PGNiG

Polskie Górnictwo Naftowe
i Gazownictwo SA

CONSOLIDATED FULL-YEAR REPORT
OF THE PGNiG GROUP
FOR THE YEAR 2014

CONSOLIDATED FULL-YEAR REPORT

FOR THE YEAR ENDED DECEMBER 31ST 2014 COMPRISES:

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FINANCIAL HIGHLIGHTS

for the year ended December 31st 2014

Consolidated financial data	PLNm		EURm	
	Year ended Dec 31 2014	Year ended Dec 31 2013	Year ended Dec 31 2014	Year ended Dec 31 2013
Revenue	34,304	32,044	8,188	7,610
Operating profit/(loss)	3,843	3,149	917	748
Profit/(loss) before tax	3,626	2,709	866	643
Net profit/(loss) attributable to owners of the parent	2,823	1,918	674	455
Net profit/(loss)	2,822	1,920	674	456
Comprehensive income attributable to owners of the parent	2,602	2,021	621	480
Total comprehensive income	2,601	2,023	621	480
Net cash generated by operating activities	6,979	7,813	1,666	1,855
Net cash (used in)/generated by investing activities	(3,680)	(3,060)	(878)	(727)
Net cash used in/(generated by) financing activities	(3,169)	(3,874)	(756)	(920)
Net increase/(decrease) in cash and cash equivalents	130	879	31	209
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (in PLN and EUR)	0.48	0.33	0.11	0.08
	As at Dec 31 2014	As at Dec 31 2013	As at Dec 31 2014	As at Dec 31 2013
Total assets	48,926	48,384	11,479	11,667
Total liabilities	18,757	19,931	4,401	4,806
Total non-current liabilities	12,384	12,093	2,905	2,916
Total current liabilities	6,373	7,838	1,496	1,890
Total equity	30,169	28,453	7,078	6,861
Share capital	5,900	5,900	1,384	1,423
Weighted average number of shares (million)	5,900	5,900	5,900	5,900
Book value per share and diluted book value per share (in PLN and EUR)	5.11	4.82	1.20	1.16
Dividend per share declared or paid (in PLN and EUR, respectively)	0.15	0.13	0.04	0.03

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

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

Average EUR/PLN exchange rates quoted by the NBP

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE PGNiG GROUP FOR THE YEAR 2014

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

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

	Note	3 months ended Dec 31 2014	Year ended Dec 31 2014	3 months ended Dec 31 2013	Year ended Dec 31 2013
				restated	restated
		audited	audited	audited	audited
Revenue	**3**	**11,485**	**34,304**	**9,101**	**32,044**
Raw materials and consumables used	4.1	(7,943)	(21,229)	(5,495)	(19,873)
Employee benefits expense	4.2	(823)	(2,827)	(1,099)	(3,214)
Depreciation and amortisation expense		(600)	(2,502)	(710)	(2,463)
Services	4.3	(818)	(2,843)	(916)	(2,808)
Work performed by the entity and capitalised		313	980	319	983
Other income and expenses	4.4	(855)	(2,040)	(1,106)	(1,520)
Total operating expenses	**3**	**(10,726)**	**(30,461)**	**(9,007)**	**(28,895)**
Operating profit/(loss)		**759**	**3,843**	**94**	**3,149**
Finance income	5	18	86	(7)	69
Finance costs	5	(149)	(432)	(79)	(465)
Share in net profit/(loss) of equity-accounted entities	6	129	129	(8)	(44)
Profit/(loss) before tax		**757**	**3,626**	**-**	**2,709**
Income tax	7	(71)	(804)	(162)	(789)
Net profit/(loss)		**686**	**2,822**	**(162)**	**1,920**
Attributable to:					
Owners of the parent		688	2,823	(161)	1,918
Non-controlling interests		(2)	(1)	(1)	2
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (PLN)	9	0.12	0.48	(0.03)	0.33

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

	3 months ended Dec 31 2014	Year ended Dec 31 2014	3 months ended Dec 31 2013	Year ended Dec 31 2013
			restated	restated
	audited	audited	audited	audited
Net profit/(loss)	**686**	**2,822**	**(162)**	**1,920**
Other comprehensive income that will be reclassified to profit or loss if specific conditions are met, relating to:	**(193)**	**(197)**	**(29)**	**5**
Exchange differences on translating foreign operations	(34)	18	(47)	(53)
Hedge accounting	(196)	(265)	22	72
Deferred tax	37	50	(4)	(14)
Other comprehensive income that will not be reclassified to profit or loss, relating to:	**(13)**	**(24)**	**104**	**98**
Actuarial gains/(losses) on employee benefits	(19)	(32)	124	117
Deferred tax	6	8	(20)	(19)
Other comprehensive income, net	**(206)**	**(221)**	**75**	**103**
Total comprehensive income	**480**	**2,601**	**(87)**	**2,023**
Attributable to:				
Owners of the parent	482	2,602	(86)	2,021
Non-controlling interests	(2)	(1)	(1)	2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31st 2014

	Note	As at Dec 31 2014	As at Dec 31 2013	As at Jan 1 2013
			restated	restated
		audited	audited	audited
ASSETS				
Non-current assets				
Property, plant and equipment	11	33,528	33,033	33,784
Investment property	12	9	9	11
Intangible assets	13	1,113	1,164	1,146
Investments in equity-accounted entities	6	856	727	771
Other financial assets	14	243	242	172
Deferred tax assets	15	1,783	2,233	2,383
Other non-current assets	16	160	71	76
Total non-current assets		**37,692**	**37,479**	**38,343**
Current assets				
Inventories	17	3,189	3,378	3,064
Trade and other receivables	18	4,236	4,086	5,374
Current tax assets	19	5	48	150
Other assets	20	132	171	84
Derivative financial instrument assets	33	567	307	105
Cash and cash equivalents	21	2,958	2,827	1,948
Assets held for sale	22	147	88	108
Total current assets		**11,234**	**10,905**	**10,833**
Total assets		**48,926**	**48,384**	**49,176**
EQUITY AND LIABILITIES				
Equity				
Share capital	23	5,900	5,900	5,900
Share premium		1,740	1,740	1,740
Accumulated other comprehensive income		(270)	(49)	(152)
Retained earnings/(deficit)		22,794	20,856	19,705
Equity attributable to owners of the parent		**30,164**	**28,447**	**27,193**
Equity attributable to non-controlling interests		5	6	4
Total equity		**30,169**	**28,453**	**27,197**
Non-current liabilities				
Borrowings and other debt instruments	24	5,069	5,385	5,509
Employee benefit obligations	25	604	502	381
Provisions	26	1,803	1,405	1,792
Deferred revenue	27	1,581	1,533	1,448
Deferred tax liabilities	28	3,250	3,210	3,183
Other non-current liabilities	29	77	58	53
Total non-current liabilities		**12,384**	**12,093**	**12,366**
Current liabilities				
Trade and other payables	30	3,589	4,033	3,667
Borrowings and other debt instruments	24	769	2,276	4,702
Derivative financial instrument liabilities	33	593	124	393
Current tax liabilities	19	191	184	24
Employee benefit obligations	25	284	375	356
Provisions	26	720	645	350
Deferred revenue	27	227	186	101
Liabilities associated with assets held for sale	22	-	15	20
Total current liabilities		**6,373**	**7,838**	**9,613**
Total liabilities		**18,757**	**19,931**	**21,979**
Total equity and liabilities		**48,926**	**48,384**	**49,176**

