Polskie Górnictwo Naftowe
i Gazownictwo SA

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31ST 2014

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	Zbigniew Skrzypkiewicz	
Vice-President of the Management Board	Waldemar Wójcik	

Warsaw, February 19th 2015

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FINANCIAL HIGHLIGHTS
for the year ended December 31st 2014

	PLNm		EURm	
FINANCIAL HIGHLIGHTS	**Jan 1–Dec 31 2014**	**Jan 1–Dec 31 2013**	**Jan 1–Dec 31 2014**	**Jan 1–Dec 31 2013**
Net revenue	23,738	27,110	5,666	6,438
Operating profit/(loss)	1,633	2,133	390	507
Profit/(loss) before tax	2,222	2,113	530	502
Net profit/(loss)	1,895	1,688	452	401
Total comprehensive income	1,696	1,767	405	420
Net cash generated by operating activities	3,982	4,319	951	1,026
Net cash (used in)/generated by investing activities	(1,845)	(413)	(440)	(98)
Net cash used in/(generated by) financing activities	(2,149)	(3,264)	(513)	(775)
Net increase/(decrease) in cash and cash equivalents	(12)	642	(3)	152
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares (in PLN and EUR)	0.32	0.29	0.08	0.07
	Dec 31 2014	**Dec 31 2013**	**Dec 31 2014**	**Dec 31 2013**
Total assets	35,356	35,424	8,294	8,541
Total liabilities	11,576	12,455	2,716	3,003
Total non-current liabilities	7,385	7,023	1,733	1,692
Total current liabilities	4,191	5,432	983	1,311
Equity	23,780	22,969	5,578	5,538
Share capital	5,900	5,900	1,384	1,423
Weighted average number of shares (million)	5,900	5,900	5,900	5,900
Book value per share and diluted book value per share (in PLN and EUR, respectively)	4.03	3.89	0.95	0.94
Dividend per share declared or paid (PLN/EUR)	0.15	0.13	0.04	0.03

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

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

Average EUR/PLN exchange rates quoted by the NBP

	Dec 31 2014	Dec 31 2013
Average exchange rate in the period	4.1893	4.2110
Exchange rate at end of the period	4.2623	4.1472

SEPARATE STATEMENT OF PROFIT OR LOSS
for the year ended December 31st 2014

	Note	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
		audited	restated
Revenue	**3**	**23,738**	**27,110**
Raw materials and consumables used	4.1	(15,101)	(16,985)
Employee benefits expense	4.2	(750)	(970)
Depreciation and amortisation expense		(722)	(731)
Services	4.3	(4,156)	(5,665)
Work performed by the entity and capitalised		10	11
Other income and expenses	4.4	(1,386)	(637)
Total operating expenses	**4**	**(22,105)**	**(24,977)**
Operating profit/(loss)		**1,633**	**2,133**
Finance income	5	966	1,020
Finance costs	5	(377)	(1,040)
Profit/(loss) before tax		**2,222**	**2,113**
Income tax	6	(327)	(425)
Net profit/(loss)		**1,895**	**1,688**
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares (PLN)	8	0.32	0.29

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31st 2014

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
	audited	restated
Net profit/(loss)	**1,895**	**1,688**
Other comprehensive income that will be reclassified to profit or loss once specific conditions are met	**(192)**	**52**
Exchange differences on translating foreign operations	22	(6)
Hedge accounting	(264)	72
Deferred tax on other comprehensive income	50	(14)
Other comprehensive income that will not be reclassified to profit or loss	**(7)**	**27**
Actuarial gains/(losses) on employee benefits	(8)	34
Deferred tax	1	(7)
Other comprehensive income, net	**(199)**	**79**
Total comprehensive income	**1,696**	**1,767**

SEPARATE STATEMENT OF FINANCIAL POSITION
as at December 31st 2014

	Note	Dec 31 2014	Dec 31 2013	Jan 1 2013
		audited	restated	restated
ASSETS				
Non-current assets				
Property, plant and equipment	10	13,520	13,775	14,094
Investment property	11	1	1	2
Intangible assets	12	254	282	204
Shares	13	8,611	7,796	7,246
Other financial assets	14	4,403	4,668	5,780
Deferred tax assets	15	469	380	397
Other non-current assets	16	129	44	47
Total non-current assets		**27,387**	**26,946**	**27,770**
Current assets				
Inventories	17	2,506	2,707	2,427
Trade and other receivables	18	1,307	3,368	4,684
Current tax assets	19	-	-	24
Other assets	20	20	18	18
Current financial assets	21	1,805	327	501
Derivative financial instrument assets	34	388	307	105
Cash and cash equivalents	22	1,942	1,683	1,043
Non-current assets held for sale	23	**1**	**68**	**73**
Total current assets		**7,969**	**8,478**	**8,875**
Total assets		**35,356**	**35,424**	**36,645**
EQUITY AND LIABILITIES				
Equity				
Share capital	24	5,900	5,900	5,900
Share premium		1,740	1,740	1,740
Accumulated other comprehensive income		(185)	14	(66)
Retained earnings/(deficit)		16,325	15,315	14,388
Total equity		**23,780**	**22,969**	**21,962**
Non-current liabilities				
Borrowings and other debt instruments	25	4,498	4,432	4,390
Employee benefit obligations	26	134	154	89
Provisions	27	1,414	1,156	1,576
Deferred revenue	28	690	621	559
Deferred tax liabilities	29	580	609	632
Other non-current liabilities	30	69	51	41
Total non-current liabilities		**7,385**	**7,023**	**7,287**
Current liabilities				
Trade and other payables	31	2,414	2,888	2,774
Borrowings and other debt instruments	25	656	1,691	3,879
Derivative financial instrument liabilities	34	423	123	393
Current tax liabilities	19	181	175	-
Employee benefit obligations	26	43	117	191
Provisions	27	472	434	154
Deferred revenue	28	2	4	5
Total current liabilities		**4,191**	**5,432**	**7,396**
Total liabilities		**11,576**	**12,455**	**14,683**
Total equity and liabilities		**35,356**	**35,424**	**36,645**

SEPARATE STATEMENT OF CASH FLOWS
for the year ended December 31st 2014

	Note	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
		audited	restated
Cash flows from operating activities			
Net profit/(loss)		1,895	1,688
Adjustments:			
Depreciation and amortisation expense		722	731
Net foreign exchange gains/(losses)		158	339
Net interest and dividend paid		(716)	(438)
Gain/(loss) on investing activities		750	652
Current tax expense		327	425
Other items, net	32	356	(216)
Income tax paid		(498)	(257)
Cash flows from operating activities before movements in working capital		**2,994**	**2,924**
Movements in working capital:			
Increase/(decrease) in trade and other receivables	32	1,421	1,294
(Increase)/decrease in inventories		201	(280)
(Decrease)/increase in employee benefit obligations		(40)	(8)
Increase/(decrease) in provisions	32	60	265
Decrease/(increase) in current liabilities	32	(597)	163
(Increase)/decrease in other assets	32	(73)	1
(Decrease)/increase in deferred revenue	32	16	(40)
Net cash generated by operating activities		**3,982**	**4,319**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets		13	105
Proceeds from disposal of shares in non-consolidated entities		-	1
Purchase of property, plant and equipment and intangible assets		(392)	(824)
Payments for tangible exploration and evaluation assets under construction		(797)	(688)
Payments for shares in related entities		(400)	(916)
Acquisition of short-term securities		(989)	-
Decrease in loans advanced		524	1,675
Loans advanced		(678)	(390)
Proceeds from derivative financial instruments		199	163
Payment for derivative financial instruments		(180)	(146)
Interest received		115	125
Dividends received		530	355
Proceeds from finance leases		17	38
Other items, net		193	89
Net cash flows from investing activities		**(1,845)**	**(413)**
Cash flows from financing activities			
Proceeds from issue of debt securities		474	1,501
Repayment of debt securities		(1,502)	(3,678)
Proceeds from derivative financial instruments		84	83
Payment for derivative financial instruments		(98)	(116)
Dividends paid		(885)	(767)
Interest paid		(220)	(295)
Other items, net		(2)	8
Net cash used in/(generated by) financing activities		**(2,149)**	**(3,264)**
Net increase/(decrease) in cash and cash equivalents		**(12)**	**642**
Effects of exchange rate changes on the balance of cash held in foreign currencies	32	1	(2)
Cash from/(used in) cash pooling activities		268	-
Cash and cash equivalents at beginning of the period	32	**1,685**	**1,043**
Cash and cash equivalents at end of the period	32	**1,673**	**1,685**
including restricted cash		**451**	**476**

On July 16th 2014, a cash pooling agreement was executed for an indefinite term between Pekao S.A. and the following companies: PGNiG S.A., Polska Spółka Gazownictwa Sp. z o.o., Exalo Drilling S.A., PGNiG Technologie S.A., Geofizyka Kraków S.A., Operator Systemu Magazynowego Sp. z o.o., and PGNiG Serwis Sp. z o.o. On August 1st 2014, Geofizyka Toruń S.A. acceded to the agreement.

As the cash flows under the cash pooling transactions serve primarily to manage the Group's current financial liquidity, they are presented in the statement of cash flows as an adjustment to cash under 'Cash from/(used in) cash pooling activities'.

STATEMENT OF CHANGES IN EQUITY
for the year ended December 31st 2014

			Accumulated other comprehensive income, including				
	Share capital	Share premium	Exchange differences on translating foreign operations	Hedging reserve	Actuarial gains/(losses) on employee benefits	Retained earnings/(deficit)	**Total equity**
As at Jan 1 2014 (audited)	**5,900**	**1,740**	**(6)**	**(1)**	**20**	**15,315**	**22,969**
Dividend	-	-	-	-	-	(885)	**(885)**
Total comprehensive income	**-**	**-**	**22**	**(214)**	**(7)**	**1,895**	**1,696**
Net profit/(loss) for 2014	-	-	-	-	-	1,895	**1,895**
Net other comprehensive income for 2014	-	-	22	(214)	(7)	-	**(199)**
As at Dec 31 2014 (audited)	**5,900**	**1,740**	**16**	**(215)**	**13**	**16,325**	**23,780**
As at Jan 1 2013 (restated)	**5,900**	**1,740**	**-**	**(59)**	**(7)**	**14,388**	**21,962**
Dividend	-	-	-	-	-	(767)	**(767)**
Total comprehensive income	**-**	**-**	**(6)**	**58**	**27**	**1,688**	**1,767**
Net profit/(loss) 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**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF PGNiG S.A. as at December 31st 2014

1. GENERAL INFORMATION

1.1. Company name, principal business activity 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 (Dz. U. 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 (Dz.U. 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 fertilizer 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 2014, with comparative data for the period from January 1st to December 31st 2013.

1.4. Scope of disclosure

PGNiG S.A. has a multi-branch structure, which as at December 31st 2014 comprised the following entities:

- Head Office, Warsaw
- 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,

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

On August 1st 2014, PGNiG S.A. made an in-kind contribution of its Retail Trade Segment as an organised part of business, within the meaning of Art. 55^1 of the Civil Code, consists among other things of six Trading Divisions to PGNiG Obrót Detaliczny Sp. z o.o. On September 5th 2014, the Management Board of PGNiG S.A. passed Resolution No. 484/2014 to liquidate the Trading Divisions in Wrocław, Zabrze, Tarnów, Warsaw, Gdańsk and Poznań.

Pursuant to Management Board Resolution No. 597/2014 of October 28th 2014, the Wierzchowice Underground Gas Storage Facility Branch in Czarnogoździce has been incorporated into the Zielona Góra Branch as of December 31st 2014.

Pursuant to Resolution No. 435/2013 of June 19th 2013, the PGNiG Management Board set the liquidation date of the Denmark Branch for the date of receipt of the decision concerning the company’s removal from the Danish register of entrepreneurs. The decision was delivered at the PGNiG S.A. registered office on April 29th 2014. Following analysis of the negative results from the Felsted-1 exploration well and after it was determined that the 1/05 licence offered no prospects for discovery of crude oil deposits, the Denmark Branch was wound up.

PGNIG S.A., as the Parent, also prepares consolidated financial statements containing the data of 15 subsidiaries (of which three are parents of their own groups), one associate and one joint venture.

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 2014, the Company's Management Board consisted of:

- Mr Mariusz Zawisza − President,
- Mr Jarosław Bauc – Vice-President, Finance,
- Mr Zbigniew Skrzypkiewicz – Vice-President, Exploration & Production,
- Waldemar Wójcik – Vice-President.

The following changes in the composition of the PGNiG Management Board occurred in 2014:

- Since January 1st 2014 Mr Mariusz Zawisza was appointed as President of the Management Board of PGNiG, in accordance with decision of the Supervisory Board of December 30th 2013
- On April 3rd 2014, the Supervisory Board appointed Mr Waldemar Wójcik, elected by PGNiG employees, as member of the Company's Management Board by virtue of Resolution No. 29/VI/2014;
- On June 18th 2014, the Supervisory Board suspended Mr Andrzej Parafianowicz from duties as Vice-President of the PGNiG Management Board for Corporate Affairs by virtue of Resolution No. 6/VII/2014;
- On August 7th 2014, Mr Andrzej Parafianowicz, Vice-President of the Management Board for Corporate Affairs, tendered his resignation as member of the PGNiG Management Board;
- On August 7th 2014, the Supervisory Board appointed Mr Waldemar Wójcik as Vice-President of the Management Board of PGNiG S.A. by virtue of Resolution No. 22/VII/2014;
- On December 29th 2014, the Supervisory Board of PGNiG S.A. removed Mr Jerzy Kurella from the PGNiG Management Board and from the position of Vice-President for Trade by virtue of Resolution No. 53/VII/2014.

Subsequent to December 31st 2014, until the date of release of these financial statements, there were no changes in the composition of the PGNiG Management Board

1.6. Commercial proxies

As at December 31st 2014, Ms Violetta Jasińska-Jaśkowiak served as commercial proxy for PGNiG S.A. pursuant to the power of proxy granted on December 20th 2013.

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

Subsequent to December 31st 2014, until the date of release of these financial statements, there were no changes with respect to commercial proxies for PGNiG S.A.

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 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 2014, the composition of the PGNiG Supervisory Board was as follows:

- Mr Wojciech Chmielewski – Chairman,
- Ms Agnieszka Woś – Deputy Chairperson,
- Ms Magdalena Zegarska – Secretary,
- Mr Sławomir Borowiec – Member,
- Mr Andrzej Janiak – Member,
- Mr Ryszard Wąsowicz – Member,
- Mr Janusz Pilitowski – Member.

The following changes in the composition of the PGNiG Supervisory Board occurred in 2014:

- On March 26th 2014, by virtue of Resolution No. 2/III/2014, the Extraordinary General Meeting of PGNiG S.A. appointed Mr Andrzej Janiak as member of the Company's Supervisory Board;
- On May 15th 2014, by virtue of Resolution No. 24/V/2014, the Annual General Meeting of PGNiG S.A. removed the following persons from the Supervisory Board:
  - Mr Mieczysław Kawecki,
  - Mr Marcin Moryń,
  - Ms Agnieszka Chmielarz,
  - Ms Jolanta Siergiej,
  - Mr Wojciech Chmielewski,
  - Mr Janusz Pilitowski,
  - Mr Józef Głowacki,
  - Ms Ewa Sibrecht-Ośka,
  - Mr Andrzej Janiak,
- On May 15th 2014, the Annual General Meeting:
  - appointed Mr Wojciech Chmielewski as member of the Supervisory Board by virtue of Resolution No. 25/V/2014,
  - appointed Mr Bogusław Nadolnik as member of the Supervisory Board by virtue of Resolution No. 26/V/2014,
  - appointed Ms Agnieszka Trzaskalska as member of the Supervisory Board by virtue of Resolution No. 27/V/2014,
  - appointed Ms Agnieszka Woś as member of the Supervisory Board by virtue of Resolution No. 28/V/2014,
  - appointed Mr Janusz Pilitowski as member of the Supervisory Board by virtue of Resolution No. 29/V/2014,
  - appointed Mr Andrzej Janiak as member of the Supervisory Board by virtue of Resolution No. 30/V/2014,
  - appointed Mr Sławomir Borowiec as member of the Supervisory Board by virtue of Resolution No. 31/V/2014,
  - appointed Ms Magdalena Zegarska as member of the Supervisory Board by virtue of Resolution No. 32/V/2014,
  - appointed Mr Ryszard Wąsowicz as member of the Supervisory Board by virtue of Resolution No. 33/V/2014.
- On May 20th 2014, the Supervisory Board appointed:

- Mr Wojciech Chmielewski as Chairman of the Supervisory Board by virtue of Resolution No. 1/VII/2014,
- Ms Agnieszka Woś as Deputy Chairperson of the Supervisory Board by virtue of Resolution No. 2/VII/2014,
- Ms Magdalena Zegarska as Secretary of the Supervisory Board by virtue of Resolution No. 3/VII/2014,

- on July 30th 2014, Ms Agnieszka Trzaskalska resigned as member of the Supervisory Board of PGNiG S.A.
- on November 6th 2014, Mr Bogusław Nadolnik resigned as member of the Supervisory Board of PGNiG S.A.

