **Total** |
| | (in PLN '000) | | | | | |
| **1 January 2008** | **5 900 000** | **(1 510)** | **1 740 093** | **3 344 146** | **6 813 239** | **17 795 968** |
| Exchange differences from translation of foreign branches | - | 928 | - | - | - | **928** |
| Measurement of financial instruments | - | - | - | (40 760) | - | **(40 760)** |
| Reclassifications | - | - | - | 5 649 915 | (5 649 915) | **-** |
| Payment of dividends to equity holders | - | - | - | - | (1 121 000) | **(1 121 000)** |
| Net profit | - | - | - | - | 546 236 | **546 236** |
| **31 December 2008** | **5 900 000** | **(582)** | **1 740 093** | **8 953 301** | **588 560** | **17 181 372** |
| **1 January 2007** | **5 900 000** | **462** | **1 740 093** | **2 797 547** | **6 184 588** | **16 622 690** |
| Exchange differences from translation of foreign branches | - | (1 972) | - | - | - | **(1 972)** |
| Increases due to business combinations | - | - | - | - | 22 042 | **22 042** |
| Other changes | - | - | - | 1 287 | - | **1 287** |
| Reclassifications | - | - | - | 545 312 | (545 312) | **-** |
| Payment of dividends to equity holders | - | - | - | - | (1 003 000) | **(1 003 000)** |
| Net profit | - | - | - | - | 2 154 921 | **2 154 921** |
| **31 December 2007** | **5 900 000** | **(1 510)** | **1 740 093** | **3 344 146** | **6 813 239** | **17 795 968** |

**NOTES TO THE FINANCIAL STATEMENTS OF PGNiG S.A.**
**As at 31 December 2008**

## 1. GENERAL INFORMATION

Polish Oil and Gas Company in Warsaw (PGNiG S.A., the Company) with registered office in Warsaw, at Marcina Kasprzaka 25 was established as a result of transformation of State Enterprise PGNiG into a joint-stock company wholly owned by the State Treasury pursuant to Article 6 clause 1 of the Law of 13 July 1990 on privatization of state enterprises (Dz. U. of 1990 no. 51 item298 as amended) and Prime Minister's Ordinance of 30 September 1996 on transformation of the enterprise Polskie Górnictwo Naftowe i Gazownictwo with registered office in Warsaw into a joint-stock company wholly owned by the State Treasury (Dz. U. No. 116, item 553). Based on the above Ordinance a Transformation Deed was drawn on 21 October 1996.

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. On 14 November 2001, by the decision of the District Court for the city of Warsaw, XII Business Division of the National Court Register; PGNiG S.A. was entered to the Register of Entrepreneurs of the National Court Register under number KRS 0000059492.
The Company was assigned the statistical number REGON 012216736.

By the decision of the Warsaw Stock Exchange of 16 September 2005, A and B series shares as well as rights to B series shares issued by PGNiG S.A. were admitted to public trading on the primary market. B series ordinary bearer shares were first listed on the stock exchange on 23 September 2005. On 18 October 2005, the Warsaw Stock Exchange made a decision to introduce A and B series shares of PGNiG S.A. into trading on the primary market. The above shares were first quoted on 20 October 2005.

In accordance with its Articles of Association of PGNiG S.A., the Company fulfils the following tasks aimed at ensuring national energy security:

1) continuous natural gas supply to customers and maintaining necessary reserves;
2) safe operation of gas networks;
3) balancing gas fuels and controlling the operations and capacity of power units connected to the common gas network;
4) gas production.

In accordance with the By-laws, the Company undertakes production, service and commercial activities within the following scope:

1) production of crude oil;
2) production of natural gas;
3) services related to mining of crude oil and natural gas fields;
4) mining of sulphur-bearing materials;
5) other mining, not elsewhere classified;
6) manufacturing crude oil refined products;
7) reprocessing crude oil refined products;
8) services related to installation, repair and maintenance of plant for mining and building industry;
9) production of electric energy;
10) transmission of electric energy;
11) distribution of electric energy;
12) production of gas fuels;
13) distribution of gas fuels through a network;
14) production of heat (steam and hot water);
15) distribution of heat (steam and hot water);
16) geological and engineering excavations and drillings;
17) general construction work in respect to line structures: pipelines, power lines, electrical traction and telecommunication– transmission lines,
18) general construction work in respect to line structures: pipelines, power lines, electrical traction and telecommunication– industrial;
19) central heating and ventilation installations;
20) gas installations;
21) service and repair of motor vehicles;
22) retail fuel sales;
23) wholesale of solid, liquid and gas fuels as well as derivative products;
24) wholesale of semi-finished products;

25) other specialized wholesale;
26) hotels and motels with restaurants;
27) hotels and motels without restaurants;
28) cargo road transport with specialized vehicles;
29) cargo road transport with general-purpose vehicles;
30) pipeline transport;
31) warehousing and storage of goods in other storage areas;
32) travel agencies;
33) fixed line telephony and telegraphy;
34) mobile telephony;
35) data transmission; information and communication technology;
36) radio communications;
37) research and development work in technical science;
38) geological and exploration activity;
39) surveying and mapping;
40) rental of real property on own account;
41) management of residential property;
42) management of non-residential property;
43) buying and selling of property on own account;
44) non-public libraries;
45) archive services;
46) museums;
47) technical tests and analyses;
48) lease of the Company's assets dedicated to the transmission of energy and gas;
49) other financial brokerage services;
50) holdings;
51) other printing operations, not elsewhere classified;
52) DTP and typesetting services;
53) auxiliary graphics services;
54) service activity related to installation, repair and maintenance of measurement, control, research, testing and navigation instruments and equipment;
55) heating, water, ventilation and gas installations;
56) brokerage sales of fuels, ore, metals and industrial chemicals;
57) brokerage sales of miscellaneous goods;
58) wholesale trade of metal products and equipment as well as additional plumbing and heating equipment;
59) other retail sale in non-specialized stores;
60) finance lease;
61) auxiliary financial services related to insurance and pension/retirement funds,
62) rental of machines and equipment;
63) data processing;
64) database related services;
65) other IT-related activities;
66) accounting and bookkeeping services;
67) advertising;
68) Call Center services,
69) other commercial activity, n.e.c.;
70) property management services;
71) other short-term accommodation, n.e.c.

## 2. DURATION OF THE COMPANY

Duration of the Company: unlimited

## 3. PERIOD COVERED BY THE FINANCIAL STATEMENTS

The financial statements covered the period from 1 January 2008 to 31 December 2008 and from 1 January 2007 to 31 December 2007 for comparative information.

# 4. INFORMATION ON THE COMPOSITION OF MANAGEMENT AND SUPERVISORY BODIES

## 4.1. 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 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 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.

## 4.2. 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.

**4.3. 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 of office. 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.

On 15 February 2008, Extraordinary Shareholders Meeting of PGNiG S.A. dismissed Piotr Szwarc, Jarosław Wojtowicz, Andrzej Rościszowski and Wojciech Arkuszewski from their positions in the Supervisory Board. In addition, the Extraordinary Shareholders Meeting of PGNiG S.A. appointed Stanisław Rychlicki and Grzegorz Banaszek to Supervisory Board on 15 February 2008:

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.

## 5. CHANGES IN SHARE CAPITAL

As at 31 December 2008, the Company's share capital amounted to PLN 5,900,000,000 (five billion nine hundred million PLN) and was divided into:

- 4,250,000,000 A series bearer shares numbered from 00 000 000 001 to 04 250 000 000, with face value PLN 1 each and total face value of PLN 4,250,000,000;
- 750,000,000 A1 series bearer shares numbered from 0 000 000 001 to 0 750 000 000, with face value PLN 1 each and total face value of PLN 750,000,000;
- 900,000,000 B series bearer shares numbered from 0 000 000 001 to 0 900 000 000, with face value PLN 1 each and total face value of PLN 900,000,000.

There were no changes in the share capital in 2008.

## 6. THE FINANCIAL STATEMENTS INCLUDE AGGREGATED DATA

PGNiG S.A. draws up aggregated financial statements. As of 31 December 2008, PGNiG S.A. consisted of the following organizational units: The Company's Head Office, 11 domestic branches and four foreign branches (in Algeria, Denmark, Egypt and Pakistan).

The presented aggregated financial statements of PGNiG S.A. were prepared based on financial data from the joint accounting records of individual domestic branches and three foreign branches and based on the financial statements of the foreign branch in Pakistan. As at the balance sheet date, data presented in the foreign branch balance sheet were translated to PLN based on the average exchange rate determined for a given currency by NBP; while the items in the income statement – based on the exchange rate calculated as the arithmetic average of average exchange rates applicable for each last day of the month in the financial year. Exchange differences from translation were recognized in the revaluation reserve.

PGNiG S.A. as the parent also draws consolidated financial statements, covering data of 22 subsidiaries (including 1 indirect subsidiary), 2 associates and of Polskie LNG Sp. z o.o. for the period until 8 December 2008, i.e. until the date of selling 100% of its shares to GAZ-SYSTEM S.A.

## 7. GOING CONCERN ASSUMPTION

The Company's financial statements were prepared based on the assumption of the Company's operating as a going concern for 12 months after the balance sheet date, i.e. until 31 December 2008. According to the Company's Management Board, on the date of signing the financial statements no facts or circumstances indicated the risk to the Company's operating as a going concern during 12 months after the balance sheet date due to intended or forced discontinuation or material limitation of its activities.

## 8. BUSINESS COMBINATION

No business combinations of PGNiG S.A. and other entities took place in 2008.

## 9. COMPARABILITY OF FINANCIAL DATA FOR THE PREVIOUS PERIOD WITH THE FINANCIAL STATEMENTS FOR THE CURRENT FINANCIAL PERIOD

The aggregated financial statements of PGNiG S.A. for the current and comparable reporting period were prepared in accordance with the same accounting principles. Following changes in presentation of the income statement introduced by the Company in 2008, corresponding changes in presentation were introduced to 2007 data (included in Note 11.7). Therefore, the financial data for the current and comparative period are fully comparable.

## 10. INFORMATION ON ADJUSTMENTS ARISING FROM QUALIFICATIONS PRESENTED IN OPINIONS OF ENTITIES AUTHORIZED TO AUDIT FINANCIAL STATEMENTS FOR THE YEARS, FOR WHICH THE FINANCIAL STATEMENTS AND COMPARATIVE INFORMATION ARE PRESENTED

The financial statements for 2007 were audited by Deloitte Audyt Sp. z o.o. The certified auditor issued an unqualified opinion on these financial statements. Due to the above, there are no corresponding adjustments in the financial statements for 2008 and 2007.

## 11. INFORMATION ON THE APPLIED ACCOUNTING PRINCIPLES

### 11.1. Basis of the preparation of the financial statements

The individual 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).

Major accounting principles applied by PGNiG S.A. are presented below.

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

### 11.2. Approval of the financial statements

The financial statements were signed and approved for publication by the Management Board of PGNiG S.A. on 30 September 2009.

### 11.3. 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 Company adopted all new and revised standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") as approved for application in the UE and applicable to the Company's operations and to annual reporting periods beginning on or after 1 January 2008. The adoption of new and revised standards and interpretations did not result in changes in the Company's accounting principles that affect the figures disclosed in financial statements for previous years and the current year.

### 11.4. Impact of new standards and interpretations on the financial statements of the Company

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

- Amendments to IAS 39 „Financial Instruments: Recognition and Measurement" and IFRS 7 „Financial Instruments: Disclosures" - Reclassification of financial assets (effective on or after 1 July 2008),
- Amendments to IAS 39 „Financial Instruments: Recognition and Measurement" and IFRS 7 „Financial Instruments: Disclosures" - Reclassification of financial assets, effective date and transition (effective on or after 1 July 2008),
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007),
- IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008),
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2008).

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

When approving the financial statements, the Company 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 "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 Company has evaluated effects of adopting these Interpretations and revised Standards and identified that revisions to IAS 1, IFRS 8 and IAS 23 may impact presentation of the financial statements upon adoption. Effective 1 January 2009, the Company will include the proposed changes into its reporting practices.

According to estimates of the Management Board, other revisions would not materially impact the financial statements if adopted as at the balance sheet date. The Company does not intend to early adopt these standards and interpretations.

IFRS as endorsed by the EU do not significantly differ from the regulations approved by IASB except from the following standards, which as at 7 April 2009 were not adopted for use.

- 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 Company's estimates, the above 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 Company's estimates, adopting of hedge accounting to a portfolio of financial assets or liabilities in line with IAS 39 "Financial Instruments: Recognition and Measurement" would not materially impact the individual financial statements if endorsed by EU as at the balance sheet date.

### 11.5. Accounting principles applied

**Translation of items denominated in foreign currencies**

The Company's functional (measurement) and presentation currency is Polish Zloty (PLN). 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 income statement except from those arising on translation of assets and liabilities in foreign operations. 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.
In order to hedge against forex risk, the Company uses forwards and options (see accounting principles applied by the Company to derivatives, as presented below).

PKR is the functional currency of the Pakistan Operating Branch, and PLN is the functional currency for the branches in Egypt, Denmark and Algeria. As at the balance sheet date, assets and liabilities of the Pakistan Operating Branch are translated to the presentation currency of PGNiG S.A. at the exchange rate applicable as at the balance sheet date, while the income statement is translated at the average exchange rate for the 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 the income 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 is qualified to be recognized as property, plant and equipment, if the Company expects to use them for over a year and if it is possible to allocate them to individual components of property, plant and equipment.

The Company does not increase 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 initial recognition of property plant and equipment item as an asset, the Company recognizes it at cost less accumulated depreciation and impairment.

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 Company recognizes expenditure incurred on initial land analysis (seismic analysis, map making) directly as cost in the profit or loss, in the period it was incurred.
The Company recognizes bore hole expenditure incurred during exploration and prospecting in assets, as fixed assets under construction.
Previously activated expenditure on bore holes deemed as negative are charged by the Company to profit or loss in the period the bore hole was deemed negative.
After natural gas and/or oil production has been deemed as technically and commercially feasible, the Company reclassifies the exploration and prospecting assets to property, plant and equipment or intangible assets, respectively.

**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 or a building – or part of a building - or both) held by the Company to earn rentals or for capital appreciation or both. Investment property is initially recognized at acquisition price plus transaction costs.

The Company has decided to measure its investment property based on acquisition price 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 profit or loss for the period in which such the property is derecognized.

The Company depreciates investment property based on 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 Company and which are likely to cause an inflow of economic benefits for the Company in the future.

The Company initially recognizes intangible assets at purchase price or manufacturing cost. After the initial recognition of an intangible asset, the Company measures such asset at purchase price or manufacturing cost less amortization and total impairment loss.

