PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31ST 2015

Members of the Management Board

President of the Management Board	Piotr Woźniak	________________
Vice-President of the Management Board	Bogusław Marzec	________________
Vice-President of the Management Board	Janusz Kowalski	________________
Vice-President of the Management Board	Łukasz Kroplewski	________________
Vice-President of the Management Board	Maciej Woźniak	________________
Vice-President of the Management Board	Waldemar Wójcik	________________

Warsaw, February 19th 2016

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FINANCIAL HIGHLIGHTS
for the year ended December 31st 2015

FINANCIAL HIGHLIGHTS	PLNm		EURm	
	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Net revenue	18,646	23,738	4,456	5,666
Operating profit/(loss)	794	1,633	190	390
Profit/(loss) before tax	1,617	2,222	386	530
Net profit/(loss)	1,472	1,895	352	452
Total comprehensive income	1,139	1,696	272	405
Net cash (used in)/generated by operating activities	2,474	3,982	591	951
Net cash (used in)/generated by investing activities	2,222	(1,845)	531	(440)
Net cash (used in)/generated by financing activities	(1,530)	(2,149)	(366)	(513)
Net increase/(decrease) in cash and cash equivalents	3,166	(12)	757	(3)
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares (in PLN and EUR)	0.25	0.32	0.06	0.08
	Dec 31 2015	Dec 31 2014	Dec 31 2015	Dec 31 2014
Total assets	35,027	35,356	8,219	8,294
Total liabilities	11,289	11,576	2,649	2,716
Total non-current liabilities	7,205	7,385	1,691	1,733
Total current liabilities	4,084	4,191	958	983
Equity	23,738	23,780	5,570	5,578
Share capital	5,900	5,900	1,384	1,384
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)	4.02	4.03	0.94	0.95
Dividend per share declared or paid (PLN/EUR)	0.20	0.15	0.05	0.04

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 2015	Dec 31 2014
Average exchange rate in period	4.1848	4.1893
Exchange rate at end of period	4.2615	4.2623

SEPARATE STATEMENT OF PROFIT OR LOSS
for the year ended December 31st 2015

	Note	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
		audited	audited
Revenue	**3**	**18,646**	**23,738**
Raw materials and consumables used	4.1	(13,374)	(15,101)
Employee benefits expense	4.2	(704)	(750)
Depreciation and amortisation expenses		(799)	(722)
Services	4.3	(1,836)	(4,156)
Work performed by the entity and capitalised		13	10
Other income and expenses	4.4	(1,152)	(1,386)
Total operating expenses	**4**	**(17,852)**	**(22,105)**
Operating profit/(loss)		**794**	**1,633**
Finance income	5	1,180	966
Finance costs	5	(357)	(377)
Profit/(loss) before tax		**1,617**	**2,222**
Income tax	6	(145)	(327)
Net profit/(loss)		**1,472**	**1,895**
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares (PLN)	8	0.25	0.32

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31st 2015

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
	audited	audited
Net profit/(loss)	**1,472**	**1,895**
Other comprehensive income that will be reclassified to profit or loss once specific conditions are met	**(324)**	**(192)**
Exchange differences on translating foreign operations	25	22
Hedge accounting	(431)	(264)
Deferred tax on other comprehensive income	82	50
Other comprehensive income that will not be reclassified to profit or loss	**(9)**	**(7)**
Actuarial gains/(losses) on employee benefits	(11)	(8)
Deferred tax	2	1
Other comprehensive income, net	**(333)**	**(199)**
Total comprehensive income	**1,139**	**1,696**

SEPARATE STATEMENT OF FINANCIAL POSITION
as at December 31st 2015

	Note	Dec 31 2015	Dec 31 2014
		audited	audited
ASSETS			
Non-current assets			
Property, plant and equipment	10	13,234	13,520
Investment property	11	-	1
Intangible assets	12	213	254
Shares	13	8,623	8,611
Other financial assets	14	3,321	4,403
Deferred tax assets	15	624	469
Other non-current assets	16	122	129
Total non-current assets		**26,137**	**27,387**
Current assets			
Inventories	17	1,638	2,506
Trade and other receivables	18	1,329	1,307
Other assets	20	18	20
Current financial assets	21	364	1,805
Derivative financial instrument assets	34	346	388
Cash and cash equivalents	22	5,190	1,942
Non-current assets held for sale	23	**5**	**1**
Total current assets		**8,890**	**7,969**
Total assets		**35,027**	**35,356**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	5,900	5,900
Share premium		1,740	1,740
Accumulated other comprehensive income		(518)	(185)
Retained earnings/(deficit)		16,616	16,325
Total equity		**23,738**	**23,780**
Non-current liabilities			
Borrowings and other debt instruments	25	4,513	4,498
Employee benefit obligations	26	159	134
Provisions	27	1,303	1,414
Deferred revenue	28	641	690
Deferred tax liabilities	29	538	580
Other non-current liabilities	30	51	69
Total non-current liabilities		**7,205**	**7,385**
Current liabilities			
Trade and other payables	31	2,209	2,414
Borrowings and other debt instruments	25	469	656
Derivative financial instrument liabilities	34	814	423
Current tax liabilities	19	50	181
Employee benefit obligations	26	110	43
Provisions	27	396	472
Deferred revenue	28	36	2
Total current liabilities		**4,084**	**4,191**
Total liabilities		**11,289**	**11,576**
Total equity and liabilities		**35,027**	**35,356**

SEPARATE STATEMENT OF CASH FLOWS
for the year ended December 31st 2015

	Note	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
		audited	audited
Cash flows from operating activities			
Net profit/(loss)		1,472	1,895
Adjustments:			
Depreciation and amortisation expenses		799	722
Net foreign exchange gains/(losses)		23	158
Net interest and dividend		(850)	(716)
Gain/(loss) on investing activities		594	750
Current tax expense		145	327
Other items, net	32	48	356
Income tax paid		(340)	(498)
Cash flows from operating activities before movements in working capital		**1,891**	**2,994**
Movements in working capital:			
Change in trade and other receivables	32	129	1,421
Change in inventories	32	869	201
Change in employee benefit obligations	32	91	(40)
Change in provisions	32	(88)	60
Change in current liabilities	32	(417)	(597)
Change in other assets	32	6	(73)
Change in deferred revenue	32	(7)	16
Net cash (used in)/generated by operating activities		**2,474**	**3,982**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets		12	13
Proceeds from disposal of shares in related entities		4	-
Proceeds from disposal of short-term securities		989	-
Purchase of property, plant and equipment and intangible assets		(235)	(392)
Payments for tangible exploration and evaluation assets under construction		(981)	(797)
Payments for shares in related entities		(66)	(400)
Acquisition of short-term securities		(39)	(989)
Repayment of loans advanced		2,027	524
Loans advanced		(441)	(678)
Proceeds from derivative financial instruments		175	199
Payment for derivative financial instruments		(162)	(180)
Interest received		125	115
Dividends received		834	530
Proceeds from finance leases		16	17
Other items, net		(36)	193
Net cash (used in)/generated by investing activities		**2,222**	**(1,845)**
Cash flows from financing activities			
Proceeds from issue of debt securities		309	474
Repayment of debt securities		(474)	(1,502)
Proceeds from derivative financial instruments		84	84
Payment for derivative financial instruments		(81)	(98)
Dividends paid		(1,180)	(885)
Interest paid		(192)	(220)
Other items, net		4	(2)
Net cash (used in)/generated by financing activities		**(1,530)**	**(2,149)**
Net increase/(decrease) in cash and cash equivalents		**3,166**	**(12)**
Cash and cash equivalents at beginning of period	32	**1,673**	**1,685**
Cash and cash equivalents at end of period	32	**4,839**	**1,673**
including restricted cash		**506**	**451**

On July 16th 2014, a cash pooling agreement was executed for an indefinite term between Bank Pekao S.A. and the companies of the PGNiG Group. As at December 31st 2015, the following companies participated in the cash pooling arrangement: PGNiG S.A., Polska Spółka Gazownictwa Sp. z o.o., Exalo Driling S.A., PGNiG Technologie S.A., Geofizyka Kraków S.A., Geofizyka Toruń S.A., Operator Systemu Magazynowego Sp. z o.o., PGNiG Serwis Sp. z o.o., PGNiG Termika S.A., PGNiG Obrót Detaliczny Sp. z o.o. and Geovita S.A. The main objective of the agreement is to manage the Group's current liquidity.

Therefore, the cash flows under the cash pooling transactions as well as exchange differences on translating cash and cash equivalents are presented in the statement of financial position under 'Cash and cash equivalents', and as an adjustment to cash and cash equivalents in the statement of cash flows.

The table below presents reconciliation of cash and cash equivalents as presented in the statement of cash flows with cash and cash equivalents as presented in the statement of financial position.

Reconciliation of cash and cash equivalents as presented in the statement of cash flows with cash and cash equivalents as presented in the statement of financial position.

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Cash and cash equivalents at end of period in the statement of cash flows	**4,839**	**1,673**
Opening balance of net foreign exchange gains/(losses)	1	-
Opening balance of inflows/outflows of cash under cash pooling arrangement	268	-
Net foreign exchange differences for the reporting period	-	1
Inflows/(outflows) of cash under cash pooling arrangement in the reporting period	82	268
Cash and cash equivalents at end of period in the statement of financial position	**5,190**	**1,942**

STATEMENT OF CHANGES IN EQUITY
for the year ended December 31st 2015

	Equity (attributable to owners of the parent)						
			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 2015 (audited)	**5,900**	**1,740**	**16**	**(215)**	**13**	**16,325**	**23,780**
Dividend	-	-	-	-	-	(1,180)	**(1,180)**
Total comprehensive income	**-**	**-**	**25**	**(349)**	**(9)**	**1,472**	**1,139**
Net profit/(loss) for 2015	-	-	-	-	-	1,472	**1,472**
Other comprehensive income, net, for 2015	-	-	25	(349)	(9)	-	**(333)**
As at Dec 31 2015 (audited)	**5,900**	**1,740**	**41**	**(564)**	**4**	**16,616**	**23,738**
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**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF PGNiG S.A. AS AT DECEMBER 31 2015

1. GENERAL INFORMATION

1.1. Company name, principal business activity and key registration 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, 12th 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 concerned the scope of 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 entry 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.

On May 19th 2015, the Company received the decision of the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, concerning entry of the amendments to the PGNiG Articles of Association, adopted by Resolution No. 26/IV/2015 of the Annual General Meeting of PGNiG S.A. of Warsaw on April 16th 2015, in the National Court Register − Register of Entrepreneurs. The amendments were entered in the register on May 11th 2015, and became effective as of that date. The amendment consists in modification of the

wording of Art. 35.1 of the Articles of Association by deleting from the phrase "acting in consultation with the minister competent for economic affairs".

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) finance lease,

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 2015 to December 31st 2015, with comparative data for the period from January 1st 2014 to December 31st 2014.

1.4. Scope of disclosure

PGNiG S.A. has a multi-branch structure, which as at December 31st 2015 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,
- Wholesale Trading Branch in Warsaw,
- Operator Branch in Pakistan,

The Mogilno Underground Gas Storage Cavern Facility Branch was wound up as of March 1st 2015 by virtue of Resolution No. 46/2015 of the Management Board of PGNiG S.A., dated February 3rd 2015, on liquidation of a branch of Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna of Warsaw ("PGNiG S.A.") under the name of Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna of Warsaw – the Mogilno Underground Gas Storage Cavern Facility Branch.

The Egypt Branch was wound up by virtue of Resolution No. 827/2013 of the Management Board of PGNiG S.A., dated November 12th 2013, on granting consent not to proceed with the second two-year exploration period and discontinue exploration for hydrocarbon deposits under the Baharya licence in Egypt, approved by Resolution No. 169/VI/2014 of the Supervisory Board of PGNiG S.A. of Warsaw, dated December 5th 2013.

The Branch was removed from the commercial register maintained by the Egyptian General Authorities For Investment and Free Zones on April 7th 2015, and from the Polish National Court Register − on November 22nd 2015.

PGNIG S.A., as a parent, also prepares consolidated financial statements containing data of 15 subsidiaries (of which three are parents of their own groups) and one jointly-controlled entity.

1.5. Composition of the PGNiG Management Board

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

As long as the State Treasury holds Company shares 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 2015, the Company's Management Board consisted of:

- Mr Piotr Woźniak – Member of the Supervisory Board delegated to temporarily perform the duties of President of the Management Board
- Mr Waldemar Wójcik – Vice-President.

The following changes in the composition of the PGNiG Management Board occurred in 2015:

- on December 11th 2015, the PGNiG Supervisory Board removed Mr Mariusz Zawisza from the PGNiG Management Board and from the position of President of the Management Board by virtue of Resolution No. 88/VII/2015.
- on December 11th 2015, the PGNiG Supervisory Board removed Mr Jarosław Bauc from the PGNiG Management Board and from the position of Vice-President for Finance by virtue of Resolution No. 89/VII/2015.
- on December 11th 2015, the PGNiG Supervisory Board removed Mr Zbigniew Skrzypkiewicz from the PGNiG Management Board and from the position of Vice-President for Exploration & Production by virtue of Resolution No. 90/VII/2015.
- On December 11th 2015, the PGNiG Supervisory Board, by virtue of Resolution No. 91/VII/2015, resolved to delegate Mr Piotr Woźniak to temporarily perform the duties of President of the PGNiG Management Board from December 11th 2015 to March 11th 2016.

At its meeting on February 10th 2016, the PGNiG Supervisory Board appointed the following persons to the PGNiG Management Board, as of February 11th 2016, for a joint term of office ending on December 30th 2016:

- Mr Piotr Woźniak – President
- Mr Bogusław Marzec – Vice-President, Finance
- Mr Janusz Kowalski – Vice-President, Corporate Affairs
- Mr Łukasz Kroplewski – Vice-President, Development
- Maciej Woźniak – Vice-President, Trade.

1.6. Commercial proxies

Commercial proxies as at December 31 2015:

- Mr Maciej Woźniak
- Mr Janusz Kowalski
- Mr Bogusław Marzec
- Ms Violetta Jasińska-Jaśkowiak.

By virtue of Resolution No. 544/2015 of the PGNiG Management Board of December 11th 2015, Mr Maciej Woźniak was granted a several commercial power of proxy.
By virtue of Resolution No. 545/2015 of the PGNiG Management Board of December 11th 2015, Mr Janusz Kowalski was granted a several commercial power of proxy.
By virtue of Resolution No. 546/2015 of the PGNiG Management Board of December 11th 2015, Mr Bogusław Marzec was granted a several commercial power of proxy.
By virtue of Resolution No. 576/2015 of the PGNiG Management Board of December 23rd 2015, powers of proxy granted to Ms Violetta Jasińska-Jaśkowiak, Mr Janusz Kowalski, Mr Bogusław Marzec and Mr Maciej Woźniak were revoked. Simultaneously, the same persons were granted joint powers of proxy, where a joint action of two commercial proxies is required for a legal transaction to be effective.

On February 10th 2016, Mr Janusz Kowalski, Mr Maciej Woźniak and Mr Bogusław Marzec terminated their appointments as commercial proxies.

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 Company shares, the State Treasury, represented by the minister competent for matters pertaining to the State Treasury, 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 2015, the composition of the PGNiG Supervisory Board was as follows:

- Mr Grzegorz Nakonieczny – Chairman;
- Ms Magdalena Zegarska – Secretary;
- Mr Sławomir Borowiec – Member;
- Mr Mateusz Boznański – Member;
- Mr Andrzej Gonet – Member;
- Mr Krzysztof Rogala – Member;
- Mr Wojciech Bieńkowski – Member;
- Mr Ryszard Wąsowicz – Member;
- Mr Piotr Woźniak – Member of the Supervisory Board delegated to temporarily perform the duties of President of the Management Board.

The following changes in the composition of the PGNiG Supervisory Board occurred in 2015:

- On April 16th 2015, by virtue of Resolution No. 27/IV/2015, the Annual General Meeting of PGNiG S.A. appointed Ms Irena Ożóg as member of the PGNiG Supervisory Board;
- On April 16th 2015, by virtue of Resolution No. 28/IV/2015, the Annual General Meeting of PGNiG S.A. appointed Mr Maciej Mazurkiewicz as member of the PGNiG Supervisory Board.
- On July 22nd 2015, Mr Wojciech Chmielewski resigned as member of the PGNiG Supervisory Board.
- On July 28th 2015, by virtue of Resolution No. 51/VII/2015, the Supervisory Board appointed from among its members Ms Agnieszka Woś as Chair of the Supervisory Board, and by virtue of Resolution No. 52/VII/2015 − Mr Andrzej Janiak as Deputy Chairman of the Supervisory Board.
- On October 19th 2015, by virtue of Resolution No. 4/X/2015, the Extraordinary General Meeting of PGNiG S.A. removed Ms Agnieszka Woś from the Supervisory Board.
- On October 19th 2015, by virtue of Resolution No. 5/X/2015, the Extraordinary General Meeting of PGNiG S.A. appointed Mr Grzegorz Nakonieczny to the Supervisory Board.

