Polskie Górnictwo Naftowe i Gazownictwo SA

CONSOLIDATED ANNUAL REPORT OF THE PGNiG GROUP FOR THE YEAR 2013

CONSOLIDATED ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31ST 2013 COMPRISES:

1. LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD
2. AUDITOR'S OPINION AND REPORT FROM THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
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4. CONSOLIDATED FINANCIAL STATEMENTS OF THE PGNIG GROUP FOR THE YEAR ENDED DECEMBER 31ST 2013
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FINANCIAL HIGHLIGHTS

for the year ended December 31st 2013

	PLNm		EURm	
	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Revenue	32,120	28,730	7,628	6,884
Operating profit/(loss)	3,149	2,540	748	609
Profit/(loss) before tax	2,709	2,549	643	611
Net profit/(loss) attributable to owners of the parent	1,918	2,242	455	537
Net profit/(loss)	1,920	2,240	456	537
Comprehensive income attributable to owners of the parent	2,021	2,049	480	491
Total comprehensive income	2,023	2,047	480	490
Net cash flows from operating activities	7,813	2,552	1,855	611
Net cash flows from investing activities	(3,060)	(6,149)	(727)	(1,473)
Net cash flows from financing activities	(3,874)	4,040	(920)	968
Change in cash	879	443	209	106
Earnings/(loss) and diluted earnings/(loss) per share attributable to owners of the parent (in PLN and EUR, respectively)	0.33	0.38	0.08	0.09
	Dec 31 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Total assets	47,144	47,929	11,368	11,724
Total liabilities	18,691	20,732	4,507	5,071
Total non-current liabilities	10,853	11,119	2,617	2,720
Total current liabilities	7,838	9,613	1,890	2,351
Total equity	28,453	27,197	6,861	6,653
Share capital	5,900	5,900	1,423	1,443
Weighted average number of shares (million)	5,900	5,900	5,900	5,900
Book value per share and diluted book value per share (in PLN and EUR, respectively)	4.82	4.61	1.16	1.13
Dividend per share declared or paid (in PLN and EUR, respectively)	0.13	-	0.03	-

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

Items of the statement of financial position were translated at the average EUR/PLN exchange rate quoted by the NBP at the end of the given period.

Average EUR/PLN exchange rates quoted by the NBP

	Dec 31 2013	Dec 31 2012
Average exchange rate for the period	4.2110	4.1736
Exchange rate at end of the period	4.1472	4.0882

CONSOLIDATED FINANCIAL STATEMENTS
OF THE PGNiG GROUP
FOR THE YEAR 2013

prepared in accordance with the International
Financial Reporting Standards
endorsed by the European Union

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CONSOLIDATED INCOME STATEMENT
for the year ended December 31st 2013

	Note	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
		audited	restated
Revenue	**3**	**32,120**	**28,730**
Raw material and consumables used	4.1	(19,512)	(17,603)
Employee benefits expense	4.2	(3,214)	(3,047)
Depreciation and amortisation expense		(2,463)	(2,069)
Services	4.3	(3,245)	(3,060)
Work performed by the entity and capitalised		983	1,006
Other income and expenses	4.4	(1,520)	(1,417)
Total operating expenses	**3**	**(28,971)**	**(26,190)**
Operating profit/(loss)		**3,149**	**2,540**
Finance income	5	69	216
Finance costs	5	(465)	(380)
Share in net profit/loss of equity-accounted entities	6	(44)	173
Profit/(loss) before tax		**2,709**	**2,549**
Income tax	7	(789)	(309)
Net profit/(loss)		**1,920**	**2,240**
Attributable to:			
Owners of the parent		1,918	2,242
Non-controlling interests		2	(2)
Earnings/(loss) and diluted earnings/loss per share attributable to holders of ordinary shares of the parent (PLN)	9	**0.33**	**0.38**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31st 2013

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
	audited	restated
Net profit/(loss)	**1,920**	**2,240**
Other comprehensive income that will be reclassified to profit or loss once specific conditions are met, relating to:	**5**	**(204)**
Exchange differences on translating foreign operations	(53)	(2)
Hedge accounting	72	(250)
Revaluation of financial assets available for sale	-	-
Deferred tax	(14)	48
Other comprehensive income that will not be reclassified to profit or loss, relating to:	**98**	**11**
Actuarial gains/(losses) on employee benefits	117	14
Deferred tax	(19)	(3)
Other comprehensive income, net	**103**	**(193)**
Total comprehensive income	**2,023**	**2,047**
Attributable to:		
Owners of the parent	2,021	2,049
Non-controlling interests	2	(2)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at Dec 31 2013

	Note	Dec 31 2013	Dec 31 2012	Jan 1–
		audited	restated	restated
ASSETS				
Non-current assets				
Property, plant and equipment	11	33,033	33,784	29,319
Investment property	12	9	11	7
Intangible assets	13	1,164	1,146	343
Investments in equity-accounted associates	6	727	771	598
Financial assets available for sale	14	51	48	56
Other financial assets	15	191	124	10
Deferred tax assets	16	993	1,136	936
Other non-current assets	17	71	76	48
Total non-current assets		**36,239**	**37,096**	**31,317**
Current assets				
Inventories	18	3,378	3,064	2,082
Trade and other receivables	19	4,086	5,374	3,378
Current tax assets	20	48	150	164
Other assets	21	171	84	78
Financial assets available for sale	22	-	-	22
Derivative financial instrument assets	34	307	105	285
Cash and cash equivalents	23	2,827	1,948	1,505
Assets held for sale	24	88	108	9
Total current assets		**10,905**	**10,833**	**7,523**
Total assets		**47,144**	**47,929**	**38,840**
LIABILITIES AND EQUITY				
Equity				
Share capital	25	5,900	5,900	5,900
Share premium		1,740	1,740	1,740
Accumulated other comprehensive income		(49)	(152)	41
Retained earnings/(deficit)		20,856	19,705	17,463
Equity attributable to owners of the parent		**28,447**	**27,193**	**25,144**
Equity attributable to non-controlling interests		6	4	7
Total equity		**28,453**	**27,197**	**25,151**
Non-current liabilities				
Borrowings and other debt instruments	26	5,385	5,509	1,382
Employee benefit obligations	27	502	381	351
Provisions	28	1,405	1,792	1,358
Deferred income	29	1,533	1,448	1,160
Deferred tax liabilities	30	1,970	1,936	1,572
Other non-current liabilities	31	58	53	20
Total non-current liabilities		**10,853**	**11,119**	**5,843**
Current liabilities				
Trade and other payables	32	4,033	3,667	3,236
Borrowings and other debt instruments	26	2,276	4,702	3,617
Derivative financial instrument liabilities	35	124	393	417
Current tax liabilities	20	184	24	58
Employee benefit obligations	27	375	356	238
Provisions	28	645	350	185
Deferred income	29	186	101	95
Liabilities related to assets available for sale	24	15	20	-
Total current liabilities		**7,838**	**9,613**	**7,846**
Total liabilities		**18,691**	**20,732**	**13,689**
Total liabilities and equity		**47,144**	**47,929**	**38,840**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31st 2013

	Note	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
		audited	restated
Cash flows from operating activities			
Net profit/(loss)		1,920	2,240
Adjustments:			
Share in net profit/loss of equity-accounted entities		44	(173)
Depreciation and amortisation expense		2,463	2,069
Net foreign exchange gains/(losses)		169	(142)
Net interest and dividend		207	234
Gain/(loss) on investing activities		568	138
Current tax expense		789	309
Other items, net	33	430	470
Income tax expense		(495)	(591)
Cash flows from operating activities before changes in working capital		**6,095**	**4,554**
Change in working capital:			
Change in receivables	33	1,310	(1,734)
Change in inventories	33	(321)	(620)
Change in employee benefit obligations	33	140	52
Change in provisions	33	299	140
Change in current liabilities	33	394	248
Change in other assets	33	(89)	(22)
Change in deferred income	33	(15)	(66)
Net cash flows from operating activities		**7,813**	**2,552**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets		130	208
Proceeds from disposal of shares in non-consolidated entities		1	5
Proceeds from disposal of short-term securities		-	21
Purchase of property, plant and equipment and intangible assets		(3,290)	(3,788)
Purchase of shares in non-consolidated entities		(2)	-
Interest received		1	3
Dividends received		3	4
Purchase of shares in PGNiG TERMIKA S.A.		-	(3,021)
Other items, net		97	419
Net cash flows from investing activities		**(3,060)**	**(6,149)**
Cash flows from financing activities			
Increase in loans and borrowings		763	193
Proceeds from issue of debt securities		1,475	8,649
Repayment of borrowings		(700)	(972)
Repayment of debt securities		(4,322)	(3,354)
Payment of finance lease liabilities		(57)	(44)
Cash inflow from derivative financial instruments		83	-
Cash outflow on derivative financial instruments		(116)	(111)
Dividend paid		(767)	(1)
Interest paid		(208)	(317)
Other items, net		(25)	(3)
Net cash flows from financing activities		**(3,874)**	**4,040**
Net change in cash		**879**	**443**
Exchange differences on cash and cash equivalents	33	-	-
Cash and cash equivalents at beginning of the period	**33**	**1,947**	**1,504**
Cash and cash equivalents at end of the period	**33**	**2,826**	**1,947**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31st 2013

	Equity (attributable to owners of the parent)							Equity (attributable to non-controlling interests)	Total equity
			Accumulated other comprehensive income, including:						
	Share capital	Share premium	exchange differences on translating foreign operations	hedge accounting	actuarial gains/(losses) on employee benefits	Retained earnings/(deficit)	**Total**		
As at Jan 1 2013 (restated)	**5,900**	**1,740**	**(31)**	**(59)**	**(62)**	**19,705**	**27,193**	**4**	**27,197**
Payment of dividend to owners	-	-	-	-	-	(767)	**(767)**	-	**(767)**
Total comprehensive income	**-**	**-**	**(53)**	**58**	**98**	**1,918**	**2,021**	**2**	**2,023**
Net profit/(loss) for 2013	-	-	-	-	-	1,918	**1,918**	2	**1,920**
Other comprehensive income, net, for 2013	-	-	(53)	58	98	-	**103**	-	**103**
As at Dec 31 2013 (audited)	**5,900**	**1,740**	**(84)**	**(1)**	**36**	**20,856**	**28,447**	**6**	**28,453**
As at Jan 1 2012 (restated)	**5,900**	**1,740**	**(29)**	**143**	**(73)**	**17,463**	**25,144**	**7**	**25,151**
Payment of dividend to owners	-	-	-	-	-	-	**-**	(1)	**(1)**
Total comprehensive income	**-**	**-**	**(2)**	**(202)**	**11**	**2,242**	**2,049**	**(2)**	**2,047**
Net profit/(loss) for 2012	-	-	-	-	-	2,242	**2,242**	(2)	**2,240**
Other comprehensive income, net, for 2012	-	-	(2)	(202)	11	-	**(193)**	-	**(193)**
As at Dec 31 2012 (restated)	**5,900**	**1,740**	**(31)**	**(59)**	**(62)**	**19,705**	**27,193**	**4**	**27,197**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at Dec 31 2013

1. GENERAL INFORMATION

1.1. Company name, business profile and key registry data

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

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

PGNiG S.A. shares are listed on the Warsaw Stock Exchange ("WSE"). The Company's core business includes exploration for and production of crude oil and natural gas, import, storage and sale of gas fuels, as well as trade in electricity.

The PGNiG Group is the only vertically integrated company in the Polish gas sector, holding the leading position in all segments of the country's gas industry. It is also a significant domestic producer of heat and electricity. The scope of the PGNiG Group's business comprises oil and gas exploration, oil and gas production from deposits in Poland, as well as import, storage and distribution of and trade in gas fuels. The PGNiG Group is the main importer of gas fuel from Russia, Germany and the Czech Republic and the main producer of natural gas from Polish deposits. The Company's upstream operations are one of the key contributors to PGNiG's competitive position on the liberalised gas market in Poland.

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

1.2. Duration of the PGNiG Group

The Parent and the Group subsidiaries were incorporated for an unspecified time.

1.3. Reporting period of these consolidated financial statements

These consolidated financial statements present data as at December 31st 2013 and for the period January 1st–December 31st 2013, with comparative financial data for the relevant periods of 2012.

1.4. Structure of the Group

As at December 31st 2013, the Group comprised PGNiG S.A. (the Parent), and 30 production and service companies, including:

- 22 direct subsidiaries of PGNiG S.A.,
- 8 indirect subsidiaries of PGNiG S.A.

The list of the PGNiG Group companies as at December 31st 2013 is presented in the table below.

No.	Company name	Share capital (PLN) 1)	Value of shares held by PGNiG S.A. (PLN) 1)	Ownership interest (%): equity	Ownership interest (%): voting rights
	PGNiG S.A.'s direct subsidiaries				
1	BSiPG Gazoprojekt S.A.	4,000,000	900,000	22.5%2)	22.5%2)
2	Exalo Drilling S.A.	981,500,000	981,500,000	100%	100%
3	GEOFIZYKA Kraków S.A.	64,400,000	64,400,000	100%	100%
4	GEOFIZYKA Toruń S.A.	66,000,000	66,000,000	100%	100%
5	Geovita S.A.	86,139,000	86,139,000	100%	100%
6	Operator Systemu Magazynowania Sp. z o.o.	15,290,000	15,290,000	100%	100%
7	PGNiG Serwis Sp. z o.o.	9,995,000	9,995,000	100%	100%
8	PGNiG Technologie S.A.	182,127,240	182,127,240	100%	100%
9	PGNiG TERMIKA S.A.	670,324,950	670,324,950	100%	100%
10	Polska Spółka Gazownictwa Sp. z o.o.	10,454,206,550	10,454,206,550	100%	100%
11	PGNiG Finance AB	500,000 (SEK)	500,000 (SEK)	100%	100%
12	PGNiG Sales & Trading GmbH	10,000,000 (EUR)	10,000,000 (EUR)	100%	100%
13	PGNiG Upstream International AS	1,092,000,000 (NOK)	1,092,000,000 (NOK)	100%	100%
14	Polish Oil and Gas Company - Libya B.V.	20,000 (EUR)	20,000 (EUR)	100%	100%
15	Biogazownia Ostrowiec Sp. z o.o. w likwidacji (in liquidation)	165,000	165,000	100%	100%
16	BUD-GAZ P.P.U.H. Sp. z o.o. w likwidacji (in liquidation)	51,760	51,760	100%	100%
17	NYSAGAZ Sp. z o.o.	9,881,000	6,549,000	66.28%	66.28%
18	PGNiG Obrót Detaliczny Sp. z o.o.	1,000,000	1,000,000	100%	100%
19	PGNiG SPV 5 Sp. z o.o.	250,000	250,000	100%	100%
20	PGNiG SPV 6 Sp. z o.o.	250,000	250,000	100%	100%
21	PGNiG SPV 7 Sp. z o.o.	250,000	250,000	100%	100%
22	Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji (in liquidation)	1,212,000	1,212,000	100%	100%
	PGNiG S.A.'s indirect subsidiaries				
23	CHEMKOP Sp. z o.o.	3,000,000	2,565,350	85.51%	85.51%
24	GAZ Sp. z o.o.	300,000	240,000	80%	80%
25	Powiśle Park Sp. z o.o.	81,131,000	81,131,000	100%	100%
26	Zakład Gospodarki Mieszkaniowej Sp. z o.o.	1,806,500	1,806,500	100%	100%
27	Oil Tech International F.Z.E.	20,000 (USD)	20,000 (USD)	100%	100%
28	Poltava Services LLC	20,000 (EUR)	19,800 (EUR)	99%	99%
29	PT Geofizyka Toruń Indonezja LLC w likwidacji (in liquidation)	8,773,000,000 (IDR)	4,825,150,000 (IDR)3)	55%	55%
30	XOOL GmbH	500,000 (EUR)	500,000 (EUR)	100%	100%

1) Unless stated otherwise.

2) PGNiG S.A. holds a 22.50% direct interest in the share capital of BSiPG Gazoprojekt S.A., while its indirect interest through PGNiG Technologie S.A. is 52.50%. PGNiG S.A. has the right to appoint the majority of the company's Supervisory Board members.

3) The company's share capital, which following translation into USD amounts to USD 1,000 thousand, has been partly paid up by Geofizyka Toruń Sp. z o.o.: by December 31st 2012 Geofizyka Toruń Sp. z o.o. had paid USD 40.7 thousand.

1.5. Consolidated data.

These financial statements contain consolidated data of the Parent, its 14 subsidiaries (of which three are parents of their own groups), one associate and one jointly-controlled entity.

Consolidated entities of the Group as at December 31st 2013

	Company name	Country	% ownership interest of PGNiG S.A.	
	PGNiG S.A. (Parent)	Poland		
	Direct subsidiaries of PGNiG S.A.		**Dec 31 2013**	**Dec 31 2012**
1	BSiPG Gazoprojekt S.A.[1)]	Poland	75,00%	75,00%
2	Exalo Drilling Group (formerly PGNiG Poszukiwania Group) [2)]	Poland	100.00%	100.00%
3	GEOFIZYKA Kraków S.A.	Poland	100.00%	100.00%
4	GEOFIZYKA Toruń S.A.	Poland	100.00%	100.00%
5	Geovita S.A.	Poland	100.00%	100.00%
6	Operator Systemu Magazynowania Sp. z o.o.	Poland	100.00%	100.00%
7	PGNiG Serwis Sp. z o.o.	Poland	100.00%	100.00%
8	PGNiG Technologie S.A.	Poland	100.00%	100.00%
9	PGNiG TERMIKA S.A.[3)]	Poland	100.00%	99.99%
10	Polska Spółka Gazownictwa Group (formerly PGNiG SPV 4 Group) [4)]	Poland	100.00%	-
11	PGNiG Finance AB	Sweden	100.00%	100.00%
12	PGNiG Sales&Trading Group [5)]	Germany	100.00%	100.00%
13	PGNiG Upstream International AS (formerly PGNiG Norway AS)	Norway	100.00%	100.00%
14	Polish Oil And Gas Company – Libya B.V.	The Netherlands	100.00%	100.00%
15	Dolnośląska Spółka Gazownictwa Sp. z o.o. [4)]	Poland	-	100.00%
16	Górnośląska Spółka Gazownictwa Sp. z o.o. [4)]	Poland	-	100.00%
17	INVESTGAS S.A. [6)]	Poland	-	100.00%
18	Karpacka Spółka Gazownictwa Sp. z o.o. [4)]	Poland	-	100.00%
19	Mazowiecka Spółka Gazownictwa Group [4), 7)]	Poland	-	100.00%
20	PGNiG Energia S.A. [8)]	Poland	-	100.00%
21	Pomorska Spółka Gazownictwa Sp. z o.o. [4)]	Poland	-	100.00%
22	Poszukiwania Naftowe Diament Sp. z o.o. [9)]	Poland	-	100.00%
23	Poszukiwania Nafty i Gazu Jasło S.A. [9)]	Poland	-	100.00%
24	Poszukiwania Nafty i Gazu Kraków Group [9), 10)]	Poland	-	100.00%
25	Poszukiwania Nafty i Gazu NAFTA S.A. [9)]	Poland	-	100.00%
26	Wielkopolska Spółka Gazownictwa Sp. z o.o. [4)]	Poland	-	100.00%
27	Zakład Robót Górniczych Krosno Sp. z o.o. [9)]	Poland	-	100.00%
	Equity-accounted jointly-controlled and associated entities			
28	GAS - TRADING S.A.	Poland	43.41%	43.41%
29	SGT EUROPOL GAZ S.A. [11)]	Poland	49.74%	49.74%

1) PGNiG S.A. holds a 22.50% direct interest in the share capital of BSiPG Gazoprojekt S.A., while its indirect interest through PGNiG Technologie S.A. is 52.50%. PGNiG S.A. has the right to appoint the majority of the company's Supervisory Board members.

2) The Exalo Drilling Group comprises Exalo Drilling S.A. and its subsidiaries: Oil Tech International-F.Z.E. and Poltava Services LLC.

3) PGNiG S.A.'s ownership interest in PGNiG Termika, excluding treasury shares held for retirement.

4) The Polska Spółka Gazownictwa Group comprises Polska Spółka Gazownictwa Sp. z o.o. (on July 1st 2013, PGNiG SPV 4 Sp. z o.o. merged with six gas distribution companies, that is Dolnośląska Spółka Gazownictwa Sp. z o.o., Górnośląska Spółka Gazownictwa Sp. z o.o., Karpacka Spółka Gazownictwa Sp. z o.o., Mazowiecka Spółka Gazownictwa Sp. z o.o., Pomorska Spółka Gazownictwa Sp. z o.o. and Wielkopolska Spółka Gazownictwa Sp. z o.o.), and its subsidiaries Powiśle Park Sp. z o.o. and GAZ Sp. z o.o.

5) The PGNiG Sales &Trading Group comprises PGNiG Sales &Trading GmbH and its subsidiary XOOL GmbH.

6) On July 1st 2013, INVESTGAS S.A. merged with Operator Systemu Magazynowania Sp. z o.o. (Operator Systemu Magazynowania Sp. z o.o. was the acquiring company);

7) The Mazowiecka Spółka Gazownictwa Group comprised Mazowiecka Spółka Gazownictwa Sp. z o.o. and its subsidiary Powiśle Park Sp. z o.o.

8) On July 23rd 2013, PGNiG Energia S.A. merged with PGNiG S.A. (PGNiG S.A. was the acquiring company);

9) Since February 1st 2013, these have operated as branches of Exalo Drilling S.A.

10) Prior to February 1st 2013, the Poszukiwania Nafty i Gazu Kraków Group comprised Poszukiwania Nafty i Gazu Kraków S.A. and its subsidiaries: Oil Tech International-F.Z.E. and Poltava Services LLC.

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

1.6. Changes in the Group's structure, including changes resulting from mergers, acquisitions or disposals of Group entities, as well as long-term investments, demergers, restructurings or discontinuation of operations

The most important changes in the structure of the PGNiG Group in 2013 included:

- On January 2nd 2013, the Extraordinary General Meeting of BUD-GAZ PPUH Sp. z o.o. resolved to wind up the company and begin the liquidation process;
- On January 25th 2013, the Extraordinary General Meeting of PGNiG Poszukiwania S.A. resolved to amend the company's Articles of Association by changing the company name to Exalo Drilling S.A. The amendment was registered with the National Court Register on February 6th 2013;
- On February 1st 2013, the merger of PGNiG Poszukiwania S.A. with five drilling and well service companies from the PGNiG Group (PNiG Kraków S.A., PNiG NAFTA S.A., PNiG Jasło S.A., PN Diament Sp. z o.o. and ZRG Krosno Sp. z o.o.) was registered with the National Court Register;
- On February 15th 2013, the Extraordinary General Meeting of PGNiG SPV 4 Sp. z o.o. resolved to increase the company's share capital by PLN 990,000, to PLN 995,000, by way of an issue of 19,800 new shares with a par value of PLN 50 per share, which were subscribed for by PGNiG S.A. and fully paid for with cash. The share capital increase was registered with the National Court Register on March 6th 2013;
- On February 28th 2013, the Extraordinary General Meeting of PGNiG TERMIKA S.A. resolved to increase the company's share capital by PLN 33,984,000, to PLN 896,300,000, by way of an issue of 3,398,400 Series D shares. All new issue shares were subscribed for by PGNiG S.A. The increase was registered with the National Court Register on March 22nd 2013. In addition, a formal procedure to purchase 391 shares from minority shareholders under Art. 418 of the Commercial Companies Code was underway. Upon its completion, on May 13th 2013, the Extraordinary General Meeting of PGNiG TERMIKA S.A. resolved to retire all of the company's 24,630,000 treasury shares without consideration. Also, a resolution was passed to reduce the company's share capital by PLN 246,300,000 - from PLN 896,300,000 to PLN 650,000,000. These changes were registered with the National Court Register on May 27th 2013; the court also registered PGNiG S.A. as the only shareholder in the company;
- Following a resolution of the Extraordinary General Meeting of Biogazownia Ostrowiec Sp. z o.o., passed on December 14th 2012, to increase the company's share capital from PLN 105,000 to PLN 165,000 by way of an issue of 1,200 new shares with a par value of PLN 50 per share, on March 5th 2013 the share capital increase was registered with the National Court Register. All new issue shares were subscribed for by PGNiG Energia S.A., the company's sole shareholder, and paid for with a cash contribution of PLN 60,000, made by contractual set-off of Biogazownia Ostrowiec Sp. z o.o.'s liabilities towards PGNiG Energia S.A. under a loan against the amount payable by PGNiG Energia S.A. for the shares;
- On March 27th 2013, the General Meeting of PGNiG Norway AS resolved to amend the company's Articles of Association by changing the company name to PGNiG Upstream International AS. On May 23rd 2013, the change of the company name (amendment to its Articles of Association) from PGNiG Norway AS to PGNiG Upstream International AS was formally registered;
- Pursuant to an agreement of April 15th 2013 executed between the State Treasury and INVESTGAS S.A., the latter acquired further 307 shares in Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o. (shares that were not subscribed for by the eligible employees or their heirs). The shares were acquired upon the execution of the

agreement. Thus INVESTGAS S.A.'s interest in the company's share capital increased from 85% to 85.51%;

- On May 14th 2013, the Extraordinary General Meeting of Biogazownia Ostrowiec Sp. z o.o. resolved to wind up the company and begin the liquidation process. The liquidation was registered with the National Court Register on July 29th 2013;
- On May 24th 2013, the Extraordinary General Meeting of PGNiG SPV 4 Sp. z o.o. (acquiring company) passed a resolution to merge with Karpacka Spółka Gazownictwa Sp. z o.o., Górnośląska Spółka Gazownictwa Sp. z o.o., Mazowiecka Spółka Gazownictwa Sp. z o.o., Wielkopolska Spółka Gazownictwa Sp. z o.o., Pomorska Spółka Gazownictwa Sp. z o.o., Dolnośląska Spółka Gazownictwa Sp. z o.o. (target companies). The merger was effected under Art. 492.1.1 of the Commercial Companies Code through transfer of all assets and obligations of the target companies to the acquiring company in exchange for shares which the acquiring company would issue to the shareholder of the target companies (merger through acquisition). On May 24th 2013, the Extraordinary General Meetings of the target companies passed resolutions to approve the merger. The merger was registered with the National Court Register on July 1st 2013. Following the transaction, the share capital of PGNiG SPV 4 Sp. z o.o. was increased from PLN 995,000 to PLN 10,454,206,550.
- On May 28th 2013, the Extraordinary General Meeting of Operator Systemu Magazynowania Sp. z o.o. (acquiring company) passed a resolution to merge with INVESTGAS S.A. (target company), the merger to be effected under Art. 492.1.1 of the Commercial Companies Code through transfer of all assets of the target company (merger through acquisition) to the acquiring company in exchange for shares in its increased share capital. On May 28th 2013, the Extraordinary General Meeting of INVESTGAS S.A. passed relevant resolutions to approve the merger. The merger was registered with the National Court Register on July 1st 2013. Following the transaction, the share capital of Operator Systemu Magazynowania Sp. z o.o. was increased from PLN 5,000,000 to PLN 15,290,000;
- On June 13th 2013, the Extraordinary General Meeting of PGNiG Technologie S.A. passed a resolution to increase the company's share capital by PLN 15,213,240, to PLN 182,127,240. All new issue shares were subscribed for by PGNiG S.A. and paid for with a contribution of 21,000 shares in BSiPG Gazoprojekt S.A. The changes were registered with the National Court Register on June 21st 2013. Following the transaction, PGNiG S.A.'s direct interest in the share capital of BSiPG Gazoprojekt S.A. fell to 22.50%, while its indirect interest through PGNiG Technologie S.A. was 52.50%.
- On June 26th 2013, the Extraordinary General Meeting of PGNiG S.A. approved the merger, to be effected under Art. 492.1.1 of the Commercial Companies Code, of PGNiG Energia S.A. as the target company with PGNiG S.A. as the acquiring company, through transfer, by way of universal succession, of all assets of the target company (including 14,100,000 shares in Elektrociepłownia Stalowa Wola S.A. and all shares in Biogazownia Ostrowiec Sp. z o.o. w likwidacji (in liquidation) held by PGNiG Energia S.A.), to the acquiring company as the sole shareholder of the target company, and dissolution of the target company without a liquidation procedure (merger through acquisition), pursuant to Art. 515.1 of the Commercial Companies Code, that is without increasing the share capital of the acquiring company. The Extraordinary General Meeting of PGNiG Energia S.A. gave its relevant approvals on June 28th 2013. The merger was registered with the National Court Register on July 23rd 2013;
- On August 12th 2013, by virtue of a resolution of the Extraordinary General Meeting, the name of PGNiG SPV 4 Sp. z o.o. was changed to Polska Spółka Gazownictwa Sp. z o.o. The change was registered with the National Court Register on September 12th 2013;

- On August 22nd 2013, the Extraordinary General Meeting of Polskie Elektrownie Gazowe Sp. z o.o. resolved to wind up the company and begin the liquidation process. The liquidation was registered with the National Court Register on October 7th 2013;
- On October 30th 2013, the Extraordinary General Meeting of PGNiG TERMIKA S.A. passed Resolution No. 1 to increase the share capital of PGNiG TERMIKA S.A. from PLN 650,000,000 to PLN 670,324,950, that is by PLN 20,324,950. The increase was effected by way of an issue of 2,032,495 Series E shares with a par value of PLN 10 per share, numbered from 0 000 001 to 2 032 495. All Series E shares were fully covered with an in-kind contribution in the form of 14,100,000 registered non-preference shares with a par value of PLN 1 per share, in Elektrociepłownia Stalowa Wola S.A. of Stalowa Wola. The increase of PGNiG TERMIKA S.A.'s share capital was registered with the National Court Register on November 20th 2013;
- On October 31st 2013, a new company under the name of PGNiG Obrót Detaliczny Sp. z o.o. was established. All shares in the company were subscribed for by its sole shareholder PGNiG S.A. The company's share capital was PLN 1,000,000 and was divided into 10,000 shares with a par value of PLN 100 per share. The company was registered with the National Court Register on December 3rd 2013;
- On November 21st 2013, a new company under the name of PGNiG SPV 5 Sp. z o.o. was established. All shares in the company were subscribed for by its sole shareholder PGNiG S.A. The company's share capital was PLN 250,000 and was divided into 2,500 shares with a par value of PLN 100 per share. The company was registered with the National Court Register on December 13th 2013;
- On November 21st 2013, a new company under the name of PGNiG SPV 6 Sp. z o.o. was established. All shares in the company were subscribed for by its sole shareholder PGNiG S.A. The company's share capital was PLN 250,000 and was divided into 2,500 shares with a par value of PLN 100 per share. The company was registered with the National Court Register on December 11th 2013;
- On November 21st 2013, a new company under the name of PGNiG SPV 7 Sp. z o.o. was established. All shares in the company were subscribed for by its sole shareholder PGNiG S.A. The company's share capital was PLN 250,000 and was divided into 2,500 shares with a par value of PLN 100 per share. The company was registered with the National Court Register on December 9th 2013.