The above amortization method reflects the way the intangible asset economic benefits are used by the Company; whereas, as the consumption of such benefits cannot be reliably determined, a 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 Company as the change of accounting estimates and charged to profit or loss in the period, in which the estimates have been 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 administrative decision issued based on the Law of 20 September 1990 amending the Law on land management and property expropriation is recognized by the Company off balance sheet 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 Company 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 Company as a Lessee*

Assets used under finance leases are treated as the Company'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.
Revenues from operating leases are recognized in the profit or loss 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", under the condition that the Company definitively intends 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 Company classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing 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 having been approved by the Company's Management Board, Supervisory Board or General Shareholders Meeting in accordance with the Company's Articles of Association. 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 Company does not depreciate an asset after is has 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.

Release of gas fuel used for own purposes and stored in underground gas storage facilities (PMG) as well as balance sheet differences are measured by the Company at weighted average acquisition price, which comprises costs of gas fuel acquisition from all sources abroad, actual cost of production from domestic sources, other domestic sources and the cost of denitration. 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 method. Measurement differences are charged to profit or loss. The Company does not discount receivables maturing in less than 12 months from the balance sheet date and in cases, when the discount impact 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 ageing 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.
The impairment is charged to profit or loss. 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.
Bad debts are written off in the income statement after their irrecoverability has been determined.

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 highly liquid financial assets maturing within three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
The balance of cash and cash equivalents disclosed in the cash flow statement consists of the above mentioned cash and cash equivalents, less unpaid overdrafts.

**Impairment**

As of each balance sheet date, the Company measures its assets in order to test them for possible impairment. 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 the 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 recognized in accounting records by type and in accordance with principles defined in legal regulations and the provisions of the Company's Articles of Association.
The share capital is disclosed at face value in the amount stated in the Company's Articles of Association as well as an 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 are charged to the entity'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 IFRS, the Company can allocate the retained profit from previous year to its capital or dividend for shareholders only. The option allowing allocating profit to the Company Social Benefits Fund, Restructuring Find, employee profit-sharing scheme or other purposes applied in the Polish legal system is not reflected in IFRS. Therefore, the Company recognizes the aforementioned profit reduction as the cost of the year, in which the binding obligation to release the funds has 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 credit 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 proceeds and redemption value is disclosed in financial revenues or expenses over the loan term.

**Provisions**

Provisions are created when a potential liability (legal or customary) 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 Company measures its provisions by discounting, if the impact of money over time is material; using discount rate before tax that reflects current market estimates of money over time as well as risk related to a given liability not reflected in the most relevant 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 provisions within PGNiG S.A. is provided in point 36.

**Prepayments and accruals**

PGNiG S.A. recognizes prepayments for expenses pertaining to future reporting periods. They are presented in the balance sheet as a separate item of assets.

Accruals are liabilities payable for goods or services that have been obtained/received, but not yet paid, invoiced or formally agreed with the supplier, together with amounts payable to employees (e.g. amounts related to accrued remuneration for paid vacations). These settlements are recognized in the balance sheet under equity and liabilities jointly with trade and other liabilities.

The Company recognizes deferred income in order to allocate revenues to future reporting periods upon realization.

The deferred income of PGNiG S.A. 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.

**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 mainly include liabilities resulting from the current activity of the Company, i.e. from employee compensation and other current employee benefits, as well as accrued costs 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 potential reliably estimated economic benefits that will be obtained by the Company 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 recognize revenue from gas sales in proper reporting period, at the balance sheet day the estimates concerning sales to private gas consumers are performed by applying "purchase method".

Estimated sales that have not been invoiced in reporting period is calculated based on characteristic of gas receiving by private gas consumers in comparable reporting periods. Value of estimated gas sales is calculated as a product of quantity of consumers belonging to particular tariff group and tariff rates.

*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.

**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 non-taxable items of expenses and revenues. 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 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.

### 11.6. Main reasons for uncertainty of the estimate data

In the process of the accounting policy applied by the Company as referred to in clause 11.5 of these financial statements, the Company made the following assumptions regarding uncertainty and estimates that 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 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.

In relation to the above, in the financial statements for 2008, the Company retained in the accounting records the liability and receivable from PI GAZOTECH Sp. z o.o. due to capital contribution in the amount of PLN 82,472 thousand and write-down on this receivable in the amount of PLN 82,472 thousand and increased the provision for potential costs to PLN 5,459 thousand (from PLN 924 thousand as at the end of 2007).

**Impairment of non-current assets**

The main operating assets of the Company include mine assets and gas storage facilities. These assets were tested for impairment. The Company calculated and recognized impairment losses in the accounting records based on the assessment of their current and future usefulness, planned liquidation or disposal. Assumptions regarding usefulness, liquidation and disposal of certain assets may change. 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. Appropriate information regarding the value of impairment loss has been provided in Note 19.1.

**Useful life of property, plant and equipment**

Note 11.5 to the financial statements presents useful life of main groups of property, plant and equipment. 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.

**Gas sales estimates**

In order to recognize revenue from gas sales in proper reporting period, at the balance sheet day the estimates concerning sales to private gas consumers are performed.
Value of gas provided but not invoiced is estimated based on consumers' receiving characteristic in comparable reporting periods.
There is a risk that the actual volume of gas sales might differ from the estimates. As a result it is possible that the part of estimated and unrealized sales is included in current profit/loss.

**Provisions for environmental protection**

Provision for the cost of well reclamation and other provisions for environmental protection presented in note 36 constitute a material item of the provisions in the financial statements. The provision is based on future costs of liquidation and recultivation, significantly dependent on the assumed discount rate and the estimated cash flow period.

(in PLN'000)

### 11.7. 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 Company 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 Company, 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 company 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 of the comparative period presented in the report changed. The profit/loss before tax and net profit/loss did not change.

Additionally, the Company 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 Company 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 discount regarding provisions for liquidation of non-current assets** | **Amounts after adjustments** |
| Other operating expenses (net) | (207 419) | (7 930) | 3 926 | (211 423) |
| **Total operating expenses** | **(12 997 969)** | **(7 930)** | **3 926** | **(13 001 973)** |
| **Profit on operating activities** | **2 121 975** | **(7 930)** | **3 926** | **2 117 971** |
| Financial revenues | 502 276 | (16 808) | (3 926) | 481 542 |
| Financial expenses | (203 219) | 24 738 | | (178 481) |
| **Profit before tax** | **2 421 032** | **-** | **-** | **2 421 032** |
| Income tax | (266 111) | - | - | (266 111) |
| **Net profit** | **2 154 921** | **-** | **-** | **2 154 921** |

* The change impacts the trade and storage segment.

** The change impacts the exploration and production segment (increases the profit/loss by PLN 4,688 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 Company 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.

In addition, the Company changed presentation of cash flow statement with regard to payments and extending short-term portion of loans granted, which are presented in balance sheet under receivables. Before, payments and extensions had been treated as payments and increases in receivables and recognized under changes in the balance of receivables in the cash flow statement. The Company decided that the payments and extensions of loans granted should be presented under investments regardless of maturity and presentation in the balance sheet. In relation to this, the Company introduced a relevant change to income statement presentation for the comparative period, decreasing the net receivable balance by PLN 8,628 thousand, increasing "Inflows from repayment of loans" by PLN 82,636 thousand and increasing "Outflows from loans granted loans" by PLN (91,264) thousand. The recognition of these amounts resulted in an increase of the operating profit/loss by PLN 6,309 thousand and the net profit/loss by PLN 5,110 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**

The Company 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 188,150 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 with PGNiG S.A. Capital Group companies having been unnecessarily recognized in expenses and revenues.

Additionally, the Company 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 Company recognized such expenditure in 2008 in the exploration and production segment and applied relevant adjustments to the comparative data for 2007.

## 12. SEGMENT REPORTING

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

a) *Exploration* This segment involves acquisition of hydrocarbons from deposits as well as preparation of products for sale. It comprises gas and oil production process, from output and processing for sale.

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. 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) *Other activities.* The segments provides services ensuring correct and reliable natural gas measurement.

Its assets include all operational assets used by the segment, including mainly cash receivables, inventory, property, plant and equipment less revaluation and depreciation 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.

### 12.1. Business segments

The following tables present data on revenues 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 PLN'000)

| Period ended 31 December 2008 | Production | Trade and storage | Other | Eliminations | Total |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Sales to external customers | 1 322 041 | 16 714 557 | 2 222 | - | 18 038 820 |
| Inter-segment sales | 1 092 178 | - | - | (1 092 178) | - |
| Total segment revenues | 2 414 219 | 16 714 557 | 2 222 | (1 092 178) | 18 038 820 |
| Amortization/depreciation | (437 738) | (139 171) | (160) | - | (577 069) |
| Other expenses | (1 173 192) | (17 083 413) | (4 375) | 1 092 178 | (17 168 802) |
| Total segment expenses | (1 610 930) | (17 222 584) | (4 535) | 1 092 178 | (17 745 871) |
| **Result on the segment operating activities** | **803 289** | **(508 027)** | **(2 313)** | **-** | **292 949** |
| Net financial expenses | | | | | 271 922 |
| **Profit before tax** | | | | | **564 871** |
| Income tax | | | | | (18 635) |
| **Net profit** | | | | | **546 236** |
| **Balance sheet** | | | | | |
| Segment assets | 7 264 157 | 10 008 998 | 1 011 | - | 17 274 166 |
| Unallocated assets | | | | | 5 865 110 |
| Deferred tax assets | | | | | 301 222 |
| **Total assets** | | | | | **23 440 498** |
| Total equity | | | | | 17 181 372 |
| Segment liabilities | 1 300 872 | 3 431 806 | 706 | - | 4 733 384 |
| Unallocated liabilities | | | | | 783 697 |
| Deferred tax provision | | | | | 742 045 |
| **Total liabilities and equity** | | | | | **23 440 498** |
| **Other segment information** | | | | | |
| Capital expenditure on property, plant and equipment and intangible assets | (935 006) | (226 685) | (197) | | **(1 161 888)** |
| Revaluation write-downs on assets | (2 560 517) | (1 203 596) | - | | **(3 764 113)** |
| Revaluation write-downs on unallocated assets | | | | | **(1 680 405)** |

(in PLN'000)

| Period ended 31 December 2007 | Production | Trade and storage | Other | Eliminations | Total |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Sales to external customers | 1 237 020 | 13 880 958 | 1 966 | - | 15 119 944 |
| Inter-segment sales | 1 133 977 | - | - | (1 133 977) | - |
| Total segment revenues | 2 370 997 | 13 880 958 | 1 966 | (1 133 977) | 15 119 944 |
| Amortization/depreciation | (450 654) | (126 755) | (151) | - | (577 560) |
| Other expenses | (983 138) | (12 571 051) | (4 201) | 1 133 977 | (12 424 413) |
| Total segment expenses | (1 433 792) | (12 697 806) | (4 352) | 1 133 977 | (13 001 973) |
| **Result on the segment operating activities** | **937 205** | **1 183 152** | **(2 386)** | **-** | **2 117 971** |
| Net financial expenses | | | | | 303 061 |
| **Profit before tax** | | | | | **2 421 032** |
| Income tax | | | | | (266 111) |
| **Net profit** | | | | | **2 154 921** |
| **Balance sheet** | | | | | |
| Segment assets | 6 672 679 | 11 795 337 | 957 | - | 18 468 973 |
| Unallocated assets | | | | | 4 834 155 |
| Deferred tax assets | | | | | 261 208 |
| **Total assets** | **6 672 679** | **11 795 337** | **957** | **-** | **23 564 336** |
| Total equity | | | | | 17 795 968 |
| Segment liabilities | 959 863 | 3 643 443 | 711 | - | 4 604 017 |
| Unallocated liabilities | | | | | 235 258 |
| Deferred tax provision | | | | | 929 093 |
| **Total liabilities and equity** | **959 863** | **3 643 443** | **711** | **-** | **23 564 336** |
| **Other segment information** | | | | | |
| Capital expenditure on property, plant and equipment and intangible assets | (631 239) | (241 009) | (54) | - | **(872 302)** |
| Revaluation write-downs on assets | (2 647 500) | (1 599 907) | - | - | **(4 247 407)** |
| Revaluation write-downs on unallocated assets | | | | | **(1 561 765)** |

(in PLN'000)

### 12.2. Geographical segments

The Company operates mostly on the territory of Poland. Revenues from export sales of products, goods and materials amount to 2% (3% in 2007) of the total net revenues from sales of products, goods and materials. The Company exports its products mainly to the UK, Germany and Belgium.

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Domestic sales | **17 638 227** | **14 630 968** |
| Gas | 16 913 440 | 13 908 163 |
| Crude oil | 430 388 | 335 142 |
| Helium | 12 282 | 12 271 |
| Propane-butane gas | 42 636 | 39 513 |
| Gasoline | 2 950 | 1 650 |
| LNG | 20 210 | 19 006 |
| Geophysical and geological services | 64 936 | 33 463 |
| Hotel services | 6 149 | 3 064 |
| Other services | 127 266 | 258 356 |
| Other products | 6 834 | 13 524 |
| Goods and materials | 11 136 | 6 816 |
| Export sales | **400 593** | **488 976** |
| Gas | 28 380 | 27 877 |
| Crude oil | 345 199 | 442 731 |
| Helium | 15 295 | 18 228 |
| LNG | 61 | - |
| Geophysical and geological services | 14 | - |
| Other services | 11 624 | 133 |
| Other products | 20 | 7 |
| **Total** | **18 038 820** | **15 119 944** |

In addition, the majority of the Company's assets are located in Poland. As at 31 December 2008, the value of assets located abroad accounted for 0.05% of the total assets (0,05% as at 31 December 2007).

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Assets located in Poland | 23 428 821 | 23 552 502 |
| Foreign assets | 11 677 | 11 834 |
| **Total** | **23 440 498** | **23 564 336** |

The Company's operations in Poland are not regionally diversified as regards risk and ROI level. Due to the above, the Company presents information by business segments only.

