Polskie Górnictwo Naftowe i Gazownictwo SA

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31ST 2013

Members of the 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	Zbigniew Skrzypkiewicz	
Vice-President of the Management Board	Andrzej Parafianowicz	

Warsaw, February 19th 2014

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FINANCIAL HIGHLIGHTS
for the year ended December 31st 2013

	PLNm		EURm	
FINANCIAL HIGHLIGHTS	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
I. Revenue	27,186	25,686	6,456	6,154
II. Operating profit	2,133	1,804	507	432
III. Profit before tax	2,113	2,252	502	540
IV. Net profit	1,688	1,910	401	458
V. Total comprehensive income	1,767	1,709	420	409
VI. Net cash flows from operating activities	4,317	464	1,025	111
VII. Net cash flows from investing activities	(413)	(4,566)	(98)	(1,094)
VIII. Net cash flows from financing activities	(3,262)	4,210	(775)	1,009
IX. Total net cash flows	642	108	152	26
X. Earnings/loss and diluted earnings/loss per ordinary share (PLN/EUR)	0.29	0.32	0.07	0.08
	As at Dec 31 2013	**As at Dec 31 2012**	**As at Dec 31 2013**	**As at Dec 31 2012**
XI. Total assets	35,424	36,645	8,542	8,964
XII. Liabilities and provisions	12,455	14,683	3,003	3,592
XIII. Non-current liabilities	7,023	7,287	1,693	1,782
XIV. Current liabilities	5,432	7,396	1,310	1,810
XV. Equity	22,969	21,962	5,539	5,372
XVI. Share capital	5,900	5,900	1,423	1,443
XVII. Weighted average number of shares (million)	5,900	5,900	5,900	5,900
XVIII. Book value per share and diluted book value per share (PLN/EUR)	3.89	3.72	0.94	0.91
XIX. Dividend per share declared or paid (PLN/EUR)	0.13	-	0.03	-

Items of the income statement, statement of comprehensive income and statement of cash flows were translated at the EUR 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 a given reporting period.

Items of the statement of financial position were translated at the EUR mid rate quoted by the NBP as at the end of a 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

SEPARATE INCOME STATEMENT
for the year ended December 31st 2013

	Note	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
		(PLNm)	
		audited	restated
Revenue	**3**	**27,186**	**25,686**
Raw material and consumables used	4.1	(16,625)	(15,626)
Employee benefits expense	4.2	(970)	(997)
Depreciation and amortisation expense		(731)	(603)
Services	4.3	(6,101)	(5,815)
Work performed by the entity and capitalised		11	13
Other income and expenses	4.4	(637)	(854)
Total operating expenses	**4**	**(25,053)**	**(23,882)**
Operating profit		**2,133**	**1,804**
Finance income	5	1,020	728
Finance costs	5	(1,040)	(280)
Profit before tax		**2,113**	**2,252**
Income tax	6	(425)	(342)
Net profit		**1,688**	**1,910**
Earnings/loss and diluted earnings/loss per share attributable to holders of ordinary shares (PLN)	8	0.29	0.32

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

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
	(PLNm)	
	audited	restated
Net profit	**1,688**	**1,910**
Other comprehensive income that will be reclassified to profit or loss once specific conditions are met	**52**	**(211)**
Exchange differences on translating foreign operations	(6)	(9)
Hedge accounting	72	(249)
Deferred tax on other comprehensive income	(14)	47
Other comprehensive income that will not be reclassified to profit or loss	**27**	**10**
Actuarial gains on employee benefits	34	12
Deferred tax	(7)	(2)
Other comprehensive income, net	**79**	**(201)**
Total comprehensive income	**1,767**	**1,709**

SEPARATE STATEMENT OF FINANCIAL POSITION
as at Dec 31 2013

	Note	Dec 31 2013	Dec 31 2012	Jan 1 2012
			(PLNm)	
ASSETS		audited	restated	restated
Non-current assets				
Property, plant and equipment	10	13,775	14,094	13,035
Investment property	11	1	2	3
Intangible assets	12	282	204	159
Financial assets available for sale	13	7,796	7,246	6,454
Other financial assets	14	4,668	5,780	2,902
Deferred tax assets	15	380	397	350
Other non-current assets	16	44	47	26
Total non-current assets		**26,946**	**27,770**	**22,929**
Current assets				
Inventories	17	2,707	2,427	1,897
Trade and other receivables	18	3,695	5,185	3,172
Current tax assets	19	-	24	5
Other assets	20	18	18	28
Derivative financial instrument assets	34	307	105	285
Cash and cash equivalents	22	1,683	1,043	936
Non-current assets held for sale	23	**68**	**73**	**1**
Total current assets		**8,478**	**8,875**	**6,324**
Total assets		**35,424**	**36,645**	**29,253**
LIABILITIES AND EQUITY				
Equity				
Share capital	24	5,900	5,900	5,900
Share premium		1,740	1,740	1,740
Accumulated other comprehensive income		14	(66)	135
Retained earnings		15,315	14,388	12,475
Total equity		**22,969**	**21,962**	**20,250**
Non-current liabilities				
Borrowings and other debt instruments	25	4,432	4,390	-
Employee benefit obligations	26	154	89	97
Provisions	27	1,156	1,576	1,154
Deferred income	28	621	559	257
Deferred tax liabilities	29	609	632	634
Other non-current liabilities	30	51	41	16
Total non-current liabilities		**7,023**	**7,287**	**2,158**
Current liabilities				
Trade and other payables	31	2,888	2,774	2,660
Borrowings and other debt instruments	25	1,691	3,879	3,591
Derivative financial instrument liabilities	34	123	393	417
Current tax liabilities	19	175	-	-
Employee benefit obligations	26	117	191	86
Provisions	27	434	154	89
Deferred income	28	4	5	2
Total current liabilities		**5,432**	**7,396**	**6,845**
Total liabilities		**12,455**	**14,683**	**9,003**
Total liabilities and equity		**35,424**	**36,645**	**29,253**

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

	Note	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
		(PLNm)	
		audited	restated
Cash flows from operating activities			
Net profit		1,688	1,910
Adjustments:			
Depreciation and amortisation expense		731	603
Net foreign exchange gains		337	9
Net interest and dividend		(438)	(364)
Gain on investing activities		652	148
Current tax expense		425	342
Other items, net	32	(216)	179
Income tax expense		(257)	(378)
Cash flows from operating activities before changes in working capital		**2,922**	**2,449**
Change in working capital:			
Change in receivables	32	1,299	(1,801)
Change in inventories		(280)	(529)
Change in employee benefit obligations		(8)	112
Change in provisions	32	265	66
Change in current liabilities	32	163	185
Change in other assets	32	(4)	(22)
Change in deferred income	32	(40)	4
Net cash flows from operating activities		**4,317**	**464**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets		105	153
Proceeds from disposals of shares in non-consolidated entities		1	-
Purchase of property, plant and equipment and intangible assets		(824)	(1,164)
Payments for tangible assets under construction - exploration for and evaluation of mineral resources		(688)	(499)
Purchase of shares in related entities		(916)	(790)
Decrease in loans advanced		1,675	194
Loans advanced		(390)	(3,119)
Inflows from forward contracts		163	136
Outflows on forward contracts		(146)	(117)
Interest received		125	22
Dividends received		355	320
Proceeds from finance lease		38	5
Other items, net		89	293
Net cash flows from investing activities		**(413)**	**(4,566)**
Cash flows from financing activities			
Proceeds from borrowings		-	2,090
Proceeds from issue of debt securities		1,501	6,157
Repayment of borrowings		(70)	-
Repayment of debt securities		(3,661)	(3,580)
Inflows from forward contracts		83	-
Outflows on forward contracts		(116)	(111)
Dividend paid		(767)	-
Interest paid		(240)	(345)
Other items, net		8	(1)
Net cash flows from financing activities		**(3,262)**	**4,210**
Net change in cash		**642**	**108**
Exchange differences on cash and cash equivalents		(2)	(1)
Cash and cash equivalents at beginning of the period		**1,043**	**936**
Cash and cash equivalents at end of the period		**1,683**	**1,043**
including restricted cash		**476**	**238**

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

	Share capital	Share premium	Accumulated other comprehensive income, including: Exchange differences on translating foreign operations	Hedge accounting	Actuarial gains/(losses)	Retained earnings/(deficit)	**Total equity**
			(PLNm)				
As at Jan 1 2013 (restated)	**5,900**	**1,740**	**-**	**(59)**	**(7)**	**14,388**	**21,962**
Payment of dividend to owners	-	-	-	**-**	**-**	(767)	**(767)**
Total comprehensive income	-	-	**(6)**	**58**	**27**	**1,688**	**1,767**
Net profit for 2013	-	-	-	-	-	1,688	**1,688**
Other comprehensive income, net, for 2013	-	-	(6)	58	27	-	**79**
Effect of business combination	-	-	-	-	-	6	**6**
As at Dec 31 2013 (audited)	**5,900**	**1,740**	**(6)**	**(1)**	**20**	**15,315**	**22,969**
As at Jan 1 2012 (restated)	**5,900**	**1,740**	**9**	**143**	**(17)**	**12,475**	**20,250**
Total comprehensive income	-	-	**(9)**	**(202)**	**10**	**1,910**	**1,709**
Net profit for 2012	-	-	-	-	-	1,910	**1,910**
Other comprehensive income, net, for 2012	-	-	(9)	(202)	10	-	**(201)**
Effect of business combination	-	-	-	-	-	(3)	**(3)**
As at Dec 31 2012 (restated)	**5,900**	**1,740**	**-**	**(59)**	**(7)**	**14,388**	**21,962**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF PGNiG S.A. as at December 31st 2013

1. GENERAL INFORMATION

1.1. Company name, business profile and key registry data

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna ("PGNiG S.A.", "Company"), registered office at ul. Marcina Kasprzaka 25, Warsaw, Poland, was established as a result of the transformation of the state-owned enterprise Przedsiębiorstwo Państwowe PGNiG into a state-owned stock company pursuant to Art. 6.1 of the Polish Act on Privatisation of State-Owned Enterprises of July 13th 1990 (Journal of Laws of 1990, No. 51, item 298, as amended) and the Regulation of the President of the Polish Council of Ministers on the transformation of the state-owned enterprise Polskie Górnictwo Naftowe i Gazownictwo of Warsaw into a state-owned stock company, dated September 30th 1996 (Journal of Laws No. 116, item 553). Under the latter Regulation, a Deed of Transformation was drawn up on October 21st 1996.

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

By virtue of a decision of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange) of September 16th 2005, Series A and Series B shares and Series B allotment certificates of PGNiG S.A. were admitted to stock-exchange trading on the main market. Allotment certificates for Series B ordinary bearer shares were first traded on September 23rd 2005. On October 18th 2005, Giełda Papierów Wartościowych w Warszawie S.A. approved introduction of Series A and Series B shares of PGNiG S.A. to trading on the main market. The shares were first traded on October 20th 2005.

On January 14th 2013, the Management Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. was served with a decision by the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, dated December 28th 2012, to register amendments to PGNiG S.A.'s Articles of Association, adopted under Resolution No. 3/XII/2012 of the Extraordinary General Meeting of PGNiG S.A. of December 6th 2012. The amendments were entered in the Register of Entrepreneurs on December 31st 2012.

On July 31st 2013, the Company received the decision of the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register, concerning entry of the amendments to the PGNiG Articles of Association, adopted by the Extraordinary General Meeting on June 26th 2013, in the National Court Register − Register of Entrepreneurs. The amendments were entered into the register on July 22nd 2013, and became effective as of that date. The amendments to the PGNiG Articles of Association did not change the scope of the Company's business.

On November 8th 2013, the Company received the decision of the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, concerning registration of the amendments to the PGNiG Articles of Association, adopted by the Extraordinary General Meeting on September 5th 2013, in the National Court Register − Register of Entrepreneurs. The amendments were entered into the register on October 29th 2013, becoming effective as of that date, and concerned expansion of the Company's scope of business to include activities of insurance agents and brokers.

As provided for in its Articles of Association, PGNiG S.A. performs activities aimed at ensuring the energy security of Poland, including:

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

Pursuant to its Articles of Association, the scope of the Company's business, including production, rendering of services and trading, comprises:

1) trade of gas fuel through mains,
2) natural gas extraction,
3) crude oil extraction,
4) test drilling and boring,
5) construction of transmission pipelines and distribution systems,
6) service activities incidental to oil and gas extraction,
7) service activities incidental to other extraction and quarrying,
8) extraction of chemical and fertiliser minerals,
9) other extraction and quarrying n.e.c.,
10) manufacture and processing of refined petroleum products,
11) production of gas fuels,
12) wholesale of chemical products,
13) wholesale of other intermediate products,
14) retail sale of automotive fuel in specialised stores,
15) wholesale of fuels and related products,
16) construction of plumbing, heating, gas and air conditioning installations,
17) repair and maintenance of machinery,
18) repair of motor vehicles other than motorcycles,
19) transport of gas fuels via pipelines,
20) transport of other products via pipelines,
21) freight transport by road,
22) storage and warehousing of gas fuels,
23) storage and warehousing of other products,
24) manufacture of industrial gases,
25) manufacture of other chemical products n.e.c.,
26) wholesale of waste and scrap,
27) other research and experimental development on natural sciences and engineering,
28) engineering activities and related technical consultancy,
29) other professional, scientific and technical activities n.e.c.,
30) other technical testing and analysis,
31) installation of industrial machinery and equipment,
32) production and supply of steam, hot water and air for air-conditioning systems,
33) other specialised construction activities, n.e.c.,
34) wired telecommunications activities,
35) wireless telecommunications activities other than satellite telecommunications activities,
36) satellite telecommunications activities,
37) other telecommunications activities,
38) production of electricity,
39) distribution of electricity,
40) trade of electricity,
41) renting and leasing of other machinery, equipment and tangible goods n.e.c.,
42) financial leasing,
43) other financial service activities, except insurance and pension funding n.e.c., including debt trading for own account,
44) other activities auxiliary to financial services, except insurance and pension funding,
45) other credit granting,
46) dealing in financial markets on behalf of others (e.g. stock broking) and related activities,
47) securities brokerage,
48) commodity contracts brokerage,
49) other activities auxiliary to insurance and pension funding,
50) administration of financial markets,
51) accounting and book-keeping activities; tax consultancy,
52) activities of head offices and holding companies other than financial holdings,
53) activities of agents involved in the sale of fuels, ores, metals and industrial chemicals,
54) activities of agents involved in the sale of a variety of goods,
55) wholesale of hardware, plumbing and heating equipment and supplies,
56) computer facilities management activities,

57) data processing; hosting and related activities,
58) other information technology and computer service activities,
59) computer programming activities,
60) reproduction of recorded media,
61) repair and maintenance of electronic and optical equipment,
62) repair and maintenance of electrical equipment,
63) wholesale of computers, computer peripheral equipment and software,
64) wholesale of electronic and telecommunications equipment and parts,
65) wholesale of other office machinery and equipment,
66) wholesale of other machinery and equipment,
67) publishing of directories and mailing lists,
68) other software publishing,
69) computer consultancy activities,
70) web portals,
71) other information service activities n.e.c.,
72) activities of insurance agents and brokers
73) renting and leasing of office machinery and equipment (including computers),
74) leasing of intellectual property and similar products, except copyrighted works,
75) repair and maintenance of computers and computer peripheral equipment,
76) repair and maintenance of (tele)communications equipment,
77) repair and maintenance of consumer electronics,
78) other service activities n.e.c.,
79) call centre activities,
80) other publishing activities,
81) service activities related to printing,
82) other printing,
83) photocopying, document preparation and other specialised office support activities,
84) other human resources provision,
85) other business support service activities n.e.c.,
86) water collection, treatment and supply,
87) non-specialised wholesale,
88) library activities,
89) archive activities,
90) museums activities,
91) buying and selling of own real estate,
92) operating of real estate on a fee or contract basis,
93) renting and operating of own or leased real estate,
94) other education n.e.c.,
95) renting and leasing of cars and light motor vehicles,
96) renting and leasing of other motor vehicles excluding motorcycles,
97) tour operator activities,
98) hotels and similar accommodation,
99) holiday and other short-stay accommodation,
100) camping grounds, recreational vehicle parks and trailer parks,
101) other accommodation,
102) retail sale in non-specialised stores with food, beverages or tobacco predominating,
103) other retail sale in non-specialised stores,
104) retail trade not in stores, stalls or markets,
105) organisation of conventions and trade shows,
106) other amusement and recreation activities.

1.2. Duration of the Company

The Company was incorporated for an unspecified time.

1.3. Reporting period of these financial statements

These separate financial statements ("financial statements") present data covering the annual period from January 1st to December 31st 2013, with comparative data for the period from January 1st to December 31st 2012.

1.4. Scope of disclosure

PGNiG S.A. has a multi-branch structure, which as at December 31st 2013 comprised the following entities:

- Head Office, Warsaw
- Trading Branch in Wrocław,
- Trading Branch in Zabrze,
- Trading Branch in Tarnów,
- Trading Branch in Warsaw,
- Trading Branch in Gdańsk,
- Trading Branch in Poznań,
- Odolanów Branch,
- Sanok Branch,
- Zielona Góra Branch,
- Geology and Hydrocarbon Production Branch in Warsaw
- Central Measurement and Testing Laboratory in Warsaw,
- Well Mining Rescue Station in Kraków,
- Mogilno Underground Gas Storage Cavern Facility Branch in Palędzie Dolne,
- Wholesale Trading Branch in Warsaw,
- Wierzchowice Underground Gas Storage Facility Branch in Czarnogroździce,

  as well as the following foreign branches:
- Operator Branch in Pakistan,
- Branch in Egypt,
- Branch in Denmark.

On February 12th 2013, by virtue of Resolution No. 99/2013, the Management Board of PGNiG S.A. adopted the "Concept for storage business reorganisation at the PGNiG Group", to streamline the organisational structure of the Group's Storage segment by transferring the storage assets and storage-related technical and management competencies to Operator Systemu Magazynowania Sp. z o.o. The first stage of the process consisted in spinning off separate branches from PGNiG S.A., based on storage assets and human resources required to operate those assets.

As a result, the Mogilno Underground Gas Storage Cavern Facility Branch in Palędzie Dolne and the Wierzchowice Underground Gas Storage Facility Branch in Czarnogroździce were established by virtue of Management Board's Resolution No. 256/2013 of April 9th 2013 and Resolution No. 762/2013 of October 22nd 2013, respectively.

On September 3rd 2012, by virtue of Resolution No. 592/2012, the Management Board of PGNiG S.A. adopted the "Concept for reorganisation of the wholesale trading function at the PGNiG Group, " to optimise and streamline the Group's wholesale trade in gas, electricity and related products, and to adjust the wholesale function to the changing internal and external environment of the Company. The Concept provided for establishing a new Wholesale Trading Division within PGNiG S.A., to operate as a decision-making centre responsible for effective identification and use of the Group's optimisation potential. The Wholesale Trading Division in Warsaw was established by virtue of Management Board's Resolution No. 383/2013 of May 27th 2013.

Pursuant to Resolution No. 435/2013 of June 19th 2013 concerning the date of liquidation of the Denmark Branch, the PGNiG Management Board determined the date of liquidation of the branch to be the date of receipt of the decision to remove the company from the Danish register of entrepreneurs.

PGNIG S.A., as the Parent, also prepares consolidated financial statements containing the data of 14 subsidiaries (of which three are parents of their own groups), one associate and one jointly-controlled entity.

1.5. Composition of the PGNiG Management Board

Pursuant to PGNiG S.A.'s Articles of Association, its Management Board may consist of two to seven members. The number of Management Board members is determined by the body appointing the Management Board. Management Board members are appointed for a joint term of three years. Individual members or the entire Management Board are appointed by the Supervisory Board. Each member of the Management Board may be removed from office or suspended from duties by the Supervisory Board or the General Meeting.

As long as the State Treasury remains a shareholder of the Company and the Company's annualised average workforce exceeds 500, the Supervisory Board appoints one person elected by the Company's employees to serve on the Management Board during its term.

As at December 31st 2013, the Company's Management Board consisted of:

- Mr Mariusz Zawisza – President of the Management Board (appointed on December 30th 2013, with effect as of January 1st 2014);
- Mr Jarosław Bauc – Vice-President, Finance;
- Mr Jerzy Kurella – Vice-President, Trade;
- Mr Andrzej Parafianowicz – Vice-President, Corporate Affairs;
- Mr Zbigniew Skrzypkiewicz – Vice-President, Exploration & Production.