1.7. Composition of the PGNiG Management Board

As at December 31st 2013, the PGNiG Management Board consisted of four members:

- Jarosław Bauc – Vice-President, Finance,
- Jerzy Kurella – Vice-President, Trade,
- Andrzej Parafianowicz – Vice-President, Corporate Affairs,
- Zbigniew Skrzypkiewicz – Vice-President, Exploration & Production.

In the period from January 1st 2013 to the date of these financial statements, the following changes occurred in the composition of the PGNiG Management Board:

- On January 22nd 2013, Mr Sławomir Hinc resigned, with effect as of March 31st 2013, from his position as Member of the PGNiG Management Board. The reason for the resignation was his appointment as President (CEO) of PGNiG Upstream International AS (formerly: PGNiG Norway AS), PGNiG S.A.'s subsidiary, with effect as of April 1st 2013;
- On February 27th 2013, the PGNiG Supervisory Board appointed Mr Krzysztof Bocian as Vice-President, Exploration & Production, and Mr Jacek Murawski as Vice-President, Finance, with effect as of April 1st 2013, for a joint term of office expiring on March 13th 2014. Following the receipt of Mr Krzysztof Bocian's declaration on avoidance of the legal effects of acceptance of the position, on April 2nd 2013 the PGNiG Supervisory Board resolved to cancel the resolution to appoint Mr Krzysztof Bocian as Vice-President of the PGNiG Management Board for Exploration & Production and to close the recruitment process with the position left vacant.
- On April 29th 2013, the PGNiG Supervisory Board removed Ms Grażyna Piotrowska-Oliwa from her position as President of the PGNiG Management Board. On the same day, Mr Radosław Dudziński was removed from his position as Vice-President of the PGNiG Management Board for Trade. The reason for their removal was the negative assessment of the members' performance in connection with the signing of a Memorandum of Understanding between SGT EUROPOL GAZ S.A. and OOO Gazprom Export, on evaluation of the economic viability of potential construction of the Yamal II gas pipeline (the Memorandum was signed in Petersburg on April 4th 2013). Concurrently, Mr Mirosław Szkałuba, Member of the PGNiG Management Board, was delegated to coordinate the Management Board's activities until appointment of the new president, and steps were promptly taken to initiate the recruitment process for new Management Board members.
- On June 11th 2013, the PGNiG Supervisory Board appointed Mr Jerzy Kurella as Vice-President of the PGNiG Management Board for Trade, with effect as of June 14th 2013,and resolved to close the recruitment procedure for the position of President of the PGNiG Management Board without selecting any candidate;
- On July 1st 2013, the PGNiG Supervisory Board appointed Mr Jerzy Kurella, Vice-President, as acting President of the Management Board until the new president is appointed;
- On September 16th 2013, Mr Zbigniew Skrzypkiewicz, Member of the PGNiG Supervisory Board, was delegated by the PGNiG Supervisory Board to temporarily serve as Member of the PGNiG Management Board for Corporate Affairs in the period from September 16th to December 16th 2013;
- On December 20th 2013, Mr Mirosław Szkałuba resigned from his position of Management Board Member, with effect from December 20th 2013, without stating reasons for his resignation.

- On December 30th 2013, the PGNiG Supervisory Board removed the Company's Management Board, composed of:
  - Mr Jerzy Kurella – Vice-President, Trade, and acting President of the PGNiG Management Board;
  - Mr Jacek Murawski – Vice-President, Finance.

  At the same time, it appointed a new PGNiG Management Board, for a joint three-year term of office to begin on December 30th 2013, composed of:
  - Mr Mariusz Zawisza – President (appointment effective as of January 1st 2014),
  - Mr Jarosław Bauc – Vice-President, Finance (appointment effective as of December 30th 2013),
  - Mr Jerzy Kurella – Vice-President, Trade (appointment effective as of December 30th 2013),
  - Mr Andrzej Parafianowicz – Vice-President, Corporate Affairs (appointment effective as of December 31st 2013).
  - Mr Zbigniew Skrzypkiewicz – Vice-President, Exploration and Production (appointment effective as of December 31st 2013),

Subsequent to December 31st 2013, until the date of release of these financial statements, there were no changes in the composition of the PGNiG Management Board, save for the appointment of Mr Mariusz Zawisza as its President.

1.8. Commercial proxies

As at December 31st 2013, Ms Violetta Jasińska-Jaśkowiak served as commercial proxy for PGNiG S.A., appointed by the Management Board on December 20th 2013.

She was granted a joint power of proxy, which means that the actions taken by the commercial proxy will only be legally effective if she acts jointly with a Member of the PGNiG Management Board.

Subsequent to December 31st 2013, until the date of release of these financial statements, there were no changes with respect to commercial proxies for PGNiG S.A.

1.9. Composition of the PGNiG Supervisory Board

As at December 31st 2013, the Supervisory Board consisted of eight members:

- Wojciech Chmielewski – Chairman,
- Marcin Moryń – Deputy Chairman,
- Mieczysław Kawecki – Secretary,
- Agnieszka Chmielarz – Member,
- Józef Głowacki – Member,
- Janusz Pilitowski – Member,
- Ewa Sibrecht-Ośka – Member,
- Jolanta Siergiej – Member.

In the period from January 1st 2013 to the date of release of these financial statements, the following changes occurred in the composition of the PGNiG Supervisory Board:

- On June 26th 2013, the General Meeting of PGNiG S.A. removed Mr Mieczysław Puławski from the Supervisory Board and appointed Mr Zbigniew Skrzypkiewicz as a new Supervisory Board Member.
- On September 16th 2013, Mr Zbigniew Skrzypkiewicz, Member of the PGNiG Supervisory Board, was delegated by the PGNiG Supervisory Board to temporarily serve as Member of the PGNiG Management Board for Corporate Affairs in the period from September 16th to December 16th 2013;
- On December 30th 2013, PGNiG S.A. was notified that Mr Zbigniew Skrzypkiewicz had resigned from the PGNiG Supervisory Board without stating any reason for doing so, with effect as of December 30th 2013.

1.10. Shareholder structure of PGNiG S.A.

As at the date of release of these consolidated financial statements for 2013, the State Treasury was the only shareholder holding 5% or more of total voting rights at the General Meeting of PGNiG S.A.

PGNIG S.A.'s shareholder structure was as follows:

Shareholder	Number of shares as at Dec 31 2012	% ownership interest in share capital/voting rights as at Dec 31 2012	Change in % ownership interest in share capital/voting rights in the period Jan 1–Dec 31 2013	% ownership interest in share capital/voting rights as at Dec 31 2013	Number of shares as at Dec 31 2013
State Treasury	4,271,810,954	72.40%	-0.001%	72.40%	4,271,740,477
Other shareholders	1,628,189,046	27.60%	0.001%	27.60%	1,628,259,523
Total	**5,900,000,000**	**100.00%**	**0.00%**	**100.00%**	**5,900,000,000**

1.11. Going-concern assumption

These consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements, no circumstances were identified which would indicate any threat to the Group's continuing as a going concern.

1.12. Business combinations of commercial-law companies

In the period covered by these financial statements, there were no business combinations involving the Group and any other companies under commercial law.

1.13. Approval of the financial statements

These financial statements will be submitted to the Parent's Management Board for approval and release on March 5th 2014.

2. APPLIED ACCOUNTING POLICIES

2.1. Basis of preparation

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

The reporting currency used in these consolidated financial statements is the Polish złoty (PLN). Unless stated otherwise, all amounts are given in PLN million. Differences, if any, between the totals and the sum of particular items are due to rounding off.

2.1.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at December 31st 2013.

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

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

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

2.2.1. First-time adoption of standards and interpretations

In the period covered by these consolidated financial statements, the Group adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, and endorsed by the EU, which apply to the Group's business and are effective for annual reporting periods beginning on or after January 1st 2013.

2.2.1.1. Application of revised IAS 1

Revised IAS 1 Presentation of Financial Statements − Presentation of Items of Other Comprehensive Income − requires that the items of other comprehensive income be grouped in two categories: those items which, upon the fulfilment of specified conditions, may in the future be reclassified to profit or loss and those which, in accordance with the requirements of individual IFRSs may not and will not be reclassified to profit or loss.

Application of this amendment in these financial statements has had no effect on the values of items previously disclosed in the statement of comprehensive income.

2.2.1.2. Application of revised IAS 19

The revised IAS 19 Employee Benefits − Amendments to Post-Employment Benefit Accounting − introduces material changes in accounting for defined employee benefits plans. In particular, the corridor method, which allowed deferred recognition of actuarial gains/losses, has been eliminated. This means that actuarial gains/losses should be recognised immediately upon origination.

The amendments to the standard also refer to the manner of presentation of changes in assets and liabilities of defined benefits plans. The amendments, in particular, require permanent recognition of impacts of remeasurement of assets and obligations of a benefits plan in the statement of comprehensive income, with respect to post-employment benefits. The impacts of remeasurement of assets and obligations of a benefits plan with respect to benefits paid during the employment period, as well as employment costs and interest are to be recognised in profit or loss for a given period, as under the previous regime.

Having adopted revised IAS 19, the Group changed the presentation of actuarial gains/(losses) and recognises them in other comprehensive income and not in net profit/loss for current the period. Actuarial gains/(losses) on remeasurement of long-term employee benefits paid during the employment period (jubilee awards) are, as earlier, charged against net profit/loss for current reporting period. The Group made a one-off recognition of past service cost in profit/(loss). Formerly, the cost was recognised on a straight-line basis. The impact of the amendments on these consolidated financial statements is presented in Note *2.6 Presentation changes in the financial statements*.

2.2.2. Standards and interpretations published and endorsed for application in the EU but not yet effective

As at the date of these consolidated financial statements, the Group did not apply the following standards, amendments and interpretations which have been published and endorsed for application in the EU but have not yet become effective:

- IFRS 10 Consolidated Financial Statements, endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2014),
- IFRS 11 Joint Arrangements, endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2014),
- IFRS 12 Disclosure of Interests in Other Entities, endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2014),
- IAS 27 (revised 2011) Separate Financial Statements endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2014),
- IAS 28 (revised 2011) Investments in Associates and Joint Ventures, endorsed by the EU on December 11th 2012 (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities, endorsed by the EU on December 13th 2012 (effective for annual periods beginning on or after January 1st 2014).
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 27 Separate Financial Statements – Investment Entities, endorsed by the EU on November 20th 2013 (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets, endorsed by the EU on December 19th 2013 (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting, endorsed by the EU on December 19th 2013 (effective for annual periods beginning on or after January 1st 2014),

The Group decided not to elect the option to early adopt the above amendments.

The Group estimates that the above standards, interpretations and amendments to standards would not have had a material effect on the financial statements if they had been applied by the Group as at the end of the reporting period.

2.2.3. Standards and interpretations adopted by the IASB but not yet endorsed for application in the EU

The IFRSs endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB), except to the extent of the following standards, amendments and interpretations, which as at December 31st 2013 had not yet been endorsed for use:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1st 2015);
- Amendments to IAS 19 Employee Benefits – Employee Contributions (effective for reporting periods beginning on or after July 1st 2014),
- Amendments to IFRS (2010−2012) – changes in the procedure of introducing annual amendments to IFRS (effective for reporting periods beginning on or after July 1st 2014),
- Amendments to IFRS (2011−2013) – changes in the procedure of introducing annual amendments to IFRS (effective for reporting periods beginning on or after July 1st 2014),
- IFRIC 21 Levies (effective for annual periods beginning on or after January 1st 2014).

The Group estimates that the above standards, interpretations and amendments to standards would not have had a material effect on the financial statements if they had been applied by the Group as at the end of the reporting period.

2.3. Accounting policies

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

2.3.1. Consolidation methods

The consolidated financial statements have been prepared based on the financial statements of the Parent, its subsidiaries, a jointly-controlled entity and an associate.

Financial statements of the consolidated entities are prepared for the same reporting period, based on uniform accounting policies. If necessary, adjustments are made to the financial statements of subsidiaries or associates to ensure consistency between the accounting policies applied by a given entity and those applied by the Group.

In line with the materiality principle prescribed in the IAS conceptual framework, those controlled subsidiaries whose financial statements reveal values immaterial to the performance of obligation of fair and clear presentation of the Group's financial standing and assets have not been consolidated.

2.3.1.1. Investments in subsidiaries

Subsidiaries are consolidated with the full method from their acquisition date (the date of assuming control of the company) until the date the control is lost. Control is exercised when the parent, due to its involvement with the subsidiary, is exposed to gains and losses from variable financial performance and has the power to influence such financial performance by exercising governance over the subsidiary.

Information in the consolidated financial statements is presented as if it concerned a single entity. Consequently, in the consolidated financial statements:

- similar items of assets, liabilities, equity, revenue, costs and cash flows of the parent and its subsidiaries are presented jointly;
- the carrying amount of parent's investment in each subsidiary and the parent's share in subsidiaries' equity is offset (under IFRS 3);

- the Group's assets, liabilities, equity, revenue, costs and cash flows from transactions between Group entities are eliminated in full (gains and losses on intra-group transactions, recognised as assets such as inventories and tangible assets are eliminated in full).

Identifiable acquired assets and assumed liabilities of the acquiree are recognised as at the acquisition date and are measured at fair value. The excess of the acquisition cost (consideration transferred measured in accordance with IFRS 3, any non-controlling interest in the acquiree measured in accordance with IFRS 3, and - in a business combination achieved in stages - the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net fair value of identifiable acquired assets and assumed liabilities, as determined as at the acquisition date, measured in accordance with the IFRS, is recognised as goodwill. If the acquisition cost is lower than the net fair value of identifiable acquired assets and assumed liabilities, as determined as at the acquisition date, the difference is recognised as gain in profit or loss as at the acquisition date.

A non-controlling interest is an interest in profit or loss and net assets of consolidated subsidiaries not attributable, directly or indirectly, to the parent. Non-controlling interests are presented in separate items of the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity.

If the parent loses control of a subsidiary in a given reporting period, the consolidated financial statements account for the subsidiary's results for such part of the reporting year in which control was held by the parent.

2.3.1.2. Investments in associated entities

Associates are entities over which the parent has significant influence, but not control or joint control, and participates in making financial and operating policy decisions.

Financial interests in associates are equity-accounted, except when an investment is classified as held for sale. Investments in associates are measured at cost, taking into account changes in the Group's share in the net assets which occurred until the balance sheet date, less impairment of particular investments. Losses incurred by an associated entity in excess of the value of the Group's share in such associated entity are not recognised.

Excess of acquisition cost over the net fair value of identifiable assets and liabilities of the associate as at the acquisition date is included the carrying amount of the investment. If acquisition cost is lower than net fair value of identifiable assets and liabilities of the associate as at the acquisition date, the difference is disclosed as gain in the income statement for the period in which the acquisition took place.

Gains and losses on transactions between the Group and an associated entity are eliminated in consolidation proportionately to the Group's interest in such associated entities' equity. Losses incurred by an associate may indicate an impairment of its assets and relevant impairment losses would then need to be recognised.

2.3.1.3. Joint ventures

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

A party to a joint venture discloses assets controlled and liabilities incurred in relation to its interests in such joint venture as well as costs incurred and such party's interests in revenues from products sold and services rendered, generated by the joint venture. As assets, liabilities, revenues and costs relating to the joint venture are also disclosed in the separate financial statements of the party, these items are not subject to adjustment or other consolidation procedures when preparing consolidated financial statements of that party.

2.3.2. Translation of items denominated in foreign currencies

The Polish złoty (PLN) is the functional currency (measurement currency) and the reporting currency of PGNiG S.A. and its subsidiaries, with the exception of:

- POGC Libya B.V. – US dollar (USD),
- PGNiG Upstream International AS – Norwegian krone (NOK),
- PGNiG Sales & Trading GmbH - euro (EUR),
- PGNiG Finance AB – Swedish krona (SEK),
- foreign branches of the Group's subsidiaries (see Note 38.8).

Transactions denominated in foreign currencies are initially disclosed at the exchange rate of the functional currency effective as at the transaction date. Cash items denominated in foreign currencies are translated at the exchange rate of the functional currency effective as at the balance sheet date. All foreign exchange gains and losses are recognised in the consolidated income statement, except for the exchange differences on cash items comprising part of an entity's net investment in a foreign operation, which are recognised in other comprehensive income and accumulated in a separate item of equity until the disposal of the foreign operation. Non-cash items measured at historical cost in a foreign currency are translated at the exchange rate effective as at the date of transaction. Non-cash items measured at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.

As at the end of the reporting period, assets and liabilities of the foreign operations are translated into the reporting currency of PGNiG S.A. at the exchange rate effective as at the end of the reporting period, and the items of their income statements are translated at the average exchange rate for a given reporting period. Foreign exchange gains and losses on such translation are recognised in equity as revaluation capital reserve. In the consolidated financial statements they are disclosed under “Accumulated other comprehensive income”. Upon disposal of a foreign operation, accumulated foreign exchange gains or losses disclosed under equity are recognised in profit or loss.

To hedge against foreign currency risk, the Group enters into derivatives transactions (for description of the accounting policies applied by the Group to derivative financial instruments see Note 2.3.12).

2.3.3. Property, plant and equipment

Property, plant and equipment comprises assets which the Group intends to use in the production or supply of merchandise or services, for rental to others (under a relevant agreement), or for administrative purposes for more than one period, where it is probable that future economic benefits associated with the assets will flow to the Group. The category of property, plant and equipment also includes tangible assets under construction. The cost of property, plant and equipment includes:

- expenditure incurred at initial recognition,
- expenditure incurred on improvements (modernisation) which increase future economic benefits.

Property, plant and equipment is initially disclosed at cost (i.e. measured at historical cost). Borrowing costs are also disclosed at cost (for a description of the capitalisation policies applied to borrowing costs see Section 2.3.5.). Spare parts and maintenance equipment are recorded as inventories and recognised in profit or loss as at the date of their use. Significant spare parts and maintenance equipment may be disclosed as property, plant and equipment if the Group expects to use such spare parts or equipment for a period longer than one year and they may be assigned to specific items of property, plant and equipment.

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

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

The initially recognised value of gas pipelines and gas storage facilities includes the value of gas used to fill the pipelines or facilities for the first time. The amount of gas required to fill a pipeline or a storage chamber for the first time equals the amount required to obtain the minimum operating pressure in the pipeline or chamber.

In the event of a leak, the costs of pipeline refilling or replacing lost fuel are charged to profit or loss in the period when incurred.

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

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

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

On disposal or when no future economic benefits are expected from the use or disposal of an item of property, plant and equipment, its carrying amount is derecognised from the statement of financial position, and any gains or losses arising from the derecognition are charged to profit or loss.

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

2.3.4. Exploration and evaluation assets

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

Natural gas and/or crude oil (mineral) deposits can be evaluated once the Group obtains:

- a licence for evaluation of mineral deposits,
- a licence for exploration for and evaluation of mineral deposits,
- a signed agreement establishing mining rights.

The cost of a licence for evaluation of natural gas and/or crude oil deposits and the cost of its extension is the charge for operations executed under the licence, recognised in the Group's statement of financial position under intangible assets.

Expenditure incurred on individual wells is first capitalised in "Tangible assets under construction" as a separate item of exploration and evaluation assets.

If exploration activities are successful and lead to a discovery of commercial reserves, the Group assesses the areas and prospects in terms of economic viability of production.

If following the evaluation a decision is made to extract minerals, the Group reclassifies relevant exploration and evaluation assets at the start of production into property, plant and equipment.

If exploration is unsuccessful or a Group entity does not file for a licence for evaluation of natural gas and/or crude oil following the analysis of economic viability of production from the areas or prospects, the entire capitalised expenses incurred in relation to the wells drilled during exploration are recognised in profit or loss, in the period in which the decision to discontinue exploration was made.

The Group recognises provisions for extraction and storage well decommissioning costs. The value of the discounted provision is added to the initial value of the wells and depreciated over their expected useful economic lives.

Expenses under seismic surveys are capitalised under exploration and evaluation assets and presented as a separate exploration and evaluation asset.

2.3.5. Borrowing costs

The Group capitalises borrowing costs.

Borrowing costs directly attributable to acquisition, construction or production of assets, which are assets that necessarily take a substantial period of time to become ready for their intended use or sale, are capitalised at part of cost of the asset.

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

All other borrowing costs are recognised in profit or loss when incurred.

These cost capitalisation policies do not apply to:

- assets measured at fair value, and
- inventories produced or generated in significant volumes in the course of a repetitive process.

Borrowing costs may comprise:

- interest expense calculated using the effective interest rate method,
- financial liabilities under finance lease agreements,
- exchange differences arising on borrowings denominated in a foreign currency, to the extent that they are regarded as an adjustment to interest expenses.

In the case of funds borrowed without a specific purpose, borrowing costs are calculated by applying the capitalisation rate to the capital expenditure on that asset. The capitalisation rate is the weighted average of rates applied to all borrowing costs which are recognised as the Group’s liabilities in the period, other than funds borrowed specifically for the purpose of acquiring qualifying assets.

2.3.6. Investment property

Investment property is the property (land, buildings or parts thereof) treated by the Group, as the owner or lessee under finance lease, as a source of rental income or held for expected capital appreciation, or both.

Investment property is initially recognised at cost and the initial recognition includes transaction costs. Following initial recognition of its investment property, the Group uses the cost model and measures all its investment property in line with the requirements of IAS 16 defined for that model, i.e. at cost less accumulated depreciation and impairment losses.

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

All gains or losses arising from the sale or discontinuation of use of investment property are determined as the difference between net proceeds from sale and the carrying amount of the asset, and are recognised in profit or loss in the period in which the liquidation or sale is performed.

The Group depreciates investment property with the straight-line method over useful economic life periods of 2–40 years.

2.3.7. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, controlled by the Group as a result of past events. In line with the Group's expectations, such assets will cause an inflow of economic benefits to the Group in the future and their cost can be reliably established.

The Group identifies the following intangible assets:

- development expenses;
- goodwill;
- perpetual usufruct right to land – acquired for consideration;
- licences, mining rights and geological information;
- software;
- greenhouse gas emission allowances.

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

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

Research expense is recognised in profit or loss when incurred.

Intangible assets also include expenditure on acquisition of a perpetual usufruct right to land.

The Group holds perpetual usufruct rights:

- acquired for consideration,
- acquired free of charge.

Perpetual usufruct rights to land acquired for consideration (from other entities) are presented as intangible assets and amortised over their useful life. The useful life of a perpetual usufruct right to land acquired for consideration from an entity other than the State Treasury or local government unit is equal to the period from the acquisition date of the perpetual usufruct right to the last day of the perpetual usufruct period set out in the perpetual usufruct agreement. The useful life of the excess of the first payment over the annual perpetual usufruct charge is equal to the perpetual usufruct period specified in the perpetual usufruct agreement.

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

The costs of licences for production of natural gas and/or crude oil and charges for establishment of mining rights payable to the State Treasury are disclosed as expenditure capitalised and presented under intangible assets.

Pursuant to the Act on Trading in Greenhouse Gas Emission Allowances, the Group holds CO_2 emission allowances, allocated for individual installations.

The Group distinguishes the following emission allowances:

- purchased for redemption,
- purchased for resale,
- received free of charge.

Emission allowances purchased for redemption are recognised as intangible assets at actual acquisition price.

Emission allowances purchased for resale are recognised as inventory and measured initially at cost. At the end of the reporting period, they are measured at the lower of cost or net realisable value.

Emission allowances received free of charge under the National Allocation Plan are recognised as off-balance-sheet items at nominal value (equal to zero).

The Group initially recognises intangible assets at cost and afterwards they are carried at cost less accumulated amortisation and impairment losses. The applied amortisation method reflects the pattern of consumption of economic benefits associated with an intangible asset by the Group. If the pattern of consumption of such benefits cannot be reliably determined, the straight-line method is applied. The amortisation method is applied consistently over subsequent periods, unless there is a change in the expected pattern of consumption of economic benefits.

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

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

- Acquired licences, patent rights and similar items 2-15 years
- Acquired software 2-10 years
- Perpetual usufruct right to land 40-99 years
- Licences - granted for periods specified in relevant decisions of the President of the Energy Regulatory Office.

Intangible assets with an indefinite useful life are not amortised. Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment periodically (at least once a year or whenever there is indication of impairment).

2.3.8. Leases

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

2.3.8.1. The Group as a lessor

Finance leases are disclosed in the statement of financial position as receivables, at amounts equal to net investment in the lease. Lease payments relating to the given financial period, excluding costs of services, reduce the value of gross investment in the lease, reducing both the principal amount and the amount of unrealised finance income.

Finance income on a finance lease is disclosed in subsequent periods at a constant rate of return on the net investment in the lease.

Income from operating leases is recognised in profit or loss on a straight-line basis over the lease term, unless the application of a different systemic method better reflects the pattern of reduction over time of the benefits derived from a leased asset.

2.3.8.2. The Group as a lessee

Non-current assets used under finance lease are recognised as assets of the Group. As at the commencement of the lease term, the Group discloses finance leases in the statement of financial position under assets and liabilities at the lower of the fair value of the leased assets as at the first day of the lease term or present value of the minimum lease payments as at the first day of the lease term. The resultant liability to the lessor is disclosed in the statement of financial position under "Borrowings and other debt instruments", with breakdown into current and non-current portion.

Minimum lease payments are apportioned between finance costs representing the interest portion of lease payments, and the reduction of the outstanding lease liability. Finance costs are spread over individual reporting periods, and represent a fixed percentage of the outstanding lease liability in each of the reporting periods. Finance costs are determined using the internal rate of return (IRR) method.

Lease payments under operating leases are recognised as costs on a straight-line basis over the lease term, unless the application of a different symmetric method better reflects the pattern of spreading over time of benefits derived by the user.

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

As at the end of each reporting period, the Group tests its property, plant and equipment and intangible assets for impairment. If any indication of impairment is found to exist, the recoverable amount of a particular asset is estimated in order to determine whether the asset is impaired. If a given asset does not generate cash flows which are to a large extent independent of the cash flows generated by other assets, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

Intangible assets with an indefinite useful life are tested for impairment on an annual basis, by way of comparing the recoverable amount of the asset with its carrying amount, and each time there is an indication of impairment of the asset.

The recoverable amount is determined as the higher of the fair value less cost to sell or value in use of the asset or cash-generating unit. Value in use corresponds to the present value of estimated future cash flows expected to be obtained from the continued use of an asset or cash-generating unit, discounted at a discount rate reflecting the current market time value of money and the risk specific to a particular asset.

If the recoverable amount is lower than the carrying amount of an asset (or cash-generating unit), the carrying amount is decreased to the recoverable amount of the asset (or cash-generating unit). An impairment loss is recognised as cost of the period in which the impairment loss arose.

If an impairment loss is reversed, the carrying amount of the asset (or cash-generating unit) is increased to the newly estimated recoverable amount, which should not be higher than the carrying amount that would have been determined (net of accumulated depreciation/amortisation) had no impairment of that asset (or cash-generating unit) been recognised in previous years. Reversal of an impairment loss is recognised in profit or loss.

2.3.10. Financial assets

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

- financial assets measured at fair value through profit or loss (positive valuation of derivatives which are not measured pursuant to the principles of hedge accounting),
- derivative financial instruments,
- financial assets available for sale,
- loans and receivables.

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

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

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

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

Derivatives with positive valuation which are not measured pursuant to the principles of hedge accounting (e.g. SWAP, CIRS, options) are classified by the Group as held for trading.

The Group did not apply hedge accounting to CIRS transactions as the valuation of both the hedged item, i.e. exchange differences on a loan, and the hedge is reflected in profit or loss for the same reporting period.