(in PLN'000)

## 13. OPERATING EXPENSES

### 13.1. 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 | (10 987 074) | (7 720 913) |
| Consumption of other materials | (132 262) | (116 354) |
| **Total** | **(11 119 336)** | **(7 837 267)** |

### 13.2. Employee benefits

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Payroll | (510 584) | (366 707) |
| Social security and other benefits | (168 137) | (146 364) |
| **Total** | **(678 721)** | **(513 071)** |

### 13.3. External services

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Purchase of transmission and distribution services | (4 427 151) | (3 177 426) |
| Other external services | (937 967) | (694 188) |
| **Total** | **(5 365 118)** | **(3 871 614)** |

### 13.4. 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 | (163 812) | 46 466 |
| Change in net write-downs | (30 724) | (154 148) |
| Taxes and charges | (184 319) | (225 823) |
| Net interest on operating activities | 163 181 | 293 320 |
| Net exchange differences on operating activities | (69 292) | 29 687 |
| Profit/loss on hedging derivatives related to operating activity | 291 029 | (141 803) |
| Value of goods and materials sold | (8 983) | (6 277) |
| Revenues from the current settlement of deferred income recognized in the balance sheet | 50 | 44 |
| Profit/loss on disposal of non-financial non-current assets | (10 019) | (9 320) |
| 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) |
| Change in inventories | 892 | (11 355) |
| Other net expenses | (63 347) | (28 806) |
| **Total** | **(12 015)** | **(211 423)** |

(in PLN'000)

## 14. FINANCIAL REVENUES AND EXPENSES

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Financial revenues** | **379 770** | **481 542** |
| Profit on hedging instruments | 80 287 | 13 391 |
| Interest income | 122 335 | 97 144 |
| Exchange gain | - | - |
| Revaluation of investments | 60 366 | 104 011 |
| Gain on disposal of investments | 66 167 | 48 852 |
| Dividends and profit sharing | 50 512 | 217 468 |
| Other financial revenues | 103 | 676 |
| **Financial expenses** | **(107 848)** | **(178 481)** |
| Loss on hedging instruments | - | - |
| Costs of forwards and swaps | (10 865) | - |
| Interest expense | (7 147) | (35 887) |
| Exchange loss | (36 332) | (102 172) |
| Revaluation of investments | (51 077) | (29 615) |
| Commissions on loans | (1 726) | (7 293) |
| Other financial expenses | (701) | (3 514) |
| **Profit/loss on financing activity** | **271 922** | **303 061** |

## 15. INCOME TAX

| | Note | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|---|
| Profit before tax | | 564 871 | 2 421 032 |
| Tax rate applicable in the period | | 19% | 19% |
| Tax according to the applicable tax rate | | (107 325) | (459 996) |
| Permanent differences between the gross profit (loss) and tax base | | 88 690 | 193 885 |
| **Tax liability disclosed in the income statement** | | **(18 635)** | **(266 111)** |
| Current income tax | 15.1. | (236 135) | (433 541) |
| Deferred income tax | 15.2. | 217 500 | 167 430 |
| Effective tax rate | | 3% | 11% |

### 15.1. Current income tax

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Profit before tax | **564 871** | **2 421 032** |
| Differences between the gross profit/loss and income tax base | 677 886 | (135 486) |
| Revenues not included in taxable income | (1 591 784) | (1 907 704) |
| Costs not classified as tax-deductible | 2 211 022 | 1 953 868 |
| Taxable income not classified as revenues for accounting purposes | 1 063 695 | 869 362 |
| Tax-deductible expenses not classified as expenses for accounting purposes | (1 001 429) | (1 048 660) |
| Deductions from income | (3 618) | (2 352) |
| Income tax base | **1 242 757** | **2 285 546** |
| Tax rate for the given period | 19% | 19% |
| Corporate Income Tax | (236 124) | (434 254) |
| Increases, discontinuations, exemptions, deductions and reductions of tax (including tax on received dividend) | (11) | 713 |
| **Current income tax recognized in the income statement** | **(236 135)** | **(433 541)** |

### 15.2. Deferred income tax

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| Temporary differences and reversed negative temporary differences* | 30 453 | (40 518) |
| Provisions for future liabilities | 25 394 | (9 581) |
| Write-downs on fixed financial assets, receivables and fixed assets under construction | 1 627 | 19 372 |
| Costs of hedging transactions for FX and interest rate risk | (3 573) | (22 930) |
| Exchange losses | 6 872 | 12 140 |
| Costs related to sales where the tax liability is originated in the subsequent month | - | (29 599) |
| Other | 133 | (9 920) |
| Temporary differences and reversed positive temporary differences | 187 047 | 207 948 |
| Difference between the carrying and tax amount of fixed assets | 18 587 | 75 300 |
| Finance lease revenue | 203 517 | 131 797 |
| Positive valuation of hedging transactions for FX and interest rate risk | (23 757) | (2 025) |
| Exchange gains | (892) | 220 |
| Interest accrued on receivables | (14 502) | (3 313) |
| Revenue arising from tax obligation falling due in the following month | 4 217 | 5 013 |
| Other | (123) | 956 |
| **Deferred income tax disclosed in the income statement** | **217 500** | **167 430** |

*Without change of deferred income tax included directly in equity 9.561 PLN '000 concerning measurement of financial instruments.

The current reporting period covered the tax period from 1 January 2008 to 31 December 2008.
A 19% CIT rate was applicable in 2008. 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 branches of the Company 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 operations ranged from 25% to 35% of the tax base. In 2008 and 2007, the foreign branches did not pay income tax.

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 100% certain.

## 16. DISCONTINUED OPERATIONS

In 2008, the Company did not discontinue any operations; nor is it planning to discontinue any current operations.

## 17. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary equity holders of the Company by the weighed average number of issued ordinary shares that existed during the 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 the Company's shareholders | 546 236 | 2 154 921 |
| Net profit attributable to shareholders of the Company used for calculating diluted earnings per share | 546 236 | 2 154 921 |
| 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 per share in the financial year attributable to ordinary shareholders of the Company | 0.09 | 0.37 |
| Diluted earnings per share in the financial year attributable to ordinary shareholders of the Company | 0.09 | 0.37 |

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 (in '000) |
|---|---|---|---|---|
| **31 December 2008** | | | | |
| 2008-01-01 | 2008-12-31 | 5 900 000 | 366 | 5 900 000 |
| **Total** | | | **365** | **5 900 000** |
| **31 December 2007** | | | | |
| 2007-01-01 | 2007-12-31 | 5 900 000 | 365 | 5 900 000 |
| **Total** | | | | **5 900 000** |

## 18. DIVIDENDS PAID AND PROPOSED

| **Dividend paid in the period** | 31 December 2008 | 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 13.4.

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

(in PLN'000)

## 19. PROPERTY, PLANT AND EQUIPMENT

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Land | 36 495 | 36 078 |
| Buildings and structures | 5 588 763 | 5 418 925 |
| Technical equipment and machinery | 1 338 078 | 1 337 387 |
| Vehicles and other | 91 754 | 80 049 |
| **Total fixed assets** | **7 055 090** | **6 872 439** |
| Fixed assets under construction | 1 983 584 | 1 696 477 |
| **Total property, plant and equipment** | **9 038 674** | **8 568 916** |

PGNiG S.A. holds 7 concessions for non-tank storage of natural gas. At present, six underground gas storage facilities are in operation, including 5 located in depleted natural gas deposits and a cavern storage (PMG Mogilno).

Natural gas stored in underground storage facilities is divided into buffer and working gas.

Working gas is the gas pumped to the storage facility in the active volume and can be released from storage facility within the gas fuel delivery cycle.

A portion of buffer gas comes from native deposit (in the quantities determined in the approved geological documentation), and its remaining portion has been pumped in order to obtain proper technical-geological parameters, required for the proper storage facility functioning. It applies to gas storage facilities located in depleted hydrocarbon seams. In case of a storage facility located on a salt diapir (PMG Mogilno), buffer gas has been compressed and remains in the storage chamber during the first cycle of brine compression and ejection, upon completion of the leaching process.

The target volume of buffer gas required for all storage facilities to operate properly constitutes a fixed-volume reserve throughout the storage facility's operation period.

(in PLN'000)

## 19.1 FIXED ASSETS

| **31 December 2008** | Land | Buildings and structures | Technical equipment and machinery | Vehicles and other | **Total** |
|---|---|---|---|---|---|
| As at 1 January 2008, including depreciation | 36 078 | 5 418 925 | 1 337 387 | 80 049 | **6 872 439** |
| Increase | 5 229 | 371 094 | 5 440 | 7 925 | **389 688** |
| Decrease | (6 188) | (580 749) | (63 597) | (2 766) | **(653 300)** |
| Reclassification from fixed assets under construction and between groups | 1 111 | 394 247 | 162 184 | 25 579 | **583 121** |
| Impairment loss | 273 | 382 345 | 49 339 | (374) | **431 583** |
| Depreciation for the financial year | (8) | (397 099) | (152 675) | (18 659) | **(568 441)** |
| **As at 31 December 2008, including accumulated depreciation** | **36 495** | **5 588 763** | **1 338 078** | **91 754** | **7 055 090** |
| | | | | | |
| As at 1 January 2008 | | | | | |
| Gross value | 40 506 | 9 401 980 | 2 343 839 | 136 303 | **11 922 628** |
| Accumulated depreciation and impairment loss | (4 428) | (3 983 055) | (1 006 452) | (56 254) | **(5 050 189)** |
| **Net carrying amount as at 1 January 2008** | **36 078** | **5 418 925** | **1 337 387** | **80 049.00** | **6 872 439** |
| | | | | | |
| As at 31 December 2008 | | | | | |
| Initial value | 40 658 | 9 548 747 | 2 437 324 | 163 571 | **12 190 300** |
| Accumulated depreciation and impairment loss | (4 163) | (3 959 984) | (1 099 246) | (71 817) | **(5 135 210)** |
| **Net carrying amount as at 31 December 2008** | **36 495.00** | **5 588 763.00** | **1 338 078.00** | **91 754.00** | **7 055 090** |

(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 | 36 722 | 5 492 358 | 1 332 098 | 67 314 | **6 928 492** |
| Increase | 1 005 | 179 109 | 36 992 | 15 549 | **232 655** |
| *- including due to business combinations* | 977 | 81 094 | 33 483 | 15 513 | **131 067** |
| Decrease | (1 933) | (63 538) | (21 050) | (3 283) | **(89 804)** |
| Reclassification from fixed assets under construction and between groups | 1 252 | 267 372 | 123 679 | 15 386 | **407 689** |
| Impairment loss | (960) | (49 449) | 14 666 | (1 884) | **(37 627)** |
| Depreciation for the financial year | (8) | (406 927) | (148 998) | (13 033) | **(568 966)** |
| **As at 31 December 2007, including accumulated depreciation** | **36 078** | **5 418 925** | **1 337 387** | **80 049** | **6 872 439** |
| | | | | | |
| As at 1 January 2007 | | | | | |
| Initial value | 40 182 | 9 015 843 | 2 193 317 | 100 491 | **11 349 833** |
| Accumulated depreciation and impairment loss | (3 460) | (3 523 485) | (861 219) | (33 177) | **(4 421 341)** |
| **Net carrying amount as at 1 January 2007** | **36 722** | **5 492 358** | **1 332 098** | **67 314** | **6 928 492** |
| | | | | | |
| As at 31 December 2007 | | | | | |
| Gross value | 40 506 | 9 401 980 | 2 343 839 | 136 303 | **11 922 628** |
| Accumulated depreciation and impairment loss | (4 428) | (3 983 055) | (1 006 452) | (56 254) | **(5 050 189)** |
| **Net carrying amount as at 31 December 2007** | **36 078** | **5 418 925** | **1 337 387** | **80 049** | **6 872 439** |

(in PLN'000)

### 19.2. 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** | 4 396 | 2 362 925 | 430 484 | 11 091 | **2 808 896** | 366 788 | **3 175 684** |
| Increase | 610 | 300 755 | 51 341 | 3 348 | **356 054** | 78 278 | **434 332** |
| Decrease | (883) | (683 100) | (100 680) | (2 974) | **(787 637)** | (64 048) | **(851 685)** |
| **As at 31 December 2008** | **4 123** | **1 980 580** | **381 145** | **11 465** | **2 377 313** | **381 018** | **2 758 331** |
| **As at 1 January 2007** | 3 436 | 2 313 476 | 445 150 | 9 207 | **2 771 269** | 268 369 | **3 039 638** |
| Increase | 1 970 | 592 194 | 151 669 | 4 923 | **750 756** | 117 506 | **868 262** |
| *- including due to business combinations* | - | - | *25* | - | ***25*** | - | ***25*** |
| Decrease | (1 010) | (542 745) | (166 335) | (3 039) | **(713 129)** | (19 087) | **(732 216)** |
| **As at 31 December 2007** | **4 396** | **2 362 925** | **430 484** | **11 091** | **2 808 896** | **366 788** | **3 175 684** |

The opening value of property, plant and equipment impairment loss amounted to PLN 2,808,896 thousand, including:
- assets used directly in production activity – PLN 2,061,567 thousand;
- underground gas storage facilities – PLN 197,354 thousand,
- other - PLN 549,975 thousand.

In the current period, the impairment loss amount was increased by PLN 356,054 thousand (including PLN 238,459 thousand of assets used directly for production activity) and reduced by PLN (787,637) thousand (including PLN 330,862 thousand of assets used directly for production activity).
The changes in value of assets used directly for production activity were caused by verified assumptions, discontinued reasons for impairment loss or asset liquidation.

The closing value of property, plant and equipment impairment loss amounted to PLN 2,377,313 thousand, including:
- assets used directly in production activity – PLN 1,969,164 thousand;
- underground gas storage facilities – PLN 190,324 thousand,
- other - PLN 217,825 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 347,402thousand).

(in PLN'000)

## 20. INVESTMENT PROPERTY

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Opening balance, including depreciation | 4 445 | 4 782 |
| Increase | 1 042 | 2 |
| Decrease | (257) | (5) |
| Reclassification from property, plant and equipment | - | 47 |
| Impairment loss | 575 | 15 |
| Depreciation for the financial year | (410) | (396) |
| **Closing balance, including accumulated depreciation** | **5 395** | **4 445** |

| | | |
|---|---|---|
| Opening balance | | |
| Initial value | 7 030 | 6 966 |
| Accumulated depreciation and impairment loss | (2 585) | (2 184) |
| **Net carrying amount** | **4 445** | **4 782** |

| | | |
|---|---|---|
| Closing balance | | |
| Initial value | 7 842 | 7 030 |
| Accumulated depreciation and impairment loss | (2 447) | (2 585) |
| **Net carrying amount** | **5 395** | **4 445** |

The Company's investment property includes social and office buildings partially leased as well as industrial buildings and structures. The carrying amount of social and office buildings recognized as investment property at the end of current period amounted to PLN 1,640 thousand (PLN 767 thousand at the end of 2007), whereas the carrying amount of industrial buildings and structures at the end of current period amounted to PLN 3,755 thousand (PLN 3,678 thousand at the end of 2007).

In the current period, the Company generated revenues from investment property lease in the amount of PLN 2,065 thousand (PLN 2,159 thousand in 2007).

Operating expenses related to investment property and associated with rental income amounted to PLN 1,809 thousand in the current period (PLN 1,913 thousand in 2007).

Since the investment property items in the balance sheet are immaterial, the Company does not carry out annual measurement of the property in order to determine its fair value.