The following changes in the composition of the PGNiG Management Board occurred in 2013:

- On January 22nd 2013, Mr Sławomir Hinc tendered his resignation as Member of the PGNiG Management Board, effective as of March 31st 2013;
- On February 27th 2013, by virtue of Resolution No. 37/VI/2013, the PGNiG Supervisory Board appointed, with effect as of April 1st 2013, Mr Krzysztof Bocian as Vice-President of the Management Board, Exploration & Production, for a joint term of office expiring on March 13th 2014;
- On February 27th 2013, by virtue of Resolution No. 38/VI/2013, the PGNiG Supervisory Board appointed, with effect as of April 1st 2013, Mr Jacek Murawski as Vice-President of the PGNiG Management Board, Finance, for a joint term of office expiring on March 13th 2014;
- On April 2nd 2013, the PGNiG Supervisory Board passed Resolution No. 65/VI/2013 to repeal PGNiG Supervisory Board Resolution No. 37/VI/2013 of February 27th 2013 concerning the appointment of Vice-President of the Management Board, Exploration & Production;
- On April 29th 2013, the PGNiG Supervisory Board passed Resolution No. 75/VI/2013 to remove President of the PGNiG Management Board from office;
- On April 29th 2013, the PGNiG Supervisory Board passed Resolution No. 76/VI/2013 to remove Vice-President of the PGNiG Management Board, Trade, from office;
- On June 11th 2013, by virtue of Resolution No. 103/VI/2013, the PGNiG Supervisory Board appointed Mr Jerzy Kurella as Vice-President of the PGNiG Management Board, Trade, with effect as of June 14th 2013, for a joint term of office expiring on March 13th 2014;
- On September 16th 2013, by virtue of Resolution No. 139/VI/2013, the PGNiG Supervisory Board delegated Mr Zbigniew Skrzypkiewicz to temporarily serve as Member of the PGNiG Management Board, Corporate Affairs, in the period from September 16th 2013 to December 16th 2013;
- On December 20th 2013, Mr Mirosław Szkałuba tendered his resignation as Member of the PGNiG Management Board, effective as of December 20th 2013;
- On December 30th 2013, by virtue of Resolution No. 198/VI/2013, the PGNiG Supervisory Board removed the Company's Management Board, including Mr Jerzy Kurella – Vice-President, and Mr Jacek Murawski – Vice-President;
- On December 30th 2013, by virtue of Resolution No. 199/VI/2013, the PGNiG Supervisory Board appointed, with effect as of December 30th 2013, Mr Jarosław Bauc to the PGNiG Management Board as Vice-President of the PGNiG Management Board, Finance, for a joint term of office expiring on December 30th 2016;
- On December 30th 2013, by virtue of Resolution No. 200/VI/2013, the PGNiG Supervisory Board appointed, with effect as of December 30th 2013, Mr Jerzy Kurella to the PGNiG Management Board as Vice-President of the PGNiG Management Board, Trade, for a joint term of office expiring on December 30th 2016;

- On December 30th 2013, by virtue of Resolution No. 201/VI/2013, the PGNiG Supervisory Board appointed, with effect as of December 31st 2013, Mr Andrzej Parafianowicz to the PGNiG Management Board as Vice-President of the PGNiG Management Board, Corporate Affairs, for a joint term of office expiring on December 30th 2016;
- On December 30th 2013, by virtue of Resolution No. 202/VI/2013, the PGNiG Supervisory Board appointed, with effect as of January 1st 2014, Mr Mariusz Zawisza to the PGNiG Management Board as President of the PGNiG Management Board, for a joint term of office expiring on December 30th 2016;
- On December 30th 2013, by virtue of Resolution No. 203/VI/2013, the PGNiG Supervisory Board appointed, with effect as of December 31st 2013, Mr Zbigniew Skrzypkiewicz to the PGNiG Management Board as Vice-President of the PGNiG Management Board, Exploration & Production, for a joint term of office expiring on December 30th 2016.

1.6. Commercial proxies

As at December 31st 2013, Ms Violetta Jasińska-Jaśkowiak served as commercial proxy for PGNiG S.A. pursuant to the power of proxy granted on December 20th 2013.

1.7. Composition of the PGNiG Supervisory Board

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

One member of the Supervisory Board appointed by the General Meeting should satisfy the independence criteria (independent member of the Supervisory Board). The term 'independent member of the supervisory board' means an independent member as defined by the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and the committees of the (supervisory) board (2005/162/EC), with due regard to the provisions of the Code of Best Practices for WSE-Listed Companies.

Pursuant to Par. 36.3 of PGNiG S.A.'s Articles of Association, the Supervisory Board elects the member satisfying the above criteria in a separate vote. Written proposals of candidates for the position of a Supervisory Board member who satisfies these criteria may be submitted to the Chairman of the General Meeting by shareholders present at the General Meeting whose agenda includes election of such Supervisory Board member. If no candidates for the position are proposed by the shareholders, candidates to the Supervisory Board who satisfy the above criteria are nominated by the Supervisory Board.

If the Supervisory Board is composed of up to six members, two members are appointed from among candidates elected by the Company's employees. If the Supervisory Board is composed of seven to nine members, three members are appointed from among candidates elected by the Company's employees.

As at December 31st 2013, the composition of the PGNiG Supervisory Board was as follows:

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

The following changes in the composition of the PGNiG Supervisory Board occurred in 2013:

On June 26th 2013, the Extraordinary General Meeting of PGNiG S.A. removed Mr Mieczysław Puławski from the Supervisory Board by virtue of Resolution No. 7/VI/2013, and appointed Mr Zbigniew Skrzypkiewicz to the Supervisory Board by virtue of Resolution No. 8/VI/2013.

On September 16th 2013, by virtue of Resolution No. 139/VI/2013, the PGNiG Supervisory Board delegated Mr Zbigniew Skrzypkiewicz to temporarily serve as Member of the PGNiG Management Board, Corporate Affairs, in the period from September 16th 2013 to December 16th 2013;

On December 30th 2013, Mr Zbigniew Skrzypkiewicz resigned as Member of the PGNiG Supervisory Board.

1.8. Shareholder structure of PGNiG S.A.

As at the date of release of these separate 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	Registered office	Number of shares	% ownership interest	% total voting rights
As at Dec 31 2013				
State Treasury	Warsaw	4,271,740,477	72.40%	72.40%
Other shareholders	-	1,628,259,523	27.60%	27.60%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**
As at Dec 31 2012				
State Treasury	Warsaw	4,271,810,954	72.40%	72.40%
Other shareholders	-	1,628,189,046	27.60%	27.60%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**

The cause of the change in PGNiG S.A.'s shareholder structure is the ongoing process of distribution of the Company shares to eligible employees. As at December 31st 2013, the process had not been completed, mainly due to pending inheritance proceedings. The shares to which eligible employees are entitled but which have not yet been distributed are held by the State Treasury.

1.9. Going-concern assumption

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

1.10. Business combinations of commercial-law companies

On July 23rd 2013, the merger of PGNiG S.A. with PGNiG Energia S.A. was entered in the Register of Entrepreneurs by the District Court for the Capital City of Warsaw. As at the merger date, the both companies remained under joint control.

Comparative data was restated and presented in Note 2.5.

1.11. Approval of the financial statements

These financial statements will be submitted to the PGNiG Management Board for approval and published on March 5th 2014.

2 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 presentation currency of these 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.

Cash flows from operating activities are presented in accordance with the indirect method.

2.1.1. Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") and effective 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 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 (Journal of Laws 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 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

The revised IAS 1 requires separate presentation of the effect of other comprehensive income on future financial performance of a company, as it requires separate subtotals for those elements which may be reclassified to profit or loss and those elements that will not, in accordance with the requirements of individual IFRS standards.

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

Revised IAS 19 introduces material changes in accounting for defined employee benefits plans. 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 Company changed the presentation of actuarial gains/(losses) and recognises them in other comprehensive income and not in net profit/loss for the current 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 Company 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 separate financial statements is presented in Note 2.5.

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

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

- 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).
- Amendment 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).
- Amendment 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 Company decided not to elect the option of early adoption of the above amendments.

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

2.2.3. Standards and interpretations adopted by the IASB but not yet approved for use by the EU

The IFRSs endorsed by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB), except to the extent of the following standards, amendments and interpretations, which as at December 31st 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 Company estimates that the above standards, interpretations and amendments to standards would not have had a material bearing on the financial statements if they had been applied by the Company as at the end of the reporting period.

2.3. Accounting policies

Below are presented the principal accounting policies applied by the PGNiG S.A..

2.3.1. Property, plant and equipment

Property, plant and equipment comprises assets which the Company 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 Company. 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 2.3.3.).

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

The Company 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 disclosed as assets, are recognised at cost less accumulated 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 partial or complete refilling of a pipeline are carried through 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 Company 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 property, plant and equipment, its carrying amount is derecognised from the separate statement of financial position ("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.

2.3.2. 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 Company 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 Company's statement of financial position under intangible assets.

At the subsequent stage of exploration and evaluation work, the Company incurs expenses on seismic surveys, which are capitalised under "Exploration and evaluation 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 Company assesses the areas and prospects in terms of economic viability of production.

If a decision to produce minerals is made following the evaluation, the Company reclassifies relevant exploration and evaluation assets at the start of production into property, plant and equipment or intangible assets, depending on the type of the asset. Seismic survey expenses are disclosed under a separate item of property, plant and equipment.

If exploration is unsuccessful or the Company 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 capitalised expenses incurred in relation to the wells drilled during exploration are recognised in profit or loss in full, in the period in which the decision to discontinue exploration was made. Capitalised seismic survey expenses related to a given prospect are also charged to profit or loss.

The Company recognises provisions for production 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.

2.3.3. Borrowing costs

The Company 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 otherwise 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 foreign currency, to the extent that they are regarded as an adjustment to interest costs.

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 Company's liabilities in the period, other than funds borrowed specifically for the purpose of acquiring qualifying assets.

2.3.4. Investment property

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

Investment property is initially recognised at cost and the initial recognition includes transaction costs. The Company has selected the cost model to measure its investment property and, after initial recognition, measures all its investment property in line with the requirements of IAS 16 defined for that model, i.e. at cost less accumulated depreciation and impairment losses.

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

All gains or losses arising from the sale 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 Company depreciates investment property based on the straight-line method over the following useful economic life periods:

- Buildings and structures 2–40 years

2.3.5. Intangible assets

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

Taking into account the nature of the Company's operations, the following intangible assets can be identified:

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

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

- the technical feasibility of completing the intangible asset so that it is fit for use or sale,
- its intention to complete and to use or sell the intangible asset,
- 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 Company 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.

In its exploration and production operations, the Company uses licences obtained under the Polish Geological and Mining Law, rights to geological information, and mining rights. The costs of licences for exploration and 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 Company holds CO2 emission allowances, allocated for individual installations.

The Company distinguishes the following emission allowances:
- purchased for redemption,
- purchased for resale,
- received free of charge.

Emission allowances purchased for redemption at an installation are disclosed in the accounting books 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 adopted amortisation method reflects the pattern of consumption of economic benefits associated with an intangible asset by the Company. 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 Company 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 - period 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 (once a year or whenever there is indication of impairment).

2.3.6. 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.

2.3.6.1. The Company as a lessor

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

Lease payments relating to a 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.

The difference between the carrying amount of leased assets and their fair value is posted to the deferred income.

2.3.6.2. The Company as a lessee

Non-current assets used under a finance lease are recognised as assets of the Company. As at the commencement of the lease term, the Company 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.

The same presentation policies are used by the Company for agreements which meet the criteria for being classified as leases, but are not called leases.

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

As at the end of each reporting period, the Company 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.

In case of an intangible asset with an indefinite useful life, such an asset is 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 evidence 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 other expenses 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.

2.3.8. Financial assets

Due to their nature and purpose, the Company's financial assets are classified to the following categories:
- financial assets measured at fair value through profit or loss (positive valuation of derivatives which are not measured pursuant to the principles of hedge accounting),
- hedge derivatives,
- financial assets available for sale,
- loans and receivables.

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

This category comprises financial assets held for trading and financial assets designated at initial recognition at fair value through profit or loss.
A financial asset is classified as held for trading if it is:

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

The Company classifies the following financial assets as held for trading:

- derivatives with positive valuation which are not measured pursuant to the principles of hedge accounting (e.g. swaps, CCIRSs, options).

The Company did not apply hedge accounting to CCIRS 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.

2.3.8.2. Hedge derivatives

The category comprises valuation of derivative instruments to which the Company applies hedge accounting. For description of the applied hedge accounting policies, see Section 2.3.10.

2.3.8.3. 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 Company 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 Company does not have a firm intention to hold to maturity.

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

2.3.8.4. 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 Company does not discount receivables maturing in less than 12 months from the end of the reporting period and where the discounting effect would be immaterial.

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

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

Uncollectible receivables are 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 have been recognised or the impairment losses that have been recognised were lower than the full amounts of receivables, are charged to other expenses.

2.3.8.5 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 Company does not discount receivables maturing 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.

2.3.8.6. 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 separate statement of cash flows ("statement of cash flows") consists of the aforementioned cash and cash equivalents, less outstanding overdraft facilities.

2.3.9. 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 or investments held to maturity 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.

The Company 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. The amount of the reversed loss is recognised in profit or loss.

The amount of the impairment loss on investments in equity instruments classified as available for sale is not subject to reversal through profit or loss. Any increase in fair value after the recognition of impairment losses is disclosed directly in equity.

2.3.10. 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 Company 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 Company 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 Company 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 Company ceases to apply hedge accounting if the derivative expires or is sold, terminated or exercised, if the Company 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.

2.3.11. Interests in joint ventures

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

2.3.12. Inventories

Inventories include assets intended to be sold in the ordinary course of business, assets in the process of production intended to be sold and assets in the form of materials or raw material deliveries used in the production process or assets used in the course of rendering of services. 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 due to 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 Company is 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 Company 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 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 Company recognises an impairment loss on such inventories to net realisable amount.

The amount of all impairment losses on inventories to their net realisable amount and all losses on inventories are charged to expense of the period when 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 Company generally recognises an impairment loss of 20% of their value at the time of initial recognition; 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 Company 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 Company recognises an impairment loss of 20%–100% of their value at the time of initial recognition;
- For materials remaining in warehouses for more than 10 years, which are completely useless and intended for liquidation, the Company recognises an impairment loss of 100% of their value at the time of initial recognition.

2.3.13. Non-current assets held for sale

The Company classifies a non-current asset (or a disposal group) as available for sale if its net 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 available for sale after an appropriate decision is made by the Company's duly authorised body. 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 effected 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 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 statement of financial position, assets available for sale (or a disposal group) are presented as a separate item of current assets.

2.3.14. Equity

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

Share capital is disclosed at par value and in the amount specified in the Company'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 Company’s equity.

Reserve funds include the surplus of the issue proceeds over the par value of shares (share premium) remaining 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 or for other purposes, is not reflected in the IAS. Therefore, the Company recognises the aforementioned reductions in profit as the cost of the period.

2.3.15. Provisions

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

The Company 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 Company recognises the following provisions:

- provision for well decommissioning costs,
- provision for 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.

2.3.15.1. Provision for well decommissioning costs

The Company 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 extraction branches 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.

2.3.15.2. Provision for 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.

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

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

Where possible, at the time of installing the elements of the infrastructure the Company enters into agreements establishing standard land easements and transmission easements. Transmission easement is a civil law construct governed by Art. 305^1–305^4 of the Polish Civil Code of April 23rd 1964 (Journal of Laws No. 16, item 93 as amended).

In line with the materiality principle, the Company 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 Company 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 meters, the amount of annual rent per square meter 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 Company analyses submitted claims on a case-by-case basis.

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

The Energy Efficiency Act of April 15th 2011 (Journal of Laws of May 10th 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 Company estimates the amount of the provision for the buy-out price in accordance with the formula set forth in the Energy Efficiency Act.

2.3.15.5. Other provisions

The Company recognises other provisions for future expenses related to its activities and operations, such as a provision for penalties and other claims, if the costs of such claims are so material that failure to recognise them in profit or loss for a given period would distort the true view of the Company's assets and financial position.

2.3.16. Accruals and deferrals

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

In the 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 Company 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 Company recognises the amount of income based on bookkeeping notes issued for 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.

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

2.3.17. 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, borrowings and debt securities).

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.

2.3.17.1. 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 Company 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 near 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 instruments are recognised as income or expense in a reporting period in which a given derivative is remeasured.

The Company 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.

2.3.17.2. Financial liabilities measured at amortised cost

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

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

Following initial recognition, they are measured at amortised cost with the use of the effective interest rate method. The adjusted acquisition cost includes cost of obtaining the 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.

2.3.17.3. 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. Trade and other payables

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

2.3.18.1. Employee benefit obligations

Employee benefits are all forms of consideration given by the Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company's internal regulations. For more information, see Note 40.1.

2.3.18.2. Other liabilities

Other liabilities include all liabilities not classified by the Company 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 Company, 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 Company's business consists in production of and trade in high-methane and nitrogen-rich natural gas, generation and sale of electricity and heat, as well as production and sale of crude oil.

The Company's business consists in sales of goods, rendering of services and leasing out the Company's assets to third parties. Goods include the Company'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 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.

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.

The Company also sells crude oil, helium, electricity and other goods. For more information on sales structure, see Note 3.2.

2.3.19.2. Rendering of services

The Company's business also includes rendering of services, such as real estate rental, gas services, well services as well as transport, 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 transaction at the end of the reporting period.

2.2.20. 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 Company distinguishes the following types of grants:

- grants related to assets, receivable on the condition that the Company 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 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

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 all 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 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 the end of each quarter, and is updated only for changed items. If future foreseen taxable profit is insufficient for deductible temporary differences to be utilised, 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 Company:

- 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. Contingent assets and liabilities

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 Company; or

Contingent assets are not recognised in the 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 Company 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 Company 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 Company; 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 Company 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 Company 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.

2.3.24. Foreign currencies

The Polish złoty (PLN) is the functional currency (measurement currency) and the reporting currency of PGNiG S.A. Transactions denominated in foreign currencies are initially disclosed at the exchange rate of the functional currency effective as at the transaction date. Cash assets and liabilities denominated in foreign currencies are translated at the exchange rate of the functional currency effective as at the end of the reporting period. All foreign exchange gains and losses are recognised in profit or loss, except for the foreign exchange gains and losses from the translation of assets, equity and liabilities of foreign entities, which, until the disposal of interests in such entity, are disclosed directly in equity. Non-cash items valued at their historical cost in a foreign currency are translated at the exchange rate effective as at the date of transaction. Non-cash items valued at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.

To hedge against foreign currency risk, the Company enters into derivatives transactions (for a description of the accounting policies applied by the Company to derivative financial instruments see Section 2.3.10).

2.4. Key reasons for uncertainty of estimates

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

2.4.1. Impairment of non-current assets

The Company's key operating assets include mining assets, transmission infrastructure and gas fuel storage facilities. These assets were tested for impairment. The Company computed and recognised material impairment losses on the assets, based on an assessment of their current and future usefulness or planned decommissioning or sale. For certain assets, the assumptions made in connection with the potential use, liquidation and sale of such assets may change. For information on the value of recognised impairment losses see Note 10.2.

In the case of the mining assets, there is uncertainty connected with the estimates of natural gas and crude oil resources, on the basis of which the related cash flows are estimated. Any changes in the estimates of the resources directly affect the amount of the impairment losses on the extraction 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 2.3.1. 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 who are in charge of their operation. Any such assessment is connected with uncertainty as to the future business environment, technology changes and market competition, which could lead to a different assessment of the economic usefulness of the assets and their remaining useful lives and ultimately have a material effect on the value of the property, plant and equipment and the future depreciation charges.
The Company reviews the useful lives of property, plant and equipment on an annual basis. The most recent review was carried out as at December 31st 2013.

2.4.3. Estimating sales of natural gas

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.

Therefore result for a given period might 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 27 represent significant items among the provisions disclosed in the financial statements. These provisions are based on the estimates of future decommissioning and reclamation costs, which largely depend on the adopted 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 Company estimated the amount of the provision for claims under extra-contractual use of land (see Section 2.3.15.3).

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 Company will be required to pay may differ from amounts of the related provisions.

2.4.6. 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.

The Company estimates the amount of the provision for the buy-out price in accordance with the act and based on the assumption that customers submit the statutory representations on the volume of gas used in 2013 for the purposes defined in the act.

If the Company does not receive such representations from customers, it will be required to pay a buy-out price that net of deductions of revenue derived from certain customer groups specified in the act, i.e. the buy-out price will be ca. PLN 32m higher than the PLN 132m provision recognised for this purpose as at the end of the reporting period.

2.5. Presentation changes in the financial statements

In the financial statements for the period ended December 31st 2013, the Company made changes to comparative financial data relating to:

- adoption of amended IAS 19 Employee Benefits, with two significant changes relating to provisions for retirement severance:
    - elimination of the corridor approach,
    - transfer of the actuarial gains and losses from the income statement to actuarial gains and losses related to post-employment benefits recognised in other comprehensive income.
- the merger of PGNiG S.A. and PGNiG Energia S.A.

As a result of the changes, the following adjustments were made in the comparative data for the year ended December 31st 2012. Only restated items are presented in the tables below.