- On October 29th 2015, by virtue of Resolution No. 80/VII/2015, the PGNiG Supervisory Board appointed from among its members Mr Grzegorz Nakonieczny as Chairman of the Supervisory Board.
- On December 4th 2015, the Minister of State Treasury, pursuant to Art. 35.1 of the Company's Articles of Association, appointed Mr Piotr Woźniak as member of the PGNiG Supervisory Board.
- On December 11th 2015, the PGNiG Supervisory Board, by virtue of Resolution No. 91/VII/2015, resolved to delegate Mr Piotr Woźniak to temporarily perform the duties of President of the PGNiG Management Board from December 11th 2015 to March 11th 2016.
- On December 29th 2015, by virtue of Resolution No. 2/XII/2015, the Extraordinary General Meeting of PGNiG S.A. removed Mr Andrzej Janiak as member of the PGNiG Supervisory Board.
- On December 29th 2015, by virtue of Resolution No. 3/XII/2015, the Extraordinary General Meeting of PGNiG S.A. removed Mr Janusz Pilitowski as member of the PGNiG Supervisory Board.
- On December 29th 2015, by virtue of Resolution No. 4/XII/2015, the Extraordinary General Meeting of PGNiG S.A. removed Mr Maciej Mazurkiewicz as member of the PGNiG Supervisory Board.
- On December 29th 2015, by virtue of Resolution No. 5/XII/2015, the Extraordinary General Meeting of PGNiG S.A. removed Ms Irena Ożóg as member of the PGNiG Supervisory Board.
- On December 29th 2015, by virtue of Resolution No. 6/XII/2015, the Extraordinary General Meeting of PGNiG S.A. appointed Mr Mateusz Boznański as member of the PGNiG Supervisory Board.
- On December 29th 2015, by virtue of Resolution No. 7/XII/2015, the Extraordinary General Meeting of PGNiG S.A. appointed Mr Andrzej Gonet as member of the PGNiG Supervisory Board.
- On December 29th 2015, by virtue of Resolution No. 8/XII/2015, the Extraordinary General Meeting of PGNiG S.A. appointed Mr Krzysztof Rogala as member of the PGNiG Supervisory Board.
- On December 29th 2015, by virtue of Resolution No. 9/XII/2015, the Extraordinary General Meeting of PGNiG S.A. appointed Mr Wojciech Bieńkowski as member of the PGNiG Supervisory Board.

On January 7th 2016, the PGNiG Supervisory Board appointed Mr Wojciech Bieńkowski as Deputy Chairman of the PGNiG Supervisory Board.

Following his appointment as President of the PGNiG Management Board, the PGNiG Management Board and the PGNiG Supervisory Board accepted Mr Piotr Woźniak's resignation from the position of member of the PGNiG Supervisory Board as of February 10th 2016.

1.8. Shareholding structure of PGNiG S.A.

As at the date of issue of these separate financial statements for 2015, the State Treasury was the only shareholder holding 5% or more of total voting rights at the General Meeting of PGNiG S.A.

The shareholding structure of PGNIG S.A. was as follows:

Shareholder	Registered office	Number of shares	% ownership interest	% total voting rights
As at Dec 31 2015				
State Treasury	Warsaw	4,178,771,608	70.83%	70.83%
Other shareholders	-	1,721,228,392	29.17%	29.17%
Total	**-**	**5,900,000,000**	**100.00%**	**100.00%**
As at Dec 31 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%**

On December 2nd 2015, following acquisition of new shares in the increased share capital of Towarzystwo Finansowe Silesia Sp. z o.o. by the Minister of State Treasury, the State Treasury's interest in the share capital decreased by 92,936,803 shares (or 1.57% of the share capital). In 2015, the process of delivering Company shares to eligible employees continued. As at December 31st 2015, due to pending probate proceedings, the process was not completed. 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 2015, 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. Details of the transaction are presented in the Separate Financial Statements of PGNiG S.A. for the year ended December 31st 2014, issued on March 5th 2015.

1.11. Approval of the financial statements

These financial statements will be submitted to the PGNiG Management Board for approval and issued on March 4th 2016.

2. ACCOUNTING POLICIES

2.1. Basis of preparation

These separate financial statements have been prepared in compliance with the continuity principle (Art. 5.1 of the Accountancy Act), by grouping business transactions in subsequent reporting periods in a manner ensuring comparability of information disclosed in financial statements for subsequent reporting periods. The closing balances of assets and liabilities disclosed in the accounting books are the same as the opening balances disclosed in the accounting books of the next financial year.

The separate 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, loans, receivables and liabilities measured at amortised cost using the effective interest rate method.

The presentation currency of these financial statements is the Polish zloty (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 International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") and effective as at December 31st 2015.

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 2015.

- 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.

Application of the above amendments to standards has not caused any material changes in the accounting policies of the Company 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 IAS 27 Equity Method in Separate Financial Statements – 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 (2012−2014) – changes in the procedure of introducing annual amendments to IFRS – planned to be 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 16 Property, Plant and Equipment – effective for reporting periods beginning on or after January 1st 2016;

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 2015 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 10 and IAS 28 Sales or Contributions of Assets between an Investor and Its Associate/Joint Venture; The effective date has been postponed for an indefinite time;
- 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 2018;
- IFRS 16 Leasing – effective for reporting periods beginning on or after January 1st 2019;
- 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 12 Recognition of Deferred Tax Assets for Unrealised Losses – effective for reporting periods beginning on or after January 1st 2017;
- Amendments to IAS 7 Statement of Cash Flows: *Disclosure Initiative* – effective for reporting periods beginning on or after January 1st 2017;

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 is recognised by the Company at historical cost. Property, plant and equipment, initially recognised as assets, are disclosed at cost less depreciation and impairment losses.

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

In the event of a leak, the costs of 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.

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

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 following the evaluation a decision is made to extract

minerals, the Company reclassifies relevant exploration and evaluation assets at the start of production into 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 recognised in profit or loss.

The Company recognises provisions for extraction and storage well decommissioning costs. The value of the discounted provision is added to the initial value of the wells and depreciated over their 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 a foreign currency, to the extent that they are regarded as an adjustment to interest expense.

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.

The Company identifies the following intangible assets:

- development expenses;
- goodwill;
- perpetual usufruct right to land – acquired for consideration;
- licences obtained under the Polish Geological and Mining Law, 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.

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.

Costs of licences for exploration for 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 are recognised as intangible assets at actual acquisition price.

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

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

The Group initially recognises intangible assets at cost and afterwards they are carried at cost less accumulated amortisation and impairment losses.

The 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 life periods:

- Acquired licences, patent rights and similar items 2-15 years
- Acquired software 2-10 years
- Perpetual usufruct right to land 40-99 years
- Licences – period specified in relevant decision of the competent authority.

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 in accordance with IAS 27.10(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 resulting 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 cost of the period in which the impairment loss arose.

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

2.3.9. 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).

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

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

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

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

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

- 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.

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

2.3.9.4. 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 were recognised or the impairment losses that were recognised were lower than the full amounts of the receivables, are charged to other expenses or finance costs.

2.3.9.5. 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 financial position 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.

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

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.

The impairment losses are determined based on the analysis of historical data on 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 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 gains or losses 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 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

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; and
- its expenses, including its share of any expenses incurred jointly.

As assets, liabilities, revenues and costs relating to the joint operation are also disclosed in the separate financial statements of the party, these items are not subject to adjustment or other consolidation procedures when preparing consolidated financial statements of that party.

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.

Impairment losses on inventories bringing their value to the net realisable amount and all losses on inventories are recognised as cost in the period when the loss occurred.

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

- For inventory of purchased materials which are idle for a period of 1–5 years, the 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 the inventory 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 a 100% impairment loss.

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 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, under the Company’s Articles of Association. In addition, an asset (or a disposal group) must be actively offered for sale at a reasonable price corresponding with its present fair value. It should also be expected that the sale will be effected within one year from the date of such classification.

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

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

In the 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.

Share premium comprises 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 the 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 charged to profit or loss.

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 certificates of origin and energy efficiency certificates,
- 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. Adjustments to provisions resulting from the change of discount are charged to profit or loss.

The Extraction Facilities Decommissioning Fund is created on the basis of Art. 128 of the Mining and Geological Law of June 9th 2011 (Dz.U. of 2011, No. 163, item 981, as amended).

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

- abandonment of and securing production, storage, discharge, observation and monitoring wells;
- liquidation of redundant facilities and disassembly of machinery and equipment;
- reclamation of land and development of areas after completion of extraction activities;

- maintenance of facilities intended for decommissioning in an order ensuring safety of extraction facility operations.

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

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

2.3.16.2. Provision for costs of environmental liabilities

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

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

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

Where possible, at the time of installing the elements of the infrastructure the Company enters into agreements establishing standard land easements and transmission easements.

Transmission easement is a civil law construct governed by Art. 305^1–305^4 of the Polish Civil Code of April 23rd 1964 (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 certificates of origin and energy efficiency certificates

The Company recognises a provision for amortisation of certificates of origin and energy efficiency certificates or for the payment of substitution fee.

The provision is recognised as at the end of reporting period, based on the amounts of electricity, heat and gaseous fuel sold to end users, and the amount of electricity generated and used for company's own purposes, taking into consideration the applicable unit substitution fee or price of a certificate on the PPE.

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 Group recognises the amount of income based on the volume of ordered and uncollected gas, which is then adjusted pro rata to the actual volume of delivered gas. If a trading partner fails to collect the declared volume of gas by the deadline specified in the contract, deferred 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 equity and 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.

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

2.3.18.3. Other financial liabilities

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

At 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 paid, 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 redundancy 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 redundancy 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.

Other non-current liabilities include, among other things, liabilities under licences.

Other current liabilities include in particular liabilities:

- towards employees (other than salaries and wages),
- under bid bonds,
- under 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.

For more information on the structure of sales, see Note 3.2.

2.3.20.3. 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.

2.3.20.4. 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.

2.3.20.5. 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.

2.3.20.6. Royalties

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

2.3.20.7. 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 each reporting date. If future foreseen taxable profit is insufficient for deductible temporary differences to be settled, impairment losses on deferred tax assets are recognised.

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

Deferred tax assets and liabilities are offset if, and only if, the 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.

2.3.23.1.1. Translation of items denominated in foreign currencies

The Polish zloty (PLN) is the functional currency (measurement currency) and the reporting currency of PGNiG S.A.

2.3.23.1.2. Measurement at initial recognition

Transactions denominated in foreign currencies are initially disclosed at the exchange rate of the functional currency effective as at the transaction date.

2.3.23.1.3. Measurement at the end of the reporting period

At the end of each reporting period:

- Cash items denominated in foreign currencies are translated at the exchange rate of the functional currency effective as at the reporting date.
- Non-cash items measured at historical cost in a foreign currency are translated at the exchange rate effective as at the date of transaction. Non-cash items valued at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.

2.3.23.1.4. Recognition of exchange differences

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements is recognised in profit or loss in the period in which they arise. When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised by the Company in profit or loss.

Foreign currency differences arising on translation of the assets and liabilities of foreign branches are recognised in Accumulated other comprehensive income and presented in a separate item of equity. Upon disposal of a foreign operation, accumulated foreign exchange gains or losses disclosed under equity are recognised in profit or loss.

To hedge against foreign currency risk, the Company enters into derivatives transactions (for description of the accounting policies applied by the Company to derivative financial instruments see Section 2.3.11).

2.4. Key reasons for uncertainty of estimates

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

2.4.1. Impairment of non-current assets

The Company's key operating assets include mining assets, transmission infrastructure and gas fuel storage facilities.

These assets were tested for impairment. The Company computed and recognised material impairment losses on the assets, based on an assessment of their current and future usefulness or planned decommissioning or sale.

The assumptions made in connection with potential continued use, liquidation and sale of assets are revised in individual reporting periods. For information on the amount of impairment losses see Note 10.2.

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

2.4.2. Useful lives of property, plant and equipment

The useful lives of the main groups of property, plant and equipment are set forth in Section 2.3.1. of these financial statements. The useful lives of the property, plant and equipment were determined on the basis of assessments made by the engineering personnel who are in charge of their operation. Any such assessment is connected with uncertainty as to the future business environment, technology changes and market competition, which could lead to a different assessment of the economic usefulness of the assets and their remaining useful lives and ultimately have a material effect on the value of the property, plant and equipment and the future depreciation charges.

The Company reviews the useful lives of property, plant and equipment on an annual basis. The most recent review was carried out as at December 31st 2015.

2.4.3. 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.

2.4.4. 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.

2.4.5. Proceedings concerning performance of the obligation to sell gas through the exchange market

In 2015, the President of URE instigated two proceedings to impose a financial penalty on PGNiG S.A. for its failure to meet the obligation to sell gas through the exchange market in 2013 and 2014. It must be stressed, however, that in the current market environment PGNiG S.A. is the only entity required to meet this obligation, and the proceedings instigated against the Company have no precedent. Therefore, it is hardly feasible to estimate penalties which might be imposed on the Company.

Proceedings concerning performance of the obligation to sell gas through the exchange market in 2013

The proceedings to impose a financial penalty on the Company for its failure to meet the obligation to sell gas through the exchange market in 2013, instigated on January 13th 2015, have not been concluded. The President of URE suspended the proceedings on April 30th 2015. The reason for the President's decision was the Company's complaint against a decision denying the Company access to certain case files. The complaint is pending before the Competition and Consumer Protection Court at the Regional Court of Warsaw. At this stage of the proceedings it is difficult to assess when the decision to impose a penalty, if any, on PGNiG S.A. should be expected.

Proceedings concerning performance of the obligation to sell gas through the exchange market in 2014

On October 28th 2015, the President of URE instigated proceedings to impose a financial penalty on PGNiG S.A. for its failure to meet the obligation to sell gas through the exchange market in 2014. At the date of preparation of these financial statements, proceedings are pending.

Inability to make a reliable estimate of the obligation

The Company is unable to reliably estimate the potential liability which might arise if a penalty is imposed on the Company for the following reasons:

- unprecedented nature of the proceedings;
- lack of a complete analogy between the obligation to sell gas through the exchange market and the obligation to sell electricity through the exchange market, making it impossible to estimate a potential penalty based on other decisions of the President of URE for failure to meet the obligation to sell energy carriers through the exchange market;
- the Company's substantive arguments against imposition by the President of URE of financial penalties on PGNiG S.A. for its failure to meet the obligation to sell statutorily required quantities of gas through the exchange market.

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 2015, revenue from export sales to external customers accounted for 2.55% (2014: 4.87%) of total net revenue from sales to external customers. The main export markets were Switzerland, Germany, the US and Pakistan.

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Domestic sales	**18,171**	**22,581**
High-methane gas	14,000	18,343
Nitrogen-rich gas	1,132	1,290
Crude oil and natural gasoline	703	790
Helium	7	12
Propane-butane gas	53	83
LNG	215	59
Electricity	1,091	1,155
Other services	244	129
Other products	7	26
Merchandise and materials	5	6
Entitlement to operate storage facilities	624	633
CO_2 emission allowances	90	55
Export sales:	**475**	**1,157**
High-methane gas	-	2
Nitrogen-rich gas	36	35
Crude oil and natural gasoline	354	999
Helium	67	108
Electricity	10	6
Other services	6	4
Other products	2	2
Merchandise and materials	-	1
Total	**18,646**	**23,738**
% share of exports in total sales:	**2.55%**	**4.87%**

Most of the Company's non-current assets (other than financial instruments) are located in Poland. Non-current assets located abroad as at December 31st 2015 represented 2.00% of the Company's total non-current assets (other than financial instruments) (December 31st 2014: 1.44%).

	Dec 31 2015	Dec 31 2014
	audited	audited
Value of non-current assets other than financial instruments located in Poland	13,178	13,577
Value of non-current assets other than financial instruments located abroad	269	198
Total	**13,447**	**13,775**
% share of assets located abroad in total assets	**2.00%**	**1.44%**

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, 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 gas fuel trading and other activities.