1.8. Shareholding structure of PGNiG S.A.

As at the date of issue of these separate financial statements for 2014, 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 shareholding structure was as follows:

Shareholder	Registered office	Number of shares	% ownership interest	% total voting rights
As at December 31st 2014				
State Treasury	Warsaw	4,271,717,836	72.40%	72.40%
Other shareholders	-	1,628,282,164	27.60%	27.60%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**
As at December 31st 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%**

The cause of the change in PGNiG S.A.'s shareholding structure is the ongoing process of distribution of the Company shares to eligible employees. As at December 31st 2014, 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 involving commercial-law companies and other changes affecting the Company's structure

In 2014, there were no business combinations involving PGNiG S.A. and other commercial-law companies.

On August 1st 2014, PGNiG S.A. made an in-kind contribution of its retail trade operations, constituting a business within the meaning of IFRS 3, to the subsidiary PGNiG Obrót Detaliczny Sp. z o.o. The separation of retail and wholesale business was another step on the way to improving corporate governance at the PGNiG Group, one that will also allow the Group to meet its obligation to sell gas by auction or on the exchange market in the coming years. As it was determined that the transaction had no commercial substance, the increase in investment in the subsidiary was recognised at the carrying amounts of assets and liabilities derecognised from the statement of financial position. The carrying amount of the contribution was PLN 752m. The accounting for the transaction had no effect on the Company's net profit in the reporting period.

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 2015.

2. ACCOUNTING POLICIES

2.1. Basis of preparation

These 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 amortised cost using the effective interest rate method.

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 2014.

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 (Dz. U. No. 33, item 259, as amended).

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 reporting period, the Company adopted all 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 Company's business and are effective for annual reporting periods beginning on or after January 1st 2014.

- IFRS 10 Consolidated Financial Statements, endorsed by the European Commission on December 11th 2012,
- IFRS 11 Joint Arrangements, endorsed by the European Commission on December 11th 2012,
- IFRS 12 Disclosure of Interests in Other Entities, endorsed by the European Commission on December 11th 2012,
- IAS 27 (revised 2011) Separate Financial Statements, endorsed by the European Commission on December 11th 2012,
- IAS 28 (revised 2011) Investments in Associates and Joint Ventures, endorsed by the European Commission on December 11th 2012,
- Amendments to IAS 32 Financial Instruments: Presentation– Offsetting Financial Assets and Financial Liabilities, endorsed by the European Commission on December 13th 2012,
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 27 Separate Financial Statements – Investment Entities, endorsed by the European Commission on November 20th 2013,

- Amendments to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets, endorsed by the European Commission on December 19th 2013,
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting, endorsed by the European Commission on December 19th 2013,
- IFRIC 21 Levies – endorsed by the European Commission on June 13th 2014.

Application of the above amendments to standards has not caused any material changes in the accounting policies of the Group or in the presentation of data in its financial statements.

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

As at the date of these 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:

- 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,
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions – effective for reporting periods beginning on or after July 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 International Accounting Standards Board which as at December 31st 2014 were not endorsed for use by the European Commission and therefore have not yet been applied in these financial statements:

- IFRS 9 Financial Instruments – effective for reporting periods beginning on or after January 1st 2018,
- Amendments to IFRS (2012−2014) – changes in the procedure of introducing annual amendments to IFRS – planned to be effective for reporting periods beginning on or after July 1st 2016,
- Amendments to IFRS 10 and IAS 28 Sales or Contributions of Assets between an Investor and Its Associate/Joint Venture – effective for reporting periods beginning on or after January 1st 2016,
- IFRS 14 Regulatory Deferral Accounts – effective for reporting periods beginning on or after January 1st 2016,
- IFRS 15 Revenue from Contracts with Customers – effective for reporting periods beginning on or after January 1st 2017,
- Amendments to IAS 16 Property, Plant and Equipment – effective for reporting periods beginning on or after January 1st 2016,
- Amendments to IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation – effective for reporting periods beginning on or after January 1st 2016,
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations – effective for reporting periods beginning on or after January 1st 2016.

- Amendments to IAS 1 Disclosure Initiative – effective for reporting periods beginning on or after January 1st 2016,
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – effective for reporting periods beginning on or after January 1st 2016,
- Amendments to IAS 27 Equity Method in Separate Financial Statements – effective for reporting periods beginning on or after January 1st 2016,

The Company estimates that the above standards and amendments to standards would not have had a material effect 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 recognised in profit or loss as at the date of their use. Significant spare parts and maintenance equipment may be disclosed as property, plant and equipment if the 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 an item of property, plant and equipment, its carrying amount is derecognised from the separate 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.

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,
- finance charges in respect of finance leases,
- 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 the 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 with the straight-line method over useful economic life periods of 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;
- Licences, 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 CO_2 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 - over the time specified in the decision granting the licence.

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. Shares

In the separate financial statements, the 'Shares' line item includes investments in subsidiaries, associates and jointly-controlled entities which are not classified as held for sale. These investments are recognised accordance with IAS 27.10 point a) at cost less impairment, if any. The assessment whether it is necessary to recognise impairment is made in accordance with IAS 36 Impairment of Assets, by comparing the carrying amount of an investment with the higher of its fair value less costs to sell and its value in use.

The 'Shares' line item also includes investments in companies which are classified as available for sale and disclosed in the statement of financial position in accordance with IAS 39.

2.3.7. 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.

2.3.7.1. The Company as a lessor

Finance leases are disclosed in the statement of financial position as current or non-current financial assets 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 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 revenue.

2.3.7.2. 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 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.

2.3.8. 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.

2.3.9. 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),
- financial instruments hedging specific risks under hedge accounting,
- financial assets available for sale,
- loans and receivables.

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

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

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

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

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

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.

2.3.9.2. Financial instruments hedging specific risks under hedge accounting

This category includes measurement of derivative transactions executed to hedge the Company against the risk of fluctuations in gas and electricity prices, exchange rates and interest rates, with respect to which the Company applies hedge accounting policies. For description of the applied hedge accounting policies, see Section 2.3.11.

2.3.9.3. Financial assets available for sale

1. Financial assets available for sale are non-derivative financial assets that are designated as available for sale or other than:
   1.1. loans and receivables,
   1.2. investments held to maturity, or
   1.3. financial assets at fair value through profit or loss.

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

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

Financial assets available for sale are measured at fair value. Changes resulting from fair value measurement are recognised in equity under 'Accumulated other comprehensive income'. However, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost and disclosed under 'Shares' (see Section 2.3.6).

2.3.9.4. 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 and bonds not quoted in an active market,
- cash and cash equivalents.

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.

2.3.9.5. 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.

2.3.9.6. 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 consists of the cash and cash equivalents specified above, less outstanding overdraft facilities.

2.3.10. 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.

2.3.11. 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.

2.3.12. Joint arrangements

Joint arrangements are either:

1. joint operations, or

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly,
- its liabilities, including its share of any liabilities incurred jointly,
- its revenue from the sale of its share of the output arising from the joint operation,
- its share of the revenue from the sale of the output by the joint operation,
- its expenses, including its share of any expenses incurred jointly.

2. joint ventures.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

In the consolidated financial statements, a joint venturer recognises its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with IAS 28, unless the entity is exempted from applying the equity method as specified in that standard. A party that participates in, but does not have joint control or significant influence over, a joint venture accounts for its interest in the arrangement in accordance with IAS 39.

2.3.13. 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 goods, 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.

2.3.14. 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 or 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.

2.3.15. Equity

Equity is disclosed in the statement of financial position by type and in accordance with the rules stipulated by applicable laws and the 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, in which a binding commitment to transfer the funds was made.

2.3.16. 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.

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

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

2.3.16.2. Provision for environmental liabilities

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

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

In the ordinary course of business, the 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. 3051–3054 of the Polish Civil Code of April 23rd 1964 (Dz.U. 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.

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

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

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

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

2.3.16.5. Other provisions

The Company recognises other provisions for expenses related to its activities and operations, such as a provision for penalties and other claims, which – if not recognised in profit or loss for a given period – would distort the true view of the Company's assets and financial position.

2.3.17. Prepayments and accrued income

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 revenue, the Company recognises deferred revenue from additional charges for uncollected gas and government grants relating to assets.

Deferred revenue 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 revenue is reclassified to income from compensations, penalties, fines, etc.

Government grants relating to assets are recognised as deferred revenue 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 revenue is broken down into a non-current and current portion and disclosed under liabilities in the statement of financial position.

2.3.18. Financial liabilities

Financial liabilities are classified into two categories:

- financial liabilities measured at fair value through profit or loss
- 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.

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

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

- it is classified as held for trading, or
- it was designated by the 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.

2.3.18.2. Financial liabilities 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.

2.3.18.3. Other financial liabilities

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

Following initial recognition, they are measured at amortised cost with the use of the effective interest rate method.

The adjusted acquisition cost includes cost of obtaining the borrowing as well as discounts or premiums obtained at settlement of the liability.

2.3.19. Trade and other payables

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

2.3.19.1. 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 benefits paid during the employment period are charged to profit or loss of the current reporting period.

2.3.19.2. 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.

2.3.20.1. 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.

2.3.20.2. 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.

2.3.20.2. 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.

2.3.20.3. 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.

2.3.20.4. 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.

2.3.20.5. Royalties

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

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

Contingent assets are not recognised in the 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 are recognised in the financial statements as exchange differences on translating foreign operations under ‘Accumulated other comprehensive income’. Upon disposal of a foreign operation, accumulated foreign exchange gains or losses disclosed under equity are recognised in profit or loss (IAS 21.34 and 21.38).

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 description of the accounting policies applied by the Company to derivative financial instruments see Section 2.3.11).

2.3.25. 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.

2.3.25.1. 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.

2.3.25.2. 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 2014.

2.3.25.3. 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.

2.3.25.4. 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 2.3.16.3).

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

2.4. Presentation changes in the financial statements

In the financial statements for the period ended December 31st 2014, the Company made changes to comparative financial data relating to:

Change of presentation of exchange differences and capitalised interest

The Company has reclassified exchange differences and interest amounts capitalised in interest-bearing liabilities at the beginning of a given reporting period and paid in the current reporting period. So far, these amounts were disclosed in the statement of cash flows under "Repayment of borrowings" and "Repayment of debt securities". Starting from 2014, these amounts are disclosed under "Interest paid"

Change in presentation of purchase of gas fuel transmission services at entry points

The Company changed the presentation of costs of gas fuel transmission services purchased at system entry points (pursuant to the Regulation of the Minister of Economy on detailed rules for determining and calculating tariffs for gas fuels and on settlement of transactions in gas fuels trading). Starting from 2014, the costs are disclosed in the income statement under "Raw material and consumables used" (increase in gas fuel purchase costs), and not under "Services" as was the case previously.

Change in presentation of joint-operation transactions in which the Company acts as the operator

The Company changed the presentation of joint-operation transactions in which it acts as the operator. The Company offset the costs representing the partner's interest in joint operations against the corresponding revenue under the operator's charge invoice. Such events were previously presented separately under revenue and expenses. The change was made to increase the transparency of presentation of the Company's interest in joint operations.

Change in presentation of loans and finance leases

In order to increase the transparency of financial transactions involving loans and finance leases, these items were separated from Trade and other receivables and moved to the newly created category Current financial assets.

As a result of the above changes, the following adjustments were made to the statement of profit or loss and statement of cash flows to ensure comparability of the data for the year ended December 31st 2013. Only restated items are presented in the tables below.

STATEMENT OF PROFIT OR LOSS – RESTATEMENT OF COMPARATIVE DATA

	Period before the change	Change in presentation of transmission costs	Change in presentation of joint-operations	Period after the change
Revenue	**27,186**	**-**	**(76)**	**27,110**
Raw materials and consumables used	(16,625)	(360)	-	(16,985)
Services	(6,101)	360	76	(5,665)
Total operating expenses	**(25,053)**	**-**	**76**	**(24,977)**
Operating profit/(loss)	**2,133**	**-**	**-**	**2,133**

STATEMENT OF FINANCIAL POSITION – RESTATEMENT OF COMPARATIVE DATA

	Period before the change	Adjustments ensuring comparability – debt and equity instruments, finance leases, loans	Period after the change
Total current assets	**8,478**	**-**	**8,478**
Trade and other receivables	3,695	(327)	3,368
Current financial assets	-	327	327
Total assets	**35,424**	**-**	**35,424**

STATEMENT OF CASH FLOWS – RESTATEMENT OF COMPARATIVE DATA

	Period before the change	Change of presentation of exchange differences and capitalised interest repayment	Change in presentation of loans advanced and finance leases	Period after the change
Cash flows from operating activities				
Net foreign exchange gains	337	2	-	339
Cash flows from operating activities before movements in working capital	**2,922**	**2**	**-**	**2,924**
Increase/(decrease) in trade and other receivables	1,299	-	(5)	1,294
(Increase)/decrease in other assets	(4)	-	5	1
Net cash generated by operating activities	**4,317**	**2**	**-**	**4,319**
Cash flows from financing activities				
Repayment of borrowings	(70)	70	-	-
Repayment of debt securities	(3,661)	(17)	-	(3,678)
Interest paid	(240)	(55)	-	(295)
Net cash used in/(generated by) financing activities	**(3,262)**	**(2)**	**-**	**(3,264)**

3. OPERATING SEGMENTS

3.1. Reportable segments

For information on the operating segments, see the Consolidated Full-Year Report of the PGNiG Group.

3.2. Geographical areas

The Company conducts its business activity primarily on the domestic market. In 2014, revenue from export sales to external customers accounted for 4.87% (2013: 5.05%) of total net revenue from sales to external customers. The main export markets were Switzerland and Germany.

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Domestic sales	**22,581**	**25,742**
High-methane gas	18,343	21,789
Nitrogen-rich gas	1,290	1,417
Crude oil and natural gasoline	790	1,007
Helium	12	29
Propane-butane gas	83	76
LNG	59	58
Electricity	1,155	633
Certificates of origin for electricity	-	2
Other services	129	65
Other products	26	40
Merchandise and materials	6	8
Entitlement to operate storage facilities	633	554
CO_2 emission allowances	55	64
Export sales:	**1,157**	**1,368**
High-methane gas	2	131
Nitrogen-rich gas	35	21
Crude oil and natural gasoline	999	1,051
Helium	108	155
Electricity	6	6
Other services	4	3
Other products	2	1
Merchandise and materials	1	-
Total	**23,738**	**27,110**
% share of exports in total sales:	**4.87%**	**5.05%**

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 2014 represented 1.44% of the Company's total non-current assets (other than financial instruments) (December 31st 2013: 1.05%).

	Dec 31 2014	Dec 31 2013
	audited	audited
Value of non-current assets other than financial instruments located in Poland	13,577	13,911
Value of non-current assets other than financial instruments located abroad	198	147
Total	**13,775**	**14,058**
% share of assets located abroad in total assets	**1.44%**	**1.05%**

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.

3.4. Selected financial results of the Company's activities regulated and supervised by the Polish Energy Regulatory Office (regulated activities), disclosed under Art. 44.2 of the Polish Energy Law

In the tables below, the items of income, expenses, profit and loss, as well as assets, equity and liabilities, are disclosed separately for the regulated activities (gas fuels and electricity trading) and non-regulated activities.