Income statement	Period before the change	Adjustments ensuring comparability – change of IAS 19	Adjustments ensuring comparability – business combinations	Period after the change
Revenue	**25,539**	**-**	**147**	**25,686**
Raw material and consumables used	(15,483)	-	(143)	(15,626)
Employee benefits expense	(990)	2	(9)	(997)
Services	(5,811)	-	(4)	(5,815)
Other income and expenses	(853)	-	(1)	(854)
Total operating expenses	**(23,727)**	**2**	**(157)**	**(23,882)**
Operating profit/(loss)	**1,812**	**2**	**(10)**	**1,804**
Profit/(loss) before tax	**2,260**	**2**	**(10)**	**2,252**
Net profit/(loss)	**1,918**	**2**	**(10)**	**1,910**

Statement of financial position	Period before the change	Adjustments ensuring comparability – change of IAS 19	Adjustments ensuring comparability – business combinations	Period after the change
ASSETS				
Total non-current assets	**27,789**	**2**	**(21)**	**27,770**
Property, plant and equipment	14,098	-	(4)	14,094
Financial assets available for sale	7,263	-	(17)	7,246
Deferred tax assets	395	2	-	397
Total current assets	**8,852**	**-**	**23**	**8,875**
Trade and other receivables	5,172	-	13	5,185
Other assets	17	-	1	18
Cash and cash equivalents	1,034	-	9	1,043
Total assets	**36,641**	**2**	**2**	**36,645**
LIABILITIES AND EQUITY				
Total equity	**21,981**	**(7)**	**(12)**	**21,962**
Accumulated other comprehensive income	(59)	(7)	-	**(66)**
Retained earnings	14,400	-	(12)	**14,388**
Total non-current liabilities	**7,278**	**9**	**-**	**7,287**
Employee benefit obligations	81	9	-	89
Total current liabilities	**7,382**	**-**	**14**	**7,396**
Trade and other payables	2,763	-	11	2,774
Employee benefit obligations	190	-	1	191
Provisions	152	-	2	154
Total liabilities	**14,660**	**9**	**14**	**14,683**
Total liabilities and equity	**36,641**	**2**	**2**	**36,645**

3 OPERATING SEGMENTS

3.1. Reportable segments

For information on the operating segments, see the Consolidated Annual Report of the PGNiG Group.

3.2. Geographical areas

The Company conducts its business activity primarily on the domestic market. In 2013, revenue from export sales to external customers accounted for 5.03% (2012: 2.70%) of total net revenue from sales to external customers. The main export markets were Switzerland, Germany, and Ukraine.

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Domestic sales:	**25,818**	**24,992**
High-methane gas	21,789	22,100
Nitrogen-rich gas	1,417	1,394
Crude oil (+ natural gasoline)	1,007	694
Helium	29	48
Propane-butane gas	76	67
LNG	58	54
Electricity	633	132
Certificates of origin for electricity	2	-
Geophysical and geological services	13	10
Drilling and well services	60	24
Other services	68	43
Other products	40	39
Merchandise and materials	8	10
Entitlement to operate storage facilities	554	365
CO2 emission allowances	64	12
Export sales:	**1,368**	**694**
High-methane gas	131	-
Nitrogen-rich gas	21	-
Crude oil	1,051	569
Helium	155	113
Electricity	6	1
Other services	3	9
Other products	1	1
Merchandise and materials	-	1
Total	**27,186**	**25,686**
% share of exports in total sales:	**5.03%**	**2.70%**

Most of the Company’s non-current assets (other than financial instruments) are located in Poland. The value of non-current assets located abroad as at December 31st 2013 represented 1.05% of the Company's total assets (other than financial instruments) (December 31st 2012: 1.08%).

	Dec 31 2013	Dec 31 2012
	audited	restated
Value of non-current assets other than financial instruments located in Poland	13,911	14,146
Value of non-current assets other than financial instruments located abroad	147	154
Total	**14,058**	**14,300**
% share of assets located abroad in total assets	**1.05%**	**1.08%**

3.3. Key customers

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

4 OPERATING EXPENSES

4.1. Raw material and consumables used

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Gas	(15,854)	(15,350)
Electricity	(678)	(49)
Other raw material and consumables used	(93)	(227)
Total	**(16,625)**	**(15,626)**

4.2. Employee benefits expense

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Salaries and wages	(637)	(714)
Social security contributions	(153)	(156)
including: contributions to the Employee Retirement Scheme	(39)	(40)
Other employee benefits expense	(75)	(79)
Cost of future benefits	(105)	(48)
Total	**(970)**	**(997)**

Higher costs of future benefits result from the increase in provision for length-of-service awards. The Company reviewed its assumptions with respect to future employee benefits in connection with the statutory retirement age in Poland being extended to 67 years, which brought about an increase in the estimated probable number of persons entitled to length-of-service awards in the future, i.e. one of the variables in the actuarial calculations.

4.3. Services

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Purchase of transmission, distribution, and storage services	(5,350)	(5,141)
Costs of dry wells written off	(133)	(97)
Costs of seismic surveys written off	(30)	-
Other services	(588)	(577)
Total	**(6,101)**	**(5,815)**

4.4. Other income and expenses

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Compensation, penalties, fines, etc. received	151	6
Income from current settlement of deferred income recognised in the statement of financial position	30	2
Interest on receivables related to operating activities	62	44
Other income	15	52
Net exchange differences related to operating activities	22	(223)
Net gain/loss on derivative instruments related to operating activities	(228)	(233)
Net gains/losses on disposal of non-financial non-current assets	24	67
Change in products	18	12
Change in impairment losses on non-current assets	(254)	(201)
Change in impairment losses on inventories	-	(1)
Change in impairment losses on trade and other receivables	80	(10)
Provision for well decommissioning costs	45	(35)
Provision for workforce streamlining and voluntary termination programmes	2	(68)

Provision for penalty imposed by the Office for Competition and Consumer Protection	-	(60)
Provision for environmental liabilities	4	(4)
Provision for claims under extra-contractual use of land	(1)	7
Provision for licence liabilities	(126)	(24)
Other provisions	(13)	62
Provision for the buy-out price on energy savings certificates - white certificates	(134)	-
Taxes and charges relating to hydrocarbons production	(62)	(51)
Taxes and charges	(112)	(97)
Value of merchandise and materials sold	(71)	(10)
Property insurance	(27)	(25)
Domestic and international business trips	(11)	(12)
Compensation, penalties, fines, etc. paid	(3)	(1)
Other costs	(48)	(51)
Total	**(637)**	**(854)**

5 FINANCE INCOME AND COSTS

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Finance income	**1,020**	**728**
Gain on measurement and realisation of derivative financial instruments	362	88
Interest income	304	292
Dividends and other profit distributions	345	331
Other finance income	9	17
Finance costs	**(1,040)**	**(280)**
Interest expense	(190)	(220)
Foreign exchange losses	(403)	(24)
Revaluation of investments	(420)	(15)
Commission fees paid on bank borrowings	(20)	(16)
Costs of guarantees received	(3)	(4)
Other finance costs	(4)	(1)
Finance income/costs	**(20)**	**448**

Total borrowing costs capitalised as acquisition (or production) costs of non-current assets in the reporting period amounted to PLN 113.5m (2012: PLN 185.7m).

6 INCOME TAX

	Note	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Pre-tax profit		2,113	2,252
Tax rate applicable in the period		19%	19%
Tax calculated at the applicable tax rate		(401)	(429)
Permanent differences between profit/(loss) before tax and tax base		(24)	87
Tax expense in the income statement		**(425)**	**(342)**
Current tax expense	6.1.	(450)	(347)
Deferred tax expense	6.2.	25	5
Effective tax rate		20%	15%

6.1. Current tax expense

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Profit before tax	2,113	2,252
Permanent differences between pre-tax profit/loss and tax base	173	(433)
Taxable income not recognised as income for accounting purposes	245	375
Tax deductible expenses not recognised as expenses for accounting purposes	(1,783)	(1,652)
Income not recognised as taxable income	1,793	1,630
Non-tax deductible expenses	(3,606)	(2,747)
Deductions from income	(102)	(273)
Income tax base	2,286	1,819
Tax rate applicable in the period	19%	19%
Income tax	(434)	(347)
Increases, reliefs, exemptions, allowances and reductions in/of income tax	(16)	-
Current tax expense disclosed in tax return for the period	(450)	(347)
Current tax expense disclosed in the income statement	**(450)**	**(347)**

Current tax expense was calculated at the income tax rate of 19% applicable in Poland in the reporting period.
The income tax rate did not changed relative to the comparative period. Foreign branches of PGNiG S.A. are subject to tax regulations in force in the countries where they conduct their business and relevant provisions of double tax treaties. Income tax rates applicable in those countries range from 25% to 41%. In 2013 and 2012, the foreign branches did not pay income tax.

6.2. Deferred tax expense

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Deferred tax expense disclosed in the separate income statement	**25**	**5**
Origination and reversal of temporary differences due to deductible temporary differences	**(10)**	**51**
Impairment losses on financial assets, receivables and tangible assets under construction	27	(10)
Provisions for future liabilities	11	46
Costs of FX risk and interest rate risk hedges	(49)	-
Other deductible temporary differences	1	15
Recognition and reversal of temporary differences due to taxable temporary differences	**35**	**(45)**
Difference between tax and accounting value of non-current assets*	9	14
Positive valuation of FX and interest rate risk hedges	(13)	(26)
Accrued interest	31	(22)
Income on tax obligation arising in subsequent month	14	(5)
Other taxable temporary differences	(6)	(6)
Deferred tax expense disclosed in other comprehensive income, net, including:	**(21)**	**47**
Hedge accounting	(14)	47
Actuarial gains/(losses) on employee benefits*	(7)	-
Total changes	**4**	**52**

* The item accounts for the accounting policy change described in Note 2.5.

Because only those items which affect current tax expense in Poland have been included in the deferred tax base, the deferred tax has been determined using the 19% rate.

As at December 31st 2013, the balance of deferred tax assets was PLN 380m, and the balance of deferred tax liabilities was PLN 609m.

The deferred tax asset includes future tax benefits resulting from the timing of the recognition of income and expenses being different from their recognition for tax purposes.

In 2013, the deferred tax asset fell by PLN 17m, of which PLN 10m was charged to profit or loss, while the balance reduced other comprehensive income.
In 2013, the deferred tax liability fell by PLN 23m, of which PLN 35m was charge to profit or loss, while the balance reduced other comprehensive income.

In the reporting period, the overall effect of the change in deferred tax on net profit was PLN 25m.

7 DISCONTINUED OPERATIONS

The Company did not discontinue any operations in 2013, nor does it expect to discontinue any of its existing operations.

8 EARNINGS PER SHARE

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

Diluted earnings per share are calculated by dividing the net profit 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 attributable to equity holders of the Company	1,688	1,910
Net profit attributable to equity holders of the Company used to calculate diluted earnings per share	1,688	1,910
Weighted average number of outstanding ordinary shares used to calculate basic earnings per share (million)	5,900	5,900
Weighted average number of outstanding ordinary shares used to calculate diluted earnings per share (million)	5,900	5,900
Basic earnings per share for the year, attributable to holders of ordinary shares of the Company (PLN)	0.29	0.32
Diluted earnings per share for the period, attributable to holders of ordinary shares of the Company (PLN)	0.29	0.32

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

Start date	End date	Number of outstanding ordinary shares (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				
Dec 31 2012				
Jan 1 2012	Dec 31 2012	5,900	366	5,900
Total				

9 DIVIDEND PAID AND PROPOSED

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Dividends declared and paid in the period		
Dividend per share declared and paid (in PLN)	0.13	-
Number of shares (million)	5,900	5,900
Dividend declared (PLNm)	767	-
- cash dividend paid for the State Treasury	555	-
- cash dividend paid to other shareholders	212	-

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.

10 PROPERTY, PLANT AND EQUIPMENT

	Dec 31 2013	Dec 31 2012
Land	30	26
Buildings and structures	6,611	6,076
Plant and equipment	2,119	1,414
Vehicles and other	125	122
Total tangible assets	**8,885**	**7,638**
Tangible assets under construction - exploration for and evaluation of mineral resources	2,081	2,151
Other tangible assets under construction	2,809	4,305
Total property, plant and equipment	**13,775**	**14,094**

The property, plant and equipment of PGNiG S.A. include mainly the hydrocarbon production and underground storage facility assets.

Operator Systemu Magazynowania Sp. z o.o. (OSM) was established on November 16th 2010 as a special purpose vehicle wholly-owned by Polskie Górnictwo Naftowe i Gazownictwo S.A. The company was established in order to bring the structure of PGNiG S.A.'s gas storage operations in line with the independence requirements stipulated by Art. 15 of Directive 2009/73/EC of the European Parliament and of the Council of July 13th 2009 concerning common rules for the internal market in natural gas, repealing Directive 2003/55/EC. Pursuant to these requirements, a storage system operator, being part of a vertically integrated enterprise, must be independent from any other operations that are not related to transmission, distribution and storage, at least with respect to its legal and organisational form and decision-making. Operator Systemu Magazynowania Sp. z o.o. commenced operations, in accordance with its licence for gas fuel storage at storage facilities, on June 1st 2012, under the agreement with PGNiG S.A. concerning exclusive operation of storage facilities and assignment of the role of storage system operator (the "Agreement").

In accordance with the Agreement, PGNiG S.A. remains the owner of all the storage facilities.

10.1 PROPERTY, PLANT AND EQUIPMENT

Dec 31 2013	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**	Exploration and evaluation assets	Other tangible assets under construction	**Total property, plant and equipment**
Net carrying amount as at Jan 1 2013, net of accumulated amortisation and impairment losses	26	6,076	1,414	122	**7,638**	2,151	4,305	14,094
Increase	-	32	-	-	**32**	722	830	1,584
Decrease	-	(604)	(17)	(1)	**(622)**	(118)	(65)	(805)
Currency translation differences	-	-	-	-	**-**	-	(3)	(3)
Transfers from tangible assets under construction and between groups	4	1,595	939	24	**2,562**	(491)	(2,268)	(197)
Impairment losses	-	(36)	(18)	(1)	**(55)**	(183)	9	(229)
Depreciation expense for the year	-	(452)	(199)	(19)	**(670)**	-	-	(670)
Effect of business combination	-	-	-	-	**-**	-	1	1
Net carrying amount as at Dec 31 2013, net of accumulated amortisation and impairment losses	**30**	**6,611**	**2,119**	**125**	**8,885**	**2,081**	**2,809**	**13,775**
As at Jan 1 2013								
Gross value	28	10,065	2,783	238	**13,114**	2,486	4,332	19,932
Accumulated amortisation and impairment losses	(2)	(3,989)	(1,369)	(116)	**(5,476)**	(335)	(27)	(5,838)
Net carrying amount as at Jan 1 2013	**26**	**6,076**	**1,414**	**122**	**7,638**	**2,151**	**4,305**	**14,094**
As at Dec 31 2013								
Gross value	32	11,047	3,691	253	**15,023**	2,599	2,827	20,449
Accumulated amortisation and impairment losses	(2)	(4,436)	(1,572)	(128)	**(6,138)**	(518)	(18)	(6,674)
Net carrying amount as at Dec 31 2013	**30**	**6,611**	**2,119**	**125**	**8,885**	**2,081**	**2,809**	**13,775**

Dec 31 2012	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**	Exploration and evaluation assets	Other tangible assets under construction	**Total property, plant and equipment**
Net carrying amount as at Jan 1 2012, net of accumulated depreciation and impairment losses	24	5,236	1,347	113	**6,720**	1,963	4,353	13,036
Increase	-	358	-	-	**358**	252	1,498	2,108
Decrease	(1)	(124)	(10)	-	**(135)**	(66)	(50)	(251)
Transfers from tangible assets under construction and between groups	3	1,164	265	28	**1,460**	(14)	(1,540)	(94)
Impairment losses	-	(175)	(30)	-	**(205)**	17	48	(140)
Depreciation expense for the year	-	(383)	(158)	(19)	**(560)**	-	-	(560)
Effect of business combination	-	-	-	-	**-**	-	(4)	(4)
Net carrying amount as at Dec 31 2012, net of accumulated depreciation and impairment losses	**26**	**6,076**	**1,414**	**122**	**7,638**	**2,151**	**4,305**	**14,094**
As at Jan 1 2012								
Gross value	26	8,705	2,549	222	**11,502**	2,315	4,432	18,249
Accumulated amortisation and impairment losses	(2)	(3,469)	(1,202)	(109)	**(4,782)**	(352)	(77)	(5,211)
Effect of business combination	-	-	-	-	**-**	-	(2)	(2)
Net carrying amount as at Jan 1 2012	**24**	**5,236**	**1,347**	**113**	**6,720**	1,963	4,353	13,036
As at Dec 31 2012								
Gross value	28	10,065	2,783	239	**13,115**	2,486	4,338	19,939
Accumulated amortisation and impairment losses	(2)	(3,989)	(1,369)	(117)	**(5,477)**	(335)	(29)	(5,841)
Effect of business combination	-	-	-	-	**-**	-	(4)	(4)
Net carrying amount as at Dec 31 2012	**26**	**6,076**	**1,414**	**122**	**7,638**	2,151	4,305	14,094

10.2. Impairment losses on property, plant and equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total tangible assets**	Exploration and evaluation assets	Other tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2013	2	622	140	9	**773**	335	28	**1 136**
Increase	1	383	57	3	**444**	266	16	**726**
Decrease	(1)	(346)	(39)	(2)	**(388)**	(83)	(26)	**(497)**
Effect of business combination	-	-	-	-	**-**	-	1	**1**
As at Dec 31 2013	**2**	**659**	**158**	**10**	**829**	**518**	**19**	**1,366**
As at Jan 1 2012	2	446	110	10	**568**	352	77	**997**
Increase	1	355	72	3	**431**	138	16	**585**
Decrease	(1)	(179)	(42)	(4)	**(226)**	(155)	(65)	**(446)**
As at Dec 31 2012	**2**	**622**	**140**	**9**	**773**	**335**	**28**	**1,136**

As at the beginning of the period, impairment losses on tangible assets stood at PLN 773m, of which:
- PLN 599m was attributable to impairment losses on assets used directly in hydrocarbon production,
- PLN 1m was attributable to impairment losses on underground gas storage facilities,
- PLN 173m was attributable to impairment losses on other tangible assets.

In 2013, the impairment losses increased by PLN 444m and decreased by PLN 388m. The movements included:
- a 435m increase and a PLN 378m decrease in impairment losses on assets used directly in hydrocarbon production,
- a PLN 9m increase and a PLN 10m decrease in impairment losses on other tangible assets.

Changes in impairment losses on particular assets groups were connected with the update of adopted assumptions, review of impairment indicators, disposal of assets or their reclassification between asset groups.

As at the end of the period, impairment losses on tangible assets were PLN 829m, of which:
- PLN 655m was attributable to impairment losses on assets used directly in hydrocarbon production,
- PLN 1m was attributable to impairment losses on underground gas storage facilities,
- PLN 173m was attributable to impairment losses on other tangible assets.

As at the end of 2013, impairment losses on assets related to the exploration for and evaluation of mineral resources included PLN 518m of impairment losses on capitalised well-drilling expenditure (end of 2012: PLN 335m).

The recoverable amount of the assets corresponds to their value in use. The discount rate used to calculate the value in use of assets used directly in hydrocarbon production in 2013 amounted to 11.60% (2012: 11.88%). The applied discount rate for tangible assets under construction in 2013 amounted to 12.33% (2012: 12.56%).

11 INVESTMENT PROPERTY

	Dec 31 2013	Dec 31 2012
Net carrying amount at beginning of the period, net of accumulated depreciation	2	3
Decrease	-	(1)
Transfer from/to property, plant and equipment	(1)	-
Net carrying amount at end of the period, net of accumulated depreciation	**1**	**2**
At beginning of the period		
Gross value	4	5
Accumulated amortisation and impairment losses	(2)	(2)
Net carrying amount at beginning of the period	**2**	**3**
At end of the period		
Gross value	2	4
Accumulated amortisation and impairment losses	(1)	(2)
Net carrying amount at end of the period	**1**	**2**

The Company's investment property includes office/amenity buildings partly held for rent, as well as industrial buildings and structures. As at the end of the reporting period, the net carrying amount of office buildings classified as investment property was PLN 0.8m (2012: PLN 1.3m), and the net value of the industrial buildings and structures was PLN 0.2m (2012: PLN 0.7m).

The 2013 depreciation expense allocated to investment property was PLN 0.2m (2012: PLN 0.3m).

In the reporting period, the Company derived PLN 1.2m rental income from investment property (2012: PLN 1.9m).

Operating expenses incurred in connection with the rental of investment property were PLN 0.5m in the reporting period (2012: PLN 0.6m).

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

12 INTANGIBLE ASSETS

Dec 31 2013	Perpetual usufruct right to land – acquired for consideration**	Software	Other intangible assets**	**Total**
Net carrying amount as at Jan 1 2013, net of accumulated amortisation and impairment losses	39	73	92	**204**
Transfers from tangible assets under construction and between asset groups	-	85	49	**134**
Impairment losses	1	-	2	**3**
Amortisation expense for the reporting period	-	(33)	(26)	**(59)**
Net carrying amount as at Dec 31 2013, net of accumulated amortisation and impairment losses	**40**	**125**	**117**	**282**
As at Jan 1 2013				
Gross value	41	170	146	**357**
Accumulated amortisation and impairment losses	(2)	(97)	(54)	**(153)**
Net carrying amount as at Jan 1 2013	**39**	**73**	**92**	**204**
As at Dec 31 2013				
Gross value	41	254	196	**491**
Accumulated amortisation and impairment losses	(1)	(129)	(79)	**(209)**
Net carrying amount as at Dec 31 2013	**40**	**125**	**117**	**282**

* The Company also holds perpetual usufruct right to land obtained free of charge, which is disclosed exclusively as an off-balance-sheet item. As at December 31st 2013, the estimated value of the usufruct right was PLN 327.4m (end of 2012: PLN 339.9m).