Statement of profit or loss

12 months ended Dec 31 2015	Gas fuels trading	Other Activities	Total
Sales	14,096	4,550	**18,646**
Operating expenses	(14,271)	(3,581)	**(17,852)**
Operating profit/(loss)	(175)	969	**794**
Finance income and costs	-	823	**823**
Profit/(loss) before tax	(175)	1,792	**1,617**
Income tax	-	(145)	**(145)**
Net profit/(loss)	(175)	1,647	**1,472**

Statement of financial position

as at Dec 31 2015	Gas fuels trading	Other Activities	Total
Non-current assets	2,991	23,146	**26,137**
Trade and other receivables	511	818	**1,329**
Inventories	1,468	170	**1,638**
Other current assets	-	5,923	**5,923**
Total assets	**4,970**	30,057	**35,027**
Trade and other payables	857	1,352	**2,209**
Equity and other items of equity and liabilities	69	32,749	**32,818**
Total equity and liabilities	**926**	34,101	**35,027**

Statement of profit or loss

12 months ended Dec 31 2014	Gas fuels trading	Other Activities	Total
Sales	18,779	4,959	**23,738**
Operating expenses	(18,668)	(3,437)	**(22,105)**
Operating profit/(loss)	111	1,522	**1,633**
Finance income and costs	-	589	**589**
Profit/(loss) before tax	111	2,111	**2,222**
Income tax	-	(327)	**(327)**
Net profit/(loss)	111	1,784	**1,895**

Statement of financial position

as at Dec 31 2014	Gas fuels trading	Other Activities	Total
Non-current assets	3,109	24,278	**27,387**
Trade and other receivables	623	684	**1,307**
Inventories	2,282	224	**2,506**
Other current assets	-	4,156	**4,156**
Total assets	**6,014**	29,342	**35,356**
Trade and other payables	869	1,545	**2,414**
Equity and other items of equity and liabilities	157	32,785	**32,942**
Total equity and liabilities	**1,026**	34,330	**35,356**

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.

Tangible assets were allocated to gas fuel trading mainly by way of specific identification of expenditure on tangible assets and tangible assets under construction associated with gas trading, based on analysis of accounting records. Other expenditure on tangible assets was allocated to other activities.

Receivables, inventories and liabilities recognised as at the end of the reporting period were allocated to gas fuel trading by way of direct identification based on detailed analysis of accounting records.

Other items of assets and equity and liabilities in the Company's statement of financial position were allocated to other activities as they are not related to, or account for only a marginal share in, gas fuel trading.

The presentation of comparative period data changed following the Company's earlier application of an amendment to Art. 44.2 of the Polish Energy Law, i.e. only gas fuel trading is presented separately in the Company's financial statements for 2015. Moreover, presentation of both current period data and comparative period data on gas fuel trading includes trading on the Polish Power Exchange. Accordingly, the comparative data presented in the Company's financial statements for 2014 has been supplemented with information on transactions executed on the Polish Power Exchange in 2014.

4. OPERATING EXPENSES

4.1. Raw materials and consumables used

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Cost of gas sold	(12,157)	(13,835)
Electricity for trading	(1,069)	(1,123)
Other raw materials and consumables used	(148)	(143)
Total	**(13,374)**	**(15,101)**

4.2. Employee benefits expense

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Salaries and wages	(434)	(496)
Social security contributions	(106)	(141)
including: contributions to the Employee Retirement Scheme	(27)	(36)
Other employee benefits expense	(83)	(86)
Cost of future benefits	(81)	(27)
Total	**(704)**	**(750)**

4.3. Services

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Purchase of transmission, distribution, and storage services	(1,171)	(3,341)
Cost of dry wells written off	(167)	(250)
Costs of seismic surveys written off	(83)	(41)
Other services	(415)	(524)
Total	**(1,836)**	**(4,156)**

4.4. Other income and expenses

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Compensation, penalties, fines, etc. received	6	16
Interest on receivables related to operating activities	1	46
Other income	28	17
Net exchange differences related to operating activities	30	48
Net gain/(loss) on derivative instruments related to operating activities	(107)	(212)
Net gains/losses on disposal of non-financial non-current assets	(4)	(1)
Change in products	32	32
Change in impairment losses on property, plant and equipment	(549)	(694)
Change in inventory write-downs	(191)	(69)
Change in impairment losses on trade and other receivables	28	(55)
Provision for well decommissioning costs	134	(39)
Provision for workforce streamlining and voluntary redundancy programmes	(22)	(3)
Provision for UOKiK fine	(10)	-
Provision for claims under extra-contractual use of land	-	(3)
Provision for liabilities associated with exploration work abroad	(18)	(9)
Other provisions	18	12
Provision for certificates of origin and energy efficiency certificates	(47)	(158)
Taxes and charges relating to hydrocarbons production	(65)	(63)
Taxes and charges	(134)	(131)
Merchandise and materials sold	(107)	(62)
Property insurance	(19)	(13)
Domestic and international business trips	(7)	(9)
Compensation, penalties, fines, etc. paid	(2)	(8)
Other costs	(147)	(28)
Total	**(1,152)**	**(1,386)**

The other expenses also include the result on the settlement of a long-term contract for items other than gas supply.

5. FINANCE INCOME AND COSTS

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Finance income	**1,180**	**966**
Gain on measurement and realisation of derivative financial instruments	108	92
Interest income	234	340
Dividends and other profit distributions	834	530
Other finance income	4	4
Finance costs	**(357)**	**(377)**
Interest expense	(141)	(142)
Foreign exchange losses	(143)	(159)
Revaluation of investments	(43)	(50)
Loss on disposal of investments	(1)	-
Commission fees paid on bank borrowings	(19)	(16)
Cost of guarantees	(3)	(3)
Other finance costs	(7)	(7)
Net finance income/(costs)	**823**	**589**

Total borrowing costs capitalised as acquisition (or production) costs of non-current assets in the reporting period amounted to PLN 46m (2014: PLN 86m).

6. INCOME TAX

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Profit/(loss) before tax	1,617	2,222
Tax rate applicable in period	19%	19%
Tax calculated at the applicable tax rate	(307)	(422)
Permanent differences between profit/(loss) before tax and taxable profit	162	95
Tax expense in the statement of profit or loss	**(145)**	**(327)**
Current tax expense	(258)	(400)
Deferred tax expense	113	73
Effective tax rate	9%	15%

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 individual companies in the 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.

Under the Corporate Income Tax Act treats the PTG is treated as a separate payer of corporate income tax, which means that the companies included in the PTG lost their separate status as CIT payers, while the PTG acquired this status. The PTG is a separate entity exclusively for the purposes of corporate income tax, and it should not be viewed as a separate legal person. Also, its separate tax status does not extend to other taxes; in particular, each of the PTG member companies is a separate payer of VAT and of tax on civil-law transactions, and a separate remitter of personal income tax withholdings. The other Group companies are separate CIT taxpayers.

Dividend received, which amounted to PLN 834m in the year ended December 31st 2015 (year ended December 31st 2014: PLN 530m), was the key factor determining the effective tax rate of 9% in the year ended December 31st 2015 (year ended December 31st 2014: 15%).

6.1. Current tax expense

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Profit/(loss) before tax	1,617	2,222
Differences between profit/(loss) before tax and tax base	(220)	(112)
Taxable income not recognised as income for accounting purposes	22	179
Tax deductible expenses not recognised as expenses for accounting purposes	(1,415)	(2,379)
Income not recognised as taxable income	(1,737)	(1,471)
Non-tax deductible expenses	2,931	3,617
Deductions from income	(21)	(58)
Income tax base	1,397	2,110
Tax rate applicable in the period	19%	19%
Income tax	(265)	(401)
Increases, reliefs, exemptions, allowances and reductions in/of income tax	7	1
Current tax expense disclosed in tax return for the period	(258)	(400)
Current tax expense disclosed in the statement of profit or loss	**(258)**	**(400)**

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 40% to 41%. In 2015 and 2014, the foreign branches did not pay income tax.

6.2. Deferred tax expense

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Deferred tax expense disclosed in the separate statement of profit or loss	**113**	**73**
Recognition and reversal of deferred tax due to deductible temporary differences	**153**	**98**
Impairment losses on financial assets, receivables and tangible assets under construction	91	40
Provisions for future liabilities	(17)	17
Costs of FX risk and interest rate risk hedges	78	42
Other deductible temporary differences	1	(1)
Recognition and reversal of deferred tax due to taxable temporary differences	**(40)**	**(25)**
Difference between tax and accounting value of non-current assets	37	63
Positive valuation of FX and interest rate risk hedges	(82)	(69)
Accrued interest	5	4
Income on tax obligation arising in subsequent month	-	1
Other taxable temporary differences	-	(24)
Deferred tax expense disclosed in other comprehensive income, net, including:	**84**	**51**
Hedge accounting	82	50
Actuarial gains/(losses) on employee benefits	2	1
Total changes	**197**	**124**

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 2015, the balance of deferred tax assets was PLN 624m, and the balance of deferred tax liabilities was PLN 538m.

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 2015, the deferred tax asset increased by PLN 155m, of which PLN 152m was charged to profit or loss, while the balance increased the Company’s equity.

In 2015, the deferred tax liability fell by PLN 42m, of which PLN 39m 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 113m.

7. DISCONTINUED OPERATIONS

The Company did not discontinue any operations in 2015, 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 2015	Jan 1–Dec 31 2014
Net profit attributable to owners of the Company	1,472	1,895
Net profit attributable to owners of the Company used to calculate diluted earnings per share	1,472	1,895
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)	0.25	0.32
Diluted earnings per share for the period, attributable to holders of ordinary shares of the Company (PLN)	0.25	0.32

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

Start date	End date	Number of outstanding ordinary shares (million)	Number of days	Weighted average number of shares (million)
Dec 31 2015				
Jan 1 2015	Dec 31 2015	5,900	365	5,900
Total				
Dec 31 2014				
Jan 1 2014	Dec 31 2014	5,900	365	5,900
Total				

9. DIVIDEND PAID AND PROPOSED

	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Dividends declared and paid in the period		
Dividend per share paid (PLN)	0.20	0.15
Number of shares (million)	5,900	5,900
Dividend paid (PLNm)	1,180	885
- cash dividend paid to the State Treasury	854	641
- cash dividend paid to other shareholders	326	244

On April 16th 2015, the Annual General Meeting of PGNiG S.A. passed a resolution on distribution of the Company's 2014 net profit and decided to allocate PLN 1,180m (PLN 0.20 per share) to dividend. The dividend record date and the dividend payment date were set for July 15th 2015 and August 4th 2015, respectively.

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 (PLN 0.15 per share) to dividend. The dividend record date and the dividend payment date were set for August 14th 2014 and September 4th 2014, respectively.

10. PROPERTY, PLANT AND EQUIPMENT

	Dec 31 2015	Dec 31 2014
Land	24	25
Buildings and structures	7,202	6,385
Plant and equipment	2,873	2,159
Vehicles and other	136	111
Total tangible assets	**10,235**	**8,680**
Tangible exploration and evaluation assets under construction	2,186	2,097
Other tangible assets under construction	813	2,743
Total property, plant and equipment	**13,234**	**13,520**

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

As at December 31st 2015, no pledge to secure liabilities was established over the Company's property, plant and equipment.

In 2015, the Company was party to 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 2015	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**	Exploration and evaluation assets	Other tangible assets under construction	**Total property, plant and equipment**
Net carrying amount as at Jan 1 2015, net of accumulated depreciation and impairment losses	25	6,385	2,159	111	**8,680**	2,097	2,743	13,520
Increase	-	125	-	-	**125**	966	468	1,559
Decrease	-	(124)	(10)	(1)	**(135)**	(251)	(216)	(602)
Currency translation differences	-	5	-	1	**6**	12	3	21
Transfers from tangible assets under construction and between groups and other balance-sheet items	-	1,421	1,016	51	**2,488**	(313)	(2,214)	(39)
Impairment losses	(1)	(157)	(35)	(6)	**(199)**	(325)	29	(495)
Depreciation expense for the year	-	(453)	(257)	(20)	**(730)**	-	-	(730)
Net carrying amount as at Dec 31 2013, net of accumulated depreciation and impairment losses	**24**	**7,202**	**2,873**	**136**	**10,235**	**2,186**	**813**	**13,234**
As at Jan 1 2015								
Gross carrying amount	32	11,538	3,963	234	**15,767**	2,839	2,782	21,388
Accumulated depreciation and impairment losses	(7)	(5,153)	(1,804)	(123)	**(7,087)**	(742)	(39)	(7,868)
Net carrying amount as at Jan 1 2015	**25**	**6,385**	**2,159**	**111**	**8,680**	**2,097**	**2,743**	**13,520**
As at Dec 31 2015								
Gross carrying amount	32	12,923	4,948	280	**18,183**	3,253	822	22,258
Accumulated depreciation and impairment losses	(8)	(5,721)	(2,075)	(144)	**(7,948)**	(1,067)	(9)	(9,024)
Net carrying amount as at Dec 31 2015	**24**	**7,202**	**2,873**	**136**	**10,235**	**2,186**	**813**	**13,234**

Dec 31 2014	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**	Exploration and evaluation assets	Other tangible assets under construction	Total property, plant and equipment
Net carrying amount as at Jan 1 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 and other balance-sheet items	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 Dec 31 2014, net of accumulated depreciation and impairment losses	**25**	**6,385**	**2,159**	**111**	**8,680**	**2,097**	**2,743**	**13,520**
As at Jan 1 2014								
Gross carrying amount	32	11,047	3,691	253	**15,023**	2,599	2,827	**20,449**
Accumulated depreciation and impairment losses	(2)	(4,436)	(1,572)	(128)	**(6,138)**	(518)	(18)	**(6,674)**
Net carrying amount as at Jan 1 2014	**30**	**6,611**	**2,119**	**125**	**8,885**	**2,081**	**2,809**	**13,775**
as at Dec 31 2014								
Gross carrying amount	32	11,538	3,963	234	**15,767**	2,839	2,782	**21,388**
Accumulated depreciation and impairment losses	(7)	(5,153)	(1,804)	(123)	**(7,087)**	(742)	(39)	**(7,868)**
Net carrying amount as at Dec 31 2014	**25**	**6,385**	**2,159**	**111**	**8,680**	**2,097**	**2,743**	**13,520**

10.2. Impairment losses on property, plant and equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total tangible assets**	Exploration and evaluation assets	Other tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2015	7	1,008	206	14	**1,235**	742	40	**2,017**
Increase	2	450	70	8	**530**	477	5	**1,012**
Decrease	(1)	(293)	(35)	(2)	**(331)**	(152)	(34)	**(517)**
As at Dec 31 2015	**8**	**1,165**	**241**	**20**	**1,434**	**1,067**	**11**	**2,512**
As at Jan 1 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 Dec 31 2014	**7**	**1,008**	**206**	**14**	**1,235**	**742**	**40**	**2,017**

As at the beginning 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 205m was attributable to impairment losses on other tangible assets.

In 2015, the impairment losses increased by PLN 530m and decreased by PLN 331m. The movements included:
- a 518m increase and a PLN 320m decrease in impairment losses on assets used directly in hydrocarbon production,
- a PLN 12m increase and a PLN 11m decrease in impairment losses on other tangible assets.

The impairment losses were recognised after a periodic assessment of the recoverable amounts of assets. PGNiG recognised impairment losses on production assets and assets related to the exploration for and evaluation of mineral resources based on future cash flow analysis, which took account of current trends in product prices, expected regulatory changes (including tax regime changes), and updated, long-term production forecasts. The need to recognise impairment losses was identified with respect to assets located in Poland.

As at the end of the period, impairment losses on tangible assets were PLN 1,434m, of which:
- PLN 1,228m was attributable to impairment losses on assets used directly in hydrocarbon production,
- PLN 206m was attributable to impairment losses on other tangible assets.

As at the end of 2015, impairment losses on assets related to the exploration for and evaluation of mineral resources included PLN 1,067m of impairment losses on capitalised well-drilling expenditure (end of 2014: PLN 742m).

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 2015 amounted to 11.55% (2014: 11.73%). The applied discount rate for tangible assets under construction in 2015 amounted to 12.60% (2014: 12.67%).

11. INVESTMENT PROPERTY

	Dec 31 2015	Dec 31 2014
Net carrying amount at beginning of period, net of accumulated depreciation	1	1
Decrease	(1)	-
Net carrying amount at end of period, net of accumulated depreciation	**-**	**1**

At beginning of period	Jan 1 2015	Jan 1 2014
Gross carrying amount	2	2
Accumulated depreciation and impairment losses	(1)	(1)
Net carrying amount at beginning of period	**1**	**1**

At end of period	Dec 31 2015	Dec 31 2014
Gross carrying amount	2	2
Accumulated depreciation and impairment losses	(2)	(1)
Net carrying amount at end of period	**-**	**1**

The Company’s investment property includes office/amenity buildings and industrial buildings. As at the end of the reporting period, the net carrying amount of office buildings classified as investment property was PLN 0.1m (2014: PLN 0.7m), and the net carrying amount of the industrial buildings and structures was PLN 0.3m (2014: PLN 0.1m).

In the reporting period, the Company derived PLN 0.2m rental income from investment property (2014: PLN 0.4m).

Operating expenses incurred in connection with the rental of investment property were PLN 0.5m in the reporting period (2014: PLN 0.4m).