The item "Financial assets held for trading" includes also a positive value of commodity options with respect to which the Group cancelled the hedging relationship.

2.3.10.2. Derivative financial instruments

This category includes measurement of derivative transactions executed to hedge the Group against the risk of fluctuations in gas and electricity prices, exchange rates and interest rates. The Group applies hedge accounting policies with respect to derivative transactions used in managing currency risk and the risk of gas price fluctuations. For description of the applied hedge accounting policies, see Section 2.3.12.

2.3.10.3. Financial assets available for sale

Non-derivative financial assets that are designated as available for sale or which are not financial assets included in any other category are classified as financial assets available for sale and are measured at fair value. Profit gained or loss incurred as a result of changes in fair value is recognised in equity under Accumulated other comprehensive income. Investments in equity instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured are carried at cost (without remeasurement as at each balance sheet date to reflect changes in currency exchange rates).

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

- investments in unlisted equity instruments (including shares in subsidiaries, jointly controlled and associated entities),
- investments in listed equity instruments not held for trading (including shares in subsidiaries, jointly controlled and associated entities),

- investments in debt instruments that the Group does not have a firm intention to hold to maturity.

If impairment is identified, the Group recognises an appropriate impairment charge. In the statement of financial position, the value of the interests is presented net of impairment charges.

2.3.10.4. Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments which are not quoted on an active market.

Loans and receivables are measured at amortised cost, using the effective interest rate method. Measurement differences are recognised in profit or loss. The Group does not discount receivables which mature in less than 12 months from the end of the reporting period and where the discounting effect would be immaterial.

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

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

Uncollectible receivables are charged to costs when recognised as irrecoverable accounts. If receivables are written off or cancelled due to their expiry or irrecoverability, impairment losses recognised on such receivables, if any, are reduced.

Receivables cancelled or written off due to their expiry or irrecoverability for which no impairment losses were recognised or the impairment losses that were recognised were lower than the full amounts of the receivables, are charged to other expenses or finance costs.

2.3.10.5. Trade and other receivables

Trade receivables are initially recognised at nominal value (provided that the discounting effect is immaterial). Following initial recognition, receivables are measured at amortised cost using the effective interest rate method. Measurement differences are recognised in profit or loss. The Group does not discount receivables which mature in less than 12 months from the end of the reporting period and where the discounting effect would be immaterial. Receivables are revalued through the recognition of impairment losses based on the probability of their recovery, if there is objective evidence that the receivables will not be fully recovered.

Uncollectible receivables are charged to profit or loss when recognised as irrecoverable accounts. If receivables are written off or cancelled due to their expiry or irrecoverability, impairment losses recognised on such receivables, if any, are reduced.

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

2.3.10.6. Cash and cash equivalents

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

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

2.3.11. Impairment of financial assets

As at the end of each reporting period, the Group assesses whether there is an objective evidence of impairment of a financial asset or a group of financial assets. A financial asset or a group of financial assets is deemed impaired if there is objective evidence of impairment following from one or more events which took place after initial recognition of such asset or group of financial assets, and the event leading to impairment has an adverse effect on the estimated future cash flows related to the asset or group of assets, which can be reliably estimated.

The value of loans and receivables measured at amortised cost takes into account the probability of collection. The amount of impairment losses equals the difference between the carrying amount of an asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Depending on the type of receivables, impairment losses are determined using the statistical or individual method.

The Group recognises impairment losses on receivables using the individual method if the receivable is past due by more than 90 days or if the receivable is at risk (e.g. the debtor has filed for bankruptcy). Impairment loss covers 100% of the amount of such a receivable.

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

Impairment losses are charged to other expenses or finance costs, as appropriate, depending on the type of receivables for which an impairment loss is recognised.

If the amount of impairment loss on financial assets, except for financial instruments available for sale, is reduced, the previously recognised loss is reversed through profit or loss. The reversal may not result in increasing the carrying amount of the financial asset above the amount that would have been the amortised cost of the asset as at the date of reversal had no impairment losses been recognised.

Impairment losses on investments in equity instruments classified as available for sale are not reversed through profit or loss. Any increase in fair value after the recognition of impairment losses is disclosed directly in equity.

2.3.12. Hedge accounting

Hedge accounting specifies the rules for accounting of hedging instruments and hedged items in the event these transactions are formally designated to hedge certain risks.

The Group defines hedging as designating one or more hedging instruments, in accordance with hedge accounting rules, so that the change in their fair value offsets, in full or in part, the change in fair value of the hedged item or future cash flows related to the hedged item.

Hedging instruments designated for hedge accounting are recognised in accordance with fair value or cash flow hedge accounting rules, if all of the following conditions are met:

- the hedging relationship is formally designated and documented, including the entity's risk management objective and strategy for the hedge, at the time when the hedge is undertaken,
- the hedge is expected to be highly effective in offsetting changes in the fair value or cash flows attributable to the hedged risk, based on the originally documented risk management strategy pertaining to a given hedging relationship,

- in the case of a cash flow hedge, the contemplated transaction to which the hedge relates is highly probable and exposed to variability in cash flows, which may ultimately affect the profit or loss,
- the effectiveness of the hedge can be reliably assessed by way of reliable measurement of the fair value of the hedged item or of the related cash flows and fair value of the hedging instrument,
- the hedge is assessed on an ongoing basis and determined to have been highly effective throughout the reporting periods for which the hedge was designated.

The Group does not apply hedge accounting retroactively, that is it does not recognises hedges with past dates.

A fair value hedge is a hedge of the exposure of the financial result to changes in fair value of a recognised asset, liability or highly probable future liability (or an identified portion of such asset, liability or highly probable future liability) that is attributable to a particular risk (e.g. currency or interest rate risk).

If fair value hedge accounting is applied:

- the Group charges gain or loss on remeasurement of fair value of hedging instrument to profit or loss; and
- gains or losses connected with the hedged item and resulting from the risk hedged adjust the carrying amount of the hedged item and are charged to profit or loss. This principle applies to the hedged item which under different circumstances is measured at cost.

Cash flow hedging consists in mitigating the effect on profit or loss of changes in cash flows attributable to certain risks (exchange rate risk, interest rate risks, price risk etc.) related to assets and liabilities recognised in the accounting records, probable future liabilities or highly probable planned transactions.

The portion of gains or losses on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. The non-effective value is charged to profit or loss.

The Group ceases to apply hedge accounting if the derivative expires or is sold, terminated or exercised, if the Group revokes its designation as a hedge, the hedge no longer meets the criteria of hedge accounting, or if the hedged transaction is no longer expected to be executed.

2.3.13. Inventories

Inventories comprise assets intended to be sold in the ordinary course of business, assets in the process of production intended to be sold, and assets in the form of raw materials or consumables used in the production process or in the course of rendering of services. The Group's inventories comprise materials and consumables, merchandise, finished products, work in progress and certificates of origin for electricity.

The value of inventories is established at the lower of cost and net realisable value. Cost comprises all costs of purchase and processing, as well as other costs incurred to bring the inventories to their present location and condition.

Gas fuel at storage facilities is measured jointly for all storage units, at the average weighted cost. Changes in the inventories of gas fuel stored in the Underground Gas Storage Facilities for sale and own consumption, as well as balance-sheet differences, are measured at the average actual cost, which comprises costs of purchase of gas fuel from all foreign sources, actual costs of its production from domestic sources, costs of nitrogen removal and costs of its acquisition from other domestic sources.

The Group companies are obliged to obtain and surrender for cancellation certificates of origin for electricity corresponding to the volume of electricity sold to end customers.

Under inventories, the Group recognises certificates of origin for electricity obtained in connection with electricity production and certificates of origin for electricity purchased in order to be surrendered for cancellation.

The certificates of origin obtained in connection with the production of electricity are recognised at market value when their grant becomes probable. Purchased certificates of origin are recognised at cost. Decreases in the purchased certificates of origin are measured using the weighted average method.

Upon sale of electricity, a provision is recognised for the certificates of origin to be surrendered for cancellation in connection with the sale of electricity to end customers. The provision and the registered certificates of origin disclosed under inventories are accounted for at the time of registering their cancellation in the Register of Certificates of Origin maintained by the Polish Power Exchange (“TGE”).

If the cost of inventories is not recoverable, the Group recognises an impairment loss bringing the value of such inventories to the net realisable amount. Impairment losses on inventories bringing their value to the net realisable amount and all losses on inventories are recognised as cost in the period when the loss occurred.

Impairment losses on inventories are determined by way of a case-by-case assessment of the usefulness of inventories, based on the following assumptions:

- For inventory of purchased materials which are idle for a period of 1–5 years, the Group generally recognises an impairment loss of 20% of their value; Where the case-by-case usefulness assessment and the possibility of using a category of materials and their cycle structure are taken into account, the Group may recognise impairment losses of 5% and 10% of the value of the materials;
- For inventory of purchased materials which are idle for a period of 5–10 years, the Group recognises an impairment loss of 20%–100% of their value;
- For materials remaining in warehouses for more than 10 years, which are completely useless and intended for liquidation, the Group recognises an impairment loss of 100% of their value.

2.3.14. Non-current assets held for sale

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

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

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

Non-current assets available for sale (or a disposal group) are not subject to depreciation or amortisation.

In the consolidated statement of financial position, assets available for sale (or a disposal group) are presented as a separate item of current assets.

2.3.15. Equity

Equity is disclosed in the statement of financial position by type and in accordance with the rules stipulated by applicable laws and the entity's Articles of Association.

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

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

Share premium comprises the positive difference between the issue price of shares over the par value of the shares which remains after covering issue costs.

Share issue costs incurred upon establishment of a joint-stock company or share capital increase reduce the share premium account to the amount of the difference between the issue proceeds and the par value of the shares, and their balance is charged to other capital reserves, disclosed under Retained earnings/deficit.

The effects of adjustments related to the first-time adoption of the IAS were charged to Retained earnings/deficit. In accordance with the IAS, net profit for the previous financial year can be allocated by an entity only to equity or dividends to shareholders. The option provided by the Polish law, whereby profit can be allocated to the Company Social Benefits Fund, the Restructuring Fund, employee profit-sharing schemes or for other purposes, is not reflected in the IAS. Therefore, the Group recognises the aforementioned reductions in profit as the cost of the period. Profit distributions to employees are recognised as payroll cost, while funds transferred to the Company Social Benefits Fund are disclosed under employee benefits expense.

2.3.16. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of resources embodying economic benefits, and a reliable estimate can be made of the amount of the obligation (with the obligation amount and maturity date being uncertain).

The Group reviews provisions at the end of each reporting period in order to reflect the current best estimate. If the effect of changes in the time value of money is material, provisions are discounted. If the provisions are discounted, an increase in the provisions as a result of lapse of time is disclosed as costs of external funding.

The Group recognises the following provisions:

- provision for well decommissioning costs,
- provision for costs of environmental liabilities,
- provision for claims under extra-contractual use of land,
- provision for the buy-out price payable under the Energy Efficiency Act,
- other provisions.

2.3.16.1. Provision for well decommissioning costs

The Group recognises a provision for future well decommissioning costs and contributions to the Extraction Facilities Decommissioning Fund.

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

If a provision relates to the cost of liquidation of property, plant and equipment, the initial value of the provision is added to the value of the property, plant and equipment. Any subsequent adjustments to the provision resulting from changes in estimates are also treated as an adjustment to the value of the property, plant and equipment. Changes in provisions resulting from a change of discount are charged/credited against finance income or costs.

The Extraction Facilities Decommissioning Fund is created on the basis of Art. 26c of the Mining and Geological Law of February 4th 1994 (Dz.U. 05.228.1947, as amended).

The funds accumulated in the Extraction Facilities Decommissioning Fund may be used only to cover the costs of decommissioning of an extraction facility or its specific part, in particular the costs of:

- abandonment of and securing production, storage, discharge, observation and monitoring wells;
- liquidation of redundant facilities and disassembly of machinery and equipment;
- reclamation of land and development of areas after completion of extraction activities;
- maintenance of facilities intended for decommissioning in an order ensuring safety of extraction facility operations.

The Group makes contributions to the Extraction Facilities Decommissioning Fund in the amount of 3% to 10% of the value of the annual tax depreciation of extraction property, plant and equipment (determined in accordance with income tax laws) with a corresponding increase in other expenses.

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

2.3.16.2. Provision for costs of environmental liabilities

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

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

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

Where possible, at the time of installing the elements of the infrastructure the Group companies entered into agreements establishing standard land easements and transmission easements.

Transmission easement is a new construct of civil law governed by Art. 305^1–305^4 of the Polish Civil Code of April 23rd 1964 (Dz.U. No. 16, item 93 as amended).

In line with the materiality principle, the Group estimates the amount of the provision for claims under extra-contractual use of land if the exchange of correspondence with a claimant has continued for the last three years and such claims have been confirmed to be valid.

The Group estimates the amount of the provision based on:

- an estimate survey made by an expert appraiser, or
- its own valuation, taking into account the size of the controlled area in square metres, the amount of annual rent per square metre for similar land in a given municipality, and the period of extra-contractual use of land (not more than ten years), or
- if it is not possible to obtain reliable data required to apply the method described above, the Group analyses submitted claims on a case-by-case basis.

2.3.16.4. Provision for the buy-out price payable under the Energy Efficiency Act

The Energy Efficiency Act of April 15th 2011 introduces the system of white certificates, imposing an obligation to obtain the certificates and surrender them for cancellation to the President of the Energy Regulatory Office, or pay a buy-out price. The obligation applies to companies selling electricity, heat and gas fuels to end users.

White certificates, i.e. energy savings certificates, may be obtained for efficiency-improving measures implemented or planned to be implemented by a company. An energy savings certificate may be obtained for a measure that results in annual energy savings of at least 10 tonnes of oil equivalent (toe) or a group of such measures that results in total annual savings in excess of 10 toe.

The Group estimates the amount of the provision for the buy-out price in accordance with the formula set forth in the Energy Efficiency Act.

2.3.16.5. Other provisions

The Group companies may also recognise other provisions for future expenses related to their activities and operations, if such costs are so material that failure to recognise them in profit or loss for a given period would distort the true view of the Group's assets and financial position.

2.3.17. Accruals and deferrals

The Group recognises as prepayments those costs incurred upfront that relate to future reporting periods.

In the consolidated statement of financial position prepayments are disclosed as non-current (under Other non-current assets) and current (under Other assets).

Accruals are outstanding liabilities due for merchandise or services which have been delivered/provided but have not yet been paid, invoiced or formally agreed upon with the supplier/provider. Accruals are disclosed together with trade and other payables as an item of equity and liabilities in the statement of financial position.

In deferred income, the Group recognises deferred income from additional charges for uncollected gas and government grants relating to assets. Deferred income from additional charges for uncollected gas is generated under take-or-pay contracts. Under this item the Group recognises the amount of income based on the volume of ordered and uncollected gas, which is then adjusted pro rata to the actual volume of delivered gas. If a trading partner fails to collect the declared volume of gas by the deadline specified in the contract, deferred income is reclassified to income from compensations, penalties, fines, etc.

Government grants relating to assets are recognised as Deferred income when it is certain that they have been awarded. They are subsequently charged to profit or loss pro rata to depreciation charges on the corresponding assets.

The gas companies (distribution system operators) disclose as accruals and deferrals the value of gas infrastructure accepted free of charge and connection fees (received by June 30th 2009). This income is amortised over time, proportionately to depreciation charges on those connections.

Deferred income is broken down into a non-current and current portion and disclosed under equity and liabilities in the consolidated statement of financial position.

2.3.18. Financial liabilities

Financial liabilities are classified into two categories: financial liabilities measured at fair value through profit or loss and other financial liabilities (including trade and other payables).

Upon initial recognition, financial liabilities are measured at fair value increased, in the case of financial liabilities not classified as measured at fair value through profit or loss, by transaction costs which may be directly attributed to the acquisition or issue of a given financial liability.

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

A financial liability at fair value through profit of loss is a financial liability that meets either of the following conditions:

- it is classified as held for trading, or
- it was designated by the Group as measured at fair value through profit or loss upon initial recognition.

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

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

Changes in the fair value of derivatives included in the above category of financial liabilities are recognised as income or expense in a reporting period in which a given derivative is remeasured.

The Group classifies as liabilities at fair value through profit or loss those derivative financial instruments that are not measured pursuant to the principles of hedge accounting and whose measured value is negative.

2.3.18.2. Financial liabilities at amortised cost

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

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

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

2.3.18.3. Other financial liabilities

Other financial liabilities comprise liabilities other than those recognised at fair value through profit or loss.

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

2.3.18.4. Trade and other payables

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

2.3.18.5. Employee benefit obligations

Employee benefits are all forms of consideration given by the Group in exchange for services rendered by employees or upon termination of employment.

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within 12 months after the end of the annual reporting period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) which are payable after the completion of employment.

Short-term employee benefits paid by the Group include:

- salaries, wages and social security contributions,
- short-term compensated absences where the absences are expected to occur within 12 months after the end of the period in which the employees render the related employee service;
- profit-sharing and bonuses payable within 12 months after the end of the period in which the employees render the related service,
- non-monetary benefits for current employees.

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

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

The Group recognises expected short-term employee benefit expenses related to compensated absences in the case of accumulated compensated absences (that is absences to which the entitlement is transferred to the future periods and can be used in the future if the absences were not fully used in the current period), and in the case of non-accumulating absences (which cause obligations on the part of the Group upon their occurrence).

Post-employment benefits in the form of defined benefit plans (retirement severance) and other long-term employee benefits (e.g. “jubilee” benefits, long-term disability pensions) are determined using the projected unit credit method, with the actuarial valuation made as at the end of the reporting period.

Actuarial gains and losses related to post-employment benefits are presented in other comprehensive income, whereas gains and losses related to other post-employment benefits are charged to profit or loss of the current reporting period.

The Parent recognised a provision in the form of the Central Restructuring Fund in order to provide redundancy-related benefits for the eligible employees under the Restructuring Programme. The detailed rules of operation of the Fund as well as the list of mark-ups and expenses from the Fund are specified in the Parent’s internal regulations. For more information, see Note 40.

2.3.18.6. Other liabilities

Other liabilities include all liabilities not classified by the Group as trade and other payables, taxes, customs duties, social security contributions, other benefits, salaries and wages.

The category of other non-current liabilities includes liabilities under bank settlements, arrangement and recovery proceedings, liabilities under licences, property, plant and equipment assigned and still used by the Group, which are to be repaid in instalments over a period longer than one year.

Other current liabilities include in particular liabilities towards:

- suppliers (trade and other payables related to acquisition or construction of property, plant and equipment and intangible assets) and sellers of securities,
- insurance companies,
- employees (other than salaries and wages)

- shareholders (dividends),
- suppliers (bid bonds),
- lessors (operating leases),
- trading partners (performance bonds),
- other liabilities.

2.3.19. Revenue

The Group's business consists in production, distribution, storage and trade in high-methane and nitrogen-rich natural gas, sale and generation of electricity and heat, as well as production and sale of crude oil.

The Group's business consists in sales of goods, rendering of services and leasing out the Group's assets to third parties. Goods include the Group's products intended for sale and goods purchased for resale, e.g. merchandise, lands, and property.

Revenue comprises amounts receivable (excluding VAT and other amounts received on behalf of third parties) for goods and services delivered in the ordinary course of business. Revenue is measured at fair value of the consideration received or receivable, less any discounts, sales taxes (VAT, excise duty) and other charges.

2.3.19.1. Sales of goods

Sales of goods are recognised when the goods and products are delivered to the customer and significant risks and benefits related to their ownership are transferred.

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

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

2.3.19.2. Rendering of services

The Group's business also includes rendering of services, i.e. distribution of gas fuels, storage of gas fuels, real estate rental, gas services, well services as well as transport, accommodation, geological, exploration, finance lease and other services.

When the outcome of the transaction involving the rendering of services can be reliably estimated, revenue is recognised by reference to the stage of completion of the service at the end of the reporting period.

2.3.19.3. Revenue from construction contracts

When the outcome of a transaction involving the rendering of construction services can be reliably estimated, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period.

When the stage of completion of the contract activity cannot be estimated reliably, revenue is recognised only to the extent that contract costs incurred are expected to be recoverable.

2.3.20. Lease/rental income

Use of the Company's assets by third parties results in income in the form of interest, royalties, and dividends. Such income is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of income can be measured reliably.

2.3.20.1. Interest income

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

2.3.20.2. Royalties

Revenue from royalties is recognised on accrual basis, taking into account the substance of a relevant agreement.

2.3.20.3. Dividends

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

2.3.21. Grants

The Group distinguishes the following types of grants:

- grants related to assets, receivable on condition that the Group purchases, produces, or otherwise obtains plant, property and equipment.
- grants related to revenue.

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

Grants related to assets are recognised in the statement of financial position as deferred income and subsequently recognised – through equal annual write-offs – in profit or loss throughout the expected useful life of the assets. Non-monetary grants are accounted for at fair value.

Grants, which are generally disclosed under Revenue, may also reduce relevant costs.

A grant receivable as compensation for costs or losses already incurred or as immediate financial support for the entity, with no future related costs, should be recognised in profit or loss in the period in which it becomes receivable.

2.3.22. Income tax expense

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

Current tax is calculated based on the taxable profit/(loss) (tax base) for a given financial year. Profit/(loss) established for tax purposes differs from net profit/(loss) established for accounting purposes due to different time of recognising income as earned and expenses as incurred and because of permanent differences between tax and accounting treatment of income and expenses.

Deferred tax is determined using the balance-sheet method based on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes.

Current tax is calculated based on the tax rates effective in a given financial year.

Deferred tax liabilities are recognised for temporary differences which are taxable when realised for tax purposes, while a deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, including tax losses, can be utilised.

Deferred tax liabilities are not recognised with respect to recognised goodwill. Deferred tax liabilities (assets) are also not recognised in connection with initial recognition of an asset or liability in a transaction which is not a business combination and when it does not affect either the accounting or the taxable profit at the moment of transaction.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries or associates, and interests in joint ventures, unless the Group company, acting as the parent, investor or venturer is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax assets is reviewed at each balance-sheet date. If future foreseen taxable profit is insufficient for deductible temporary differences to be settled, impairment losses on deferred tax assets are recognised.

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

Deferred tax assets and liabilities are offset if, and only if, the Group:

- has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities.

Deferred and current tax is recognised as income or expense, except to the extent that the tax arises from a transaction or event that is credited or charged directly to other comprehensive income or to equity (deferred tax is then credited or charged directly to equity).

2.3.23. Operating segments

An operating segment is a component of the Group:

- that engages in business activity from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the Group's chief operating decision maker, and are used when making decisions on asset allocation to the segment and when reviewing its performance;
- for which discrete financial information is available.

The PGNiG Group has adopted division into business segments as the basic division of its operations. Consolidated entities operate within the following five segments:

a) *Exploration and Production Segment* The segment's key business is hydrocarbon extraction and preparation of products for sale. The segment covers the process of exploring for and extracting natural gas and crude oil from reserves, including geological surveys, geophysical research, drilling and development of and production from the reserves. The exploration and production activities are conducted by PGNiG S.A., POGC Libya BV, PGNiG Upstream International AS and other Group companies rendering services within this segment.

b) *Trade and Storage Segment* The segment's activities consist in sale of natural gas, either from imports or from domestic sources, operation of underground gas storage facilities for trading purposes, and electricity trading. Following the integration of the trading business and separation of storage and trading functions, sale of natural gas is conducted by PGNiG S.A., while gas storage services are provided by Operator Systemu Magazynowania Sp. z o.o. The segment operates six underground gas storage facilities (Mogilno, Wierzchowice, Husów, Brzeźnica, Strachocina and Swarzów). PGNiG Sales & Trading GmbH of Munich, which conducts activities in the area of gas and electricity trading and distribution, is also classified as the Trade and Storage segment.

Gas trading and storage business is regulated by the Energy Law, with prices established on the basis of tariffs approved by the President of URE.

c) *Distribution Segment* The segment's activities consist in transmitting natural gas through the distribution network. Natural gas distribution services are rendered by Polska Spółka Gazownictwa Sp. z o.o., which supplies gas to individual, industrial and wholesale customers. The company is also responsible for operation, maintenance and expansion of the distribution network.

d) *Generation Segment* The segment's activities consist in generation and sale of electricity and heat. Assets, revenues and expenses of PGNiG TERMIKA S.A. are presented in this segment.

e) *Other segments.* This segment comprises all Group companies whose activities cannot be classified into any of the other segments: engineering design and construction of structures, machinery and equipment for the extraction and energy sectors, as well as catering and hospitality services.

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

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

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

Intercompany transactions within a segment are eliminated.

2.4. Key reasons for uncertainty of estimates

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

2.4.1. Impairment of non-current assets

The Group's key operating assets include extraction assets (for production of natural gas and crude oil), gas transmission infrastructure and gas fuel storage facilities. These assets were tested for impairment. The Group computed and recognised material impairment losses on the assets, based on an assessment of their current and future usefulness or planned decommissioning or sale. For certain assets, the assumptions made in connection with potential future use, liquidation and sale may change. For information on the value of recognised impairment losses see Note 11.2.

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

Another significant uncertainty is connected with the risk related to the decisions of the Energy Regulatory Office concerning prices of the gas fuel distribution services. Because prices materially affect the Group's cash flows, any change could lead to the necessity to remeasure the impairment losses on the distribution assets.

2.4.2. Useful lives of property, plant and equipment

The useful lives of the main groups of property, plant and equipment are set forth in Section 2.3.3. of these financial statements. The useful lives of the property, plant and equipment were determined on the basis of assessments made by the engineering personnel responsible for their operation. Any such assessment is connected with uncertainty as to the future business environment, technology changes and market competition, which could lead to a different assessment of the economic usefulness of the assets and their remaining useful lives, and ultimately have a material effect on the value of the property, plant and equipment and the future depreciation charges.

2.4.3. Estimating natural gas sales

In order to correctly recognise revenue from gas sales in appropriate reporting periods, estimates are made – as at the end of the reporting period – of the quantity and value of gas delivered, but not invoiced, to retail customers.

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

2.4.4. Provisions for well decommissioning costs and environmental liabilities

The provision for well decommissioning costs and provisions for environmental liabilities presented in Note 28 represent significant items among the provisions disclosed in the consolidated financial statements. These provisions are based on the estimates of future asset decommissioning and land reclamation costs, which largely depend on the applied discount rate and the estimated future cash-flow period.

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

In accordance with the materiality rule, the Group estimated the amount of the provision for claims under extra-contractual use of land (see Section 2.3.16.3).

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

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

The Parent tested the shares held in SGT EUROPOL GAZ S.A. for impairment using the discounted cash flow method. The valuation was based on the Inter-Governmental Protocol of October 29th 2010, which specified the company's expected net profit. The result of impairment test is sensitive to the adopted assumptions regarding future cash flows and discount rate. Changes in these assumptions following from updates of the Company's financial forecasts and changes in the discount rate due to general or company-specific factors, may have a material effect on the company's future value. For more information on the valuation, see Note 6.

Further, implementation of the provisions of the Inter-Governmental Protocol with respect to the net profit earned in subsequent years will be of material importance to the assessment of the value of SGT EUROPOL GAZ S.A.

2.5. Contingent assets and liabilities

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Contingent assets are not recognised in the consolidated statement of financial position as this might result in recognition of income that may never be realised. However, when the realisation of income is probable, then the Group discloses a brief description of the nature of such contingent assets at the end of the reporting period in the notes and, where practicable, estimate their financial effects using the principles set out for provisions.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, the Group discloses the contingent asset.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- a present obligation that arises from past events but is not recognised, because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation (liability) cannot be measured with sufficient reliability.

The Group does not recognise contingent liabilities in the consolidated statement of financial position, except contingent liabilities assumed as a result of business combinations, which are recognised in the statement of financial position as provisions for liabilities.

Unless the possibility of any outflow in settlement is remote, the Group shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

- an estimate of its financial effect, measured using the principles set out for provisions,
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursement.

2.6. Presentation changes in the financial statements

Application of IAS 19 Employee Benefits

The Group made changes in the comparative data following the first-time adoption of the revised IAS 1 Presentation of Financial Statements and IAS 19 Employee Benefits. The effect of the application of the revised standards is discussed in Note *2.2.1. First-time adoption of standards and interpretations*

Change in the presentation of electricity trading

The Group has also introduced presentation changes with respect to electricity trading. Until 2013, the cost of purchase of electricity for trading was presented in the income statement in “Other income and expenses”. Since 2013, it has been presented in the income statement under “Raw material and consumables used”.

Transfer of an entity between the reporting segments

On July 1st 2013, INVESTGAS S.A. (target company) was merged with Operator Systemu Magazynowania Sp. z o.o. (acquiring company). Accordingly, in the presentation of the comparative period in the Reporting Segments note, INVESTGAS S.A. was transferred from Other Segments to Trade and Storage.

The purpose of the above changes was to increase the transparency and usefulness of data shown in the financial statements.

As a result of the changes, adjustments were made to comparative data for 2012, as presented below.