** In this asset group the Company presents expenses incurred on licences, rights to geological information, and mining rights.

Dec 31 2012	Perpetual usufruct right to land – acquired for consideration**	Software	Other intangible assets**	**Total**
Net carrying amount as at Jan 1 2012, net of accumulated depreciation and impairment losses	35	56	68	**159**
Transfers from tangible assets under construction and between asset groups	4	45	47	**96**
Impairment losses	-	-	(8)	**(8)**
Amortisation expense for the reporting period	-	(28)	(15)	**(43)**
Net carrying amount as at Dec 31 2012, net of accumulated depreciation and impairment losses	**39**	**73**	**92**	**204**
As at Jan 1 2012				
Gross value	37	129	100	**266**
Accumulated amortisation and impairment losses	(2)	(73)	(32)	**(107)**
Net carrying amount as at Jan 1 2012	**35**	**56**	**68**	**159**
As at Dec 31 2012				
Gross value	41	170	146	**357**
Accumulated amortisation and impairment losses	(2)	(97)	(54)	**(153)**
Net carrying amount as at Dec 31 2012	**39**	**73**	**92**	**204**

* The Company also holds perpetual usufruct right to land obtained free of charge, which is disclosed exclusively as an off-balance-sheet item. As at December 31st 2012, the estimated value of the usufruct right was PLN 339.9m.

** In this asset group the Company presents expenses incurred on licences, rights to geological information, and mining rights.

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

As at December 31st 2013, the Company used property, plant and equipment under finance lease agreements worth PLN 70 thousand. In the comparative period, as at December 31st 2012, the Company did not use any property, plant and equipment under finance lease agreements.

12.2. Impairment losses on intangible assets

	Perpetual usufruct right to land – acquired for consideration	Other intangible assets*	**Total**
As at Jan 1 2013	1	8	**9**
Increase	-	1	**1**
Decrease	(1)	(3)	**(4)**
As at Dec 31 2013	**-**	**6**	**6**
As at Jan 1 2012	1	-	**1**
Increase	1	8	**9**
Decrease	(1)	-	**(1)**
As at Dec 31 2012	**1**	**8**	**9**

** In this asset group the Company presents impairment losses on licences, rights to geological information, and mining rights.

13 NON-CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

	Dec 31 2013	Dec 31 2012
Unlisted shares (gross)	9,872	8,902
Total, gross	**9,872**	**8,902**
Unlisted shares (net)*	7,796	7,246
Total, net	**7,796**	**7,246**

* Net of impairment losses.

The item "Unlisted shares" includes the Company's interest in POGC Libya BV and its additional contribution to POGC Libya BV's equity. As at December 31st 2013, the Company's equity interest in POGC Libya BV amounted to EUR 65.5m and USD 45.4m (PLN 271.7m and PLN 136.8m, respectively, translated at the exchange rates quoted by the NBP for December 31st 2013). In the Company's accounting books, the gross value of the shares as at December 31st 2013 was PLN 291.9m, and the amount of the additional contribution to equity was PLN 141.7m.

The Company determined the value of its interest in POGC Libya BV using the discounted cash flow method. Based on the valuation results, PGNiG S.A. increased the impairment loss recognised on the assets to PLN 433.6m as at December 31st 2013 (end of 2012: PLN 13.3m).

The Company also recognised a PLN 137m provision for licence obligations, to cover the outstanding obligations in Libya.

In 2013, POGC Libya BV completed preparatory work and began the first round of drilling, which consisted in drilling four exploration wells. The first exploratory well yielded a natural gas discovery, which was recognised by the company's Libyan partner – National Oil Corporation. The drilling and production tests on the second well ended in December 2013. Also in 2013, the company completed preparatory work on the third well, while second-stage 3D seismic surveys originally scheduled for 2013 were postponed for future years.

For 2014, POGC Libya BV plans to drill two new exploration wells as part of the drilling campaign which is already under way. In January 2014, given the political situation in Libya, all Polish employees of POGC-Libya B.V. and its contractors were withdrawn.

Any decision to continue the work will depend on the political developments in Libya.

In relation to a claim for payment enforced against PGNiG S.A. by Opal Finance Corporation Ltd under a final court order, a court bailiff levied a conservatory attachment (conservatoir beslag) on PGNiG S.A.'s interest in POGC Libya BV on the basis of a court's leave of November 28th 2012. Following the settlement between PGNiG S.A. and Opal Finance Corporation Ltd, the conservatory attachment at POGC Libya BV was lifted and claims relating to the attachment were withdrawn.

14 OTHER FINANCIAL ASSETS

	Dec 31 2013	Dec 31 2012
Finance lease receivables (Note 14.1.)	201	44
Loans advanced	4,461	5,729
Amounts receivable for sale of tangible assets	6	7
Total, gross	**4,668**	**5,780**
Total, net	**4,668**	**5,780**
Including net receivables from related entities	**4,663**	**5,774**

The item "Loans advanced" includes a loan granted by the Company to PGNiG SPV 1 Sp. z o.o. and taken over by PGNiG TERMIKA S.A. following the merger of the two companies.

As at December 31st 2013, the outstanding balance of the loan was PLN 1,508m (December 31st 2012: PLN 2,409m), including a non-current portion of 1,421m (December 31st 2012: PLN 2,124m) and a current portion of PLN 87m (December 31st 2012: PLN 285m).

14.1. Finance lease

Agreement between PGNiG S.A. and Wielkopolska Spółka Gazownictwa Sp. z o.o. (currently Polska Spółka Gazownictwa Sp. z o.o.)

PGNiG S.A. and its subsidiary, Wielkopolska Spółka Gazownictwa Sp. z o.o. (currently Polska Spółka Gazownictwa Sp. z o.o.), executed two lease agreements:

1. Agreement for the Lease of Gas Pipelines and Land in the Coastal Strip of October 27th 2011;
2. Agreement for the Lease of Gas Pipelines and Land from the Kościan Natural Gas Mine to KGHM Polkowice/Żukowice of March 1st 2013.

The agreements were executed for a term of 20 years and provide the lessee with an option to purchase the leased assets. In the case of the agreement of October 27th 2011, the value of the leased assets was determined based on a valuation prepared by an independent appraiser, whereas the value of the assets leased under the agreement of March 1st 2013 was measured at initial value, which was equal to their fair value.

Lease payments under the agreements comprise interest and principal. The interest portion is determined on a quarterly basis by reference to the 3M WIBOR rate effective as at the last day of the quarter preceding the quarter for which the lease payment is charged, plus a margin. The interest portion required to determine the monthly lease payments for the land throughout the lease term was set at a fixed rate based on the 3M WIBOR rate effective as at the agreement date.

Proceeds under the lease agreement:

	Dec 31 2013	Dec 31 2012
Interest payment	7	2
Principal payment	9	2
Total	**16**	**4**

The table below presents finance lease receivables by payment periods:

	Dec 31 2013	Dec 31 2012
- less than 1 year	11	3
- 1 to 5 years	45	10
- over 5 years	156	34
Total, including:	**212**	**47**
- current receivables	11	3
- non-current receivables	201	44

15 DEFERRED TAX ASSETS

	Dec 31 2013	Dec 31 2012
Obligations under length-of-service awards and severance	32	20
Provision for unused holiday entitlement	4	3
provision for well decommissioning costs	122	143
Provision for environmental liabilities	8	9
Other provisions	53	40
Impairment losses on tangible assets	99	66
Impairment losses on shares	5	11
Negative valuation of derivative financial instruments	38	87
Accrued interest on borrowings and liabilities	17	16
Other deferred tax assets	2	2
Total	**380**	**397**

16 OTHER NON-CURRENT ASSETS

	Dec 31 2013	Dec 31 2012
Connection charge	38	36
Commission fees paid on borrowings, notes and other debt instruments	2	7
Other non-current assets	4	4
Total	**44**	**47**

17 INVENTORIES

	Dec 31 2013	Dec 31 2012
Materials		
at cost, including:	2,699	2,417
- gas fuel	2,495	2,181
At net realisable value, including:	2,694	2,413
- gas fuel	2,495	2,181
Finished products		
At cost	11	13
At net realisable value	11	13
Merchandise		
At cost	2	1
At net realisable value	2	1
Total inventories at cost	**2,712**	**2,431**
Total inventories, at the lower of cost and net realisable value	**2,707**	**2,427**

17.1. Change in inventories in the period

	Dec 31 2013	Dec 31 2012
Inventories at cost, at beginning of the period	**2,431**	**1,901**
Purchase	18,884	20,617
Other increases	35	1
Inventories charged to expenses for the period	(17,626)	(19,380)
Sales	(638)	(74)
Effect of business combination	1	-
Other decreases	(375)	(634)
Inventories at cost, at end of the period	**2,712**	**2,431**
Impairment loss on inventories	**(5)**	**(4)**
Total net inventories at end of the period	**2,707**	**2,427**

17.2. Impairment losses on inventories

	Dec 31 2013	Dec 31 2012
Impairment losses – opening balance	(4)	(3)
Increase in impairment losses	(1)	(127)
Reversal of impairment losses	-	126
Impairment losses at end of the period	**(5)**	**(4)**

As the value of the gas inventories exceeded the selling price of gas, the Company recognised an impairment loss of PLN 127m in 2012. Following renegotiation of the contract with the main gas supplier, resulting in reduction of the purchase price, the impairment loss was reversed as at December 31st 2012.

18 TRADE AND OTHER RECEIVABLES

	Dec 31 2013	Dec 31 2012
Trade receivables	3,417	4,528
Trade receivables from related entities	13	83
VAT receivable	307	477
Other taxes, customs duties and social security receivable	21	7
Due and payable portion of loans advanced to related entities	325	523
Receivables from equity-accounted associated entities	4	4
Other receivables from related entities	1	101
Receivables from sale of property, plant and equipment, related	-	1
Prepayments for tangible assets under construction	6	3
Prepayments for tangible assets under construction, from related entities	2	1
Dividend receivable	-	11
Receivables under credit balance of the Company Social Benefits Fund	1	-
Receivables under court proceedings	18	-
Due and payable portion of loans advanced	23	-
Finance lease receivables, from related entities	11	-
Other receivables	101	232
Total gross receivables	**4,250**	**5,971**
Including gross receivables (including due and payable portion of a loan) from related entities	371	724
Impairment loss on doubtful receivables (Table 18.1)	**(555)**	**(786)**
Total net receivables	**3,695**	**5,185**
including:		
Trade receivables	3,005	4,078
Trade receivables from related entities	13	83
VAT receivable	307	477
Other taxes, customs duties and social security receivable	21	7
Due and payable portion of loans advanced to related entities	294	494
Receivables from equity-accounted associated entities	4	4
Other receivables from related entities	-	16
Receivables from sale of property, plant and equipment, related	-	1
Prepayments for tangible assets under construction	6	3
Prepayments for tangible assets under construction, from related entities	2	1
Dividend receivable	-	10
Receivables under credit balance of the Company Social Benefits Fund	1	-
Due and payable portion of loans advanced	23	-
Finance lease receivables, from related entities	11	-
Other receivables	8	11
Including net receivables (including due and payable portion of a loan) from related entities	323	609

The standard payment period for the receivables in the Company's ordinary course of business is 14 days.

18.1. Impairment losses on receivables

	Dec 31 2013	Dec 31 2012
Impairment loss – opening balance	(786)	(694)
Increase in impairment losses	(297)	(319)
Reversal of impairment losses	477	202
Use of impairment losses	51	25
Impairment losses at end of the period	**(555)**	**(786)**

19 CURRENT INCOME TAX

	Dec 31 2013	Dec 31 2012
Income tax payable at beginning of the period	**-**	**-**
Change in current tax assets (b-a)	(24)	19
a. Current tax assets at beginning of the period	24	5
b. Current tax assets at end of the period	-	24
Interest charged to profit or loss in the period	6	12
Corporate income tax (expense in the period)	450	347
Income tax paid in the period	(257)	(378)
Current income tax payable at end of the period	**175**	**-**

20 OTHER ASSETS

	Dec 31 2013	Dec 31 2012
Property insurance	7	3
Commission fees on borrowings, notes, etc.	4	8
Software licenses, maintenance and upgrades	2	3
Other current assets	5	4
Total	**18**	**18**

21 CURRENT FINANCIAL ASSETS AVAILABLE FOR SALE

As at the balance-sheet date and as at the end of the comparative period (December 31st 2012), the Company did not carry any current financial assets available for sale.

22 CASH AND CASH EQUIVALENTS

	Dec 31 2013	Dec 31 2012
Cash in hand and at banks	260	72
Bank deposits	1,399	970
Other cash	24	1
Total	**1,683**	**1,043**

In its bank accounts, the Company holds free cash for timely payment of liabilities towards trading partners and the state budget.

23 NON-CURRENT ASSETS HELD FOR SALE

The Company classified the following items as non-current assets held for sale:

Item (or group) of non-current assets	Expected disposal date	Carrying amount as at Dec 31 2013	Terms of disposal
Unlisted shares	2014	67	Request for proposal, public invitation to negotiate
Non-current assets	2014	1	Tender
Total		**68**	

Item (or group) of non-current assets	Expected disposal date	Carrying amount as at Dec 31 2012	Terms of disposal
Unlisted shares	2013	72	
Non-current assets	2013	1	tender
Total		**73**	

Under 'Assets held for sale', the Company presents shares in companies planned for disposal as part of the restructuring of the PGNiG Group's non-core businesses.

The Company reclassified, from non-current assets held for sale to assets available for sale, carrying amount of PLN 5.2m on account of shares in companies, which reduced the amount of the item from PLN 72m to PLN 67m.

24 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**

25 BORROWINGS AND DEBT SECURITIES

	Dec 31 2013	Dec 31 2012
Non-current	**4,432**	**4,390**
Borrowings	2,058	2,027
Debt securities	2,374	2,363
Current	**1,691**	**3,879**
Borrowings	80	79
Debt securities	1,611	3,800
Total	**6,123**	**8,269**

25.1. Borrowings

Dec 31 2013

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:	
				2014	2015-2019
EUR	4.064%	516	2,138	80	2,058
Total			**2,138**	**80**	**2,058**

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:	
				2013	2013-2017
EUR	4.064%	515	2,106	79	2,027
Total			**2,106**	**79**	**2,027**

25.2. Debt securities

Dec 31 2013

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:	
				2014	2015-2019
PLN	6M WIBOR+1.25%	2,469	2,469	95	2,374
PLN	3.80%	381	381	381	-
PLN	2.80%	571	571	571	-
PLN	2.76%	70	70	70	-
PLN	2.76%	10	10	10	-
PLN	2.75%	50	50	50	-
PLN	2.76%	10	10	10	-
PLN	2.78%	11	11	11	-
PLN	2.76%	10	10	10	-
PLN	2.74%	100	100	100	-
PLN	2.75%	50	50	50	-
PLN	2.80%	13	13	13	-
PLN	2.74%	30	30	30	-
PLN	2.75%	25	25	25	-
PLN	2.83%	5	5	5	-
PLN	2.80%	25	25	25	-
PLN	2.76%	50	50	50	-
PLN	2.79%	25	25	25	-
PLN	2.76%	50	50	50	-
PLN	2.86%	20	20	20	-
PLN	2.73%	10	10	10	-
Total			**3,985**	**1,611**	**2,374**

Dec 31 2012

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:	
				2013	2014-2018
PLN	1M WIBOR+1.15%	118	118	118	-
PLN	1M WIBOR+1.15%	182	182	182	-
PLN	1M WIBOR+1.15%	148	148	148	-
PLN	1M WIBOR+1.15%	229	229	229	-
PLN	1M WIBOR+1.15%	103	103	103	-
PLN	1M WIBOR+1.15%	159	159	159	-
PLN	1M WIBOR+1.15%	116	116	116	-
PLN	1M WIBOR+1.15%	179	179	179	-
PLN	1M WIBOR+1.15%	88	88	88	-
PLN	1M WIBOR+1.15%	138	138	138	-
PLN	1M WIBOR+1.15%	89	89	89	-
PLN	1M WIBOR+1.15%	138	138	138	-
PLN	1M WIBOR+1.15%	78	78	78	-
PLN	1M WIBOR+1.15%	124	124	124	-
PLN	1M WIBOR+1.15%	79	79	79	-
PLN	1M WIBOR+1.15%	123	123	123	-
PLN	1M WIBOR+1.15%	79	79	79	-
PLN	1M WIBOR+1.15%	123	123	123	-
PLN	6M WIBOR+1.25%	2,494	2,494	131	2,363
PLN	5.26%	50	50	50	-
PLN	5.38%	399	399	399	-
PLN	4.51%	328	328	328	-
PLN	4.48%	291	291	291	-
PLN	4.52%	96	96	96	-
PLN	5.09%	8	8	8	-
PLN	5.03%	11	11	11	-
PLN	4.95%	15	15	15	-
PLN	4.88%	20	20	20	-
PLN	4.72%	8	8	8	-
PLN	4.67%	50	50	50	-
PLN	4.65%	30	30	30	-
PLN	4.60%	20	20	20	-
PLN	4.61%	10	10	10	-
PLN	4.58%	40	40	40	-
Total			**6,163**	**3,800**	**2,363**

25.3. Credit facilities obtained and undrawn amounts

	Dec 31 2013	Dec 31 2012
Credit facilities obtained	250	280
Undrawn amounts	**250**	**280**

Credit facilities enhance the Company's current liquidity position.

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

As at December 31st 2013, the Company's finance lease liabilities were PLN 70 thousand (current portion: PLN 42 thousand; non-current portion PLN 28 thousand). As at December 31st 2012, the Company carried no liabilities under finance leases.

26 EMPLOYEE BENEFIT OBLIGATIONS

	Dec 31 2013	Dec 31 2012
Liabilities under length-of-service awards	145	47
Liabilities under severance	26	56
Wages and salaries payable	-	2
Amounts payable for unused holiday entitlement	22	17
Termination benefits	3	90
Annual bonus obligations	75	68
Total	**271**	**280**
Non-current as at Dec 31 2013	154	89
Current as at Dec 31 2013	117	191
	271	**280**

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).

In January 2013, the Company used the provision, recognised in 2012, for costs related to implementation of the Voluntary Termination Programme and the Employment Streamlining Programme.

The redundancy payments to the terminated employees are financed from the Central Restructuring Fund (CRF), described in detail in Note 40.1.

Pursuant to the agreement concluded between the PGNiG Management Board and the Union Coordination Committee, rules were established governing the introduction of an annual bonus in place of bonus from profit awarded in previous reporting periods. As at December 31st 2013, the Company recognised a provision for annual bonus.

Actuarial income statement for the provision for length-of-service awards and retirement severance pays

	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	47	67
Interest expense	1	1
Current service cost	7	2
Benefits paid	(19)	(19)
Actuarial gain/(loss)	102	(4)
Gain due to curtailments and settlements	7	-
Value of obligation shown in the statement of financial position at end of the period	**145**	**47**
Retirement severance		
Value of obligation shown in the statement of financial position at beginning of the period	56	58
Current service cost	1	2
Interest expense	1	1
Net actuarial gain/loss recognised during the reporting period	(34)	1
Benefits paid	(4)	(7)
Past service cost	-	1
Gain due to curtailments and settlements	6	-
Value of obligation shown in the statement of financial position at end of the period	**26**	**56**
Total value of obligation disclosed in the balance sheet at end of the period	**171**	**103**

The significant increase in length-of-service obligations and the decrease in retirement severance obligations result from the assumption that the retirement age is extended to the maximum of 67 years, and is reduced only for the employees with early retirement entitlement.

Analysis of sensitivity of the provision for length-of-service awards and retirement severance

Parameter as at Dec 31 2013	Length-of-service awards	Retirement severance
	(PLNm)	
Original provision amount	145	26
Discount rate +100 bps	134	24
Discount rate - 100 bps	156	29
Mortality tables +10 %	143	25
Mortality tables - 10 %	145	26
Duration	8%	10%

The sensitivity analysis shows that a 100 bps increase in the discount rate for 2013 causes the provision for length-of-service awards to fall by 7.0%, while a 100 bps decrease in the discount rate causes the provision for length-of-service awards to rise by 8.0% (9.6% and 11.4%, as appropriate, in the case of the provision for retirement severance). Both provisions are much less sensitive to change in the mortality rate. Its increase by 10% causes the provision for length-of-service awards to decrease by 0.6%, and the provision for retirement severance - by 1.3%. A 10% decrease in mortality rates results in the provisions growing by 0.6% and 1.4%, respectively.