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 2015	Perpetual usufruct right to land*	Licences, mining rights and rights to geological information	CO_2 emission allowances	Computer software, patents, licences and other intangible assets	**Total**
Net carrying amount as at Jan 1 2015, net of accumulated amortisation and impairment losses	38	124	-	92	**254**
Decrease	-	(16)	-	-	**(16)**
Transfers from tangible assets under construction and between asset groups	-	20	3	13	**36**
Impairment losses	-	6	-	-	**6**
Amortisation expense for the reporting period	-	(34)	-	(33)	**(67)**
Net carrying amount as at Dec 31 2015, net of accumulated amortisation and impairment losses	**38**	**100**	**3**	**72**	**213**
As at Jan 1 2015					
Gross carrying amount	41	249	-	262	**552**
Accumulated amortisation and impairment losses	(3)	(125)	-	(170)	**(298)**
Net carrying amount as at Jan 1 2015	**38**	**124**	**-**	**92**	**254**
As at Dec 31 2015					
Gross carrying amount	41	209	3	274	**527**
Accumulated amortisation and impairment losses	(3)	(109)	-	(202)	**(314)**
Net carrying amount as at Dec 31 2015	**38**	**100**	**3**	**72**	**213**

* 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 2015, the estimated value of the usufruct right was PLN 328.3m (end of 2013: PLN 329.6m).

Dec 31 2014	Perpetual usufruct right to land*	Licences, mining rights and rights to geological information	CO_2 emission allowances	Computer software, patents, licences and other intangible assets	**Total**
Net carrying amount as at Jan 1 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 Dec 31 2014, net of accumulated amortisation and impairment losses	**38**	**124**	**-**	**92**	**254**
As at Jan 1 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 Dec 31 2014					
Gross carrying amount	41	249	-	262	**552**
Accumulated amortisation and impairment losses	(3)	(125)	-	(170)	**(298)**
Net carrying amount as at Dec 31 2014	**38**	**124**	**-**	**92**	**254**

12.1. Impairment losses on intangible assets

	Licences, mining rights and rights to geological information	**Total**
As at Jan 1 2015	20	**20**
Increase	5	**5**
Decrease	(11)	**(11)**
As at Dec 31 2015	**14**	**14**
As at Jan 1 2014	6	**6**
Increase	15	15
Decrease	(1)	(1)
as at Dec 31 2014	**20**	**20**

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

As at December 31st 2015, the Company used property, plant and equipment under finance lease agreements worth PLN 25 thousand. In the comparative period, as at December 31st 2014, the value of property, plant and equipment used by the Company under finance lease agreements was PLN 45 thousand.

13. SHARES

	Dec 31 2015	Dec 31 2014
Shares in subsidiaries, associates and jointly-controlled entities	11,110	11,068
Shares in other entities	21	20
Total, gross	**11,131**	**11,088**

	Dec 31 2015	Dec 31 2014
Impairment losses – opening balance	**(2,477)**	**(2,076)**
Increase	(43)	(402)
Decrease	12	1
Impairment losses at end of period	**(2,508)**	**(2,477)**
Shares in subsidiaries, associates and jointly-controlled entities	8,622	8,610
Shares in other entities	1	1
Total, net	**8,623**	**8,611**

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 2015, the Company's equity interest in POGC Libya BV amounted to EUR 65.5m and USD 63.9m (PLN 279.2m and PLN 249.3m, respectively, translated at the exchange rates quoted by the NBP for December 31st 2015).

In the Company's accounting books, the gross value of the shares as at December 31st 2015 was PLN 291.9m, and the amount of the additional contribution to equity was PLN 203.3m.

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 495.2m as at December 31st 2015 (end of 2014: PLN 479.9m).

The Company also recognised a PLN 177.6m provision for licence obligations, to cover the outstanding obligations in Libya.

The Company's operations remain affected by a Force Majeure event, which originated on August 15th 2014, pursuant to the information provided by the Management Board of POGC-Libya B.V. As a result of the Force Majeure event, operating and exploration activities have been fully suspended. Any decision to continue the work will depend on the political developments in Libya.

Moreover, having analysed to-date performance of PGNiG Technologie S.A. and taking into consideration the difficult situation in the construction industry, the Company recognised an impairment loss on the shares held in PGNiG Technologie S.A., of PLN 26.5m. The amount was determined based on an impairment test for PGNiG Technologie S.A.'s assets, as the difference between the carrying amount of the shares held in that company and the value in use of its assets. As at December 31st 2015, following recognition of the impairment loss, the amount of shares held in PGNiG Technologie S.A. was PLN 55m (at the end of 2014: PLN 81.5m).

14. OTHER FINANCIAL ASSETS

	Dec 31 2015	Dec 31 2014
Finance lease receivables (Note 14.1.)	185	192
Loans advanced	3,130	4,204
Amounts receivable for sale of tangible assets and other assets	4	7
Receivables from disposal of shares in related entities	2	-
Total, gross	**3,321**	**4,403**
Impairment losses	-	-
Total, net	**3,321**	**4,403**
Including net receivables from related entities	3,316	4,399

In Note 14 Other financial assets, under 'Loans advanced', the Company discloses the non-current portion of loans advanced within the Group and to related entities, while the current portion is presented in Note 21 Current financial assets. As at December 31st 2015, the non-current portion of the advance loans was PLN 3,130m and the current portion was PLN 360m.

The balance of loans advanced by the Company includes:

1. Loans advanced to Elektrociepłownia Stalowa Wola S.A. As at December 31st 2015, the amount of the loans, measured at amortised cost with the effective interest rate method, was PLN 215m. Under the agreements concluded on June 20th 2012, November 25th 2015 and December 14th 2015 by and between PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., in order to meet the conditions for acquiring financing for Elektrociepłownia Stalowa Wola S.A. from the European Bank of Reconstruction and Development and the European Investment Bank, PGNiG S.A. advanced to Elektrociepłownia Stalowa Wola S.A. a subordinated loan under the Subordination Agreement, a VAT Loan for financing of VAT payable in connection with the project costs incurred, and a loan to finance the company's day-to-day operations. As at December 31st 2015, the principal amount outstanding under these loans totalled PLN 195m, of which PLN 177m was advanced in 2012, PLN 6m in 2014, and PLN 26m in 2015. In 2015, the VAT Loan, advanced for the financing of output VAT (PLN 14m), was repaid.
2. Loan advanced to PGNiG Termika S.A. On August 28th 2011, PGNiG S.A. advanced a loan to PGNiG Termika S.A. for co-financing of purchase of 99.8% of shares in Vattenfall Heat Poland S.A. As at December 31st 2015, the amount outstanding under the loan was PLN 1,516m. As at December 31st 2015, measured at fair value, the loan was disclosed in the Company's accounting books at PLN 1,594m.

3. Loan advanced to PGNiG Upstream International AS Under the loan agreement of August 27th 2010, PGNiG S.A. advanced a loan to PGNiG Upstream International AS for financing of general corporate needs of PGNiG Upstream International AS, including in particular financing of the Skarv project (including acquisition of interest in the Production Licences on the Norwegian Continental Shelf covering the Skarv, Snadd and Gro fields). As at December 31st 2015, the amount outstanding under the loan was NOK 2,926m (equivalent to PLN 1,297m). As at December 31st 2015, the amount of the loan in the Company's accounting books, measured at amortised cost with the effective interest rate method, was PLN 1,317m. In 2015, PGNiG Upstream International AS repaid its liabilities of NOK 2,819m (which equivalent to PLN 1,280m), partly related to the above loan.

4. Loans advanced to Polska Spółka Gazownictwa Sp. z o.o. in 2007−2013 for financing of day-to-day operations and investment projects, including construction of gas pipelines with connections and metering systems. As at December 31st 2015, the amount outstanding under the loans advanced to Polska Spółka Gazownictwa Sp. z o.o. was PLN 249m. As at December 31st 2015, the amount of these loans disclosed in the Company's books, measured at amortised cost using the effective interest rate method, was PLN 240m. The total amount of repayments made by Polska Spółka Gazownictwa Sp. z o.o. in 2015 was PLN 52m.

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 2015	Dec 31 2014
Interest payment	5	6
Principal payment	11	11
Total	**16**	**17**

The table below presents finance lease receivables by payment periods:

	Dec 31 2015	Dec 31 2014
- less than 1 year	12	12
- 1 to 5 years	57	56
- over 5 years	127	136
Total, including:	**196**	**204**
- current receivables	12	12
- non-current receivables	184	192

15. DEFERRED TAX ASSETS

	Dec 31 2015	Dec 31 2014
Obligations under length-of-service awards and severance	32	28
Provision for unused holiday entitlement	3	3
Provision for well decommissioning costs	131	144
Provision for environmental liabilities	8	8
Provisions for certificates of origin and energy efficiency certificates	15	32
Other provisions	23	12
Impairment losses on property, plant and equipment	181	126
Impairment losses on shares	3	3
Negative valuation of derivatives	158	80
Accrued interest on borrowings and liabilities	16	16
Impairment loss on inventories	50	14
Other deferred tax assets	4	3
Total	**624**	**469**

16. OTHER NON-CURRENT ASSETS

	Dec 31 2015	Dec 31 2014
Connection charge	101	105
Commission fees paid on borrowings, notes and other debt instruments	15	19
Other non-current assets	6	5
Total	**122**	**129**

17. INVENTORIES

	Dec 31 2015	Dec 31 2014
Materials		
At cost, including:	1,864	2,555
- gas fuel	1,724	2,351
At net realisable value, including:	1,602	2,482
- gas fuel	1,468	2,282
Finished goods		
At cost	14	16
At net realisable value	14	16
Merchandise		
At cost	24	8
At net realisable value	22	8
Total inventories at cost	**1,902**	**2,579**
Total inventories, at the lower of cost and net realisable value	**1,638**	**2,506**

17.1. Change in inventories in the period

	Dec 31 2015	Dec 31 2014
Inventories at cost, at beginning of period	**2,579**	**2,712**
Purchase	14,629	16,888
Other increases	74	158
Inventories recognised as expenses for the period	(13,814)	(15,405)
Sales	(1,224)	(1,219)
Other decreases	(342)	(555)
Inventories at cost, at end of period	**1,902**	**2,579**
Impairment loss on inventories	(264)	(73)
Total net inventories at end of period	**1,638**	**2,506**

17.2. Impairment losses on inventories

	Dec 31 2015	Dec 31 2014
Impairment losses – opening balance	**(73)**	**(5)**
Increase in impairment losses	(260)	(211)
Reversal of impairment losses	69	143
Impairment losses at end of period	**(264)**	**(73)**

The write-down of methane-rich gas inventories was driven by two factors: the loss of calorific value of gas at the Wierzchowice underground gas storage facility, and market valuation of methane-rich gas inventories based on forecast selling prices.

18. TRADE AND OTHER RECEIVABLES

	Dec 31 2015	Dec 31 2014
Trade receivables	690	854
Trade receivables from related entities	105	138
VAT receivable	295	181
Other taxes, customs duties and social security receivable	17	20
Receivables from equity-accounted associated entities	1	5
Other receivables from related entities	55	104
Receivables from sale of non-financial non-current assets, related	2	3
Prepayments for tangible assets under construction	12	23
Prepayments for tangible assets under construction, related	6	7
Receivables from related entities under cash pooling arrangements	197	31
Other receivables	268	264
Total gross receivables	**1,648**	**1,630**
Including gross receivables from related entities	366	288
Impairment loss on doubtful receivables (Table 18.1)	**(319)**	**(323)**

Total net receivables	**1,329**	**1,307**
including:		
Trade receivables	624	769
Trade receivables from related entities	105	138
VAT receivable	295	181
Other taxes, customs duties and social security receivable	17	20
Receivables from equity-accounted associated entities	1	5
Other receivables from related entities	55	104
Receivables from sale of non-financial non-current assets, related	2	3
Prepayments for tangible assets under construction	12	23
Prepayments for tangible assets under construction, related	6	7
Receivables from related entities under cash pooling arrangements	197	31
Other receivables	15	26
Including net receivables from related entities	366	288

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 2015	Dec 31 2014
Impairment losses – opening balance	(323)	(524)
Increase in impairment losses	(38)	(429)
Reversal of impairment losses	42	246
Use of impairment losses	-	63
Decrease related to contribution of receivables to PGNiG Obrót Detaliczny Sp. z o.o.	-	321
Impairment losses at end of period	**(319)**	**(323)**

19. CURRENT INCOME TAX

	Dec 31 2015	Dec 31 2014
Current tax liabilities at beginning of period	181	175
Current tax liabilities of the PGNiG Tax Group	(49)	104
Corporate income tax (expense in the period)	258	400
Income tax expense in the period	(340)	(498)
Current tax liabilities at end of period	**50**	**181**

20. OTHER CURRENT ASSETS

	Dec 31 2015	Dec 31 2014
Property insurance	1	2
Commission fees on borrowings, notes, etc.	5	7
Connection charge	4	4
Other current assets	8	7
Total	**18**	**20**

21. CURRENT FINANCIAL ASSETS

	Dec 31 2015	Dec 31 2014
Loans advanced to other entities	-	106
Loans advanced to related entities	360	736
Debt and equity instruments (notes) advanced to related entities	39	991
Finance lease receivables from related entities	12	12
Receivables from other entities, from disposal of shares in related entities	1	-
Total, gross	**412**	**1,845**
Impairment loss on current financial assets (Table 21.1)	**(48)**	**(40)**
Loans advanced to other entities	-	106
Loans advanced to related entities	312	696
Debt and equity instruments (notes) advanced to related entities	39	991
Finance lease receivables from related entities	12	12
Receivables from other entities, from disposal of shares in related entities	1	-
Total, net	**364**	**1,805**

21.1. Impairment losses on current financial assets

	Dec 31 2015	Dec 31 2014
Impairment losses – opening balance	40	31
Increase in impairment losses	8	7
Reversal of impairment losses	-	2
Impairment losses at end of period	**48**	**40**

22. CASH AND CASH EQUIVALENTS

	Dec 31 2015	Dec 31 2014
Cash in hand and at banks	211	186
Bank deposits	4,894	1,735
Other cash	85	21
Total	**5,190**	**1,942**

In its bank accounts, the Company holds 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 2015	Terms of disposal
Unlisted shares	2015	3	Shares to be offered for purchase to other shareholders and potential investors or voluntary cancellation of the shares
Non-current assets	2015	2	tender
Total		**5**	

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
Non-current assets	2014	-	tender
Total		**1**	

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.

24. SHARE CAPITAL

	Dec 31 2015	Dec 31 2014
Total number of shares (million)	5,900	5,900
Par value per share (PLN)	1	1
Total share capital	**5,900**	**5,900**

Capital has been fully paid-up.

Under PGNiG S.A.’s Articles of Association, the voting rights of the Company’s shareholders have been restricted so that at the General Meeting no shareholder (except as specified below) can exercise more than 10% of the total voting rights existing as at the date of the General Meeting, with the proviso that this restriction is deemed non-existent for the purposes of determining the obligations of buyers of large holdings of shares.
The voting right restrictions do not apply to shareholders who, as at the date of the General Meeting’s resolution imposing the restriction, are holders of shares conferring more than 10% of the total vote at the Company, and shareholders acting together with shareholders holding more than 10% of the total vote, pursuant to agreements concerning joint exercise of voting rights.

For the purposes of restricting the voting rights, the votes of shareholders bound by a parent-subsidiary relationship are aggregated, and if the aggregated number of votes exceeds 10% of the total vote at the Company, it is subject to reduction.

25. BORROWINGS AND DEBT SECURITIES

	Dec 31 2015	Dec 31 2014
Non-current	**4,513**	**4,498**
Borrowings	2,117	2,115
Debt securities	2,396	2,383
Current	**469**	**656**
Borrowings	86	86
Debt securities	383	570
Total	**4,982**	**5,154**

25.1. Borrowings

Dec 31 2015

Currency	Interest rate	Amount in original currency	Carrying amount	including maturing in:	
				2016	2017-2021
EUR	4.064%	517	2,203	86	2,117
Total			**2,203**	**86**	**2,117**

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**

25.2. Debt securities

Dec 31 2015

Currency	Interest rate	Amount in original currency	Carrying amount	including maturing in:	
				2016	2017-2021
PLN	6M WIBOR+1.25%	2,469	2,469	73	2,396
PLN	1.85%	30	30	30	-
PLN	1.81%	100	100	100	-
PLN	1.84%	30	30	30	-
PLN	1.81%	150	150	150	-
Total			**2,779**	**383**	**2,396**

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**

25.3. Credit facilities obtained and undrawn amounts

	Dec 31 2015	Dec 31 2014
Credit facilities obtained	300	360
Undrawn amounts	**300**	**360**

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 2015, the Company's finance lease liabilities were PLN 6 thousand, with the entire amount being short-term liabilities. 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).