(in PLN'000)

## 21. INTANGIBLE ASSETS

| **31 December 2008** | R&D expenses | Goodwill | Land perpetual usufruct - acquired for consideration | Other intangible assets | **Total** |
|---|---|---|---|---|---|
| As at 1 January 2008, including depreciation | - | - | 12 137 | 20 922 | **33 059** |
| Increase | - | - | 293 | 92 | **385** |
| Decrease | - | - | (9 644) | (10) | **(9 654)** |
| Reclassification from fixed assets under construction and between groups | - | - | 34 276 | 10 079 | **44 355** |
| Impairment loss | - | - | 152 | - | **152** |
| Depreciation for the financial year | - | - | (354) | (7 864) | **(8 218)** |
| **As at 31 December 2008, including accumulated depreciation** | **-** | **-** | **36 860** | **23 219** | **60 079** |
| | | | | | |
| As at 1 January 2008 | | | | | |
| Initial value | - | - | 12 953 | 52 658 | **65 611** |
| Accumulated depreciation and impairment loss | - | - | (816) | (31 736) | **(32 552)** |
| **Net carrying amount as at 1 January 2008** | **-** | **-** | **12 137** | **20 922** | **33 059** |
| | | | | | |
| As at 31 December 2008 | | | | | |
| Initial value | - | - | 37 576 | 62 642 | **100 218** |
| Accumulated depreciation and impairment loss | - | - | (716) | (39 423) | **(40 139)** |
| **Net carrying amount as at 31 December 2008** | **-** | **-** | **36 860** | **23 219** | **60 079** |

(in PLN'000)

| **31 December 2007** | R&D expenses | Goodwill | Land perpetual usufruct - acquired for consideration | Other intangible assets | **Total** |
|---|---|---|---|---|---|
| As at 1 January 2007, including depreciation | - | - | 1 419 | 13 547 | **14 966** |
| Increase | - | - | 10 927 | 6 189 | **17 116** |
| *- including due to business combinations* | - | - | 10 852 | 6 145 | ***16 997*** |
| Decrease | - | - | (13) | (44) | **(57)** |
| Reclassification from fixed assets under construction and between groups | - | - | 32 | 9 333 | **9 365** |
| Impairment loss | - | - | (133) | - | **(133)** |
| Depreciation for the financial year | - | - | (95) | (8 103) | **(8 198)** |
| **As at 31 December 2007, including accumulated depreciation** | **-** | **-** | **12 137** | **20 922** | **33 059** |
| | | | | | |
| As at 1 January 2007 | | | | | |
| Initial value | - | - | 1 689 | 32 166 | **33 855** |
| Accumulated depreciation and impairment loss | - | - | (270) | (18 619) | **(18 889)** |
| **Net carrying amount as at 1 January 2007** | **-** | **-** | **1 419** | **13 547** | **14 966** |
| | | | | | |
| As at 31 December 2007 | | | | | |
| Initial value | - | - | 12 953 | 52 658 | **65 611** |
| Accumulated depreciation and impairment loss | - | - | (816) | (31 736) | **(32 552)** |
| **Net carrying amount as at 31 December 2007** | **-** | **-** | **12 137** | **20 922** | **33 059** |

## 21.1. Revaluation write-downs on intangible assets

| | R&D expenses | Goodwill | Land perpetual usufruct - acquired for consideration | Other intangible assets | **Total** |
|---|---|---|---|---|---|
| **As at 1 January 2008** | - | - | 403 | - | **403** |
| Increase | - | - | 15 | - | **15** |
| Decrease | - | - | (167) | - | **(167)** |
| **As at 31 December 2008** | **-** | **-** | **251** | **-** | **251** |
| | | | | | |
| **As at 1 January 2007** | - | - | 270 | - | **270** |
| Increase | - | - | 133 | - | **133** |
| *- including due to business combinations* | - | - | - | - | **-** |
| Decrease | - | - | - | - | **-** |
| **As at 31 December 2007** | **-** | **-** | **403** | **-** | **403** |

(in PLN'000)

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

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Unlisted shares (gross value) | 7 189 095 | 6 064 631 |
| Listed shares available for sale (gross value) | 78 000 | - |
| Other financial assets available for sale (gross value) | 142 455 | 190 260 |
| **Total gross value** | **7 409 550** | **6 254 891** |
| | | |
| Unlisted shares (net value)* | 5 589 004 | 4 644 501 |
| Listed shares available for sale (net value)** | 27 680 | - |
| Other financial assets available for sale (net value)* | 74 240 | 142 871 |
| **Total net value** | **5 690 924** | **4 787 372** |

*Less revaluation write-down.
** Including measurement at market value.

"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 (ZAT). Negative valuation of shares in Zakłady Azotowe Tarnów was recognized in revaluation reserve. The Company 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.

## 23. OTHER FINANCIAL ASSETS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Finance leases receivables (note 23.1.) | 674 484 | 2 288 845 |
| Originated loans | 1 399 951 | 1 065 025 |
| Receivables from sale of fixed assets | - | - |
| Other long-term investments | 18 | 19 |
| Other | 1 538 | 1 541 |
| **Total gross value** | **2 075 991** | **3 355 430** |
| Impairment loss | (10 450) | (14 719) |
| **Total net value** | **2 065 541** | **3 340 711** |

### 23.1. 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 finance lease in line with IAS 17. The lease installment consists of principal and interest portion. 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, including:** | **726 869** | **2 452 617** |
| - current receivables | 52 385 | 163 772 |
| - non-current receivables | 674 484 | 2 288 845 |

## 24. 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 | 21 110 | 21 813 |
| Provision for unused paid vacation | 1 848 | 1 475 |
| Provision for payment of termination benefits | 2 | 2 272 |
| Provision for gas pitch | 16 460 | 8 494 |
| Provision for liquidation of wells | 95 478 | 75 756 |
| Other provisions | 11 328 | 7 169 |
| Revaluation write-downs on fixed assets | 72 392 | 69 690 |
| Revaluation write-down on shares | 25 786 | 26 429 |
| Other impairment losses | 617 | 1 050 |
| Exchange losses from valuation of loans from previous years | 19 997 | 15 515 |
| Exchange losses | 5 562 | 3 172 |
| Interest accrued on loans and liabilities | 138 | - |
| Unpaid remuneration with Social Security premiums | 2 259 | 1 704 |
| Costs related to sales where the tax liability is originated in the subsequent month | - | - |
| Costs of hedging transactions | 3 177 | 6 750 |
| Expenses related to transactions hedging against FX and interest rate risk | - | - |
| Measurement of listed shares | 9 561 | - |
| Connection fee | 329 | 495 |
| Other | 7 403 | 7 796 |
| **Total** | **301 222** | **261 208** |

## 25. OTHER NON-CURRENT ASSETS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Financial expenses settled over time | - | - |
| Fees for establishing mining usufruct | 3 618 | 722 |
| Prepayments of leased fixed assets | - | 312 |
| Geological information | 28 245 | 24 688 |
| Donations | 575 | - |
| Deferred advertising and marketing expenses | 196 | 20 |
| Other prepayments | 101 | 13 |
| **Total** | **32 735** | **25 755** |

(in PLN'000)

## 26. INVENTORIES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Materials | 1 577 306 | 1 077 978 |
| At acquisition price, including: | 1 577 306 | 1 077 978 |
| - gas fuel | 1 378 648 | 975 966 |
| At net realizable value including: | 1 574 058 | 1 054 786 |
| - gas fuel | 1 378 648 | 958 302 |
| Semi-finished products and work in progress | - | - |
| At acquisition price/manufacturing cost | - | - |
| At net realizable value | - | - |
| Finished products | 5 152 | 5 805 |
| At acquisition price/manufacturing cost | 5 152 | 5 805 |
| At net realizable value | 5 152 | 5 805 |
| Goods | 516 | 565 |
| At acquisition price | 516 | 565 |
| At net realizable value | 516 | 565 |
| **Total inventories, at the lower of the following two values: at purchase price (manufacturing cost) and net realizable value** | **1 579 726** | **1 061 156** |

## 27. TRADE AND OTHER RECEIVABLES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Trade receivables from other entities | 3 664 998 | 3 365 706 |
| Trade receivables from related parties | 72 798 | 316 168 |
| Receivables from tax, customs duty and social security | 337 050 | 233 087 |
| Due portion of originated loans | 337 090 | 298 385 |
| Finance lease receivables | 52 385 | 163 772 |
| Other receivables from related parties | 83 830 | 956 241 |
| Other receivables | 77 683 | 67 967 |
| **Total gross receivables** | **4 625 834** | **5 401 326** |
| **Revaluation write-downs on doubtful receivables (note 27.1.)** | **(987 751)** | **(1 045 688)** |
| **Total net receivables** | **3 638 083** | **4 355 638** |
| including: | | |
| Trade receivables from other entities | 3 017 343 | 2 660 845 |
| Trade receivables from related parties | 24 002 | 266 679 |
| Receivables from tax, customs duty and social security | 337 050 | 233 086 |
| Due portion of originated loans | 198 570 | 155 199 |
| Finance lease receivables | 52 385 | 163 773 |
| Other receivables from related parties | 229 | 872 640 |
| Other receivables | 8 504 | 3 416 |

Standard maturity period for receivables related to regular sales in the Company is 14 days.

### 27.1. Revaluation write-downs on receivables

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Opening balance of revaluation write-down | (1 045 688) | (900 577) |
| Increase in revaluation write-down | (123 898) | (358 104) |
| *- including due to business combinations* | - | *(168 391)* |
| Revaluation write-down released | 180 117 | 218 700 |
| Revaluation write-down applied | 5 767 | 2 409 |
| Reclassification between current and non-current portion | (4 049) | (8 116) |
| **Closing balance of revaluation write-down** | **(987 751)** | **(1 045 688)** |

(in PLN'000)

## 28. CURRENT TAX SETTLEMENTS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Opening balance of current tax liabilities | 187 174 | 137 957 |
| Change in current tax receivables | 39 574 | - |
| Current tax receivables, opening balance | - | - |
| Current tax receivables, closing balance | 39 574 | - |
| Income tax (charged to the period) | 236 135 | 433 541 |
| Income tax paid in the period | (462 883) | (384 324) |
| **Closing balance of current tax liabilities** | **-** | **187 174** |

## 29. PREPAYMENTS AND ACCRUALS

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Property and casualty insurance | 42 | 36 |
| Financial expenses settled over time | 47 | - |
| Rent and utilities payable in advance | 230 | 232 |
| Real property tax | - | - |
| Geological information | 3 020 | 2 375 |
| Prepayments related to leased fixed assets | - | 18 174 |
| Servicing, software upgrade | 1 240 | 2 928 |
| Fees for establishing mining usufruct | 122 | 17 |
| Donation | 550 | - |
| Deferred advertising and marketing expenses | 512 | 26 |
| Other expenses carried forward | 579 | 268 |
| **Total** | **6 342** | **24 056** |

## 30. TOTAL CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Unlisted shares (gross value) | - | 109 149 |
| Investment fund units (gross value) | - | - |
| Treasury bills and bonds (gross value) | - | - |
| **Total gross value** | **-** | **109 149** |
| | | |
| Unlisted shares (net value)* | - | 29 341 |
| Investment fund units (net value) | - | - |
| Treasury bills and bonds (net value) | - | - |
| **Total net value** | **-** | **29 341** |

*Less revaluation write-down

## 31. CASH AND BANK BALANCES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Cash in hand and at bank | 26 327 | 37 969 |
| Bank deposits | 280 634 | 374 791 |
| High liquidity short-term securities* | 496 011 | 635 800 |
| Other cash** | 4 889 | 6 441 |
| **Total** | **807 861** | **1 055 001** |

* 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.

The Company has free cash at bank that ensure regular and timely payment of financial liabilities to commercial partners and the State Budget.

## 32. NON-CURRENT ASSETS HELD FOR SALE

The following assets have been classified as held for sale:

| Non-current asset (or group) | Expected disposal date | Carrying amount as at 31 December 2008 | Terms of disposal |
|---|---|---|---|
| Land | 2009 | 5 | tender |
| Buildings and structures | 2009 | 28 | tender |
| Vehicles | 2009 | 123 | tender |
| **Total** | | **156** | |

(in PLN'000)

# 33. CONTINGENT ASSETS

## 33.1. Contingent receivables from received sureties and guarantees

| Borrower | Amount of the contingent receivable in currency | Currency of the contingent receivable | Amount of the contingent receivable in PLN | Expiry date of the contingent receivables | Bank or other institution issuing guarantee | Type of the contingent receivable |
|---|---|---|---|---|---|---|
| Minex Centrala Exportowo - Importowa S.A. | 1 035 | PLN | 1 035 | unlimited | Minex Centrala Exportowo - Importowa S.A. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| Zakład Elektroenergetyczny H. Cz. ELSEN Sp. z o. o. | 2 871 | PLN | 2 871 | 2009-03-30 | Zakład Elektroenergetyczny H. Cz. ELSEN Sp. z o. o. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| PEKAO SA IV C/Korp. in Płock | 3 125 | PLN | 3 125 | 2009-01-31 | GASLINIA Sp. z o. o. | bank guarantee |
| GASLINIA Sp. z o.o. | 3 056 | PLN | 3 056 | 2017-12-21 | | declaration of voluntary submission to enforcement Article 777 clause 1 point 5 of the Civil Proceedings Code |
| KRI S.A. | 2 000 | PLN | 2 000 | 2017-12-17 | KRI S.A. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| PZU SA P/Poznań | 1 750 | PLN | 1 750 | 2009-02-11 | | insurance guarantee |
| Linia K&K Sp. z o.o. | 896 | PLN | 896 | 2018-02-05 | Linia K&K Sp. z o.o. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| K.D.P. Sp. z o. o. | 5 000 | PLN | 5 000 | 2015-12-31 | K.D.P. Sp. z o. o. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| K.D.P. Sp. z o. o. | 5 725 | PLN | 5 725 | 2015-12-31 | K.D.P. Sp. z o. o. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| K.D.P. Sp. z o. o. | 7 000 | PLN | 7 000 | 2015-12-31 | K.D.P. Sp. z o. o. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| Dresdner Bank AG | 3 000 | PLN | 3 000 | 2009-12-31 | Media Odra Warta Sp. z o.o. | bank guarantee |
| TU Allianz Polska | 555 | PLN | 555 | 2010-06-30 | Budownictwo Urządzeń Gazowniczych GAZOBUDOWA | performance bond |
| Millennium Bank | 920 | PLN | 920 | 2010-06-30 | PZU Oddział Okręgowy w Łodzi | performance bond |
| PZU | 536 | PLN | 536 | 2009-01-30 | Winnicki Paweł "WINNICKI" | performance bond |
| Warta | 2 722 | PLN | 2 722 | 2009-10-16 | PBG S.A. | performance bond and defect liability guarantee |
| Warta | 1 963 | PLN | 1 963 | 2009-12-15 | PBG S.A. | performance bond and defect liability guarantee |
| Bank PEKAO S.A. | 85 217 | PLN | 85 217 | 2013-04-30 | PBG S.A. | performance bond |
| PZU S.A. | 66 429 | PLN | 66 429 | 2013-01-18 | Syndicate: PBG S.A., Tecnimont S.p.A | performance bond |