Parameter as at Dec 31 2012	Length-of-service awards	Retirement severance
	(PLNm)	
Original provision amount	47	56
Discount rate +100 bps	46	54
Discount rate - 100 bps	49	58
Mortality tables +10 %	47	56
Mortality tables - 10 %	47	56
Duration	3.1%	3.7%

The sensitivity analysis shows that a 100 bps increase in the discount rate for 2012 causes the provision for length-of-service awards to fall by 2.6%, while a 100 bps decrease in the discount rate causes the provision for length-of-service awards to rise by 2.8%. The respective changes in the amount of provision for retirement severance are 3.5% and 3.7%. Both provisions are much less sensitive to change in the mortality rate. Its 10% increase causes them both to fall by 0.3%, while its 10% decrease results in an 0.3% increase in the provisions.

27 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 energy savings certificates	Provision for licence liabilities	Other	**Total**
As at Jan 1 2013	1,538	60	46	16	-	28	42	**1,730**
Provisions recognised	55	-	-	-	134	148	26	**363**
Provisions released	(459)	-	(5)	(1)	-	(22)	(17)	**(504)**
Currency translation differences	-	-	-	-	-	(1)	-	**(1)**
Effect of business combination	-	-	-	-	-	-	2	**2**
As at Dec 31 2013	**1,134**	**60**	**41**	**15**	**134**	**153**	**53**	**1,590**
Non-current as at Dec 31 2013	1,106	-	34	-	-	9	7	**1,156**
Current as at Dec 31 2013	28	60	7	15	134	144	46	**434**
	1,134	**60**	**41**	**15**	**134**	**153**	**53**	**1,590**
Non-current as at Dec 31 2012	1,513	-	41	-	-	10	12	**1,576**
Current as at Dec 31 2012	25	60	5	16	-	18	30	**154**
	1,538	**60**	**46**	**16**	**-**	**28**	**42**	**1,730**

With respect to costs of abandonment of wells, in 2013 the discount rate applied to calculate the provision for well decommissioning costs was 1.80%, 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 2.50% (as at the end of 2012, the adopted discount rate was 1.20%, as the resultant of 3.73% and 2.50%, respectively).
Long-term provisions are discounted at the rate of 1.80%.

For more information on the provision for the proceedings before the President of UOKiK, see Note 40.3.

For more information on the provision for energy savings certificates, see Note 2.3.15.4.

The provision for licence liabilities relates to foreign operations. Following an analysis of the capital invested in Libya and risks related to the project, as at December 31st 2013 the Company recognised a provision for outstanding licence liabilities. This item also includes provisions for licence liabilities due to the governments of Egypt and Pakistan.

28. DEFERRED INCOME

	Dec 31 2013	Dec 31 2012
Non-current		
Deferred income related to leased tangible assets	4	32
Connection charge	1	1
Grants	614	518
Other	2	8
Total non-current	**621**	**559**
Current		
Other	4	5
Total current	**4**	**5**

Grants

The Company executes projects co-financed by the European Union, aimed at increasing the capacities of gas storage facilities.

In 2013, the Company recognised a PLN 31.9m grant under financing of the Wierzchowice Underground Gas Storage Facility (December 31st 2012: PLN 226.3m), a PLN 49.9m grant under financing of the Kosakowo Underground Gas Storage Facility (December 31st 2012: PLN 43.9m), and a PLN 17.9m grant under financing of the Husów Underground Gas Storage Facility. In 2012, the Company received a PLN 34.2m grant for the financing of the Strachocina Underground Gas Storage Facility.

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.

29. DEFERRED TAX LIABILITIES

	Dec 31 2013	Dec 31 2012
Accrued interest	15	47
Valuation of derivative financial instruments, other financial assets, and financial liabilities	42	16
Income on tax obligation arising in subsequent month	3	16
Difference between tax and accounting value of non-current assets	532	542
Other	17	11
Total	**609**	**632**

30. OTHER NON-CURRENT LIABILITIES

	Dec 31 2013	Dec 31 2012
Liabilities under licences, rights to geological information and mining rights	51	41
Total	**51**	**41**

31. TRADE AND OTHER PAYABLES

	Dec 31 2013	Dec 31 2012
Trade payables to other entities	882	344
Trade payables to related entities	563	715
VAT payable	968	1 224
Other taxes, customs duties and social security payable	129	79
Amounts payable under purchase of non-financial non-current assets	56	94
Amounts payable under purchase of non-financial non-current assets from related entities	36	50
Amounts payable under purchase of exploration and evaluation assets	19	28
Amounts payable under purchase of exploration and evaluation assets from related entities	81	48
Additional contribution to equity payable under a relevant resolution	-	85
Amounts payable to equity-accounted associated and jointly-controlled entities	6	-
Other amounts payable to related entities	2	3
Accruals and deferred income and prepaid deliveries	92	74
Other liabilities	54	30
Total	**2,888**	**2,774**
Including related entities (Note 37.2.)	688	902

32. CAUSES OF DIFFERENCES BETWEEN CHANGES IN CERTAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION AND CHANGES IN THOSE ITEMS PRESENTED IN THE STATEMENT OF CASH FLOWS

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	1,044	935
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)	**1,043**	**936**
1) Cash in the statement of financial position at end of the period	1,685	1,044
a) Net exchange differences on cash at end of the period	(2)	(1)
Cash and cash equivalents in the statement of cash flows at end of the period (2+b)	**1,683**	**1,043**
I. Change in cash in the statement of financial position (2-1)	641	109
II. Change in net exchange differences on cash (b-a)	(1)	(2)
Change in cash in the statement of cash flows (I. + II.)	**640**	**107**

* Negative value means net foreign exchange losses on cash which reduce the cash balance in the statement of financial position. In the statement of cash flows, these foreign exchange differences are eliminated.

Change in receivables	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Change in other financial assets in the statement of financial position	**1,112**	**(2,878)**
Change in receivables in the statement of financial position	**1,478**	**(2,013)**
Change in lease receivables in financial assets – adjustment to investment activity	156	-
Change in lease receivables – adjustment to investment activity	8	-
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	(2)	(4)
Change in prepayments for property, plant and equipment	4	(1)
Due and payable portion of loans advanced	(1,446)	3,103
Dividend receivable	(11)	(4)
Other	-	(4)
Change in receivables in the statement of cash flows	**1,299**	**(1,801)**

Change in provisions	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Change in provisions in the statement of financial position	**(138)**	**486**
Change in provision for well decommissioning costs which adjusts property, plant and equipment – adjustment to investment activity	403	(420)
Change in provisions in the statement of cash flows	**265**	**66**

Change in current liabilities	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
		restated
Change in current liabilities in the statement of financial position	**114**	**114**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	28	47
Other	21	24
Change in current liabilities in the statement of cash flows	**163**	**185**

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	**3**	**(20)**
Change in other assets in the statement of financial position	**-**	**10**
Expense (fees and commission) related to the note issuance programme	(7)	(12)
Change in other assets in the statement of cash flows	**(4)**	**(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	**61**	**305**
Subsidies received for property, plant and equipment	(97)	(303)
Other	4	2
Change in deferred income in the statement of cash flows	**(40)**	**4**

Other items, net, under operating activity	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Derivative financial instruments	(385)	(2)
Written-down expenditure on non-financial non-current assets	156	97
Other items, net, under operating activity	13	84
Total	**(216)**	**179**

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

33.1. Financial instruments by category (net carrying amounts)

Dec 31 2013	Categories of financial instruments							
Classes of financial instruments	Financial assets available for sale	Financial assets at fair value through profit or loss	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	**7,796**	**223**	**9,707**	**-**	**-**	**84**	**11**	**17,821**
Unlisted shares	7,796	-	-	-	-	-	-	7,796
Trade and other receivables	-	-	3,356	-	-	-	11	3,367
Derivative financial instrument assets	-	223	-	-	-	84	-	307
Cash and cash equivalents	-	-	1,683	-	-	-	-	1,683
Other financial assets	-	-	4,668	-	-	-	-	4,668
Total financial liabilities	**-**	**-**	**-**	**76**	**7,965**	**47**	**-**	**8,088**
Borrowings	-	-	-	-	2,138	-	-	2,138
Debt securities	-	-	-	-	3,985	-	-	3,985
Trade payables	-	-	-	-	1,842	-	-	1,842
Derivative financial instrument liabilities	-	-	-	76	-	47	-	123

Dec 31 2012

Categories of financial instruments

Classes of financial instruments	Financial assets available for sale	Financial assets at fair value through profit or loss	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	**7,263**	**88**	**11,500**	**-**	**-**	**17**	**3**	**18,875**
Unlisted shares	7,246	-	-	-	-	-	-	7,246
Trade and other receivables	-	-	4,698	-	-	-	3	4,701
Derivative financial instrument assets	-	88	-	-	-	17	-	105
Cash and cash equivalents	-	-	1,043	-	-	-	-	1,043
Other financial assets	-	-	5,780	-	-	-	-	5,780
Total financial liabilities	**-**	**-**	**-**	**317**	**9,769**	**76**	**-**	**10,173**
Borrowings	-	-	-	-	2,106	-	-	2,106
Debt securities	-	-	-	-	6,163	-	-	6,163
Trade payables	-	-	-	-	1,512	-	-	1,512
Derivative financial instrument liabilities	-	-	-	317	-	76	-	393

33.2. Fair value of financial instruments

	Dec 31 2013		Dec 31 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Total financial assets	**17,821**	**10,025**	**18,875**	**11,629**
Unlisted shares*	7,796	-	7,246	-
Trade and other receivables**	3,367	3,367	4,701	4,701
Derivative financial instrument assets***	307	307	105	105
Cash and cash equivalents**	1,683	1,683	1,043	1,043
Other financial assets**	4,668	4,668	5,780	5,780
Total financial liabilities	**8,088**	**8,088**	**10,174**	**10,174**
Borrowings**	2,138	2,138	2,106	2,106
Debt securities**	3,985	3,985	6,163	6,163
Trade payables**	1,842	1,842	1,512	1,512
Derivative financial instrument liabilities***	123	123	393	393

*The Company is unable to make a reliable estimate of the fair value of its shareholdings in unlisted companies, classified as financial assets available for sale. In its annual statement of financial position, such assets are measured at cost less impairment losses.
** The disclosed values of financial instruments are equal or nearly equal to their respective fair values. The values disclosed in the table above are deemed identical to the respective fair values.
*** At fair value.

33.3. Items of income, expenses, profit and loss related to financial assets and liabilities

	Jan 1–Dec 31 2013	Jan 1–Dec 31 2012
Total effect on net profit/loss, including:	**(432)**	**(30)**
Financial assets available for sale	(420)	(13)
Impairment recognised in profit or loss for the reporting period	(420)	(13)
Financial assets and financial liabilities at fair value through profit or loss	141	92
Loans and receivables	129	261
Interest on deposits	36	31
Interest on receivables	55	41
Interest on loans advanced	268	262
Impairment losses on receivables	80	(10)
Impairment losses on loans	(2)	(1)
Foreign currency measurement of loans advanced in foreign currencies	(308)	(62)
Financial liabilities at amortised cost	(235)	(172)
Derivative financial instruments	(53)	(200)
Assets and liabilities excluded from the scope of IAS 39	6	2
Total effect on other comprehensive income, net, including:	**72**	**(249)**
Derivative financial instruments	72	(249)
Total effect on comprehensive income	**(360)**	**(279)**

33.4. Fair value hierarchy

	Dec 31 2013	Dec 31 2012
Classes of financial instruments	level 2	level 2
Derivative financial instrument assets	307	105
Derivative financial instrument liabilities	**123**	**393**

33.5. Objectives and policies of financial risk management

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

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

<u>Credit risk</u>

Credit risk is defined as the likelihood of failure by the Company's counterparty to meet its obligations on time or failure to meet such obligations at all. The credit risk resulting from a third party's inability to perform its obligations under a contract concerning financial instruments is generally limited to the amounts, if any, by which the third party's liabilities exceed the Company's liabilities. As a rule, the Company 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 market shares and reputation.

The Company is exposed to credit risk under:

- trade receivables,
- investment transactions,
- loans advanced,
- transactions in financial derivatives.

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

Maximum exposure to credit risk

	Dec 31 2013	Dec 31 2012
Deposits	1,398	970
Trade and other receivables	3,257	4,260
Loans advanced	4,755	6,227
Positive value of derivative financial instruments	307	105
Total	**9,717**	**11,562**

The Company identifies, measures and minimises its credit exposure to individual banks with which it places its funds. As at December 31st 2013, its credit exposure under deposits and investment transactions amounted to PLN 1,398m.

The credit exposure was reduced through diversification of the portfolio of counterparties (mainly banks) with which the Company places its funds. Moreover, the Company has 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 table below presents the list of banks with which the Company executed ISDA (International Swaps and Derivatives Association) agreements or Polish Master Agreements prepared in accordance with the guidelines of the Polish Banks Association (PMA).

Bank	**Agreement/ transaction types**
BH	PMA/all transactions
Barclays Bank plc	ISDA/all transactions
BNP Paribas	ISDA/all transactions
mBank S.A.	PMA/all transactions (excluding commodity transactions)
BZ WBK S.A.	PMA/all transactions
CA-CIB	ISDA/all transactions
Credit Suisse	ISDA/all transactions
DB Polska S.A.	PMA/all transactions
DB AG	ISDA/all transactions
GDF Suez Trading	ISDA/all transactions
Goldman Sachs	ISDA/all transactions
HSBC Bank Polska S.A.	PMA/all transactions
ING Bank NV	PMA/all transactions
Mitsubishi UFJ Securities Int. plc	ISDA/all transactions
Morgan Stanley	ISDA/all transactions
Millennium Bank Polska S.A.	PMA/all transactions
Natixis	ISDA/all transactions
Nordea Bank Finland plc	ISDA/all transactions
Pekao S.A.	PMA/all transactions
PKO BP S.A.	PMA/all transactions
SG Bank	ISDA/all transactions
SMBC Capital Markets, Inc.	ISDA/all transactions

The table below presents EFET (European Federation of Energy Trades) agreements

Counterparty	Agreement type	Subject matter	Transaction type
3 Wings Sp. z o.o.	EFET Master Agreement	sale/purchase of electricity	electricity trading
Alpiq Energy SE Spółka Europejska Polish Branch - Warsaw	EFET Master Agreement	sale/purchase of electricity	electricity trading
Duon Marketing &Trading S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
Elektrim-Volt S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
ENEA S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
ENERGA-OBRÓT S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
Fortum Power and Heat Polska Sp. z o.o.	EFET Master Agreement	sale/purchase of electricity	electricity trading
Elektrownią Połaniec Spółka Akcyjna – Grupa GDF SUEZ Energia Polska S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
IDEON S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
KOPEX S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
PGE ELECTRA S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
PGNiG Termika S.A. Warsaw	EFET Master Agreement	sale/purchase of electricity	electricity trading
PKP Energetyka S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
RWE Polska S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
Tauron Polska Energia	EFET Master Agreement	sale/purchase of electricity	electricity trading
Zomar S.A.	EFET Master Agreement	sale/purchase of electricity	electricity trading
EDF Trading Ltd	EFET Master Agreement	sale/purchase of electricity	electricity trading
PGNiG Sales & Trading GmbH	EFET Master Agreement	sale/purchase of electricity	electricity trading
Danske Commodities A/S	EFET Master Agreement	sale/purchase of electricity	electricity trading
GDF Suez Trading	EFET Master Agreement	sale/purchase of electricity	electricity trading
EDF Energia Sp. z o.o.	EFET Master Agreement	sale/purchase of electricity	electricity trading
Enea Trading Sp. z o.o.	EFET Master Agreement	sale/purchase of electricity	electricity trading
Repower Trading Ceska republika r.s.o	EFET Master Agreement	sale/purchase of electricity	electricity trading

EFET agreements - continued

Counterparty	Agreement type	Subject matter	Transaction type
PGNiG Sales&Trading GmbH	EFET Master Agreement	sale/purchase of natural gas	gas trading
RWE Supply & Trading GmbH	EFET Master Agreement	sale/purchase of natural gas	gas trading
Vitol S.A.	EFET Master Agreement	sale/purchase of natural gas	gas trading
GDF Suez Trading	EFET Master Agreement	sale/purchase of natural gas	gas trading
TGE	one-off agreement	exchange membership	trade in gas, electricity and property rights
ICE FUTURES EUROPE - London	one-off agreement	exchange membership	CO2 emission allowance trading
EPEX SPOT SE - Paris	one-off agreement	exchange membership	electricity trading
European Energy Exchange (EEX)	one-off agreement	exchange membership	trade in electricity, gas and CO2 emission allowances

The Company 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.

Exposure to credit risk under loans advanced arises in connection with loans advanced to entities in which the Company holds equity interests. As at December 31st 2013, the related exposure was PLN 4,755m.

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 Company's exposure to credit risk under such agreements. Loans are advanced only if the borrower meets a number of conditions and provides appropriate security. The credit risk under such agreements is further materially mitigated by the fact that the subsidiaries' operations serve the Group's common interests.

Material credit risk (in value terms) is related to receivables, mainly receivables under gas fuel sales, as well as electricity and related products sales, including carbon credits, and certificates of origin for electricity. In order to minimise the risk of uncollectible receivables, uniform rules designed to secure trade receivables are in place and must be observed while concluding sale 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 term is 14 days from the invoice issue 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 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 past due receivables not impaired, as disclosed in the Company's statement of financial position, was PLN 331m (PLN 584m at the end of 2012).

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

Delay	Dec 31 2013	Dec 31 2012
Up to 1 month	263	513
From 1 to 3 months	48	53
From 3 months to 1 year	16	14
from 1 to 5 years	4	3
over 5 years		1
Total net past due receivables	**331**	**584**

Following the merger with PGNiG Energia S.A. in July 2013, PGNiG S.A. (by establishing the Wholesale Trading Division) took over trading relations with partners purchasing electricity and related products, including carbon credits, and certificates of origin for electricity. Accordingly, the 'Policy of Financial Risk Management at the Wholesale Trading Division of PGNiG S.A. for trading in electricity and related products' and 'Credit Risk Management Procedure for the Wholesale Trading Division of PGNiG S.A. for trading in electricity and related products' were implemented at the Company.

In line with the procedures, the trading partners' creditworthiness is evaluated based on the data sourced from their financial statements. Depending on the established scores, trading limits for electricity and related products are set for individual wholesale partners. If a trading partner is classified to the higher credit risk group, additional collateral (e.g. bank guarantees) is required. The Company monitors credit risk under outstanding trading contracts on an ongoing basis by analysing and reporting on credit exposures.

The exposure to credit risk under financial derivatives is equal to net carrying amount of the positive valuation of the derivatives (at fair value), and at December 31st 2013 stood at PLN 307.3m. As in the case of investment transactions, transactions in financial derivatives are executed with most reputable banks with high credit ratings. The Company has also concluded either Framework Agreements or ISDA Agreements with each of relationship bank, stipulating detailed terms of service and limits of maximum exposure.

The Company 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 Company's financial performance or will be adversely affected by changes in the financial and commodity markets.

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

- foreign exchange risk,
- interest rate risk,
- commodity risk (gas, oil, and electricity prices).

Currency risk

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

A vast majority of the long-term portion of the Company's financial receivables in 2013 was denominated in NOK – as at December 31st 2013, it consisted of a NOK 5,139m loan advanced to PGNiG Upstream International AS (formerly: PGNiG Norway AS), repayable by December 20th 2021.

The related currency risk was hedged with 25 CCIRS transactions. The transactions fully hedge the risk until 2017.

On February 10th 2012, PGNiG Finance AB of Sweden, a subsidiary, issued fixed-coupon eurobonds for an amount of EUR 500m, maturing on February 14th 2017. On February 15th 2012, the proceeds were advanced to PGNiG S.A. as an on-loan. The related currency risk was fully hedged with seven CCIRS transactions until the eurobonds redemption date.

Trade payables under long-term contracts for gas deliveries are denominated in the US dollar and the euro.

The hedging measures implemented by the Company are mainly intended to provide protection against the currency risk accompanying payments settled in foreign currencies. To hedge its trade payables, the Company used call options, option strategies and forward transactions.

Interest rate risk

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

As at December 31st 2013, major interest rate risk was generated by the loan advanced to PGNiG Upstream International AS and PGNiG Termika S.A., as well as the outstanding eurobonds. The interest rate risk resulting from the loans was hedged with a series of CCIRS and IRS transactions. The transactions fully hedge the risk until 2018. The interest rate risk arising under the eurobonds was fully hedged with seven CCIRS transactions. As a result of the CCIRS and IRS transactions, the Company switched to variable interest rates in PLN, and thus hedged against changes in exchange rates; both the financing received and the financing advanced are based on variable rates in PLN; both positions offset each other to a significant extent.

The other advanced loans were not a source of any material interest rate risk.

In addition, as at December 31st 2013, the Company had outstanding notes issued to investors in Poland for PLN 3,457.2m and intragroup notes for PLN 564m. Given the short maturities of the notes and the periodic updating of the interest rates, the related interest rate risk is immaterial to the Company.

Market risk (including currency and interest rate risk) is assessed by the Company on a daily basis, by monitoring VaR. VaR 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. VaR is estimated based on the variance–covariance approach, using the Mondrian application and the SAP system.