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

	Note	Year ended Dec 31 2014	Year ended Dec 31 2013
			restated
		audited	audited
Cash flows from operating activities			
Net profit/(loss)		2,822	1,920
Adjustments:			
Share in net profit/(loss) of equity-accounted entities		(129)	44
Depreciation and amortisation expense		2,502	2,463
Net foreign exchange gains/(losses)		201	169
Net interest and dividend		127	207
Gain/(loss) on investing activities		739	568
Current tax expense		804	789
Other items, net	31	910	430
Income tax paid		(677)	(495)
Cash flows from operating activities before movements in working capital		**7,299**	**6,095**
Movements in working capital:			
Increase/(decrease) in trade and other receivables	31	(128)	1,310
(Increase)/decrease in inventories	31	189	(321)
(Decrease)/increase in employee benefit obligations	31	11	140
Increase/(decrease) in provisions	31	130	299
Decrease/(increase) in current liabilities	31	(477)	394
(Increase)/decrease in other assets	31	(31)	(89)
(Decrease)/increase in deferred revenue	31	(14)	(15)
Net cash generated by operating activities		**6,979**	**7,813**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets		30	130
Proceeds from disposal of shares in non-related entities		1	1
Payments for property, plant and equipment and intangible assets		(3,781)	(3,290)
Payments for shares in related entities		(1)	(2)
Interest received		4	1
Dividends received		3	3
Other items, net		64	97
Net cash (used in)/generated by investing activities		**(3,680)**	**(3,060)**
Cash flows from financing activities			
Proceeds from borrowings		152	763
Proceeds from issue of debt securities		377	1,475
Repayment of borrowings		(1,096)	(696)
Repayment of debt securities		(1,429)	(4,273)
Payment of finance lease liabilities		(50)	(53)
Proceeds from derivative financial instruments		84	83
Payment for derivative financial instruments		(98)	(116)
Dividends paid		(885)	(767)
Interest paid		(218)	(265)
Other items, net		(6)	(25)
Net cash used in/(generated by) financing activities		**(3,169)**	**(3,874)**
Net increase/(decrease) in cash and cash equivalents		**130**	**879**
Effects of exchange rate changes on the balance of cash held in foreign currencies	31	1	-
Cash and cash equivalents at beginning of the period	**31**	**2,826**	**1,947**
Cash and cash equivalents at end of the period	**31**	**2,956**	**2,826**

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

	Equity (attributable to owners of the parent)							Equity (attributable to non-controlling interests)	Total equity
			Accumulated other comprehensive income, including:						
	Share capital	Share premium	Exchange differences on translating foreign operations	Hedging reserve	Actuarial gains/(losses) on employee benefits	Retained earnings/ (deficit)	**Total**		
As at Jan 1 2014 (audited)	**5,900**	**1,740**	**(84)**	**(1)**	**36**	**20,856**	**28,447**	**6**	**28,453**
Transferred	-	-	-	-	-	-	**-**	-	**-**
Dividend	-	-	-	-	-	(885)	**(885)**	-	**(885)**
Total comprehensive income	**-**	**-**	**18**	**(215)**	**(24)**	**2,823**	**2,602**	**(1)**	**2,601**
Net profit/(loss)	-	-	-	-	-	2,823	**2,823**	(1)	**2,822**
Other comprehensive income, net	-	-	18	(215)	(24)	-	**(221)**	-	**(221)**
As at Dec 31 2014 (audited)	**5,900**	**1,740**	**(66)**	**(216)**	**12**	**22,794**	**30,164**	**5**	**30,169**
As at Jan 1 2013 (audited)	**5,900**	**1,740**	**(31)**	**(59)**	**(62)**	**19,705**	**27,193**	**4**	**27,197**
Dividend	-	-	-	-	-	(767)	**(767)**	-	**(767)**
Total comprehensive income	**-**	**-**	**(53)**	**58**	**98**	**1,918**	**2,021**	**2**	**2,023**
Net profit/(loss)	-	-	-	-	-	1,918	**1,918**	2	**1,920**
Other comprehensive income, net	-	-	(53)	58	98	-	**103**	-	**103**
As at Dec 31 2013 (audited)	**5,900**	**1,740**	**(84)**	**(1)**	**36**	**20,856**	**28,447**	**6**	**28,453**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at December 31st 2014

1. GENERAL INFORMATION

1.1. Company name, principal business activity and key registry data

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

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

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

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

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

1.2. Duration of the PGNiG Group

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

1.3. Reporting period of these consolidated financial statements

These consolidated financial statements present data as at December 31st 2014 and for the period January 1st–December 31st 2014, with comparative financial data for the relevant periods of 2013.

1.4. Consolidated data

These financial statements contain consolidated data of the Parent, its 15 subsidiaries (of which three are parents of their own groups), one associated entity and one joint venture. In the tables below are listed equity-accounted entities as well as PGNiG Group companies.

Equity-accounted joint ventures and associated entities

Company name	Country	% ownership interest	
		Dec 31 2014	Dec 31 2013
1 GAS - TRADING S.A.	Poland	43.41%	43.41%
2 SGT EUROPOL GAZ S.A. [1)]	Poland	49.74%	49.74%

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

No.	Company name	Country	Parent	Ownership interest (%): share capital	Ownership interest (%): voting rights	Consolidation method as at Dec 31 2014	Consolidation method as at Dec 31 2013
	PGNiG S.A.'s direct subsidiaries						
1	BSiPG Gazoprojekt S.A.	Poland	PGNiG S.A.	22,5%[1)]	22,5%[1)]	full	full
2	Exalo Drilling S.A.	Poland	PGNiG S.A.	100%	100%	full	full
3	GEOFIZYKA Kraków S.A.	Poland	PGNiG S.A.	100%	100%	full	full
4	GEOFIZYKA Toruń S.A.	Poland	PGNiG S.A.	100%	100%	full	full
5	Geovita S.A.	Poland	PGNiG S.A.	100%	100%	full	full
6	Operator Systemu Magazynowania Sp. z o.o.	Poland	PGNiG S.A.	100%	100%	full	full
7	PGNiG Obrót Detaliczny Sp. z o.o.	Poland	PGNiG S.A.	100%	100%	full	-
8	PGNiG Serwis Sp. z o.o.	Poland	PGNiG S.A.	100%	100%	full	full
9	PGNiG Technologie S.A.	Poland	PGNiG S.A.	100%	100%	full	full
10	PGNiG TERMIKA S.A.	Poland	PGNiG S.A.	100%	100%	full	full
11	Polska Spółka Gazownictwa Sp. z o.o.	Poland	PGNiG S.A.	100%	100%	full	full
12	PGNiG Finance AB	Sweden	PGNiG S.A.	100%	100%	full	full
13	PGNiG Sales & Trading GmbH	Germany	PGNiG S.A.	100%	100%	full	full
14	PGNiG Upstream International AS	Norway	PGNiG S.A.	100%	100%	full	full
15	Polish Oil and Gas Company - Libya B.V.	The Netherlands	PGNiG S.A.	100%	100%	full	full
16	Biogazownia Ostrowiec Sp. z o.o. w likwidacji (in liquidation)	Poland	PGNiG S.A.	100%	100%	-	-
17	BUD-GAZ P.P.U.H. Sp. z o.o. w likwidacji (in liquidation)	Poland	PGNiG S.A.	100%	100%	-	-
18	NYSAGAZ Sp. z o.o.	Poland	PGNiG S.A.	66.28%	66.28%	-	-
19	PGNiG SPV 5 Sp. z o.o.	Poland	PGNiG S.A.	100%	100%	-	-
20	PGNiG SPV 6 Sp. z o.o.	Poland	PGNiG S.A.	100%	100%	-	-
21	PGNiG SPV 7 Sp. z o.o.	Poland	PGNiG S.A.	100%	100%	-	-
22	Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji (in liquidation)	Poland	PGNiG S.A.	100%	100%	-	-
	PGNiG S.A.'s indirect subsidiaries						
23	CHEMKOP Sp. z o.o.	Poland	Operator Systemu Magazynowania Sp. z o.o.	85.51%	85.51%	-	-
24	Gas Assets Management Sp. z o.o. w organizacji (in formation)	Poland	PGNiG SPV 6 Sp. z o.o.	99%[2)]	99%[2)]	-	-
25	GAZ Sp. z o.o.	Poland	Polska Spółka Gazownictwa Sp. z o.o.	80%	80%	full	full
26	Powiśle Park Sp. z o.o.	Poland	Polska Spółka Gazownictwa Sp. z o.o.	100%	100%	full	full
27	Zakład Gospodarki Mieszkaniowej Sp. z o.o.	Poland	Exalo Drilling S.A.	100%	100%	-	-
28	Zakład Separacji Popiołów Siekierki Sp. z o.o.	Poland	PGNiG TERMIKA S.A.	70%	70%	-	-
29	Oil Tech International F.Z.E.	United Arab Emirates	Exalo Drilling S.A.	100%	100%	full	full
30	Poltava Services LLC	Ukraine	Exalo Drilling S.A.	99%	99%	full	full
31	XOOL GmbH	Germany	PGNiG Sales & Trading GmbH	100%	100%	full	full