26. EMPLOYEE BENEFIT OBLIGATIONS

	Dec 31 2015	Dec 31 2014
Liabilities under length-of-service awards	136	118
Liabilities under severance	34	27
Wages and salaries payable	1	-
Amounts payable for unused holiday entitlement	17	18
Redundancy benefits	27	6
Annual bonus obligations	54	8
Total	**269**	**177**
Non-current as at Dec 31 2015	159	134
Current as at Dec 31 2015	110	43
	269	**177**

The technical rate applied to calculate the discounted value of the future retirement severance obligations was 1.40%, and resulted from a 2.90% annual return on assets and a 1.50% forecast annual salary growth (at the end of 2014 the applied technical rate was 0.90%, and resulted from the rates of 2.50% and 1.60%, respectively).

As at December 31st 2015, the provision for awards and bonuses was PLN 54m (December 31st 2014: PLN 8m) and related to payments to be made in 2016.

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

	Dec 31 2015	Dec 31 2014
Length-of-service awards		
Value of obligation disclosed in the statement of financial position at beginning of period	118	145
Interest expense	1	3
Current service cost	7	7
Benefits paid	(14)	(15)
Actuarial gain/(loss)	24	23
Gain/(loss) due to curtailments or settlements	-	1
Liabilities contributed to PGNiG Obrót Detaliczny Sp. z o.o.	-	(46)
Value of obligation disclosed in the statement of financial position at end of period	**136**	**118**
Retirement severance		
Value of obligation disclosed in the statement of financial position at beginning of period	27	26
Current service cost	1	1
Interest expense	-	1
Net actuarial gain/(loss) recognised during the reporting period	11	8
Benefits paid	(5)	(2)
Liabilities contributed to PGNiG Obrót Detaliczny Sp. z o.o.	-	(7)
Value of obligation disclosed in the statement of financial position at end of period	**34**	**27**
Total value of obligation disclosed in the statement of financial position at end of period	**170**	**145**

Increase in liabilities under length-of-service awards and retirement severance mainly relates to actuarial gains/losses resulting from updating workforce turnover rates and the implemented voluntary redundancy programme.

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

Parameter as at Dec 31 2015	Length-of-service awards	Retirement severance
	(PLNm)	
Original provision amount	136	34
Discount rate +100 bps	125	30
Discount rate -100 bps	149	40
Mortality tables +10%	135	34
Mortality tables -10%	137	35
Duration as at Dec 31 2015	9	14

The sensitivity analysis shows that a 100 bps increase in the discount rate for 2015 causes the provision for length-of-service awards to fall by 8.3%, while a 100 bps decrease in the discount rate causes the provision for length-of-service awards to rise by 9.7% (12.4% and 15.1%, 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 1.6%. A 10% decrease in mortality rates results in the provisions growing by 0.7% and 1.7%, respectively.

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.

27. PROVISIONS

	Provision for well decommissioning costs	Provision for UOKiK fine	Provision for environmental liabilities	Provision for claims under extra-contractual use of land	Provision for liabilities associated with exploration work abroad	Provision for certificates of origin and energy efficiency certificates	Other	**Total**
As at Jan 1 2015	1,393	60	41	18	164	167	43	**1,886**
Recognised	111	10	-	2	18	75	22	**238**
Reversed	(180)	-	-	(2)	-	(29)	(18)	**(229)**
Used	(31)	(5)	-	-	-	(137)	(23)	**(196)**
As at Dec 31 2015	**1,293**	**65**	**41**	**18**	**182**	**76**	**24**	**1,699**
Non-current as at Dec 31 2015	1,260	-	36	-	5	-	2	**1,303**
Current as at Dec 31 2015	33	65	5	18	177	76	22	**396**
	1,293	**65**	**41**	**18**	**182**	**76**	**24**	**1,699**
Non-current as at Dec 31 2014	1,365	-	36	-	4	-	9	**1,414**
Current as at Dec 31 2014	28	60	5	18	160	167	34	**472**
	1,393	**60**	**41**	**18**	**164**	**167**	**43**	**1,886**

With respect to the costs of decommissioning of wells in 2015, the discount rate applied to calculate the provision for decommissioning costs was 0.48%, and resulted from a 2.99% rate of return on assets and an inflation rate assumed at the NBP’s continuous inflation target of 2.50% (as at the end of 2014, the discount rate was 0.01%, and resulted from the rates of 2.51% and 2.50%, respectively).

Long-term provisions are discounted at the rate of 0.48%.

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 efficiency certificates, see Note 2.3.16.4.

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 2015 the Company recognised a provision for outstanding licence liabilities. This item also includes the provision for licence liabilities due to the government of Pakistan.

28. DEFERRED REVENUE

	Dec 31 2015	Dec 31 2014
Non-current		
Deferred revenue related to leased tangible assets	4	3
Connection charge	1	1
Grants	623	667
Other deferred revenue	13	19
Total non-current	**641**	**690**
Current		
Other deferred revenue	36	2
Total current	**36**	**2**

Grants

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

In 2015, the Company received a PLN 9.3m grant under financing of the Wierzchowice Underground Gas Storage Facility (December 31st 2014: PLN 46.6m), a PLN 4.8m grant under financing of the Kosakowo Underground Gas Storage Facility (December 31st 2014: PLN 6.5m), and a PLN 11.2m grant under financing of the Husów Underground Gas Storage Facility (December 31st 2014: PLN 6.1m).

In 2015, the Company also received PLN 0.03m under a grant for the financing of the “LNG-based conversion of Ełk and Olecko from propane-butane to E-gas” project (December 31st 2014: PLN 3.6m).

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 2015	Dec 31 2014
Accrued interest	5	11
Valuation of derivative financial instruments, other financial assets, and financial liabilities	61	61
Difference between tax and accounting value of non-current assets	431	468
Other deferred tax liabilities	41	40
Total	**538**	**580**

30. OTHER NON-CURRENT LIABILITIES

	Dec 31 2015	Dec 31 2014
Liabilities under licences, rights to geological information and mining rights	47	68
Other non-current liabilities	4	1
Total	**51**	**69**

31. TRADE AND OTHER PAYABLES

	Dec 31 2015	Dec 31 2014
Trade payables to other entities	317	513
Trade payables to related entities	131	311
VAT payable	901	932
Other taxes, customs duties and social security payable	104	97
Amounts payable under purchase of non-financial non-current assets	46	62
Amounts payable under purchase of non-financial non-current assets from related entities	47	63
Amounts payable under purchase of exploration and evaluation assets	19	22
Amounts payable under purchase of exploration and evaluation assets from related entities	37	70
Amounts payable to equity-accounted associated and jointly-controlled entities	7	7
Other amounts payable to related entities	-	1
Accruals and deferred revenue and prepaid deliveries	2	2
Cash pool payables to related entities	562	300
Other	36	34
Total	**2,209**	**2,414**
Including related entities (Note 37.2.)	784	752

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 2015	Jan 1–Dec 31 2014
1) Cash in the statement of financial position at beginning of period	1,942	1,683
a) Net exchange differences on cash at beginning of period*	1	(2)
b) Net effect of cash pool transactions at beginning of period	268	-
Cash and cash equivalents in the statement of cash flows at beginning of period (1-1a)	**1,673**	**1,685**
2) Cash in the statement of financial position at end of period	5,190	1,942
a) Net exchange differences on cash at end of period	1	1
b) Net effect of cash pool transactions at end of period	350	268
Cash and cash equivalents in the statement of cash flows at end of period (2-2a-2b)	**4,839**	**1,673**
I. Change in cash in the statement of financial position (2-1)	3,248	259
II. Change in net exchange differences on cash (2a-1a)	-	3
III. Change in cash pool transactions (2b-1b)	82	268
Change in cash in the statement of cash flows (I. - II. -III.)	**3,166**	**(12)**

* 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 trade and other receivables	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Change in other financial assets in the statement of financial position	-	-
Change in trade and other receivables in the statement of financial position	**(22)**	**2,061**
Change in investment receivables under sale and purchase of intangible assets and property, plant and equipment	(3)	3
Change in prepayments for property, plant and equipment	(13)	23
Change in cash pool receivables	167	31
Change in receivables related to in-kind contribution to PGNiG Obrót Detaliczny Sp. z o.o.	-	(697)
Change in trade and other receivables in the statement of cash flows	**129**	**1,421**

Change in provisions	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Change in provisions in the statement of financial position	**(187)**	**296**
Change in provision for well decommissioning costs which adjusts property, plant and equipment – adjustment to investment activity	99	(236)
Change in provisions in the statement of cash flows	**(88)**	**60**

Change in current liabilities	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Change in current liabilities in the statement of financial position	**(206)**	**(474)**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	68	(24)
Other movements in current liabilities	(17)	18
Change in cash pool liabilities	(262)	(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	**(417)**	**(597)**

Change in other assets in the statement of financial position	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Change in current financial assets and other assets in the statement of financial position	**2,533**	**(1,298)**
Expense (fees and commission) related to the note issuance programme	(6)	19
Change in other assets related to in-kind contribution to PGNiG Obrót Detaliczny Sp. z o.o.	-	(5)
Change in loans advanced	(1,565)	229
Change in lease receivables in financial assets – adjustment to investing activities	(8)	(8)
Change in lease receivables – adjustment to investment activity	-	1
Reclassification of receivables from disposal of shares in related entities	4	-
Change in debt and equity instruments − adjustment to investing activities	(952)	989
Change in other assets in the statement of cash flows	**6**	**(73)**

Change in deferred revenue	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Change in deferred revenue in the statement of financial position	**(15)**	**67**
Grants received for property, plant and equipment	8	(51)
Change in deferred revenue in the statement of cash flows	**(7)**	**16**

Other items, net, under operating activity	Jan 1–Dec 31 2015	Jan 1–Dec 31 2014
Derivative financial instruments	(15)	(50)
Written-down expenditure on non-financial non-current assets	251	294
Other items, net, under operating activity	(188)	112
Total	**48**	**356**

33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

33.1. Financial instruments by category (net carrying amounts)

Dec 31 2015	**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**	**324**	**9,874**	**-**	**-**	**22**	**8,622**	**18,843**
Unlisted shares	1	-	-	-	-	-	8,622	**8,623**
Debt securities	-	-	39	-	-	-	-	**39**
Trade and other receivables*	-	-	1,000	-	-	-	-	**1,000**
Derivative financial instrument assets	-	324	-	-	-	22	-	**346**
Cash and cash equivalents	-	-	5,190	-	-	-	-	**5,190**
Other financial assets	-	-	3,645	-	-	-	-	**3,645**
Total financial liabilities	**-**	**-**	**-**	**20**	**6,237**	**794**	**-**	**7,051**
Borrowings	-	-	-	-	2,203	-	-	**2,203**
Debt securities	-	-	-	-	2,779	-	-	**2,779**
Liabilities, including trade and other payables and other liabilities**	-	-	-	-	1,255	-	-	**1,255**
Derivative financial instrument liabilities	-	-	-	20	-	794	-	**814**

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

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**
Liabilities, including trade and other payables and other liabilities**	-	-	-	-	1,454	-	-	**1,454**
Derivative financial instrument liabilities	-	-	-	124	-	299	-	**423**

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

33.2. Fair value of financial instruments

	Dec 31 2015			Dec 31 2014		
	Carrying amount	Fair value	Fair value hierarchy	Carrying amount	Fair value	Fair value hierarchy
Total financial assets	**346**	**346**		**388**	**388**	
Cross Currency Interest Rate Swap (CCIRS)	302	302	level 2	300	300	level 2
Forward/futures contracts	36	36	level 2	27	27	level 2
Commodity call options	-	-	level 2	12	12	level 2
Call options	7	7	level 2	49	49	level 2
Total financial liabilities	**814**	**838**		**423**	**423**	
Interest Rate Swap (IRS)	83	106	level 2	106	106	level 2
Forward/futures contracts	20	20	level 2	22	22	level 2
Commodity swap	706	706	level 2	281	281	level 2
Put commodity options	6	6	level 2	14	14	level 2

The net carrying amounts disclosed for the other classes of financial assets covered by IAS 39 and presented in Note 33.1 are equal or almost equal to their respective fair values. The values disclosed in the table above 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 2015	Jan 1–Dec 31 2014
Total effect on net profit/(loss), including:	**624**	**(16)**
Financial assets and financial liabilities at fair value through profit or loss	32	(191)
Loans and receivables	233	220
Interest on deposits	63	45
Interest on receivables	5	46
Interest on loans advanced	165	295
Impairment losses on receivables	28	(55)
Impairment losses on loans	(7)	(7)
Foreign currency measurement of loans advanced in foreign currencies	(21)	(104)
Financial liabilities at amortised cost	(158)	(215)
Hedging instruments	(274)	(315)
Assets and liabilities excluded from the scope of IAS 39		
Shares	791	485
Dividends and other profit distributions	834	534
Impairment recognised in profit or loss for the reporting period	(43)	(49)
Total effect on other comprehensive income, net, including:	**(431)**	**(264)**
Derivative financial instruments	(431)	(264)
Total effect on comprehensive income	**193**	**(280)**

33.4. Fair value hierarchy

Classes of financial instruments	Dec 31 2015	Dec 31 2014
	level 2	level 2
Derivative financial instrument assets	346	388
Derivative financial instrument liabilities	814	423

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 assessment of their financial standing as confirmed by rating agencies, as well as their market shares and reputation.

The Company is exposed to credit risk under:

- fund placements,
- trade receivables,
- loans and other financial assets,
- hedging transactions.
- financial guarantees provided,

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

Maximum exposure to credit risk

	Dec 31 2015	Dec 31 2014
Deposits	4,894	1,735
Receivables, including trade and other receivables	1,233	1,317
Loans advanced	3,442	5,007
Debt and equity instruments	39	991
Positive value of derivative instruments	346	388
Total	**9,954**	**9,438**

The Company identifies, measures and minimises its credit exposure to individual banks with which it places its funds. As at December 31st 2015, its credit exposure under deposits and investment transactions amounted to PLN 4,894m.

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 2015, the exposure totalled PLN 3,442m.

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.

In line with its policy, the Company verifies creditworthiness of each institutional trading partner seeking trade credit. An adequate credit limit is determined individually for each trading partner depending on how a partner is rated. Relevant agreements with such trading partners, consistent with the provisions of the Energy Law, define appropriate payment terms and forms of security, and contain provisions governing suspension of supplies should the partner cease to meet its obligations.

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 2015, the value of unimpaired past due receivables, as disclosed in the Company's statement of financial position, was PLN 75m (2014: PLN 250m).

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

Delay	Dec 31 2015	Dec 31 2014
Up to 1 month	33	188
From 1 to 3 months	41	54
From 3 months to 1 year	1	4
from 1 to 5 years	-	4
Total net past due receivables	**75**	**250**

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 2015 stood at PLN 346m. 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 fuel, crude oil, energy and related products).

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.

Most of the Company's long-term financial receivables in 2015 were denominated in NOK – as at December 31st 2015, they consisted of a NOK 2,926.3m loan advanced to PGNiG Upstream International AS, repayable by December 31st 2026.

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 invested in 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 (mainly payments for gas fuel supplies). To hedge its trade payables, the Company used call options, option strategies, swaps 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 2015, the most significant interest rate risk was generated by loans advanced to PGNiG Upstream International AS and PGNiG Termika S.A., as well as liability under the on-loan received from PGNiG Finance AB from eurobond issue proceeds. 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 2015, 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 300m.

As at December 31st 2015, 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. signed an annex to the short-term note issuance programme agreement; under the annex, the programme's total amount was increased to PLN 5,000m. 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 4,000m.

The nominal value of debt under notes acquired by the Group companies was PLN 310m as at December 31st 2015.

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 2015, PGNiG S.A. did not carry any amounts outstanding under issue of corporate bonds.
- PLN 4.500m Note Issuance 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 addressed to domestic investors. As at December 31st 2015, debt outstanding under the Programme was PLN 2,500m.
- PLN 1,000m Note Issuance 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 2015, no debt was outstanding under the Programme.

Further, to improve the effectiveness of liquidity management at the PGNiG Group, in 2015 PGNiG S.A. used a cash pooling system arranged by 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.

Any surplus cash is invested in a well diversified portfolio of deposits held with reputable banks.

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.

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

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

Financial liabilities at amortised cost, by maturity

Dec 31 2015	Liabilities under borrowings and notes	Other non-current liabilities, trade and other payables*	Total expenditure
up to 1 year	469	1,204	1,673
from 1 to 5 years	4,513	43	4,556
over 5 years	-	8	8
Total	**4,982**	**1,255**	**6,237**

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**

*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 2015	Contractual cash flows, including:	up to 1 year	from 1 to 5 years
- interest rate swaps (IRS, CCIRS) used as risk hedging instruments	221	286	(28)	314
- inflows	-	4,795	268	4,527
- outflows	-	(4,509)	(296)	(4,213)
- forward contracts	16	-	-	-
- inflows	-	7	5	2
- outflows	-	(7)	(5)	(2)
- currency call options	7	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
- commodity options	(5)	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
- commodity swaps	(707)	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
Total	**(468)**	**286**	**(28)**	**314**

	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 options	50	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
- commodity options	(2)	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
- commodity swaps	(281)	-	-	-
- inflows	-	-	-	-
- outflows	-	-	-	-
Total	**(35)**	**166**	**(5)**	**171**

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 annual periods, i.e. an average change of 10% as at the end of December 2015 for the analysis of exchange rate sensitivity (10% as at the end of December 2014), 50bp for the analysis of interest rate sensitivity (100bp as at December 31st 2014) and 30% for energy commodity derivatives (30% as at December 31st 2014). The annual period reflects the frequency at which the Company discloses results of financial instrument sensitivity analyses in its reports.