Commodity risk

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

The price risk to which the Company is exposed in connection with its contracts for gas 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 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 Company also trades on foreign markets. The Company actively manages its exposure to commodity risk using implemented VaR measures and IT tools. VaR values are measured and VaR limits are set to limit the potential losses related to the Company's exposure to commodity risk. VaR values, as well as the current use of limits, are generated automatically by an IT system, monitored on an ongoing basis by dedicated units, and reported according to the relevant internal regulations.

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%.

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

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 Company. An equally serious threat is that of having excess structural liquidity, which could adversely affect the Company’s profitability.

The Company monitors and plans its liquidity position on a continuous basis. As part of its strategy to hedge against liquidity risk, PGNiG S.A. has executed credit facility agreements with the following banks:

Societe Generale S.A. Polish Branch – for PLN 40m,

Bank Handlowy w Warszawie S.A. – for PLN 40m,

Bank Pekao S.A. – for PLN 10m,

Nordea Bank Polska S.A. – for PLN 40m,

Bank Millennium S.A. – for PLN 40m,

mBank Bank S.A. – for PLN 40m,

ING Bank Śląski S.A. – for PLN 40m.

As at December 31st 2013, PGNiG did not carry any amounts outstanding under overdraft facilities.

In order to optimise cash management processes at the Group level, on December 1st 2010 PGNiG S.A. also concluded with Bank Handlowy w Warszawie S.A. a short-term note issuance programme agreement for a total amount of PLN 397.3m. Under an annex of June 1st 2011, the value of the programme was raised to PLN 1,000m. The agreement is valid until November 30th 2015. Under the programme, PGNiG S.A. issues short-term discount notes for its “excessively liquid” distribution companies.

The nominal value of debt under notes acquired by the Group companies was PLN 564m as at December 31st 2013.

To enhance its liquidity, on June 10th 2010 the Company executed a note programme agreement, which originally involved 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), for a total amount of PLN 3,000m. Under the programme, the Company may issue discount or coupon notes with maturities ranging from 1 to 12 months. On July 21st 2011, an annex to the programme agreement was signed, whereby the available financing amount was raised to PLN 5,000m and the agreement term was extended from July 31st 2013 to July 31st 2015. Another annex was signed on November 25th 2011, whereby the programme amount was raised to PLN 7,000m, and three banks (BRE Bank S.A., Bank Zachodni WBK S.A., and Nordea Bank Polska S.A.) joined the programme. The programme's objective is to satisfy PGNiG S.A.'s general liquidity needs, also related to execution of investment projects. As at December 31st 2013, PGNiG did not carry any amounts outstanding under issue of corporate bonds.

On February 10th 2012, PGNiG Finance AB (a subsidiary of PGNiG S.A.) issued the first, EUR500m tranche of five-year eurobonds at a fixed coupon of 4% p.a. The notes were issued under a five-year EUR 1.2bn eurobond programme executed on August 25th 2011. The issue proceeds were used to advance a loan to PGNiG S.A. bearing interest at 4.064% p.a.

In May 2012, PGNiG S.A. executed transaction documentation for a note programme for investors in Poland, totalling PLN 4,500m. The first, PLN 2,500m tranche of five-year notes was issued on June 19th 2012. The nominal value of debt under the notes was PLN 3,457.2m as at December 31st 2013.

The liquidity risk is significantly mitigated through the application of the PGNiG S.A. Liquidity Management Procedure. This procedure is used by all organisational units of the Company. It offers a systematised set of measures designed to ensure proper liquidity management through the 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.

Liquidity risk is assessed through ongoing detailed measurement of liquidity by monitoring of cash flows.

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 debt securities	Other non-current liabilities, trade and other payables*	Total expenditure
up to 1 year	1,691	1,791	3,482
from 1 to 5 years	4,432	47	4,479
over 5 years	-	4	4
Total	**6,123**	**1,842**	**7,965**

Dec 31 2012	Liabilities under borrowings and debt securities	Other non-current liabilities, trade and other payables*	Total expenditure
up to 1 year	3,879	1,471	5,350
from 1 to 5 years	4,390	36	4,426
over 5 years	-	5	5
Total	**8,269**	**1,512**	**9,781**

*Does not include VAT payable or other taxes, customs duties and social security payable.

Derivative financial instruments by maturity

	Net carrying amount as at Dec 31 2013*	**Contractual cash flows, including:**	**up to 1 year**	**from 1 to 5 years**
- interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	161	**(48)**	(10)	(38)
- inflows		10,390	5,032	5,358
- outflows		(10,438)	(5,042)	(5,396)
- forward contracts	(31)	(28)	(28)	
- inflows		1,353	1,351	2
- outflows		(1,381)	(1,379)	(2)
- currency options	12			
- inflows				
- outflows				
- commodity options	41	(1)	(1)	
- inflows		16	16	
- outflows		(17)	(17)	
Total	**183**	**(77)**	**(39)**	**(38)**

	Net carrying amount as at Dec 31 2012	**Contractual cash flows, including:**	**up to 1 year**	**from 1 to 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)	(84)	(84)	-
- inflows	-	1,697	1,697	-
- outflows	-	(1,781)	(1,781)	-
- currency options	5	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
- commodity options	15	-	-	-
- inflows				
- outflows	-	-	-	-
Total	**(288)**	**(566)**	**(108)**	**(458)**

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

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

Risk management policy

To ensure effective financial risk management, on February 17th 2003 the Company's Management Board implemented the 'Policy of Financial Risk Management at PGNiG S.A.' (the document was further amended), which defines the distribution of functions and responsibilities between individual organisational units of the Company in the process of managing and monitoring the financial risk.

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

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

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

Sensitivity analysis

To determine a reasonable range of changes which may occur with respect to currency or interest rate risks, the Company assumed an (implied) market volatility level for semi-annual periods, i.e. an average change of 10% as at the end of December 2013 for the analysis of exchange rate sensitivity (15% as at the end of December 2012), 100bp for the analysis of interest rate sensitivity (as at December 31st 2012, also 100bp) and 15% for energy commodity derivatives (25% as at December 31st 2012). The half-year period reflects the frequency with which the Company 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 22m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 10%, ceteris paribus (net profit decrease of PLN 51m due to stronger NOK, increase of PLN 58m due to stronger USD, and increase of PLN 2m due to stronger EUR). A lower profit is mainly attributable to an increase in the negative portion of the fair value of financial derivatives (negative fair value of CCIRS transactions in NOK), which to a large extent was offset by the increase in the valuation of the NOK-denominated loan contracted by PGNiG Upstream International AS. An increase in foreign exchange losses from valuation of the Euronotes in EUR was offset by an increase in the positive portion of the fair value of CCIRS financial derivatives for EUR.

The profit was affected by the increase in amounts of cash and cash equivalents in bank accounts and of USD-denominated derivative financial instruments assets.

As at December 31st 2013, the net profit would have been higher by PLN 17m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 10%, ceteris paribus (loss of PLN 23m on the back of weaker USD, and PLN 11m due to weaker EUR vs. profit of PLN 51m due to depreciation of NOK). 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 CCIRS transactions in NOK), which to a large extent was offset by the decrease in the valuation of the NOK-denominated loan contracted by PGNiG Upstream International AS. An increase in foreign exchange gains from valuation of the Euronotes in EUR was offset by an increase in the negative portion of the fair value of CCIRS financial derivatives for EUR.

The positive result was affected by the decrease in amounts of cash and cash equivalents in bank accounts and of USD-denominated derivative financial instruments assets.

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 higher by PLN 6m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 15%, ceteris paribus (loss of PLN 410m due to stronger NOK vs. profit of PLN 127m on the back of stronger USD, PLN 289m due to stronger EUR and PLN 0.5m due to strengthening of other currencies). Higher profit would be mainly attributable to an increase in positive valuation of USD- and EUR-denominated derivatives hedging trade payables. The result on NOK is driven down by a slightly negative balance of negative valuation of derivatives hedging the loan advanced to PGNiG Upstream International AS (formerly: PGNiG Norway AS), a subsidiary, and positive exchange differences on valuation of the loan.

As at December 31st 2012, the net profit would have been lower by PLN 6m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 15%, ceteris paribus (profit of PLN 410m on the back of weaker NOK vs. loss of PLN 125m due to weaker USD, PLN 291m due to depreciation of EUR, and PLN 0.5m due to weakening of other currencies). The decrease in profit would be attributable to the lower value of EUR-denominated liabilities, which in most part are hedged with derivatives with a straight-line payoff profile, which in turn would increase their effective portion recognised in equity and concurrently reduce the effect on profit or loss. The match of hedging instruments with hedged items (chiefly including the NOK-denominated loan under assets and USD-denominated trade payables) results in the fact that a decrease in NOK/PLN and USD/PLN exchange rates would not have a material bearing on profit or loss. This stems from the fact that the Company, as a major importer of gas fuel, hedges its position against appreciation of USD. In the case of NOK, an increase in positive valuation of NOK-related derivatives would be higher than an increase in negative NOK/PLN exchange differences on revaluation of the NOK-denominated loan advanced to PGNiG Upstream International AS, a subsidiary, (formerly: PGNiG Norway AS).

Detailed results of the analysis of sensitivity of financial instruments to exchange rate fluctuations for 2013 and 2012 are presented on the following pages.

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

	Net carrying amount as at Dec 31 2013	**Currency risk**							
	Exchange rate change by:	*10%*				*-10%*			
		for EUR	*for USD*	*for NOK*	*for other currencies*	*for EUR*	*for USD*	*for NOK*	*for other currencies*
Financial assets									
Financial assets available for sale**	9	1	-	-	-	(1)	-	-	-
Trade and other receivables	112		10	-	-		(10)	-	-
Loans advanced	2,646			265				(265)	
Derivative financial instruments*	220	230	15	-	-	-	-	329	-
Cash and cash equivalents	591	1	57		-	(1)	(57)		-
Effect on financial assets before tax		**232**	**82**	**265**	**-**	**(2)**	**(68)**	**64**	**-**
19% tax		(44)	(16)	(49)	-		13	(13)	-
Effect on financial assets after tax		**188**	**67**	**215**	**-**	**(2)**	**(55)**	**51**	**-**
Total currencies					***471***				***(6)***
Financial liabilities									
Trade and other payables	655	16	49	-	-	(16)	(49)	-	-
Borrowings and other debt instruments	2,139	214				(214)			
Derivative financial instrument liabilities	70	-	-	329	-	241	10	-	-
Effect on financial liabilities before tax		**230**	**49**	**329**	**-**	**11**	**(39)**	**-**	**-**
19% tax		(44)	(9)	(62)	-	(2)	7	-	-
Effect on financial liabilities after tax		**186**	**40**	**267**	**-**	**9**	**(31)**	**-**	**-**
Total currencies					***493***				***(23)***
Total increase/decrease		2	27	(51)	-	(11)	(23)	51	-
Total currencies					**(22)**				**17**

* In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on profit or loss. In connection with the use of 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.

** Includes shares 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.

	Net carrying amount as at Dec 31 2012	Currency risk							
	Exchange rate change by:	*15%*				*-15%*			
		for EUR	*for USD*	*for NOK*	*for other currencies*	*for EUR*	*for USD*	*for NOK*	*for other currencies*
Financial assets									
Financial assets available for sale**	3	-	-	-	-	-	-	-	-
Trade and other receivables	949	1	141	-	-	(1)	(141)	-	-
Derivative financial instruments*	90	357	5	-	-	-	-	507	-
Cash and cash equivalents	106	3	12	1	-	(3)	(12)	(1)	-
Effect on financial assets before tax		**361**	**158**	**1**	**-**	**(4)**	**(153)**	**506**	**-**
19% tax		(68)	(30)	-	-	1	29	(96)	-
Effect on financial assets after tax		**293**	**128**	**1**	**-**	**(3)**	**(124)**	**410**	**-**
Total currencies		*422*				*283*			
Financial liabilities									
Trade and other payables	44	5	1	-	-	(5)	(1)	-	-
Derivative financial instrument liabilities	393	-	-	507	-	361	2	-	-
Effect on financial liabilities before tax		**5**	**1**	**507**	**-**	**356**	**1**	**-**	**-**
19% tax		(1)	-	(96)	-	(68)	-	-	-
Effect on financial liabilities after tax		**4**	**1**	**411**	**-**	**288**	**1**	**-**	**-**
Total currencies		*416*				*289*			
Total increase/decrease		289	127	(410)	-	(291)	(125)	410	-
Total currencies		**6**				**(6)**			
Exchange rates as at the end of the reporting period and their change:									

* In the case of financial derivatives, the table presents only the effect of exchange rate fluctuations on profit or loss. In connection with the use of 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.

** Includes shares 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.

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

	Dec 31 2013			
Exchange rate	*for EUR*	*for USD*	*for EUR*	*for USD*
Exchange rate change by:	10%		-10%	
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			
Exchange rate	*for EUR*	*for USD*	*for EUR*	*for USD*
Exchange rate change by:	15%		-15%	
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 fact that the Company uses derivative instruments whose valuation in the effective portion is charged to equity in order to hedge against an increase in USD- and EUR-denominated liabilities and expenses related to gas purchases.

Exchange rates as at the end of the reporting period and their change:

	exchange rate as at December 31st 2013	**10%**	**(10%)**
EUR/PLN	4.1472	4.5619	3.7325
USD/PLN	3.0120	3.3132	2.7108
NOK/PLN	0.4953	0.5448	0.4458

	exchange rate as at December 31st 2012	**15%**	**(15%)**
EUR/PLN	4.0882	4.7014	3.4750
USD/PLN	3.0996	3.5645	2.6347
NOK/PLN	0.5552	0.6385	0.4719

The Company has 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

	Net carrying amount as at Dec 31 2013	**Price risk**									
	Price change by:	*15%*					*-15%*				
		Gasoil	Fuel oil	TTF	Electricity	TGE Gas	Gasoil	Fuel oil	TTF	Electricity	TGE Gas
Financial assets											
Energy commodity derivative assets	87	(2)	3	(19)	1	(21)	-	-			
Effect on financial assets before tax		(2)	3	(19)	1	(21)	**-**	**-**			
19% tax		0	(1)	4	0	4	-	-			
Effect on financial assets after tax		(2)	2	(15)	1	(17)	**-**	**-**			
Total commodities				***(31)***							
Financial liabilities											
Energy commodity derivative liabilities	30	-	-				5	4	22	1	(21)
Effect on financial liabilities before tax		**-**	**-**				**5**	**4**	**22**	**1**	**(21)**
19% tax		-	-				(1)	(1)	(4)	-	4
Effect on financial liabilities after tax		**-**	**-**				**4**	**3**	**18**	**1**	**(17)**
Total commodities									***9***		
Total increase/decrease		(2)	2	(15)	1	(17)	(4)	(3)	(18)	(1)	17
Total commodities				***(31)***					***(9)***		

	Net carrying amount as at Dec 31 2012	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 directly equity.

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**	**TTF**	**Gasoil**	**Fuel oil**	**TTF**
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 changes in prices of energy commodity derivatives, charged to equity and presented in the table below, shows that a 15% increase (25% increase for 2012) in prices of energy commodity derivatives would increase equity through other comprehensive income. A 15% decline in the prices (25% in 2012) would reduce equity. This is due to the fact that the Company uses derivatives whose valuation in the effective portion is charged to equity in order to hedge against an increase in prices of energy commodities, which are the largest cost item in the Company's income statement.

The Company analysed the sensitivity of financial instruments under advanced loans, contracted borrowings, notes in issue and variable-rate lease liabilities to interest rate changes of +/-100 bp for 2013 (2012: +/-100 bp).

As at December 31st 2013, the sensitivity of loans advanced to interest rate changes of +/-100 basis points was PLN +/- 32m. The sensitivity to interest rate changes of +/-100 bp of liabilities under borrowings, notes in issue and variable-rate lease liabilities was +/- PLN 61m.

As at December 31st 2012, the sensitivity of loans advanced to interest rate changes of +/-100 basis points was PLN +/- 29m. The sensitivity to interest rate changes of +/-100 bp of liabilities under borrowings, notes in issue and variable-rate lease liabilities was +/- PLN 83m.

Sensitivity of derivative financial instruments to interest rate changes

	Net carrying amount	*Change by:*	
	As at Dec 31 2013	**+100 bp**	**-100 bp**
Loans advanced	3 247	32	(32)
Total effect of loans		**32**	**(32)**
Borrowings and other debt instruments	2 139	21	(21)
Notes issued	3 984	40	(40)
Total effect of liabilities		**61**	**(61)**
Total effect		**(29)**	**29**

	Net carrying amount	*Change by:*	
	As at Dec 31 2012	**+100 bp**	**-100 bp**
Loans advanced	2 949	29	(29)
Total effect of loans		**29**	**(29)**
Borrowings and other debt instruments	2 106	21	(21)
Notes issued	6 163	62	(62)
Total effect of liabilities		**83**	**(83)**
Total effect		**(54)**	**54**

The analysis of derivative financial instruments' sensitivity to interest rate fluctuations does not cover the fixed-rate loan advanced to PGNiG Termika S.A. The fixed interest rate was changed to a variable interest rate in an interest rate swaps (IRS) transaction. Both instruments (the loan and the IRS transaction) were covered by fair value hedge accounting. As the used hedging instrument (IRS) and its hedged item (loan) have largely similar characteristics, the effects of the change on the fair value of the hedged instrument and the change in the fair value of the hedging instrument balance each other out, i.e. have no effect on the financial performance of the Company and are therefore excluded from the above analysis.

34. DERIVATIVE FINANCIAL INSTRUMENTS

<u>Measurement of derivative financial instruments</u>

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

As at December 31st 2013, the Company held five types of currency derivatives: cross currency interest rate swaps (CCIRS), interest rate swaps (IRS), purchased call options, purchased currency forwards settled based on the difference to the average price in a period, and purchased and sold current forwards. In 2013, the Company 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.

Measurement to fair value was performed with the use of Exante software.

Currency call options were measured at fair value with the Garman-Kohlhagen model, based on such market data as interest rates, foreign-exchange rates and volatility as at December 31st 2013. Asian commodity call and put options were measured at fair value with the Espen Levy model, based on such market data as commodity prices, foreign-exchange rates and volatility of commodity prices as at December 31st 2013. CCIRS, IRS, forwards, and average rate forwards were measured at fair value by discounting future cash flows at foreign-exchange rates and interest rates as at December 31st 2013.

Hedge accounting

The Company uses cash flow hedge accounting with respect to transactions hedging payments for gas and with respect to transactions hedging gas prices.

For details, see Note 2.3.10.

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

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

Currency hedging instruments designated for hedge accounting are the following:

- purchased European call options for the USD/PLN and EUR/PLN exchange rates;
- zero-cost option structures (collars) involving a combination of purchased European call options and issued European put options for the EUR/PLN and USD/PLN exchange rates with the identical face values as purchased forward contracts for the USD/PLN and EUR/PLN exchange rates;
- purchased swaps/average rate forwards for EUR/PLN exchange rates;
- purchased Asian call options for EUR/PLN exchange rates;
- zero-cost option structures (collars) involving a combination of purchased Asian call options and issued European put options for the EUR/PLN exchange rate with the identical face value.

Commodity hedging instruments designated for hedge accounting with Gasoil 0.1%, Fuel Oil 1% Barges FOB Rotterdam (Platt's), and TTF Month Ahead (Argus) as their underlying indices, are the following:

- purchased swaps (buy fix/sell float)
- purchased Asian commodity call options
- zero-cost option structures involving a combination of purchased Asian commodity call options and sold Asian commodity put options

Changes in the fair value of financial derivatives designated to hedge cash flows are posted directly to accumulated other comprehensive income to the extent they represent an effective hedge. Changes in the fair value of financial derivatives designated to hedge cash flows, to the extent not representing an effective hedge, are charged to other income or expenses in the reporting period.

As of August 2013, the Company has also applied fair-value hedge accounting with respect to IRS transactions hedging the loan advanced to PGNiG Termika S.A.

Under fair-value hedge accounting, gains or losses on the remeasurement of fair value of hedging instruments, as well as gains or losses relating to the hedged item, attributable to the hedged risk and adjusting the carrying amount, can be charged directly to profit or loss.

As the used hedging instrument (IRS) and its hedged item (loan) have largely similar characteristics, the effects of the change in the fair value of the hedged instrument and the change in the fair value of the hedging instrument balance each other out.

Derivative financial instruments

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value		Hedged risk
					Dec 31 2013	Dec 31 2012	
			Cross Currency Interest Rate Swap				
Euronotes	500	EUR	over 3 years	4.1580	108	-	foreign exchange 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	foreign exchange and interest-rate risk
Eurobonds	500	EUR	over 3 years	4.1580	-	82	currency and interest rate risk
					168	**(232)**	
			Interest Rate Swap				
loan	1500	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
Termika investment purchases	1	EUR	3-12 months	0.0000	-		foreign exchange risk
Termika investment purchases	1	EUR	3-12 months	4.2195	-		foreign exchange risk
Termika investment purchases	1	EUR	1-3 years	4.3637	-		foreign exchange risk
Termika investment purchases	1	EUR	1-3 years	4.3637	-		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
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
					(31)	**(76)**	
			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

Derivative financial instruments (cont.)