2.6.1. Earnings/(loss) and diluted earnings/(loss) per share attributable to owners of the parent (PLN) – restatement of comparative data

	Jan 1–Dec 31 2012 before the change	Jan 1–Dec 31 2012 after the change
Earnings/(loss) and diluted earnings/(loss) per share attributable to owners of the parent (PLN)	0.38	0.38

2.6.2. Consolidated income statement – restatement of comparative data

	Jan 1–Dec 31 2012 before the change	Adjustments ensuring comparability – change of IAS 19	Change in the presentation of electricity trading	Jan 1–Dec 31 2012 after the change
Revenue	**28,730**	**-**	**-**	**28,730**
Raw material and consumables used	(17,447)	-	(156)	(17,603)
Employee benefits expense	(3,054)	7	-	(3,047)
Depreciation and amortisation expense	(2,069)	-	-	(2,069)
Services	(3,060)	-	-	(3,060)
Work performed by the entity and capitalised	1,006	-	-	1,006
Other income and expenses	(1,573)	-	156	(1,417)
Total operating expenses	**(26,197)**	**7**	**-**	**(26,190)**
Operating profit/(loss)	**2,533**	**7**	**-**	**2,540**
Finance income	216	-	-	216
Finance costs	(380)	-	-	(380)
Share in net profit/loss of equity-accounted entities	173	-	-	173
Profit/(loss) before tax	**2,542**	**7**	**-**	**2,549**
Income tax	(308)	(1)	-	(309)
Net profit/(loss)	**2,234**	**6**	**-**	**2,240**

2.6.3. Consolidated statement of comprehensive income – restatement of comparative data

	Jan 1–Dec 31 2012 before the change	Adjustments ensuring comparability – change of IAS 19	Jan 1–Dec 31 2012 after the change
Net profit/(loss)	**2,234**	**6**	**2,240**
Other comprehensive income, net	**(204)**	**11**	**(193)**
including:			
Actuarial gains/(losses) on employee benefits inclusive of tax	-	11	11
Total comprehensive income	**2,030**	**17**	**2,047**

2.6.4. Consolidated statement of financial position – restatement of comparative data

	Dec 31 2012 before the change	Adjustments ensuring comparability – change of IAS 19	Dec 31 2012 after the change
ASSETS			
Total non-current assets	**37,084**	**12**	**37,096**
including:			
Deferred tax assets	1,124	12	1,136
Total current assets	**10,833**	**-**	**10,833**
Total assets	**47,917**	**12**	**47,929**
LIABILITIES AND EQUITY			
Total equity	**27,247**	**(50)**	**27,197**
including:			
Accumulated other comprehensive income	(90)	(62)	(152)
Retained earnings/(deficit)	19,693	12	19,705
Total non-current liabilities	**11,057**	**62**	**11,119**
including:			
Employee benefit obligations	319	62	381
Total current liabilities	**9,613**	**-**	**9,613**
including:			
Employee benefit obligations	356	-	356
Total liabilities	**20,670**	**62**	**20,732**
Total liabilities and equity	**47,917**	**12**	**47,929**

	Jan 1 2012 before the change	Adjustments ensuring comparability – change of IAS 19	Jan 1 2012 after the change
ASSETS			
Total non-current assets	**31,301**	**16**	**31,317**
including:			
Deferred tax assets	920	16	936
Total current assets	**7,523**	**-**	**7,523**
Total assets	**38,824**	**16**	**38,840**
LIABILITIES AND EQUITY			
Total equity	**25,218**	**(67)**	**25,151**
including:			
Accumulated other comprehensive income	114	(73)	41
Retained earnings/(deficit)	17,457	6	17,463
Total non-current liabilities	**5,760**	**83**	**5,843**
including:			
Employee benefit obligations	268	83	351
Total current liabilities	**7,846**	**-**	**7,846**
including:			
Employee benefit obligations	238	-	238
Total liabilities	**13,606**	**83**	**13,689**
Total liabilities and equity	**38,824**	**16**	**38,840**

2.6.5. Consolidated statement of cash flows – restatement of comparative data

	Jan 1–Dec 31 2012 before the change	Adjustments ensuring comparability – change of IAS 19	Jan 1–Dec 31 2012 after the change
Net cash flows from operating activities	**2,552**	**-**	**2,552**
including:			
Net profit/(loss)	2,234	6	2,240
Current tax expense	308	1	309
Other items, net	456	14	470
Change in working capital	(1,981)	(21)	(2,002)
Net cash flows from investing activities	**(6,149)**	**-**	**(6,149)**
Net cash flows from financing activities	**4,040**	**-**	**4,040**
Net change in cash	**443**	**-**	**443**
Cash and cash equivalents at beginning of the period	**1,504**	**-**	**1,504**
Cash and cash equivalents at end of the period	**1,947**	**-**	**1,947**

2.6.6. Reportable segments – restatement of comparative data

Period ended December 31st 2012	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Segment's operating profit/(loss) before the changes	**1,353**	**325**	**878**	**15**	**(20)**	**(18)**	**2,533**
Changes, including:	**1**	**7**	**2**	**-**	**(8)**	**5**	**7**
Adjustments ensuring comparability – change of IAS 19	1	2	2	-	2	-	**7**
Transfer of INVESTGAS S.A. from Other Segments to Trade and Storage*	-	5	-	-	(10)	5	**-**
Segment's operating profit/(loss) after the changes	**1,354**	**332**	**880**	**15**	**(28)**	**(13)**	**2,540**
Segment's assets before the changes	**16,580**	**18,650**	**13,089**	**4,345**	**483**	**(7,278)**	**45,869**
Changes, including:	**-**	**61**	**-**	**-**	**(70)**	**9**	**-**
Transfer of INVESTGAS S.A. from Other Segments to Trade and Storage*	-	61	-	-	(70)	9	**-**
Segment's assets after the changes	**16,580**	**18,711**	**13,089**	**4,345**	**413**	**(7,269)**	**45,869**
Segment's liabilities before the changes	**5,823**	**3,937**	**2,234**	**2,870**	**171**	**(6,943)**	**8,092**
Changes, including:	**17**	**33**	**45**	**-**	**(42)**	**9**	**62**
Adjustments ensuring comparability – change of IAS 19	17	3	45	-	(3)	-	**62**
Transfer of INVESTGAS S.A. from Other Segments to Trade and Storage*	-	30	-	-	(39)	9	**-**
Segment's liabilities after the changes	**5,840**	**3,970**	**2,279**	**2,870**	**129**	**(6,934)**	**8,154**

* The change results from the merger of INVESTGAS S.A. and OSM Sp. z o.o. in Q3 2013

3. OPERATING SEGMENTS

3.1. Reportable segments

The tables below present revenue, costs and profits/losses, as well as assets, equity and liabilities of the Group's reporting segments for the years ended December 31st 2013 and December 31st 2012.

Year ended December 31st 2013	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Income statement							
Sales to third-party customers	4,656	25,341	165	1,658	300	-	32,120
Inter-segment sales	1,605	318	4,085	405	124	(6,537)	-
Segment's total revenue	6,261	25,659	4,250	2,063	424	(6,537)	32,120
Depreciation and amortisation expense	(1,050)	(177)	(857)	(359)	(20)	-	(2,463)
Other costs	(2,880)	(25,490)	(2,654)	(1,560)	(469)	6,545	(26,508)
Segment's total costs	(3,930)	(25,667)	(3,511)	(1,919)	(489)	6,545	(28,971)
Operating profit/(loss)	**2,331**	**(8)**	**739**	**144**	**(65)**	**8**	**3,149**
Net finance costs							(396)
Share in net profit/loss of equity-accounted entities		(44)					(44)
Profit/(loss) before tax							**2,709**
Income tax							(789)
Net profit/(loss)							**1,920**
STATEMENT OF FINANCIAL POSITION							
Segment's assets	15,364	17,344	14,067	4,124	411	(6,244)	45,066
Investments in equity-accounted entities		727					727
Unallocated assets							358
Deferred tax assets							993
Total assets							**47,144**
Total equity							28,453
Segment's liabilities	4,954	4,634	2,879	1,943	187	(5,847)	8,750
Unallocated liabilities							7,971
Deferred tax liabilities							1,970
Total liabilities and equity							**47,144**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(1,630)	(341)	(1,110)	(203)	(13)	7	**(3,290)**
Impairment losses on assets	(1,642)	(1,479)	(115)	(34)	(20)	-	**(3,290)**
Impairment losses on unallocated assets							**(45)**

Period ended December 31st 2012	Exploration and Production	Trade and Storage	Distribution	Generation	Other segments	Eliminations	Total
Income statement							
Sales to third-party customers	3,121	23,354	153	1,893	209	-	28,730
Inter-segment sales	1,204	360	3,430	64	237	(5,295)	-
Total segment revenue	4,325	23,714	3,583	1,957	446	(5,295)	28,730
Depreciation and amortisation expense	(613)	(163)	(819)	(456)	(18)	-	(2,069)
Other costs	(2,358)	(23,219)	(1,884)	(1,486)	(456)	5,282	(24,121)
Segment's total costs	(2,971)	(23,382)	(2,703)	(1,942)	(474)	5,282	(26,190)
Operating profit/(loss)	**1,354**	**332**	**880**	**15**	**(28)**	**(13)**	**2,540**
Net finance costs							(164)
Share in net profit/loss of equity-accounted entities		173					173
Profit/(loss) before tax							**2,549**
Income tax							(309)
Net profit/(loss)							**2,240**
STATEMENT OF FINANCIAL POSITION							
Segment's assets	16,580	18,711	13,089	4,345	413	(7,269)	45,869
Investments in equity-accounted entities		771					771
Unallocated assets							153
Deferred tax assets							1,136
Total assets							**47,929**
Total equity							27,197
Segment's liabilities	5,840	3,970	2,279	2,870	129	(6,934)	8,154
Unallocated liabilities							10,642
Deferred tax liabilities							1,936
Total liabilities and equity							**47,929**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(1,676)	(720)	(1,141)	(196)	(28)	(27)	**(3,788)**
Impairment losses on assets	(1,132)	(1,686)	(97)	(33)	(9)	1	**(2,956)**
Impairment losses on unallocated assets							**(41)**

3.2. Geographical areas

The Group's conducts its business activity primarily on the domestic market (Poland). In 2013, revenue from export sales to external customers accounted for 14.56% (2012: 5.84%) of total revenue from sales to external customers.

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Domestic sales:	**27,444**	**27,051**
High-methane gas	21,728	21,960
Nitrogen-rich gas	1,409	1,389
Crude oil and natural gasoline	1,007	694
Helium	29	48
Electricity	995	841
Heat	1,069	978
Geophysical and geological services	116	100
Drilling and well servicing services	251	267
Construction and installation services	229	87
Connection charge	110	106
Other sales	501	581
Export sales:	**4,676**	**1,679**
High-methane gas	1,812	349
Nitrogen-rich gas	21	-
Crude oil and natural gasoline	1,639	569
Helium	154	113
NGL	111	-
Electricity	365	1
Geophysical and geological services	136	239
Drilling and well servicing services	402	343
Construction and installation services	14	36
Other sales	22	29
Total	**32,120**	**28,730**

On foreign markets the Group sells mainly to customers in Germany (51% of export sales), Switzerland and Norway.

A majority of the Group's non-current assets (other than financial instruments) are also located in Poland. The value of non-current assets located abroad as at December 31st 2013 represented 13.02% of the Group's total assets (December 31st 2012: 15.61%).

	Dec 31 2013	Dec 31 2012
Value of non-current assets other than financial instruments located in Poland	29,751	29,487
Value of non-current assets other than financial instruments located abroad*	4,455	5,454
Total	**34,206**	**34,941**
* including PGNiG Upstream International AS	**3,587**	**4,125**

3.3. Key customers

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

4. OPERATING EXPENSES

4.1. Raw material and consumables used

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Cost of gas sold	(17,208)	(15,714)
Fuels for electricity and heat generation	(908)	(984)
Electricity for trading	(670)	(156)
Other raw material and consumables used	(726)	(749)
Total	**(19,512)**	**(17,603)**

4.2. Employee benefits expense

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Salaries and wages	(2,127)	(2,237)
Social security contributions	(484)	(496)
Cost of future employee benefits	(355)	(25)
Other employee benefits expense	(248)	(289)
Total	**(3,214)**	**(3,047)**

4.3. Services

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Transmission services	(1,474)	(1,454)
Costs of dry wells written off	(132)	(127)
Other services	(1,639)	(1,479)
Total	**(3,245)**	**(3,060)**

4.4. Other income and expenses

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Compensations, penalties, fines received	187	48
Income from current settlement of deferred income recognised in the statement of financial position	55	64
Interest on receivables related to operating activities	58	43
Other income	47	107
Net exchange differences related to operating activities	(351)	(299)
Net gain/loss on derivative instruments related to operating activities	168	(116)
Net gains/losses on disposal of non-financial non-current assets	20	56
Change in products	22	16
Change in impairment losses on property, plant and equipment*	(552)	(206)
Change in impairment losses on inventories	(7)	(9)
Change in impairment losses on trade and other receivables	70	(21)
Change in other impairment losses	(2)	-
Provision for well decommissioning costs	45	(35)
Provision for penalty imposed by the Office for Competition and Consumer Protection	-	(60)
Provision for environmental liabilities	7	27
Provision for claims under extra-contractual use of land	(5)	(15)
Provision for dispute with the PBG Consortium	-	1
Provision for liabilities associated with exploration work in Pakistan, Egypt and Libya	(137)	(25)
Provision for the buy-out price on energy savings certificates - white certificates	(134)	-
Other provisions	13	(59)
Taxes and charges	(574)	(547)
Value of merchandise and materials sold	(35)	(23)
Property insurance	(101)	(89)
Domestic and international business trips	(64)	(64)
Compensation, penalties, fines paid	(22)	(24)
Interest on liabilities related to operating activities	(3)	(2)
Other expenses	(225)	(185)
Total	**(1,520)**	**(1,417)**
* Including changes in impairment losses on tangible assets under construction related to the exploration for and evaluation of mineral resources	(438)	17

5. FINANCE INCOME AND COSTS

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Finance income	**69**	**216**
Interest income	65	66
Foreign exchange gains	-	139
Gain on disposal of investments	-	5
Dividends and other profit distributions	3	4
Other finance income	1	2
Finance costs	**(465)**	**(380)**
Loss on measurement and realisation of derivative financial instruments	(35)	(29)
Interest expense	(272)	(315)
Foreign exchange losses	(117)	-
Commission fees paid on bank borrowings	(25)	(19)
Cost of guarantees	(3)	(4)
Other finance costs	(13)	(13)
Finance income/costs	**(396)**	**(164)**

6. EQUITY ACCOUNTING FOR ASSOCIATES

6.1. Condensed financial information on equity-accounted associates

	Dec 31 2013	Dec 31 2012
SGT EUROPOL GAZ S.A.		
PGNiG Group's ownership interest*	49.74%	49.74%
Core business	Transmission of natural gas	Transmission of natural gas
Key financial data**		
Total assets	4,527	4,852
Total liabilities	918	1,192
Revenue	1,120	1,244
Net profit/(loss)	(12)	103
Gas-Trading S.A.		
PGNiG Group's ownership interest	43.41%	43.41%
Core business	Trade	Trade
Key financial data**		
Total assets	41	42
Total liabilities	2	2
Revenue	46	42
Net profit/(loss)	(0.9)	(0.6)

* Including a 48% direct interest and 1.74% held indirectly through Gas-Trading S.A.
** Data from financial statements prepared in accordance with the Polish Accounting Standards.

6.2. Net carrying amount of interests in equity-accounted associates

	Dec 31 2013	Dec 31 2012
SGT EUROPOL GAZ S.A.		
Equity accounting for the investment*	1,507	1,528
Cost	38	38
Share in changes in equity	1,545	1,566
Impairment losses	(834)	(811)
Net carrying amount of the investment	**711**	**755**
Gas-Trading S.A.		
Equity accounting for the investment	15	15
Cost	1	1
Share in changes in equity	16	16
Impairment losses	-	-
Net carrying amount of the investment	**16**	**16**
Total net carrying amount of the investment	**727**	**771**

*After adjustment to equity to ensure compliance with the Group's accounting policies. See Note 6.3.

6.3. Reconciliation of the value of interests in equity-accounted associates

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Net carrying amount of the investments at beginning of the period	771	598
Dividend paid by GAS-TRADING S.A.	-	-
Valuation recognised in profit or loss, including:	**(44)**	**173**
Valuation of SGT EUROPOL GAZ S.A.	(44)	173
Valuation of Gas-Trading S.A.	-	-
Net carrying amount of the investments at end of the period	**727**	**771**

The Parent estimated the amount of its equity interest in SGT EUROPOL GAZ S.A. on the basis of the company’s equity as shown in its financial statements at December 31st 2013 prepared in accordance with the Polish Accountancy Act, adjusted for differences in the accounting policies applied within the Group and results on intercompany transactions. The differences in the accounting policies concerned recognition of interest expenses in the net value of property, plant and equipment (until the end of 2008). Until the end of 2008, the Group applied the standard approach (in accordance with IAS 23) and did not recognise borrowing costs in the initial value of property, plant and equipment. As of the beginning of 2009, the Group capitalises borrowing costs in the value of property, plant and equipment, therefore the adjustment consists in continued elimination of these costs with respect to the previous years.

Subsequently, the Parent tested its interest in SGT EUROPOL GAZ S.A. for impairment using the discounted cash flow method, on the basis of information on the company's target net profit as indicated in the Inter-Governmental Protocol dated October 29th 2010. The calculations were based on the assumption that in each year in 2011-2021 SGT EUROPOL GAZ S.A.'s net profit will be PLN 21m. The discounted cash flows include all cash flows generated by SGT EUROPOL GAZ S.A., including cash flows related to the servicing of interest-bearing borrowings (interest expenses and repayment of principal amounts).

As at December 31st 2013, the Parent measured the value of its equity interest in jointly-controlled entity SGT EUROPOL GAZ S.A. using the equity method at PLN 1,545m. The company's value estimated as at the same date using the discounted cash flow method was PLN 711m.

Therefore, the Parent made a revaluation adjustment to the company's net carrying amount to reflect the company's current valuation of PLN 711m. As at the end of 2013, the difference in valuation relative to December 31st 2012 was PLN 44m and was recognised in the income statement for the current period in "Share in net profit/loss of equity-accounted entities".

7. INCOME TAX

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

7.1. Income tax disclosed in the income statement

	Note	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Profit/(loss) before tax		2,709	2,549
Tax rate applicable in the period		19%	19%
Tax calculated at the applicable tax rate		(515)	(484)
Difference in tax rates		38	(7)
Investment tax credit (Norway)		(156)	212
Permanent differences between profit/(loss) before tax and tax base		(156)	(30)
Tax expense in the consolidated income statement		**(789)**	**(309)**
Current tax expense	7.2.	(687)	(533)
Deferred tax expense	7.3.	(102)	224
Effective tax rate		29%	12%

7.2. Current tax expense

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Profit/(loss) before tax (consolidated)	2,709	2,549
Consolidation adjustments	359	65
Differences between profit/(loss) before tax and tax base	404	(316)
Taxable income not recognised as income for accounting purposes	407	433
Tax deductible expenses not recognised as expenses for accounting purposes	(2,464)	(2,602)
Income not recognised as taxable income	2,162	2,024
Non-tax deductible expenses	(4,779)	(4,200)
Deductions from income	(156)	(323)
Income tax base	3,472	2,298
Tax rate applicable in the period	19%	19%
Income tax	(660)	(437)
Increases, reliefs, exemptions, allowances and reductions in/of income tax	(27)	(96)
Current tax expense disclosed in tax return for the period	(687)	(533)
Current tax expense disclosed in the consolidated income statement	**(687)**	**(533)**

7.3. Deferred tax expense

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
I. Deferred tax expense disclosed in the consolidated income statement	**(102)**	**224**
Recognition and reversal of deferred tax due to deductible temporary differences	**(85)**	**254**
Impairment losses on financial assets, receivables and tangible assets under construction	25	(11)
Provisions for future liabilities	60	41
Costs of FX risk and interest rate risk hedges	(49)	-
Foreign exchange losses	-	1
Investment tax credit (Norway)	(156)	212
Tax loss for the period	20	3
Other deductible temporary differences	15	8
Recognition and reversal of deferred tax due to taxable temporary differences	**(17)**	**(30)**
Difference between tax and accounting value of non-current assets	6	(2)
Positive valuation of FX and interest rate risk hedges	(13)	(26)
Foreign exchange gains	-	(2)
Income on tax obligation arising in subsequent month	14	(5)
Other taxable temporary differences	(24)	5
II. Deferred tax expense disclosed in other comprehensive income, net, including:	**(33)**	**45**
Hedge accounting	(14)	48
Actuarial gains/(losses) on employee benefits	(19)	(3)
III. Exchange differences on translating deferred tax attributable to foreign operations	(40)	(5)
IV. Deferred tax charged to property, plant and equipment (Norway)	-	13
V. Deferred tax transferred to current income tax receivable (Norway)	-	(89)
VI. Changes in the Group	-	(354)
VII. Reclassification to assets held for sale	(2)	2
Total changes (I - VII)	**(177)**	**(164)**

The current reporting period covered the tax period from January 1st to December 31st 2013. The corporate income tax rate applicable in Poland in 2013 was 19%. In the comparative period, i.e. in 2012, the rate was also 19%.

Foreign subsidiaries and foreign branches of the Parent and of Polish subsidiaries are subject to tax regulations in force in the countries where they conduct their business and the provisions of double tax treaties. In the case of foreign branches of subsidiaries, the tax rates effective in 2013 and 2012 ranged from 11% to 41%. Foreign branches of the Parent did not generate any taxable income in 2013 and 2012.

In the case of PGNiG Upstream International AS, the marginal tax rate is 78%. PGNiG Upstream International AS's activities in the continental shelf are subject to taxation under two separate tax systems:

- The corporate income tax system (tax rate: 27% in 2013, 28% in 2012);
- The petroleum tax system (additional tax rate: 51% in 2013, 50% in 2012).

Such a high tax rate in Norway comes with a wide range of investment incentives and additional allowances.

- For instance, the company may apply a high depreciation/amortisation rate (the annual depreciation/amortisation rate is 16.67%) and commence depreciation/amortisation immediately after capital expenditure is incurred. In the first year, the company is entitled to full annual depreciation/amortisation, regardless of the date when capital expenditure is actually incurred.
- The company may benefit from an investment incentive of 5.5% per annum for the period of four years under the petroleum tax regime. The incentive relates to capital expenditure made in the Norwegian Continental Shelf (NCS) (excluding exploration expenditure) and amounts to 22% of expenditure subject to depreciation/amortisation (5.5% in each of the four years). The incentive is deducted only from the income taxable with the petroleum tax (51% rate) and does not apply to income tax. If the incentive amount exceeds income generated in a given year, it becomes deductible in subsequent years.
- Total expenditure on exploration activities may be deducted from revenue. If a company does not generate income from which expenditure on exploration could be deducted, it is entitled to a reimbursement of 78% of expenditure on exploration. The funds are returned in cash, and the transfer to the company's bank account is made by the end of the year following the year covered by the tax return.
- Finance costs may be deducted under both taxation systems.

PGNiG Upstream International AS has been amortising its investment expenditure since 2007 and has been using its investment incentive by recognising it as deferred tax expense (in the amount recorded under "Investment incentive (Norway)" in table 7.3.); such deferred tax expense is used when taxable income (subject to income tax) is generated.

Under the Norwegian tax system the use of tax losses is not time-barred and, what is more, interest accrues on losses incurred after 2002. The interest rate applicable to such losses is calculated as a risk-free interest rate plus a margin, net of income tax (27%). Tax losses, including interest, incurred by PGNiG Upstream International AS since 2013 reduce its current tax expense.

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

8. DISCONTINUED OPERATIONS

The Group did not discontinue any operations in 2013.

The Group is planning to sell Geovita S.A., its catering and hospitality subsidiary, in 2014.

As at December 31st 2013, the Group presented the assets, equity and liabilities of Geovita S.A. in the consolidated statement of financial position under non-current assets held for sale and liabilities associated with assets held for sale. The company does not represent any material area of the Group's operations.

For information on assets held for sale, see Note 24.

9. EARNINGS/(LOSS) PER SHARE

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

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

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Net profit/(loss) attributable to owners of the parent	1,918	2,242
Net profit/(loss) attributable to owners of the parent used to calculate diluted earnings/(loss) per share	1,918	2,242
Weighted average number of outstanding ordinary shares used to calculate basic earnings/(loss) per share (million)	5,900	5,900
Weighted average number of outstanding ordinary shares used to calculate diluted earnings/(loss) per share (million)	5,900	5,900
Basic earnings/(loss) per share for the year, attributable to holders of ordinary shares of the parent (PLN)	0.33	0.38
Diluted earnings/(loss) per share for the period, attributable to holders of ordinary shares of the parent (PLN)	0.33	0.38

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

Beginning of the period	End of the period	Number of outstanding ordinary shares (million)	Number of days	Weighted average number of shares (million)
Dec 31 2013				
Jan 1 2013	Dec 31 2013	5,900	365	5,900
Total			**365**	**5,900**
Dec 31 2012				
Jan 1 2012	Dec 31 2012	5,900	366	5,900
Total			**366**	**5,900**

10. DIVIDEND PAID AND PROPOSED

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Dividends declared and paid in the period		
Dividend per share paid (PLN)	0.13	-
Number of shares (million)	5,900	5,900
Dividend paid (PLNm)	767	1
- dividend paid to owners of the parent	767	-
- dividend paid to non-controlling interests	-	1

On May 22nd 2013, the Annual General Meeting of PGNiG S.A. passed a resolution on distribution of the Company’s 2012 net profit and decided to allocate PLN 767m for payment of dividend.

The dividend record date and the dividend payment date were set for July 20th 2013 and October 3rd 2013, respectively.

No dividend was paid for 2011. On June 6th 2012, the Annual General Meeting of PGNiG S.A. decided to allocate the Company's 2011 profit for contribution to statutory reserve funds.

11. PROPERTY, PLANT AND EQUIPMENT

	Dec 31 2013	Dec 31 2012
Land	77	70
Buildings and structures	17,188	16,522
Plant and equipment	8,663	4,530
Vehicles and other	1,213	1,244
Total tangible assets	**27,141**	**22,366**
Tangible assets under construction - exploration for and evaluation of mineral resources	2,102	2,371
Other tangible assets under construction	3,790	9,047
Total property, plant and equipment	**33,033**	**33,784**

TANGIBLE ASSETS

Dec 31 2013	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
Total net carrying amount as at Jan 1 2013, net of accumulated depreciation and impairment losses	70	16,522	4,530	1,244	**22,366**
Increase	1	36	33	4	**74**
Decrease	-	(611)	(54)	(12)	**(677)**
Currency translation differences	-	-	(284)	-	**(284)**
Transfers from tangible assets under construction and between asset groups	6	2,376	5,409	187	**7,978**
Impairment losses	-	(37)	(19)	(1)	**(57)**
Depreciation expense for the reporting period	-	(1,098)	(952)	(209)	**(2,259)**
Net carrying amount as at Dec 31 2013, net of accumulated depreciation and impairment losses	**77**	**17,188**	**8,663**	**1,213**	**27,141**
As at Jan 1 2013					
Gross value	72	25,430	7,470	2,366	**35,338**
Accumulated depreciation and impairment losses	(2)	(8,908)	(2,940)	(1,122)	**(12,972)**
Net carrying amount as at Jan 1 2013	**70**	**16,522**	**4,530**	**1,244**	**22,366**
As at Dec 31 2013					
Gross value	79	27,169	12,528	2,424	**42,200**
Accumulated depreciation and impairment losses	(2)	(9,981)	(3,865)	(1,211)	**(15,059)**
Net carrying amount as at Dec 31 2013	**77**	**17,188**	**8,663**	**1,213**	**27,141**

Dec 31 2012	Land	Buildings and structures	Plant and equipment	Vehicles and other	Total
Net carrying amount as at Jan 1 2012, net of accumulated depreciation and impairment losses	58	14,663	2,480	1,054	**18,255**
Increase	-	367	10	3	**380**
Changes in the Group	8	803	1,606	7	**2,424**
Decrease	(1)	(133)	(19)	(19)	**(172)**
Currency translation differences	-	-	1	(1)	**-**
Transfers from tangible assets under construction and between asset groups	5	2,008	1,039	395	**3,447**
Impairment losses	-	(175)	(28)	7	**(196)**
Depreciation expense for the reporting period	-	(1,011)	(559)	(202)	**(1,772)**
Net carrying amount as at Dec 31 2012, net of accumulated depreciation and impairment losses	**70**	**16,522**	**4,530**	**1,244**	**22,366**
As at Jan 1 2012					
Gross value	60	22,411	4,887	2,019	**29,377**
Accumulated depreciation and impairment losses	(2)	(7,748)	(2,407)	(965)	**(11,122)**
Net carrying amount as at Jan 1 2012	**58**	**14,663**	**2,480**	**1,054**	**18,255**
As at Dec 31 2012					
Gross value	72	25,430	7,470	2,366	**35,338**
Accumulated depreciation and impairment losses	(2)	(8,908)	(2,940)	(1,122)	**(12,972)**
Net carrying amount as at Dec 31 2012	**70**	**16,522**	**4,530**	**1,244**	**22,366**

11.1. Property, plant and equipment used under finance lease agreements

	Dec 31 2013				Dec 31 2012			
	Initial value of capitalised finance lease	Accumulated depreciation	Impairment loss	Net carrying amount	Initial value of capitalised finance lease	Accumulated depreciation	Impairment loss	Net carrying amount
Plant and equipment	245	(68)	(1)	176	225	(46)	-	179
Vehicles and other	42	(10)	-	32	50	(9)	-	41
Total	**287**	**(78)**	**(1)**	**208**	**275**	**(55)**	**-**	**220**

11.2. Impairment losses on property, plant and equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total tangible assets**	Tangible assets under construction - exploration for and evaluation of mineral resources	Other tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2013	2	636	147	11	**796**	335	74	**1,205**
Increase	1	395	60	4	**460**	521	21	**1,002**
Decrease	(1)	(347)	(41)	(3)	**(392)**	(83)	(30)	**(505)**
Transfers	-	(11)	-	-	**(11)**	-	-	**(11)**
Currency translation differences	-	-	-	-	**-**	(13)	-	**(13)**
As at Dec 31 2013	**2**	**673**	**166**	**12**	**853**	**760**	**65**	**1,678**
As at Jan 1 2012	2	461	119	18	**600**	299	152	**1,051**
Increase	1	357	74	5	**437**	138	24	**599**
Decrease	(1)	(182)	(45)	(11)	**(239)**	(155)	(72)	**(466)**
Transfers	-	-	-	-	**-**	53	(53)	**-**
Currency translation differences	-	-	(1)	(1)	**(2)**	-	-	**(2)**
Changes in the Group	-	-	-	-	**-**	-	23	**23**
As at Dec 31 2012	**2**	**636**	**147**	**11**	**796**	**335**	**74**	**1,205**

As at the beginning of the period, impairment losses on tangible assets were PLN 796m, of which:

- - PLN 597m were impairment losses on assets used directly in hydrocarbon production,
- - PLN 8m were impairment losses on distribution assets,
- - PLN 1m were impairment losses on assets of underground gas storage facilities,
- - PLN 190m were impairment losses on other tangible assets.