Statement of profit or loss

12 months ended Dec 31 2014	Gas fuels trading	Electricity trading	**Regulated activities**	**Non-regulated activities**	**Total**
Sales	14,498	1,161	15,659	8,079	**23,738**
Direct costs	(13,876)	(1,165)	(15,041)	(5,612)	**(20,653)**
Indirect costs	(422)	(13)	(435)	(99)	**(534)**
Other operating activities	-	-	-	(918)	**(918)**
Operating profit/(loss)	200	(17)	183	1,450	**1,633**
Finance income and costs	-	-	-	589	**589**
Profit/(loss) before tax	200	(17)	183	2,039	**2,222**
Income tax	-	-	-	(327)	**(327)**
Net profit/(loss)	**200**	**(17)**	183	1,712	**1,895**

Statement of financial position

as at December 31st 2014	*Gas fuels trading*	*Electricity trading*	**Regulated activities**	**Non-regulated activities**	**Total**
Non-current assets	3,064	-	3,064	24,323	**27,387**
Trade and other receivables	440	13	453	854	**1,307**
Other assets	-	-	-	6,662	**6,662**
Total assets	**3,504**	**13**	3,517	31,839	**35,356**
Provisions and liabilities	1,036	70	1,106	1,476	**2,582**
Equity and other items of equity and liabilities	-	-	-	32,774	**32,774**
Total equity and liabilities	**1,036**	**70**	1,106	34,250	**35,356**

Statement of profit or loss

12 months ended Dec 31 2013	Gas fuels trading	Electricity trading	**Regulated activities**	**Non-regulated activities**	**Total**
Sales	22,232	639	22,871	4,239	**27,110**
Direct costs	(21,610)	(636)	(22,246)	(1,539)	**(23,785)**
Indirect costs	(661)	(3)	(664)	(60)	**(724)**
Other operating activities	-	-	-	(468)	**(468)**

Operating profit/(loss)	(39)	-	(39)	2,172	**2,133**
Finance income and costs	-	-	-	(20)	**(20)**
Profit/(loss) before tax	(39)	-	(39)	2,152	**2,113**
Income tax	-	-	-	(425)	**(425)**
Net profit/(loss)	**(39)**	-	(39)	1,727	**1,688**

Statement of financial position

as at December 31st 2013	*Gas fuels trading*	*Electricity trading*	**Regulated activities**	**Non-regulated activities**	**Total**
Non-current assets	3,422	-	3,422	23,524	**26,946**
Trade and other receivables	1,655	4	1,659	1,709	**3,368**
Other current assets	-	-	-	5,110	**5,110**
Total assets	**5,077**	**4**	5,081	30,343	**35,424**
Provisions and liabilities	1,393	45	1,438	1,609	**3,047**
Equity and other items of equity and liabilities	-	-	-	32,377	**32,377**
Total equity and liabilities	**1,393**	**45**	1,438	33,986	**35,424**

Under Art. 44.1 of the Polish Energy Law of April 10th 1997 (Dz.U. of 1997 No. 54, item 348, as amended), the Company is required to keep its accounting records in such a manner as to enable calculation of revenues, expenses, profit and loss separately for each type of business.

The record keeping relies on a controlling model, which provides management accounting information based on data used for the purposes of financial accounting. Costs directly attributable to a given type of business are posted to properly categorised control objects assigned to a given product. The other costs are divided according to a stated formula, based on statistical indicators serving as the cost division criteria.

The last step in the cost accounting process are the result orders. Types of business activity, which are one of the features determining result orders, are used to assign costs and revenues to the appropriate business activities.

4. OPERATING EXPENSES

4.1. Raw materials and consumables used

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Cost of gas sold	(13,835)	(16,214)
Electricity for trading	(1,123)	(678)
Other raw materials and consumables used	(143)	(93)
Total	**(15,101)**	**(16,985)**

4.2. Employee benefits expense

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Salaries and wages	(496)	(637)
Social security contributions	(141)	(153)
including: contributions to the Employee Retirement Scheme	(36)	(39)
Other employee benefits expense	(86)	(75)
Cost of future benefits	(27)	(105)
Total	**(750)**	**(970)**

4.3. Services

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Purchase of transmission, distribution, and storage services	(3,341)	(4,990)
Cost of dry wells written off	(250)	(133)
Costs of seismic surveys written off	(41)	(30)
Other services	(524)	(512)
Total	**(4,156)**	**(5,665)**

4.4. Other income and expenses

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Compensation, penalties, fines, etc. received	16	151
Income from current settlement of deferred revenue recognised in the statement of financial position	-	30
Interest on receivables related to operating activities	46	62
Other income	17	15
Net exchange differences related to operating activities	48	22
Net gain/(loss) on derivative instruments related to operating activities	(212)	(228)
Net gains/losses on disposal of non-financial non-current assets	(1)	24
Change in products	32	18
Change in impairment losses on property, plant and equipment	(694)	(254)
Change in inventory write-downs	(69)	-
Change in impairment losses on trade and other receivables	(55)	80
Provision for well decommissioning costs	(39)	45
Provision for workforce streamlining and voluntary termination programmes	(3)	2
Provision for environmental liabilities	-	4
Provision for claims under extra-contractual use of land	(3)	(1)
Provision for liabilities associated with exploration work in Pakistan, Egypt and Libya	(9)	(126)
Other provisions	12	(13)
Provision for certificates of origin and energy savings certificates	(158)	(134)
Taxes and charges relating to hydrocarbons production	(63)	(62)
Taxes and charges	(131)	(112)

Merchandise and materials sold	(62)	(71)
Property insurance	(13)	(27)
Domestic and international business trips	(9)	(11)
Compensation, penalties, fines, etc. paid	(8)	(3)
Other costs	(28)	(48)
Total	**(1,386)**	**(637)**

5. FINANCE INCOME AND COSTS

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Finance income	**966**	**1,020**
Gain on measurement and realisation of derivative financial instruments	92	362
Interest income	340	304
Dividends and other profit distributions	530	345
Other finance income	4	9
Finance costs	**(377)**	**(1,040)**
Interest expense	(142)	(190)
Foreign exchange losses	(159)	(403)
Revaluation of investments	(50)	(420)
Commission fees paid on bank borrowings	(16)	(20)
Cost of guarantees	(3)	(3)
Other finance costs	(7)	(4)
Net finance income/(cost)	**589**	**(20)**

Total borrowing costs capitalised as acquisition (or production) costs of non-current assets in the reporting period amounted to PLN 86m (2013: PLN 113.5m).

6. INCOME TAX

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Profit/(loss) before tax	2,222	2,113
Tax rate applicable in the period	19%	19%
Tax calculated at the applicable tax rate	(422)	(401)
Permanent differences between profit/(loss) before tax and taxable profit	95	(24)
Tax expense in the statement of profit or loss	**(327)**	**(425)**
Current tax expense	(400)	(450)
Deferred tax expense	73	25
Effective tax rate	15%	20%

The PGNiG Tax Group (PTG) was registered by the Head of the Second Warsaw Province Tax Office on February 24th 2014, and commenced operations on April 1st 2014. The PGNiG Tax Group comprises the following companies: PGNiG S.A. – specified in the agreement on the establishment of the tax group as the Representative Company, PGNiG Obrót Detaliczny Sp. z o.o., PSG Sp. z o.o., PGNiG Termika S.A., OSM Sp. z o.o., PGNiG SPV 5 Sp. z o.o., PGNiG SPV 6 Sp. z o.o. and PGNiG SPV 7 Sp. z o.o.
The PTG agreement covers three consecutive tax years, i.e.:

- the first tax year − from April 1st 2014 to December 31st 2014
- the second tax year − from January 1st 2015 to December 31st 2015
- the third tax year − from January 1st 2016 to December 31st 2016

The establishment of the PGNiG Tax Group brings specific benefits to the entities of the tax group, such as:

- The arm's length nature of the prices applied within the Group as well as assessment of income cannot be questioned under Art. 11 of the Corporate Income Tax Act,
- Losses generated by Group entities may be used as they are incurred,
- Donations to other Group entities qualify as tax deductible expenses,
- CIT settlements are handled by a single entity.

Dividend received, which amounted to PLN 530m in the year ended December 31st 2014 (year ended December 31st 2013: PLN 345m), was the key factor determining the effective tax rate of 15% in the year ended December 31st 2014 (year ended December 31st 2013: 20%).

6.1. Current tax expense

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Profit/(loss) before tax	2,222	2,113
Differences between profit/(loss) before tax and tax base	(112)	173
Taxable income not recognised as income for accounting purposes	179	245
Tax deductible expenses not recognised as expenses for accounting purposes	(2,379)	(1,783)
Income not recognised as taxable income	1,471	1,793
Non-tax deductible expenses	(3,617)	(3,606)
Deductions from income	(58)	(102)
Income tax base	2,110	2,286
Tax rate applicable in the period	19%	19%
Income tax	(401)	(434)
Increases, reliefs, exemptions, allowances and reductions in/of income tax	1	(16)
Current tax expense disclosed in tax return for the period	(400)	(450)
Current tax expense disclosed in the statement of profit or loss	**(400)**	**(450)**

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 2014 and 2013, the foreign branches did not pay income tax.

6.2. Deferred tax expense

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Deferred tax expense disclosed in the separate statement of profit or loss	**73**	**25**
Recognition and reversal of deferred tax due to deductible temporary differences	**98**	**(10)**
Impairment losses on financial assets, receivables and tangible assets under construction	40	27
Provisions for future liabilities	17	11
Costs of FX risk and interest rate risk hedges	42	(49)
Other deductible temporary differences	(1)	1
Recognition and reversal of deferred tax due to taxable temporary differences	**(25)**	**35**
Difference between tax and accounting value of non-current assets	63	9
Positive valuation of FX and interest rate risk hedges	(69)	(13)
Accrued interest	4	31
Income on tax obligation arising in subsequent month	1	14
Other taxable temporary differences	(24)	(6)
Deferred tax expense disclosed in other comprehensive income, net, including:	**51**	**(21)**
Hedge accounting	50	(14)
Actuarial gains/(losses) on employee benefits	1	(7)
Total changes	**124**	**4**

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 2014, the balance of deferred tax assets was PLN 469m, and the balance of deferred tax liabilities was PLN 580m.

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 2014, the deferred tax asset increased by PLN 89m, of which PLN 98m was charged to profit or loss, while the balance reduced the Company’s equity.

In 2014, the deferred tax liability fell by PLN 29m, of which PLN 25m was charged to profit or loss, while the balance reduced the Company’s equity.

In the reporting period, the overall effect of the change in deferred tax on net profit was PLN 73m.

7. DISCONTINUED OPERATIONS

The Company did not discontinue any operations in 2014, 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 2014	Jan 1–Dec 31 2013
Net profit attributable to owners of the Company	1,895	1,688
Net profit attributable to owners of the Company used to calculate diluted earnings per share	1,895	1,688
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)	0.32	0.29
Diluted earnings per share for the period, attributable to holders of ordinary shares of the Company (PLN)	0.32	0.29

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 2014				
Jan 1 2014	Dec 31 2014	5,900	365	5,900
Total				
Dec 31 2013				
Jan 1 2013	Dec 31 2013	5,900	365	5,900
Total				

9. DIVIDEND PAID AND PROPOSED

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Dividends declared and paid in the period		
Dividend per share paid (PLN)	0.15	0.13
Number of shares (million)	5,900	5,900
Dividend paid (PLNm)	885	767
- cash dividend paid to the State Treasury	641	555
- cash dividend paid to other shareholders	244	212

On May 15th 2014, the Annual General Meeting of PGNiG S.A. passed a resolution on distribution of the Company's 2013 net profit and decided to allocate PLN 885m to dividend.

The dividend record date and the dividend payment date were set for August 14th 2014 and September 4th 2014, respectively.

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 2014	Dec 31 2013
Land	25	30
Buildings and structures	6,385	6,611
Plant and equipment	2,159	2,119
Vehicles and other	111	125
Total tangible assets	**8,680**	**8,885**
Tangible assets under construction - exploration for and evaluation of mineral resources	2,097	2,081
Other tangible assets under construction	2,743	2,809
Total property, plant and equipment	**13,520**	**13,775**

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

The Company entered into an agreement with Operator Systemu Magazynowania Sp. z o.o. ("OSM") for the exclusive operation of storage facilities and the assignment of duties of storage system operator. OSM is a special purpose vehicle and a wholly-owned subsidiary of PGNiG S.A., established for the purpose of providing gas fuel storage services.

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

10.1. PROPERTY, PLANT AND EQUIPMENT

Dec 31 2014	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**	Tangible assets under construction - exploration for and evaluation of mineral resources	Other tangible assets under construction	**Total property, plant and equipment**
Net carrying amount as at January 1st 2014, net of accumulated depreciation and impairment losses	30	6,611	2,119	125	**8,885**	2,081	2,809	13,775
Increase	-	249	-	-	**249**	806	557	1,612
Decrease	(1)	(96)	(8)	(1)	**(106)**	(300)	(27)	(433)
Non-cash contribution to PGNiG Obrót Detaliczny Sp. z o.o.	-	(81)	(7)	(9)	**(97)**	-	-	(97)
Currency translation differences	-	(1)	-	-	**(1)**	-	24	23
Transfers from tangible assets under construction and between groups	1	470	310	18	**799**	(266)	(599)	(66)
Impairment losses	(5)	(349)	(48)	(4)	**(406)**	(224)	(21)	(651)
Depreciation expense for the year	-	(418)	(207)	(18)	**(643)**	-	-	(643)
Net carrying amount as at December 31st 2014, net of accumulated depreciation and impairment losses	**25**	**6,385**	**2,159**	**111**	**8,680**	**2,097**	**2,743**	**13,520**
As at January 1st 2014								
Gross carrying amount	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 January 1st 2014	**30**	**6,611**	**2,119**	**125**	**8,885**	**2,081**	**2,809**	**13,775**
As at December 31st 2014								
Gross carrying amount	32	11,538	3,963	234	**15,767**	2,839	2,782	21,388
Accumulated amortisation and impairment losses	(7)	(5,153)	(1,804)	(123)	**(7,087)**	(742)	(39)	(7,868)
Net carrying amount as at December 31st 2014	**25**	**6,385**	**2,159**	**111**	**8,680**	**2,097**	**2,743**	**13,520**

Dec 31 2013	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**	Tangible assets under construction - exploration for and evaluation of mineral resources	Other tangible assets under construction	Total property, plant and equipment
Net carrying amount as at January 1st 2013, net of accumulated depreciation 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	1,596	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 December 31st 2013, net of accumulated depreciation and impairment losses	**30**	**6,611**	**2,119**	**125**	**8,885**	**2,081**	**2,809**	**13,775**

As at January 1st 2013								
Gross carrying amount	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 January 1st 2013	**26**	**6,076**	**1,414**	**122**	**7,638**	**2,151**	**4,305**	**14,094**

As at December 31st 2013								
Gross carrying amount	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 December 31st 2013	**30**	**6,611**	**2,119**	**125**	**8,885**	**2,081**	**2,809**	**13,775**

10.2. Impairment losses on property, plant and equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total tangible assets**	Tangible assets under construction - exploration for and evaluation of mineral resources	Other tangible assets under construction	**Total property, plant and equipment**
As at January 1st 2014	2	659	158	10	**829**	518	19	1,366
Increase	6	734	92	6	**838**	385	28	1,251
Decrease	(1)	(384)	(44)	(2)	**(431)**	(161)	(7)	(599)
Non-cash contribution to PGNiG Obrót Detaliczny Sp. z o.o.	-	(1)	-	-	**(1)**	-	-	(1)
As at December 31st 2014	**7**	**1,008**	**206**	**14**	**1,235**	**742**	**40**	**2,017**
As at January 1st 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 December 31st 2013	**2**	**659**	**158**	**10**	**829**	**518**	**19**	**1,366**

As at the beginning of the period, impairment losses on tangible assets stood at 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.

In 2014, the impairment losses increased by PLN 838m and decreased by PLN 431m. The movements included:
- a 775m increase and a PLN 399m decrease in impairment losses on assets used directly in hydrocarbon production,
- a PLN 63m increase and a PLN 32m 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, non-cash contribution to PGNiG Obrót Detaliczny Sp. z o.o., disposal of assets or their reclassification between asset groups.
As at the end of the period, impairment losses on tangible assets were PLN 1,235m, of which:

- PLN 1,030m 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 204m was attributable to impairment losses on other tangible assets.

As at the end of 2014, impairment losses on assets related to the exploration for and evaluation of mineral resources included PLN 742m of impairment losses on capitalised well-drilling expenditure (end of 2013: PLN 518m).

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 2014 amounted to 11.73% (2013: 11.60%). The applied discount rate for tangible assets under construction in 2014 amounted to 12.67% (2013: 12.33%).