Following the change in methodology of measuring volatility, introduced in 2015, the analysis is based on annual volatility data, while in 2014 it was based on semiannual data. To achieve data comparability, the sensitivity analysis for 2014 was prepared using annual volatility levels shown in the table below.

Volatility level:	2014 (six-month volatility level)	2014 (12-month volatility level)
foreign exchange risk	10%	10%
commodity price risk	40%	30%
interest rate risk	100bp	100bp

For the currency and interest rate risks, the change of the time horizon did not affect volatility.

As at December 31st 2015, a 10% strengthening of EUR, USD, NOK and other currencies against the zloty would add PLN 36m to the net profit, ceteris paribus (down PLN 5m on stronger NOK, up PLN 18m on stronger USD, and up PLN 23m on stronger EUR).

The higher profit would primarily be attributable to an increase in the positive portion of the fair value of CCIRS financial derivatives for EUR, partially offset by foreign exchange losses from valuation of the euronotes denominated in EUR. The negative fair value of financial derivatives was largely offset by the increase in the valuation of the NOK-denominated loan advanced to PGNiG Upstream International AS. The profit increased on the increase in amounts of cash and cash equivalents denominated USD and EUR, and decreased on a slight increase in liabilities under USD-denominated derivative financial instruments assets.

As at December 31st 2015, a 10% depreciation of EUR, USD, NOK and other currencies against the zloty would reduce the net profit by PLN 40m, ceteris paribus (down PLN 21m on weaker USD, up PLN 5m on stronger NOK, and down PLN 24m on weaker EUR).

The negative fair value would primarily be attributable to a decrease in the fair value of financial derivatives (negative fair value of CCIRS transactions for EUR), to a large extent offset by an increase in foreign exchange gains from valuation of the euronotes in denominated in EUR. The decrease in the valuation of the NOK-denominated loan advanced to PGNiG Upstream International AS was offset by the increase in the positive portion of fair value of CCIRS financial derivatives for NOK. The negative result was additionally offset by a decrease in USD- and EUR-denominated trade payables.

As at December 31st 2014, a 10% strengthening of EUR, USD, NOK and other currencies against the zloty would reduce the net profit by PLN 48m, ceteris paribus (PLN 17m on stronger NOK, PLN 27m on stronger USD, PLN 4m on 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, a 10% depreciation of EUR, USD, NOK and other currencies against the zloty would add PLN 24m to the net profit, ceteris paribus (up PLN 12m on weaker USD, up PLN 17m on weaker NOK, down PLN 5m on 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.

Detailed results of the analysis of sensitivity of financial instruments to exchange rate fluctuations for 2015 and 2014 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 2015	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									
Loans advanced and other financial assets	1,354	-	3	132	-	-	(3)	(132)	-
Trade and other receivables	36	4	-	-	-	(4)	-	-	-
Derivative financial instrument assets*	326	235	-	-	-	-	12	138	-
Cash and cash equivalents	662	12	55	-	-	(12)	(55)	-	-
Effect on financial assets before tax	**-**	**251**	**58**	**132**	**-**	**(16)**	**(46)**	**6**	**-**
19% tax	-	(48)	(11)	(25)	-	3	9	(1)	-
Effect on financial assets after tax	**-**	**203**	**47**	**107**	**-**	**(13)**	**(37)**	**5**	**-**
Total currencies	**-**	**357**				**(45)**			
Financial liabilities									
Borrowings and debt securities (including finance lease)	2,203	219	-	-	-	(219)	-	-	-
Trade and other payables	237	3	20	-	-	(3)	(20)	-	-
Derivative financial instrument liabilities*	1	-	16	138	-	235	-	-	-
Effect on financial liabilities before tax	**-**	**222**	**36**	**138**	**-**	**13**	**(20)**	**-**	**-**
19% tax	-	(42)	(7)	(26)	-	(2)	4	-	-
Effect on financial liabilities after tax	**-**	**180**	**29**	**112**	**-**	**11**	**(16)**	**-**	**-**
Total currencies		**321**				**(5)**			
Total increase/decrease	-	23	18	(5)	-	(24)	(21)	5	-
Total currencies	**-**	**36**				**(40)**			

* 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 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									
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**				**1**			
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)**				**24**			

* 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.

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

	Dec 31 2015			
	10%		-10%	
	for EUR	*for USD*	*for EUR*	*for USD*
Effect on equity before tax	9	57	-	(29)
19% tax	(2)	(11)	-	6
Effect on equity after tax	7	46	-	(23)
Total currencies	**53**		**(23)**	

	31.12.2014			
	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	109	(40)	(34)
Total currencies	**184**		**(74)**	

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 53m 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 23m. This is due to the fact that the Company uses derivative instruments where the effective portion of the valuation 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 2015	**10%**	**(10%)**
EUR/PLN	4.2615	4.6877	3.8354
USD/PLN	3.9011	4.2912	3.5110
NOK/PLN	0.4431	0.4874	0.3988

	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

The Company has analysed the sensitivity of energy commodity derivatives. In the sensitivity analysis for 2015, a 30% volatility was assumed for such instruments (December 31st 2014: 30%).

The tables below present an analysis of sensitivity of energy commodity derivatives to price changes for 2015 and 2014.

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

	Carrying amount as at Dec 31 2015										
	Price change by:			*30%*					*-30%*		
		Gasoil	Fuel oil	TTF	Electricity	TGE Gas	Gasoil	Fuel oil	TTF	Electricity	TGE Gas
Financial assets											
Energy commodity derivative assets	20	-	-	5	-	-	-	-	1	14	-
Effect on financial assets before tax		**-**	**-**	**5**	**-**	**-**	**-**	**-**	**1**	**14**	**-**
19% tax				(1)		-				(3)	-
Effect on financial assets after tax		**-**	**-**	**4**	**-**	**-**	**-**	**-**	**1**	**11**	**-**
Total commodities				**4**					**12**		
Financial liabilities											
Energy commodity derivative liabilities	731	-	-	-	14	-	-	-	-	-	-
Effect on financial liabilities before tax		-	-	-	14	-	-	-	-	-	-
19% tax		-	-	-	(3)	-	-	-	-	-	-
Effect on financial liabilities after tax		-	-	-	11	-	-	-	-	-	-
Total commodities				**11**					**-**		
Total increase/decrease		-	-	4	(11)	-	-	-	1	11	-
Total commodities				**(7)**					**12**		

	Carrying amount as at Dec 31 2014										
	Price change by:			*30%*					*-30%*		
		Gasoil	Fuel oil	TTF	Electricity	TGE Gas	Gasoil	Fuel oil	TTF	Electricity	TGE Gas
Financial assets											
Energy commodity derivative assets	30	-	-	8	-	-	-	-	-	-	-
Effect on financial assets before tax		**-**	**-**	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
19% tax		-	-	(1)	-	-	-	-	-	-	-
Effect on financial assets after tax		**-**	**-**	**7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total commodities				**7**					**-**		
Financial liabilities											
Energy commodity derivative liabilities	313	-	2	-	-	-	-	-	9	-	-
Effect on financial liabilities before tax		-	2	-	-	-	-	-	9	-	-
19% tax		-	-	-	-	-	-	-	(2)	-	-
Effect on financial liabilities after tax		-	2	-	-	-	-	-	7	-	-
Total commodities				**2**					**7**		
Total increase/decrease		-	(2)	7	-	-	-	-	(7)	-	-
Total commodities				**5**					**(7)**		

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 2015					
	Gasoil	*Fuel oil*	*TTF*	*Gasoil*	*Fuel oil*	*TTF*
Price change by:		30%			-30%	
Effect on equity before tax	1	(4)	495	-	5	(395)
19% tax	-	1	(94)	-	(1)	75
Effect on financial assets/liabilities after tax	1	(3)	401	-	4	(320)
Total commodities		**399**			**(316)**	

	Dec 31 2014					
	Gasoil	*Fuel oil*	*TTF*	*Gasoil*	*Fuel oil*	*TTF*
Price change by:		30%			-30%	
Effect on equity before tax	42	31	237	(33)	(24)	(167)
19% tax	(8)	(6)	(45)	6	5	32
Effect on financial assets/liabilities after tax	34	25	192	(27)	(19)	(135)
Total commodities		**251**			**(181)**	

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 30% increase (30% increase for 2014) in prices of energy commodity derivatives would increase equity by PLN 399m through other comprehensive income. In the event of a 30% (30% for 2014) decline in the prices, the opposite would happen and equity would be reduced by PLN 316m. 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 +/-50 bp for 2015 (2014: +/-100 bp).

As at December 31st 2015, the sensitivity of loans advanced and notes to interest rate changes of +/-50 basis points was PLN +/- 9m. The sensitivity to interest rate changes of +/-50 bp of liabilities under borrowings, notes in issue and variable-rate lease liabilities was +/- PLN 25m.

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.

Sensitivity of derivative financial instruments to interest rate changes

	Net carrying amount as at Dec 31 2015	*Change by:* +50 bp	-50 bp
Loans advanced	1,848	9	(9)
Notes	39	-	-
Total receivables	**-**	**9**	**(9)**
Borrowings and other debt instruments	2,203	11	(11)
Notes issued	2,779	14	(14)
Total liabilities	**-**	**25**	**(25)**
Total change	**-**	**(16)**	**16**

	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**

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 2015, the Company held the following 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 2015, 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 2015.

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 zloty 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.

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.

The Company also uses fair-value hedge accounting for IRS transactions hedging the loan advanced.

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 2015	Dec 31 2014	Hedged risk
			Cross Currency Interest Rate Swap				
Euronotes	500	EUR	1-3 years	4.1580	159		currency and interest rate risk
loan	2,940	NOK	1-3 years	0.5049	143		currency and interest rate risk
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 months	0.5033		54	currency and interest rate risk
					302	**300**	
			Interest Rate Swap				
loan	1,500	PLN	1-3 years	-	(82)		interest rate risk
loan	1,500	PLN	more than 3 years	-		(106)	interest rate risk
					(82)	**(106)**	
			Forward				
PGNiG Termika capital expenditure	-	EUR	1–3 months	4.1203	-		foreign exchange risk
PGNiG Termika capital expenditure	-	EUR	3–12 months	4.3801	-		foreign exchange risk
PGNiG Termika capital expenditure	-	EUR	3-12 months	4.2060	-		foreign exchange risk
PGNiG Serwis capital expenditure	-	EUR	1–3 months	4.1392	-		foreign exchange risk
PGNiG Serwis capital expenditure	-	EUR	3–12 months	4.1755	-		foreign exchange risk
PGNiG Serwis capital expenditure	1	EUR	1-3 years	4.2724	-		foreign exchange risk
CO_2 emission allowances	9	EUR	3-12 months	4.3849	(1)		foreign exchange risk
CO_2 emission allowances	1	EUR	3-12 months	4.3150	-		foreign exchange risk
payments for gas	40	USD	1-3 months	3.9530	2		foreign exchange risk

payments for gas	70	USD	3-12 months	3.7112	14		foreign exchange risk
payments for gas	10	EUR	1-3 months	4.2997	-		foreign exchange risk
trading activities	103	electricity	1–3 months	157.9198	4		energy price risk
trading activities	510	electricity	1–3 months	164.8958	(4)		energy price risk
trading activities	1,072	electricity	3–12 months	164.7299	10		energy price risk
trading activities	395	electricity	3–12 months	164.2402	(9)		energy price risk
trading activities	161	electricity	1–3 years	164.1005	5		energy price risk
trading activities	230	electricity	1–3 years	165.9836	(5)		energy price risk
PGNiG Termika capital expenditure	-	EUR	1–3 months	4.1203	-		foreign exchange risk
PGNiG Termika capital expenditure	-	EUR	3–12 months	4.3801	-		foreign exchange risk
PGNiG Termika capital expenditure	-	EUR	3–12 months	4.2060	-		foreign exchange risk
PGNiG Serwis capital expenditure	-	EUR	1–3 months	4.1392	-		foreign exchange risk
PGNiG Serwis capital expenditure	-	EUR	3–12 months	4.1755	-		foreign exchange risk
PGNiG Serwis capital expenditure	1	EUR	1–3 years	4.2724	-		foreign exchange risk
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
CO_2 emission allowances	2	EUR	3–12 months	4.2354		-	foreign exchange risk
CO_2 emission allowances	-	EUR	3–12 months	4.3175		-	foreign exchange risk
CO_2 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
					16	**4**	

Call options

payments for gas	9	EUR	1–3 months	4.4600	-		foreign exchange risk
payments for gas	36	EUR	3–12 months	4.5068	1		foreign exchange risk
payments for gas	70	USD	1–3 months	3.8857	5		foreign exchange risk
payments for gas	40	USD	3–12 months	4.2350	2		foreign exchange risk
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
					8	**50**	

Futures

trading activities	26	CO_2 emission allowances	3–12 months	37.13	1		risk of prices of CO_2 emission allowances
trading activities	26	CO_2 emission allowances	3–12 months	37.14	(1)		risk of prices of CO_2 emission allowances
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
					-	**-**	

Commodity call options							
payments for gas	4.140	TTF	1–3 months	21.07	-		commodity risk
payments for gas	3.129	TTF	3–12 months	21.89	-		commodity risk
payments for gas	0.307	TTF	1–3 years	22.44	-		commodity risk
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
					-	**12**	

Put commodity options							
payments for gas	0.263	TTF	1–3 years	19.00	(6)		commodity risk
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
					(6)	**(14)**	

Commodity swap							
payments for gas	7.696	TTF	1–3 months	20.49	(161)		commodity risk
payments for gas	14.596	TTF	3–12 months	20.56	(358)		commodity risk
payments for gas	7.680	TTF	1–3 years	19.00	(110)		commodity risk
payments for gas	0.107	FO	1–3 months	312.77	(39)		commodity risk
payments for gas	0.043	FO	3–12 months	315.70	(20)		commodity risk
payments for gas	0.023	GO	1–3 months	552.13	(10)		commodity risk
payments for gas	0.019	GO	3–12 months	516.27	(8)		commodity risk
Termika investment purchases	0.009	API2	1–3 months	72.90		-	commodity risk
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
					(706)	**(281)**	
	Total				**(468)**	**(35)**	
		positive valuation*	assets		**346**	**388**	
		Negative valuation	liabilities		**(814)**	**(423)**	

GO – Gasoil
FO – Fuel Oil
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 2015	Jan 1–Dec 31 2014
Net gain/(loss) on valuation of derivative instruments – unrealised	55	61
Net gain/(loss) on derivative instruments – realised	(328)	(496)
Total net gain/(loss) on derivative instruments recognised in profit or loss	**(273)**	**(435)**
including:		
recognised in raw materials and consumables used	(274)	(315)
recognised in other net expenses	(107)	(212)
recognised in finance income or costs	108	92
Net gain/(loss) on valuation of derivative instruments recognised in other comprehensive income -– unrealised	**(431)**	**(264)**
Total net gain/(loss) on derivative instruments – recognised in equity	**(704)**	**(699)**

35. CONTINGENT LIABILITIES AND RECEIVABLES

35.1. Contingent receivables

	Dec 31 2015	Dec 31 2014
From related entities:		
promissory notes received	-	4,563
Total contingent receivables from related entities	**-**	**4,563**
From other entities:		
guarantees and sureties received	-	55
promissory notes received	-	3
Total contingent receivables from other entities	**-**	**58**
Total contingent receivables	**-**	**4,621**

During preparation of these separate financial statements of PGNiG S.A. for 2015, 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.

The analysis revealed no contingent receivables which would be subject to disclosure under IAS 37.

35.2. Contingent liabilities

	Dec 31 2015	Dec 31 2014
To other entities		
guarantees and sureties issued*	10,023	9,968
promissory notes issued	1,212	1,203
Total contingent liabilities to other entities	**11,235**	**11,171**
Total contingent liabilities	**11,235**	**11,171**

* Contingent liabilities in foreign currencies were translated into PLN at the exchange rates quoted by the National Bank of Poland respectively for December 31st 2015 and December 31th 2014.

In 2015, the President of URE instigated two proceedings to impose a financial penalty on PGNiG S.A. for its failure to meet the obligation to sell gas through the exchange market in 2013 and 2014. It must be stressed, however, that in the current market environment PGNiG S.A. is the only entity required to meet this obligation, and the proceedings instigated against the Company have no precedent. Therefore, it is hardly feasible to estimate penalties which might be imposed on the Company. Thus the Company is unable to reliably estimate the potential liability which might arise if a penalty is imposed on the Company. For detailed information, see Note 2.4.5.