1) PGNiG's direct interest is 22.5%, with a 52.5% interest held indirectly through PGNiG Technologie S.A. PGNiG S.A. has the right to appoint the majority of the company's Supervisory Board members.

2) PGNiG S.A.'s indirect interest in Gas Assets Management Sp. z o.o. w organizacji (in formation) is 100%, with 99% held through PGNiG SPV 6 Sp. z o.o. and 1% held through PGNiG SPV 5 Sp. z o.o.

1.5. Changes in the Group's structure, including changes resulting from mergers, acquisitions or disposals of Group entities

The most important changes in the structure of the PGNiG Group in 2014 included:

- On January 20th 2014, GEOFIZYKA Toruń S.A. reported that its subsidiary, PT Geofizyka Toruń Indonezja LLC w likwidacji (in liquidation), was deleted from the business register after the company liquidation process had been completed.
- On May 22nd 2014, a new company with a share capital of PLN 1,000,000 was incorporated under the name of Zakład Separacji Popiołów Siekierki Spółka z ograniczoną odpowiedzialnością; PGNiG TERMIKA S.A. acquired a 70% equity interest, valued at PLN 700,000, in the newly established entity. The company was registered with the National Court Register on June 17th 2014.
- On August 1st 2014, PGNiG Obrót Detaliczny Sp. z o.o.'s share capital was increased by PLN 1,090,000,000, from PLN 1,000,000 to PLN 1,091,000,000, through an issue of 10,900,000 new equal and indivisible shares with a par value of PLN 100 per share and a total par value of PLN 1,090,000,000. All new shares in the share capital of PGNiG Obrót Detaliczny Sp. z o.o. were subscribed for by the company's sole shareholder, PGNiG S.A., and paid for with non-cash contribution in the form of an organised part of business. The share capital increase was registered with the National Court Register on September 9th 2014.
- On August 18th 2014, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, deleted Biogazownia Ostrowiec Sp. z o.o. w likwidacji (in liquidation) from the National Court Register.
- On November 28th 2014, the winding up of Polskie Elektrownie Gazowe Sp. z o.o. was completed. A request was filed with the National Court Register (a registry court) to delete the company from the register. By the date of preparation of these financial statements, the registry court had not issue a decision to delete the company from the register.
- On December 15th 2014, PGNiG SPV 6 Sp. z o.o. and PGNiG SPV 5 Sp. z o.o. incorporated Gas Assets Management Sp. z o.o. w organizacji (in formation) with a share capital of PLN 20,000. PGNiG SPV 6 Sp. z o.o. and PGNiG SPV 5 Sp. z o.o. acquired capital interests of PLN 19,800 and PLN 200, respectively, in the newly incorporated company. The company's share capital was paid up with cash. On February 17th 2015, the company was registered with the National Court Register.

1.6. Composition of the PGNiG Management Board

As at December 31st 2014, the PGNiG Management Board consisted of four members:

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

In the period from January 1st to December 31st 2014, the following changes occurred in the composition of the PGNiG Management Board:

- With effect from January 1st 2014, Mr Mariusz Zawisza was appointed President of the PGNiG Management Board, pursuant to a decision by the Supervisory Board of December 30th 2013.
- On April 3rd 2014, the Supervisory Board of PGNiG S.A. appointed Mr Waldemar Wójcik as member of the PGNiG Management Board elected by the employees, for the joint three-year

term of office commencing December 30th 2013. Mr Wójcik assumed his position on April 3rd 2014.

- On June 18th 2014, the Supervisory Board of PGNiG S.A. resolved to suspend Mr Andrzej Parafianowicz from duties as Vice-President of the PGNiG Management Board for Corporate Affairs.
- On August 7th 2014, Mr Andrzej Parafianowicz tendered his resignation as Member of the PGNiG Management Board, with effect as of that date.
- Also on August 7th 2014, the Supervisory Board appointed Mr Waldemar Wójcik as Vice-President of the Management Board of PGNiG S.A.
- On December 29th 2014, the Supervisory Board of PGNiG S.A. removed Mr Jerzy Kurella from the PGNiG Management Board and the position of Vice-President for Trade. The resolution became effective as of its date.

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

1.7. Commercial proxies

As at December 31st 2014, Ms Violetta Jasińska-Jaśkowiak served as commercial proxy for PGNiG S.A., appointed by the Management Board on December 20th 2013.

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

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

1.8. Composition of the PGNiG Supervisory Board

As at December 31st 2014, the Supervisory Board consisted of seven members:

- Wojciech Chmielewski – Chairman of the Supervisory Board
- Agnieszka Woś – Deputy Chairperson
- Magdalena Zegarska – Secretary
- Sławomir Borowiec – Member
- Ryszard Wąsowicz – Member
- Janusz Pilitowski – Member
- Andrzej Janiak – Member

In the period from January 1st 2014 to the date of preparation of these financial statements, the following changes occurred in the composition of the PGNiG Supervisory Board:

- On March 26th 2014, the Extraordinary General Meeting of PGNiG S.A. appointed Mr Andrzej Janiak as member of the Company's Supervisory Board. Mr Andrzej Janiak meets the independence criteria defined in the Company's Articles of Association.
- On May 15th 2014, the Annual General Meeting of PGNiG S.A. removed Ms Agnieszka Chmielarz, Mr Wojciech Chmielewski, Mr Józef Głowacki, Mr Andrzej Janiak, Mr Mieczysław Kawecki, Mr Marcin Moryń, Mr Janusz Pilitowski, Ms Ewa Sibrecht-Ośka and Ms Jolanta Siergiej from the PGNiG Supervisory Board, with effect from May 15th 2014.

  On the same day, Mr Wojciech Chmielewski, Mr Sławomir Borowiec, Mr Andrzej Janiak, Mr Bogusław Nadolnik, Mr Janusz Pilitowski, Ms Agnieszka Trzaskalska, Mr Ryszard Wąsowicz, Ms Agnieszka Woś and Ms Magdalena Zegarska were appointed as members of the PGNiG Supervisory Board, with effect from May 15th 2014.

- On June 30th 2014, Ms Agnieszka Trzaskalska resigned as member of the PGNiG Supervisory Board with effect from that date.
- On November 5th 2014, PGNiG S.A. received a letter of resignation from Mr Bogusław Nadolnik, whereby Mr Nadolnik resigned as member of the PGNiG Supervisory Board with effect from November 6th 2014.

1.9. Shareholding structure of PGNiG S.A.

As at the date of issue of these consolidated financial statements for 2014, the State Treasury was the only shareholder holding 5% or more of total voting rights at the General Meeting of PGNiG S.A.