11. INVESTMENT PROPERTY

	Dec 31 2014	Dec 31 2013
Net carrying amount at beginning of the period, net of accumulated depreciation	1	2
Transfer from/to property, plant and equipment	-	(1)
Net carrying amount at end of the period, net of accumulated depreciation	**1**	**1**

At beginning of period	Jan 1 2014	Jan 1 2013
Gross carrying amount	2	4
Accumulated amortisation and impairment losses	(1)	(2)
Net carrying amount at beginning of the period	**1**	**2**

At end of the period	Dec 31 2014	Dec 31 2013
Gross carrying amount	2	2
Accumulated amortisation and impairment losses	(1)	(1)
Net carrying amount at end of the period	**1**	**1**

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 0.7m (2013: PLN 0.8m), and the net carrying amount of the industrial buildings and structures was PLN 0.1m (2013: PLN 0.2m).

In the reporting period, the Company derived PLN 0.4m rental income from investment property (2013: PLN 1.2m).

Operating expenses incurred in connection with the rental of investment property were PLN 0.4m in the reporting period (2013: PLN 0.5m).

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 2014	Perpetual usufruct right to land*	Licences, mining rights and rights to geological information	Computer software, patents, licences and other intangible assets	**Total**
Net carrying amount as at January 1st 2014, net of accumulated amortisation and impairment losses	38	116	128	**282**
Increase	-	-	1	**1**
Non-cash contribution to PGNiG Obrót Detaliczny Sp. z o.o.	(1)	-	-	**(1)**
Transfers from tangible assets under construction and between asset groups	1	58	6	**65**
Impairment losses	-	(14)	-	**(14)**
Amortisation expense for the reporting period	-	(36)	(43)	**(79)**
Net carrying amount as at December 31st 2014, net of accumulated amortisation and impairment losses	**38**	**124**	**92**	**254**
As at January 1st 2014				
Gross carrying amount	41	193	258	**492**
Accumulated amortisation and impairment losses	(3)	(77)	(130)	**(210)**
Net carrying amount as at Jan 1 2014	**38**	**116**	**128**	**282**
As at December 31st 2014				
Gross carrying amount	41	249	262	**552**
Accumulated amortisation and impairment losses	(3)	(125)	(170)	**(298)**
Net carrying amount as at December 31st 2014	**38**	**124**	**92**	**254**

* 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 2014, the estimated value of the usufruct right was PLN 329.6m (end of 2013: PLN 327.4m).

Dec 31 2013	Perpetual usufruct right to land*	Licences, mining rights and rights to geological information	Computer software, patents, licences and other intangible assets	**Total**
Net carrying amount as at January 1st 2013, net of accumulated amortisation and impairment losses	38	91	75	**204**
Transfers from tangible assets under construction and between asset groups	-	49	86	**135**
Impairment losses	1	2	-	**3**
Amortisation expense for the reporting period	(1)	(26)	(33)	**(60)**
Net carrying amount as at December 31st 2013, net of accumulated amortisation and impairment losses	**38**	**116**	**128**	**282**

As at January 1st 2013				
Gross carrying amount	41	143	174	**358**
Accumulated amortisation and impairment losses	(3)	(52)	(99)	**(154)**
Net carrying amount as at January 1st 2013	**38**	**91**	**75**	**204**

As at December 31st 2013				
Gross carrying amount	41	193	258	**492**
Accumulated amortisation and impairment losses	(3)	(77)	(130)	**(210)**
Net carrying amount as at December 31st 2013	**38**	**116**	**128**	**282**

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

As at December 31st 2014, the Company used property, plant and equipment under finance lease agreements worth PLN 45 thousand. In the comparative period, as at December 31st 2013, the value of property, plant and equipment used by the Company under finance lease agreements was PLN 141 thousand.

12.2. Impairment losses on intangible assets

	Perpetual usufruct right to land	Licences, mining rights and rights to geological information	**Total**
As at January 1st 2014	-	6	**6**
Increase	-	15	**15**
Decrease	-	(1)	**(1)**
as at December 31st 2014	**-**	**20**	**20**
As at January 1st 2013	1	8	**9**
Increase	-	1	**1**
Decrease	(1)	(3)	**(4)**
As at December 31st 2013	**-**	**6**	**6**

13. SHARES

	Dec 31 2014	Dec 31 2013
Shares in subsidiaries, associates and jointly-controlled entities	11,068	9,847
Shares in other entities	20	25
Total, gross	**11,088**	**9,872**
Shares in subsidiaries, associates and jointly-controlled entities	8,610	7,795
Shares in other entities	1	1
Total, net	**8,611**	**7,796**

The line item ‘Shares in subsidiaries, associates and jointly-controlled entities’ includes the Company’s interest in POGC Libya BV and its additional contribution to POGC Libya BV’s equity. As at December 31st 2014, the Company’s equity interest in POGC Libya BV amounted to EUR 65.5m and USD 59.9m (PLN 279.3m and PLN 210.2m, respectively, translated at the exchange rates quoted by the NBP for December 31st 2014). In the Company’s accounting books, the gross value of the shares as at December 31st 2014 was PLN 291.9m, and the amount of the additional contribution to equity was PLN 187.9m.

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 479.9m as at December 31st 2014 (end of 2013: PLN 433.6m).

The Company also recognised a PLN 159.6m provision for licence obligations, to cover the outstanding obligations in Libya.

In January 2014, given the complicated political situation in Libya, all Polish employees of POGC-Libya B.V. and its contractors were evacuated. On August 15th 2014, the Management Board of POGC Libya B.V notified PGNiG S.A. that a force majeure event had been declared, as a result of which all operating and exploration activities in the area had been suspended.

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

On August 1st 2014, PGNiG S.A.'s retail business was transferred to subsidiary PGNiG Obrót Detaliczny Sp. z o.o. as a contribution in kind. The carrying amount of the acquired shares was PLN 752m. As at December 31st 2014, the value of shares held in PGNiG Obrót Detaliczny Sp. z o.o. was PLN 753m (end of 2013: PLN 1m).

14. OTHER FINANCIAL ASSETS

	Dec 31 2014	Dec 31 2013
Finance lease receivables (Note 14.1.)	192	201
Loans advanced	4,204	4,461
Amounts receivable for sale of tangible assets and other financial assets	7	6
Total, gross	**4,403**	**4,668**
Impairment losses	-	-
Total, net	**4,403**	**4,668**
Including net receivables from related entities	4,399	4,663

Under the item 'Loans advanced', the Company discloses intra-Group loans.

14.1. Finance lease

Agreement between PGNiG S.A. and Polska Spółka Gazownictwa Sp. z o.o.

PGNiG S.A. and Polska Spółka Gazownictwa Sp. z o.o. concluded 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 2014	Dec 31 2013
Interest payment	6	7
Principal payment	11	9
Total	**17**	**16**

The table below presents finance lease receivables by payment periods:

	Dec 31 2014	Dec 31 2013
- less than 1 year	12	11
- 1 to 5 years	56	45
- over 5 years	136	156
Total, including:	**204**	**212**
- current receivables	12	11
- non-current receivables	192	201

15. DEFERRED TAX ASSETS

	Dec 31 2014	Dec 31 2013
Obligations under length-of-service awards and severance	28	32
Provision for unused holiday entitlement	3	4
Provision for well decommissioning costs	144	124
Provision for environmental liabilities	8	8
Provisions for certificates of origin and energy savings certificates	32	26
Other provisions	12	25
Impairment losses on property, plant and equipment	126	99
Impairment losses on shares	3	5
Negative valuation of derivatives	80	38
Accrued interest on borrowings and liabilities	16	17
Other deferred tax assets	17	2
Total	**469**	**380**

16. OTHER NON-CURRENT ASSETS

	Dec 31 2014	Dec 31 2013
Connection charge	105	38
Commission fees paid on borrowings, notes and other debt instruments	19	2
Other non-current assets	5	4
Total	**129**	**44**

17. INVENTORIES

	Dec 31 2014	Dec 31 2013
Materials		
At cost, including:	2,555	2,699
- gas fuel	2,351	2,495
At net realisable value, including:	2,482	2,694
- gas fuel	2,282	2,495
Semi-finished products and work in progress		
Finished goods		
At cost	16	11
At net realisable value	16	11
Merchandise		
At cost	8	2
At net realisable value	8	2
Total inventories at cost	**2,579**	**2,712**
Total inventories, at the lower of cost and net realisable value	**2,506**	**2,707**

17.1. (Increase)/decrease in inventories in the period

	Dec 31 2014	Dec 31 2013
Inventories at cost, at beginning of the period	**2,712**	**2,431**
Purchase	16,888	18,884
Other increases	158	35
Inventories recognised as expenses for the period	(15,405)	(17,626)
Sales	(1,219)	(638)
Effect of business combination	-	1
Other decreases	(555)	(375)
Inventories at cost, at end of the period	**2,579**	**2,712**
Impairment loss on inventories	**(73)**	**(5)**
Total net inventories at end of the period	**2,506**	**2,707**

17.2. Impairment losses on inventories

	Dec 31 2014	Dec 31 2013
Impairment loss – opening balance	**(5)**	**(4)**
Increase in impairment losses	(211)	(1)
Reversal of impairment losses	143	-
Impairment losses at end of the period	**(73)**	**(5)**

18. TRADE AND OTHER RECEIVABLES

	Dec 31 2014	Dec 31 2013
Trade receivables	854	3,418
Trade receivables from related entities	138	13
VAT receivable	181	307
Other taxes, customs duties and social security receivable	20	21
Receivables from equity-accounted associated entities	5	4
Other receivables from related entities	104	1
Receivables from related entities under disposal of property, plant and equipment	3	-
Prepayments for tangible assets under construction	23	6
Prepayments for tangible assets under construction, from related entities	7	2
Receivables under credit balance of the Company Social Benefits Fund	-	1
Receivables under court proceedings	-	18
Receivables from related entities under cash pooling arrangements	31	-
Other receivables	264	101
Total gross receivables	**1,630**	**3,892**
Including gross receivables from related entities	288	19
Impairment loss on doubtful receivables (Table 18.1)	**(323)**	**(524)**
Total net receivables	**1,307**	**3,368**
including:		
Trade receivables	769	3,005
Trade receivables from related entities	138	13
VAT receivable	181	307
Other taxes, customs duties and social security receivable	20	21
Receivables from equity-accounted associated entities	5	4

Other receivables from related entities	104	-
Receivables from related entities under disposal of property, plant and equipment	3	-
Prepayments for tangible assets under construction	23	6
Prepayments for tangible assets under construction, from related entities	7	2
Receivables under credit balance of the Company Social Benefits Fund	-	1
Receivables from related entities under cash pooling arrangements	31	-
Other receivables	26	9
Including net receivables from related entities	288	19

PGNiG S.A. made a non-cash contribution to subsidiary PGNiG Obrót Detaliczny Sp. z o.o., in the form of retail trade business constituting an organised part of business (see Note 1.10).
The contribution included trade receivables with a net value of PLN 696m (gross value: PLN 1,017m).

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 2014	Dec 31 2013
Impairment loss – opening balance	(524)	(757)
Increase in impairment losses	(429)	(295)
Reversal of impairment losses	246	477
Use of impairment losses	63	51
Decrease related to contribution of receivables to PGNiG Obrót Detaliczny Sp. z o.o.	321	-
Impairment losses at end of the period	**(323)**	**(524)**

19. CURRENT INCOME TAX

	Dec 31 2014	Dec 31 2013
Current tax liabilities at beginning of the period	175	-
Change in current tax assets	-	(24)
Current tax assets at beginning of the period	-	24
Current tax liabilities of the PGNiG Tax Group	104	-
Interest charged to profit or loss in the period	-	6
Corporate income tax	400	450
Income tax paid in the period	(498)	(257)
Current tax liabilities at end of the period	**181**	**175**

20. OTHER ASSETS

	Dec 31 2014	Dec 31 2013
Property insurance	2	7
Commission fees on borrowings, notes, etc.	7	4
Software licenses, maintenance and upgrades	-	2
Connection charge	4	2
Other current assets	7	3
Total	**20**	**18**

21. CURRENT FINANCIAL ASSETS

	Dec 31 2014	Dec 31 2013
Loans advanced to other entities	106	23
Loans advanced to related entities	736	325
Debt and equity instruments (notes) advanced to related entities	991	-
Finance lease receivables from related entities	12	11
Total, gross	**1,845**	**359**
Impairment loss on current financial assets (Table 21.1)	**(40)**	**(31)**
Loans advanced to other entities	106	23
Loans advanced to related entities	696	293
Debt and equity instruments (notes) advanced to related entities	991	-
Finance lease receivables from related entities	12	11
Total, net	**1,805**	**327**

21.1. Impairment losses on current financial assets

	Dec 31 2014	Dec 31 2013
Impairment losses – opening balance	31	29
Increase in impairment losses	7	2
Reversal of impairment losses	2	-
Impairment losses at end of the period	**40**	**31**

22. CASH AND CASH EQUIVALENTS

	Dec 31 2014	Dec 31 2013
Cash in hand and at banks	186	260
Bank deposits	1,735	1,399
Other cash	21	24
Total	**1,942**	**1,683**

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 2014	Terms of disposal
Unlisted shares	2014	1	Request for proposal, public invitation to negotiate
Total		**1**	

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

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 'Shares', carrying amount of PLN 67m on account of shares in companies, which reduced the amount of the item from PLN 68m to PLN 1m.

24. SHARE CAPITAL

	Dec 31 2014	Dec 31 2013
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 2014	Dec 31 2013
Non-current	**4,498**	**4,432**
Borrowings	2,115	2,058
Debt securities	2,383	2,374
Current	**656**	**1,691**
Borrowings	86	80
Debt securities	570	1,611
Total	**5,154**	**6,123**

25.1. Borrowings

Dec 31 2014

Currency	Interest rate	Amount in original currency	Carrying amount	including maturing in:	
				2015	2016-2020
EUR	4.064%	516	2,201	86	2,115
Total			**2,201**	**86**	**2,115**

Dec 31 2013

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

25.2. Debt securities

Dec 31 2014

Currency	Interest rate	Amount in original currency	Carrying amount	including maturing in:	
				2015	2016-2020
PLN	6M WIBOR+1.25%	2,478	2,478	95	2,383
PLN	2.11%	10	10	10	-
PLN	2.22%	20	20	20	-
PLN	2.23%	95	95	95	-
PLN	2.23%	30	30	30	-
PLN	2.23%	100	100	100	-
PLN	2.23%	220	220	220	-
Total			**2,953**	**570**	**2,383**

Dec 31 2013

Currency	Interest rate	Amount in original currency	Carrying amount	including maturing 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**

25.3. Credit facilities obtained and undrawn amounts

	Dec 31 2014	Dec 31 2013
Credit facilities obtained	360	250
Undrawn amounts	**360**	**250**

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 2014, the Company's finance lease liabilities were PLN 28 thousand (current portion: PLN 22 thousand; non-current portion: PLN 6 thousand). 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).

26. EMPLOYEE BENEFIT OBLIGATIONS

	Dec 31 2014	Dec 31 2013
Liabilities under length-of-service awards	118	145
Liabilities under severance	27	26
Amounts payable for unused holiday entitlement	18	22
Termination benefits	6	3
Annual bonus obligations	8	75
Total	**177**	**271**
Non-current as at December 31st 2014	134	154
Current as at December 31st 2014	43	117
	177	**271**

The technical rate applied to calculate the discounted value of the future retirement severance obligations was 0.90%, as the resultant of the 2.50% annual return on assets and the 1.60% forecast annual salary growth (at the end of 2013 the applied technical rate was 2.40%, as the resultant of 4.35% and 1.90%, respectively).

As at December 31st 2014, the provision for annual bonuses was PLN 8m and related to 2014 bonuses to be paid in 2015.

Actuarial gains and losses for the obligations under length-of-service awards and retirement severance pays

	Dec 31 2014	Dec 31 2013
Length-of-service awards		
Value of obligation disclosed in the statement of financial position at beginning of the period	145	47
Interest expense	3	1
Current service cost	7	7
Benefits paid	(15)	(19)
Actuarial gain/(loss)	23	102
Gain/(loss) due to curtailments or settlements	1	7
Liabilities contributed to PGNiG Obrót Detaliczny Sp. z o.o.	(46)	-
Value of obligation disclosed in the statement of financial position at end of the period	**118**	**145**
Retirement severance		
Value of obligation disclosed in the statement of financial position at beginning of the period	26	56
Current service cost	1	1
Interest expense	1	1
Net actuarial gain/loss recognised during the reporting period	8	(34)
Benefits paid	(2)	(4)
Gain/(loss) due to curtailments or settlements	-	6
Liabilities contributed to PGNiG Obrót Detaliczny Sp. z o.o.	(7)	-
Value of obligation disclosed in the statement of financial position at end of the period	**27**	**26**
Total value of obligation disclosed in the statement of financial position at end of the period	**145**	**171**

The decrease in liabilities under length-of-service awards is mainly attributable to the transfer of liabilities to PGNiG Obrót Detaliczny Sp. z o.o. as part of a non-cash contribution. The value of actuarial gains/losses on the length-of-service award and retirement severance obligations was primarily driven by changes in the market environment (decrease in interest rates).