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
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**	
Futures							
trading activities	1	electricity	1-3 months	151.31	7	-	energy price risk
trading activities	1	electricity	1-3 months	151.31	-3	-	energy price risk
trading activities	10	electricity	3-12 months	151.85	8	-	energy price risk
trading activities	10	electricity	3-12 months	151.85	-12	-	energy price risk
trading activities	0	TGE gas	1-3 months	116.82	1	-	gas price risk
trading activities	1	TGE gas	3-12 months	114.85	1	-	gas price risk
trading activities	0	TGE gas	1-3 years	111.00	-	-	gas price risk
					2	**-**	
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	0.084	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	0.186	FO	3-12 months	569.08	-	-	commodity price risk
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

Derivative financial instruments (cont.)

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value		Hedged risk
					Dec 31 2013	Dec 31 2012	
			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	18	-	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
					17	**-**	
					184	**(288)**	
	Total including:	**positive valuation**	**assets**		**307**	**105**	
		negative valuation	**liabilities**		**(123)**	**(393)**	

Under cash-flow hedge accounting, 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. The effects of measurement of open items are recognised in profit/loss for the period or directly in equity in the event of occurrence of an effective portion constituting an effective hedge of fair value changes of financial derivatives designated to hedge cash flows. In such a case, at the time of exercise of the derivative instrument and of the hedged item, the Company's equity is decreased/increased, and the effective portion is charged to profit or loss in the place of origination of the hedged item's costs. The non-effective portion and the fair value of transactions not designated as hedges is recognised under other items of the profit or loss of the period.

Under fair-value hedge accounting, gains or losses on the remeasurement of fair value of hedging instruments, as well as gains or losses relating to the hedged item, attributable to the hedged risk and adjusting the carrying amount of the hedged item, are charged directly to profit or loss.

	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 derivative financial instruments – realised	(176)	(218)
Total net gain/loss on financial derivative instruments recognised in profit or loss	**81**	**(109)**
including:		
recognised in raw material and consumables used	(53)	37
recognised in net other expenses	(228)	(233)
recognised in other financial revenues or expenses	362	87
Net gain/loss on valuation of derivative financial instruments recognised in other comprehensive income -– unrealised	**72**	**(249)**
Total net gain/loss on derivative financial instruments – recognised in equity	**153**	**(358)**

35. CONTINGENT ASSETS AND LIABILITIES

35.1. Contingent assets

	Dec 31 2013	Dec 31 2012
From related entities:		
promissory notes received	13,673	13,763
Total contingent receivables from related entities	**13,673**	**13,763**
From other entities:		
guarantees and sureties received	110	306
promissory notes received	120	149
Total contingent receivables from other entities	**230**	**455**
Total contingent assets	**13,903**	**14,218**

35.2. Contingent liabilities

	Dec 31 2013	Dec 31 2012
To other entities		
guarantees and sureties issued*	9,662	9,539
promissory notes issued	94	117
other	-	1,118
Total contingent liabilities to other entities	**9,756**	**10,774**
Total contingent liabilities	**9,756**	**10,774**

* Contingent liabilities in foreign currencies were translated into PLN at the exchange rates quoted by the National Bank of Poland respectively for December 31st 2013 and December 31th 2012.
** In 2012, the Company executed a registered pledge agreement relating to future claims under a borrowing.

36. OFF-BALANCE SHEET LIABILITIES

36.1. Operating lease liabilities

	Dec 31 2013	Dec 31 2012
up to 1 year	8	11
from 1 to 5 years	3	10
Total	**11**	**21**

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

	Dec 31 2013	Dec 31 2012
Commitments under executed agreements	4,068	6,598
Completion of agreements as at the balance-sheet date	(2,580)	(3,653)
Contractual liabilities maturing subsequently to the balance-sheet date	**1,488**	**2,945**

37 RELATED ENTITIES

PGNiG S.A. holds shares in production and service companies. As at December 31st 2013, PGNiG S.A. had 45 related entities, including:

- 22 subsidiaries,
- 13 indirectly related companies,
- 2 jointly-controlled entities,
- 8 associated companies.

37.1. Related parties as at the end of 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**
GEOFIZYKA Kraków S.A.	Poland	100.00%	100.00%
GEOFIZYKA Toruń S.A.	Poland	100.00%	100.00%
Exalo Drilling S.A. (formerly PGNiG Poszukiwania S.A.)	Poland	100.00%	100.00%
PGNiG Upstream International AS (formerly PGNiG Norway AS)	Norway	100.00%	100.00%
Polish Oil And Gas Company – Libya B.V.	The Netherlands	100.00%	100.00%
INVESTGAS S.A.	Poland	-	100.00%
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Poland	-	100.00%
Górnośląska Spółka Gazownictwa Sp. z o.o.	Poland	-	100.00%
Karpacka Spółka Gazownictwa Sp. z o.o.	Poland	-	100.00%
Mazowiecka Spółka Gazownictwa Group [1)]	Poland	-	100.00%
Pomorska Spółka Gazownictwa Sp. z o.o.	Poland	-	100.00%
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poland	-	100.00%
Geovita S.A.	Poland	100.00%	100.00%
PGNiG Technologie S.A.	Poland	100.00%	100.00%
PGNiG Energia S.A.	Poland	-	100.00%
PGNiG Sales&Trading Group [2)]	Germany	100.00%	100.00%
PGNiG Finance AB	Sweden	100.00%	100.00%
PGNiG Termika S.A. [3), 4)]	Poland	100.00%	71.44%
Operator Systemu Magazynowania Sp. z o.o.	Poland	100.00%	100.00%
PGNiG Serwis Sp. z o.o.	Poland	100.00%	100.00%
Polska Spółka Gazownictwa Sp. Z o.o. (formerly PGNiG SPV4 Sp. o.o.)	Poland	100.00%	100.00%
PGNiG Obrót Detaliczny Sp. z o.o.	Poland	100.00%	-
PGNiG SPV 5 Sp. z o.o.	Poland	100.00%	-
PGNiG SPV 6 Sp. z o.o.	Poland	100.00%	-
PGNiG SPV 7 Sp. z o.o.	Poland	100.00%	-
BUD-GAZ P.P.U.H. Sp. z o.o. w likwidacji (in liquidation)	Poland	100.00%	100.00%
Polskie Elektrownie Gazowe Sp. z o.o.	Poland	100.00%	100.00%
Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A.[5)]	Poland	75.00%	75.00%
NYSAGAZ Sp. z o.o.	Poland	66.28%	66.28%
Biogazownia Ostrowiec Sp. z o.o. w likwidacji (in liquidation)	Poland	100.00%	-
PGNiG S.A.'s indirectly related companies			
Poszukiwania Nafty i Gazu Jasło S.A. [6)]	Poland	-	100.00%
Poszukiwania Nafty i Gazu Kraków Group [6), 7)]	Poland	-	100.00%
Poszukiwania Nafty i Gazu NAFTA S.A. [6)]	Poland	-	100.00%
Poszukiwania Naftowe Diament Sp. z o.o. [6)]	Poland	-	100.00%
Zakład Robót Górniczych Krosno Sp. z o.o. [6)]	Poland	-	100.00%
Oil Tech International F.Z.E.	UAE	100.00%	100.00%
Zakład Gospodarki Mieszkaniowej Sp. z o.o.	Poland	100.00%	100.00%
Biogazownia Ostrowiec Sp. z o.o. w likwidacji (in liquidation)	Poland	-	100.00%
Powiśle Park Sp. z o.o. (Warszawa)	Poland	100.00%	100.00%
Poltava Services LLC	Ukraine	99.00%	99.00%
CHEMKOP Sp. z o.o. (Kraków)	Poland	85.51%	85.00%
GAZ Sp. z o.o.	Poland	80.00%	80.00%
PT Geofizyka Toruń Indonezja LLC w likwidacji (in liquidation)	Indonesia	55.00%	55.00%
XOOL GmbH	Germany	100.00%	100.00%
NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation)	Poland	67.40%	67.40%
Elektrociepłownia Stalowa Wola SA	Poland	50.00%	50.00%
Al Mashariq – Geofizyka Toruń Limited Company w likwidacji (in liquidation)	Saudi Arabia	50.00%	50.00%
Gazobudowa Kraków Sp. z o.o.	Poland	47.20%	47.20%
Przedsiębiorstwo Badawczo-Usługowe Petromin Sp. z o.o. w likwidacji (in liquidation)	Poland	-	40,00%
Geotermia Sp. z o.o.	Poland	25.00%	25.00%
Companies jointly controlled by PGNiG S.A.			

SGT EUROPOL GAZ S.A.[8)]	Poland	49.74%	49.74%
InterTransGas GmbH	Germany	50.00%	50.00%
Associated companies			
GAS-TRADING S.A.	Poland	43.41%	43.41%
Sahara Petroleum Technology LLC in liquidation	Oman	49.00%	49.00%
PFK GASKON S.A.	Poland	45.94%	45.94%
GAZOMONTAŻ S.A.	Poland	45.18%	45.18%
ZRUG Sp. z o.o. (of Poznań)	Poland	40,06%	40,06%
ZWUG INTERGAZ Sp. z o.o.	Poland	38.30%	38.30%
Dewon ZSA	Ukraine	36.38%	36.38%
ZRUG TORUŃ S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation)	Poland	25.24%	25.24%

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

[2)] The PGNiG Sales &Trading Group comprises PGNiG Sales & Trading GmbH and its subsidiary XOOL GmbH.

[3)] On December 31st 2012, PGNiG Termika S.A. and PGNiG SPV1 Sp. z o.o. merged; the surviving company, PGNiG Termika S.A., became a subsidiary of PGNiG S.A..

[4)] PGNiG S.A.'s interest in the share capital of PGNiG Termika. Share in total voting rights – 99.99%.

[5)] On June 13th 2013, an agreement was concluded for the transfer of ownership of 21,000 shares in BSiPG Gazoprojekt S.A. from PGNiG S.A. onto PGNiG Technologie SA. 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. is 52.50%.

[6)] The company was consolidated in Exalo Drilling S.A.'s consolidated financial statements.

[7)] The Poszukiwania Nafty i Gazu Kraków Group comprises Poszukiwania Nafty i Gazu Kraków S.A. and its subsidiaries: Oil Tech International - F.Z.E. and Poltava Services LLC.

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

37.2. Related-party transactions

Related party		Sales to related parties	Purchases from related parties	Dividends received	Finance income from related parties	Finance costs from related parties
Fully-consolidated or equity-accounted entities	Dec 31 2013	884	6,662	343	642	437
	Dec 31 2012	578	4,900	328	384	(113)
Associates	Dec 31 2013	35	-	-	-	-
	Dec 31 2012	28	-	-	-	-
Other related entities – non-consolidated	Dec 31 2013	7	9	2	9	-
	Dec 31 2012	7	10	3	3	-
Related entities – total	**Dec 31 2013**	**926**	**6,671**	**345**	**651**	**437**
	Dec 31 2012	613	**4,910**	**331**	**387**	**(113)**

Related party		Receivables from related parties, gross	Receivables from related parties, net	Loans to related parties, gross	Loans to related parties, net	Trade and other payables to related parties	Amounts payable under borrowings and debt securities to related parties
Fully-consolidated or equity-accounted entities	Dec 31 2013	227	227	4,570	4,570	681	2,702
	Dec 31 2012	157	155	6,106	6,106	809	2,317
Associates	Dec 31 2013	4	4	-	-	6	-
	Dec 31 2012	4	4	-	-	7	-
Other related entities – non-consolidated	Dec 31 2013	1	1	216	185	1	-
	Dec 31 2012	86	1	146	117	86	-
Related entities – total	**Dec 31 2013**	**232**	**231**	**4,786**	**4,755**	**688**	**2,702**
	Dec 31 2012	**247**	**160**	**6,252**	**6,223**	**902**	**2,317**

The Company discloses lease receivables under gross/net receivables from related entities. For more information on the lease agreement with the related entity, see Note 14.1.

In 2013, the Company did not enter into any material transactions with related parties otherwise than on arm’s length terms.

The Company 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.

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

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

In 2013, the PGNiG S.A. 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), 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, PGNiG S.A. 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), Grupa Azoty Zakłady Azotowe PUŁAWY S.A., Grupa Azoty Zakłady Chemiczne POLICE S.A., Zakłady Azotowe w Tarnowie - Mościcach S.A., Huta Cynku “Miasteczko Śląskie” S.A.

37.4. Remuneration paid, loans and other similar benefits granted to members of management and supervisory bodies

Name	Total remuneration, additional benefits and bonuses paid in 2013	Total remuneration for holding offices in subordinates in 2013	Total remuneration paid in 2013
	Jan 1–Dec 31 2013		
	(PLN '000)		
Total remuneration paid to Management Board members, including:	**5,201.47**	**1,412.31**	**6,613.78**
Jerzy Kurella – Vice-President	549.58	254.85	804.43
Jacek Murawski – Vice-President	966.43	282.68	1,249.11
Mirosław Szkałuba – Vice-President	1,080.41	183.61	1,264.02
Mirosław Skrzypkiewicz – Vice-President*	57.95	0.00	57.95
Violetta Jasińska-Jaśkowiak – Proxy**	8.87	3.26	12.13
Persons who were Management Board members in 2013 but not as at Dec 31 2013:			
Radosław Dudziński	1,182.96	209.89	1,392.85
Grażyna Piotrowska Oliwa	1,283.80	228.26	1,512.06
Sławomir Hinc	71.47	249.76	321.23
Total remuneration paid to Supervisory Board members, including:	**362.69**	**59.58**	**422.27**
Wojciech Chmielewski	41.45	0.00	41.45
Marcin Moroń	41.45	0.00	41.45
Mieczysław Kawecki	41.45	44.28	85.73
Agnieszka Chmielarz	41.45	7.65	49.10
Józef Głowacki	41.45	0.00	41.45
Jolanta Siergiej	41.45	7.65	49.10
Janusz Pilitowski	41.45	0.00	41.45
Ewa Sibrecht-Ośka	41.45	0.00	41.45
Persons who were Supervisory Board members in 2013 but not as at Dec 31 2013:			
Mieczysław Puławski***	20.38	0.00	20.38
Zbigniew Skrzypkiewicz****	10.71	0.00	10.71
Total	**5,564.16**	**1,471.89**	**7,036.05**

* Mirosław Skrzypkiewicz served as Member of the Management Board from September 16th to December 16th 2013,
** Violetta Jasińska-Jaśkowiak has served as Proxy since December 20th 2013,
*** Mieczysław Puławski has served as Member of the Supervisory Board since June 26th 2013,
**** Mirosław Skrzypkiewicz served as Member of the Supervisory Board from June 26th to September 15th 2013.

Name	Jan 1–Dec 31 2012		
	Total amount of remuneration, additional benefits and bonuses paid in 2012	Total amount of remuneration for holding offices in subordinates in 2012	Total remuneration paid in 2012
	(PLN '000)		
Total remuneration paid to Management Board members, including:	**1,894.59**	**2,840.36**	**4,734.95**
Grażyna Piotrowska-Oliwa – President of the Management Board	210.79	558.06	768.85
Radosław Dudziński – Vice-President	330.21	858.43	1,188.64
Sławomir Hinc – Vice-President	336.04	856.57	1,192.61
Mirosław Szkałuba – Vice-President	369.06	423.16	792.22
Persons who were Management Board members in 2012 but not as at Dec 31 2012:			
Marek Karabuła – Vice-President**	229.85	88.86	318.71
Ewa Bernacik* – Proxy	105.85	37.43	143.28
Mieczysław Jakiel* – Proxy	91.08	17.85	108.93
Kazimierz Chrobak* – Proxy	221.71	-	221.71
Total remuneration paid to Supervisory Board members, including:	**363.15**	**213.52**	**576.67**
Chmielewski Wojciech	40.30	-	40.30
Marcin Moryń	41.45	-	41.45
Mieczysław Kawecki	41.45	43.04	84.49
Agnieszka Chmielarz	41.45	45.24	86.69
Józef Głowacki	40.30	-	40.30
Mieczysław Puławski	41.45	-	41.45
Jolanta Siergiej	41.45	45.24	86.69
Janusz Pilitowski	40.30	-	40.30
Ewa Sibrecht-Ośka	32.66	-	32.66
Persons who were Supervisory Board members in 2012 but not as at Dec 31 2012:			
Grzegorz Banaszek	1.44	-	1.44
Stanisław Rychlicki	0.90	80.00	80.90
Total	**2,257.74**	**3,053.88**	**5,311.62**

*Kazimierz Chrobak, Mieczysław Jakiel and Ewa Bernacik served as Proxies until March 21st 2012.
**Marek Karabuła held his position until May 11th 2012.

37.5 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
	(PLN '000)	
Audit of the annual consolidated financial statements	89.70	104.00
Audit of the annual separate financial statements	100.05	136.00
Other certification services, including review of financial statements	500.00	533.16
Other services	2.22	8.37
Total	**691.97**	**781.53**

37.6. Joint ventures

In 2012, PGNiG S.A. had working business relationships with the following companies in Poland: FX Energy Poland Sp. z o.o., EuroGas Polska Sp. z o.o., Energia Bieszczady Sp. z o.o, San Leon Energy PLC (through subsidiaries Energia Karpaty Zachodnie Sp. z o.o. Sp.k. and Energia Karpaty Wschodnie Sp. z o.o. Sp. k.), Tauron Polska Energia S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., ENEA S.A.

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 and thus the agreement had not taken effect.

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

In 2013, PGNiG S.A. continued its cooperation 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; licence interests: PGNiG S.A. (operator) – 51%, FX Energy – 49%;
- “Płotki” – “PTZ” (the Extended Zaniemyśl Area) – under the Operating Agreement of Mining Users dated October 26th 2005; licence interests: PGNiG S.A. (operator) – 51%, FX Energy – 24.5%, CalEnergy – 24.5%;
- “Poznań” – under the Agreement for Joint Operations dated June 1st 2004; licence interests: PGNiG S.A . (operator) – 51%, FX Energy – 49%;
- “Bieszczady” – under the agreement for joint operations dated June 1st 2007; licence interests: PGNiG S.A. (operator) – 51%, Eurogas Polska Sp. z o.o. – 24%, and Energia Bieszczady Sp. z o.o. – 25%;
- “Sieraków” – under the agreement for joint operations dated June 22nd 2009; licence interests: PGNiG S.A. (operator) – 51%, Orlen Upstream Sp. z o.o. – 49%;

and in the following areas covered by licenses awarded to FX Energy Poland Sp. z o.o.:

- “Warszawa-Południe” (blocks 254 and 255) – under the Agreement for Joint Operations dated May 26th 2011; licence interests: FX Energy (operator) – 51%, PGNiG S.A. – 49%;
- “Ostrowiec” – under the Agreement for Joint Operations dated February 27th 2009; licence interests: FX Energy (operator) – 51%, PGNiG S.A. – 49%;
- “Kutno” – under the Agreement for Joint Operations dated September 30th 2010; licence interests: FX Energy (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. continued its business relationship 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 held 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 cooperation with Orlen Upstream Sp. z o.o. in the “Sieraków” area under the agreement for joint operations. Project interests: PGNiG S.A. – 51%, Orlen Upstream Sp. z o.o. – 49%.

San Leon Energy PLC, registered office at 43 Grosvenor Street, W1K 3HL, London, UK
Energia Karpaty Zachodnie Sp. z o.o. Sp. k. (subsidiary of San Leon Energy PLC), registered office at ul. Mokotowska 1, 00-640 Warsaw, Poland
Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (subsidiary of San Leon Energy PLC), registered office at ul. Mokotowska 1, 00-640 Warsaw, Poland

Under licences awarded to Aurelian Oil & Gas PLC, work was 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%.

Tauron Polska Energia S.A., registered office at ul. Ks. Piotra Ściegiennego 3, 40-114 Katowice, Poland
KGHM Polska Miedź S.A., registered office at ul. M. Skłodowskiej–Curie 48, 59-301 Lubin, Poland
PGE Polska Grupa Energetyczna S.A., registered office at ul. Mysia 2, 00-496 Warsaw, Poland
ENEA S.A., registered office at ul. Górecka 1, 60-201 Poznań, Poland.

On July 4th 2012, PGNiG S.A. entered into a framework agreement concerning shale oil and gas exploration and production in the Wejherowo licence area, with four other Polish companies: Tauron Polska Energia S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A. and Enea S.A. Under the agreement, joint work was to be conducted on a part of the Wejherowo licence held by PGNiG S.A., specifically in the Kochanowo, Częstkowo and Tępcz zones, where the presence of unconventional gas has been confirmed by preliminary surveys and analyses. The joint effort was to cover about 160 km² in the Wejherowo licence area.

In December 2013, Interest Holders met to execute Annex 3 to the Framework Agreement, postponing the final date on which the agreement for joint operations would be signed. As the conditions specified in the Framework Agreement were not met, and as Annex 3 failed to be approved by all Parties, the Framework Agreement expired on December 31st 2013 and could not be further extended.

37.7. Foreign operations

Ukraine

Dewon Z.S.A. is a closely-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 4.1m, 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. PGNiG S.A.'s equity interest in the company is UAH 4.1m (equivalent to PLN 1.5m, translated at the exchange rate quoted by the NBP for December 31st 2013). As at December 31st 2013, the value of the shares disclosed in the Parent's accounts was PLN 2.5m and an impairment loss was recognised for the full value of the shares.