(in PLN'000)

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | Societe Francaise d'Etudes de Realisations d'Equipements Gaziers "SOFREGAZ" Plynoslav PARDUBICE HOLDING A.S. Plynoslav REGULACE PLYNU A.S. | |
| TU i R WARTA S.A. | 531 | PLN | 531 | 2010-12-04 | Gazomontaż SA | performance bond |
| Bank PeKaO SA Wielkopolskie Centrum Korporacyjne w Poznaniu | 500 | PLN | 500 | 2009-01-22 | Poszukiwania Nafty i Gazu NAFTA Sp. z o.o. | tender guarantee |
| Towarzystwo Ubezpieczeń InterRisk S.A. Warsaw | 608 | PLN | 608 | 2009-08-05 | BN NAFTOMONTAŻ Krosno Sp. z o.o. | performance bond |
| ERGO HESTIA RZESZÓW | 657 | PLN | 657 | 2009-06-28 | PUT Nafta-Gaz-Serwis in Sanok | performance bond |
| ING Bank Śląski | 1 200 | PLN | 1 200 | 2009-03-31 | INTERSPEED | bank guarantee |
| PKO Bank Polski S.A. | 880 | PLN | 880 | 2009-07-07 | Przedsiębiorstwo Robót Inżynieryjnych FART | bank guarantee |
| ING Bank Śląski | 2 000 | PLN | 2 000 | 2010-12-31 | Zakłady Przemysłu Wapienniczego TRZUSKAWICA SA | bank guarantee |
| Zakłady Przemysłu Wapienniczego TRZUSKAWICA SA | 1 600 | PLN | 1 600 | unlimited | Zakłady Przemysłu Wapienniczego TRZUSKAWICA SA | declaration of voluntary submission to enforcement Article 777 clause 1 point 4; unlimited |
| STAR - DUST Sp. z o.o. | 5 100 | PLN | 5 100 | 2013-12-31 | STAR - DUST Sp. z o.o. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| Ceramika Końskie Sp. z o.o. | 2 000 | PLN | 2 000 | 2008-12-31 | Ceramika Końskie Sp. z o.o. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| MAN Trucks Sp. z o.o. | 951 | PLN | 951 | unlimited | Deutsche Bank Polska S.A. | guarantee |
| POLDIM S.A. | 608 | PLN | 608 | 2009-12-31 | ING Bank Śląski S.A. | guarantee |
| Zakłady Chemiczne "Alwernia" S.A. | 1 000 | PLN | 1 000 | 2011-04-18 | Zakłady Chemiczne "Alwernia" S.A. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| Ceramika Tubądzin Sp. z o.o. | 3 200 | PLN | 3 200 | unlimited | Ceramika Tubądzin Sp. z o.o. | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| Bank Handlowy w Warszawie | 830 | PLN | 830 | 2009-05-07 | Reckitt Beckiser Produktion (Poland) | bank guarantee |
| Bank Handlowy w Warszawie | 950 | PLN | 950 | 2009-12-31 | Huta Szkła CZECHY S.A. | bank guarantee |
| Bank Zachodni WBK S.A. | 1 150 | PLN | 1 150 | 2009-09-30 | EWE ENERGIA Sp. z o.o. | bank guarantee |
| FORTIS BANK | 2 250 | PLN | 2 250 | 2010-03-31 | Homanit Polska sp. z o. o. Sp. komandytowa | bank guarantee |
| Farmutil | 2 000 | PLN | 2 000 | max 12 months from the gas sales contract expiry date | Farmutil | declaration of voluntary submission to enforcement Article 777 of the Civil Proceedings Code |
| ABN AMRO Bank Polska S.A. | 703 | PLN | 703 | 2009-02-10 | BRENNTAG POLSKA Sp. z o.o. | bank guarantee |
| Warta TUiR SA | 1 035 | PLN | 1 035 | 2009-04-30 | PBG S.A. | performance bond |
| Hestia, Sopot | 796 | PLN | 796 | 2011-11-30 | ZRUG Sp. z o.o. | performance bond and quality guarantee |
| BRE Bank O Gorzów Wlkp. | 750 | PLN | 750 | 2008-12-31 | Pol-Max SA Świebodzin | payment guarantee |
| Other | | | 29 642 | | | |
| | | | | | | |
| **Total** | | | **254 741** | | | |

(in PLN'000)

## 33.2. CONTINGENT RECEIVABLES DUE TO BILLS OF EXCHANGE RECEIVED AS COLLATERAL

| Bill of exchange issuer | Amount of the bill of exchange in foreign currency | Bill of exchange currency | Amount of the bill of exchange in PLN | Bill of exchange expiry date |
|---|---|---|---|---|
| Central Europe Trust - Polska Sp. z o.o. | 117 | PLN | 117 | Confirmed cheque – Tariff Bureau Deposit |
| Central Europe Trust - Polska Sp. z o.o. | 41 | PLN | 41 | Confirmed cheque – Tariff Bureau Deposit |
| Poszukiwania Nafty i Gazu Kraków Sp. z o.o. | 54 000 | PLN | 54 000 | 2014-11-15* |
| Poszukiwania Nafty i Gazu Jasło Sp. z o.o. | 12 000 | PLN | 12 000 | 2015-03-31* |
| Pomorska Spółka Gazownictwa Sp. z o.o. | 14 750 | PLN | 14 750 | 2015-01-31* |
| Pomorska Spółka Gazownictwa Sp. z o.o. | 24 160 | PLN | 24 160 | 2020-01-31* |
| Dolnośląska Spółka Gazownictwa Sp. z o.o. | 40 000 | PLN | 40 000 | 2015-03-31* |
| Wielkopolska Spółka Gazownictwa Sp. z o.o. | 15 135 | PLN | 15 135 | 2015-12-31* |
| Poszukiwania Nafty i Gazu Kraków Sp. z o.o. | 43 000 | PLN | 43 000 | 2017-01-31* |
| Poszukiwania Nafty i Gazu NAFTA Sp. z o.o. | 30 000 | PLN | 30 000 | 2015-12-31* |
| Pomorska Spólka Gazownictwa Sp. z o.o. | 100 000 | PLN | 100 000 | 2027-09-15* |
| Zakład Robót Górniczych Krosno Sp. z o.o. | 3 000 | PLN | 3 000 | 2013-12-31* |
| Dolnośląska Społka Gazownictwa Sp. z o.o.; | 25 000 | PLN | 25 000 | 2011-12-31* |
| Pomorska Spółka Gazownictwa Sp. z o.o. | 18 000 | PLN | 18 000 | 2012-09-30* |
| PGNiG Norway AS | 1 800 000<br>688 000 | NOK | 762 840<br>291 574 | 2025-12-20*<br>2025-12-20* |
| Wielkopolska Spolka Gazownictwa Sp. z o.o. | 31 200 | PLN | 31 200 | 2015-12-15* |
| Geovita Sp. z o.o. | 3 500 | PLN | 3 500 | 2015-06-30* |
| Poszukiwania Nafty i Gazu Kraków Sp. z o.o. | 15 000 | PLN | 15 000 | 2011-12-31* |
| Polish Oil and Gas Company - Libya B.V. | 20 000 | USD | 59 236 | 2021-11-20* |
| Geofizyka Kraków Sp. z o.o. | 12 000 | PLN | 12 000 | 2016-06-30* |
| Geovita Sp. z o.o. | 11 000 | PLN | 11 000 | 2017-09-30* |
| Mazowiecka Spółka Gazownictwa Sp. z o.o. | 54 433 | PLN | 54 433 | 2022-12-31* |
| Pomorska Spółka Gazownictwa Sp. z o.o. | 30 000 | PLN | 30 000 | 2015-06-30* |
| K.D.P. Sp. z o. o. | 4 181 | PLN | 4 181 | 2009-11-10 |
| BN NAFTOMONTAŻ Sp. z o.o. in Krosno | 1 473 | PLN | 1 473 | 2010-12-31 |
| BN NAFTOMONTAŻ Sp. z o.o. in Krosno | 1 475 | PLN | 1 475 | 2010-12-19 |
| BUG GAZOBUDOWA Sp. z o. o. in Zabrze | 946 | PLN | 946 | 2010-12-19 |
| BN NAFTOMONTAŻ Sp. z o.o. in Krosno | 1 886 | PLN | 1 886 | 2011-05-30 |
| BN NAFTOMONTAŻ Sp. z o.o. in Krosno | 628 | PLN | 628 | 2011-05-30 |
| BN NAFTOMONTAŻ Sp. z o.o. in Krosno | 1 142 | PLN | 1 142 | 2013-08-31 |
| BN NAFTOMONTAŻ Sp. z o.o. in Krosno | 8 415 | PLN | 8 415 | 2012-06-19 |
| BN NAFTOMONTAŻ Sp. z o.o. in Krosno | 2 133 | PLN | 2 133 | 2012-11-06 |
| 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 | 2009-12-31 |
| Fabryka Porcelany Krzysztof S.A. | 800 | PLN | 800 | 2012-08-21 |
| 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 |

(in PLN'000)

| | | | | |
|---|---|---|---|---|
| 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 | 2018-04-04 |
| Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji w Lublinie Sp. z o.o. | 500 | PLN | 500 | 2018-08-14 |
| DEKORGLASS DZIAŁDOWO S.A. | 790 | PLN | 790 | unlimited |
| ZPJ Wistil S.A. | 500 | PLN | 500 | 2009-01-31 |
| Other | | | 6 439 | |
| **Total** | | | **1 698 570** | |

* Pursuant to Article 118 of the Civil Code, the claims expire after 3 years from the liability due date

## 34. 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** |

## 35. 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 currency | | | | Value in PLN | | |
| Finance leases | PLN | 1 603 | 58 | 2,77% | 2011-07-21 | 1 603 | 58 | |
| Finance leases | PLN | - | 20 | 7,48% | 2009-12-20 | - | 20 | |
| Finance leases | PLN | - | 2 | 7% | 2009-11-20 | - | 2 | |
| Finance leases | PLN | 40 | - | 6,23% | 2010-07-31 | 40 | - | |
| Finance leases | PLN | 1 447 | - | 15% | 2011-12-17 | 1 447 | - | |
| Finance leases | PLN | 693 | - | 13,3% | 2011-11-20 | 693 | - | |
| **Total non-current** | | | | | | **3 783** | **80** | |

| | 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 | - | 4 248 | WIBOR 3M + 1.5 | no data * | - | 4 248 | |
| Finance leases | PLN | 1 364 | 29 | 2,77% | 2011-07-21 | 1 364 | 29 | |
| Finance leases | PLN | 21 | 22 | 7,48% | 2009-12-20 | 21 | 22 | |
| Finance leases | PLN | 9 | 17 | 7% | 2009-11-20 | 9 | 17 | |
| Finance leases | PLN | 33 | - | 6,23% | 2010-07-31 | 33 | - | |
| Finance leases | PLN | 805 | - | 15% | 2011-12-17 | 805 | - | |
| Finance leases | PLN | 367 | - | 13,3% | 2011-11-20 | 367 | - | |
| Loan facility** | PLN | 380 463 | - | 6,36% | 2009-01-26 | 380 463 | - | |
| Loan facility** | PLN | 367 458 | - | 6,34% | 2009-01-29 | 367 458 | - | |
| Loan facility | PLN | 12 671 | - | 6,34% | 2009-01-29 | 12 671 | - | |
| **Total current** | | | | | | **763 191** | **4 316** | |

* The Company discloses two lease liabilities with suspended installment repayment. One lease expired in August (buy back), the second lease is currently disputed in court.
** As at the date of these financial statements (7 April 2009) loans facility haven't been paid off

(in PLN'000)

In addition, the Company had loan facilities available, as listed in the note below.

### 35.1. 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 |
| Pekao 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. (formerly BPH S.A.) | - | - | 40 000 | 40 000 |
| Bank Handlowy S.A. | 40 000 | 40 000 | 40 000 | 40 000 |
| Societe Generale | 40 000 | 40 000 | 40 000 | 40 000 |
| Millennium S.A. | 40 000 | 40 000 | 40 000 | 40 000 |
| BRE Bank S.A. | 40 000 | 40 000 | 40 000 | 40 000 |
| Syndicate of banks (EUR 600 million + EUR 300 million with availability period 27 July 2008)* | 2 503 440 | 1 705 093 | 3 223 800 | 3 223 800 |
| **Total** | **2 733 440** | **1 935 093** | **3 503 800** | **3 503 800** |

* 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. O. w Polsce, ING Bank Śląski S.A., West LB AG, Bank Polska Kasa Opieki S.A. (former Bank BPH S.A.), Bank Millennium S.A., Nordea Bank Polska S.A., Landesbank Sachsen Girozentrale, DnB NOR Bank ASA).

Although unused in full, loan facilities increase the Company's security as regards payment of current liabilities.