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

Parameter as at Dec 31 2014	**Length-of-service awards**	**Retirement severance**
	(PLNm)	
Initial provision amount	118	27
Discount rate +100 bps	108	24
Discount rate - 100 bps	128	31
Mortality tables +10 %	117	27
Mortality tables -10 %	118	28
Duration as at Dec 31 2014	9	12

The sensitivity analysis shows that a 100 bps increase in the discount rate for 2014 causes the provision for length-of-service awards to fall by 7.9%, while a 100 bps decrease in the discount rate causes the provision for length-of-service awards to rise by 9.2% (10.6% and 12.8%, as appropriate, in the case of the provision for retirement severance). Both provisions are much less sensitive to movements in the mortality rate. Its increase by 10% causes the provision for length-of-service awards to decrease by 0.7%, and the provision for retirement severance - by 1.5%. A 10% decrease in mortality rates results in the provisions growing by 0.7% and 1.5%, respectively.

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 as at December 31st 2013	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 movements 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.

27. PROVISIONS

	Provision for well decommissioning costs	Provision for penalty imposed by the Office of Competition and Consumer Protection	Provision for environmental liabilities	Provision for claims under extra-contractual use of land	Provision for liabilities associated with exploration work in Pakistan, Egypt and Libya	Provision for certificates of origin and energy savings certificates	Other	**Total**
As at January 1st 2014	1,134	60	41	15	153	134	53	**1,590**
Recognised	334	-	-	3	24	167	25	**553**
Reversed	(43)	-	-	-	(14)	(9)	(35)	**(101)**
Used	(32)	-	-	-	-	(125)	-	**(157)**
Currency translation differences	-	-	-	-	1	-	-	**1**
As at December 31st 2014	**1,393**	**60**	**41**	**18**	**164**	**167**	**43**	**1,886**
Non-current as at December 31st 2014	1,365	-	36	-	4	-	9	**1,414**
Current as at December 31st 2014	28	60	5	18	160	167	34	**472**
	1,393	**60**	**41**	**18**	**164**	**167**	**43**	**1,886**
Non-current as at December 31st 2013	1,106	-	34	-	9	-	7	**1,156**
Current as at December 31st 2013	28	60	7	15	144	134	46	**434**
	1,134	**60**	**41**	**15**	**153**	**134**	**53**	**1,590**

With respect to the costs of decommissioning of wells in 2014, the discount rate applied to calculate the provision for decommissioning costs was 0.01%, as the resultant of the 2.51% 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 2013, the discount rate was 1.8%, as the resultant of 4.35% and 2.50%, respectively).
Long-term provisions are discounted at the rate of 0.01%.

For more information on the provision for the proceedings before the President of UOKiK, see Note 40.2.

For more information on the provision for energy savings certificates, see Note 2.3.16.4.

The provision for liabilities associated with exploration work in Pakistan, Egypt and Libya relates to foreign operations. Following an analysis of the capital invested in Libya and risks related to the project, as at December 31st 2014 the Company recognised a provision for outstanding licence liabilities. This item also includes the provision for licence liabilities due to the government of Pakistan. Following liquidation of the Egypt Branch, the provision for licence liabilities due to the Egyptian government was reversed.

28. DEFERRED REVENUE

	Dec 31 2014	Dec 31 2013
Non-current		
Deferred revenue related to leased tangible assets	3	4
Connection charge	1	1
Grants	667	614
Other deferred revenue	19	2
Total non-current	**690**	**621**
Current		
Other deferred revenue	2	4
Total current	**2**	**4**

Grants

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

In 2014, the Company recognised a PLN 46.6m grant under financing of the Wierzchowice Underground Gas Storage Facility (December 31st 2013: PLN 31.9m), a PLN 6.5m grant under financing of the Kosakowo Underground Gas Storage Facility (December 31st 2013: PLN 49.9m), and a PLN 6.1m grant under financing of the Husów Underground Gas Storage Facility (December 31st 2013: PLN 17.9m). In 2014, the Company received PLN 3.6m under a grant for the financing of the “LNG-based conversion of Ełk and Olecko from propane-butane to E-gas” project.

The grant amounts are recognised as deferred revenue 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 2014	Dec 31 2013
Accrued interest	11	15
Valuation of derivative financial instruments, other financial assets, and financial liabilities	61	42
Income on tax obligation arising in subsequent month	-	3
Difference between tax and accounting value of non-current assets	468	532
Other deferred tax liabilities	40	17
Total	**580**	**609**

30. OTHER NON-CURRENT LIABILITIES

	Dec 31 2014	Dec 31 2013
Liabilities under licences, rights to geological information and mining rights	68	51
Other non-current liabilities	1	-
Total	**69**	**51**

31. TRADE AND OTHER PAYABLES

	Dec 31 2014	Dec 31 2013
Trade payables to other entities	513	882
Trade payables to related entities	311	563
VAT payable	932	968
Other taxes, customs duties and social security payable	97	129
Amounts payable under purchase of non-financial non-current assets	62	56
Amounts payable under purchase of non-financial non-current assets from related entities	63	36
Amounts payable under purchase of exploration and evaluation assets	22	19
Amounts payable under purchase of exploration and evaluation assets from related entities	70	81
Amounts payable to equity-accounted associated and jointly-controlled entities	7	6
Other amounts payable to related entities	1	2
Accruals and deferred revenue and prepaid deliveries	2	92
Cash pool payables to related entities	300	-
Other liabilities	34	54
Total	**2,414**	**2,888**
Including related entities (Note 37.2.)	752	688

PGNiG S.A. made a non-cash contribution to subsidiary PGNiG Obrót Detaliczny Sp. z o.o., in the form of retail trade business constituting an organised part of business (see Note 1.10).

The contribution included trade payables of PLN 183m.

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 2014	Jan 1–Dec 31 2013
1) Cash in the statement of financial position at beginning of the period	1,683	1,042
a) Net exchange differences on cash at beginning of the period*	(2)	(1)
Cash and cash equivalents in the statement of cash flows at beginning of the period (1-1a)	**1,685**	**1,043**
2) Cash in the statement of financial position at end of the period	1,942	1,683
a) Net exchange differences on cash at end of the period	1	(2)
b) Net effect of cash pool transactions	268	-
Cash and cash equivalents in the statement of cash flows at end of the period (2-2a-2b)	**1,673**	**1,685**

I. Change in cash in the statement of financial position (2-1)	259	641
II. Change in net exchange differences on cash (2a-1a)	3	(1)
III. Change in cash pool transactions (2b-2a)	268	-
Change in cash in the statement of cash flows (I. - II. -III.)	**(12)**	**642**

* 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 2014	Jan 1–Dec 31 2013
Change in other financial assets in the statement of financial position	**-**	**-**
Change in receivables in the statement of financial position	**2,061**	**1,316**
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	3	(2)
Change in prepayments for property, plant and equipment	23	3
Dividend receivable	-	(11)
Effect of business combination	-	(12)
Change in cash pool receivables	31	-
Change in receivables related to in-kind contribution to PGNiG Obrót Detaliczny Sp. z o.o.	(697)	-
Change in receivables in the statement of cash flows	**1,421**	**1,294**

Change in provisions	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
		restated
Change in provisions in the statement of financial position	**296**	**(140)**
Change in provision for well decommissioning costs which adjusts property, plant and equipment – adjustment to investment activity	(236)	405
Change in provisions in the statement of cash flows	**60**	**265**

Change in current liabilities	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
		restated
Change in current liabilities in the statement of financial position	**(474)**	**114**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	(24)	28
Other movements in current liabilities	18	21
Change in cash pool liabilities	(300)	-
Change in liabilities related to in-kind contribution to PGNiG Obrót Detaliczny Sp. z o.o.	183	-
Change in current liabilities in the statement of cash flows	**(597)**	**163**

Change in other assets in the statement of financial position	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Change in other non-current assets in the statement of financial position	**(85)**	**3**
Change in current financial assets and other assets in the statement of financial position	**(1,213)**	**1,286**
Expense (fees and commission) related to the note issuance programme	19	(7)
Change in other assets related to in-kind contribution to PGNiG Obrót Detaliczny Sp. z o.o.	(5)	-
Change in loans advanced	229	(1,445)
Change in lease receivables in financial assets – adjustment to investing activities	(8)	156
Change in lease receivables – adjustment to investment activity	1	8
Change in debt and equity instruments – adjustment to investing activities	989	-
Change in other assets in the statement of cash flows	**(73)**	**1**

Change in deferred revenue	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Change in deferred revenue in the statement of financial position	**67**	**61**
Grants received for property, plant and equipment	(51)	(97)
Other movements in deferred revenue	-	(4)
Change in deferred revenue in the statement of cash flows	**16**	**(40)**

Other items, net, under operating activity	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Derivative financial instruments	(50)	(385)
Written-down expenditure on non-financial non-current assets	294	156
Other items, net, under operating activity	112	13
Total	**356**	**(216)**

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

33.1. Financial instruments by category (net carrying amounts)

Dec 31 2014	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	**1**	**318**	**9,245**	**-**	**-**	**70**	**8,622**	**18,256**
Unlisted shares	1	-	-	-	-	-	8,610	**8,611**
Debt securities	-	-	991	-	-	-	-	**991**
Trade and other receivables	-	-	1,106	-	-	-	-	**1,106**
Derivative financial instrument assets	-	318	-	-	-	70	-	**388**
Cash and cash equivalents	-	-	1,942	-	-	-	-	**1,942**
Other financial assets	-	-	5,206	-	-	-	12	**5,218**
Total financial liabilities	**-**	**-**	**-**	**124**	**6,608**	**299**	**-**	**7,031**
Borrowings	-	-	-	-	2,201	-	-	**2,201**
Debt securities	-	-	-	-	2,953	-	-	**2,953**
Trade payables	-	-	-	-	1,454	-	-	**1,454**
Derivative financial instrument liabilities	-	-	-	124	-	299	-	**423**

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	**1**	**223**	**9,706**	**-**	**-**	**84**	**7,806**	**17,821**
Unlisted shares	1	-	-	-	-	-	7,795	**7,796**
Trade and other receivables	-	-	3,039	-	-	-	-	**3,039**
Derivative financial instrument assets	-	223	-	-	-	84	-	**307**
Cash and cash equivalents	-	-	1,683	-	-	-	-	**1,683**
Other financial assets	-	-	4,984	-	-	-	11	**4,995**
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**

33.2. Fair value of financial instruments

	Dec 31 2014			Dec 31 2013		
	Carrying amount	Fair value	Fair value hierarchy	Carrying amount	Fair value	Fair value hierarchy
Total financial assets	**388**	**388**		**307**	**307**	
Cross Currency Interest Rate Swap (CCIRS)	300	300	level 2	207	207	level 2
Forward/futures contracts	27	27	level 2	17	17	level 2
Commodity swap	-	-	-	31	31	level 2
Commodity call options	12	12	level 2	40	40	level 2
Call options	49	49	level 2	12	12	level 2
Total financial liabilities	**423**	**423**		**123**	**123**	
Cross Currency Interest Rate Swap (CCIRS)	-	-	level 2	38	38	level 2
Interest Rate Swap (IRS)	106	106	level 2	23	23	level 2
Forward/futures contracts	22	22	level 2	47	47	level 2
Commodity swap	281	281	level 2	15	15	level 2
Put commodity options	14	14	level 2	-	-	level 2

The net carrying amounts disclosed for the other classes of financial assets and liabilities that are within the scope of IAS 39 presented in Note 33.1 are equal or almost equal to their respective fair values. The values are deemed identical to the respective fair values.

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

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
Total effect on net profit/(loss), including:	**(550)**	**(432)**
Shares	(49)	(420)
Impairment recognised in profit or loss for the reporting period	(49)	(420)
Financial assets and financial liabilities at fair value through profit or loss	(191)	141
Loans and receivables	214	129
Interest on deposits	45	36
Interest on receivables	40	55
Interest on loans advanced	295	268
Impairment losses on receivables	(55)	80
Impairment losses on loans	(7)	(2)
Foreign currency measurement of loans advanced in foreign currencies	(104)	(308)
Financial liabilities at amortised cost	(215)	(235)
Hedging instruments	(315)	(53)
Assets and liabilities excluded from the scope of IAS 39	6	6
Total effect on other comprehensive income, net, including:	**(264)**	**72**
Derivative financial instruments	(264)	72
Total effect on comprehensive income	**(814)**	**(360)**

33.4. Fair value hierarchy

Classes of financial instruments	Dec 31 2014	Dec 31 2013
	level 2	level 2
Derivative financial instrument assets	388	307
Derivative financial instrument liabilities	423	123

Financial instruments are classified according to the three main levels of fair value measurement, reflecting the measurement basis adopted for each instrument.

The fair value hierarchy is as follows:

Level 1. Prices quoted in active markets for identical assets or liabilities. Inputs used to measure a financial instrument are easily available in the market and may be obtained from many sources.

Level 2. Fair value based on observable market data. All significant inputs used to measure a financial instrument are observable in the market either directly (e.g. as prices) or indirectly (e.g. as information derived from the prices).

Level 3. Fair value not based on observable market data. Inputs used to measure a financial instrument are not based on observable market data.

Financial instruments classified as Level 2 include derivative instruments which are presented in detail in Note 34.

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.

Credit risk

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 Company 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,
- fund placements,
- loans advanced,
- hedging transactions.

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

Maximum risk exposure

Maximum exposure to credit risk

	Dec 31 2014	Dec 31 2013
Deposits	1,735	1,398
Trade and other receivables	1,317	3,257
Loans advanced	5,007	4,755
Debt and equity instruments	991	-
Positive value of derivative instruments	388	307
Total	**9,438**	**9,717**

The Company identifies, measures and minimises its credit exposure to individual banks with which it places its funds. As at December 31st 2014, its credit exposure under deposits and investment transactions amounted to PLN 1,735m.

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 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 loan credit risk arises from loans advanced to non-related parties and to related parties in which the Company holds equity interests, and it is regulated in detail by the Company's internal procedures. As at December 31st 2014, the exposure totalled PLN 5,007m.

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. Transactions executed on the markets of the Polish Power Exchange do not generate exposure to credit risk, as the system of guaranteed settlements through the agency of the

Commodity Exchange Clearing House provides each member of the Clearing House with the safety of settlements in the case of insolvency of any individual market participants. In order to minimise the risk of uncollectible receivables arising in connection with sale transactions executed outside of the PPE, uniform rules designed to secure trade receivables are in place and must be observed while concluding general supply contracts.

Prior to the conclusion of a sale contract of significant value, the financial standing of the potential customer is reviewed (including checks in registers of debtors) in order to assess the customer's creditworthiness. Such assessment serves as the basis for determining the form of security required in connection with the contract.

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 the internal procedures. If a customer's failure to make payment when due has been identified, the Company takes appropriate measures to collect the debt.

As at December 31st 2014, the value of unimpaired past due receivables, as disclosed in the Company's statement of financial position, was PLN 250m (2013: PLN 331m).

Receivables past due but not impaired as at the reporting date – by length of delay

Delay	Dec 31 2014	Dec 31 2013
Up to 1 month	188	263
From 1 to 3 months	54	48
From 3 months to 1 year	4	16
from 1 to 5 years	4	4
Total net past due receivables	**250**	**331**

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 2014 stood at PLN 388.2m. 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.

The larger long-term portion of Company's financial receivables in 2014 was denominated in NOK – as at December 31st 2014, it consisted of a NOK 4,895.6m loan advanced to PGNiG Upstream International AS, repayable by December 20th 2021.

The related currency risk is hedged with CCIRS (Cross Currency Interest Rate Swap) contracts; they hedge the risk until 2017.

In 2012, PGNiG Finance AB of Sweden, a subsidiary, issued fixed-coupon eurobonds for an amount of EUR 500m, maturing in 2017, with the proceeds transferred to PGNiG S.A. in the form of a loan. The related currency risk was hedged with CCIRS contracts 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.

The Company is exposed to interest rate risk primarily in connection with its financial liabilities. As at December 31st 2014, major interest rate risk was generated by loans advanced to PGNiG Upstream International AS and PGNiG Termika S.A., as well as the outstanding eurobonds. The related risk exposure is hedged with CCIRS and IRS (Interest Rate Swap) contracts.