The company's shareholder structure is as follows:

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

Dewon conducted work on the Sakhalin field as part of a joint venture, under an agreement with NAK „Nadra Ukrainy" (the holder of a license for production of hydrocarbons) and PoltavaNaftoGasGeologia. On April 24th 2009, NAK Nadra Ukrainy's license to conduct work at the Sakhalin field expired. As of that date, the company's operations were suspended. The stoppage, resulting first from the lack of licence, and then from the lack of a joint venture agreement with the new holder of the licence (UkrNaftoBurienie), materially affected Dewon's financial standing.

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. Well No. 21 and well No. 113 commenced production on June 25th 2012, and Well no. 18 – on July 7th 2012. Currently the company conducts work on the construction of a new well (Well No. 100).

On September 30th 2013, PGNiG S.A. filed a claim against DEWON P.S.A. with the Court of Arbitration at the Polish Chamber of Commerce (Krajowa Izba Gospodarcza) in Warsaw, requesting repayment of the loan granted in 2001.

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. PGNiG S.A.'s equity interest in the company is OMR 73.5 thousand (equivalent to PLN 0.575m, translated at the exchange rate quoted by the NBP for December 31st 2013). As at December 31st 2013, the value of the shares disclosed in the Parent's accounts was PLN 0.879m and an impairment loss was recognised for the full value of the shares.

The company's shareholder structure is as follows:

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

P.O. Box 3641, Ruwi, the Sultanate of Oman.

The company was established in 2000, on the initiative of Zakład Robót Górniczych Krosno Sp. z o.o. 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 under way.

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 0.87m (translated at the mid-exchange rate quoted by the NBP for June 30th 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, PGNiG S.A.'s interest in InterTransGas GmbH was to EUR 0.8m (equivalent to PLN 3.32m, translated at the mid-exchange rate quoted by the NBP for December 31st 2013). As at December 31st 2013, the value of the shares disclosed in the Parent's accounting books was PLN 5.2m.

On December 12th 2013, the General Meeting of ITG passed a resolution to liquidate the company. The liquidation should be entered in the German commercial register in Q1 2014. 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**), with a share capital of EUR 10m (equivalent to PLN 41.47m, translated at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2013). All the shares were acquired by PGNiG S.A. in return for a cash contribution made in December 2010. As at December 31st 2013, the value of the shares disclosed in the Parent's accounting books was PLN 39.7m.

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, a company with a share capital of EUR 0.5m which is registered in Munich and has a customer base of 16,600 end users of natural gas 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 (licences PL 212, PL 212B and PL 262). 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.

In June 2013, the company obtained four new exploration licences following conclusion of the 22nd licensing round. Two of these licences, PL 702 (Billing) and PL 703 (Loki), are located in the Norwegian Sea, and the other two, PL 707 (Mungo) and PL 711 (Labbetuss), in the Barents Sea. As a result of relevant analyses, in 2013 the company renounced two of its licences.

As at the end of December 2013, the company held 12 licences in total. The company filed new licence applications as part of the APA 2013 licensing round. Decisions by the Norwegian authorities are expected to be known in the first quarter of 2014.

The Skarv field, discovered in 1998, is the company's main asset. In 2007, the Skarv licence was extended to include the Idun field.

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 could be postponed until 2014. As at the end of December 2013, the company's debt outstanding under the credit facility was USD 354m.

As at the end of 2013, the value of PGNiG S.A.'s ownership interest in PGNiG Norway AS was NOK 1,092m, that is PLN 540.9m (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2013). As at the end of 2013, the value of the shares disclosed in the Parent's accounting books was PLN 537.5m.

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. Its share capital is EUR 20 thousand (equivalent of PLN 82.9 thousand, translated at the exchange rate quoted by the National Bank of Poland for December 31st 2013).

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, covering an area of 5,494 square kilometres between the Murzuq and Gadamesh basins, near the Algerian border. The bid submitted by the company contained a commitment to carry out exploration work worth a total of USD 108m, including acquisition of 3,000 km 2D seismic data and 1,500 sq km 3D seismic data, as well as drilling of eight wells.

Pursuant to the EPSA, if a commercial discovery of hydrocarbons is made within the licence area, the expenditures which the Agreement allocates to the licence as the basis for "cost recovery", incurred by the Parent 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 BV 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 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 exploration wells planned from the beginning of 2013.

In June 2013, the company began drilling of the first exploration well. By the end of 2013, two wells were drilled and the acquired results were analysed.

As at December 31st 2013, the value of the Parent's ownership interest in POGC Libya B.V. was PLN 433.7m (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2013).

On January 17th 2014, the PGNiG Management Board recognised a PLN 420m impairment loss on the total amount of shares in and equity contributions to POGC-Libya B.V. and a provision of PLN 137m for the outstanding licence obligations under the Murzuq project in Libya. As at December 31st 2013, the value of the shares disclosed in the Parent's accounts was PLN 433.6m and an impairment loss was recognised for the full value of the shares.

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.

As at December 31st 2013, the value of shares in PGNiG Finance AB disclosed in the Parent's books was PLN 0.5m.

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

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

Operating Branch in Pakistan – Islamabad

PGNiG S.A. conducts exploration work in Pakistan under an agreement for 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., with production and expenses shared in proportion 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.

Branch in Egypt – Cairo

In Egypt, PGNiG S.A. conducts exploration work in the Bahariya licence area (Block 3) under an Exploration and Production Sharing Agreement (EPSA) executed with the government of Egypt of May 17th 2009. The Company holds a 100% interest in the licence. In 2013, two exploration wells were drilled, but the wells were abandoned as they did not flow hydrocarbons at commercial rates. The Bahariya licence's potential was re-evaluated based on 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.

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

Pursuant to Resolution No. 435/2013 of June 19th 2013 concerning the date of liquidation of the Denmark Branch, the PGNiG Management Board set liquidation date for the date of receipt of the decision concerning the company's removal from the Danish register of entrepreneurs.

38 EMPLOYEES (NUMBER OF STAFF)

Employment as at end of the period, by segments	Dec 31 2013	Dec 31 2012
Exploration and Production	4,207	4,408
Trade and Storage	3,901	4,333
including Head Office	606	617
Other Activities	39	37
Total	**8,147**	**8,778**

In 2013, the average workforce was 8,147 persons (2012: 8,778).

39 CAPITAL MANAGEMENT

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

PGNiG S.A. monitors its capital 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 adopted by the Company, the leverage should not exceed 35%. Net debt is the sum of borrowings, debt securities, finance lease liabilities and trade and other payables (including non-current) less cash and cash equivalents. Equity includes equity attributable to owners of PGNiG S.A..

	Dec 31 2013	Dec 31 2012
Borrowings, finance lease liabilities and liabilities under debt securities in issue	6,123	8,269
Trade and other payables	3,114	2,815
Cash and cash equivalents (-)	(1,683)	(1,043)
Net debt	**7,554**	**10,041**
Equity (attributable to owners of the parent)	**22,969**	**21,962**
Equity and net debt	**30,523**	**32,003**
Leverage	24.7%	31.4%

40 OTHER IMPORTANT INFORMATION

40.1. Restructuring process

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. Launched in January 2009, the Programme operates on a stand-by basis and requires all the participating companies to follow a uniform procedure. A 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.

Given that none of the Parties terminated the Programme by September 30th 2011, it will remain in force in the coming years and expire on December 31st 2015, unless one of the Parties to the Programme (the PGNiG Management Board or the Social Partner) terminates the Programme prior to that date.

The costs of redundancy payments to which laid-off employees are entitled under the Programme are covered from the Central Restructuring Fund, 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 following events related to the implementation of the Workforce Streamlining Programme occurred during the reporting period:

1. PGNiG S.A. paid a total of PLN 7.6m out of the Central Restructuring Fund as one-off redundancy payments to former employees of PGNiG Technologie SA.
2. On June 26th 2013, the Extraordinary General Meeting of PGNiG S.A. approved the use of the Central Restructuring Fund to cover one-off redundancy payments to:
   a) former employees of Geofizyka Kraków S.A., for a total amount of PLN 2.4m;
   b) former employees of PNiG Jasło S.A. (currently Exalo Drilling S.A.), for a total amount of PLN 0.9m.
3. The following entities requested to use the Central Restructuring Fund to cover the cost of one-off redundancy payments:
   a) Exalo Drilling S.A. – for a total amount of PLN 2.3m;
   b) BUD-GAZ Sp. z o.o. w likwidacji (in liquidation) – for a total amount of PLN 1m.

40.2. Additional contributions to 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. These proceedings were closed in 2013 with a decision by the Supreme Court favourable to the Company: the court found that PGNiG S.A. was under no obligation to make additional contributions to the equity of PI Gazotech Sp. z o.o.

40.3. 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 alleged abuse by PGNiG S.A. of its dominant position on the domestic natural gas wholesale market, which consisted in inhibiting sale of gas against the interest of other business players or consumers and in frustrating the development of market conditions necessary for the emergence or development of competition by refusing to sell gas fuel under a comprehensive supply contract to an entrepreneur that intended to further resell the gas, i.e. NowyGaz 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 comprehensive gas fuel 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. PGNiG S.A. satisfies this requirement.

On February 22nd 2013, 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 provisions classified as abusive clauses in contract forms used in general gas supply contracts. PGNiG S.A. voluntarily assumed the obligation to change the above contract forms with respect to the questioned clauses. 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 in the contract the maximum volume
- of gas fuel purchased for resale, refusing to grant wholesale customers the right to a partial change of the supplier.

In the course of the proceedings, PGNiG S.A. voluntarily agreed to revise certain provisions in contracts with its 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.

40.4. Dispute with PBG S.A.

On June 27th 2011, PBG S.A. filed with the Regional Court of Warsaw, 20th Commercial Division, an action against PGNiG S.A. for payment of a disputed amount, representing the equivalent of the contractual penalties for delay in the performance of a contract, deducted by PGNiG S.A. from the consideration paid to PBG S.A.

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 due to actual significant delays in the performance of the contract, which constituted grounds for charging the contractual penalties. In addition, according to PGNiG S.A., the plaintiff's claims have become 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 May 22nd 2012, a team of mediators was set up at PGNiG S.A. to solve the problems related to implementation of the Grodzisk Nitrogen Rejection Unit Construction Project.
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 of Warsaw, 20th Commercial Division. By virtue of its decision of October 31st 2012, the Regional Court of Warsaw, 20th Commercial Division, discontinued the proceedings. On June 13th 2012, PBG S.A. was declared insolvent in voluntary arrangement. On September 21st 2012, a Statement of Claims was lodged by an attorney-in-fact acting for and on behalf of PGNiG S.A. against insolvent company PBG S.A., which included PGNiG S.A.'s claims against the insolvent company related to defective performance of the Grodzisk Nitrogen Rejection Unit Construction Project. The claims lodged with respect to the Grodzisk Nitrogen Rejection Unit Construction Project were not recognized in 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.

40.5. Contracts for supplies of gas fuel and crude oil

In 2013, PGNiG S.A. executed the following material contracts for sale of crude oil:

1. In November 2013, an Annex was signed to the Crude Oil Supply Agreement No. HB/BP/003/TOTAL/2009 with TOTSA TOTAL OIL TRADING S.A. The Annex provides for supplies of the Lubiatów crude by pipeline to the Leuna Refinery in Germany, and remains effective for an unspecified period.
2. On November 13th 2013, PGNiG S.A. signed a contract with BP Europa SE for supplies of crude oil from the Lubiatów facility to the PCK Schwedt Refinery in Germany via pipeline. The agreement covers the period from November 2013 to December 2014.
3. On December 20th 2013, PGNiG S.A. signed a contract with Grupa Lotos for railway deliveries of the crude oils produced by the Zielona Góra Branch to the Gdańsk Refinery. The agreement will be effective for five years starting from the first quarter of 2015, and may be extended for an unspecified period.

40.6. Contracts for gas fuel purchases

1. 1. In 2013, PGNiG S.A. purchased gas mainly under the agreements and contracts discussed below, namely the long-term contract for imports of gas from Russia and medium-term and short-term agreements for deliveries of gas from European suppliers, including:
   - Contract with OOO Gazprom Export for sale of natural gas to the Republic of Poland, dated September 25th 1996, which remains in force until 2022.
   - Agreement with VNG-Verbundnetz Gas AG for sale of Lasów natural gas, dated August 17th 2006, effective until October 1st 2016.
   - Framework agreement with Vitol S.A., dated September 30th 2009. Transactions effected in 2013 under this framework agreement included Individual Transaction of May 13th 2011 for natural gas supplies to a cross-border terminal on the Polish-Czech border in the Cieszyn area in the period from October 1st 2011 to October 1st 2014.

- Individual Transaction with Vitol S.A. of May 13th 2011 for natural gas supplies to a cross-border terminal on the Polish-Czech border in the Cieszyn area in the period from October 1st 2011 to October 1st 2014, under the framework agreement of September 30th 2009.

2. PGNiG S.A. supplies gas to different regions of Poland under the following agreements and contracts:

   - Agreement on integrated gas supply services, executed between PGNiG S.A. and Severomoravská plynárenská a.s., dated March 27th 2008. By way of an annex, the agreement has been extended until December 31st 2014. The gas is supplied to customers in the municipality of Branice.

3. In 2013, PGNiG S.A. purchased domestically produced nitrogen-rich gas (types Ls and Lw) from entities outside the PGNiG Group under the following contracts:

- Natural gas supplies contract between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated June 19th 2009 (gas from the Roszków field).
- Natural gas supplies contract between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated December 8th 2010 (gas from the Kromolice - Środa Wielkopolska - Kromolice S field).
- Natural gas supplies contract between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated June 4th 2012 (gas from the Winna Góra field).
- On June 18th 2013, a natural gas supplies contract was executed with and FX Energy Poland Sp. z o.o. (gas from the Lisewo field). Deliveries were launched on December 11th 2013.
- On November 12th 2013, a natural gas supplies contract was executed with FX Energy Poland Sp. z o.o. (gas from the Komorze field). Deliveries under the contract will be launched in Q1 2014.
- Natural gas supplies contract between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated December 8th 2005 (gas from the Zaniemyśl field). No gas has been supplied under this contract since July 24th 2013 due to technical reasons.
- Natural gas supplies contract between PGNiG S.A. and Calenergy Resources Poland Sp. z o.o., dated December 8th 2005 (gas from the Zaniemyśl field). No gas has been supplied under this contract since July 24th 2013 due to technical reasons.
- Natural gas supplies contract between PGNiG S.A. and DPV Service Sp. z o.o., dated January 13th 2009 (gas from the Antonin field). According to the notice of October 31st 2012 (ref. no. L.dz. 71/A-1/2012), natural gas production from the Antonin field was suspended on November 1st 2012 for economic reasons.

All the contracts listed above will remain in force until full depletion of the fields.

Concurrently, natural gas is also supplied under contract for supplies of high-methane gas (Słubice) between PGNiG S.A. and EWE Energia Sp. z o.o., dated November 29th 2004. The contract is managed by the Greater Poland Trading Division in Poznań.

4. In 2013, PGNiG S.A. concluded the following agreements:

   <u>Supplies of natural gas by way the reverse flow service on the Yamal Pipeline:</u>

   - In order to reduce its gas purchase costs, PGNiG S.A. requested GAZ-SYSTEM S.A. to provide the virtual reverse flow service on the Yamal Pipeline in the period from January 1st 2012 to December 31st 2015. Having carried out the procedure required for allocation of the available capacity of the Polish section of the Yamal Pipeline to the long-term reverse flow service, GAZ-SYSTEM S.A. entered into an agreement with PGNiG S.A. to provide this service on an interruptible basis;
   - Pursuant to the EFET terms Framework Agreement executed by PGNiG S.A. and PGNiG Sales & Trading on October 27th 2011, the parties enter into short-term contracts for supply of natural gas.

   In 2013, PGNiG S.A. purchased from PST natural gas in a total amount of approximately 13,496,516.015 MWh.

Gas export agreement

On October 25th 2013, PGNiG S.A. executed an agreement with Ukraine-based DTEK Trading for supply of natural gas to evaluate the possibility of natural gas transmission across Poland to the Polish transmission system's exit point in Hermanowice.

Three individual transactions were executed under the Framework Agreement of October 25th 2013:

- Individual Contract No. 1 (providing for total deliveries of 107,100 MWh in the period from October 28th to October 31st 2013)
- Individual Contract No. 2 (providing for total deliveries of 110,160 MWh in the period from November 6th to November 12th 2013),
- Individual Contract No. 3 (providing for total deliveries of 730,320 MWh in the period from November 9th to December 1st 2013).

Amendments to the existing contracts

1. On March 20th 2013, PGNiG S.A. and OOO Gazprom Export executed an annex to Contract No. 2102-14/RZ-1/25/96 of September 25th 1996 for sale of natural gas to the Republic of Poland. Under the annex, the parties agreed to increase the daily offtake of gas at the Vysokoye cross-border point to 15 mcm, with the annual contracted volumes remaining unchanged. The annex provided that the option to offtake the increased amounts of natural gas was applicable over five consecutive days from the moment when the parties agree upon the beginning of the offtake of such increased amounts.
2. On November 6th 2013, an agreement was signed in Warsaw terminating the Natural Gas Supply Agreement of October 26th 2004 between PGNiG S.A. and the National Joint-Stock Company Naftogaz Ukrainy of Kiev, Ukraine ("Naftogaz Ukrainy").

   PGNiG customers in the Hrubieszów area receive natural gas from the Polish transmission system through the Lubaczów-Krasnystaw gas pipeline.

41 EVENTS SUBSEQUENT TO THE BALANCE-SHEET DATE

1. PGNiG S.A. issued notes under a short-term note issuance programme dated December 1st 2010 (notes were acquired by Polska Spółka Gazownictwa Sp. z o.o.):
   - 1,100 notes with a total value of PLN 110m, issued on January 7th 2014, due on February 4th 2014, yielding 2.76% per annum,
   - 500 notes with a total value of PLN 50m, issued on January 7th 2014, due on February 10th 2014, yielding 2.76% per annum,
   - 700 notes with a total value of PLN 70m, issued on January 21st 2014, due on January 21st 2014, yielding 2.74% per annum,
   - 130 notes with a total value of PLN 13m, issued on January 13th 2014, due on February 3rd 2014, yielding 2.75% per annum,
   - 350 notes with a total value of PLN 35m, issued on January 15th 2014, due on February 17th 2014, yielding 2.77% per annum,
   - 100 notes with a total value of PLN 10m, issued on January 20th 2014, due on February 21st 2014, yielding 2.76% per annum,
   - 700 notes with a total value of PLN 70m, issued on January 21st 2014, due on February 4th 2014, yielding 2.74% per annum,
   - 400 notes with a total value of PLN 40m, issued on January 22nd 2014, due on February 5th 2014, yielding 2.74% per annum,
   - 300 notes with a total value of PLN 30m, issued on January 28th 2014, due on March 6th 2014, yielding 2.77% per annum,
   - 300 notes with a total value of PLN 30m, issued on January 31st 2014, due on March 3rd 2014, yielding 2.75% per annum,

- 400 notes with a total value of PLN 40m, issued on February 4th 2014, due on February 18th 2014, yielding 2.75% per annum,
- 1,000 notes with a total value of PLN 100m, issued on February 4th 2014, due on March 4th 2014, yielding 2.76% per annum,
- 250 notes with a total value of PLN 25m, issued on February 11th 2014, due on March 11th 2014, yielding 2.76% per annum,
- 500 notes with a total value of PLN 50m, issued on February 13th 2014, due on March 12th 2014, yielding 2.76% per annum,
- 250 notes with a total value of PLN 25m, issued on February 17th 2014, due on March 31th 2014, yielding 2.79% per annum,
- 100 notes with a total value of PLN 10m, issued on February 18th 2014, due on March 4th 2014, yielding 2.74% per annum.

2. The Management Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. reported that as at December 31st 2013 PGNiG recognised an impairment loss on its interest in POGC Libya BV (a wholly-owned subsidiary of PGNiG), and a provision for the outstanding licence obligations under the Murzuq project in Libya.

   The recognition of the one-off impairment loss for the entire interest in POGC Libya BV and all additional contributions to its equity, as well as the creation of the provision, follow from analysis of the project's effectiveness, particularly: i) reassessment of the estimates of hydrocarbon resources on the Libyan licence, ii) assessment of future capital expenditure and operating costs necessary to continue exploration work, iii) changes in the project schedule, iv) effects of the geopolitical situation in Libya and uncertainty concerning the extension of the licence, due to expire in September 2014.

   The impairment loss and the provision recognised in PGNiG’s separate financial statements were PLN 420m and PLN 137m, respectively. Their impact on the PGNiG Group's consolidated financial statements will be determined upon consolidation of the accounting and financial data for the entire Group. PGNiG's 2013 full year results will be published on March 5th 2014.

   The PGNiG Management Board will decide on the future of the Libyan project once further economic and geological analyses have been completed.

3. 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:

   - contract of September 25th 2001,
   - contract of January 4th 1999, and
   - 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.