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

Shareholder	Number of shares as at the date of issue of the previous interim report*	% share in total voting rights as at the date of issue of the previous interim report*	% change in the period	% share in total voting rights at GM as at the date of issue of this report**	Number of shares as at the date of issue of this report**
State Treasury	4,271,717,836	72.402%	0.000%	72.402%	4,271,717,836
Other shareholders	1,628,282,164	27.598%	0.000%	27.598%	1,628,282,164
Total	**5,900,000,000**	**100.00%**	**0.00%**	**100.00%**	**5,900,000,000**

*As at September 30 2014.
**As at December 31st 2014.

1.10. Going-concern assumption

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

1.11. Business combinations

In the reporting period, there were no business combinations involving the Group and any other companies under commercial law.

1.12. Approval of the financial statements

These financial statements will be submitted to the Parent's Management Board for approval and issue on March 5th 2015.

2. APPLIED ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

2.1.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at December 31st 2014.

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

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

2.2. 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 Group 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 Group's business and are effective for annual reporting periods beginning on or after January 1st 2014.

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

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

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

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

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

- Amendments to IFRS (2010−2012) – changes in the procedure of introducing annual amendments to IFRS – effective for reporting periods beginning on or after July 1st 2014,
- Amendments to IFRS (2011−2013) – changes in the procedure of introducing annual amendments to IFRS – effective for reporting periods beginning on or after July 1st 2014,
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions – effective for reporting periods beginning on or after July 1st 2014.

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

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

2.2.3. Standards and interpretations adopted by the International Accounting Standards Board which as at December 31st 2014 were not endorsed for use by the European Commission and therefore have not yet been applied in these financial statements

Standards which as at December 31st 2014 were not endorsed for use by the European Commission:

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

- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations – effective for reporting periods beginning on or after January 1st 2016.
- Amendments to IAS 1 Disclosure Initiative – effective for reporting periods beginning on or after January 1st 2016,
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – effective for reporting periods beginning on or after January 1st 2016,
- Amendments to IAS 27 Equity Method in Separate Financial Statements – effective for reporting periods beginning on or after January 1st 2016,

The Group 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 Group as at the end of the reporting period.

2.3. Accounting policies

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

2.3.1. Consolidation methods

The consolidated financial statements have been prepared based on the financial statements of the Parent, its subsidiaries, the associated entity and the joint venture.

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

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

2.3.1.1. Investments in subsidiaries

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

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

- similar items of assets, liabilities, equity, revenue, costs and cash flows of the parent and its subsidiaries are presented jointly;
- the carrying amount of parent’s investment in each subsidiary and the parent’s share in subsidiaries’ equity is offset (under IFRS 3);
- the Group’s assets, liabilities, equity, revenue, costs and cash flows from transactions between Group entities are eliminated in full (gains and losses on intra-group transactions, recognised as assets such as inventories and tangible assets are eliminated in full).

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

acquisition date, measured in accordance with the IFRS, is recognised as goodwill. If the acquisition cost is lower than the net fair value of identifiable acquired assets and assumed liabilities, as determined as at the acquisition date, the difference is recognised as gain in profit or loss as at the acquisition date.

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

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

2.3.1.2. Investments in associated entities

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

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

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

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

2.3.1.3. Joint arrangements

Joint arrangements are either:

- joint operations, or
- joint ventures.

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.

2.3.2. Translation of items denominated in foreign currencies

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

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

2.3.2.1. 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.

2.3.2.2. 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.

2.3.2.3. 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 Group companies 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 Group enters into derivatives transactions (for description of the accounting policies applied by the Group to derivative financial instruments see Note 2.3.12).

2.3.3. Property, plant and equipment

Property, plant and equipment comprises assets which the Group intends to use in the production or supply of merchandise or services, for rental to others (under a relevant agreement), or for

administrative purposes for more than one year, where it is probable that future economic benefits associated with the assets will flow to the Group. The category of property, plant and equipment also includes tangible assets under construction. The cost of property, plant and equipment includes:

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

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

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

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

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

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

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

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

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

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

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

2.3.4. Exploration and evaluation assets

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

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

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

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

2.3.5. Borrowing costs

The Group capitalises borrowing costs.

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

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

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

These cost capitalisation policies do not apply to:

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

Borrowing costs may comprise:

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

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

2.3.6. Investment property

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

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

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

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

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

2.3.7. Intangible assets

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

The Group identifies the following intangible assets:

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

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

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

Research expense is recognised in profit or loss when incurred.

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

The Group holds perpetual usufruct rights:

- acquired for consideration,
- acquired free of charge.

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

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

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

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

The Group distinguishes the following emission allowances:

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

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

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

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

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

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

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

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

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

2.3.8. Leases

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

2.3.8.1. The Group as a lessor

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

2.3.8.2. The Group as a lessee

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

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

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

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

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

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

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

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

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

2.3.10. Financial assets

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

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

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

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

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

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

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

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

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

2.3.10.2. Financial instruments hedging specific risks under hedge accounting

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

2.3.10.3. Financial assets available for sale

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

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

- investments in unlisted equity instruments (other than shares in subsidiaries, associates and joint ventures),
- investments in listed equity instruments not held for trading (other than shares in subsidiaries, associates and joint ventures),
- investments in debt instruments that the Group does not have a firm intention to hold to maturity.

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

2.3.10.4. Loans and receivables

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

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

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

- all receivables (excluding taxes, grants, customs duties, social security and health insurance contributions and other benefits),
- loans advanced 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.

2.3.10.4.1. Trade and other receivables

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

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

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

2.3.10.4.2. Cash and cash equivalents

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

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

2.3.11. Impairment of financial assets

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

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

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

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

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

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

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

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

2.3.12. Hedge accounting

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

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

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

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

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

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

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

If fair value hedge accounting is applied:

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

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

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

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

2.3.13. Inventories

Inventories comprise assets intended to be sold in the ordinary course of business, assets in the process of production intended to be sold, and assets in the form of raw materials or consumables used in the production process or in the course of rendering of services. The Group’s inventories comprise materials and consumables, merchandise, finished 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 for sale and own consumption, as well as balance-sheet differences, are measured at the average actual cost, which comprises costs of purchase of gas fuel from all foreign sources, actual costs of its production from domestic sources, costs of nitrogen removal and costs of its acquisition from other domestic sources.

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

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

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

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

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

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

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

2.3.14. Non-current assets held for sale

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

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

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

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

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

2.3.15. Equity

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

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

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

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

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

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

2.3.16. Provisions

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

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

The Group recognises the following provisions:

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

2.3.16.1. Provision for well decommissioning costs

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

The provision for future well decommissioning costs is calculated based on the average cost of well decommissioning at the individual branches of the Parent over the last three full years preceding the

reporting period, adjusted for the projected consumer price index (CPI) and changes in the time value of money. The adoption of a three-year time horizon was due to the varied number of decommissioned wells and their decommissioning costs in the individual years.

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

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

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

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

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

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

2.3.16.2. Provision for costs of environmental liabilities

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

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

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

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

Transmission easement is a new construct of civil law governed by the provisions of Art. 305^1–305^4 of the Polish Civil Code of April 23rd 1964 (Dz.U. No. 16, item 93 as amended), introduced in 2008.

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

The Group estimates the amount of the provision based on:

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

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

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

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

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

2.3.16.5. Other provisions

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

2.3.17. Prepayments and accrued income

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

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

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

In deferred revenue, the Group 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.

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

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

2.3.18. Financial liabilities

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

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

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

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

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

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

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

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

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

2.3.18.2. Financial liabilities at amortised cost

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

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

As at the 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.