(in PLN'000)

## 36. 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 | Provision for environment protection | Provision for potential transmission service liabilities | Central Restructuring Fund | Other | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2008 | 118 138 | 61 199 | 11 555 | 706 833 | 2 000 | 44 707 | 22 500 | 7 540 | 38 478 | **1 012 950** |
| Increases | 10 792 | 1 073 | 57 | 413 993 | - | 42 323 | 21 800 | - | 68 848 | **558 886** |
| Applied | (19 721) | (21 349) | (11 612) | (79 395) | (2 000) | (398) | - | (780) | (63 854) | **(199 109)** |
| **As at 31 December 2008** | **109 209** | **40 923** | **-** | **1 041 431** | **-** | **86 632** | **44 300** | **6 760** | **43 472** | **1 372 727** |
| | | | | | | | | | | |
| Long-term | 104 604 | 19 516 | - | 1 017 468 | - | 85 245 | - | - | 21 952 | **1 248 785** |
| Short-term | 4 605 | 21 407 | - | 23 963 | - | 1 387 | 44 300 | 6 760 | 21 520 | **123 942** |
| **As at 31 December 2008** | **109 208** | **40 923** | **-** | **1 041 431** | **-** | **86 632** | **44 300** | **6 760** | **43 472** | **1 372 727** |
| | | | | | | | | | | |
| Long-term | 101 793 | 38 802 | 11 468 | 684 552 | - | 42 922 | - | - | 21 575 | **901 112** |
| Short-term | 16 345 | 22 397 | 87 | 22 281 | 2 000 | 1 785 | 22 500 | 7 540 | 16 903 | **111 838** |
| **As at 31 December 2007** | **118 138** | **61 199** | **11 555** | **706 833** | **2 000** | **44 707** | **22 500** | **7 540** | **38 478** | **1 012 950** |

(in PLN'000)

**Provision for jubilee bonuses and retirement severance**

The Company has established a jubilee bonuses and retirement benefits scheme. Respective payments are charged to the income statement in such a way as to spread the cost of jubilee awards and retirement benefits over the entire period of employment in the Company. 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 value 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 | 81 031 | 53 340 |
| Interest expense | 3 566 | 1 832 |
| Current employment costs | 3 292 | 5 663 |
| Paid benefits | (13 369) | (11 607) |
| Actuarial gains/losses | (4 017) | 12 589 |
| Gains/losses due to limitations and settlements | - | 19 214 |
| Closing balance of liability disclosed in the balance sheet | 70 503 | 81 031 |
| | | |
| **Retirement severance** | | |
| Opening net balance | 37 107 | 29 566 |
| Current employment costs | 2 143 | 1 995 |
| Interest expense | 1 604 | 952 |
| Net actuarial profit/loss recognized during the year | (44) | (3 962) |
| Paid benefits | (2 835) | (2 352) |
| Past employment costs | 731 | - |
| Gains/losses due to limitations and settlements | - | 10 908 |
| Closing balance of liability disclosed in the balance sheet | 38 706 | 37 107 |
| | | |
| **Total closing balance of liability disclosed in the balance sheet** | **109 209** | **118 138** |

Following the completion of the employment restructuring program in PGNiG SA Capital Group, the Company has changed the method of revaluating jubilee award and pension severance provisions.
According to the Company, the new method better suits the needs of PGNiG S.A.
Key changes involved modification of the following assumptions:

- Assumptions regarding probability of turnover and Retirement: at present, based on information provided by the Company units 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 Company 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 Company units.
- Payroll increase assumptions: at present, the calculations are based on market trends, whereas previously they were based on trends observed in the Company units.
- Discount ratio: the present assumed value is 2% (decrease resulting from a change in inflation and the interest of long-term securities), while previously it amounted to 3.8%.

The Company estimated that the amount of jubilee bonus and pension severance provisions calculated in accordance with the previous approach would amount to PLN 132,457 as at 31 December 2008 (instead of PLN 109,208 recognized in the balance sheet). Had the Company recognized provisions calculated in line with the previous approach, instead of a decrease by PLN 8,929 thousand compared to the end of 2007, the provisions would have grown by PLN 14,319 thousand, reducing the Company's 2008 net operating profit/loss by PLN 23,248 thousand, and the net profit/loss by PLN 18,831 thousand.

**Provision for gas allowances to former employees**

The Company pays gas allowances to its employees retired by the end of 1995. This system will be in force until 2010; thereafter the Company will cease to pay the allowance. 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 Company creates 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 Company has presented the detailed and formal restructuring plan to all interested parties.
Following actual completion of the employment restructuring in 2008, the Company has released the provision. Additional details on the restructuring are presented in note 50.

**Provision for well reclamation costs**

The Company creates a provision for future costs of well liquidation 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. 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 Company creates provisions for future liabilities due to recultivation of contaminated soil or elimination of hazardous substances if there is a legal or customary obligation to do so. The created provision reflects potential costs foreseen to be incurred, estimated and verified periodically according to current prices.

(in PLN'000)

**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. Details on the fund functioning as well as the fund increase and expense catalogue have been determined in internal resolutions of the Company.

**Other provisions**

The Company creates other provisions for future, probable expenses related to commercial activity.

## 37. DEFERRED INCOME

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| **Non-current** | | |
| Net value of gas connections taken over free of charge | 241 | 285 |
| Connection fee | 1 703 | 2 579 |
| Deferred revenues due to uncollected gas | 4 011 | 4 708 |
| Contractual penalties | 28 | 28 |
| Deferred income from fixed assets under lease | 39 | - |
| Other | 41 | 45 |
| **Total non-current** | **6 063** | **7 645** |
| | | |
| **Current** | | |
| Gas sales forecast | 540 029 | 396 611 |
| Connection fee | 26 | 26 |
| Accrued fines | 973 | 292 |
| Land sale | - | 23 |
| Other | 533 | 28 |
| **Total current** | **541 561** | **396 980** |

## 38. DEFERRED TAX PROVISION

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Exchange gains | 2 946 | 2 054 |
| Accrued interest | 18 816 | 4 314 |
| Positive valuation of hedging transactions for FX and interest rate risk | 26 869 | 3 113 |
| Revenues related to sales where the tax liability is originated in the subsequent month | 8 760 | 12 977 |
| Revaluation of property, plant and equipment | 684 495 | 906 599 |
| Commission paid on loan settled over time | - | - |
| Other | 159 | 36 |
| **Total** | **742 045** | **929 093** |

(in PLN'000)

## 39. 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 | 581 | - |
| **Total** | **22 322** | **20 577** |

## 40. TRADE AND OTHER PAYABLES

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Trade liabilities to other entities amounting | 1 233 185 | 673 238 |
| Trade liabilities to related parties | 331 155 | 519 680 |
| VAT liabilities | 861 216 | 711 075 |
| Liabilities due to other taxes, customs duty and social security | 46 057 | 41 778 |
| Payroll liabilities | 2 631 | 1 236 |
| Liabilities due to unused paid vacation | 9 724 | 7 763 |
| Liabilities due to purchase of non-financial non-current assets | 45 748 | 96 688 |
| Liabilities due to purchase of non-financial non-current assets from related parties | 116 120 | 122 684 |
| Liability due to capital contribution adopted by resolution* | 82 472 | 954 948 |
| Other liabilities to related parties | 1 631 | 3 325 |
| Other liabilities to other entities | 15 824 | 9 230 |
| Accruals and advances for deliveries | 44 948 | 32 381 |
| **Total** | **2 790 711** | **3 174 026** |
| Including related parties (Note 46.2.) | **531 378** | **1 600 637** |

* Disputed contribution to the capital of Gazotech Sp. z o.o., details provided in note 11.6.

## 41. 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) | 1 055 001 | 2 969 685 |
| a) Opening balance of net exchange differences on cash* | (251) | (23 811) |
| **Opening balance of cash and bank balances in the cash flow statement (1-a)** | **1 055 252** | **2 993 496** |
| 2) Cash closing balance (balance sheet) | 807 861 | 1 055 001 |
| b) Closing balance of net exchange differences on cash | (313) | (251) |
| **Closing balance of cash and bank balances in the cash flow statement (2-b)** | **808 174** | **1 055 252** |
| **I. Change in the balance of cash in the balance sheet (2-1)** | **(247 140)** | **(1 914 684)** |
| II. Change in net exchange differences on cash (b-a) | (62) | 23 560 |
| **Change in the balance of cash in the cash flow statement (I. - II.)** | **(247 078)** | **(1 938 244)** |

* 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 net receivables** | 2 375 290 | (1 862 481) |
| Change in lease receivables – adjustment of investing activities | (1 725 748) | (1 038 434) |
| Change in the balance of receivables arising on business combination | - | 685 206 |
| Change in balance of receivables arising from capital contributions | (872 476) | 872 476 |
| Change in investment receivables due to sale of intangible assets and property, plant and equipment | 2 833 | (221) |
| Other | - | 8 628 |
| **Change in net receivables disclosed in the cash flow statement** | **(220 101)** | **(1 334 826)** |

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Balance-sheet change in inventory** | (518 570) | 178 322 |
| Fixed assets under construction reclassified to inventories – adjustments to investing activities | - | 1 511 |
| Change in the balance of inventory arising on business combination | - | 594 |
| **Change in inventories disclosed in the cash flow statement** | **(518 570)** | **180 427** |

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Balance-sheet change in provisions** | 359 777 | 2 772 |
| Change in the provision for reclamation of wells that adjusted property, plant and equipment – adjustment of investing activities | (301 940) | 63 152 |
| Change in the balance of provisions arising on business combination | - | (34 429) |
| **Change in provisions in the cash flow statement** | **57 837** | **31 495** |

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Balance sheet change in current liabilities** | (381 570) | 1 631 385 |
| Change in investment liabilities due to acquisition of intangible assets and property, plant and equipment | 57 503 | (59 293) |
| Change in balance of liabilities arising from capital contributions | 872 476 | (872 476) |
| Change in the balance of inventory arising on business combination | - | (409 759) |
| Other | - | - |
| **Change in current liabilities disclosed in the cash flow statement** | **548 409** | **289 857** |

| | Period from 1 January 2008 to 31 December 2008 | Period from 1 January 2007 to 31 December 2007 |
|---|---|---|
| **Balance sheet change in cost prepayments** | 10 734 | (6 088) |
| Change in the balance of prepayments arising on business combination | - | 1 778 |
| Change in lease prepayments – adjustment of investing activities | (18 486) | (16 596) |
| **Change in cost prepayments in the cash flow statement** | **(7 752)** | **(20 906)** |

(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 deferred income** | 142 999 | 400 812 |
| Change in the balance of deferred income arising on business combination | - | (57 682) |
| Change in deferred income due to lease – adjustment of investing activities | (39) | - |
| Change in deferred income – issuance rights – adjustment of investing activities | (92) | - |
| **Change in deferred income** | **142 868** | **343 130** |

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

### 42.1. 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 (non-listed shares) | 5 663 244 | 4 816 713 |
| Financial assets available for sale (listed shares) | 27 680 | - |
| Financial investments held to maturity | - | - |
| Loans and receivables | 6 133 511 | 8 473 835 |
| Positive value of derivatives* | 174 186 | 17 442 |
| Financial liabilities measured at amortized cost | 2 672 734 | 2 444 910 |
| Negative value of derivatives* | 16 723 | 35 527 |

*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.

### 42.2. 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 | | |
| Impairment recognized in profit or loss for the period | 353 | 471 |
| Financial investments held to maturity | - | - |
| Loans and receivables | | |
| Interest on time deposits, BSB and REPO | 21 441 | 53 826 |
| Interest on receivables* | 37 930 | 74 528 |
| Interest on originated loans | 100 844 | 42 385 |
| Net revenues from short-term securities | 66 210 | 48 852 |
| Revaluation write-downs on receivables | (70 455) | 14 159 |
| Revaluation write-downs on loans | 8 936 | 73 925 |
| Measurement of originated foreign currency loans | (24 511) | (91 158) |
| Positive value of derivatives | 612 715 | 30 199 |
| Financial liabilities measured at amortized cost | (886) | (35 921) |
| Negative value of derivatives | (252 264) | (158 611) |
| **Total impact on profit/loss** | **500 313** | **52 655** |

* Including interest on finance lease receivables.

| | 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) | (50 321) | - |
| Deferred tax on measurement of financial assets (recognized in capital) | 9 561 | - |
| **Total impact on capitals** | **(40 760)** | **-** |

The change of value resulting from revaluation of financial instruments recognized directly in equity concerns shares in Zakłady Azotowe Mościce S.A. in Tarnów.

(in PLN'000)

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

Due to the type of conducted business activity the Company is exposed to 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 Company's financial instruments is basically limited to the surplus of third parties' liabilities over those of the Company. The Company follows the principle of entering into transactions in financial instruments with multiple companies of high creditworthiness. When selecting finance partners, first of all the Company takes into account their financial standing verified by rating agencies, market share and reputation.
The Company 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 | 1 737 041 | 1 363 410 |
| Trade receivables | 4 575 331 | 6 996 468 |
| Deposits in other entities (bank deposits, BSB, REPO) | 776 645 | 1 010 591 |
| Positive value of derivatives | 174 186 | 17 442 |
| Granted financial guarantees | 2 995 980 | 3 388 979 |

Exposure to credit risk due to originated loans results only from loans granted to subsidiaries from PGNiG S.A 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, subsidiaries support the shared interest of the Group, 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 the conclusion of significant sales contracts, the prospective clients are verified and their financial position analyzed based on generally available financial information of the company (Debtor Registers) in order to determine a client's credibility. 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.

(in PLN'000)

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 the Commercial Branch of 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 Company balance sheet amounted to PLN 751,410 thousand (PLN 516,995 thousand as at the end of 2007).

<u>Age analysis of overdue unimpaired receivables as at 31 December 2008</u>

| **Overdue period** | 31 December 2008 |
|---|---|
| up to 1 month | 622 038 |
| from 1 to 3 months | 124 770 |
| from 3 months to 1 year | 3 467 |
| from 1 year to 5 years | 1 135 |
| over 5 years | - |
| **Total net overdue receivables** | 751 410 |

The Company 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. In addition, the Company signed Framework Agreements with all banks in which its funds are deposited that define details of concluding and settling all types of financial transactions. In the first half of 2007, the Company invested a significant long-term surplus of liquid cash in high-liquidity credit-risk-free instruments, in particular in treasury bills and bonds issued by the State Treasury.
The Company measures the related credit risk through the continuous verification of the financial standing of banks, reflected in fluctuations of financial ratings granted by the following rating agencies: Fitch, Standards&Poor's and Moody.

Credit risk due to guarantees granted by the Parent Company is basically limited to the risk that banks in which the Company purchased the guarantees in question will be in default. However, the banks in which the Company purchased guarantees are renowned institutions with high ratings and therefore the probability of default and the related risk is 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 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, the Company does not anticipate any significant losses due to credit risk.

***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 Company 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 Company's activities aimed at hedging currency risk is to protect it against exchange rate fluctuations inherent to payments for gas fuel realized in foreign currencies. 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.
As at 31 December 2008, the most significant interest rate risk was related to a loan originated to PGNiG Norway AS, a subsidiary. The Company collateralized the interest risk on the loan concluding a series of eight interest rate swap transactions. The concluded transactions collateralize the full amount of risk until the year 2011.
Interest rate risk resulting from other loans was insignificant.
In December 2008, the Company 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.
The Company measures market (currency and interest rate) risk by monitoring of VAR on a daily basis. VAR (Value At Risk) means that the maximum loss with a certain probability (e.g. 99%), resulting from changes in market (fair) value will not be higher than the value in the subsequent period of n business 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.
Commodity risk related to gas 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 the first half of 2008, the Company did not define in details or hedge this type of risk.

*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.
As at 31 December 2008, the Company had signed loan facility contracts up to PLN 2,733,440 thousand (PLN 3,503,800 thousand in 2007). Relevant details have been presented in note 35.1.
In 2008, the Company partly used one loan facility (in 2007, loan facilities had not been used). As of 31 December 2008 the Company used PLN 760 million of an EUR 600 million loan facility.