Impairment losses recognised and reversed in the reporting period amounted to PLN 449m and PLN 392m respectively, of which PLN 435m and PLN 378m, respectively, concerned assets used directly in hydrocarbon production, with the balance attributable to other tangible assets used by the Group.

As at the end of the period, impairment losses on tangible assets were PLN 853m, of which:

- - PLN 654m were impairment losses on assets used directly in hydrocarbon production,
- - PLN 8m were impairment losses on distribution assets,
- - PLN 1m were impairment losses on assets of underground gas storage facilities,
- - PLN 190m were impairment losses on other tangible assets.

12. INVESTMENT PROPERTY

	Dec 31 2013	Dec 31 2012
Net carrying amount at beginning of the period, net of accumulated depreciation and impairment losses	11	7
Changes in the Group	-	6
Decrease	-	(1)
Transfer from/to property, plant and equipment	(1)	-
Depreciation expense for the reporting period	(1)	(1)
Net carrying amount at end of the period, net of accumulated depreciation and impairment losses	**9**	**11**
At beginning of the period		
Gross value	15	11
Accumulated depreciation and impairment losses	(4)	(4)
Net carrying amount at beginning of the period	**11**	**7**
At end of the period		
Gross value	13	15
Accumulated depreciation and impairment losses	(4)	(4)
Net carrying amount at end of the period	**9**	**11**

The Group’s investment property includes chiefly office buildings held in whole or in part for rent, industrial buildings and structures, and land. As at the end of the reporting period, the net book value of the office buildings recognised as investment property was PLN 9m (2012: PLN 9m). The balance of PLN 2m under investment property as at the end of 2012 was attributable to industrial buildings.

In the reporting period, the Group derived PLN 3m rental income from investment property (2012: PLN 7m).

Operating expenses incurred in connection with the rental of investment property were PLN 2m in the reporting period (2012: PLN 4m).

As investment property is not a material item in the statement of financial position, the Group does not measure its fair value.

13. INTANGIBLE ASSETS

Dec 31 2013	Development expenses	Goodwill	Perpetual usufruct right to land – acquired for consideration**	Software	CO_2 emission allowances	Other intangible assets	Total
Net carrying amount as at Jan 1 2013, net of accumulated amortisation and impairment losses	1	44	672	213	50	166	**1,146**
Increase	-	-	(1)	-	71	-	**70**
Decrease	-	-	(2)	(1)	-	-	**(3)**
Currency translation differences	-	-	-	-	-	(1)	**(1)**
Transfers from tangible assets under construction and between asset groups	-	-	4	123	-	54	**181**
Impairment losses	-	-	(1)	(1)	-	(24)	**(26)**
Amortisation expense for the reporting period	-	-	(2)	(76)	(84)	(41)	**(203)**
Net carrying amount as at Dec 31 2013, net of accumulated amortisation and impairment losses	**1**	**44**	**670**	**258**	**37**	**154**	**1,164**
As at Jan 1 2013							
Gross value	5	44	688	438	212	318	**1,705**
Accumulated amortisation and impairment losses	(4)	-	(16)	(225)	(162)	(152)	**(559)**
Net carrying amount as at Jan 1 2013	**1**	**44**	**672**	**213**	**50**	**166**	**1,146**
As at Dec 31 2013							
Gross value	5	44	689	583	283	341	**1,945**
Accumulated amortisation and impairment losses	(4)	-	(19)	(325)	(246)	(187)	**(781)**
Net carrying amount as at Dec 31 2013	**1**	**44**	**670**	**258**	**37**	**154**	**1,164**

* The Group also holds perpetual usufruct right to land obtained free of charge, which is disclosed as an off-balance-sheet item.

Dec 31 2012	Development expenses	Goodwill	Perpetual usufruct right to land – acquired for consideration**	Software	CO_2 emission allowances	Other intangible assets	Total
Net carrying amount as at Jan 1 2012, net of accumulated amortisation and impairment losses	2	-	71	136	-	134	**343**
Increase	-	-	-	-	54	56	**110**
Changes in the Group	-	44	598	4	190	58	**894**
Decrease	-	-	(1)	(1)	(32)	-	**(34)**
Currency translation differences	-	-	-	-	-	(3)	**(3)**
Transfers from tangible assets under construction and between asset groups	-	-	7	132	-	1	**140**
Impairment losses	-	-	-	-	-	(8)	**(8)**
Amortisation expense for the reporting period	(1)	-	(3)	(58)	(162)	(72)	**(296)**
Net carrying amount as at Dec 31 2012, net of accumulated amortisation and impairment losses	**1**	**44**	**672**	**213**	**50**	**166**	**1,146**
As at Jan 1 2012							
Gross value	5	-	84	308	-	178	**575**
Accumulated amortisation and impairment losses	(3)	-	(13)	(172)	-	(44)	**(232)**
Net carrying amount as at Jan 1 2012	**2**	**-**	**71**	**136**	**-**	**134**	**343**
As at Dec 31 2012							
Gross value	5	44	688	438	212	318	**1,705**
Accumulated amortisation and impairment losses	(4)	-	(16)	(225)	(162)	(152)	**(559)**
Net carrying amount as at Dec 31 2012	**1**	**44**	**672**	**213**	**50**	**166**	**1,146**

* The Group also holds perpetual usufruct right to land obtained free of charge, which is disclosed exclusively as an off-balance-sheet item.

13.1. Impairment losses on intangible assets

	Development expenses	Goodwill	Perpetual usufruct right to land – acquired for consideration	Software	CO_2 emission allowances	Other intangible assets	**Total**
As at Jan 1 2013	**-**	**-**	**3**	**-**	**-**	**8**	**11**
Increase	-	-	2	1	-	29	**32**
Decrease	-	-	(1)	-	-	(4)	**(5)**
Currency translation differences	-	-	-	-	-	(1)	**(1)**
As at Dec 31 2013	**-**	**-**	**4**	**1**	**-**	**33**	**38**
As at Jan 1 2012	**-**	**-**	**3**	**-**	**-**	**-**	**3**
Increase	-	-	-	-	-	8	**8**
As at Dec 31 2012	**-**	**-**	**3**	**-**	**-**	**8**	**11**

14. NON-CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Dec 31 2013	Dec 31 2012
Unlisted shares (gross)	96	90
Total, gross	**96**	**90**
Unlisted shares (net)*	51	48
Total, net	**51**	**48**

* Net of impairment losses.

15. OTHER FINANCIAL ASSETS

	Dec 31 2013	Dec 31 2012
Loans advanced	185	117
Amounts receivable for sale of tangible assets	5	5
Financial receivables (security deposits, guarantees and other)	-	1
Other financial assets	1	1
Total, gross	**191**	**124**
Impairment losses	-	-
Total, net	**191**	**124**
Including net receivables from related entities (Note 38.1)	185	117

16. DEFERRED TAX ASSETS

	Dec 31 2013	Dec 31 2012
Obligations under length-of-service awards and severance	98	72
Provision for unused holiday entitlement	5	5
Provision for well decommissioning costs	121	143
Provision for environmental liabilities	21	22
Other provisions	104	75
Impairment losses on property, plant and equipment	105	72
Impairment losses on shares	1	7
Impairment losses on interest receivables	7	7
Negative valuation of derivative financial instruments	38	87
Foreign exchange losses	6	5
Accrued interest on borrowings and liabilities	4	5
Connection charge	60	66
Unpaid salaries and wages, including contributions to the Social Insurance Institution (ZUS)	7	9
Revaluation of prepayments/deferred income due to hyperinflation	6	7
Investment tax credit (Norway)	299	492
Tax loss for the period	25	4
Other deferred tax assets	86	58
Total	**993**	**1,136**

17. OTHER NON-CURRENT ASSETS

	Dec 31 2013	Dec 31 2012
Connection charge	58	58
Commission fees paid on borrowings, notes and other debt instruments	7	13
Other non-current assets	6	5
Total	**71**	**76**

18. INVENTORIES

	Dec 31 2013	Dec 31 2012
Materials		
at cost, including:	3,365	3,006
- gas fuel	2,513	2,181
- fuels for electricity and heat generation	343	370
At net realisable value, including:	3,338	2,983
- gas fuel	2,513	2,181
- fuels for electricity and heat generation	343	370
Semi-finished products and work in progress		
At cost	10	45
At net realisable value	10	45
Finished products		
At cost	35	40
At net realisable value	27	34
Merchandise		
At cost	3	2
At net realisable value	3	2
Total inventories at cost	**3,413**	**3,093**
Total inventories, at the lower of cost and net realisable value	**3,378**	**3,064**

18.1. Change in inventories in the period

	Dec 31 2013	Dec 31 2012
Inventories at cost, at beginning of the period	**3,093**	**2,102**
Purchase	20,274	22,104
Other increases	95	90
Inventories charged to expenses for the period	(19,609)	(20,873)
Currency translation differences	(2)	(1)
Changes in the Group	-	362
Reclassification to assets held for sale	-	(1)
Other decreases	(438)	(690)
Inventories at cost, at end of the period	**3,413**	**3,093**
Impairment loss on inventories	**(35)**	**(29)**
Total net inventories at end of the period	**3,378**	**3,064**

18.2. Impairment losses on inventories

	Dec 31 2013	Dec 31 2012
Impairment losses at beginning of the period	**(29)**	**(20)**
Increase in impairment losses	(18)	(55)
Reversal of impairment losses	12	46
Impairment losses at end of the period	**(35)**	**(29)**

19. TRADE AND OTHER RECEIVABLES

	Dec 31 2013	Dec 31 2012
Trade receivables	4,034	5,266
Trade receivables from related entities	6	2
VAT receivable	382	502
Other taxes, customs duties and social security receivable	37	25
Due and payable portion of loans advanced to related entities	31	29
Receivables from equity-accounted associated and jointly-controlled entities	4	4
Other receivables from related entities	5	2
Receivables from sale of property, plant and equipment	1	5
Prepayments for tangible assets under construction	40	14
Additional contribution to equity receivable under a relevant resolution*	-	85
Liquidated damages receivable	-	85
Other receivables	237	250
Total gross receivables	**4,777**	**6,269**
Including gross receivables (including due and payable portion of loans) from related entities (Note 38.1)	46	37
Impairment loss on doubtful receivables (Note 19.1)	**(691)**	**(895)**
Total net receivables	**4,086**	**5,374**
including:		
Trade receivables	3,560	4,756
Trade receivables from related entities	6	2
VAT receivable	382	502
Other taxes, customs duties and social security receivable	35	23
Receivables from equity-accounted associated and jointly-controlled entities	4	4
Other receivables from related entities	-	2
Receivables from sale of property, plant and equipment	1	5
Prepayments for tangible assets under construction	39	14
Other receivables	59	66
Including net receivables (including due and payable portion of loans) from related entities (Note 38.1)	10	8

* Dispute concerning additional contributions to equity of PI Gazotech Sp. z o.o., described in Note 42.1.

Trade receivables arise mainly in connection with sale of gas fuel and network services. As at the end of 2012, receivables from Gazprom Export under retroactive settlements were recognised pursuant to Annex 40 of November 5th 2012.

Standard payment terms applied by the Group companies in the usual course of business are 21 days.

19.1. Impairment losses on receivables

	Dec 31 2013	Dec 31 2012
Impairment losses at beginning of the period	**(895)**	**(784)**
Increase in impairment losses	(368)	(380)
Reversal of impairment losses	518	242
Use of impairment losses	54	29
Changes in the Group	-	(2)
Impairment losses at end of the period	**(691)**	**(895)**

20. CURRENT INCOME TAX

	Dec 31 2013	Dec 31 2012
Current tax assets at beginning of the period	**150**	**164**
Exchange differences on translating current tax assets	(3)	(3)
Transfer between current tax assets and current tax payable	11	26
Current tax assets transferred from deferred tax	-	89
Tax refund – investment tax credit (Norway)	-	(126)
Other changes	(110)	-
Current tax assets at end of the period	**48**	**150**
Impairment loss on current tax assets	-	-
Current tax assets at end of the period	**48**	**150**
Income tax payable at beginning of the period	**24**	**58**
Income tax disclosed in profit or loss of the period	687	533
Income tax paid in the period	(495)	(591)
Transfer between current tax assets and current tax payable	11	26
Other changes	(43)	(3)
Changes in the Group	-	1
Current income tax payable at end of the period	**184**	**24**

*The PGNiG Group is not a tax group, therefore current tax assets and current tax payable are not offset.

21. OTHER ASSETS

	Dec 31 2013	Dec 31 2012
Valuation of long-term contracts	92	37
Property insurance	13	9
Commission fees on borrowings, notes, etc.	6	8
Software licences, maintenance and upgrades	6	10
Rents and charges	1	2
Other current assets	53	18
Total	**171**	**84**

22. CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

As at December 31st 2013 and December 31st 2012, the Group held no current financial assets available for sale.

23. CASH AND CASH EQUIVALENTS

	Dec 31 2013	Dec 31 2012
Cash in hand and at banks	842	467
Bank deposits	1,958	1,482
Other cash*	27	(1)
Total	**2,827**	**1,948**

* Cash in transit, cheques and third-party notes maturing in less than three months.

The Group companies deposit their cash with reputable Polish and international banks, as a result of which any risk concentration related to cash deposits is limited.

24. ASSETS HELD FOR SALE

Item (or group) of non-current assets	Expected disposal date	Carrying amount as at Dec 31 2013	Terms of disposal
Assets associated with subsidiary Geovita S.A., classified as held for sale	Q1 2014	82	public invitation to negotiate
Other non-current assets held for sale	2014	6	tender
Total		**88**	

Liabilities associated with non-current assets held for sale	Carrying amount as at Dec 31 2013
Liabilities associated with subsidiary Geovita S.A., classified as held for sale	15
Total	**15**

Item (or group) of non-current assets	Expected disposal date	Carrying amount as at Dec 31 2012	Terms of disposal
Assets associated with subsidiary Geovita S.A., classified as held for sale	H1 2013	91	public invitation to negotiate
Shares in jointly-controlled entity InterTransGas GmbH, classified as held for sale	2013	5	request for bids
Other non-current assets held for sale	2013	12	tender
Total		**108**	

Liabilities associated with groups of assets held for sale	Carrying amount as at Dec 31 2012
Liabilities associated with subsidiary Geovita S.A., classified as held for sale	20
Total	**20**

As at the end of 2012, the net carrying amount of non-current assets held for sale was PLN 108m. The largest items were two companies classified as held for sale: Geovita S.A., a consolidated subsidiary, and InterTransGas GmbH, a non-consolidated jointly-controlled entity.

In 2013, the process of selling shares in Geovita S.A. continued, while the procedure aimed at selling InterTransGas GmbH was ended with no transaction concluded. In December 2013, the General Meeting of InterTransGas resolved to wind up the company and begin the liquidation process – for more detail, see Note *38.8. Foreign operations.*

25. SHARE CAPITAL

	Dec 31 2013	Dec 31 2012
Total number of shares (million)	5,900	5,900
Par value per share (PLN)	1	1
Total share capital	**5,900**	**5,900**

26. BORROWINGS AND DEBT SECURITIES

	Note	Dec 31 2013	Dec 31 2012
Non-current		**5,385**	**5,509**
Bank borrowings	26.1., 26.2.	816	974
Non-bank borrowings	26.3.	-	-
Debt securities	26.4.	4,460	4,399
Lease liabilities	26.5., 26.6.	109	136
Current		**2,276**	**4,702**
Bank borrowings	26.1., 26.2.	781	445
Non-bank borrowings	26.3.	22	10
Debt securities	26.4.	1,425	4,200
Lease liabilities	26.5., 26.6.	48	47
Total		**7,661**	**10,211**

26.1. Bank borrowings

Dec 31 2013

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2014	2015-2019	2020 and beyond
PLN	1M WIBOR + margin	213	213	199	1	13
PLN	3M WIBOR + margin	178	178	8	167	3
USD	LIBOR + margin	317	1,074	475	599	-
EUR	Eonia+margin	20	83	83	-	-
EUR	EURIBOR + margin	25	49	16	20	13
Total			**1,597**	**781**	**787**	**29**

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2013	2014-2018	2019 and beyond
PLN	O/N WIBOR + margin	53	53	53	-	-
PLN	1M WIBOR + margin	107	107	90	5	12
PLN	3M WIBOR + margin	72	72	5	36	31
USD	LIBOR + margin	371	1,140	283	857	-
EUR	EURIBOR + margin	12	47	14	33	-
Total			**1,419**	**445**	**931**	**43**

26.2. Obtained credit facilities and amounts available under the facilities

	Dec 31 2013	Dec 31 2012
Credit facilities obtained	1,590	1,585
Amounts drawn	(1,263)	(1,191)
Undrawn amounts	**327**	**394**

26.3. Borrowings

Dec 31 2013

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2014	2015-2019	2020 and beyond
PLN	1M WIBOR + margin	22	22	22	-	-
Total			**22**	**22**	**-**	**-**

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2013	2014-2018	2019 and beyond
PLN	1M WIBOR + margin	10	10	10	-	-
Total			**10**	**10**	**-**	**-**

26.4. Debt securities

Dec 31 2013

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2014	2015-2019	2020 and beyond
PLN	2,80%-5,38%	952	952	952	-	-
PLN	1M WIBOR + margin	40	40	40	-	-
PLN	3M WIBOR + margin	109	109	109	-	-
PLN	6M WIBOR + margin	2,619	2,619	246	2,373	-
EUR	4%	516	2,165	78	2,087	-
Total			**5,885**	**1,425**	**4,460**	**-**

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2013	2014-2018	2019 and beyond
PLN	O/N WIBOR + margin	1,164	1,164	1,164	-	-
PLN	1M WIBOR + margin	2,294	2,294	2,294	-	-
PLN	6M WIBOR + margin	3,032	3,032	668	2,364	-
EUR	EURIBOR + margin	515	2,109	74	2,035	-
Total			**8,599**	**4,200**	**4,399**	**-**

26.5. Finance lease liabilities

Dec 31 2013

Currency	Interest rate	Amount in original currency	Carrying amount
PLN	1M WIBOR + margin	40	40
PLN	5%-8%	39	39
USD	LIBOR + margin	22	67
USD	6% on average	3	9
EUR	EURIBOR + margin	-	2
Total			**157**

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount
PLN	4%-6%	9	9
PLN	1M WIBOR + margin	20	20
PLN	7%-10%	44	44
USD	LIBOR + margin	28	88
USD	8% on average	4	13
EUR	EURIBOR + margin	1	3
CHF	8% on average	2	6
Total			**183**

26.6. Maturity of finance lease liabilities (disclosed in the statement of financial position)

	Dec 31 2013		
Maturing in:	Discounted payments disclosed in the statement of financial position	Interest	Actual lease payments due
up to 1 year	48	5	53
from 1 to 5 years	109	7	115
Total	**157**	**12**	**168**

	Dec 31 2012		
Maturing in:	Discounted payments disclosed in the statement of financial position	Interest	Actual lease payments due
up to 1 year	47	2	48
from 1 to 5 years	123	5	129
over 5 years	13	1	14
Total	**183**	**8**	**191**

27. EMPLOYEE BENEFIT OBLIGATIONS

	Dec 31 2013	Dec 31 2012
Liabilities under length-of-service awards	425	175
Liabilities under severance	78	202
Wages and salaries payable	57	72
Amounts payable for unused holiday entitlement	68	55
Termination benefits	25	105
Other employee benefit obligations	224	128
Total	**877**	**737**
Non-current employee benefit obligations	502	381
Current employee benefit obligations	375	356

27.1. Actuarial income statement for length-of-service award and retirement severance obligations

	Dec 31 2013	Dec 31 2012
Length-of-service awards		
Value of obligation shown in the statement of financial position at beginning of the period	175	192
Interest expense	3	4
Current service cost	19	8
Past service cost	1	(3)
Benefits paid	(62)	(61)
Actuarial gain/(loss)	282	8
Gain/(loss) due to curtailments or settlements	7	-
Changes in the Group	-	28
Reclassification to liabilities associated with assets held for sale	-	(1)
Value of obligation shown in the statement of financial position at end of the period	**425**	**175**
Retirement severance		
Value of obligation shown in the statement of financial position at beginning of the period	202	211
Current service cost	2	8
Interest expense	4	4
Benefits paid	(15)	2
Actuarial gain/(loss)	(108)	(39)
Gain/(loss) due to curtailments or settlements	(7)	-
Changes in the Group	-	16
Value of obligation shown in the statement of financial position at end of the period	**78**	**202**
Total value of obligation shown in the statement of financial position at end of the period	**503**	**377**

The technical rate applied to calculate the discounted value of the future retirement severance obligations was 2.4%, as the resultant of the 4.35% annual return on long-term treasury bonds and the 1.9% forecast annual salary growth (at the end of 2012 the applied technical rate was 2.0%, as the resultant of 3.73% and 1.7%, respectively).

28. PROVISIONS

	Provision for well decommissioning costs	Provision for penalty imposed by the Office for Competition and Consumer Protection	Provision for environmental liabilities	Provision for claims under extra-contractual use of land	Provision for liabilities associated with exploration work in Pakistan, Egypt and Libya	Provision for the buy-out price on energy savings certificates - white certificates	Other provisions	**Total**
As at Jan 1 2013	1,661	60	94	77	28	-	222	**2,142**
Provisions recognised	68	-	-	33	148	134	171	**554**
Provisions used / released	(461)	-	(7)	(29)	(22)	-	(111)	**(630)**
Currency translation differences	(14)	-	-	-	(1)	-	(1)	**(16)**
As at Dec 31 2013	**1,254**	**60**	**87**	**81**	**153**	**134**	**281**	**2,050**
Non-current	1,226	-	76	43	9	-	51	**1,405**
Current	28	60	11	38	144	134	230	**645**
As at Dec 31 2013	**1,254**	**60**	**87**	**81**	**153**	**134**	**281**	**2,050**
Non-current	1,636	-	85	24	10	-	37	**1,792**
Current	25	60	9	53	18	-	185	**350**
As at Dec 31 2012	**1,661**	**60**	**94**	**77**	**28**	**-**	**222**	**2,142**

With respect to the costs of decommissioning of wells and site infrastructure located in Poland, in 2013 the discount rate applied to calculate the provision for decommissioning costs was 1.8%, as the resultant of the 4.35% rate of return on assets and the inflation rate assumed at the NBP's continuous inflation target of 2.5% (as at the end of 2012, the discount rate was 1.2%, as the resultant of 3.73% and 2.5%, respectively).

At the end of 2013, PGNiG Upstream International AS, a subsidiary operating in Norway, applied the following rates to calculate the provision for production infrastructure decommissioning costs: inflation rate at 2% and nominal discount rate at 4.78%.

29. DEFERRED INCOME

	Dec 31 2013	Dec 31 2012
Non-current		
Non-depreciated portion of the value of gas service lines financed by gas buyers	387	436
Connection charge	403	429
Grants	740	578
Other deferred income	3	5
Total non-current	**1,533**	**1,448**
Current		
Non-depreciated portion of the value of gas service lines financed by gas buyers	48	50
Connection charge	19	18
Other deferred income	119	33
Total current	**186**	**101**

Grants

The Group implements projects for which EU co-financing has been obtained. The largest projects are carried out by the Parent and involve extension of the gas storage capacities.

In 2013, the Parent received grants to finance the following projects:

- "Wierzchowice Underground Storage Facility" – PLN 31.9m (2012: PLN 226.3m),
- "Kosakowo Underground Storage Facility" – PLN 49.9m (2012: PLN 43.9m),
- "Husów Underground Gas Storage Facility" – PLN 17.8m.

The grant amounts are recognised as Deferred income and will be released to operating income gradually in proportion to the depreciation charges on the tangible assets financed.

30. DEFERRED TAX LIABILITIES

	Dec 31 2013	Dec 31 2012
Foreign exchange gains	5	5
Accrued interest	1	1
Valuation of derivative financial instruments, other financial assets, and financial liabilities	42	16
Income on tax obligation arising in subsequent month	3	17
Difference between tax and accounting value of non-current assets	1,835	1,841
Other deferred tax liabilities	84	56
Total	**1,970**	**1,936**

31. OTHER NON-CURRENT LIABILITIES

	Dec 31 2013	Dec 31 2012
Liabilities under licences, rights to geological information and mining rights	51	41
Other non-current liabilities	7	12
Total	**58**	**53**

32. TRADE AND OTHER PAYABLES

	Dec 31 2013	Dec 31 2012
Trade payables	1,792	1,310
Trade payables to related entities	4	3
VAT payable	1,104	1,390
Other taxes, customs duties and social security payable	275	201
Amounts payable under purchase of non-financial non-current assets	358	381
Amounts payable under purchase of non-financial non-current assets from related entities	5	6
Additional contribution to equity payable under a relevant resolution*	-	85
Amounts payable to equity-accounted associated and jointly-controlled entities	6	7
Other amounts payable to related entities	1	1
Accruals and deferred income and prepaid deliveries	290	174
Other liabilities	198	109
Total	**4,033**	**3,667**
Including amounts payable to related entities (Note 38.1)	16	17

* Dispute concerning additional contributions to equity of PI Gazotech Sp. z o.o., described in Note 42.1.