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

The interest rate risk related to the notes issued to domestic investors and the intra-group notes is immaterial to the Company considering the short maturities of the notes and the periodic updating of the cost of debt.

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 using the variance-covariance method.

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 Company's exposure to price risk arises in connection with its contracts for gas fuel deliveries and sales contracts entered into through the process of daily bidding and sale of the fuel at the PPE. 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 2014, the Company closely monitored and hedged against the risk. To hedge against commodity price risk, the Company used Asian call options settled as European options, risk reversal option strategies, commodity swaps, as well as futures and forwards.

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 in place credit facility agreements for a total amount of PLN 360m.

As at December 31st 2014, PGNiG S.A. did not carry any amounts outstanding under overdraft facilities.

In addition, in order to optimise cash management processes at the Group level, PGNiG S.A. entered into a short-term note issuance programme agreement for a total amount of PLN 3,000m. Under the programme, PGNiG S.A. issues short-term discount notes to its ‘excessively liquid’ subsidiaries for up to PLN 1,000m and acquires notes issued by Group companies for up to PLN 2,000m.

The nominal value of debt under notes acquired by the Group companies was PLN 475m as at December 31st 2014.

To enhance its liquidity position, the Company has launched several note programmes:

- PLN 7,000m Note Issuance Programme Agreement under which the Company may issue discount notes with maturities from one to twelve months. 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 2014, PGNiG S.A. did not carry any amounts outstanding under issue of corporate bonds.
- PLN 4.500m Note Programme Agreement, under which the Company may issue zero-coupon or coupon notes with maturities ranging from seven days to ten years. The programme is for domestic investors. As at December 31st 2014, debt outstanding under the programme totalled PLN 2,500m.
- PLN 1,000m Note Programme Agreement, under which the Company may issue coupon notes with maturities of at least 12 months. Proceeds from the programme may only be used to finance capital expenditure. As at December 31st 2014, no debt was outstanding under the Programme.
- EUR 1,200m European Medium Term Note (EMTN) Programme. PGNiG Finance AB issued the first EUR 500m tranche under the EMTN programme. The issue proceeds were subsequently transferred to PGNiG S.A. as a loan. As at December 31st 2014, PGNiG S.A.’s debt under the loan from PGNiG Finance AB stood at EUR 500m.

Further, to improve the effectiveness of liquidity management at the PGNiG Group, in 2014 PGNiG S.A. executed a cash pooling agreement with Bank Pekao S.A. The cash pooling arrangement facilitates liquidity planning within the Group and reduces dependency on borrowed funds. Such more efficient use of free cash will also reduce the Group’s borrowing costs.

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 2014	Liabilities under borrowings and notes	Other non-current liabilities, trade and other payables*	Total expenditure
up to 1 year	656	1,385	2,041
from 1 to 5 years	4,498	60	4,558
over 5 years	-	9	9
Total	**5,154**	**1,454**	**6,608**

Dec 31 2013	Liabilities under borrowings and notes	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**

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

Derivative financial instruments by maturity

	Carrying amount as at Dec 31 2014	**Contractual cash flows, including:**	**up to 1 year**	**from 1 to 5 years**
- interest rate swaps (IRS, CCIRS) used as risk hedging instruments	194	180	9	171
- inflows	-	5,423	647	4,776
- outflows	-	(5,243)	(638)	(4,605)
- forward contracts	4	(14)	(14)	-
- inflows	-	801	797	4
- outflows	-	(815)	(811)	(4)
- currency call options	50	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
- commodity options	(2)	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
- commodity swaps	(281)	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
Total	**(35)**	**166**	**(5)**	**171**

	Carrying amount as at Dec 31 2013	Contractual cash flows, including:	up to 1 year	from 1 to 5 years
- interest rate swaps (IRS, CCIRS) 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)**

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. the 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 half-year periods, i.e. an average change of 10% as at the end of December 2014 for the analysis of exchange rate sensitivity (10% as at the end of December 2013), 100bp for the analysis of interest rate sensitivity (as at December 31st 2013, also 100bp) and 40% for energy commodity derivatives (15% as at December 31st 2013).

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2014 indicate that net profit would have been lower by PLN 48m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates increased by 10%, ceteris paribus (net profit decrease of PLN 17m due to stronger NOK, net profit decrease of PLN 27m due to stronger USD, and net profit decrease of PLN 4m due to stronger EUR). Lower profit is mainly attributable to higher trade payables and an increase in the negative portion of the fair value of financial derivatives (negative fair value of CCIRS contracts in NOK). The negative fair value of financial derivatives was largely offset by the increase in the positive valuation of the NOK-denominated loan advanced to 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 lower profit deteriorated further on the back of higher liabilities under financial derivatives in USD.

As at December 31st 2014, net profit would have been higher by PLN 25m, had the EUR/PLN, USD/PLN, NOK/PLN and other currencies' exchange rates decreased by 10%, ceteris paribus (profit of PLN 12m on the back of weaker USD, profit of PLN 17m due to weaker NOK, and loss of PLN 5m due to weaker EUR).

The positive result would have been 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 was largely offset by a decrease in valuation of the NOK-denominated loan advanced to PGNiG Upstream International AS. An increase in foreign exchange gains on 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 additionally supported by a decrease in USD- and EUR-denominated trade payables.

The positive result was affected by a decrease in the value of cash and cash equivalents in bank accounts and of USD-denominated trade receivables.

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 27m 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). The positive result would have been 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 was largely offset by a decrease in valuation of the NOK-denominated loan advanced to PGNiG Upstream International AS. An increase in foreign exchange gains on 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 a decrease in the value of cash and cash equivalents in bank accounts and of USD-denominated trade receivables.

Detailed results of the analysis of sensitivity of financial instruments to exchange rate fluctuations for 2014 and 2013 are presented on the following pages.

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

	Carrying amount as at Dec 31 2014	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									
Shares	-	-	-	-	-	-	-	-	-
Loans advanced and other financial assets	2,807	3	-	278	-	(3)	-	(278)	-
Trade and other receivables	90	2	7	-	-	(2)	(7)	-	-
Derivative financial instrument assets*	358	234	-	-	-	-	-	299	-
Cash and cash equivalents	65	2	5	-	-	(2)	(5)	-	-
Effect on financial assets before tax	**-**	**241**	**12**	**278**	**-**	**(7)**	**(12)**	**21**	**-**
19% tax	-	(46)	(2)	(53)	-	1	2	(4)	-
Effect on financial assets after tax	**-**	**195**	**10**	**225**	**-**	**(6)**	**(10)**	**17**	**-**
Total currencies	-	**430**				**2**			
Financial liabilities									
Borrowings and debt securities (including finance lease)	2,203	220	-	-	-	(220)	-	-	-
Trade and other payables	596	26	34	-	-	(26)	(34)	-	-
Derivative financial instrument liabilities*	5	-	11	299	-	245	7	-	-
Effect on financial liabilities before tax	**-**	**246**	**45**	**299**	**-**	**(1)**	**(27)**	**-**	**-**
19% tax	-	(47)	(8)	(57)	-	-	5	-	-
Effect on financial liabilities after tax	**-**	**199**	**37**	**242**	**-**	**(1)**	**(22)**	**-**	**-**
Total currencies		**478**				**(23)**			
Total increase/decrease	-	(4)	(27)	(17)	-	(5)	12	17	-
Total currencies	-	**(48)**				**25**			

* 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.

	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									
Shares**	9	1	-	-	-	(1)	-	-	-
Loans advanced and other financial assets	2,646	-	-	265	-	-	-	(265)	-
Trade and other receivables	112	-	10	-	-	-	(10)	-	-
Derivative financial instrument assets*	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									
Borrowings and debt securities (including finance lease)	2,139	214	-	-	-	(214)	-	-	-
Trade and other payables	655	16	49	-	-	(16)	(49)	-	-
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.

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

	Dec 31 2014			
	10%		-10%	
	for EUR	*for USD*	*for EUR*	*for USD*
Effect on equity before tax	93	135	(49)	(42)
19% tax	(18)	(26)	9	8
Effect on equity after tax	75	110	(40)	(34)
Total currencies	**185**		**(74)**	

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

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 a PLN 185m increase in equity through other comprehensive income. In the event of a 10% decline in the PLN/USD and PLN/EUR exchange rates, the opposite would happen and equity would be reduced by PLN 74m. 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 Dec 31 2014	**10%**	**(10%)**
EUR/PLN	4.2623	4.6885	3.8361
USD/PLN	3.5072	3.8579	3.1565
NOK/PLN	0.4735	0.5209	0.4262

	exchange rate as at Dec 31 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

The Company has analysed the sensitivity of energy commodity derivatives. For the sensitivity analysis for 2014, a 40% volatility was assumed for such instruments (15% as at December 31st 2013).

The tables below present an analysis of sensitivity of energy commodity derivatives to price changes for 2014 and 2013.

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

	Carrying amount as at Dec 31 2014										
	Price change by:			*40%*					*-40%*		
		Gasoil	Fuel oil	TTF	Electricity	TGE Gas	Gasoil	Fuel oil	TTF	Electricity	TGE Gas
Financial assets											
Energy commodity derivative assets	30	2	-	-	-	-	1	-	-	-	-
Effect on financial assets before tax		**2**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**
19% tax						-					-
Effect on financial assets after tax		**2**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**
Total commodities				**2**					**1**		
Financial liabilities											
Energy commodity derivative liabilities	313	-	1	65	-	-	-	-	12	-	-
Effect on financial liabilities before tax		-	1	65	-	-	-	-	12	-	-
19% tax		-	-	(12)	-	-	-	-	(2)	-	-
Effect on financial liabilities after tax		-	1	53	-	-	-	-	10	-	-
Total commodities				**54**					**10**		
Total increase/decrease		2	(1)	(53)	-	-	1	-	(10)	-	-
Total commodities				**(52)**					**(9)**		

	Carrying amount as at Dec 31 2013										
	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		-	(1)	4	-	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)**		

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 2014					
	Gasoil	*Fuel oil*	*TTF*	*Gasoil*	*Fuel oil*	*TTF*
Price change by:	40%			-40%		
Effect on equity before tax	56	43	337	(48)	(35)	(224)
19% tax	(11)	(8)	(64)	9	7	43
Effect on equity after tax	45	35	273	(39)	(28)	(181)
Total commodities	**353**			**(248)**		

	Dec 31 2013					
	Gasoil	*Fuel oil*	*TTF*	*Gasoil*	*Fuel oil*	*TTF*
Price change by:	15%			-15%		
Effect on equity before tax	73	62	411	(22)	(28)	(193)
19% tax	(14)	(12)	(78)	4	5	37
Effect on equity after tax	59	50	333	(18)	(23)	(156)
Total commodities	**442**			**(197)**		

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 40% increase (15% increase for 2013) in prices of energy commodity derivatives would increase equity by PLN 353m through other comprehensive income. In the event of a 40% (15% for 2013) decline in the prices, the opposite would happen and equity would be reduced by PLN 248m. 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 statement of profit or loss.

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 2014 (2013: also +/-100 bp).

As at December 31st 2014, the sensitivity of loans advanced and notes to interest rate changes of +/-100 basis points was PLN +/- 44m. The sensitivity to interest rate changes of +/-100 bp of liabilities under borrowings, notes in issue and variable-rate lease liabilities was +/- PLN 52m.

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.

Sensitivity of derivative financial instruments to interest rate changes

	Net carrying amount as at Dec 31 2014	*Change by:* +100 bp	-100 bp
Loans advanced	3 391	34	(34)
Notes	991	10	(10)
Total receivables	-	**44**	**(44)**
Borrowings and other debt instruments	2,201	22	(22)
Notes issued	2,953	30	(30)
Total liabilities	-	**52**	**(52)**
Total change	-	**(8)**	**8**

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

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

Measurement of derivative financial instruments

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 2014, 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 2014, 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.

Currency call options were measured at fair value using the Garman-Kohlhagen model, whereas Asian commodity call and put options were measured at fair value using the Espen-Levy model. CCIRS and IRS transactions, forwards and average rate forwards are measured using the discount method. The measurement was based on market data such as interest rates, foreign-exchange rates, basis spreads, commodity prices and volatility of commodity prices as at December 31st 2014.

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 2.3.11.

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 rate with the identical face value.
- 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)	Dec 31 2014	Dec 31 2013	Hedged risk
			Cross Currency Interest Rate Swap				
Euronotes	500	EUR	1-3 years	4.1580	193		currency and interest rate risk
loan	730	NOK	1-3 months	0.5595	53		currency and interest rate risk
loan	4,350	NOK	1-3 years	0.5033	54		currency and interest rate risk
Euronotes	500	EUR	more than 3 years	4.1580		108	currency and interest rate risk
loan	3,900	NOK	1-3 months	0.5051		(25)	currency and interest rate risk
loan	1,150	NOK	1-3 months	0.5664		64	currency and interest rate risk
loan	730	NOK	1-3 years	0.5595		35	currency and interest rate risk
loan	4,350	NOK	more than 3 years	0.5033		(14)	currency and interest rate risk
					300	**168**	
			Interest Rate Swap				
loan	1,500	PLN	more than 3 years	-	(106)		interest rate risk
loan	1,500	PLN	more than 3 years	-		(23)	interest rate risk
					(106)	**(23)**	
			Forward				
loan	850	NOK	3-12 months	0.4697	(4)		foreign exchange risk
Termika investment purchases	1	USD	1-3 months	3.3515	-		foreign exchange risk
payments for gas	35	USD	1-3 months	3.3562	5		foreign exchange risk
CO2 emission allowances	2	EUR	3-12 months	4.2354	-		foreign exchange risk
CO2 emission allowances	-	EUR	3-12 months	4.3175	-		foreign exchange risk
CO2 emission allowances	-	EUR	1-3 years	4.4175	-		foreign exchange risk
payments for gas	65	EUR	1-3 months	4.2385	2		foreign exchange risk
payments for gas	40	EUR	3-12 months	4.2732	1		foreign exchange risk
payments for gas	10	EUR	1-3 years	4.2997	-		foreign exchange risk
Termika investment purchases	1	USD	1-3 months	3.3515	-		foreign exchange risk
Termika investment purchases	-	EUR	3-12 months	4.3175	-		foreign exchange risk
Termika investment purchases	-	EUR	1-3 years	4.4175	-		foreign exchange risk
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	-		-	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
					4	**(31)**	

Derivative financial instruments (cont.)