In order to avoid excessive liquidity, the Company invests cash surpluses mostly in profitable securities issued by the State Treasury and deposits in renowned banks.
Liquidity risk was significantly mitigated by the Management Board's approval of 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.

Liquidity risk is measured based on ongoing 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.

Financial liabilities by maturity measured at depreciated cost

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| up to 1 year | 2 646 629 | 2 424 253 |
| from 1 year to 5 years | 24 436 | 16 651 |
| over 5 years | 1 669 | 4 006 |
| **Total** | **2 672 734** | **2 444 910** |

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

(in PLN'000)

Analysis of derivatives by maturity

| | Carrying amount as of 31 December 2008* | Contractual cash flows, including: | up to 1 year | one year up to 5 years | over 5 years |
|---|---|---|---|---|---|
| *- interest rate swap transactions (IRS) and forwards used as hedging* | 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*** | 154 936 | **-** | - | - | - |
| - inflows | - | **-** | - | - | - |
| - outflows | - | **-** | - | - | - |
| *- option premiums paid* | - | **-** | - | - | - |
| **Total** | **157 463** | **68 633** | **9 961** | **58 672** | |

| | Carrying amount as of 31 December 2007* | Contractual cash flows, including: | up to 1 year | one year up to 5 years | over 5 years |
|---|---|---|---|---|---|
| *- interest rate swap transactions (IRS) and forwards used as hedging* | 13 391 | **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** | **(18 085)** | **62 850** | **61 278** | **1 572** | **-** |

* Carrying value (positive measurement of assets minus negative measurement of assets) shows the fair value, i.e. discounted swap transaction payments, whereas cash flows are left undiscounted.
** For currency options, due to their nature, i.e. cash flow occurrence depending on the exchange rate level at the moment of their market realization, no flows are presented.

No other material risks were identified in the daily business operations of the Company.

***Risk Management Policy***

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

The following units are responsible for compliance with the "Financial Risk Management Policy for PGNiG S.A." and its periodic revision:
- the Risk Committee, which presents proposed principles, conducts an ongoing assessment of the adequacy of the risk policy and implements necessary modifications;
- 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 carrying out analysis of sensitivity to currency risk as of 31 December 2008, one can observe that the net profit would have been higher by PLN 69,17 million had exchange rate of USD, EUR, NOK and other currencies increased by 30% compared to PLN with all other variables remaining flat (PLN 23.07 million resulting from increase of EUR, PLN 1.00 million due to increase of USD, PLN 44.84 million resulting from increase of NOK, and PLN 0.26 million due to increase of other currencies). This would result primarily from the increase of the forex gains on translation of assets held in a subsidiary PGNiG Norway AS, increase in positive measurement of derivatives in USD and EUR. In such a case, trade liabilities would increase as well.

The net profit as at 31 December 2008 would have been PLN 79.05 million higher had the exchange rate of EUR, USD, NOK and the other currencies dropped by 30% compared to PLN with all other variables remaining flat (PLN 1.56 million loss due to EUR depreciation, a gain of PLN 105.31 million due to USD depreciation, a loss of PLN 24,43 million due to NOK depreciation and a loss of PLN 0.26 due to the depreciation of the other currencies). A gain would primarily result from the amount of decrease in trade liabilities denominated in USD being significantly higher than the amount by which the negative portion of fair value of derivatives (a negative value of option transactions denominated in USD). The reason is a high balance of liabilities denominated in USD as at the end of 2008 and the fact that as a large gas fuel importer, the Company hedges against the risk of USD value increase.

In addition, the negative result would deteriorate due to increase in forex loss on NOK, resulting mainly from growth in forex losses due to revaluation of shares in PGNiG Norway denominated in NOK, as growth of forex differences on the remaining items would be netted off by a significant increase in positive measurement of derivatives.
The loan granted to PGNiG Norway AS is fully hedged with CCIRS transactions. Cash flows resulting from the loan and hedging transactions offset each other, therefore changes in the positive (negative) measurement of the loan are compensated with negative (positive) changes in CCIRS transactions measurement. In total the items are insensitive to forex and interest rate changes.

When carrying out analysis of sensitivity to currency risk as of 31 December 2007, one can observe that the net profit would have been higher by PLN 32.02 million had exchange rate of USD, EUR, NOK and other currencies increased by 10% compared to PLN with all other variables remaining flat (PLN 17.3 million resulting from increase of EUR, PLN 14.68 million due to increase of USD, PLN 0.03 million resulting from increase of NOK, and PLN 0.02 million due to increase of other currencies). This would result primarily from the increase of the forex gains on translation of assets held in a subsidiary PGNiG Norway AS, increase in positive measurement of derivatives in USD and EUR. In such a case, trade liabilities would increase as well.

The net profit as of 31 June 2007 would have been PLN 63.86 million lower had the exchange rate of USD, EUR, NOK and other currencies dropped by 10% compared to PLN with all other variables remaining flat (PLN 47.99 million due to decrease of USD, PLN 14.68 million due to drop in NOK, PLN 1.19 million due to decrease of EUR and PLN 0.02 million due to drop of other currencies). A loss would primarily result from increase in the negative portion of the fair value of derivatives (negative fair value of option transactions in USD). The reason would be that majority of increase in the negative portion of the fair value of derivatives secures purchases of gas, whose costs would be much lower with poor USD exchange rate. In addition, the negative result would deteriorate due to increase in forex loss on NOK, resulting mainly from growth in forex losses due to revaluation of shares in PGNiG Norway denominated in NOK, as growth of forex differences on the remaining items would be netted off by a significant increase in positive measurement of derivatives.

The loan granted to PGNiG Norway AS is fully hedged with CCIRS transactions. Cash flows resulting from the loan and hedging transactions offset each other, therefore changes in the positive (negative) measurement of the loan are compensated with negative (positive) changes in CCIRS transactions measurement. In total the items are insensitive to forex and interest rate changes.

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

| | | Currency risk | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount as at 31 December 2008 (in PLN '000)** | *for EUR* | *for USD* | *for NOK* | *for the other currencies* | *for EUR* | *for USD* | *for NOK* | *for the other currencies* |
| | *exchange rate change by:* | *+30%* | | | | *-30%* | | | |
| **Financial assets** | | | | | | | | | |
| Financial assets available for sale | 211 321 | 150 | - | 63 246 | - | (150) | - | (63 246) | - |
| Other financial assets | 1 088 388 | - | 17 600 | 308 916 | - | - | (17 600) | (308 917) | - |
| Trade and other receivables | 133 577 | 1 818 | 6 513 | 31 710 | 32 | (1 818) | (6 513) | (31 710) | (32) |
| 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 | 15 180 | 1 661 | 2 562 | 6 | 326 | (1 662) | (2 562) | (6) | (325) |
| **Impact on financial assets before tax** | | **67 103** | **278 116** | **396 389** | **358** | **(40 551)** | **(140 546)** | **(35 126)** | **(357)** |
| 19% tax | | (12 750) | (52 842) | (75 314) | (68) | 7 705 | 26 704 | 6 674 | 68 |
| **Impact on financial assets after tax** | | **54 353** | **225 274** | **321 075** | **290** | **(32 846)** | **(113 842)** | **(28 452)** | **(289)** |
| *total currencies* | | *600 992* | | | | *(175 429)* | | | |
| **Financial liabilities** | | | | | | | | | |
| Loans, borrowings and debt securities (including finance leases) | - | - | - | - | - | - | - | - | - |
| Trade and other payables | 1 051 783 | 38 618 | 276 882 | - | 34 | (38 618) | (276 882) | - | (34) |
| Liabilities due to derivative financial instruments | 16 723 | - | - | 341 033 | - | - | 6 322 | (4 962) | - |
| **Impact on financial liabilities before tax** | | **38 618** | **276 882** | **341 033** | **34** | **(38 618)** | **(270 560)** | **(4 962)** | **(34)** |
| 19% tax | - | (7 337) | (52 608) | (64 796) | (6) | 7 337 | 51 406 | 943 | 6 |
| **Impact on financial liabilities after tax** | | **31 281** | **224 274** | **276 237** | **28** | **(31 281)** | **(219 154)** | **(4 019)** | **(28)** |
| *total currencies* | | *531 820* | | | | *(254 482)* | | | |
| ***Total increase/decrease*** | | 23 072 | 1 000 | 44 838 | 262 | (1 565) | 105 312 | (24 433) | (261) |
| ***total currencies*** | | ***69 172*** | | | | ***79 053*** | | | |
| ***Exchange rates as at the balance sheet date and their changes:*** | | | | | | | | | |
| EUR/PLN exchange rate | 4.1724 | 5.4241 | 4.1724 | 4.1724 | 4.1724 | 2.9207 | 4.1724 | 4.1724 | 4.1724 |
| USD/PLN exchange rate | 2.9618 | 2.9618 | 3.8503 | 2.9618 | 2.9618 | 2.9618 | 2.0733 | 2.9618 | 2.9618 |
| NOK/PLN exchange rate | 0.4238 | 0.4238 | 0.4238 | 0.5509 | 0.4238 | 0.4238 | 0.4238 | 0.2967 | 0.4238 |

| | | Currency risk | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount as at 31 December 2007 (in PLN '000)** | *for EUR* | *for USD* | *for NOK* | *for the other currencies* | *for EUR* | *for USD* | *for NOK* | *for the other currencies* |
| | exchange rate change by: | *+10%* | | | | *-10%* | | | |
| **Financial assets** | | | | | | | | | |
| Financial assets available for sale | 224 134 | 43 | - | 22 370 | - | (43) | - | (22 370) | - |
| Other financial assets | 822 538 | - | - | 82 254 | - | - | - | (82 254) | - |
| Trade and other receivables | 55 950 | 421 | 5 174 | - | - | (421) | (5 174) | - | - |
| Financial assets held for trading | - | - | - | - | - | - | - | - | - |
| Derivative assets | 17 442 | 7 989 | 13 776 | (16 093) | - | (59) | (226) | 83 797 | - |
| Cash and bank balances | 20 003 | 79 | 1 907 | 1 | 13 | (79) | (1 907) | (1) | (13) |
| **Impact on financial assets before tax** | **1 140 067** | **8 532** | **20 857** | **88 532** | **13** | **(602)** | **(7 307)** | **(20 828)** | **(13)** |
| 19% tax | (216 613) | (1 621) | (3 963) | (16 821) | (3) | 114 | 1 388 | 3 957 | 3 |
| **Impact on financial assets after tax** | **923 454** | **6 911** | **16 894** | **71 711** | **10** | **(488)** | **(5 919)** | **(16 871)** | **(10)** |
| *total currencies* | | *95 526* | | | | *(23 288)* | | | |
| **Financial liabilities** | | | | | | | | | |
| Loans, borrowings and debt securities (including finance leases) | - | - | - | - | - | - | - | - | - |
| Trade and other payables | 397 646 | 9 577 | 30 177 | 1 | 10 | (9 577) | (30 177) | (1) | (10) |
| Liabilities due to derivative financial instruments | 35 527 | (1 086) | (30 684) | 70 406 | - | 10 449 | 82 112 | (2 701) | - |
| **Impact on financial liabilities before tax** | **433 173** | **8 491** | **(507)** | **70 407** | **10** | **872** | **51 935** | **(2 702)** | **(10)** |
| 19% tax | (82 303) | (1 613) | 96 | (13 377) | (2) | (166) | (9 868) | 513 | 2 |
| **Impact on financial liabilities after tax** | **350 870** | **6 878** | **(411)** | **57 030** | **8** | **706** | **42 067** | **(2 189)** | **(8)** |
| *total currencies* | | *63 505* | | | | *40 576* | | | |
| ***Total increase/decrease*** | | **33** | **17 305** | **14 681** | **2** | **(1 194)** | **(47 986)** | **(14 682)** | **(2)** |
| ***total currencies*** | | ***32 021*** | | | | ***(63 864)*** | | | |
| ***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 | 0.4047 | 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 to floating rate of originated loans a by +/-300 base points amounted to +/- PLN 13.61 million. Sensitivity of loan and lease liabilities based on variable interest rate to interest rate change by +/-300 base points was PLN +/-23.00 million.

As at 31 December 2007, sensitivity of originated loans to interest rate changes by +/-100 base points was PLN +/-3.83 million. Sensitivity of lease liabilities based on variable interest rate to interest rate change by +/-100 base points was PLN +/-0.04 million.

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

| | *carrying amount Balance as of 31 December 2008* | *change by* **+300 bp** | **-300 bp** |
|---|---|---|---|
| **Originated loans**** | 453 684 | 13 611 | (13 611) |
| **Loans received** | 760 592 | 22 818 | (22 818) |
| **Lease liabilities**** | 6 382 | 191 | (191) |

| | *carrying amount balance as at 31 December 2007* | *change by* **+100 bp** | **-100 bp** |
|---|---|---|---|
| **Originated loans*** | 382 966 | 3 830 | (3 830) |
| **Lease liabilities**** | 4 248 | 42 | (42) |

*The amount does not include the loan granted to PGNiG Norway AS, since its interest rate risk is fully hedged
** For lease liabilities based on variable interest rates.

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

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

### Derivative valuation methods

In accordance with International Financial Reporting Standards the Company discloses all derivatives in the financial statements at fair value.
As of 31 December 2008, the Company held two 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 Company did not apply hedge accounting. Therefore changes in fair vale of hedged financial instruments and hedging instruments were presented in the income statement for the reporting period.