33. CAUSES OF DIFFERENCES BETWEEN ITEMS OF THE STATEMENT OF FINANCIAL POSITION AND CHANGES WHICH ARE DUE TO CHANGES IN CERTAIN ITEMS OF THE STATEMENT OF CASH FLOWS, AND BREAK-DOWN OF "OTHER ADJUSTMENTS" UNDER OPERATING ACTIVITY

Change in cash	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
1) Cash in the statement of financial position at beginning of the period	1,948	1,505
a) Net exchange differences on cash at beginning of the period	1	1
Cash and cash equivalents in the statement of cash flows at beginning of the period (1-a)	**1,947**	**1,504**
1) Cash in the statement of financial position at end of the period	2,827	1,948
a) Net exchange differences on cash at end of the period	1	1
Cash and cash equivalents in the statement of cash flows at end of the period (2-b)	**2,826**	**1,947**
I. Change in cash in the statement of financial position (2-1)	879	443
II. Change in net exchange differences on cash (b-a)	-	-
Change in cash in the statement of cash flows (I - II)	**879**	**443**

Change in receivables	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Change in other financial assets in the statement of financial position	**(67)**	**(114)**
Change in receivables in the statement of financial position	**1,288**	**(1,996)**
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	(4)	3
Change in prepayments for property, plant and equipment	25	(28)
Due and payable portion of loans advanced	68	117
Changes in the Group	-	284
Change in receivables in the statement of cash flows	**1,310**	**(1,734)**

Change in inventories	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Change in inventory in the statement of financial position	**(314)**	**(982)**
Tangible assets under construction transferred to inventory (adjustment to investing activity)	(7)	-
Changes in the Group	-	362
Change in inventory in the statement of cash flows	**(321)**	**(620)**

Change in employee benefit obligations	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Change in employee benefit obligations in the statement of financial position	**140**	**148**
Changes in the Group	-	(96)
Change in employee benefit obligations in the statement of cash flows	**140**	**52**

Change in provisions	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Change in provisions in the statement of financial position	**(92)**	**599**
Change in provision for well decommissioning costs which adjusts property, plant and equipment (adjustment to investing activity)	391	(425)
Changes in the Group	-	(34)
Change in provisions in the statement of cash flows	**299**	**140**

Change in current liabilities	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Change in current liabilities in the statement of financial position	**366**	**431**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	24	32
Changes in the Group	-	(248)
Other changes in liabilities	4	33
Change in current liabilities in the statement of cash flows	**394**	**248**

Change in other assets in the statement of financial position	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Change in other non-current assets in the statement of financial position	**5**	**(28)**
Change in other assets in the statement of financial position	**(87)**	**(6)**
Expense (fees and commission) related to the note issuance programme	(7)	(5)
Changes in the Group	-	17
Change in other assets in the statement of cash flows	**(89)**	**(22)**

Change in deferred income	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Change in deferred income in the statement of financial position	**170**	**294**
Property, plant and equipment received free of charge	(18)	-
Grants received for property, plant and equipment	(162)	(362)
Other changes in deferred income	(5)	2
Change in deferred income in the statement of cash flows	**(15)**	**(66)**

Other items, net, under operating activity	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Derivative financial instruments	(363)	17
Written-down expenditure on non-financial non-current assets	256	196
Acquired CO_2 emission allowances	(72)	(50)
Tax refund - investment tax credit (Norway)	-	126
Other items, net, under operating activity	609	181
Total	**430**	**470**

34. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

34.1. Financial instruments by category (carrying amounts)

Dec 31 2013	**Categories of financial instruments**									
Classes of financial instruments	Notes	Financial assets available for sale	Financial assets at fair value through profit or loss	Financial assets held to maturity	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Hedging instruments	Assets and liabilities excluded from the scope of IAS 39	**Total**
Total financial assets		**51**	**223**	**-**	**6,687**	**-**	**-**	**84**	**-**	**7,045**
Unlisted shares	14, 22	51	-	-	-	-	-	-	-	**51**
Trade and other receivables	19	-	-	-	3,669	-	-	-	-	**3,669**
Derivative financial instrument assets	35	-	223	-	-	-	-	84	-	**307**
Cash and cash equivalents	23	-	-	-	2,827	-	-	-	-	**2,827**
Other financial assets	14, 15, 22	-	-	-	191	-	-	-	-	**191**
Total financial liabilities		**-**	**-**	**-**	**-**	**77**	**10,216**	**47**	**157**	**10,497**
Borrowings	26	-	-	-	-	-	1,619	-	-	**1,619**
Debt securities	26	-	-	-	-	-	5,885	-	-	**5,885**
Finance lease	26	-	-	-	-	-	-	-	157	**157**
Trade payables	31, 32	-	-	-	-	-	2,712	-	-	**2,712**
Derivative financial instrument liabilities	35	-	-	-	-	77	-	47	-	**124**

Dec 31 2012	**Categories of financial instruments**									
Classes of financial instruments	Notes	Financial assets available for sale	Financial assets at fair value through profit or loss	Financial assets held to maturity	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Hedging instruments	Assets and liabilities excluded from the scope of IAS 39	**Total**
Total financial assets		**48**	**89**	**-**	**6,921**	**-**	**-**	**16**	**-**	**7,074**
Unlisted shares	14, 22	48	-	-	-	-	-	-	-	**48**
Trade and other receivables	19	-	-	-	4,849	-	-	-	-	**4,849**
Derivative financial instrument assets	35	-	89	-	-	-	-	16	-	**105**
Cash and cash equivalents	23	-	-	-	1,948	-	-	-	-	**1,948**
Other financial assets	14, 15, 22	-	-	-	124	-	-	-	-	**124**
Total financial liabilities		**-**	**-**	**-**	**-**	**317**	**12,157**	**76**	**183**	**12,733**
Borrowings	26	-	-	-	-	-	1,429	-	-	**1,429**
Debt securities	26	-	-	-	-	-	8,599	-	-	**8,599**
Finance lease	26	-	-	-	-	-	-	-	183	**183**
Trade payables	31, 32	-	-	-	-	-	2,129	-	-	**2,129**
Derivative financial instrument liabilities	35	-	-	-	-	317	-	76	-	**393**

34.2. Fair value hierarchy

	Dec 31 2013			Dec 31 2012		
Classes of financial instruments	level 1	level 2	level 3	level 1	level 2	level 3
Derivative financial instrument assets	-	307	-	-	105	-
Derivative financial instrument liabilities	-	124	-	-	393	-

34.3. Fair value of financial instruments

Classes of financial instruments	Dec 31 2013		Dec 31 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Total financial assets	**7,045**	**6,994**	**7,074**	**7,026**
Unlisted shares*	51	-	48	-
Trade and other receivables	3,669	3,669	4,849	4,849
Derivative financial instrument assets	307	307	105	105
Cash and cash equivalents	2,827	2,827	1,948	1,948
Other financial assets	191	191	124	124
Total financial liabilities	**10,497**	**10,497**	**12,733**	**12,733**
Borrowings	1,619	1,619	1,429	1,429
Debt securities	5,885	5,885	8,599	8,599
Finance lease	157	157	183	183
Trade payables	2,712	2,712	2,129	2,129
Derivative financial instrument liabilities	124	124	393	393

* Measured at cost less impairment losses.

34.4. Items of income, expenses, profit and loss related to financial assets and liabilities, presented in the consolidated statement of comprehensive income

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Total effect on net profit/(loss), including:	**(152)**	**(206)**
Financial assets available for sale	(4)	(4)
Impairment recognised in profit or loss for the reporting period	(4)	(4)
Financial assets and financial liabilities at fair value through profit or loss	362	87
Loans and receivables	191	86
Interest on deposits	56	63
Interest on receivables	58	43
Interest on loans advanced	9	3
Impairment losses on receivables	70	(21)
Impairment losses on loans	(2)	(1)
Foreign currency measurement of loans advanced in foreign currencies	-	(1)
Financial liabilities at amortised cost	(412)	(175)
Derivative financial instruments	(282)	(195)
Assets and liabilities excluded from the scope of IAS 39	(7)	(5)
Total effect on other comprehensive income, net, including:	**72**	**(250)**
Derivative financial instruments	72	(250)
Total effect on comprehensive income	**(80)**	**(456)**

34.5. Objectives and policies of financial risk management

The Group is exposed to financial risks, including in particular:

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

In order to manage financial risk effectively, the Parent operates ‘Policy of Financial Risk Management at PGNiG S.A.’, (the "Policy"), which defines the division of competencies and tasks among the Company’s organisational units in the process of financial risk management and control. The body responsible for ensuring compliance with the Policy and its periodic updates is the Risk Committee, which proposes risk management procedures, monitors the Policy implementation and revises the Policy as needed.

Credit risk

Credit risk is defined as the probability of failure by the Group’s trading partner to meet its obligations on time or failure to meet such obligations at all. The credit risk resulting from a third party’s inability to perform its obligations under a financial instruments contract is generally limited to the amounts, if any, by which the third party’s liabilities exceed the Group’s liabilities. As a rule, the Group concludes transactions in financial instruments with multiple entities with high creditworthiness. The key criteria applied by the Group in the selection of counterparties include their financial standing as confirmed by rating agencies, as well as their respective market shares and reputation.

The PGNiG Group is exposed to credit risk in connection with its:

- trade receivables,
- investment transactions,
- financial guarantees,
- hedging transactions.

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

Maximum exposure to credit risk

	Dec 31 2013	Dec 31 2012
Cash and cash equivalents	2,827	1,948
Trade and other receivables	3,669	4,849
Loans and other financial assets	191	124
Positive value of derivative financial instruments	307	105
Total	**6,994**	**7,026**

The highest credit risk, in value terms, is related to receivables. Most of the receivables are due under sales of gas fuel and network services by PGNiG S.A.

In order to minimise the risk of uncollectible receivables under gas fuel sales, uniform rules designed to secure trade receivables are in place and must be observed while concluding general gas supply contracts.

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

The Parent monitors customers' performance of their contractual financial obligations on an on-going basis. In most cases, customers are required to make advance payments within deadlines provided for in the contracts. At the end of the settlement period, the customer is required to make payment for gas fuel actually received by the deadline provided for in the contract. The standard payment deadline is 14 days from the invoice date, but other payment terms are also applied.

PGNiG S.A. has implemented measures to monitor and assess the financial standing of customers receiving natural gas in excess of 1 mcm a year based on corporate financial documents (once every three months and once a year). The measures are to help monitor the financial standing of customers and determine the probability of the customers becoming insolvent.

PGNiG S.A. uses the following types of instruments to secure contract performance:

- mortgage (ordinary mortgage (hipoteka zwykła) and security (deposit) mortgage (hipoteka kaucyjna)),
- bank guarantee,
- security deposit,
- ordinary or registered pledge,
- insurance guarantee,
- blank promissory note,
- statement on voluntary submission to enforcement under Art. 777 of the Polish Code of Civil Procedure;
- assignment of claims under long-term agreements,
- cash deposit placed in an account indicated by PGNiG S.A.,
- rating,
- surety.

For new contracts, the type of security instrument used is agreed between PGNiG S.A. and the customer. As part of the mandatory harmonisation of sale contracts with the requirements of the Polish Energy Law, the Company enters into negotiations with certain customers with to create or strengthen contract performance security.

Receivables from customers are monitored on an ongoing basis, in line with internal procedures applicable at the Parent. If a customer's failure to make a payment when due has been identified, the Company takes appropriate measures to collect the debt.

All debt-collection measures are taken based on the procedures set out in 'Pre-Legal Collection of Receivables from Business Customers' and 'Court Collection of Receivables from Business Customers', as well as in 'The Guidelines for Writing Off and Cancelling PGNiG S.A.'s Receivables'.

During debt collection, measures are taken to assess the risk of non-payment of receivables by customers and the causes of such non-payment. In this respect, a standard debt-collection process is followed: a call for payment, a telephone call to the customer, notice and discontinuance of gas fuel supply with simultaneous termination of the contract and a warning of discontinuing gas supplies under Art. 6b.1.2 of the Polish Energy Law. If all other measures fail, debt cases are submitted to be resolved through court and enforcement proceedings, while the defaulting customer is registered with the National Register of Debts maintained by Biuro Informacji Gospodarczej S.A. of Wrocław.

Statutory interest is charged on late payments.

In line with the pre-legal collection procedure, in the event of a temporary deterioration of a customer's financial standing, at the customer's request an agreement is concluded for repayment of debt in instalments or extension of the payment date, and additionally, negotiations are undertaken to establish new or strengthen the existing security for the contract.

As at December 31st 2013, the value of unimpaired past due receivables, as disclosed in the Group's statement of financial position, was PLN 418m (2012: PLN 594m).

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

Delay	Dec 31 2013	Dec 31 2012
Up to 1 month	324	508
From 1 to 3 months	67	64
From 3 months to 1 year	20	16
from 1 to 5 years	5	6
over 5 years	2	-
Total net past due receivables	**418**	**594**

The Group identifies, measures and minimises its credit exposure to individual banks with which it places its funds. The credit exposure was reduced through diversification of the portfolio of counterparties (mainly banks) with which the Group companies place their funds. The Parent has also concluded Framework Agreements with all its relationship banks. These Framework Agreements stipulate detailed terms of execution and settlement of financial transactions between the parties.

The Group measures the related credit risk by regularly reviewing the banks' financial standing, as reflected in ratings assigned by rating agencies such as Fitch, Standards&Poor's and Moody's.

In 2013, the Group invested its long-term cash surplus of significant value in highly liquid, credit risk-free instruments, in particular treasury bills and bonds.

The Group's credit risk exposure under provided guarantees is substantially limited to the risk of default by the banks which, acting on the Group's instructions, issued guarantees to other external entities. However, the banks on which the Group relies for provision of guarantees are reputable institutions with high ratings; therefore, both the probability of their default and the associated credit risk are insignificant. As in the case of the risk related to cash deposits, the credit risk under provided guarantees is measured by regularly reviewing the financial standing of the banks issuing the guarantees.

The exposure to credit risk under financial derivatives is equal to the net carrying amount of the positive valuation of the derivative (at fair value). As in the case of placements, transactions in financial derivatives are executed with most reputable banks with high credit ratings. The Group companies have also concluded either Framework Agreements or ISDA Agreements with each of their relationship banks, stipulating detailed terms of service and limits of maximum exposure arising from the fair value of derivatives.

Exposure to credit risk under loans advanced arises in connection with loans advanced by the Parent to the PGNiG Group companies: subsidiaries not accounted for with the full method, jointly-controlled entities and associates. Loans to those entities are advanced in line with the internal procedure "PGNiG S.A.'s Lending Policy with Respect to the Group Companies and Entities in which PGNiG S.A. Holds Equity Interests". The policy stipulates detailed rules governing the conclusion and monitoring of loan agreements, thus minimising the Group's exposure to credit risk under such agreements. Loans are advanced only if the borrower meets a number of conditions and provides appropriate security.

The Group believes that all these measures protect it from any material credit-risk-related losses.

Market risk

Market risk is defined as the probability that the Group's financial performance or economic value will be adversely affected by changes in the financial and commodity markets.

In order to manage market risk effectively, the Group operates "Policy of Market Risk Management at the PGNiG Group" (the "Policy"). The Policy applies to subsidiaries in which material exposure to market risks has been identified.

To implement the Policy, two models of market risk management were put in place, for which PGNiG S.A. acts as the Group's competence and support centre:

- centralised model, in which PGNiG S.A. carries out the majority of actions for the companies, including transactions, and
- coordinated model, in which subsidiaries carry out activities themselves, while PGNiG S.A. supports, coordinates, and supervises the process.

The body responsible for ensuring compliance with the Policy and its periodic updates is the Group's Risk Committee, which proposes risk management procedures, monitors the Policy implementation and revises the Policy as needed.

The main objective of the market risk management is to identify, measure, monitor and mitigate key sources of risk, including:

- foreign exchange risk,
- interest rate risk,
- commodity risk (e.g. gas fuel, crude oil, energy and related products).

Currency risk

Currency risk is defined as the probability that the Group's financial performance will be adversely affected by changes in the price of one currency against another.

Trade payables under long-term contracts for gas fuel deliveries are denominated in the US dollar and the euro. The Group has a considerable exposure to currency risk; for details, see "Sensitivity analysis".

The hedging measures implemented by the Group are mainly intended to provide protection against the currency risk accompanying payments settled in foreign currencies (mainly payments for gas fuel supplies). To hedge its payables, the Group uses call options, symmetrical options strategies as well as forwards and average rate forwards.

Interest rate risk

Interest rate risk is defined as the probability that the Group's financial performance will be adversely affected by changes in interest rates.

The Group is exposed to interest rate risk primarily in connection with its financial liabilities. For detailed information on the Group's financial liabilities and the applicable interest rates, see Note 26.

The Parent measures its market risk (including the currency and interest rate risks) by monitoring VaR (value at risk). VaR means that the maximum loss arising from a change in the market (fair) value will not exceed that value over the next n business days, given a specified probability level (e.g. 99%). VaR is estimated using the variance-covariance method. The Company uses cross currency interest rate swaps (CCIRS) and interest rate swaps (IRS) to hedge the aggregate currency and interest rate risks.

Commodity risk

Commodity risk is defined as the probability that the Group's financial performance will be adversely affected by changes in commodity prices.

The price risk to which the Group is exposed, mainly in connection with its contracts for gas fuel deliveries, is substantial. It stems from volatility of prices of gas and oil products quoted on global markets. Under some of the contracts for gas fuel deliveries, the pricing formula relies on a weighted average of the prices from previous months, which mitigates the volatility risk.

Commodity risk is also related to electricity trading, certificates of origin and carbon credits. Electricity trading in Poland is conducted on a regulated market, in the form of energy exchange and over-the-counter trading. The Group actively manages its exposure to commodity risk using implemented VaR measures. VaR values are measured and VaR limits are set to limit the potential losses related to the Company's exposure to commodity risk.

In 2013, the Group closely monitored and hedged against the risk. To hedge against price risk, the Group used Asian call options settled as European options, symmetrical risk reversal options strategies and commodity swaps.

In addition, under the Energy Law an application for tariff adjustment may be filed if, within a quarter, the purchase costs of gas rise by more than 5%.

Liquidity risk

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

The Group monitors and plans its liquidity levels on a continuous basis. As part of its strategy to hedge against liquidity risk, as at December 31st 2013 the Group had in place the following debt securities issuance programmes:

- Under the Note Issuance Programme Agreement executed by the Parent on June 10th 2010, the Parent may issue discount or coupon notes maturing in one to twelve months, for an aggregate amount of up to PLN 7,000m. The Agreement was originally concluded with six banks (Bank Pekao S.A., ING Bank Śląski S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A., Societe Generale S.A. and BNP Paribas S.A., Polish Branch). Under an annex of November 25th 2011, BRE Bank S.A. (currently mBank S.A.), Bank Zachodni WBK S.A. and Nordea Bank Polska S.A. acceded to the Agreement. As at December 31st 2013, no debt was outstanding under the Agreement.
- On August 25th 2011, the Parent and PGNiG Finance AB executed documentation for a Euro Medium Term Notes Programme with Societe Generale S.A., BNP Paribas S.A. and Unicredit Bank AG, pursuant to which PGNiG Finance AB may issue notes with maturities of up to ten years, up to the aggregate amount of EUR 1,200m. The first tranche of PGNiG Finance AB securities under the Programme, comprising PLN 500m 5-year Euronotes, was issued on February 10th 2012. As at December 31st 2013, debt outstanding under the Euronotes was PLN 2,074m (translated at the mid rate quoted by the NBP for December 31st 2013).
- On May 22nd 2012, the Parent executed an agreement for a PLN 4,500m notes programme with Bank Pekao S.A. and ING Bank Śląski S.A. On July 30th 2012, the issued five-year notes were floated on the Catalyst market, a multilateral trading facility operated by BondSpot. In the

period covered by these financial statements, there were five issues of short-term notes with maturities ranging from one month to one year. As at December 31st 2013, debt outstanding under the Programme was PLN 3,457m.

- On July 4th 2012, PGNiG Termika S.A. executed a Note Issuance Programme with the following banks: ING Bank Śląski S.A., PKO Bank Polski S.A., Nordea Bank Polska S.A. and Bank Zachodni WBK S.A. Under the Programme, PGNiG Termika S.A. may issue coupon or discount notes up to PLN 1,500m. The Programme expires on December 29th 2017. PGNiG Termika S.A.'s debt outstanding under the notes was PLN 300m as at December 31st 2013 and was attributable to short-term notes issued in 2013.

Any surplus cash is invested, mainly in treasury securities, or deposited with reputable banks.

The liquidity risk at the Parent is significantly mitigated through the application of the "PGNiG S.A. Liquidity Management Procedure". This procedure has been implemented across the Company's organisational units. It offers a systematised set of measures designed to ensure proper liquidity management through: settlement of payments, preparation of cash-flow projections, optimum management of free cash flows, securing and restructuring of financing for day-to-day operations and investment projects, protection against the risk of temporary liquidity loss due to unforeseen disruptions, and appropriate servicing of credit agreements.

Measurement of the liquidity risk is based on an ongoing detailed monitoring of cash flows, which takes into account the probability that specific flows will materialise, as well as the planned net cash position.

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

Financial liabilities at amortised cost, by maturity

Dec 31 2013	Liabilities under borrowings and notes	Finance lease liabilities	Trade payables	Total
up to 1 year	2,207	53	2,654	4,914
from 1 to 5 years	3,227	115	54	3,396
over 5 years	2,087	-	4	2,091
Total	**7,521**	**168**	**2,712**	**10,401**

Dec 31 2012	Liabilities under borrowings and notes	Finance lease liabilities	Trade payables	Total
up to 1 year	4,685	48	2,076	6,809
from 1 to 5 years	3,339	129	47	3,515
over 5 years	2,030	14	6	2,050
Total	**10,054**	**191**	**2,129**	**12,374**

The items in the above tables are presented at gross (undiscounted) amounts.

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

Derivative financial instruments by maturity

Dec 31 2013	Carrying amount	Contractual cash flows, including:	up to 1 year	from 1 to 5 years	over 5 years
Interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	145	(48)	(10)	(38)	-
- inflows	-	10,390	5,032	5,358	-
- outflows	-	(10,438)	(5,042)	(5,396)	-
Forward contracts	(31)	(28)	(28)	-	-
- inflows	-	1,354	1,352	2	-
- outflows	-	(1,382)	(1,380)	(2)	-
Futures contracts	1	(1)	(1)	-	-
- inflows	-	16	16	-	-
- outflows	-	(17)	(17)	-	-
Currency options**	12	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
Commodity options**	40	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
Commodity swaps	16	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
Total	**183**	**(77)**	**(39)**	**(38)**	**-**

Dec 31 2012	Carrying amount	Contractual cash flows, including:	up to 1 year	from 1 to 5 years	over 5 years
Interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	(232)	(482)	(24)	(458)	-
- inflows	-	5,700	262	5,438	-
- outflows	-	(6,182)	(286)	(5,896)	-
Forward contracts	(76)	(48)	(48)	-	-
- inflows	-	1,722	1,715	7	-
- outflows	-	(1,770)	(1,763)	(7)	-
Currency options**	5	1	1	-	-
- inflows	-	1	1	-	-
- outflows	-	-	-	-	-
Commodity options**	15	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
Total	**(288)**	**(529)**	**(71)**	**(458)**	**-**

* Net carrying amount (positive valuation less negative valuation of assets) represents the fair value, i.e. payments under swap contracts are discounted, whereas cash flows are shown at undiscounted amounts.
** The disclosed carrying amounts of currency and commodity options include any option premiums paid; as possible cash flows depend on the exchange rates or commodity prices prevailing on the market at the time when the option is exercised, no cash flows are shown.

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

Sensitivity analysis

To determine a reasonable range of changes which may occur with respect to currency or interest rate risks, the Group assumed an (implied) market volatility level for semi-annual periods, i.e. an average change of 10% as at the end of 2013 for the analysis of exchange rate sensitivity (as at the end of 2012:15%), +100 bpfor the analysis of interest rate sensitivity (as at the end of 2012, also +100 bp) and 15% for energy commodity derivatives (December 31st 2012: 25%). The half-year period is the frequency at which the Group discloses results of financial instrument sensitivity analyses in its reports.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2013 indicate that net profit would have been lower by PLN 329m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 10%, ceteris paribus (net profit decrease of PLN 262m due to stronger NOK, decrease of PLN 58m due to stronger USD, decrease of PLN 11m due to stronger EUR, and increase of PLN 2m due to strengthening of other currencies).

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

If the credit facility was recognised in the statement of financial position (as is the case in the Parent's separate financial statements), the cash flows related to the credit facility and the cash flows from the hedging transactions would offset one another. As a result, the changes in positive (negative) valuation of the credit facility would be offset by negative (positive) changes in the valuation of CCIRS transactions. In aggregate, the items would show no sensitivity to the exchange rate and interest rate changes.

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

The adverse effect on the net profit of NOK-denominated financial instruments would be substantially amplified by an increase in valuation of the USD credit facility contracted by PGNiG Upstream International AS and reduced by an increase in the valuation of assets in this currency. Any increase in foreign exchange losses from valuation of the Euronotes in EUR would be offset by an increase in the positive portion of the fair value of financial derivatives for EUR.

As at December 31st 2013, net profit would have been higher by PLN 325m, if the EUR, USD, NOK and other currencies depreciated against the złoty by 10%, ceteris paribus (net profit higher by PLN 263m due to weaker NOK, higher by PLN 62m due to weaker USD, higher by PLN 2m due to weaker EUR, and lower by PLN 2m due to depreciation of other currencies). A positive result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). Any increase in foreign exchange gains from valuation of the Euronotes in EUR would be offset by an increase in the negative portion of the fair value of financial derivatives for EUR. On the other hand, any decrease in the valuation of the USD-denominated credit facility contracted by PGNiG Upstream International AS would have a positive effect on net profit, which would be partially offset by a decrease in assets (receivables) measured in the same currency.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2012 indicate that the net profit would have been lower by PLN 423m, had the EUR, USD, NOK and other currencies appreciated against the złoty by 15%, all other things being equal (net profit decrease of PLN 416m due to stronger NOK and of PLN 13m due to stronger USD vs. increase of PLN 5m on the back of stronger EUR and of PLN 1m due to strengthening of other currencies).

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

If the credit facility was recognised in the statement of financial position (as is the case in the Parent's separate financial statements), the cash flows related to the credit facility and the cash flows from the hedging transactions would offset one another. As a result, the changes in positive (negative) valuation of the credit facility would be offset by negative (positive) changes in the valuation of CCIRS transactions. In aggregate, the items would show no sensitivity to the exchange rate and interest rate changes.

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

The adverse effect on the net profit of NOK-denominated financial instruments would be substantially amplified by an increase in valuation of the USD credit facility contracted by PGNiG Upstream International AS and reduced by an increase in the valuation of assets in this currency. Any increase in foreign exchange losses from valuation of the Euronotes in EUR would be offset by an increase in the positive portion of the fair value of financial derivatives for EUR.

As at December 31st 2012, net profit would have been higher by PLN 421m, had the EUR, USD, NOK and other currencies depreciated against the złoty by 15%, all other things being equal (profit higher by PLN 415m due to weaker NOK and by PLN 15m due to weaker USD, and lower by PLN 8m due to weaker EUR and by PLN 1m due to depreciation of other currencies). A positive result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). Any increase in foreign exchange gains from valuation of the Euronotes in EUR would be offset by an increase in the negative portion of the fair value of financial derivatives for EUR. On the other hand, any decrease in the valuation of the USD-denominated credit facility contracted by PGNiG Upstream International AS would have a positive effect on net profit, which would be partially offset by a decrease in assets (receivables) measured in the same currency.

Detailed results of the analysis of sensitivity of financial instruments held by the Group to exchange rate fluctuations for 2013 and 2012 are presented below.

Sensitivity of financial instruments denominated in foreign currencies to exchange rate fluctuations charged to profit or loss

Dec 31 2013	**Carrying amount**	**Currency risk**							
	Exchange rate change by:	*10%*				*-10%*			
		EUR	*USD*	*NOK*	*other currencies*	*EUR*	*USD*	*NOK*	*other currencies*
Financial assets									
Financial assets available for sale*	9	-	-	-	-	-	-	-	-
Trade and other receivables	317	13	14	1	3	(13)	(14)	(1)	(3)
Derivative financial instrument assets**	267	230	15	-	-	-	-	329	-
Cash and cash equivalents	995	20	66	11	2	(20)	(66)	(11)	(2)
Effect on financial assets before tax		**263**	**95**	**12**	**5**	**(33)**	**(80)**	**317**	**(5)**
19% tax		(50)	(18)	(2)	(1)	6	15	(60)	1
Effect on financial assets after tax		**213**	**77**	**10**	**4**	**(27)**	**(65)**	**257**	**(4)**
Total currencies					*304*				*161*
Financial liabilities									
Borrowings and debt securities (including finance lease)	3,449	230	115	-	-	(230)	(115)	-	-
Trade and other payables	1,088	47	52	7	3	(47)	(52)	(7)	(3)
Derivative financial instrument liabilities**	124	-	-	329	-	241	10	-	-
Effect on financial liabilities before tax		**277**	**167**	**336**	**3**	**(36)**	**(157)**	**(7)**	**(3)**
19% tax		(53)	(32)	(64)	(1)	7	30	1	1
Effect on financial liabilities after tax		**224**	**135**	**272**	**2**	**(29)**	**(127)**	**(6)**	**(2)**
Total currencies					*633*				*(164)*
Total increase/decrease		(11)	(58)	(262)	2	2	62	263	(2)
Total currencies					**(329)**				**325**
Exchange rates as at the balance-sheet date and their changes:									
EUR/PLN	4.1472	-	4.5619	4.5619	4.5619	-	3.7325	3.7325	3.7325
USD/PLN	3.0120	3.3132	-	3.3132	3.3132	2.7108	-	2.7108	2.7108
NOK/PLN	0.4953	0.5448	0.5448	-	0.5448	0.4458	0.4458	-	0.4458

* Shares are disclosed at historical values, therefore the change in exchange rates will not affect the valuation of those assets and the profit/loss for the period.
** In the case of financial derivatives, only the effect of exchange rate fluctuations on profit or loss is presented. As the Group uses hedge accounting, part of the changes in the valuation of financial derivatives is charged to equity through other comprehensive income. The effect of fluctuations in exchange rates on this portion of financial derivatives is presented in a separate table below.

Dec 31 2012	**Carrying amount**	**Currency risk**							
	Exchange rate change by:	*15%*				*-15%*			
		EUR	*USD*	*NOK*	*other currencies*	*EUR*	*USD*	*NOK*	*other currencies*
Financial assets									
Financial assets available for sale*	3	-	-	-	-	-	-	-	-
Other financial assets	1	-	-	-	-	-	-	-	-
Trade and other receivables	1,248	35	148	2	3	(35)	(148)	(2)	(3)
Derivative financial instrument assets**	90	357	5	-	-	-	-	507	-
Cash and cash equivalents	337	19	23	6	2	(19)	(23)	(6)	(2)
Effect on financial assets before tax		**411**	**176**	**8**	**5**	**(54)**	**(171)**	**499**	**(5)**
19% tax		(78)	(34)	(2)	(1)	10	33	(95)	1
Effect on financial assets after tax		**333**	**142**	**6**	**4**	**(44)**	**(138)**	**404**	**(4)**
Total currencies					*485*				*218*
Financial liabilities									
Borrowings and debt securities (including finance lease)	3,406	324	186	-	1	(324)	(186)	-	(1)
Trade and other payables	677	81	5	14	2	(81)	(5)	(14)	(2)
Derivative financial instrument liabilities**	393	-	-	507	-	361	2	-	-
Effect on financial liabilities before tax		**405**	**191**	**521**	**3**	**(44)**	**(189)**	**(14)**	**(3)**
19% tax		(77)	(36)	(99)	-	8	36	3	-
Effect on financial liabilities after tax		**328**	**155**	**422**	**3**	**(36)**	**(153)**	**(11)**	**(3)**
Total currencies					*908*				*(203)*
Total increase/decrease		5	(13)	(416)	1	(8)	15	415	(1)
Total currencies					**(423)**				**421**
Exchange rates as at the balance-sheet date and their changes:									
EUR/PLN	4.0882	-	4.7014	4.7014	4.7014	-	3.4750	3.4750	3.4750
USD/PLN	3.0996	3.5645	-	3.5645	3.5645	2.6347	-	2.6347	2.6347
NOK/PLN	0.5552	0.6385	0.6385	-	0.6385	0.4719	0.4719	-	0.4719

* Shares are disclosed at historical values, therefore the change in exchange rates will not affect the valuation of those assets and the profit/loss for the period.