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

2.3.18.4. Trade and other payables

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

2.3.18.5. Employee benefit obligations

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

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

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

Short-term employee benefits paid by the Group include:

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

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

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

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

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

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

In 2014, the Group operated the “Programme for Workforce Streamlining and Redundancy Payments to PGNiG Group Employees for 2009–2011 (Stage 3)”, (the “Programme”) under which the Parent set up a provision in the form of the Central Restructuring Fund to guarantee funding of redundancy-related benefits for the eligible employees. The detailed rules of operation of the Fund as well as the list of mark-ups and expenses from the Fund were specified in the Parent’s internal regulations. The Programme expired on December 31st 2014. For more information, see Note 38.

2.3.18.6. Other liabilities

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

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

Other current liabilities include in particular liabilities towards:

- suppliers (trade and other payables related to acquisition or construction of property, plant and equipment and intangible assets) and sellers of securities,
- insurance companies,
- employees (other than salaries and wages)
- shareholders (dividends),
- suppliers (bid bonds),
- lessors (operating leases),
- trading partners (performance bonds),
- other liabilities.

2.3.19. Revenue

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

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

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

2.3.19.1. Sales of goods

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

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

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

2.3.19.2. Rendering of services

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

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

2.3.19.3. Revenue from construction contracts

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

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

2.3.20. Lease/rental income

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

2.3.20.1. Interest income

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

2.3.20.2. Royalties

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

2.3.20.3. Dividends

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

2.3.21. Grants

The Group distinguishes the following types of grants:

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

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

Grants related to assets are recognised in the statement of financial position as deferred 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 temporary differences which are taxable when realised for tax purposes, while a deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, including tax losses, can be utilised.

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

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

The amount of deferred tax assets is reviewed at each 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 Group:

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

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

2.3.23. Operating segments

An operating segment is a component of the Group:

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

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

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

b) *Trade and Storage Segment* The segment's activities consist in sale of natural gas, either from imports or from domestic sources, operation of underground gas storage facilities for trading purposes, and electricity trading. Sales of natural gas are handled by PGNiG S.A. and PGNiG Obrót Detaliczny Sp. z o.o., while Operator Systemu Magazynowania Sp. z o.o. is engaged in the provision of gas storage services. The segment operates six underground gas storage facilities (Mogilno, Wierzchowice, Husów, Brzeźnica, Strachocina and Swarzów). PGNiG Sales & Trading GmbH of

Munich, which conducts activities in the area of gas and electricity trading and distribution, is also classified as the Trade and Storage segment.

Gas trading and storage business is regulated by the Energy Law, and selling prices are established on the basis of tariffs approved by the President of URE. Wholesale transactions are executed on the Polish Power Exchange.

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

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

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

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

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

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

Intercompany transactions within a segment are eliminated.

2.4. Key reasons for uncertainty of estimates

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

2.4.1. Impairment of non-current assets

The Group's key operating assets include extraction assets (for production of natural gas and crude oil), gas distribution infrastructure and gas fuel storage facilities. These assets were tested for impairment. The Group computed and recognised material impairment losses on the assets, based on an assessment of their current and future usefulness or planned decommissioning or sale. The assumptions made in connection with potential continued use, liquidation and sale of assets are revised in individual reporting periods. For information on the value of impairment losses recognised in 2014, see Note 11.2.

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

Another significant uncertainty is connected with the risk related to the decisions of the Energy Regulatory Office concerning prices of the gas fuel distribution services. Because prices materially

affect the Group's cash flows, any change could lead to the necessity to remeasure the impairment losses on the distribution assets.

2.4.2. Useful lives of property, plant and equipment

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

2.4.3. Estimating natural gas sales

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

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

2.4.4. Provisions for well decommissioning costs and environmental liabilities

The provision for well decommissioning costs and provisions for environmental liabilities presented in Note 26 represent significant items among the provisions disclosed in the consolidated financial statements. These provisions are based on the estimates of future asset decommissioning and land reclamation costs, which largely depend on the applied discount rate and the estimated future cash-flow period.

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

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

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

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

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

2.5. Contingent assets and liabilities

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

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

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

A contingent liability is:

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

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

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

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

2.6. Presentation changes in the financial statements

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

The Group changed the presentation of cost of gas fuel transmission services purchased at the system entry points (pursuant to the Regulation of the Minister of Economy on detailed rules for determining and calculating tariffs for gas fuels and on settlement of transactions in gas fuels trading). As of 2014, the costs are disclosed in the statement of profit or loss under “Raw materials and consumables used” (increase in gas fuel purchase costs), and not under “Services” as was the case previously.

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

Beginning from the 2014 half-year report, the Group offsets the costs representing the partner's interest in joint operations against the corresponding revenue under the operator's charge invoice. Such events were previously presented separately under revenue and expenses.

Change in the presentation of deferred tax assets and liabilities

The Group reviewed its presentation of deferred tax assets and liabilities. Beginning from the periodic report for the first half of 2014, the Group stopped presenting some of the deferred tax assets and liabilities in net amounts.

Change of presentation of capitalised interest repayment

The Group has reclassified interest amounts capitalised in interest-bearing liabilities at the beginning of a given reporting period and paid in the current reporting period. So far, these amounts were disclosed in the statement of cash flows under "Repayment of borrowings", "Repayment of debt securities" and "Payment of finance lease liabilities", depending on which item the capitalised interest related to. Starting from 2014, these amounts are disclosed under "Interest paid".

Amalgamation of items in the statement of financial position

Starting from the consolidated financial statements for 2014, the Group changed the presentation of its “Financial assets available for sale”; the non-current portion of this item is now presented in “Other financial assets”, whereas the current portion is carried in “Other assets”.

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

As a result, the comparative data for 2013 were adjusted, as presented below.

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

	Year ended Dec 31 2013 before the change	Year ended Dec 31 2013 after the change
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (PLN)	0.33	0.33

2.6.2. Consolidated statement of profit or loss – restatement of comparative data

	Year ended Dec 31 2013 before the change	Change in presentation of gas fuel transmission costs	Change in presentation of joint-operation transactions	Year ended Dec 31 2013 after the change
Revenue	**32,120**	**-**	**(76)**	**32,044**
Raw materials and consumables used	(19,512)	(361)	-	(19,873)
Employee benefits expense	(3,214)	-	-	(3,214)
Depreciation and amortisation expense	(2,463)	-	-	(2,463)
Services	(3,245)	361	76	(2,808)
Work performed by the entity and capitalised	983	-	-	983
Other income and expenses	(1,520)	-	-	(1,520)
Total operating expenses	**(28,971)**	**-**	**76**	**(28,895)**
Operating profit/(loss)	**3,149**	**-**	**-**	**3,149**
Finance income	69	-	-	69
Finance costs	(465)	-	-	(465)
Share in net profit/(loss) of equity-accounted entities	(44)	-	-	(44)
Profit/(loss) before tax	**2,709**	**-**	**-**	**2,709**
Income tax	(789)	-	-	(789)
Net profit/(loss)	**1,920**	**-**	**-**	**1,920**

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

	Year ended Dec 31 2013 before the change	Change in presentation of gas fuel transmission costs	Change in presentation of joint-operation transactions	Year ended Dec 31 2013 after the change
Net profit/(loss)	**1,920**	**-**	**-**	**1,920**
Other comprehensive income, net	**103**	**-**	**-**	**103**
Total comprehensive income	**2,023**	**-**	**-**	**2,023**