(in PLN'000)

## 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 | 13 278 | - |
| 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 | 2 266 | - |
| 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 | 507 | - |
| payment for gas | USD 10 million | 13 November 2008 | 20 January 2009 | 3.3800 | 192 | - |
| 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 |
| | | | | | **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) |

(in PLN'000)

| | | | | | | |
|---|---|---|---|---|---|---|
| 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 | 2.75000-2.3705 | - | (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 | - | - |
| 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) |
| | | | | | **0,00** | **(32 825)** |
| | | | **Cross Currency Interest Rate Swap** | | | |
| PGNiG Norway AS loan (NOK) 31/10/07-20/12/22) | NOK 300 million | 8 November 2007 | 17 January 2011 | 0.4686 | 3 430 | 4 605 |
| PGNiG Norway AS loan (NOK) 31/10/07-20/12/22) | NOK 300 million | 12 November 2007 | 17 January 2011 | 0.4627 | (1) | 4 833 |

(in PLN'000)

| | | | | | | |
|---|---|---|---|---|---|---|
| PGNiG Norway AS loan (NOK) 31/10/07-20/12/22) | NOK 300 million | 15 November 2007 | 17 January 2011 | 0.4596 | 1 645 | 2 522 |
| PGNiG Norway AS loan (NOK) 31/10/07-20/12/22) | NOK 300 million | 19 November 2007 | 17 January 2011 | 0.4534 | (2 954) | 1 868 |
| PGNiG Norway AS loan (NOK) 31/10/07-20/12/22) | NOK 300 million | 22 November 2007 | 17 January 2011 | 0.4588 | 1 388 | 2 265 |
| PGNiG Norway AS loan (NOK) 31/10/07-20/12/22) | NOK 300 million | 30 November 2007 | 17 January 2011 | 0.4461 | (1 682) | (2 702) |
| PGNiG Norway AS loan (NOK) 31/10/07-20/12/22) | NOK 300 million | 18 January 2008 | 17 January 2011 | 0.4530 | 1 026 | - |
| PGNiG Norway AS loan (NOK) 31/10/07-20/12/22) | NOK 300 million | 18 January 2008 | 17 January 2011 | 0.4530 | (325) | - |
| | | | | | **2 527** | **13 391** |
| Total | | | | | **157 463** | **(18 085)** |
| | including: | premiums on options | assets | | 32 769 | 1 060 |
| | | positive measurement | assets | | 141 417 | 16 382 |
| | | negative measurement | liabilities | | (16 723) | (35 527) |

* Call option measurement includes the premium paid. 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)

# 44. CONTINGENT LIABILITIES

## 44.1. 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 | Bank or other institution to which the contingent liability was granted | Type of contingent liability granted |
|---|---|---|---|---|---|---|
| **Contingent liabilities granted by PGNiG S.A.** | | | | | | |
| Bank Gdański S.A. | 56 000 | PLN | 56 000 | 2012-09-30 | EUROPOL GAZ S.A. | loan surety |
| NATIONAL OIL CORPORATION | 108 000 | USD | 319 875 | 2013-06-01 | Polish Oil and Gas Company - Libya B.V. | guarantee |
| NORWAY | 627 556 | EUR | 2 618 413 | 2050-01-01 | PGNiG Norway AS | guarantee |
| Polish Real Property | 105 | EUR | 439 | 2010-02-28 | Bank Handlowy w Warszawie | bank guarantee |
| Jerozolimskie Business Park | 301 | EUR | 1 253 | 2010-02-28 | Bank Handlowy w Warszawie | bank guarantee |
| **Total** | | | **2 995 980** | | | |

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

## 44.2. 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 |
|---|---|---|---|---|
| **Did not occur** | | | | |
| **Total** | | | - | |

(in PLN'000)

### 44.3. 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, the following claims have been lodged against PGNiG S.A. by land owners:
- land via which pipelines are planned to run;
- land where gas pipelines and other facilities have been installed.

Due to the fact that property claims lodged by owners often have no grounds (which is confirmed by experts' opinions), it is not possible to estimate the related liability.

## 45. OFF-BALANCE SHEET LIABILITIES

### 45.1. Operating lease liabilities

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Up to one year | - | - |
| From 1 to 5 years | - | - |
| Over 5 years | - | - |
| **Total** | **-** | **-** |

### 45.2. Investment liabilities

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Contractual liabilities (net) | 3 833 075 | 1 134 942 |
| Stage of contract completion as at the balance sheet date (net) | 571 386 | 664 695 |
| **Contractual liabilities after the balance sheet date (net)** | **3 261 689** | **470 247** |

(in PLN'000)

## 46. RELATED PARTIES

Polskie Górnictwo Naftowe i Gazownictwo S.A. holds shares in production and service providing businesses. As at 31 December 2008, PGNiG S.A. had 41 related parties including:
- 26 subsidiaries;
- 15 other related companies.

### 46.1. Subsidiaries and associates included in consolidation

| 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 the subsidiary BN Naftomontaż Krosno Sp. z o. o.** | | | |
| 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.

(in PLN'000)

### 46.2. 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 |
|---|---|---|---|---|---|---|---|---|
| Entities consolidated using full consolidation method and equity method | 31 December 2008 | 630 939 | 3 434 780 | 28 338 | 23 197 | 1 720 698 | 1 588 071 | 439 435 |
| | 31 December 2007 | 4 440 424 | 2 050 194 | 1 143 481 | 1 138 343 | 1 350 888 | 1 205 505 | 1 505 887 |
| Other related parties not included in consolidation | 31 December 2008 | 3 719 | 25 108 | 128 290 | 1 034 | 16 343 | - | 91 943 |
| | 31 December 2007 | 2 062 | 17 667 | 128 928 | 976 | 12 523 | - | 94 750 |
| **Total related parties** | **31 December 2008** | **634 658** | **3 459 888** | **156 628** | **24 231** | **1 737 041** | **1 588 071** | **531 378** |
| | **31 December 2007** | **4 442 486** | **2 067 861** | **1 272 409** | **1 139 319** | **1 363 411** | **1 205 505** | **1 600 637** |

The key transactions with shareholders in 2008 and 2007 included dividend payment presented in details in note 18.
In 2008, the Company did not conclude any material transactions with related parties on non-arms-length terms.

Documentation of related party transactions developed by the Company 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 Company 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).

### 46.3. Transactions with entities co-owned by State Treasury

Transactions with entities for which the State Treasury is a shareholderIn 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 2,875 million, which accounted for 15.6% of the sales revenue (in 2007 PLN 2,465 million and 14.8% 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).

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(in PLN'000)

### 46.4. Information on compensation, loans and similar benefits granted to members of management and supervisory bodies

| Full name | 31 December 2008 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** | **2 716.79** | **7 358.22** |
| Michał Szubski - Chairman of the Management Board | 211.37 | 240.04 | 451.41 |
| Mirosław Dobrut – Vice Chairman of the Management Board | 184.8 | 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 2006** | | | |
| 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 | 352,9 | 133,26 | 486,16 |
| Bogusław Marzec | 246,7 | 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 | 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 | 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 |
| Marzec Bogusław - Proxy | 315,06 | 470,38 | 785,44 |
| Bernacik Ewa - 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** |

In the financial year, the Company did not conduct any significant transactions with members of its Management Board and supervisory bodies, their spouses, relatives, family members in straight line up to the second degree or related by care, adoption or custody with a person who is a member of the managing or supervisory bodies in the Company or companies, of which they are majority shareholders or partners. The Company also did not grant any loans to these individuals.

### 46.4. Joint ventures

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 00-060, ul. Królewska 27
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.

All assets, liabilities, revenues and expenses related to the aforementioned joint ventures have been recognized in PGNiG S.A. balance sheet and income statement proportionally to its share in joint venture.

## 47. EMPLOYMENT (NUMBER OF EMPLOYEES)

| **Number of employees as at the end of the period, by segments** | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Company Head Office* | 837 | 604 |
| Prospecting and production | 4 223 | 4 087 |
| Trade and storage | 3 702 | 3 705 |
| Other | 37 | 36 |
| **Total** | **8 799** | **8 432** |

* The Company Head Office provides services to all other segments and is therefore not allocated to any of these segments

In 2008, average employment was 8,590 people (6,873 people in 2007).

## 48. 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 profit on operating activities**

| **Profit on operating activities from the financial statements for Q4 2008** | **383 680** |
|---|---|
| a) Changes in revaluation write-downs on assets | (84 088) |
| b) Other | (6 643) |
| **Profit on operating activities from the financial statements for 2008** | **292 949** |

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

| **Net profit reported for Q4 2008** | **620 285** |
|---|---|
| a) Changes in revaluation write-downs on assets | (84 088) |
| b) Other | (6 317) |
| c) Income tax related to applied adjustments | 3 931 |
| d) Adjustment of deferred tax | 12 425 |
| **Net profit from the financial statements for 2008** | **546 236** |

Main profit/loss adjustment was a result of increase in write-downs of receivables (46.071 PLN '000) and write-downs on property (35.786 PLN '000).
During current reporting period the entity has reviewed the method used to calculate the estimated revenue from gas sales to private consumers.
As a result the entity adjusted the overstated revenue estimates concerning previous years totaled to amount of 46.071 PLN '000. According to IAS 8 a change in accounting estimates result from reassessing the expected future benefits associated with estimated revenue from gas sales to private consumers.
Due to the final review of cash flows generated by mine assets which are the basis for impairment tests, the entity has increased the write-downs on mine assets by 35.786 PLN '000.

(in PLN'000)

## 49. EQUTY MANAGEMENT

The main objective of the Company equity management is to ensure its ability to operate as a going concern including planned investments, and at the same time, to increase its shareholders value.
PGNiG S.A. is monitoring the capital level with the gearing indicator, calculated as the ratio of net debt to total equity increased be net debt. According to the Company's principles, the gearing ratio cannot exceed 35%. The net debt includes loans and credit facilities, finance lease liabilities, trade liabilities and other liabilities reduced by cash and cash equivalents. The equity includes equity due to shareholders of PGNiG S.A.

| | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Loans, credit facilities and finance lease liabilities | 766 974 | 4 396 |
| Trade and other liabilities | 2 813 033 | 3 381 777 |
| Cash and bank balances (-) | (807 861) | (1 055 001) |
| **Net debt** | **2 772 146** | **2 331 172** |
| **Equity** | **17 181 372** | **17 795 968** |
| **Equity and net debt** | **19 953 518** | **20 127 140** |
| **Leverage ratio** | **13,89%** | **11,58%** |

## 50. OTHER MATERIAL INFORMATION

### 50.1. Information on the company 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 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.

### 50.2. 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 4,157.8 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 1,512.6 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 417.3 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, OGNiG Norway AS holds the title to 11.9175% (following uniting Skarv and Snaddun deposits with Idun deposit on 14 September 2007) of the Skarv/Snaddun/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 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).

PGNiG 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**

(in PLN'000)

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 the Murzuq 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 2D 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 million, i.e. PLN 319,874 thousand (at the NBP exchange rate of 31 December 2008).

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.

Shares 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.

*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 in the Kirthar block is conducted in cooperation with Pakistan Petroleum Ltd. with the following cost and share ratio: 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 – Nordsofonden 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 1,450square kilometers of 2D seismic work.

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 has been started since Q1 2008.

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.

### 50.3. Long-term gas supply contracts

Contracts for field sales of gas

In December 2008 a contract was concluded with ZAT S.A. on sales of nitrated gas from Rylowa, Rajsko, Szczepanów and Wierzchosławice deposits. The contract will allow development of these little exploited beds. The contract was concluded for the period of 12 years and projects supplies of about 50 million of cubic meters of gas per year beginning from 2012.

Contracts for system sales of gas

In 2008, 92,000 of new natural gas consumers were connected to the distribution and transmission system, out of which 84,000 were connected to high-methane gas system. The contracts concluded are comprehensive by nature, i.e. include both sales and transport of gas fuel. Among those connected in 2008, some 1,950 consumers represented 5-10 tariff groups, including about 1,800 ones connected to the high-methane system. Other 90,200 consumers belong to 1-4 tariff group, with nearly 82,200 connected to the high-methane system. Gas Trading Branches are in charge of performing these contracts.

Additionally, PGNiG S.A. Head Office concluded 16 comprehensive agreements on sales of gas both for production purposes (eight contracts) and for redistribution (eight contracts). Annual sales of gas projected for 2009 as a result of these contracts exceed 200 million cubic meters.

Additionally, in 2008 PGNiG S.A. concluded contracts on gas sales for internal purposes with distribution system operators and the transmission system operator, including:

- GOSD Sp. z o.o. - at present Górnośląska Spółka Gazownictwa Sp. z o.o.;
- POSD Sp. z o.o. - at present Pomorska Spółka Gazownictwa Sp. z o.o.;
- WOSD Sp. z o.o. - at present Wielkopolska Spółka Gazownictwa Sp. z o.o.;
- MOSD Sp. z o.o. - at present Mazowiecka Spółka Gazownictwa Sp. z o.o.;
- KOSD Sp. z o.o. - at present Karpacka Spółka Gazownictwa Sp. z o.o.;
- DOSD Sp. z o.o. - at present Dolnośląska Spółka Gazownictwa Sp. z.o.o.;
- OGP GAZ-SYSTEM S.A. - for L group gas fuel.

### 50.4. Gas fuel purchase contracts

In 2008, PGNiG S.A. imported gas mainly under the following agreements and contracts, i.e. a long-term contract regarding import from Russia and Germany, as well as medium-term agreements on gas supplies from central Asia and from German portfolio.

- Purchase/sales gas delivery contract of 25 September 1996 with OOO Gazprom eksport, which is binding until 2022;
- Lasów gas sales agreement of 17 August 2006 with VNG-Verbundnetz Gas AG., binding until 1 October 2016;
- Gas sales agreement of 15 September 2004 with VNG-Verbundnetz GAS AG/ E.ON Ruhrgas AG, which is binding until 30 September 2008;
- Gas sales agreement of 17 November 2006 with ROSUKRENERGO AG, binding until 1 January 2010 inclusive with an option to be extended until 1 January 2012;
- Lasów gas sales agreement of 29 August 2006 with VNG-Verbundnetz Gas AG., binding until 1 October 2011;

In addition, PGNiG S.A. imported off-system gas fuel based on the following agreements and contracts as supply to various regions in Poland:

- Contract for exchange of natural gas of 22 October 1992 with VNG-Verbundnetz Gas AG binding until 1 October 2007; an unlimited duration contract annually extended by annexes (gas supplies for border areas on both sides of Polish/German border);
- Natural gas supply contract of 26 October 2004 with NAK „Naftogaz Ukrainy", binding until 2020 (supply of the Hrubieszów region);
- Natural gas sales contract of 4 February 2004 with Severomoravská plynárenská a.s., binding until 31 March 2007 (supply of the city of Branice);
- Aggregated gas supply contract with Severomoravská plynárenská a.s. a PGNiG S.A. of 27 March 2008. The agreement came into force on 1 April 2008 and expired on 31 December 2008. As at 1 January 2009 it was extended by other 12 months.

### 50.5. 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 current value of the shares on the stock exchange exceeds PLN 2.6 billion. They will be able to sell the shares, though, only beginning from July next year. By then, they will not be charged for maintaining the shares on accounts in CDM Pekao SA, which was paid by PGNiG PLN 1.2 million for that service. 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 has started on 6 April 2009.

The market value of the above shares as at the date of these financial statements (7 April 2009) accounted for 2.512.500 PLN '000.

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.

## 51. 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. 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 each. The newly created shares were assumed by the sole shareholder Polskie Górnictwo Naftowe i Gazownictwo S.A. and covered with a non-cash contribution in the form of non-current assets included in the transmission or distribution network. The book value of contributed-in-kind assets recorded in the accounting records of PGNiG S.A. amounts to PLN 54,899 thousand. Following registration of the share capital increase, the total number of votes in the Company amounts to 1,033,186. PGNiG S.A. holds 100% of shares in WSG Sp. z o.o., which represent 100% of votes at Shareholders Meeting.

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

d. 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.

e. 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.

f. 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 million 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.