Call options

payments for gas	25	EUR	1-3 months	4.3350	1		foreign exchange risk
payments for gas	72	EUR	3-12 months	4.3915	3		foreign exchange risk
payments for gas	45	EUR	1-3 years	4.4975	5		foreign exchange risk
payments for gas	260	USD	1-3 months	3.4221	29		foreign exchange risk
payments for gas	90	USD	3-12 months	3.4575	12		foreign exchange risk
payments for gas	35	EUR	1-3 months	4.3826		-	foreign exchange risk
payments for gas	21	EUR	3-12 months	4.3515		1	foreign exchange risk
payments for gas	188	EUR	1-3 months	4.4278		-	foreign exchange risk
payments for gas	265	EUR	3-12 months	4.3848		6	foreign exchange risk
payments for gas	160	USD	1-3 months	3.3566		-	foreign exchange risk
payments for gas	180	USD	3-12 months	3.3077		5	foreign exchange risk
					50	**12**	

Futures

trading activities	1	electricity	1–3 months	168.89	6		energy price risk
trading activities	1	electricity	1–3 months	171.50	(6)		energy price risk
trading activities	1	electricity	3–12 months	171.03	12		energy price risk
trading activities	1	electricity	3–12 months	174.92	(12)		energy price risk
trading activities	-	electricity	1–3 years	179.73	-		energy price risk
trading activities	-	electricity	1–3 years	179.73	-		energy price risk
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	-	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	-	TGE gas	1-3 years	111.00		-	gas price risk
					-	**2**	

Commodity call options

payments for gas	0.170	FO	1-3 months	626.12	-		commodity price risk
payments for gas	0.195	FO	3-12 months	549.86	-		commodity price risk
payments for gas	0.095	GO	1-3 months	940.39	-		commodity price risk
payments for gas	0.081	GO	3-12 months	845.07	-		commodity price risk
payments for gas	1.092	TTF	1-3 months	24.93	-		commodity price risk
payments for gas	1.015	Title Transfer Facility (TTF)	3-12 months	23.67	4		commodity price risk
payments for gas	1.091	Title Transfer Facility (TTF)	1-3 years	24.95	8		commodity price risk
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
					12	**40**	

Put commodity options							
payments for gas	0.024	FO	3-12 months	391.25	(7)		commodity price risk
payments for gas	0.013	GO	3-12 months	672.12	(7)		commodity price risk
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
					(14)	**-**	

Commodity swap							
Termika investment purchases	0.009	API2	1-3 months	72.90	-		commodity risk
payments for gas	0.087	FO	1-3 months	598.25	(18)		commodity price risk
payments for gas	0.136	FO	3-12 months	483.61	(77)		commodity price risk
payments for gas	0.052	GO	1-3 months	896.24	(15)		commodity price risk
payments for gas	0.107	GO	3-12 months	773.05	(71)		commodity price risk
payments for gas	4.301	Title Transfer Facility (TTF)	1-3 months	24.24	(41)		commodity price risk
payments for gas	4.692	Title Transfer Facility (TTF)	3-12 months	23.83	(58)		commodity price risk
payments for gas	0.186	Title Transfer Facility (TTF)	1-3 years	23.90	(1)		commodity price risk
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
					(281)	**17**	
	Total				**(35)**	**184**	
		positive valuation*	assets		**388**	**307**	
		Negative valuation	liabilities		**(423)**	**(123)**	

GO – Gasoil
FO – FuelOil
TTF – Natural Gas at the Title Transfer Facility

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 2014	Jan 1–Dec 31 2013
Net gain/loss on valuation of derivative instruments – unrealised	61	257
Net gain/loss on derivative instruments – realised	(496)	(176)
Total net gain/loss on derivative instruments recognised in profit or loss	**(435)**	**81**
including:		
recognised in raw materials and consumables used	(315)	(53)
recognised in other net expenses	(212)	(228)
recognised in finance income or costs	92	362
Net gain/loss on valuation of derivative instruments recognised in other comprehensive income -– unrealised	**(264)**	**72**
Total net gain/loss on derivative instruments – recognised in equity	**(699)**	**153**

35. CONTINGENT LIABILITIES AND RECEIVABLES

During preparation of these separate financial statements of PGNiG S.A. for 2014, an analysis of individual contingent items was carried out for the following purposes:

- to assess the probability of consumption/loss of economic benefits related to contingent receivables/liabilities held;
- to eliminate amounts pertaining to contingent receivables and liabilities disclosed in the statement of financial position.

As a result of the analysis, as at the end of the comparative period contingent receivables fell by PLN 9,344m and contingent liabilities fell by PLN 137m compared with the data disclosed in the separate financial statements of PGNiG S.A. for 2013.

35.1. Contingent receivables

	Dec 31 2014	Dec 31 2013
From related entities:		
promissory notes received	4,563	4,360
Total contingent receivables from related entities	**4,563**	**4,360**
From other entities:		
guarantees and sureties received	55	102
promissory notes received	3	97
Total contingent receivables from other entities	**58**	**199**
Total contingent receivables	**4,621**	**4,559**

35.2. Contingent liabilities

	Dec 31 2014	Dec 31 2013
To other entities		
guarantees and sureties issued*	9,968	9,525
promissory notes issued	1,203	94
Total contingent liabilities to other entities	**11,171**	**9,619**
Total contingent liabilities	**11,171**	**9,619**

* Contingent liabilities in foreign currencies were translated into PLN at the exchange rates quoted by the National Bank of Poland respectively for December 31st 2014 and December 31th 2013.

36. OFF-BALANCE SHEET LIABILITIES

36.1. Operating lease liabilities

	Dec 31 2014	Dec 31 2013
up to 1 year	2	8
from 1 to 5 years	-	3
Total	**2**	**11**

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

	Dec 31 2014	Dec 31 2013
Commitments under executed agreements	3,924	4,068
Completion of agreements as at the reporting date	(2,690)	(2,580)
Contractual commitments after the reporting date	**1,234**	**1,488**

37 RELATED ENTITIES

PGNiG S.A. holds shares in production and service companies. As at December 31st 2014, PGNiG S.A. had 44 related entities, including:

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

37.1. Related parties as at the end of 2014

Company name	Country	% ownership interest of PGNiG S.A.	
PGNiG S.A. (Parent)	Poland		
Subsidiaries of PGNiG S.A.		**Dec 31 2014**	**Dec 31 2013**
GEOFIZYKA Kraków S.A.	Poland	100.00%	100.00%
GEOFIZYKA Toruń S.A.	Poland	100.00%	100.00%
Exalo Drilling S.A.	Poland	100.00%	100.00%
PGNiG Upstream International AS	Norway	100.00%	100.00%
Polish Oil And Gas Company – Libya B.V.	The Netherlands	100.00%	100.00%
Geovita S.A.	Poland	100.00%	100.00%
PGNiG Technologie S.A.	Poland	100.00%	100.00%
PGNiG Sales&Trading Group [1)]	Germany	100.00%	100.00%
PGNiG Finance AB	Sweden	100.00%	100.00%
PGNiG Termika S.A.	Poland	100.00%	100.00%
Operator Systemu Magazynowania Sp. z o.o.[3)]	Poland	100.00%	100.00%
PGNiG Serwis Sp. z o.o.	Poland	100.00%	100.00%
Polska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
PGNiG Obrót Detaliczny Sp. z o.o.	Poland	100.00%	100.00%
PGNiG SPV 5 Sp. z o.o.	Poland	100.00%	100.00%
PGNiG SPV 6 Sp. z o.o.[6)]	Poland	100.00%	100.00%
PGNiG SPV 7 Sp. z o.o.[6)]	Poland	100.00%	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. w likwidacji (in liquidation)	Poland	100.00%	100.00%
Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A.[2)]	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			
Oil Tech International F.Z.E.	UAE	100.00%	100.00%
Zakład Gospodarki Mieszkaniowej Sp. z o.o.	Poland	100.00%	100.00%
Gas Assets Management Sp. z o.o. w organizacji (in formation) [4]	Poland	100.00%	-
Powiśle Park Sp. z o.o. (Warsaw)	Poland	100.00%	100.00%
Poltava Services LLC	Ukraine	99.00%	99.00%
CHEMKOP Sp. z o.o. Kraków	Poland	85.51%	85.51%
GAZ Sp. z o.o.	Poland	80.00%	80.00%
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 S.A.	Poland	50.00%	50.00%
Zakład Separacji Popiołów Siekierki Sp. z o.o.	Poland	70.00%	-
Gazobudowa Kraków Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation)	Poland	47.17%	47.17%
Geotermia Sp. z o.o.	Poland	25.00%	25.00%
Companies jointly controlled by PGNiG S.A.			
SGT EUROPOL GAZ S.A. [5]	Poland	49.74%	49.74%
InterTransGas GmbH w likwidacji (in liquidation)	Germany	50.00%	50.00%
Associated companies			
GAS – TRADING S.A.	Poland	43.41%	43.41%
Sahara Petroleum Technology LLC w likwidacji (in liquidation)	Oman	49.00%	49.00%
PFK GASKON S.A.	Poland	45.94%	45.94%
GAZOMONTAŻ S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation)	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 PGNiG Sales &Trading Group comprises PGNiG Sales & Trading GmbH and its subsidiary XOOL GmbH.

[2] 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%.

[3] On July 1st 2013, Operator Systemu Magazynowania Sp. z o.o. was merged with INVESTGAS S.A.

[4] Owned indirectly through PGNiG SPV6 (99% equity interest) and PGNiG SPV5 (1% equity interest)

[5] 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 2014	1,303	5,465	527	326	172
	Dec 31 2013	884	6,662	343	642	437
Associates	Dec 31 2014	39	-	-	-	-
	Dec 31 2013	35	-	-	-	-
Other related entities – non-consolidated	Dec 31 2014	3	1	3	13	-
	Dec 31 2013	7	9	2	9	-
Related entities – total	Dec 31 2014	**1,345**	**5,466**	**530**	**339**	**172**
	Dec 31 2013	**926**	**6,671**	**345**	**651**	**437**

		Receivables from related parties, gross	Receivables from related parties, net	Financial receivables, including receivables under finance leases and acquired notes	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 2014	477	477	1,003	4,703	4,703	745	2,676
	Dec 31 2013	216	216	11	4,570	4,570	681	2,702
Associates	Dec 31 2014	5	5	-	-	-	7	-
	Dec 31 2013	4	4	-	-	-	6	-
Other related entities – non-consolidated	Dec 31 2014	-	-	-	236	197	-	-
	Dec 31 2013	1	1	-	216	185	1	-
Related entities – total	Dec 31 2014	**482**	**482**	**1,003**	**4,939**	**4,900**	**752**	**2,676**
	Dec 31 2013	**221**	**221**	**11**	**4,786**	**4,755**	**688**	**2,702**

In 2014, 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 2014, 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., ORLEN Południe S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., Grupa LOTOS S.A., Grupa Azoty Zakłady Azotowe PUŁAWY S.A., Zakłady Azotowe w Tarnowie - Mościcach S.A., Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., Energa-Obrót S.A, and Polskie Sieci Elektroenergetyczne S.A.

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.

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

Name	Jan 1–Dec 31 2014		
	Total remuneration, additional benefits and bonuses paid in 2014	Total remuneration for holding key positions at subordinates in 2014	Total remuneration paid in 2014
	(PLN '000)		
Total remuneration paid to Management Board members, including:	**11,687.98**	**3,779.96**	**15,467.94**
Mariusz Zawisza – President	1,177.52	757.34	1,934.86
Jarosław Bauc – Vice-President	970.50	674.28	1,644.78
Waldemar Wójcik – Vice-President[1)]	711.24	504.59	1,215.83
Zbigniew Skrzypkiewicz – Vice-President	965.43	607.95	1,573.38
Violetta Jasińska-Jaśkowiak – Proxy	498.91	100.54	599.45
Persons who were Management Board members in 2014 but not as at December 31st 2014:			
Andrzej Parafianowicz[2)]	610.24	410.86	1,021.10
Jerzy Kurella[3)]	1,070.23	724.40	1,794.63
Persons who were Management Board members in 2013 but not as at December 31st 2013:			
Jacek Murawski	2,338.86	0.00	2,338.86
Mirosław Szkałuba	2,311.85	0.00	2,311.85
Radosław Dudziński	492.00	0.00	492.00
Grażyna Piotrowska Oliwa	541.20	0.00	541.20
Total remuneration paid to Supervisory Board members, including:	**371.96**	**24.37**	**396.33**
Wojciech Chmielewski[5), 6)]	45.24	-	45.24
Agnieszka Chmielarz[5)]	16.87	-	16.87
Józef Głowacki[5)]	16.87	-	16.87
Mieczysław Kawecki[5)]	16.87	24.37	41.24
Marcin Moroń[5)]	16.87	-	16.87
Janusz Pilitowski[5), 6)]	45.24	-	45.24
Agnieszka Woś[6)]	28.54	-	28.54
Ewa Sibrecht-Ośka[5)]	16.87	-	16.87
Jolanta Siergiej[5)]	16.87	-	16.87
Magdalena Zegarska[6)]	28.54	-	28.54
Sławomir Borowiec[6)]	28.54	-	28.54
Andrzej Janiak[4), 6)]	34.65	-	34.65
Ryszard Wąsowicz[6)]	28.54	-	28.54
Agnieszka Trzaskalska[7)]	9.69	-	9.69
Bogusław Nadolnik[8)]	21.76	-	21.76
Total	**12,059.94**	**3,804.33**	**15,864.27**

1) Waldemar Wójcik has served as Member of the Management Board since April 3rd 2014,
2) Andrzej Parafianowicz was suspended from duties by the Supervisory Board on June 18th 2014; he ceased to serve on the Management Board as of August 7th 2014,
3) Jerzy Kurella served as Member of the Management Board until December 29th 2014,
4) Andrzej Janiak served as Member of the Supervisory Board from March 26th 2014 to May 15th 2014,
5) Supervisory Board Members until May 15th 2014,
6) Supervisory Board Members from May 15th 2014,
7) Agnieszka Trzaskalska served as Member of the Supervisory Board from May 15th to July 30th 2014,
8) Bogusław Nadolnik served as Member of the Supervisory Board from May 15th to November 6th 2014.

Name	Jan 1–Dec 31 2013		
	Total remuneration, additional benefits and bonuses paid in 2013	Total remuneration for holding offices in subordinates in 2013	Total remuneration paid in 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
Zbigniew Skrzypkiewicz – Vice-President[1)]	57.95	0.00	57.95
Violetta Jasińska-Jaśkowiak – Proxy[2)]	8.87	3.26	12.13
Persons who were Management Board members in 2013 but not as at December 31st 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 December 31st 2013:			
Mieczysław Puławski[3)]	20.38	0.00	20.38
Zbigniew Skrzypkiewicz[4)]	10.71	0.00	10.71
Total	**5,564.16**	**1,471.89**	**7,036.05**

[1)] Zbigniew Skrzypkiewicz served as Member of the Management Board from September 16th to December 16th 2013,
[2)] Violetta Jasińska-Jaśkowiak has served as Proxy since December 20th 2013,
[3)] Mieczysław Puławski served as Member of the Supervisory Board until June 26th 2013,
[4)] Zbigniew Skrzypkiewicz served as Member of the Supervisory Board from June 26th to September 15th 2013.

37.5 Fees paid to the audit firm for the mandatory audit of the full-year separate financial statements and for the rendering of other services

	Jan 1–Dec 31 2014	Jan 1–Dec 31 2013
	(PLN '000)	
Audit of the annual consolidated financial statements	56.61	89.70
Audit of the annual separate financial statements	63.14	100.05
Other assurance services, including review of financial statements	471.00	500.00
Other services	7.00	2.22
Total	**597.75**	**691.97**

37.6. Joint arrangements

In 2014, 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.) and LOTOS Petrobaltic S.A.

On March 31st 2014, PGNiG S.A. entered into a collaboration agreement with Chevron Polska Energy Resources Sp. z o.o. covering the first stage of an unconventional hydrocarbon exploration project. The agreement envisages joint evaluation of unconventional gas resources in four exploration licence areas in south-eastern Poland, including the Zwierzyniec and Grabowiec licences held by Chevron Polska Energy Resources Sp. z o.o., and the Tomaszów Lubelski and Wiszniów–Tarnoszyn licences held by PGNiG S.A. PGNiG S.A. (operator) and Chevron Polska Energy Resources Sp. z o.o. each hold a 50% interest in the licences.

LOTOS Petrobaltic S.A., registered office: ul. Elbląska 135, 80-718 Gdańsk

On December 31st 2014, PGNiG S.A. and LOTOS Petrobaltic S.A. signed an agreement for joint operations within the Górowo Iławieckie licence area. PGNiG S.A. (operator) holds a 51% interest in the licence, and LOTOS Petrobaltic S.A. – a 49% interest.

In 2014, PGNiG S.A. was engaged in joint operations with LOTOS Petrobaltic S.A. in the following area covered by a licence awarded to PGNiG S.A.:

- "Kamień Pomorski" – under the agreement of August 14th 2013 (which came into effect in H2 2014); licence interests: PGNiG S.A. (operator) – 51%, LOTOS Petrobaltic S.A. – 49%.

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

In 2014, 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 Usufructuaries dated October 26th 2005; interests in the project: PGNiG S.A. (operator) – 51%, FX Energy – 24.5%, Calenergy Resources Poland Sp. z o.o. – 24.5%;
- "Poznań" – under the Agreement for Joint Operations dated June 1st 2004; licence interests: PGNiG S.A . (operator) – 51%, FX Energy – 49%;

and in one area covered by a licence 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%;

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 2014, PGNiG S.A. continued its cooperation with EuroGas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o. in the following area covered by a licence awarded to PGNiG S.A:

- "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%;

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

In 2014, PGNiG S.A. continued its cooperation with Orlen Upstream Sp. z o.o. in the following area covered by a licence awarded to PGNiG S.A:

- "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%;

San Leon Energy PLC registered office: 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
Energia Karpaty Wschodnie Sp. z o.o. Sp. k. (subsidiary of San Leon Energy PLC)**,** registered office at ul. Mokotowska 1, 00-640 Warsaw

Under licences awarded to San Leon Energy PLC, work was conducted 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%.

37.7. Foreign operations

Ukraine

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

The company's share capital amounts to UAH 11.1m (equivalent to PLN 2.49m, translated at the exchange rate quoted by the NBP for December 31st 2014) and is divided into 120,000 shares with a par value of UAH 92.89 per share. As at December 31st 2014, 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 shareholding structure is as follows:

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

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

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

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. On May 15th 2014, the Court of Arbitration ruled in favour of PGNiG S.A., and the Company may now seek enforcement of the payment claims against DEWON P.S.A.