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

	As at Dec 31 2013 before the change	Change in the presentation of deferred tax assets and liabilities	Amalgamation of items in the statement of financial position	As at Dec 31 2013 after the change
ASSETS				
Total non-current assets	**36,239**	**1,240**	**-**	**37,479**
including:				
Deferred tax assets	993	1,240	-	2,233
Financial assets available for sale	51	-	(51)	-
Other financial assets	191	-	51	242
Total current assets	**10,905**	**-**	**-**	**10,905**
Total assets	**47,144**	**1,240**	**-**	**48,384**
EQUITY AND LIABILITIES				
Total equity	**28,453**	**-**	**-**	**28,453**
Total non-current liabilities	**10,853**	**1,240**	**-**	**12,093**
including:				
Deferred tax liabilities	1,970	1,240	-	3,210
Total current liabilities	**7,838**	**-**	**-**	**7,838**
Total liabilities	**18,691**	**1,240**	**-**	**19,931**
Total equity and liabilities	**47,144**	**1,240**	**-**	**48,384**

	As at Jan 1 2013 before the change	Change in the presentation of deferred tax assets and liabilities	Amalgamation of items in the statement of financial position	As at Jan 1 2013 after the change
ASSETS				
Total non-current assets	**37,096**	**1,247**	**-**	**38,343**
including:				
Deferred tax assets	1,136	1,247	-	2,383
Financial assets available for sale	48	-	(48)	-
Other financial assets	124	-	48	172
Total current assets	**10,833**	**-**	**-**	**10,833**
Total assets	**47,929**	**1,247**	**-**	**49,176**
EQUITY AND LIABILITIES				
Total equity	**27,197**	**-**		**27,197**
Total non-current liabilities	**11,119**	**1,247**		**12,366**
including:				
Deferred tax liabilities	1,936	1,247		3,183
Total current liabilities	**9,613**	**-**		**9,613**
Total liabilities	**20,732**	**1,247**		**21,979**
Total equity and liabilities	**47,929**	**1,247**		**49,176**

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

	Year ended Dec 31 2013 before the change	Reclassification of capitalised interest repayment	Year ended Dec 31 2013 after the change
Net cash generated by operating activities	**7,813**	**-**	**7,813**
Net cash (used in)/generated by investing activities	**(3,060)**	**-**	**(3,060)**
Net cash used in/(generated by) financing activities	**(3,874)**	**-**	**(3,874)**
including:			
Repayment of borrowings	(700)	4	(696)
Repayment of debt securities	(4,322)	49	(4,273)
Payment of finance lease liabilities	(57)	4	(53)
Interest paid	(208)	(57)	(265)
Net increase/(decrease) in cash and cash equivalents	**879**	**-**	**879**
Cash and cash equivalents at beginning of the period	**1,947**	**-**	**1,947**
Cash and cash equivalents at end of the period	**2,826**	**-**	**2,826**

3. OPERATING SEGMENTS

3.1. Reportable segments

The tables below present revenue, costs and profits/losses, as well as assets, equity and liabilities of the Group's reporting segments for the years ended December 31st 2014 and December 31st 2013.

Year ended December 31st 2014	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Eliminations	Total
Statement of profit or loss							
Sales to third-party customers	4,346	28,367	280	1,149	162	-	34,304
Inter-segment sales	1,725	458	4,003	794	163	(7,143)	-
Segment's total revenue	6,071	28,825	4,283	1,943	325	(7,143)	34,304
Depreciation and amortisation expense	(1,137)	(181)	(864)	(301)	(20)	1	(2,502)
Other costs	(2,928)	(28,061)	(2,281)	(1,480)	(373)	7,164	(27,959)
Segment's total costs	(4,065)	(28,242)	(3,145)	(1,781)	(393)	7,165	(30,461)
Operating profit/(loss)	**2,006**	**583**	**1,138**	**162**	**(68)**	**22**	**3,843**
Net finance costs							(346)
Share in net profit/(loss) of equity-accounted entities		129					129
Profit/(loss) before tax							**3,626**
Income tax							(804)
Net profit/(loss)							**2,822**
STATEMENT OF FINANCIAL POSITION							
Segment's assets	15,442	18,299	14,142	4,184	387	(6,780)	45,674
Investments in equity-accounted entities		856					856
Unallocated assets							613
Deferred tax assets							1,783
Total assets							**48,926**
Total equity							30,169
Segment's liabilities	5,531	4,873	2,638	2,049	219	(6,427)	8,883
Unallocated liabilities							6,624
Deferred tax liabilities							3,250
Total equity and liabilities							**48,926**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(2,063)	(269)	(1,091)	(285)	(10)	(63)	**(3,781)**
Impairment losses on assets	(2,381)	(1,590)	(112)	(26)	(22)	-	**(4,131)**
Impairment losses on unallocated assets							**(46)**

Year ended December 31st 2013	Exploration and Production	Trade and Storage	Distribution	Generation	Other Segments	Eliminations	Total
Statement of profit or loss							
Sales to third-party customers	4,580	25,341	165	1,658	300	-	32,044
Inter-segment sales	1,605	318	4,085	405	124	(6,537)	-
Segment's total revenue	6,185	25,659	4,250	2,063	424	(6,537)	32,044
Depreciation and amortisation expense	(1,050)	(177)	(857)	(359)	(20)	-	(2,463)
Other costs	(2,804)	(25,490)	(2,654)	(1,560)	(469)	6,545	(26,432)
Segment's total costs	(3,854)	(25,667)	(3,511)	(1,919)	(489)	6,545	(28,895)
Operating profit/(loss)	**2,331**	**(8)**	**739**	**144**	**(65)**	**8**	**3,149**
Net finance costs							(396)
Share in net profit/(loss) of equity-accounted entities		(44)					(44)
Profit/(loss) before tax							**2,709**
Income tax							(789)
Net profit/(loss)							**1,920**
STATEMENT OF FINANCIAL POSITION							
Segment's assets	15,364	17,344	14,067	4,124	411	(6,244)	45,066
Investments in equity-accounted entities		727					727
Unallocated assets							358
Deferred tax assets							2,233
Total assets							**48,384**
Total equity							28,453
Segment's liabilities	4,954	4,634	2,879	1,943	187	(5,847)	8,750
Unallocated liabilities							7,971
Deferred tax liabilities							3,210
Total equity and liabilities							**48,384**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(1,630)	(341)	(1,110)	(203)	(13)	7	**(3,290)**
Impairment losses on assets	(1,642)	(1,479)	(115)	(34)	(20)	-	**(3,290)**
Impairment losses on unallocated assets							**(45)**

3.2. Geographical areas

The Group's conducts its business activity primarily on the domestic market (Poland). In 2014, revenue from export sales to external customers accounted for 14.89% (2013: 14.59%) of total revenue from sales to external customers.

	Year ended Dec 31 2014	Year ended Dec 31 2013
Domestic sales:	**29,195**	**27,368**
High-methane gas	23,944	21,728
Nitrogen-rich gas	1,367	1,409
Crude oil and natural gasoline	789	1,007
Helium	12	29
Electricity	910	995
Heat	1,079	1,069
Geophysical and geological services	83	103
Drilling and well services	168	192
Construction and installation services	131	229
Connection charge	112	110
Other sales	600	497
Export sales:	**5,109**	**4,676**
High-methane gas	1,782	1,812
Nitrogen-rich gas	35	21
Crude oil and natural gasoline	1,758	1,639
Helium	108	154
NGL	107	111
Electricity	785	365
Geophysical and geological services	198	136
Drilling and well services	312	402
Construction and installation services	4	14
Other sales	20	22
Total	**34,304**	**32,044**

On foreign markets the Group sells mainly to customers in Germany (56% of export sales), Norway and Switzerland.

Most of the Group's non-current assets (other than financial instruments) are also located in Poland. The value of non-current assets located outside of Poland as at December 31st 2014 represented 13.13% of the Group's total assets (December 31st 2013: 13.02%).