36. OFF-BALANCE SHEET LIABILITIES

36.1. Operating lease liabilities

	Dec 31 2015	Dec 31 2014
up to 1 year	-	2
Total	**-**	**2**

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

	Dec 31 2015	Dec 31 2014
Commitments under executed agreements	4,594	3,924
Completion of agreements as at the reporting date	(2,459)	(2,690)
Contractual commitments after the reporting date	**2,135**	**1,234**

37 RELATED ENTITIES

PGNiG S.A. holds shares in production and service companies. As at December 31st 2015, PGNiG S.A. had 38 related entities, including:

- 19 subsidiaries,
- 14 indirectly related companies,
- 1 jointly-controlled entity,
- 4 associated companies.

37.1. Related parties as at the end of 2015

Company name	Country	% ownership interest of PGNiG S.A.	
PGNiG S.A. (Parent)	Poland		
Subsidiaries of PGNiG S.A.		**Dec 31 2015**	**Dec 31 2014**
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%
GK PGNiG Supply&Trading [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.	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.	Poland	100.00%	100.00%
PGNiG SPV 7 Sp. z o.o.	Poland	100.00%	100.00%
Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A.[2]	Poland	75.00%	75.00%
NYSAGAZ Sp. z o.o. [3]	Poland	-	66.28%
GAS-TRADING S.A. [6]	Poland	79.58%	-
PGNiG S.A.'s indirectly related companies			
NYSAGAZ Sp. z o.o. [3]	Poland	100.00%	-
Oil Tech International F.Z.E.	UAE	100.00%	100.00%
Zakład Gospodarki Mieszkaniowej Sp. z o.o.	Poland	100.00%	100.00%
Gas Assets Management Sp. z o.o.[4]	Poland	100.00%	100.00%
Powiśle Park Sp. z o.o. (Warsaw)	Poland	100.00%	100.00%
PST Europe Sales GmbH	Germany	100.00%	-
Poltava Services LLC	Ukraine	99.00%	99.00%
CHEMKOP Sp. z o.o. Kraków	Poland	85.51%	85.51%
Gas Trading Podkarpacie Sp. z o.o.	Poland	78.82%	42.99%
GAZ Sp. z o.o.	Poland	100.00%	80.00%
XOOL GmbH	Germany	100.00%	100.00%
Elektrociepłownia Stalowa Wola S.A.	Poland	50.00%	50.00%
Zakład Separacji Popiołów Siekierki Sp. z o.o.	Poland	70.00%	70.00%
Geotermia Sp. z o.o.	Poland	25.00%	25.00%
Companies jointly controlled by PGNiG S.A.			
SGT EUROPOL GAZ S.A. [5]	Poland	51.18%	49.74%
Associated companies			
GAS-TRADING S.A. [6]	Poland	-	43.41%
Sahara Petroleum Technology LLC w likwidacji (in liquidation)	Oman	49.00%	49.00%
PFK GASKON S.A.	Poland	45.94%	45.94%
ZWUG INTERGAZ Sp. z o.o.	Poland	38.30%	38.30%
Dewon ZSA	Ukraine	36.38%	36.38%
Companies which were not PGNiG's related entities as at December 31st 2015 but were PGNiG's related entities in the comparative period			
GAZOMONTAŻ S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	Poland	45.18%	45.18%
ZRUG Sp. z o.o. (of Poznań) [9]	Poland	-	40.06%
ZRUG TORUŃ S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)	Poland	25.24%	25.24%
Gazobudowa Kraków Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy)	Poland	47.17%	47.17%
BUD-GAZ P.P.U.H. Sp. z o.o. w likwidacji (in liquidation) [10]	Poland	-	100.00%
Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji (in liquidation) [11]	Poland	-	100.00%
NAFT-STAL Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy) [8]	Poland	-	67.40%
InterTransGas GmbH w likwidacji (in liquidation) [7]	Germany	-	50.00%

[1] The PGNiG Supply &Trading Group comprises PGNiG Supply &Trading GmbH, its subsidiary PST Europe Sales GmbH and XOOL GmbH, a subsidiary of PST Europe Sales GmbH.

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

[3] On October 28th 2015, PGNiG S.A. (Seller) a PGNiG Termika S.A. (Buyer) signed an agreement for the purchase of 65,490 shares in Nysagaz Sp. z o.o. On the same day, PGNiG Termika S.A. purchased from VNG Polska Sp. z o.o., the other shareholder of Nysygaz Sp. z o.o., 33,320 shares. Currently, PGNiG Termika holds 100% of shares in Nysagaz Sp. z o.o.

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

[5] Including a 48.00% direct interest and a 3.18% interest held indirectly through GAS-TRADING S.A.

[6] On July 16th 2015, Gas Assets Management Sp. z o.o. purchased from PHZ BARTIMPEX S.A. 21,523 shares in Gas-Trading S.A. (36.17% of the share capital and total voting rights). Gas-Trading S.A., holds 99.04% of the share capital and total voting rights in Gas-Trading Podkarpacie Sp. z o.o. On October 28th 2015, 21,523 shares in Gas-Trading S.A. were transferred from Gas Assets Management Sp. z o.o. to PGNiG SPV 6 Sp. z o.o., following enforcement proceedings conducted by a Court Enforcement Officer upon motion of the creditor, PGNiG SPV 6 Sp. z o.o., against the debtor, Gas Assets Management Sp. z o.o. PGNiG's direct interest is 43.41%, with a 36.17% interest held indirectly through PGNiG SPV 6 Sp. z o.o.

[7]On October 8th 2015, the company was removed from the court register.

[8]On October 13th 2015, the company was removed from the National Court Register.

[9] On October 22nd 2015, PGNiG S.A. sold its block of 2,525 shares in that company, with a total par value of PLN 1.5m.

[10]On December 30th 2015, the company was removed from the National Court Register.

[11]On March 5th 2015, the company was removed from the National Court Register.

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 2015	1,590	2,535	832	318	231
	Dec 31 2014	1,303	5,465	527	326	172
Associates	Dec 31 2015	30	-	-	-	-
	Dec 31 2014	39	-	-	-	-
Other related entities – non-consolidated	Dec 31 2015	-	-	2	13	-
	Dec 31 2014	3	1	3	13	-
Related entities – total	Dec 31 2015	**1,620**	**2,535**	**834**	**331**	**231**
	Dec 31 2014	**1,345**	**5,466**	**530**	**339**	**172**

		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 2015	365	365	235	3,227	3,227	777	2,513
	Dec 31 2014	285	285	1,195	4,703	4,703	745	2,676
Associates	Dec 31 2015	1	1	-	-	-	7	-
	Dec 31 2014	5	5	-	-	-	7	-
Other related entities – non-consolidated	Dec 31 2015	-	-	-	263	215	-	-
	Dec 31 2014	-	-	-	236	197	-	-
Related entities – total	Dec 31 2015	**366**	**366**	**235**	**3,490**	**3,442**	**784**	**2,513**
	Dec 31 2014	**290**	**290**	**1,195**	**4,939**	**4,900**	**752**	**2,676**

In 2015, 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 zloty 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 2015, 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., Grupa Azoty Zakłady Chemiczne POLICE S.A., KGHM Polska Miedź S.A. and Anwil S.A. Anwil S.A.

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.

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

Name	Jan 1–Dec 31 2015		
	Total remuneration, additional benefits and bonuses paid in 2015	Total remuneration for holding key positions at subordinates in 2015	Total remuneration paid in 2015
	(PLN '000)		
Total remuneration paid to Management Board members, including:	**7,677.88**	**2,906.02**	**10,583.90**
Piotr Woźniak – President [1)]	13.47	43.23	56.70
Waldemar Wójcik – Vice-President	1,456.90	492.39	1,949.29
Bogusław Marzec – Vice-President [2)]	11.23	40.29	51.52
Maciej Woźniak – Vice-President [3)]	11.23	38.07	49.30
Janusz Kowalski – Vice-President [4)]	11.23	36.83	48.06
Violetta Jasińska-Jaśkowiak – Proxy	493.59	105.44	599.03
Persons who were Management Board members in 2015 but not as at Dec 31 2015:			
Mariusz Zawisza [5)]	1,961.39	890.97	2,852.36
Jarosław Bauc [6)]	1,644.58	770.58	2,415.16
Zbigniew Skrzypkiewicz [6)]	1,645.43	488.22	2,133.65
Persons who were Management Board members in 2014 but not as at Dec 31 2014:			
Jerzy Kurella	428.83	-	428.83
Total remuneration paid to Supervisory Board members, including:	**361.14**	**-**	**361.14**

Grzegorz Nakonieczny [12)]	9.25	-	9.25
Wojciech Bieńkowski [8)]	0.54	-	0.54
Magdalena Zegarska	45.24	-	45.24
Sławomir Borowiec	45.24	-	45.24
Ryszard Wąsowicz	45.24	-	45.24
Mateusz Boznański [8)]	0.54	-	0.54
Andrzej Gonet [8)]	0.54	-	0.54
Krzysztof Rogala [8)]	-	-	-
Wojciech Chmielewski [10)]	25.24	-	25.24
Agnieszka Woś [11)]	35.99	-	35.99
Andrzej Janiak [7)]	44.70	-	44.70
Janusz Pilitowski [7)]	44.70	-	44.70
Piotr Woźniak [13)]	0.72	-	0.72
Irena Ożóg [9)]	31.60	-	31.60
Maciej Mazurkiewicz [9)]	31.60	-	31.60
Total	**8,039.02**	**2,906.02**	**10,945.04**

[1)] Piotr Woźniak has served as President of the Management Board since February 11th 2016, and served as Member of the Supervisory Board delegated to temporarily perform the duties of President of the Management Board from December 11th 2015 to February 10th 2016,
[2)] Bogusław Marzec has served as Member of the Management Board since February 11th 2016, and served as Proxy from December 11th 2015 to February 10th 2016,
[3)] Maciej Woźniak has served as Member of the Management Board since February 11th 2016, and served as Proxy from December 11th 2015 to February 10th 2016,
[4)] Janusz Kowlaski has served as Member of the Management Board since February 11th 2016, and served as Proxy from December 11th 2015 to February 10th 2016,
[5)] Mariusz Zawisza served as President of the Management Board until December 11th 2015,
[6)] Management Board Members until December 11th 2015,
[7)] Supervisory Board Members until December 29th 2015,
[8)] Supervisory Board Members until December 29th 2015,
[9)] Supervisory Board Members from April 16th 2015 to December 29th 2015,
[10)] Wojciech Chmielewski served as Member of the Supervisory Board until July 22nd 2015,
[11)] Agnieszka Woś served as Member of the Supervisory Board until October 19th 2015,
[12)] Grzegorz Nakonieczny served as Member of the Supervisory Board until October 19th 2015,
[13)] Piotr Woźniak served as Member of the Supervisory Board from December 4th 2015 to December 10th 2015.

In 2015, PGNiG S.A. recognised a provision for possible payments under claims from previous members of the Company’s governing bodies, estimated at close to PLN 6m as at December 31st 2015.

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 Dec 31 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 Dec 31 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 Moryń [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 until 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.

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 2015	Jan 1–Dec 31 2014
	(PLN '000)	
Audit of the annual consolidated financial statements	56.61	56.61
Audit of the annual separate financial statements	63.14	63.14
Other assurance services, including review of financial statements	471.00	471.00
Other services	-	7.00
Total	**590.75**	**597.75**

37.6. Joint arrangements

In 2015, PGNiG S.A. had working business relationships with the following companies in Poland: FX Energy Poland 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.), LOTOS Petrobaltic S.A., and ORLEN Upstream Sp. z o.o.

On May 4th 2015, PGNiG S.A. and Chevron Polska Energy Resources Sp. z o.o. terminated their collaboration agreement for the first stage of an unconventional hydrocarbon exploration project. The agreement envisaged 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. The agreement was terminated in view of the fact that the work provided for in the agreement had been completed (in the previous year) and Chevron Polska Energy Resources Sp. z o.o. decided to discontinue its involvement in unconventional gas exploration projects in Poland.

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

In 2015, 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%.
- "Górowo Iławieckie" – under the agreement on joint operations of December 31st 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 2015, 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%;

In 2015, no work was carried out in the licence area held by 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%;

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

In 2015, 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%;
- "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%;

  On July 20th 2015, ORLEN Upstream Sp. z o.o. acquired a 49% interest in licence blocks 437, 438, 456, 457, 458 and in parts of licence blocks 416, 417 and 436 owned by Eurogas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o., thus becoming a party to the joint operations agreement.

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%.

In May 2015, the agreement on joint operations was terminated due to considerable exploration risk associated with the structures proposed to be drilled by the operator.

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 1.80m, translated at the exchange rate quoted by the NBP for December 31st 2015) and is divided into 120,000 shares with a par value of UAH 92.89 per share. As at December 31st 2015, the gross 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'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 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.

In December 2015, an application to confirm the enforceability of the judgment of the Court of Arbitration at the Polish Chamber of Commerce (Krajowa Izba Gospodarcza) in Warsaw in the case against Dewon P.S.A. concerning the repayment of the loan granted in 2001 was filed with the Court in Kiev.

Oman

The share capital of **Sahara Petroleum Technology Llc w likwidacji (in liquidation)** amounts to OMR 0.15m (Omani rial), equivalent to PLN 1.51m, translated at the mid rate quoted by the National Bank of Poland for December 30th 2015, and is divided into 150,000 shares with a par value of OMR 1 per share. As at December 31st 2015, the gross 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 llc 76,500 shares - 51%

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

The company has never commenced operations. On June 7th 2009, the shareholders resolved to dissolve the company and appoint a liquidator. At present, the liquidation process is 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 2015), 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 consisted 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).

On December 12th 2013, the General Meeting of ITG passed a resolution to liquidate the company. On October 8th 2015, the company was removed from the court register.

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 42.6m, translated at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2015). All company shares were acquired by PGNiG S.A. in return for a cash contribution made in December 2010.

As at December 31st 2015, 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.

In December 2015, a new company, **PST Europe Sales GmbH (PST ES)**, with a share capital of EUR 0.5, was established in the PST Group. On October 13th 2015, PST's retail business was transferred to PST ES, and the latter's share capital was increased to EUR 1m. PST's name was also changed from PGNiG Sales & Trading GmbH to PGNiG Supply & Trading GmbH. PST holds 100% of the share capital of PST ES. On October 13th 2015, the shares in XOOL GmbH were contributed to PST ES, which now holds all shares in XOOL GmbH.

As at the end of 2015, the PST Group sold natural gas to 31.3 thousand end consumers (end of 2014: 45.8 thousand) and electricity to 9.4 thousand end consumers (end of 2014: 14.7 thousand).

PGNiG ES 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 (PUI)** 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. Crude oil is sold to Shell International Trading and Shipping Company Ltd., while natural gas is mostly transferred to Germany, where it is received by PGNiG Supply & Trading GmbH (a subsidiary of PGNiG S.A.).

PUI holds interests in exploration and production licences on the Norwegian Continental Shelf, in the North Sea, in the Norwegian Sea and in the Barents Sea. Jointly with partners, the company has been producing hydrocarbons from the Skarv, Morvin, Vilje and Vale fields and working on development of

the Snadd and Gina Krog fields located on the Norwegian Sea and the North Sea. In the other licence areas, the company is engaged in exploration projects.

At the end of 2015, the company held interests in 15 licences covering producing fields. In January 2016, as part of the APA 2015 licensing round, the company was awarded interests in four exploration and production licences, including one operatorship. Over a time horizon of about two to three years, the licence partners are required to perform geological and geophysical surveys and analyses enabling them to make a decision whether to drill exploration wells or relinquish some licences without drilling.

In total, as at the end of January 2016, the company held interests in 19 licences.

In August 2015, the company entered into a USD 400m credit facility agreement with a consortium of international banks, secured over its production assets (reserve based facility). Amounts drawn under the reserve based facility were used to repay some of the debt under loans provided to the company by PGNiG S.A., as presented in Notes 14 and 21. As at the end of 2015, the amount of PGNiG S.A.'s ownership interest in PUI was NOK 1,092m, that is PLN 483.9m (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2015). At the end of 2015, the amount of PUI's shares in the Parent's books was PLN 537.5m (value of the ownership interest in NOK translated at the historical rate of exchange).

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, 2014 and 2015, the company's equity was increased respectively by USD 27m, USD 18m, USD 14.5m and USD 4m, without issuing any new shares, to finance the drilling of first exploration 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 2015 the PGNiG Management Board resolved to increase the impairment loss on shares in the company by PLN 8m and at the same time to increase the provision for the outstanding licence commitments under the Murzuq project in Libya to PLN 177m (December 31st 2014: PLN 160m).