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 2014, and is divided into 150,000 shares with a par value of OMR 1 per share. As at December 31st 2014, 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 shareholding structure is as follows:

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

The company was established in 2000, on the initiative of Zakład Robót Górniczych Krosno Sp. z o.o. (currently a branch of Exalo Drilling S.A., a wholly-owned subsidiary of PGNiG S.A.). The company was

established to offer well servicing services, such as application of enhanced recovery techniques or workovers, wireline services, or wellhead maintenance services, and to perform light and middle drilling work using PGNiG's technological capabilities.
The company has never commenced operations. On June 7th 2009, the shareholders resolved to dissolve the company and appoint a liquidator. At present, the liquidation process is 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 0.85m translated at the mid rate quoted by the NBP for December 31st 2014), 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 2014, PGNiG S.A.'s interest in InterTransGas GmbH was EUR 0.8m (equivalent to PLN 3.41m, translated at the mid rate quoted by the NBP for December 31st 2014). 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 is currently underway.

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 42.62m, translated at the mid rate quoted by the National Bank of Poland for December 31st 2014). All company shares were acquired by PGNiG S.A. in exchange for a cash contribution made in December 2010. As at December 31st 2014, 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, with a share capital of EUR 0.5m, (equivalent to PLN 2.13m translated at the mid rate quoted by the NBP for December 31st 2014). At the acquisition date, XOOL GmbH was a natural gas operator with a network of 16,600 end-users in Germany.

As at the end of 2014, the PST Group sold natural gas to 45.8 thousand end consumers (end of 2013: 29 thousand) and electricity to 14.7 thousand end consumers (end of 2013: over 6 thousand).

PGNiG Sales & Trading GmbH has registered branches in Prague and Salzburg.

Norway

On May 24th 2007, the Parent established its Norwegian subsidiary **PGNiG Norway AS**, incorporated as a company with limited liability, a special purpose vehicle to implement PGNiG S.A.'s projects in the Norwegian Continental Shelf (NCS).

On May 23rd 2013, its amended articles of association were registered, changing its name to **PGNiG Upstream International AS** and expanding the scope of its business, to reflect the fact that PGNiG Upstream International AS had been appointed as the entity responsible for coordinating PGNiG's exploration operations outside of Poland. PGNiG S.A. is the sole owner of PGNiG Upstream International AS.

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

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

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

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

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

In the fourth quarter of 2014, the Company acquired interests in several production licences located on the Norwegian Continental Shelf from the French-based company Total. These included an 8.0% interest in the Gina Krog field (at the development stage), a 6.00% interest in the Morvin field (at the production stage), a 24.243% interest in the Vilje field (at the production stage), and a 24.243% interest in the Vale field (at the production stage). The transaction provides a platform for active cooperation with Total on the Gina Krog field in the future. Exploration and appraisal drilling in the field is planned for 2015.

As at the end of 2014, the value of PGNiG S.A.'s ownership interest in PGNiG Norway AS was NOK 1,092m, that is PLN 517m (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2014). As at the end of 2014, 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.

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

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

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

In 2012, 2013 and 2014, the company's equity was increased by USD 25m, USD 18m, and USD 14.5m respectively, without issuing any new shares, to finance the drilling of first exploratory wells. By the end of 2013, two wells were drilled and the acquired results were analysed.

In connection with the recapitalisation of POGC-Libya B.V. in 2014, the PGNiG Management Board resolved to increase the impairment loss on shares in the company by PLN 41m and to increase the provision for the outstanding licence commitments under the Murzuq project in Libya to PLN 160m (December 31st 2013: PLN 137m).

As at December 31st 2014, the value of the Parent's ownership interest in POGC Libya B.V. was PLN 479.8m (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2014).

On August 12th 2014, in view of the growing political tension in Libya, POGC-Libya notified the Libyan authorities of a force majeure event preventing the company from meeting its obligations under the EPSA. In mid-December 2014, the company received a notice of acceptance of the force majeure notification from the Libyan authorities. The time for performance by the company of its contractual obligations will be further extended at least for the duration of the force majeure.

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 2,131.2m (translated at the exchange rate quoted by the NBP for December 31st 2014). 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 2014, the value of shares in PGNiG Finance AB disclosed in the Parent's books was PLN 0.5m.

<u>The Parent's direct operations abroad – interests in exploration licences</u>

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 2014, PGNiG S.A. began preparations to drill appraisal boreholes Rehman-2 and Rehman-3 (scheduled for completion in 2015 and 2016). PGNiG S.A. had to declare a force majeure event and suspend work on the Rizq-1 exploratory well on two occasions due to armed attacks in the region. Work on Rizq-1 was resumed in late December 2014. Production from the Rehman-1 and Hallel X-1 wells continued uninterrupted, and the extracted gas was supplied to the Pakistani transmission system.

Branch in Egypt – Cairo

In Egypt, PGNiG S.A. conducted 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 held a 100% interest in the licence. As results of the exploration campaign were negative, a decision was made to terminate the licence and liquidate the Egypt branch. In 2014, final settlements with Egyptian General Petroleum Corporation (EGPC) were made.

Liquidation of the Denmark Branch in Copenhagen

On April 29th 2014, the Branch in Denmark was wound up. The decision was made in 2012 following relinquishment of the 1/05 licence as no commercial hydrocarbon flows were recorded.

38 EMPLOYEES (NUMBER OF STAFF)

Employment as at end of the period, by segments	Dec 31 2014	Dec 31 2013
Exploration and Production	4,080	4,207
Trade and Storage	1,072	3,901
including Head Office	689	606
Other Activities	36	39
Total	**5,188**	**8,147**

In 2014, the average workforce was 6,736 persons (2013: 8,039).

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 2014	Dec 31 2013
Borrowings, finance lease liabilities and liabilities under debt securities in issue	5,154	6,123
Trade and other payables	2,664	3,114
Cash and cash equivalents (-)	(1,942)	(1,683)
Net debt	**5,876**	**7,554**
Equity (attributable to owners of the parent)	**23,780**	**22,969**
Equity and net debt	**29,656**	**30,523**
Leverage	19.8%	24.7%

40 OTHER IMPORTANT INFORMATION

40.1. Restructuring process

In 2014, 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.

On August 19th 2014, the PGNiG Management Board passed Resolution No. 464/2014 to terminate the Programme with effect from December 31st 2014. The decision was approved by the Extraordinary General Meeting by virtue of Resolution No. 5/IX.2014 of September 24th 2014.

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. made one-off redundancy payments from the Central Restructuring Fund to former employees of BUD-GAZ Przedsiębiorstwo Produkcyjno-Usługowo-Handlowe Sp. z o.o. w likwidacji (in liquidation), for a total of PLN 1m.
2. In December 2014, PGNiG S.A. received applications for redundancy payments under the Programme from PGNIG Technologie S.A. employees covered by employment restructuring. The applications were for a total of PLN 20.5m. Given its difficult economic and financial position, PGNiG Technologie S.A. made no redundancy payments in 2014. With no funds available under the Central Restructuring Fund, on January 8th 2015 the PGNiG Management Board dismissed the applications from PGNIG Technologie's former employees.

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

On December 28th 2010, the President of the Polish Office of Competition and Consumer Protection ("UOKiK") instigated, ex officio, anti-trust proceedings concerning 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. Under the ruling passed on May 12th 2014, the Competition and Consumer Protection Court dismissed the appeal in its entirety and ordered PGNiG S.A. to pay the costs of proceedings to the President of UOKiK. On June 4th 2014, PGNiG S.A. filed an appeal against the ruling. Currently, the case is pending and the date of the appeal hearing has not been set.

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. satisfied this requirement.

On February 22nd 2013, the President of 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 UOKiK resolved not to impose a fine on PGNiG S.A. and obliged the Company to fulfil its commitment. PGNiG S.A. satisfied this requirement.

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

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

In the course of the proceedings, PGNiG S.A. voluntarily agreed to revise certain provisions in contracts with its non-household customers. By virtue of its decision No. DOK-8/2013 of December 31st 2013, the President of UOKiK resolved not to impose a fine on the Company and obliged the Company to fulfil its commitment. On August 1st 2014, PGNiG Obrót Detaliczny Sp. z o.o. took over the existing retail gas trading business from PGNiG S.A. and assumed all the rights and obligations arising from the decisions issued by the President of UOKiK under the Act on Competition and Consumer Protection in respect of agreements to which PGNiG Obrót Detaliczny Sp. z o.o. became a party.
PGNiG S.A. performed its obligations set out in the President of UOKiK's commitment decision within the deadlines specified therein. On October 17th 2014, the President of UOKiK commenced administrative proceedings to impose a fine under Art. 107 of the Act on Competition and Consumer Protection of February 16th 2007 (consolidated text: Dz.U. of 2015, item 184) on PGNiG S.A. and PGNiG Obrót Detaliczny Sp. z o.o. on suspicion of a delay in compliance with Section I).4) of the conclusion of the President of UOKiK's decision No. DOK-8/2013 of December 31st 2013. On the same date, PGNiG S.A. and PGNiG OD Sp. z o.o. were requested to provide explanation within 21 days. In their response, PGNiG S.A. and PGNiG OD Sp. z o.o. presented grounds for their actions and their position whereunder such actions comply with Section I).4) of the conclusion of the President of UOKiK's decision No. DOK-8/2013 of December 31st 2013. By December 31st 2014, the President of UOKiK had not issued any final ruling on the case.

40.3. 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. On September 16th 2014, the District Court for Poznań–Stare Miasto of Poznań, 10th Commercial Division, considered PGNiG S.A.'s request to call for a conciliation hearing. Given the incorrect representation of the party called upon, the Court decided to summon the court supervisor and postpone the hearing until November 7th 2014. In performance of the Court's decision, on September 23rd 2014 the PGNiG S.A.'s attorney-in-fact provided the court supervisor with a copy of the request to call for a conciliation hearing, dated November 4th 2013, along with appendices thereto.
On November 7th 2014, a hearing was held before the District Court of Poznań-Stare Miasto concerning PGNiG S.A.'s motion to call on PBG S.A. w upadłości układowej (in company voluntary arrangement) for a conciliation hearing (case docket No. X GC 555/13) concerning PGNiG S.A.'s claims for compensation under the contract for the Grodzisk Nitrogen Rejection Unit. The respondent was represented by an attorney. However, no person appeared to represent the PBG S.A.'s court supervisor despite the effective delivery of a hearing notice. Hence, no settlement could be reached at the hearing.

40.4. Contracts for supplies of gas fuel and crude oil

In 2014, PGNiG S.A. executed the following material contracts for sale of crude oil:

1. In November 2014, Annex No. 9 was signed to Agreement No. DK/KP/002/2008 of May 15th 2008 for the supply of crude oil to Rafineria Trzebinia, under which the delivery point was changed from DDU Rafineria Trzebinia to DAP Railway Terminals of the Seller (the responsibility for the costs of transport was passed from the Seller to the Buyer).

40.5. Contracts for gas fuel purchases

1. In 2014, 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 2014 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.
2. PGNiG S.A. supplies gas to Branice under the following agreement:
   - Agreement on integrated gas supply services, executed between PGNiG S.A. and RWE Energie, s.r.o. (formerly Severomoravská plynárenská a.s.), dated March 27th 2008. By way of an annex, the agreement has been extended until December 31st 2015.
3. In 2014, PGNiG S.A. purchased domestically produced nitrogen-rich gas (type 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.
- The gas sales agreement between PGNiG S.A. and DPV Service Sp. z o.o. of January 13th 2009 (for gas from the Antonin field) was terminated by PGNiG S.A. on March 14th 2014 by way of a unilateral termination notice, with effect from the end of the contract year (December 31st 2014), on grounds of failure to perform contractual obligations.

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.

4. In 2014, PGNiG S.A. concluded the following agreements:

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

   - In an effort to optimise its gas purchase portfolio, on August 12th 2014 PGNiG S.A. executed a framework agreement with GAZ-SYSTEM S.A. for the provision of transmission services via the Yamal-Europe Transit Gas Pipeline System.

   - 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 2014, PGNiG S.A. purchased from PST natural gas in a total amount of approximately 12,430 GWh.

Amendments to the existing contracts

1. Renegotiation of gas price under contract with OOO Gazprom Export for sale of natural gas to the Republic of Poland, dated September 25th 1996

   On November 1st 2014, PGNiG S.A. requested OOO Gazprom Eksport to renegotiate the price of natural gas supplied by OOO Gazprom Eksport under contract No. 2102-14/RZ-1/25/96 for sale of natural gas to Poland, dated September 25th 1996, with a view to reducing the price. The renegotiation process is underway.

2. Execution of a supplemental agreement to the long-term agreement with Qatar Liquefied Gas Company Limited

   In connection with a delay in the construction of the LNG Terminal in Świnoujście and PGNiG's inability to collect the contracted LNG deliveries starting from January 1st 2015, on December 9th 2014 PGNiG and Qatar Liquefied Gas Company Limited (3) signed a supplemental agreement to the long-term agreement of June 29th 2009, which helped to mitigate the risk of PGNiG having to make payments under the take-or-pay clause in 2015. In 2015, accounts will be settled between the parties on a net proceeds basis, which means that Qatar Liquefied Gas Company Limited will place the LNG volumes originally intended for PGNiG on other markets, and PGNiG will cover the difference, if any, between the price of LNG specified in the long-term agreement and the market price obtained by Qatar Liquefied Gas Company Limited (3) (if such price were to be lower than the lowest price satisfactory to PGNiG S.A., the acceptance of unsold LNG will be postponed to subsequent years of the effective term of the agreement).

41 EVENTS SUBSEQUENT TO THE REPORTING DATE

1. PGNiG S.A. issued notes under a short-term note issuance programme dated May 6th 2014 (notes were acquired by Polska Spółka Gazownictwa Sp. z o.o.):
   - 950 notes with a total value of PLN 95m, issued on January 12th 2015, due on February 12th 2015, yielding 2.23% per annum,
   - 300 notes with a total value of PLN 30m, issued on January 13th 2015, due on February 13th 2015, yielding 2.22% per annum,
   - 700 notes with a total value of PLN 70m, issued on January 28th 2015, due on February 13th 2015, yielding 2.19% per annum,
   - 1,000 notes with a total value of PLN 100m, issued on January 28th 2015, due on February 27th 2015, yielding 2.18% per annum,
   - 600 notes with a total value of PLN 60m, issued on January 30th 2015, due on February 18th 2015, yielding 2.18% per annum,
   - 300 notes with a total value of PLN 30m, issued on January 30th 2015, due on February 23rd 2015, yielding 2.18% per annum,
   - 300 notes with a total value of PLN 30m, issued on January 30th 2015, due on March 2nd 2015, yielding 2.17% per annum,
2. PGNiG S.A. issued notes under a short-term note issuance programme dated May 6th 2014 (notes were acquired by Geofizyka Toruń S.A.):
   - 120 notes with a total value of PLN 12m, issued on January 12th 2015, due on March 9th 2015, yielding 2.22% per annum,
3. The Court of Appeal's ruling on the appeal against the decision of the President of the Energy Regulatory Office concerning a fine imposed on the Company

   On January 14th 2015, the Management Board of PGNiG S.A. was notified of the ruling issued by the Court of Appeal in Warsaw, 6th Civil Division, concerning the Company's breach of the terms of the Licence to trade in natural gas with foreign partners in 2007 and 2008. The Court of Appeal's ruling changes the challenged ruling of the Competition and Consumer Protection Court of the Regional Court of Warsaw, dated October 10th 2013, issued with respect to the decision of the President of the Energy Regulatory Office of December 16th 2010, imposing a fine on PGNiG, which the Company subsequently challenged.

   The fine was imposed on PGNiG for breach of the terms of the Licence to trade in natural gas with foreign partners. The breach consisted in failure to observe, in 2007 and 2008, the minimum level of diversification of foreign sources of gas supplies defined in the Council of Ministers' Regulation of October 24th 2000, as a result of which in that period the Company exceeded the maximum share of gas imported from a single country in total gas imports for each of the two years.

   The Court of Appeal determined that the Company's obligations under the Licence had been objectively breached and decided to change the challenged Decision by reducing the fine imposed on the Company to PLN 500,000, given the small extent of the breach, steps taken by PGNiG to meet the obligation to diversify gas supply sources, limited diversification opportunities and little harm involved in the breach. In the remaining part, the appeal was dismissed.

   Following the receipt of the written statement of reasons from the Court of Appeal, the Company will consider further action, if any.