** In the case of financial derivatives, only the effect of exchange rate fluctuations on profit or loss is presented. As the Group uses hedge accounting, part of the changes in the valuation of financial derivatives is charged to equity through other comprehensive income. The effect of fluctuations in exchange rates on this portion of financial derivatives is presented in a separate table below.

Analysis of derivative financial instruments' sensitivity to fluctuations of exchange rates charged to equity

Dec 31 2013	10%		-10%	
	for EUR	*for USD*	*for EUR*	*for USD*
Effect on equity before tax	143	72	(59)	(57)
19% tax	(27)	(14)	11	11
Effect on financial assets/liabilities after tax	116	58	(48)	(46)
Total currencies		**174**		**(94)**

Dec 31 2012	15%		-15%	
	for EUR	*for USD*	*for EUR*	*for USD*
Effect on equity before tax	106	241	(38)	(196)
19% tax	(20)	(46)	7	37
Effect on financial assets/liabilities after tax	86	195	(31)	(159)
Total currencies		**281**		**(190)**

The analysis of derivative instruments' sensitivity to exchange rate fluctuations, charged to equity and presented in the table below, shows that a 10% increase in the PLN/USD and PLN/EUR exchange rates would cause an increase in equity through other comprehensive income. A 10% decline in the PLN/USD and PLN/EUR exchange rates would reduce equity. This is due to the valuation of derivative instruments used by the Group to hedge against an increase in USD- and EUR-denominated liabilities and cost of gas purchases. Valuation of the effective portion of such hedges is charged to equity.

The Group also analysed the sensitivity of energy commodity derivatives. For the sensitivity analysis for 2013, a 15% volatility was assumed for such instruments (25% as at December 31st 2012).

The tables below present an analysis of sensitivity of energy commodity derivatives to price changes for 2013 and 2012.

Sensitivity of derivative financial instruments to commodity price fluctuations charged to profit or loss

Dec 31 2013	**Carrying amount**	**Price risk**									
	Price change by:	*15%*					*-15%*				
		Gasoil	Fuel oil	Title Transfer Facility	Electricity	TGE Gas	Gasoil	Fuel oil	Title Transfer Facility	Electricity	TGE Gas
Financial assets											
Energy commodity derivative assets	40	-	3	-	1	-	-	-	-	-	21
Effect on financial assets before tax		**-**	**3**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**21**
19% tax		-	(1)	-	(0)	-	-	-	-	-	(4)
Effect on financial assets after tax		**-**	**2**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**17**
Total commodities						*3*					*17*
Financial liabilities											
Energy commodity derivative liabilities	-	2	-	19	-	21	5	4	22	1	-
Effect on financial liabilities before tax		**2**	**-**	**19**	**-**	**21**	**5**	**4**	**22**	**1**	**-**
19% tax		-	-	(4)	-	(4)	(1)	(1)	(4)	-	-
Effect on financial liabilities after tax		**2**	**-**	**15**	**-**	**17**	**4**	**3**	**18**	**1**	**-**
Total commodities						*34*					*26*
Total increase/decrease		(2)	2	(15)	1	(17)	(4)	(3)	(18)	(1)	17
Total commodities						**(31)**					**(9)**

Dec 31 2012	**Carrying amount**	**Price risk**			
	Price change by:	*25%*		*-25%*	
		Gasoil	Fuel oil	Gasoil	Fuel oil
Financial assets					
Energy commodity derivative assets	15	15	2	-	-
Effect on financial assets before tax		**15**	**2**	**-**	**-**
19% tax		(3)	-	-	-
Effect on financial assets after tax		**12**	**2**	**-**	**-**
Total commodities			*14*		*-*
Financial liabilities					
Energy commodity derivative liabilities	-	-	-	(3)	(2)
Effect on financial liabilities before tax		**-**	**-**	**(3)**	**(2)**
19% tax		-	-	1	-
Effect on financial liabilities after tax		**-**	**-**	**(2)**	**(2)**
Total commodities			-		*(4)*
Total increase/decrease		12	2	2	2
Total commodities		**-**	**14**	**-**	**4**

The above tables present only the effect of price fluctuations on profit or loss. Some changes in the value of energy commodity derivatives affect equity directly.

The table below presents the effect of changes in energy commodity derivatives on equity.

Analysis of derivative financial instruments' sensitivity to fluctuations of commodity prices charged to equity

Dec 31 2013	*Price change by:*	15%			-15%		
		Gasoil	Fuel oil	Title Transfer Facility	Gasoil	Fuel oil	Title Transfer Facility
Effect on equity before tax		73	62	411	(22)	(28)	(193)
19% tax		(14)	(12)	(78)	4	5	37
Effect on financial assets/liabilities after tax		**59**	**50**	**333**	**(18)**	**(23)**	**(156)**

Dec 31 2012	*Price change by:*	25%		-25%	
		Gasoil	Fuel oil	Gasoil	Fuel oil
Effect on equity before tax		53	20	(16)	(3)
19% tax		(10)	(4)	3	1
Effect on financial assets/liabilities after tax		**43**	**16**	**(13)**	**(2)**

The analysis of derivative instruments' sensitivity to fluctuations of commodity prices, charged to equity, as presented in the table above, shows that a 15% increase (25% increase at the end of 2012) in commodity prices would result in equity increase through other comprehensive income. A 15% decline in the prices (25% decline at the end of 2012) would reduce equity. This is due to the fact that the Group uses derivatives to hedge against an increase in prices of energy commodities, and the valuation of the effective portion of such hedges is charged to equity.

The Group analysed the sensitivity of financial instruments under contracted borrowings, notes in issue and variable-rate lease liabilities, assuming interest rate changes of -/+100 bp for 2013 (-/+100 bp as at the end of 2012).

As at December 31st 2013, the sensitivity of liabilities under borrowings, notes in issue, and variable-rate lease liabilities to interest rate changes of -/+100 bp was -/+ PLN 77m (+/- PLN 102m as at the end of 2012). The sensitivity of loans advanced to interest rate changes of -/+100 bp for 2013 was -/+ PLN 2m (+/- PLN 1m as at the end of 2012).

Sensitivity of financial instruments to interest rate changes

Dec 31 2013	**Carrying amount**	*Change by:*	
		+100 bp	**-100 bp**
Loans advanced	185	2	(2)
Borrowings and other debt instruments	1,619	16	(16)
Notes issued	5,885	59	(59)
Lease liabilities	157	2	(2)
Total liabilities	**7,661**	**77**	**(77)**

Dec 31 2012	**Carrying amount**	*Change by:*	
		+100 bp	**-100 bp**
Loans advanced	117	1	(1)
Borrowings and other debt instruments	1,429	14	(14)
Notes issued	8,599	86	(86)
Lease liabilities	183	2	(2)
Total liabilities	**10,211**	**102**	**(102)**

35. DERIVATIVE FINANCIAL INSTRUMENTS

Measurement of derivative financial instruments

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

As at December 31st 2013, the Group held the following types of derivatives: Cross Currency Interest Rate Swaps (CCIRS), Interest Rate Swaps (IRS), purchased European and Asian currency call options, purchased and sold currency and commodity forwards (physically settled), purchased and sold futures (cash settled), as well as purchased average rate forwards. In 2013, the Group also hedged against commodity risk using Asian call options, risk reversal strategies (purchase of Asian commodity call options and sale of put options) and purchased commodity swaps.

Currency call options were measured at fair value using the Garman-Kohlhagen model, whereas Asian commodity call and put options were measured at fair value using the Espen-Levy model. Forwards, average rate forwards, swaps, CCIRS and IRS transactions are measured at fair value using the discount method. The measurement was based on market data such as interest rates, foreign-exchange rates, basis spreads, commodity prices and volatility of commodity prices as at December 31st 2013.

Hedge accounting

The Parent applies cash-flow hedge accounting with respect to foreign exchange transactions and commodity transactions, as well as fair-value hedge accounting with respect to an advanced loan. For details, see Note 2.3.12.

Derivative financial instruments

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value Dec 31 2013	Measurement at fair value Dec 31 2012	Hedged risk
Cross Currency Interest Rate Swap							
Euronotes	500	EUR	over 3 years	4.1580	108	82	currency and interest rate risk
loan	3,900	NOK	1-3 months	0.5051	(25)	-	foreign exchange and interest-rate risk
loan	1,150	NOK	1-3 months	0.5664	64	-	foreign exchange and interest-rate risk
loan	730	NOK	1-3 years	0.5595	35	-	foreign exchange and interest-rate risk
loan	4,350	NOK	more than 3 years	0.5033	(14)	-	foreign exchange and interest-rate risk
Loan	5,244	NOK	1-3 years	0.5198	-	(317)	foreign exchange and interest-rate risk
Loan	481	NOK	1-3 years	0.5684	-	3	currency and interest rate risk
					168	**(232)**	
Interest Rate Swap							
loan	1,500	PLN	more than 3 years	-	(23)	-	interest rate risk
					(23)	**-**	

			Forward				
loan	333	NOK	1-3 months	0.4978	1	-	foreign exchange risk
payments for gas	10	EUR	1-3 months	4.2659	(1)	-	foreign exchange risk
payments for gas	29	EUR	3-12 months	4.2189	(1)	-	foreign exchange risk
payments for gas	130	USD	1-3 months	3.1221	(14)	-	foreign exchange risk
payments for gas	80	USD	3-12 months	3.1234	(7)	-	foreign exchange risk
payments for gas	24	EUR	1-3 months	4.2889	(3)	-	foreign exchange risk
payments for gas	78	EUR	3-12 months	4.2660	(6)	-	foreign exchange risk
EUR/PLN	1	EUR	up to 1 month	4.4530	-	-	foreign exchange risk
EUR/PLN	1	EUR	up to 1 month	4.4300	-	-	foreign exchange risk
EUR/PLN	1	EUR	6-12 months	4.2195	-	-	foreign exchange risk
payments for gas	27	EUR	up to 1 month	4.1665	-	(2)	foreign exchange risk
payments for gas	34	EUR	1-3 months	4.1739	-	(2)	foreign exchange risk
payments for gas	150	USD	up to 1 month	3.3414	-	(36)	foreign exchange risk
payments for gas	210	USD	1-3 months	3.2690	-	(31)	foreign exchange risk
payments for gas	60	USD	3-6 months	3.2338	-	(5)	foreign exchange risk
EUR/PLN	4	EUR	up to 1 month	4.2422	-	-	foreign exchange risk
EUR/PLN	2	EUR	1-3 years	4.4419	-	-	foreign exchange risk
					(31)	**(76)**	
			Futures				
trading activities	1	electricity	1-3 months	151.3070	7	-	energy price risk
trading activities	1	electricity	1-3 months	151.3070	(3)	-	energy price risk
trading activities	10	electricity	3-12 months	151.8480	8	-	energy price risk

trading activities	10	electricity	3-12 months	151.8480	(12)	-	energy price risk
trading activities	0.2	TGE gas	1-3 months	116.8200	1	-	gas price risk
trading activities	1	TGE gas	3-12 months	114.8530	-	-	gas price risk
					1	**-**	

Call options

payments for gas	35	EUR	1-3 months	4.3826	-	-	foreign exchange risk
payments for gas	21	EUR	3-12 months	4.3515	1	-	foreign exchange risk
payments for gas	188	EUR	1-3 months	4.4278	-	-	foreign exchange risk
payments for gas	265	EUR	3-12 months	4.3848	6	-	foreign exchange risk
payments for gas	160	USD	1-3 months	3.3566	-	-	foreign exchange risk
payments for gas	180	USD	3-12 months	3.3077	5	-	foreign exchange risk
payments for gas	90	USD	up to 1 month	3.4742	-	-	foreign exchange risk
payments for gas	290	USD	1-3 months	3.4839	-	2	foreign exchange risk
payments for gas	30	USD	3-6 months	3.4583	-	1	foreign exchange risk
payments for gas	31	EUR	up to 1 month	4.2552	-	-	foreign exchange risk
payments for gas	117	EUR	1-3 months	4.2670	-	2	foreign exchange risk
					12	**5**	

Put options

proceeds from sale in foreign currency	1	EUR	up to 1 month	strike price: PUT – 4.1100; strike price: CALL – 4.2545	-	-	foreign exchange risk
proceeds from sale in foreign currency	1	EUR	1-3 months	strike price: PUT – 4.1200; strike price: CALL – 4.2545	-	-	foreign exchange risk
proceeds from sale in foreign currency	1	EUR	1-3 months	strike price: PUT – 4.1250; strike price: CALL – 4.2545	-	-	foreign exchange risk
					-	-	

	Commodity call options						
payments for gas	0.150	FO	1-3 months	711.52	-	-	commodity price risk
payments for gas	0.502	FO	3-12 months	643.72	3	-	commodity price risk
payments for gas	0.038	FO	1-3 years	630.00	1	-	commodity price risk
payments for gas	0.186	FO	3-12 months	569.08	-	-	commodity price risk
payments for gas	0.084	GO	1-3 months	1,050.45	-	-	commodity price risk
payments for gas	0.251	GO	3-12 months	955.38	8	-	commodity price risk
payments for gas	0.020	GO	1-3 years	955.00	1	-	commodity price risk
payments for gas	5.800	TTF	1-3 months	28.11	1	-	commodity price risk
payments for gas	8.650	TTF	3-12 months	26.73	26	-	commodity price

							risk
payments for gas	0.176	HFO	up to 1 month	793.52	-	-	gas price risk
payments for gas	0.503	HFO	1-3 months	791.65	-	-	gas price risk
payments for gas	0.416	HFO	3-6 months	732.38	-	2	gas price risk
payments for gas	0.118	HFO	6-12 months	749.92	-	-	gas price risk
payments for gas	0.127	GO	up to 1 month	1,108.82	-	-	gas price risk
payments for gas	0.373	GO	1-3 months	1,097.37	-	-	gas price risk
payments for gas	0.338	GO	3-6 months	1,014.05	-	13	gas price risk
payments for gas	0.123	GO	6-12 months	1,052.68	-	-	gas price risk
					40	**15**	
	Put commodity options						
payments for gas	0.109	GO	3-12 months	826.80	-	-	commodity price risk
payments for gas	0.138	HFO	up to 1 month	587.04	-	-	gas price risk
payments for gas	0.454	HFO	1-3 months	594.79	-	-	gas price risk
payments for gas	0.222	HFO	3-6 months	545.11	-	-	gas price risk
payments for gas	0.105	GO	up to 1 month	841.90	-	-	gas price risk
payments for gas	0.373	GO	1-3 months	858.16	-	-	gas price risk
payments for gas	0.211	GO	3-6 months	818.72	-	-	gas price risk
					-	**-**	
	Commodity swap						
payments for gas	0.023	FO	1-3 months	602.13	-	-	commodity price risk
payments for gas	0.042	FO	1-3 months	607.73	-	-	commodity price risk
payments for gas	0.015	FO	3-12 months	609.75	-	-	commodity price risk
payments for gas	0.085	FO	3-12 months	602.18	1	-	commodity price risk
payments for gas	0.028	GO	1-3 months	869.77	4	-	commodity price risk
payments for gas	0.049	GO	3-12 months	893.39	6	-	commodity price risk
payments for gas	1.730	TTF	1-3 months	27.47	3	-	commodity price risk
payments for gas	7.050	TTF	3-12 months	25.79	17	-	commodity price risk

payments for gas		4.135	TTF	1-3 months	27.78	(10)	-	commodity price risk
payments for gas		2.035	TTF	3-12 months	27.16	(5)	-	commodity price risk
						16	**-**	
	Total							
	including:					**183**	**(288)**	
			positive valuation		assets	**307**	**105**	
			negative valuation		liabilities	**(124)**	**(393)**	

GO – Gasoil
FO – Fuel Oil
HFO – Heavy Fuel Oil
TTF – Natural Gas at the Title Transfer Facility

Positive valuation of derivatives as at the end of the period is presented in the statement of financial position as a separate item of current assets. Negative valuation of derivatives is presented in the statement of financial position as a separate item of current liabilities. Effects of valuation of open positions are taken to profit or loss for the period, or directly to equity if there is an effective portion which constitutes an effective hedge of changes in fair value of financial derivatives designated as cash flow hedges. In such a case, at the time of exercise of the derivative financial instrument and of the hedged item, the Group's equity is decreased or increased, and the effective portion is charged to profit or loss at the place of origination of the hedged item's costs. The non-effective portion and the fair value of transactions not designated as hedges is recognised under other items of the profit or loss of the period.

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Net gain/loss on valuation of derivative financial instruments – unrealised	257	109
Net gain/loss on valuation of derivative financial instruments – realised	(177)	(217)
Total net gain/loss on valuation of derivative financial instruments recognised in profit or loss	**80**	**(108)**
including:		-
recognised in raw material and consumables used	(53)	37
recognised in other income and expenses	168	(116)
recognised in finance income or costs	(35)	(29)
Net gain/loss on valuation of derivative financial instruments recognised in other comprehensive income -– unrealised	**72**	**(250)**
Total net gain/loss on valuation of derivative financial instruments – recognised in equity	**152**	**(358)**

36. CONTINGENT LIABILITIES AND RECEIVABLES

36.1. Contingent receivables

	Dec 31 2013	Dec 31 2012
From related entities:		
guarantees and sureties received	1	1
promissory notes received	180	152
Total contingent receivables from related entities	**181**	**153**
From other entities:		
guarantees and sureties received	283	420
promissory notes received	129	158
other contingent assets	194	226
Total contingent receivables from other entities	**606**	**804**
Total contingent assets	**787**	**957**

36.2. Contingent liabilities

	Dec 31 2013	Dec 31 2012
To other entities		
guarantees and sureties issued*	9,952	9,732
promissory notes issued	782	698
other contingent liabilities	1	1,129
Total contingent liabilities to other entities	**10,735**	**11,559**
Total contingent liabilities	**10,735**	**11,559**

* Contingent liabilities in foreign currencies translated into the złoty at exchange rates quoted by the National Bank of Poland for December 31st 2013

The decrease in contingent receivables in 2013 was is due to the expiry of bank guarantees and performance bonds, as well as the expiry of promissory notes securing the payment of amounts receivable for gas fuel. The increase in contingent receivables from related entities was mainly due to issue of promissory notes by related entities to the Parent.

The increase in contingent liabilities under guarantees and sureties as well as promissory notes issued in 2013 was primarily attributable to changes in exchange rates for the currencies in which the liabilities are denominated. The strengthening of the euro against the złoty in 2013 caused an increase in contingent liabilities related to guarantees issued by the Parent: a guarantee of repayment of liabilities under Euronotes (growth by PLN 88.5m, translated at the exchange rate quoted by the NBP for December 31st 2013) and a performance bond provided to the Government of Norway in respect of PGNiG Upstream International AS (increase by PLN 37m). The decrease in other contingent liabilities followed fulfilment by PGNiG Upstream International AS of conditions enhancing its credit standing in December 2013. This allowed the financing banks to release the security interests created to secure the company's liabilities under borrowings contracted from the banks.

37. OFF-BALANCE SHEET LIABILITIES

37.1. Operating lease liabilities

	Dec 31 2013	Dec 31 2012
up to 1 year	9	11
from 1 to 5 years	4	10
Total	**13**	**21**

37.2. Commitments under executed agreements (not disclosed in the statement of financial position)

	Dec 31 2013	Dec 31 2012
Commitments under executed agreements	6,527	4,951
Completion of agreements as at the balance-sheet date	(4,506)	(3,292)
Contractual liabilities maturing after the balance-sheet date	**2,021**	**1,659**

38. RELATED ENTITIES

38.1. Related-party transactions

Related party	Turnover from Jan 1 to	Sales to related parties	Purchases from related parties	Balance as at	Receivables from related parties, gross	Receivables from related parties, net	Loans to related parties, gross	Loans to related parties, net	Liabilities to related parties
Equity-accounted associates and jointly controlled entities	Dec 31 2013	35	-	Dec 31 2013	4	4	-	-	6
	Dec 31 2012	29	-	Dec 31 2012	4	4	-	-	7
Non-consolidated subsidiaries and associates	Dec 31 2013	21	(69)	Dec 31 2013	11	6	216	185	10
	Dec 31 2012	10	(111)	Dec 31 2012	4	4	146	117	10
Related entities – total	Dec 31 2013	**56**	**(69)**	Dec 31 2013	**15**	**10**	**216**	**185**	**16**
	Dec 31 2012	**39**	**(111)**	Dec 31 2012	**8**	**8**	**146**	**117**	**17**

In 2013, there were no material transactions with shareholders, other than the dividend distribution discussed in Note 10.

In 2013, neither the Parent nor its subsidiaries entered into any material transactions with related parties otherwise than on arm's length terms.

The Group prepares documentation for related-party transactions in accordance with Art. 9a of the Corporate Income Tax Act. The procedure is applied each time the PGNiG Group entities execute agreements, annexes to agreements, orders (detailed agreements) or orders placed under framework agreements with related entities - if the total amounts payable/receivable (to/from one contractor under one agreement) or their equivalent in the złoty exceed in a calendar year the equivalent of EUR 100 thousand in the case of transactions involving merchandise or EUR 30 thousand in the case of transactions involving rendering of services, sale or provision of intangible assets.

38.2. Transactions with entities in which the State Treasury holds equity interests

With respect to the required detail of presentation for transactions entered into with parties related through the State Treasury, the Group applies the exemption provided for in paragraphs 25-27 of IAS 24. As there are no special transactions with such entities, the Company may present the minimum scope of information required under revised IAS 24 (presented below).

The main transactions with entities in which the State Treasury holds equity interests are executed in the course of the Group's day-to-day operations, i.e. natural gas trading and distribution and sale of crude oil.

In 2013, the Group generated the highest turnover with the following entities in which the State Treasury holds (directly or indirectly) equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A., Polski Koncern Naftowy ORLEN S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., Grupa LOTOS S.A., KGHM Polska Miedź S.A., Krośnieńskie Huty Szkła KROSNO S.A. w upadłości (in bankruptcy), Grupa Azoty Zakłady Azotowe PUŁAWY S.A., Grupa Azoty Zakłady Chemiczne POLICE S.A., Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., Zakłady Azotowe w Tarnowie - Mościcach S.A., Huta Cynku "Miasteczko Śląskie" S.A., Rafineria Trzebinia S.A. and Rafineria Nafty Jedlicze S.A.

In 2012, the Group generated the highest turnover with the following entities in which the State Treasury holds equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A., Polski Koncern Naftowy ORLEN S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., Grupa LOTOS S.A., KGHM Polska Miedź S.A., Krośnieńskie Huty Szkła KROSNO S.A. w upadłości (in bankruptcy), Zakłady Azotowe PUŁAWY S.A., Zakłady Chemiczne POLICE S.A., Zakłady Azotowe w Tarnowie-Mościcach S.A. and Huta Cynku "Miasteczko Śląskie" S.A.

38.3. Remuneration paid to members of management and supervisory bodies of the Group companies

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Remuneration paid to management staff	**37.29**	**31.01**
Parent	5.20	1.89
Subsidiaries	23.02	21.60
Jointly-controlled entities	8.26	6.71
Associates	0.81	0.81
Remuneration paid to supervisory staff	**5.42**	**12.11**
Parent	0.36	0.36
Subsidiaries	3.25	7.84
Jointly-controlled entities	1.25	3.21
Associates	0.56	0.70
Total	**42.71**	**43.12**

38.4. Loans granted to the management and supervisory staff of the Group companies

	Dec 31 2013	Dec 31 2012
Management staff		
Interest rate (%)	1%-3%	1%-4%
Maturing in	3–5 years	3–5 years
Value of outstanding loans	0.01	0.16
Supervisory staff		
Interest rate (%)	-	4%
Maturing in	-	5 years
Value of outstanding loans	-	0.01
Total value of outstanding loans	**0.01**	**0.17**

38.5. Remuneration paid to members of management and supervisory bodies of the Parent

	Jan 1–Dec 31 2013		
Name	Total remuneration, additional benefits and bonuses paid in 2013	Total remuneration for holding offices in subordinates in 2013	Total remuneration paid in 2013
Total remuneration paid to Management Board members, including:	**5.201**	**1.413**	**6.614**
Jarosław Bauc	-	-	**-**
Jerzy Kurella	0.550	0.255	**0.805**
Andrzej Parafianowicz	-	-	**-**
Zbigniew Skrzypkiewicz	0.058	-	**0.058**
Violetta Jasińska-Jaśkowiak	0.009	0.003	**0.012**
Persons who were Management Board members in the reporting period but did not hold their positions at the end of the period			
Radosław Dudziński	1.183	0.210	**1.393**
Sławomir Hinc	0.071	0.250	**0.321**
Jacek Murawski	0.966	0.283	**1.249**
Grażyna Piotrowska-Oliwa	1.284	0.228	**1.512**
Mirosław Szkałuba	1.080	0.184	**1.264**
Total remuneration paid to Supervisory Board members, including:	**0.359**	**0.060**	**0.419**
Chmielewski Wojciech	0.041	-	**0.041**
Marcin Moryń	0.041	-	**0.041**
Mieczysław Kawecki	0.041	0.044	**0.085**
Agnieszka Chmielarz	0.041	0.008	**0.049**
Józef Głowacki	0.041	-	**0.041**
Janusz Pilitowski	0.041	-	**0.041**
Jolanta Siergiej	0.041	0.008	**0.049**
Ewa Sibrecht-Ośka	0.041	-	**0.041**
Persons who were Supervisory Board members during the reporting period but did not hold their positions at the end of the period			
Mieczysław Puławski	0.020	-	**0.020**
Zbigniew Skrzypkiewicz	0.011	-	**0.011**
Total	**5.560**	**1.473**	**7.033**

Name	Jan 1–Dec 31 2012		
	Total remuneration, additional benefits and bonuses paid in 2012	Total remuneration for holding offices in subordinates in 2012	Total remuneration paid in 2012
Total remuneration paid to Management Board members, including:	**1.895**	**2.840**	**4.735**
Grażyna Piotrowska-Oliwa	0.211	0.558	**0.769**
Radosław Dudziński	0.330	0.858	**1.188**
Sławomir Hinc	0.336	0.857	**1.193**
Mirosław Szkałuba	0.369	0.423	**0.792**
Persons who were Management Board members in the comparative period but did not hold their positions as at the end of that period			
Kazimierz Chrobak	0.222	-	**0.222**
Mieczysław Jakiel	0.091	0.018	**0.109**
Ewa Bernacik	0.106	0.037	**0.143**
Marek Karabuła	0.230	0.089	**0.319**
Total remuneration paid to Supervisory Board members, including:	**0.360**	**0.213**	**0.573**
Chmielewski Wojciech	0.040	-	**0.040**
Marcin Moryń	0.041	-	**0.041**
Mieczysław Kawecki	0.041	0.043	**0.084**
Agnieszka Chmielarz	0.041	0.045	**0.086**
Józef Głowacki	0.040	-	**0.040**
Mieczysław Puławski	0.041	-	**0.041**
Jolanta Siergiej	0.041	0.045	**0.086**
Janusz Pilitowski	0.040	-	**0.040**
Ewa Sibrecht-Ośka	0.033	-	**0.033**
Persons who were Supervisory Board members in the comparative period but did not hold their positions as at the end of that period			
Grzegorz Banaszek	0.001	-	**0.001**
Stanisław Rychlicki	0.001	0.080	**0.081**
Total	**2.255**	**3.053**	**5.308**

38.6. Fees paid to the audit firm for the mandatory audit of the annual consolidated financial statements of the Group and for the rendering of other services

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Audit of the annual consolidated financial statements	0.09	0.10
Audit of the annual separate financial statements	0.10	0.12
Other certification services, including review of financial statements	0.50	0.53
Other services	-	0.01
Total	**0.69**	**0.76**

38.7. Non-consolidated joint ventures

In 2013, PGNiG S.A. had working business relationships in Poland with the following companies: FX Energy Poland Sp. z o.o., CalEnergy Resources Poland Sp. z o.o., EuroGas Polska Sp. z o.o., Energia Bieszczady Sp. z o.o., Orlen Upstream Sp. z o.o., San Leon Energy PLC (a company that acquired shares of PGNiG S.A.'s former business partner, Aurelian Oil & Gas PLC) - through subsidiaries Energia Karpaty Zachodnie Sp. z o.o. Sp. k. and Energia Karpaty Wschodnie Sp. z o.o. Sp. k.