As at December 31st 2015, the value of the Parent's ownership interest in POGC Libya B.V. was PLN 495.2m.

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.

On November 23rd 2015 in Tripoli, POGC-Libya entered into an Interim Agreement with NOC, under which the parties agreed that the EPSA will not expire and will continue in full force and effect even if a force majeure continues for more than two years after its notification under Art. 22.2 of EPSA. In view of the current political situation in Libya, at present it is no possible to determine whether the agreement made with the Libyan authorities in Tripoli will be honoured in the future.

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 2,130.8m (translated at the exchange rate quoted by the NBP for December 31st 2015). 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.

PGNiG Finance AB pays interest on the notes on an annual basis starting from February 14th 2013. On February 13th 2015, the third tranche of interest was paid.

The company's share capital is 500 thousand Swedish crowns, which is equivalent to PLN 232.3 thousand zloty (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2015). In addition, on December 30th 2011 the company was recapitalised (without issuing new shares) with EUR 60 thousand, or PLN 258.1 thousand (translated at the exchange rate quoted by the National Bank of Poland for December 31st 2015). As at December 31st 2015, the value of PGNiG Finance AB shares in the Parent's books was PLN 0.48m (value of the ownership interest in the foreign currency, translated into the zloty at the historical rate of exchange).

Parent's direct operations abroad under joint arrangements

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 H1 2015, the drilling of the Rizq-1 borehole was completed and a fracking operation was carried out. The maximum gas-flow rate recorded during the testing of the well was 206.5 cubic metres per minute. In September, surface installations enabling an increase in the production rate to 800 cubic metres per minute were completed and placed in service.
In order to tap on the new potential, a joint development strategy for the Rehman and Rizq deposits was prepared, which in the first stage will involve the hook-up and start of production from Rizq-1 and the drilling of two further wells: Rehman-2 and Rehman-3; at a later stage another 10 wells are to be drilled (by 2022). Drilling of the Rehman-2 and Rehman-3 wells is scheduled to commence in the first half of 2016. Concurrently, in order to minimise geological risk and as part of preparations for further exploration work in the licence area, at the end of 2015 work was started to acquire a new 3D seismic survey covering the newly discovered Rizq field and the N2 prospect. After an evaluation of the existing and the newly acquired 3D seismic data, PGNiG S.A. will have a coherent picture of both discoveries (Rehman and Rizq), which will help it further optimise the location of the planned exploration boreholes. Moreover, work has been under way to hook up the Rizq-1 well (scheduled for completion in the first quarter of 2016). Production from the Rehman-1 and Hallel X-1 wells continued.

Lubben project – Germany

On August 4th 2015, PGNiG S.A. signed agreements with Central European Petroleum Gmbh concerning the parties' joint operations in a subdivision of the Lubben licence area in eastern Germany (Brandenburg). The goal of the exploration project is to find potential crude oil accumulations, which may be comparable to those of the Lubiatów-Międzychód-Grotów field, recently discovered by PGNiG in Poland.

Under the signed agreements, PGNiG SA will acquire a 36% interest in future revenue from the potential production of crude oil and natural gas. PGNiG's project partners are Central European Petroleum Gmbh (39% interest and operatorship) and Austria's Rohöl-Aufsuchungs Aktiengesellschaft (25% interest).

PGNiG will cover part of the cost of drilling exploration wells and will reimburse part of the costs incurred previously on the licence area by Central European Petroleum GmbH. The initial plan provides for drilling two wells. The area of the subdivision of the Lubben SW licence is 414 sq km.

On December 4th 2015, PGNiG S.A. commenced drilling the Markische Heide-1 directional borehole in eastern Germany.
The drilling operation is expected to continue into the second half of January 2016, and the borehole is planned to be drilled down to a depth of approximately 2,800 m. The drilling work is performed by ITAG of Germany.

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 close the Egypt branch.

On April 7th 2015, the PGNiG S.A. Egypt Branch was removed from the Egyptian commercial register (the register maintained by the General Authority for Investments (GAFI)). In Poland, the branch was removed from the National Court Register on November 22nd 2015.

38 EMPLOYEES (NUMBER OF STAFF)

Employment as at end of period, by segments	Dec 31 2015	Dec 31 2014
Exploration and Production	3,849	4,080
Trade and Storage	988	1,072
including Head Office	675	689
Other Activities	37	36
Total	**4,874**	**5,188**

In 2015, the average workforce was 4,900 persons (2014: 6,736).

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 2015	Dec 31 2014
Borrowings, finance lease liabilities and liabilities under debt securities in issue	4,982	5,154
Trade and other payables	2,310	2,664
Cash and cash equivalents (-)	(5,190)	(1,942)
Net debt	**2,102**	**5,876**
Equity (attributable to owners of the parent)	**23,738**	**23,780**
Equity and net debt	**25,840**	**29,656**
Leverage	8.1%	19.8%

40 OTHER IMPORTANT INFORMATION

40.1. Restructuring process

In 2015, 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 terminated. Launched in January 2009, the Programme operated on a stand-by basis and required all the participating companies to follow a uniform procedure. A decision to use funds under the Programme could only be made where it was 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 were entitled under the Programme were covered from the Central Restructuring Fund, which was 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.

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. On May 29th 2015 the Warsaw Court of Appeals issued a final judgment partially allowing PGNiG S.A.’s appeal and modifying the decision of the President of UOKiK of July 5th 2012 regarding its item three, by reducing the fine imposed on PGNiG S.A. to PLN 5.5m and awarding a refund of a part of the costs of proceedings to the President of UOKiK. PGNiG S.A. paid the fine and requested to be issued the grounds for the judgment in order to be able to consider lodging a cassation appeal. On September 18th 2015, PGNiG S.A. filed a cassation appeal against the ruling issued by the Court of Appeals. On September 30th 2015, PGNiG S.A. received a certified copy of the cassation appeal filed by the President of UOKiK.

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. for alleged delay in complying 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. On September 24th 2015, the President of UOKiK issued a decision stating that PGNiG S.A. had not fully implemented Section I).4) of the decision of December 31st 2013 and imposed on the Company a fine of PLN 10.4m for the delay in complying with the decision. Concurrently, in the same decision the President of UOKiK discontinued the administrative proceedings with respect to PGNiG Obrót Detaliczny Sp. z o.o., claiming that the company had met the obligation specified in the decision of December 31st 2013. On November 2nd 2015, PGNiG S.A. filed an appeal against the decision of the President of UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw. As at the date of these financial statements, the Competition and Consumer Protection Court had not notified PGNiG S.A. of a hearing date.

In connection with the above proceedings, the Company recognised the provision disclosed in Note 27.

40.3. Dispute with PBG S.A.

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 were not acknowledged. 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 a 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. Due to the absence of representation of the court supervisor, despite effective serving of a correct notice of the date of the hearing, the settlement was not made. On March 18th 2015, the District Court for Poznań-Stare Miasto of Poznań issued a decision to discontinue the proceedings, thus ending the dispute.

40.4. Contracts for supplies of gas fuel and crude oil

1. In January 2015, PGNiG S.A. launched supplies of crude oil to the Gdańsk-based refinery operated by Grupa LOTOS S.A. under the 2013 contract between the parties. The contract for rail deliveries of crude oil to the Gdańsk refinery was made for five years with an option to extend the contract for an unspecified period, and relates to sale of the crude produced by the Zielona Góra Branch of PGNiG.
2. In Q4 2015, annexes were signed to contracts concerning deliveries of crude by rail and by road with the Trzebinia and Jedlicze refineries owned by Orlen Południe S.A., a PKN Orlen Group company. The contractual terms changed, among other things, with respect to prices of the supplied crude.
3. In 2015, PGNiG S.A. supplied crude via pipeline to Totsa Total Oil Trading S.A. and BP Europa SE. The crude was supplied to BP under a contract for spot deliveries, which was extended until mid-2016. The trading relationship with Totsa Total Oil Trading S.A. commenced in April 2008 and consists in PGNiG S.A. supplying crude oil to Totsa Total via the PERN Druzhba pipeline.

40.5. Contracts for gas fuel purchases

1. In 2015, 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. Starting from January 1st 2016, the natural gas purchased from VNG-Verbundnetz Gas AG will be sold in the German market, under the agreement executed with PGNiG Sales & Trading GmbH in December 2015.
   - EFET terms Framework Agreement with PGNiG Supply & Trading GmbH of October 27th 2011. Under the agreement, in 2015 PGNiG S.A. purchased from PGNiG Supply & Trading GmbH about 9,320 GWh of natural gas.
2. PGNiG S.A. supplies gas to the towns of Branice and Słubice under the following agreements:
   - Agreement between PGNiG S.A. and GAZ-SYSTEM S.A. of December 23rd 2015 concerning provision of balancing services, consisting in sale of natural gas and its delivery to the Branice entry point, from where the gas is supplied to a non-system area in the vicinity of Branice, at the Polish-Czech border. The agreement took effect on January 1st 2016 and remains in force until September 30th 2016.
   - Agreement made between PGNiG S.A. and EWE Energia Sp. z o.o. on November 29th 2004, for supply of high-methane gas to the town of Słubice.
3. In 2015, PGNiG S.A. purchased domestically produced nitrogen-rich gas (type Lw) from third parties 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).

- Natural gas supplies contract between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated June 18th 2013 (gas from the Lisewo field). Deliveries were launched on December 11th 2013.
- Natural gas supplies contract between PGNiG S.A. and FX Energy Poland Sp. z o.o., dated November 12th 2013 (gas from the Komorze field).
- 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.

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

4. In 2015, PGNiG S.A. entered into the following agreements:

In 2015, PGNiG S.A. intermediated in deliveries of liquefied natural gas (LNG) intended for the cool-down and start-up of the LNG terminal in Świnoujście. To this end, on September 11th 2015 the Company entered into the following contracts:

- contract for the purchase of LNG shipments from Qatargas Operating Company Limited,
- contract for the sale of two LNG shipments purchased from Qatargas to Polskie LNG S.A.

The first of the LNG shipments was delivered to the Świnoujście terminal in December 2015; the second one is planned to arrive in February 2016.

In addition, on December 28th 2015 PGNiG S.A. entered into an agreement with Polskie LNG S.A. to purchase the gas fuel produced in the process of start-up of the LNG terminal in Świnoujście and a trilateral Start-Up Memorandum of Understanding concerning the start-up of the LNG terminal in Świnoujście with Polskie LNG S.A. and Operator Gazociągów Przesyłowych GAZ – SYSTEM S.A. Under the agreement, PGNiG S.A. will purchase the gas produced in the LNG regasification process during the start-up of the terminal. The total volume of the gas to be purchased under the agreement should not exceed 2.5 TWh.

Amendments to 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 Export to renegotiate the price of natural gas supplied by OOO Gazprom Export 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 2016, on October 21st 2015 PGNiG and Qatar Liquefied Gas Company Limited signed a supplemental agreement to their long-term agreement of June 29th 2009, mitigating the risk of PGNiG having to make payments under the take-or-pay clause in the first six months of 2016.

   In the first half of 2016, settlements between the parties will be made on a net proceeds basis, which means that Qatar Liquefied Gas Company Limited will place the LNG volumes originally intended for PGNiG S.A. on other markets, and PGNiG S.A. 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 (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).

   The supplementary agreement also specifies the terms on which PGNiG S.A. and Qatargas will agree LNG supplies in the first half of 2016, if need be, once the Świnoujście terminal becomes fully operational.

In accordance with the provisions of the supplementary agreement signed by PGNiG S.A. and Qatar Liquefied Gas Company Limited on December 9th 2014, throughout 2015 settlements between the parties were made on a net proceeds basis. Settlements made in accordance with the terms of the supplementary agreement effectively mitigated the risk of PGNiG S.A. having to make payments

under the take-or-pay clause in 2015 – the entire volume of gas which was originally to be supplied to Świnoujście in 2015 was sold by the Quatari partner in other markets.

40.6. Renegotiation of the price terms under the Yamal contract

As part of its continued renegotiations of the price terms under the Yamal contract, commenced on November 1st 2014, on May 13th 2015, PGNiG S.A. called PAO Gazprom and OOO Gazprom Export to arbitration proceedings before the Arbitration Court in Stockholm. The dispute relates to a change of the pricing terms under the contract for gas supply to Poland of September 25th 1996. Submitting the dispute for resolution by the Arbitration Court does not preclude trade negotiations and an amicable settlement with the supplier.

40.7. Decisions by the President of the Energy Regulatory Office imposing fines on PGNiG S.A.

On January 7th 2016 and January 8th 2016 PGNiG S.A. received decisions of the President of the Energy Regulatory Office of December 30th 2015 and December 31st 2015, respectively, under which the President of the Energy Regulatory Office imposed on PGNiG S.A. fines of PLN 2m and PLN 4m, respectively, for PGNiG S.A.'s failure to comply with the requirement, provided for in the Licence to trade in natural gas with foreign partners, to diversify gas supplies from foreign partners in 2009 and 2010. On January 21st 2016 and January 22nd 2016, PGNiG S.A. filed appeals against the decisions of the President of the Energy Regulatory Office with the Competition and Consumer Protection Court at the Regional Court of Warsaw.

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.):
    - 100 notes with a total value of PLN 100m, issued on January 11th 2016 and due on March 15th 2015, yielding 1.84% per annum,
    - 2,000 notes with a total value of PLN 200m, issued on January 29th 2016 and due on February 29th 2016, yielding 1.75% per annum,
    - 300 notes with a total value of PLN 30m, issued on February 15th 2016 and due on April 15th 2016, yielding 1.79% 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.):
    - 300 notes with a total value of PLN 30m, issued on January 4th 2016 and due on March 31st 2016, yielding 1.87% per annum.
3. On January 25th 2016 PGNiG S.A. terminated its agreement with Standard&Poors Rating Services Ltd ("S&P") for credit rating of the Company. Therefore, S&P will soon withdraw its rating, which has been BBB-, with stable outlook, since November 28th 2012. The Company has investment-grade rating from Moody's Investors Service.
4. On February 10th 2016, the Supervisory Board of PGNiG S.A. appointed Deloitte Polska Sp. z o.o. sp.k., with registered office at Al. Jana Pawła II 19, 00-854 Warsaw, as the auditor of the Company's separate and consolidated financial statements for the financial years 2016, 2017 and 2018. The appointment of Deloitte Polska Sp. z o.o. sp.k was based on Art. 66.4 the Polish Accountancy Act of September 29th 1994 (Dz.U. of 2013, item 330, as amended), in conjunction with Art. 134.1 of the Public Procurement Law of January 29th 2004 (Dz. U. of 2015, item 2164) and made through a limited tender. The contract notice was submitted to the Publications Office of the European Union on October 13th 2015 and published in the Official Journal of the European Union under No. 2015/S 202-367635. The resolution to appoint the auditor was passed in compliance with applicable laws, the Company's internal regulations and professional standards. On February 19th 2016 an appeal was filed with the National Appeals Chamber against the appointment of Deloitte Polska Sp. z o.o. sp.k. as the Company's auditor. The appeal was lodged by one of the bidders participating in the tender to select an auditor of the Company's separate and consolidated financial statements for 2016, 2017 and 2018. Until the National Appeals Chamber issues a judgement or a decision ending the appeal proceedings, the Company may not enter into an agreement with Deloitte Polska Sp. z o.o. sp.k.

MANAGEMENT BOARD'S REPRESENTATIONS

1. REPRESENTATION ON RELIABILITY OF THE FULL-YEAR SEPARATE FINANCIAL STATEMENTS OF PGNIG S.A. FOR 2015

We represent that, to the best of our knowledge, the full-year separate financial statements of PGNiG S.A. prepared as at December 31st 2015 and the comparative data have been prepared in compliance with the applicable accounting policies and give a true, clear and fair view of the Company's assets, financial standing and financial performance.

We further represent that, to the best of our knowledge, the Directors' Report on the operations of PGNiG S.A. gives a fair view of the Company's development, achievements and standing, and includes a description of key risks and threats.

2. REPRESENTATION ON APPOINTMENT OF THE ENTITY QUALIFIED TO AUDIT THE FULL-YEAR SEPARATE FINANCIAL STATEMENTS OF PGNiG S.A. FOR 2015

We represent that the qualified auditor of financial statements that audited the full-year separate financial statements of PGNiG S.A. prepared as at December 31st 2015 had been appointed in accordance with the applicable laws.

Both the auditing firm and the auditors who performed the audit met the conditions required to issue an impartial and independent opinion on the audited full-year separate financial statements, in accordance with the applicable laws and professional standards.

Members of the Management Board

President of the Management Board	Piotr Woźniak	________________
Vice-President of the Management Board	Bogusław Marzec	________________
Vice-President of the Management Board	Janusz Kowalski	________________
Vice-President of the Management Board	Łukasz Kroplewski	________________
Vice-President of the Management Board	Maciej Woźniak	________________
Vice-President of the Management Board	Waldemar Wójcik	________________