	As at Dec 31 2014	As at Dec 31 2013
Value of non-current assets other than financial instruments located in Poland	30,100	29,751
Value of non-current assets other than financial instruments located abroad*	4,550	4,455
Total	**34,650**	**34,206**
% share of assets located outside of Poland in total assets	**13.13%**	**13.02%**
* Including PGNiG Upstream International AS	**4,041**	**3,587**

3.3. Key customers

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

4. OPERATING EXPENSES

4.1. Raw materials and consumables used

	Year ended Dec 31 2014	Year ended Dec 31 2013
Cost of gas sold	(18,750)	(17,569)
Fuels for electricity and heat generation	(760)	(908)
Electricity for trading	(1,093)	(670)
Other raw materials and consumables used	(626)	(726)
Total	**(21,229)**	**(19,873)**

4.2. Employee benefits expense

	Year ended Dec 31 2014	Year ended Dec 31 2013
Salaries and wages	(2,091)	(2,127)
Social security contributions	(460)	(484)
Cost of future employee benefits	31	(355)
Other employee benefits expense	(307)	(248)
Total	**(2,827)**	**(3,214)**

4.3. Services

	Year ended Dec 31 2014	Year ended Dec 31 2013
Transmission services	(1,076)	(1,113)
Cost of dry wells written off	(282)	(132)
Other services	(1,485)	(1,563)
Total	**(2,843)**	**(2,808)**

4.4. Other income and expenses

	Year ended Dec 31 2014	Year ended Dec 31 2013
Compensations, penalties, fines received	50	187
Other income	169	160
Net exchange differences related to operating activities	(59)	(351)
Net gain/(loss) on derivative instruments related to operating activities	(79)	168
Change in products	40	22
Change in impairment losses*	(863)	(491)
Increase/(decrease) in provisions	(319)	(211)
Taxes and charges	(606)	(574)
Other expenses	(373)	(430)
Total	**(2,040)**	**(1,520)**
* Including changes in impairment losses on tangible assets under construction related to the exploration for and evaluation of mineral resources.	(238)	(438)

5. FINANCE INCOME AND COSTS

	Year ended Dec 31 2014	Year ended Dec 31 2013
Finance income	**86**	**69**
Interest income	80	65
Dividends and other profit distributions	3	3
Other finance income	3	1
Finance costs	**(432)**	**(465)**
Loss on measurement and realisation of derivative financial instruments	(32)	(35)
Interest expense	(214)	(272)
Foreign exchange losses	(143)	(117)
Commission fees paid on bank borrowings	(19)	(25)
Cost of guarantees	(3)	(3)
Other finance costs	(21)	(13)
Net finance income/(cost)	**(346)**	**(396)**

6. EQUITY ACCOUNTING FOR INVESTEES

6.1. Condensed financial information on equity-accounted investees

	As at Dec 31 2014	As at Dec 31 2013
SGT EUROPOL GAZ S.A.		
PGNiG Group's ownership interest*	49.74%	49.74%
Principal business activity	Transmission of natural gas	Transmission of natural gas
Key financial data**		
Non-current assets	2,714	2,977
Current assets	1,798	1,550
Non-current liabilities	569	673
Current liabilities	303	245
Revenue	1,183	1,120
Net profit/(loss)	32	(12)
GAS-TRADING S.A.		
PGNiG Group's ownership interest	43.41%	43.41%
Principal business activity	Trade	Trade
Key financial data**		
Non-current assets	12	12
Current assets	29	28
Non-current liabilities	-	-
Current liabilities	1	2
Revenue	111	46
Net profit/(loss)	0.4	(0.9)

* Including a 48% direct interest and 1.74% held indirectly through Gas-Trading S.A.

** Data from financial statements prepared in accordance with the Polish Accounting Standards.

Under the agreement of May 20th 1997, made between the Company shareholders and SGT EUROPOL GAZ S.A. ("EUROPOL GAZ"), the parties agreed that until EUROPOL GAZ fully discharges its liabilities under borrowings incurred in connection with construction of the gas pipeline, no decision on payment of dividend by EUROPOL GAZ will be made. EUROPOL GAZ's liabilities under its borrowings mature in 2018. There are no other restrictions at EUROPOL GAZ with respect to payment of dividend or repayment of borrowings or prepayments provided to it by the Company.

At GAS-TRADING S.A., with respect to payment of dividend or repayment of borrowings or prepayments provided to it by the Company.

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

	As at Dec 31 2014	As at Dec 31 2013
SGT EUROPOL GAZ S.A.		
Equity accounting for the investment*	1,527	1,507
Cost of acquisition of the interest	38	38
Share in changes in equity	1,565	1,545
Impairment losses	(725)	(834)
Net carrying amount of the investment	**840**	**711**
GAS-TRADING S.A.		
Equity accounting for the investment	15	15
Cost of acquisition of the interest	1	1
Share in changes in equity	16	16
Impairment losses	-	-
Net carrying amount of the investment	**16**	**16**
Total net carrying amount of the investments	**856**	**727**

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

6.3. Reconciliation of carrying amount of interests in equity-accounted investees

	Year ended Dec 31 2014	Year ended Dec 31 2013
Net carrying amount of the investments at beginning of the period	727	771
Valuation recognised in profit or loss, including:	**129**	**(44)**
Valuation of SGT EUROPOL GAZ S.A.	129	(44)
Valuation of Gas-Trading S.A.	-	-
Net carrying amount of the investments at end of the period	**856**	**727**

The Parent estimated the amount of its equity interest in EUROPOL GAZ on the basis of the company’s equity disclosed in its financial statements at December 31st 2014 prepared in accordance with the Polish Accountancy Act, adjusted for differences in the accounting policies applied within the Group and results on intercompany transactions. The differences in the accounting policies concerned recognition of interest expenses in the net value of property, plant and equipment (until the end of 2008). Until the end of 2008, the Group applied the standard approach (in accordance with IAS 23) and did not recognise borrowing costs in the initial value of property, plant and equipment. As of the beginning of 2009, the Group capitalises borrowing costs in the value of property, plant and equipment, therefore the adjustment consists in elimination of these costs with respect to the previous years.

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

As at December 31st 2014, the Parent measured the carrying amount of its equity interest in the joint venture using the equity method at PLN 1,565m. The company's value estimated as at the same date using the discounted cash flow method was PLN 840m.

Therefore, the Parent made a revaluation adjustment to the investment's net carrying amount to reflect the its current valuation of PLN 840m. As at the end of 2014, the difference in valuation relative to December 31st 2013 was PLN 129m and was recognised in the statement of profit or loss for the current period in “Share in net profit/loss of equity-accounted entities”.

7. INCOME TAX

The PGNiG Tax Group (PTG), set up for the purpose of accounting for corporate income tax (CIT), was registered 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;

Other Group companies are separate CIT taxpayers.