Also in 2013, PGNiG S.A., Tauron Polska Energia S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A. and Enea S.A. held negotiations on detailed terms of their cooperation under the framework agreement of July 4th 2012 (concerning exploration for and production of shale gas and oil within the Wejherowo licence area). The framework agreement expired on December 31st 2013 due to non-fulfilment of certain conditions defined therein.

On August 14th 2013, PGNiG S.A. and LOTOS Petrobaltic S.A. signed an agreement for joint operations within the Kamień Pomorski licence area. The performance of the agreement will be possible upon fulfilment of certain conditions precedent, i.e. if positive tax interpretations are obtained from the Ministry of Finance and sub-lease of the mining usufruct (mineral extraction rights) is approved by the Ministry of Environment. By the end of 2013 not all of the conditions precedent had been fulfilled.

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

PGNiG S.A. cooperates with FX Energy Poland Sp. z o.o. in the following areas covered by licences awarded to PGNiG S.A:

- "Płotki" – under the Agreement for Joint Operations dated May 12th 2000; interests in the project: PGNiG S.A. (operator) – 51%, FX Energy Poland Sp. z o.o. – 49%;
- "Płotki" – "PTZ" (the Extended Zaniemyśl Area) – under the Operating Agreement of Mining Usufructuaries dated October 26th 2005; interests in the project: PGNiG S.A. (operator) – 51%, FX Energy Poland Sp. z o.o. – 24.5%, CalEnergy Resources Poland Sp. z o.o. – 24.5%;
- "Poznań" – under the Agreement for Joint Operations dated June 1st 2004; interests in the project: PGNiG S.A. (operator) – 51%, FX Energy Poland Sp. z o.o. – 49%.

Under licences awarded to FX Energy Poland Sp. z o.o., work is performed in the following areas:

- "Warszawa-Południe" (blocks 254 and 255) – under the Agreement for Joint Operations dated May 26th 2011; interests in the project: FX Energy Poland Sp. z o.o. (operator) – 51%, PGNiG S.A. – 49%;
- "Ostrowiec" – under the Agreement for Joint Operations dated February 27th 2009; interests in the project: FX Energy Poland Sp. z o.o. (operator) – 51%, PGNiG S.A. – 49%;
- "Kutno" – under the Agreement for Joint Operations dated September 30th 2010; interests in the project: FX Energy Poland Sp. z o.o. (operator) – 50%, PGNiG S.A. – 50%.

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

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

In 2013, PGNiG S.A. cooperated with EuroGas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o. in the "Bieszczady" licence area under the Agreement for Joint Operations of June 1st 2007. Interests in the project: PGNiG S.A. (operator) – 51%, EuroGas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%.

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

In 2013, PGNiG S.A. continued its cooperations with Orlen Upstream Sp. z o.o. in the "Sieraków" area under the Agreement for Joint Operations of June 22nd 2009. Interests in the project: PGNiG S.A. (operator) – 51%, Orlen Upstream Sp. z o.o. – 49%.

San Leon Energy PLC (a company that acquired shares of PGNiG S.A.'s former business partner, Aurelian Oil & Gas PLC)

Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (a subsidiary of San Leon Energy PLC)

Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (a subsidiary of San Leon Energy PLC)

Under licences awarded to San Leon Energy PLC, work is performed in the following areas:

- "Karpaty Zachodnie" - under the Agreement for Joint Operations dated December 17th 2009, concluded with Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (a subsidiary of San Leon Energy PLC); licence interests: Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (operator) – 60%, PGNiG S.A. – 40%;
- "Karpaty Wschodnie" - under the Agreement for Joint Operations dated December 17th 2009, concluded with Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (a subsidiary of San Leon Energy PLC); licence interests: Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (operator) – 80%, PGNiG S.A. – 20%.

38.8. Foreign operations

PGNiG S.A.'s interests in foreign operations

Ukraine

Dewon Z.S.A. is a privately-held (unlisted) joint-stock company, established on November 17th 1999. The company's core business consists in services related to production of natural gas, workover of wells and development and exploitation of fields in Ukraine.

The company's share capital amounts to UAH 11.1m (equivalent to PLN 4.11m, translated at the exchange rate quoted by the NBP for December 31st 2013) and is divided into 120,000 shares with a par value of UAH 92.89 per share. DOCVARIABLE "FWC_Data_BZ_CY" As at December 31st 2013, the value of the shares disclosed in the Group's consolidated financial statements was PLN 2.5m. An impairment loss was recognised for the full amount.

The company's shareholder structure is as follows:

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

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

In mid-2012, after an over three-year break, the company resumed production from the Sakhalin field in eastern Ukraine. On May 15th 2012, a new trilateral joint venture agreement was executed by Ukrnaftoburienie (holder of the licence) and Golden Derrik.

Oman

The share capital of **Sahara Petroleum Technology Llc** amounts to OMR 0.15m (Omani rial), equivalent to PLN 1.17m, translated at the mid rate quoted by the National Bank of Poland for December 31st 2013, and is divided into 150,000 shares with a par value of OMR 1 per share. As at December 31st 2013, the value of the shares disclosed in the Group's consolidated financial statements was PLN 0.88m. An impairment loss was recognised for the full amount.

The company's shareholder structure is as follows:

- PGNiG S.A. 73,500 shares – 49%,
- Petroleum and Gas Technology llc 76,500 shares – 51%

The company was established in 2000, on the initiative of Zakład Robót Górniczych Krosno Sp. z o.o. (currently a branch of Exalo Drilling S.A., a wholly-owned subsidiary of PGNiG S.A.). The company was established to offer well servicing services, such as application of enhanced recovery techniques or workovers, wireline services, or wellhead maintenance services, and to perform light and middle drilling work using PGNiG's technological capabilities.

The company has never commenced operations. On June 7th 2009, the shareholders resolved to dissolve the company and appoint a liquidator. At present, the liquidation process is underway.

Germany

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

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

Each partner acquired a 50% interest in each of the companies. The share capital of each of the companies amounts to EUR 0.2m (equivalent to PLN 0.83m translated at the mid rate quoted by the NBP for December 31st 2013), and their registered offices are located in Potsdam (InterGas Trade GmbH) and Leipzig (InterTransGas GmbH).

InterGasTrade GmbH has not been registered.

InterTransGas GmbH was entered in the commercial register of Potsdam on August 9th 2005. The company's core business consists in construction and operation of transmission infrastructure and sale of transmission capacities.

Since March 1st 2012, ONTRAS-VNG Gastransport GmbH (ONTRAS) (wholly-owned subsidiary of VNG AG, whose business consists in the provision of transmission services) has been the German shareholder. ITG shares were transferred by VNG to ONTRAS in the process of unbundling the network operations from production and trading activities.

As at December 31st 2013, the value of the shares disclosed in the Group's consolidated financial statements was PLN 5.24m.

On December 12th 2013, the General Meeting of ITG passed a resolution to liquidate of the company (the resolution has not yet been entered into the German commercial register). Upon publication of the resolution in the German electronic Federal Monitor, a prescribed period of one year will start during which creditors may lodge claims against ITG. Upon lapse of the period, any assets remaining after satisfaction of creditors will be distributed among shareholders.

On December 21st 2010, **PGNiG Sales & Trading GmbH** of Munich was incorporated (until 2011: **POGC Trading GmbH**) (PST). All company shares were acquired by PGNiG S.A. in return for a cash contribution made in December 2010.

The company's business involves purchase and sale of, and trading in, gas, fuels and other forms of energy (related to such products in a physical form), as well as trading in derivatives and financial products, provided that the trading in derivatives and financial products is to be conducted for hedging purposes only.

In November 2011, the company began to purchase natural gas on the European market for PGNiG S.A. This activity continues.

In June 2012, PGNiG Sales & Trading GmbH acquired 100% shares in XOOL GmbH of Munich, with a share capital of EUR 0.5m, (equivalent to PLN 2.07m translated at the mid rate quoted by the NBP for December 31st 2013). XOOL GmbH is a natural gas operator with a network of 16,600 end-users in Germany.

In Q4 2013, the PST Group sold natural gas to approximately 29 thousand end users and electricity to over 6 thousand end users.

In June 2013, PST registered its branch in Prague, the Czech Republic.

Norway

On May 24th 2007, the Parent established its Norwegian subsidiary **PGNiG Norway AS**, incorporated as a company with limited liability, a special purpose vehicle to implement PGNiG S.A.'s projects in the Norwegian Continental Shelf (NCS). On May 23rd 2013, its amended articles of association were registered, changing its name to **PGNiG Upstream International AS** and expanding the scope of its business, to reflect the fact that PGNiG Upstream International AS had been appointed as the entity responsible for coordinating PGNiG's exploration operations outside of Poland. PGNiG S.A. is the sole owner of PGNiG Upstream International AS.

The company's business comprises crude oil and natural gas production, and other similar or related activities. PGNiG Upstream International AS may also engage in infrastructure projects related to transmission via subsea pipelines (e.g. construction and operation of gas pipelines), and conduct trading and financial activities and other types of activities at all stages of the crude oil and natural gas value chain.

PGNiG Upstream International AS was established in particular to perform the agreement executed on February 28th 2007 between PGNiG S.A., Mobil Development Norway AS and ExxonMobil Production Norway Inc. concerning the acquisition by the Company of licence interests in the Norwegian Continental Shelf covering the Skarv, Snadd and Idun field. Under the joint venture agreement, PGNiG Upstream International AS holds the rights to 12% of the production (other interest holders are British Petroleum – 24% (operator), Statoil – 36% and E.ON Ruhrgas – 28%) from the Skarv/Snadd/Idun field and has the obligation to participate in the investment expenditure in the same proportion. British Petroleum is the field operator.

Furthermore, in February 2010 PGNiG Upstream International AS obtained from the Norwegian Ministry of Petroleum and Energy the authorisation to act as an operator on the Norwegian Continental Shelf.

On December 31st 2012, the company and its partners launched production of crude oil and natural gas from the Skarv field at the Norwegian Continental Shelf.

The company began selling the extracted hydrocarbons in January 2013. The oil is sold directly from the FPSO vessel to Shell International Trading and Shipping Company Ltd. and transported by the buyer's fleet of shuttle tankers. The produced gas is transmitted over the Gassled Area B System gas pipeline to the onshore terminal in Kårsto, and then redirected to Germany over the Gassled Area D System gas pipeline, where it is received by PGNiG Sales & Trading GmbH (subsidiary of PGNiG S.A.).

In June 2013, the company signed an annex to a USD 400m credit facility agreement with seven international banks. Under the annex, the facility repayments previously scheduled for June and December 2013 can be postponed until 2014. As at the end of December 2013, the company's debt outstanding under the credit facility was USD 354m.

The Netherlands - Libya

In January 2008, the PGNiG Management Board consented to use PGNiG Finance B.V. (established on September 14th 2001 to service Euronotes issued by PGNiG S.A.) for the purposes of conducting exploration and production activity in Libya. On the same date, the PGNiG Management Board passed a resolution concerning the amendment to the Articles of Association and change of the Management Board of PGNiG Finance B.V., and setting up of the company's branch in Libya.

The amendments to the Articles of Association were registered in the Netherlands on February 4th 2008. In the new Articles of Association, the company's name was changed to **Polish Oil and Gas Company – Libya B.V.** (POGC – Libya B.V.). PGNiG S.A. is its only shareholder.

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

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

Because of the events which had been taking place in Libya since mid-February 2011, the Management Board of POGC Libya B.V. made a decision to evacuate all international personnel from the country and notify National Oil Corporation in Libya of the occurrence of a force majeure event, which provided the basis for an extension of the term to perform obligations under the agreement. On November 21st 2012, POGC Libya B.V. signed an agreement with National Oil Corporation confirming the cessation of the force majeure event and extending the term of the performance of licence obligations. In 2013, the company completed preparatory work and began the first round of drilling, which consisted in drilling four exploration wells.

In 2012 and 2013, the company's equity was increased by USD 25m and USD 18m respectively, without issuing any new shares, to finance the drilling of first exploratory wells. By the end of 2013, two wells were drilled and the acquired results were analysed.

On January 17th 2014, the PGNiG Management Board passed a resolution to recognise an impairment loss on the entire value of shares in and equity contributions to POGC-Libya B.V., which led to the recognition of an impairment loss of PLN 291,7m on the assets of POGC-Libya B.V. disclosed in the consolidated financial statements of the PGNiG Group.

Any decision to continue the work depends on the results of further geological surveys and economic analyses as well as the political developments in Libya.

Sweden

On April 29th 2011, PGNiG S.A. acquired shares in Goldcup 5839 AB of Stockholm. On June 20th 2011, a change of the company's name to **PGNiG Finance AB** was registered.

The Company's objective is to raise financing, including through the issue of Euronotes on the international markets, as well as to borrow funds and advance loans to private investors, other than as part of any activities which in Sweden require a licence.

In February 2012, the company (in cooperation with PGNiG S.A.) issued the first tranche of Euronotes for EUR 500m, i.e. PLN 2,073.6m (translated at the exchange rate quoted by the NBP for December 31st 2013). The notes are listed on the Luxembourg Stock Exchange. All proceeds from the issue, net of consideration for the institutions involved in its execution, were transferred to PGNiG S.A. as an on-loan.

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

The Parent conducts exploration work in Pakistan under an agreement on hydrocarbon exploration and production in the Kirthar licence area executed between PGNiG S.A. and the government of Pakistan on May 18th 2005. Work in the Kirthar block is conducted jointly with Pakistan Petroleum Ltd. (PPL), with production and expenses shared proportionately to the parties' interests in the licence: PGNiG S.A. (operator) – 70%, PPL – 30%. In 2012, the operator decided to move to the second exploration stage on the Kirthar licence, as part of which a new exploratory well is to be drilled by July 2014. In 2013, the construction of pipelines and temporary surface installations was completed and test production from the Rehman-1 and Hallel X-1 wells began. The gas produced is sold to the Pakistani transmission system. Also, in 2013, preparatory work began for drilling of Rizq-1 exploratory well, which is scheduled for completion in 2014.

In Egypt, the Parent conducted exploration work in the Bahariya licence area (Block 3) under an Exploration and Production Sharing Agreement (EPSA) executed with the government of Egypt on May 17th 2009. The Company holds a 100% interest in the licence. In 2013, two exploratory wells were drilled. The wells were abandoned as no commercial hydrocarbon flows were recorded. Bahariya licence potential was re-evaluated using newly-acquired geological data, which proved that further work was not economically viable. Therefore, a decision was made to terminate the licence and liquidate the Egypt branch.

Foreign branches of the Group:

PGNiG Group companies have a number of foreign branches, which conduct operations or support the Group's development outside of Poland.

PGNiG S.A. – the Parent:

Operating Branch in Pakistan – Islamabad,

Branch in Egypt - Cairo (in liquidation),

Branch in Denmark – Copenhagen (in the process of liquidation).

GEOFIZYKA Kraków S.A.:

Branch in Pakistan – Islamabad,

Branch in Libya – Tripoli,

Branch in Georgia – Tbilisi,

Branch in Oman – Muscat.

GEOFIZYKA Toruń S.A.:

Branch in Egypt – Suez.

Exalo Drilling S.A.:

Branch in Libya – Tripoli,

Branch in Egypt – Cairo,

Branch in the Czech Republic – Ostrava,

Branch in Pakistan – Islamabad,

Branch in Kazakhstan – Almaty,

Branch in the Republic of Uganda – Kampala,

Branch in Georgia – Tbilisi,

Branch in Lithuania – Dirvupiu,

Branch in Slovakia – Bratislava,

Branch in Ethiopia – Bole Sub City, Addis Ababa.

Polish Oil and Gas Company – Libya B.V.:

Branch in Lybya – Benghazi.

PGNiG Sales & Trading GmbH:

Branch in the Czech Republic – Prague.

39. EMPLOYEES (NUMBER OF STAFF)

Employees by segments as at end of the period	Dec 31 2013	Dec 31 2012
Exploration and Production	10,754	10,990
Trade and Storage	4,357	4,685
including equity-accounted entities	287	288
Distribution	13,050	13,255
Generation	1,066	1,069
Other segments	1,990	2,327
Total	**31,217**	**32,326**

40. RESTRUCTURING PROCESS WITHIN THE GROUP

In 2013, the Programme for Workforce Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3) (the "Programme"), approved by the Extraordinary General Meeting of PGNiG S.A. on December 11th 2008, was continued. By virtue of a resolution of the Extraordinary General Meeting of PGNiG S.A. of December 7th 2011, the term of the Central Restructuring Fund (CRF) was extended until December 31st 2015. The Programme will therefore expire on December 31st 2015, unless one of the Parties (the PGNiG Management Board or the Social Partner) terminates the Programme prior to that date.

The Programme is based on a stand-by principle, which means that it may be launched in special circumstances and requires the entities covered by it to use a uniform procedure. Any decision to use funds under the Programme may only be made where it is justified by the scope of planned restructuring involving workforce downsizing and/or liquidation of jobs.

The costs of redundancy payments to which laid-off employees are entitled under the Programme are covered from the CRF, which is at the disposal of the General Meeting of PGNiG S.A., or with other funds accumulated for that purpose by the entities participating in the Programme. The Group discloses CRF under "Employee benefit obligations".

On August 10th 2011, by virtue of a resolution of the Extraordinary General Meeting of PGNiG S.A., an Annex to the Programme was approved, introducing a possibility to use the funds accumulated in the CRF account to support the streamlining initiatives undertaken by PGNiG S.A. and a possibility for the entities covered by the Programme to create similar funds with a view to securing financing for their workforce streamlining expenses. The functioning of such funds is governed by the rules applicable to the CRF.

The entities which were listed in the terms of the Programme as entitled to implement the Programme (subject to relevant resolutions being passed by their respective general meetings), and whose difficult financial standing rendered it impossible to cover all costs of the employment restructuring required under the Programme without financial aid, may apply for assistance from PGNiG S.A.'s capital reserve designated as Central Restructuring Fund (subject to approval by the General Meeting of PGNiG S.A.) to finance payments to former employees with whom employment contracts were terminated.

In the reporting period, the following one-off redundancy payments were made from the Central Restructuring Fund:

- to 138 former employees of PGNiG Technologie S.A., for a total amount of PLN 7.6m;
- to 46 former employees of GEOFIZYKA Kraków S.A., for a total amount of PLN 2.3m;
- to 22 former employees of PNiG Jasło S.A. (a branch of Exalo Drilling S.A. since February 1st 2013), for a total amount of PLN 0.8m.

In 2013, requests to use the Programme to cover the costs of one-off redundancy payments from the Central Restructuring Fund were submitted by the following entities:

- Exalo Drilling S.A. – to cover the costs of one-off redundancy payments to 39 employees, for a total amount of PLN 2.3m (the request was rejected);
- BUD-GAZ Sp. z o.o. w likwidacji (in liquidation) – to cover the costs of one-off redundancy payments to 15 employees, for a total amount of PLN 1m.

After payments requested by BUD-GAZ Sp. z o.o. w likwidacji (in liquidation) are made, the balance of the Central Restructuring Fund will be PLN 2m.

PGNiG Group companies are also implementing other programmes related to workforce streamlining, including Voluntary Termination Programmes.

41. CAPITAL MANAGEMENT

The key objective of the Group's capital management is to maintain the ability to continue its operations, taking into account investment plans, while increasing the Group's shareholder value.

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

	Dec 31 2013	Dec 31 2012
Borrowings, finance lease liabilities and liabilities under debt securities in issue	7,661	10,211
Trade and other payables	4,275	3,744
Cash and cash equivalents (-)	(2,827)	(1,948)
Net debt	**9,109**	**12,007**

Equity (attributable to owners of the parent)	**28,447**	**27,193**
Equity and net debt	**37,556**	**39,200**
Leverage	24.3%	30.6%

42. OTHER IMPORTANT INFORMATION

42.1. Additional contributions to the equity of PI GAZOTECH Sp. z o.o.

In 2013, actions instituted by PGNiG S.A. were pending to rescind or declare invalidity of resolutions of the Extraordinary General Meeting of PI GAZOTECH Sp. z o.o. concerning additional contributions to the company's equity.

Proceedings concerning PGNiG S.A.'s action against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of resolutions by the General Meeting of PI GAZOTECH Sp. z o.o., dated April 23rd 2004, including the resolution obliging PGNiG S.A. to pay additional contributions of PLN 52m, were held before the Regional Court of Warsaw, the Warsaw Court of Appeals, and finally the Supreme Court. On June 25th 2010, the Regional Court granted PGNiG S.A.'s claims and declared the resolution concerning share redemption and the resolution concerning the additional contributions as invalid. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, together with a request for a court fee waiver. On December 14th 2011, the Court of Appeals dismissed PI GAZOTECH Sp. z o.o.'s appeal. The judgement is final. On April 24th 2012, PI GAZOTECH Sp. z o.o. filed a cassation complaint. By virtue of its decision of March 13th 2013, the Supreme Court refused to accept the cassation compliant for consideration. As a result, the resolution of PI GAZOTECH Sp. z o.o.'s General Meeting of April 23th 2004 is invalid, the decision declaring its invalidity is final and cannot be repealed in proceedings before the Supreme Court based on the cassation compliant. Thus the proceedings in this case were concluded.

Proceedings instigated by PGNiG S.A. against PI GAZOTECH Sp. z o.o. to rescind or declare invalidity of the resolution of the Extraordinary General Meeting of PI GAZOTECH Sp. z o.o., dated January 19th 2005, whereunder PGNiG S.A. was obliged to pay an additional contribution of PLN 26m, were held before the Regional Court and the Court of Appeals of Warsaw. By virtue of its ruling of October 18th 2010, the Regional Court of Warsaw invalidated the resolution. On November 12th 2010, PI GAZOTECH Sp. z o.o. filed an appeal with the Regional Court, together with a request for a court fee waiver. By virtue of its decision of June 22nd 2012, the Court of Appeals of Warsaw dismissed PI GAZOTECH Sp. z o.o.'s appeal. The decision is final. On October 30th 2012, PI GAZOTECH Sp. z o.o. filed a cassation compliant against the decision. On August 14th 2013, the Supreme Court refused to accept the cassation compliant for consideration. Thus the proceedings in this case were concluded.

42.2. Proceedings before the President of the Polish Office of Competition and Consumer Protection (UOKiK)

On December 28th 2010, the President of the Polish Office of Competition and Consumer Protection (UOKiK) instigated, ex officio, anti-trust proceedings concerning abuse of dominant position on the domestic natural gas wholesale market by PGNiG S.A., consisting in:

- inhibiting sale of gas against the interest of trading partners or consumers and
- impeding the development of market conditions necessary for the emergence or development of competition

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

In its decision of July 5th 2012, the President of UOKiK found these actions to be anti-competitive practices, concluded that PGNiG S.A. discontinued those practices as of November 30th 2010, and imposed on the Company a fine of PLN 60m. On July 24th 2012, PGNiG S.A. filed an appeal against the decision of the President of UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw. As at the date of these financial statements, the Competition and Consumer Protection Court had not notified PGNiG S.A. of a hearing date.

On February 9th 2012, the President of the UOKiK instigated anti-trust proceedings concerning alleged employment by PGNiG S.A. of practices infringing collective consumer interests. The President of the UOKiK accused PGNiG S.A. of using, in general gas supply contracts, a provision classified as an abusive clause. In the course of the proceedings, PGNiG S.A. voluntarily agreed to revise certain contractual provisions. By virtue of a decision of August 10th 2012, the President of the UOKiK resolved not to impose a fine on the Company and obliged the Company to introduce a new form of comprehensive agreement containing revised general provisions. On September 11th 2013, PGNiG S.A. notified the President of the UOKiK that it had fully complied with the obligation imposed on it by virtue of the above decision.

On February 22nd 2013, the President of UOKiK instigated anti-trust proceedings concerning practices employed by PGNiG S.A. which infringe collective consumer interests. The President of the UOKiK accused PGNiG S.A. of using provisions classified as abusive clauses in contract forms used in general gas supply contracts. PGNiG S.A. initiated a review process and submitted a motion to the President of the UOKiK for a commitment decision, in which it voluntarily agreed to revise the contract forms. By virtue of a decision of June 28th 2013, the President of the UOKiK resolved not to impose a fine on PGNiG S.A. and obliged the Company to fulfil its commitment. PGNiG S.A. is taking steps to fulfil this obligation.

On April 3rd 2013, the President of UOKiK instigated anti-trust proceedings concerning abuse of dominant position by PGNiG S.A. on the domestic wholesale and retail natural gas market, consisting in impeding the development of market conditions necessary for the emergence or development of competition through:

- limiting the ability of business customers to reduce the ordered volumes of gas fuel and contractual capacity,
- limiting the ability of business customers to resell gas fuel,
- requiring that business customers define the maximum volume of gas fuel purchased for resale in the contract,
- refusing to grant wholesale customers the right to a partial change of supplier.

In the course of the proceedings, PGNiG S.A submitted a motion to the President of the UOKiK for a commitment decision, in which it voluntarily agreed to revise certain provisions in its contracts with non-household customers. By virtue of a decision of December 31st 2013, the President of the UOKiK resolved not to impose a fine on PGNiG S.A. and obliged the Company to fulfil its commitment. PGNiG S.A. is taking steps to fulfil this obligation.

42.3. Dispute between PGNiG S.A. and PBG S.A.

On June 27th 2011, PBG S.A. filed with the Regional Court an action against PGNiG S.A. for payment of a disputed amount, representing the equivalent of liquidated damages for delay in the performance of a contract, deducted by PGNiG S.A. from PBG's consideration.

The Company believes that the claim is unjustified due to the fact that the deliverable under the contract handed over by the contractor had material defects, and also due to actual significant delays in the performance of the contract, which constituted grounds for charging the contractual penalties. Further, according to PGNiG S.A., the plaintiff's claims became prescribed. On July 27th 2011, the Company filed its response to the claim, requesting that the action be dismissed in its entirety.

By virtue of its decision of April 9th 2012, the Court resolved to refer the dispute between PBG S.A. and PGNiG S.A. to mediation. On September 20th 2012, an out-of-court settlement was made between PGNiG S.A. and PBG S.A. w upadłości układowej (in company voluntary arrangement). As a result of the settlement, having obtained the approval of its court supervisor, PBG S.A. withdrew in full the action pending before the Regional Court.

By virtue of its decision of October 31st 2012, the Regional Court discontinued the proceedings.

On June 13th 2012, PBG S.A. was declared insolvent in voluntary arrangement. On September 21st 2012, a Statement of Claims against the insolvent company was lodged with the District Court of Poznań, Division for Bankruptcy and Recovery Cases, by an attorney-in-fact acting for and on behalf of PGNiG S.A., which included the claim related to incorrect performance of the contract concerning the Grodzisk Nitrogen Rejection Unit Construction Project. The claim related to the Grodzisk Nitrogen Rejection Unit Construction Project was not approved on the list of claims. As the date of prescription of the claims filed to be included in the bankruptcy estate of PBG S.A. approached, PGNiG S.A. took due care to interrupt the operation of the prescription period related to the claims under the contract. To this end, on November 5th 2013, the attorney-in-fact of PGNiG S.A. filed with the District Court for Poznań-Stare Miasto in Poznań a request to call for a conciliation hearing. In this request, all consortium members, i.e. parties to the contract concerning the Grodzisk Nitrogen Rejection Unit Construction Project, were called to pay PLN 159m to PGNiG S.A. as compensation for damage resulting from the improper performance of the EPC contract for delivery of the Grodzisk Nitrogen Rejection Unit.

On February 18th 2014, PGNiG S.A. was requested to make, by February 25th 2014, a prepayment for costs of translation of the request to call for a conciliation hearing. The date of the conciliation hearing was set for September 16th 2014.

43. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Execution of annex to contract with KGHM Polska Miedź S.A.

On January 30th 2014, an annex was signed to the general gas supply contract of July 30th 2010 (the "Contract”), entered into between PGNiG S.A. and KGHM Polska Miedź S.A. of Lubin (“KGHM”).

The Contract provides for sale of natural gas to be used as a power generation fuel in two 45MWe combined-cycle gas turbine (CCGT) units, and will remain in force until June 30th 2033. Under the annex, the annual volume of gas supplies was reduced from 266m cubic metres to 41.5m cubic metres. The change follows from a decision by KGHM to reduce the output of co-generated electricity and heat due to changes in the co-generation support mechanisms in 2013 and low prices of electricity. The estimated value of the annexed Contract is approximately PLN 830m. The parties may restore the original supply volume in future if and when the regulatory and macroeconomic environment improves.

The parties also signed annexes to the three other contracts for gas fuel supplies to KGHM, including:

- the contract of September 25th 2001,
- the contract of January 4th 1999, and
- the contract of October 1st 1998.

The annexes changed only the duration of the contracts, from an indefinite term to the period until June 30th 2033. The contracts secure long-term trading partnership with one of PGNiG's most important customers for nitrogen-rich gas. The estimated aggregate value of the three contracts over their entire term is approximately PLN 2.8bn.

PGNiG Management Board:

President of the Management Board	Mariusz Zawisza	....
Vice-President of the Management Board	Jarosław Bauc	....
Vice-President of the Management Board	Jerzy Kurella	....
Vice-President of the Management Board	Andrzej Parafianowicz	....
Vice-President of the Management Board	Zbigniew Skrzypkiewicz	....

Warsaw, February 19th 2014