7.1. Income tax expense disclosed in the statement of profit or loss

	Year ended Dec 31 2014	Year ended Dec 31 2013
Profit/(loss) before tax	3,626	2,709
Tax rate applicable in the period	19%	19%
Tax calculated at the applicable tax rate	(689)	(515)
Permanent differences between profit/(loss) before tax and taxable income and the difference in tax rates	(115)	(274)
Tax expense in the consolidated statement of profit or loss	**(804)**	**(789)**
Current tax expense (Note 7.2)	(726)	(687)
Deferred tax expense (Note 7.3)	(78)	(102)
Effective tax rate	22%	29%

7.2. Current tax expense

	Year ended Dec 31 2014	Year ended Dec 31 2013
Profit/(loss) before tax (consolidated)	3,626	2,709
Consolidation adjustments	(42)	359
Differences between profit/(loss) before tax and tax base	(259)	404
Taxable income not recognised as income for accounting purposes	356	407
Tax deductible expenses not recognised as expenses for accounting purposes	(3,534)	(2,464)
Income not recognised as taxable income	2,233	2,162
Non-tax deductible expenses	(5,630)	(4,779)
Deductions from income	(478)	(156)
Income tax base	3,325	3,472
Tax rate applicable in the period	19%	19%
Income tax	(632)	(660)
Increases, reliefs, exemptions, allowances and reductions in/of income tax	(94)	(27)
Current tax expense disclosed in tax return for the period	(726)	(687)
Current tax expense disclosed in the consolidated statement of profit or loss	**(726)**	**(687)**

7.3. Deferred tax expense

	Year ended Dec 31 2014	Year ended Dec 31 2013
I. Deferred tax expense disclosed in the consolidated statement of profit or loss	**(78)**	**(102)**
Recognition and reversal of deferred tax due to deductible temporary differences	**35**	**(85)**
Impairment losses on financial assets, receivables and tangible assets under construction	58	25
Provisions for future liabilities	58	60
Costs of FX risk and interest rate risk hedges	97	(49)
Foreign exchange losses	(1)	-
Investment tax credit (Norway)	(169)	(156)
Tax loss for the period	10	20
Other deductible temporary differences	(18)	15
Recognition and reversal of deferred tax due to taxable temporary differences	**(113)**	**(17)**
Difference between tax and accounting value of non-current assets	85	6
Positive valuation of FX and interest rate risk hedges	(127)	(13)
Foreign exchange gains	3	-
Income on tax obligation arising in subsequent month	(13)	14
Other taxable temporary differences	(61)	(24)
II. Deferred tax expense disclosed in other comprehensive income, net, including:	**58**	**(33)**
Hedge accounting	50	(14)
Actuarial gains/(losses) on employee benefits	8	(19)
III. Other changes	**(470)**	**(42)**
Exchange differences on translating deferred tax attributable to foreign operations	22	(40)
Tax used - investment tax credit (Norway)	(492)	-
Reclassification to assets held for sale	-	(2)
Total changes (I - III)	**(490)**	**(177)**

The current reporting period covered the tax period from January 1st to December 31st 2014. The CIT rate applicable in Poland in 2014 was 19%. In the comparative period, i.e. in 2013, the rate was also 19%.

Foreign subsidiaries and foreign branches of the Parent and of Polish subsidiaries are subject to tax regulations in force in the countries where they conduct their business and the provisions of double tax treaties. In the case of foreign branches of subsidiaries, the tax rates effective in 2014 ranged from 12% to 42% (in 2013: from 11% to 41%). Foreign branches of the Parent did not generate any taxable income in 2013 and 2012.

In the case of PGNiG Upstream International AS ("PUI"), the marginal tax rate is 78%. PUI's activities in the Norwegian Continental Shelf are subject to taxation under two separate tax systems:

- The corporate income tax system (tax rate of 27%);
- The petroleum tax system (additional tax rate of 51%).

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

- For instance, the company may apply a high depreciation/amortisation rate (the annual depreciation/amortisation rate is 16.67%) and commence depreciation/amortisation immediately after capital expenditure is incurred.
  In the first year, the company is entitled to full annual depreciation/amortisation, regardless of the date when capital expenditure is actually incurred.
- The company may benefit from an investment incentive of 5.5% per annum for the period of four years under the petroleum tax regime. The incentive relates to capital expenditure made in the Norwegian Continental Shelf (NCS) (excluding exploration expenditure) and amounts to 22% of depreciable expenditure (5.5% over four years; however, for projects commenced before May 2013 the incentive is 30%, i.e. 7.5% over four years). The incentive is deducted only from the income taxable with the petroleum tax (51% rate) and does not apply to income tax. If the incentive amount exceeds income generated in a given year, it becomes deductible in subsequent years.
- Total expenditure on exploration activities may be deducted from revenue. If a company does not generate income from which expenditure on exploration could be deducted, it is entitled to a reimbursement of 78% of expenditure on exploration. The funds are returned in cash, by the end of the year following the year covered by the tax return.
- Finance costs may be deducted under both taxation systems.

PUI has been amortising its investment expenditure since 2007 and has been using its investment incentive by recognising it as deferred tax expense; such deferred tax expense is used when taxable income is earned.

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

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

8. DISCONTINUED OPERATIONS

The Group did not discontinue any operations in 2014.

As at December 31st 2013, the Group presented the assets, equity and liabilities of Geovita S.A. in the consolidated statement of financial position under non-current assets held for sale and liabilities associated with assets held for sale.

On April 8th 2014, the PGNiG Management Board abandoned plans to sell Geovita S.A. after no satisfactory price offers were attracted in the sales process conducted by PGNiG S.A. Geovita S.A. does not represent a material area of the Group's operations.

For more information on assets held for sale, see Note 22.

9. EARNINGS/(LOSS) PER SHARE

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

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

	Year ended Dec 31 2014	Year ended Dec 31 2013
Net profit/(loss) attributable to owners of the parent	2,823	1,918
Net profit/(loss) attributable to owners of the parent used to calculate diluted earnings/(loss) per share	2,823	1,918
Weighted average number of outstanding ordinary shares used to calculate basic earnings/(loss) per share	5,900	5,900
Weighted average number of outstanding ordinary shares used to calculate diluted earnings/(loss) per share	5,900	5,900
Basic earnings/(loss) per share for the year, attributable to holders of ordinary shares of the parent (PLN)	0.48	0.33
Diluted earnings/(loss) per share for the period, attributable to holders of ordinary shares of the parent (PLN)	0.48	0.33

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

Beginning of the period	End of the period	Number of outstanding ordinary shares (million)	Number of days	Weighted average number of shares (million)
Dec 31 2014				
01-01-2014	Dec 31 2014	5,900	365	5,900
Total			**365**	**5,900**
Dec 31 2013				
01-01-2013	Dec 31 2013	5,900	365	5,900
Total			**365**	**5,900**

10. DIVIDEND PAID AND PROPOSED

	Year ended Dec 31 2014	Year ended Dec 31 2013
Dividends declared and paid in the period		
Dividend per share paid (PLN)	0.15	0.13
Number of shares	5,900	5,900
Dividend paid	885	767
- dividend paid to owners of the parent	885	767
- dividend paid to non-controlling interests	-	-

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

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

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

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

11. PROPERTY, PLANT AND EQUIPMENT

	As at Dec 31 2014	As at Dec 31 2013
Land	71	77
Buildings and structures	17,172	17,188
Plant and equipment	8,602	8,663
Vehicles and other	1,211	1,213
Total tangible assets	**27,056**	**27,141**
Tangible exploration and evaluation assets under construction	2,148	2,102
Other tangible assets under construction	4,324	3,790
Total property, plant and equipment	**33,528**	**33,033**

TANGIBLE ASSETS

As at Dec 31 2014	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
Net carrying amount as at Jan 1 2014, net of accumulated depreciation and impairment losses	77	17,188	8,663	1,213	**27,141**
Increase	-	249	1	-	**250**
Decrease	(1)	(110)	(25)	(4)	**(140)**
Currency translation differences	-	-	(165)	1	**(164)**
Transfers from tangible assets under construction and between asset groups	-	1,271	1,238	212	**2,721**
Impairment losses	(5)	(357)	(67)	(8)	**(437)**
Depreciation expense for the reporting period	-	(1,069)	(1,043)	(203)	**(2,315)**
Net carrying amount as at Dec 31 2014, net of accumulated depreciation and impairment losses	**71**	**17,172**	**8,602**	**1,211**	**27,056**
As at Jan 1 2014					
Gross carrying amount	79	27,169	12,528	2,424	**42,200**
Accumulated depreciation and impairment losses	(2)	(9,981)	(3,865)	(1,211)	**(15,059)**
Net carrying amount as at Jan 1 2014	**77**	**17,188**	**8,663**	**1,213**	**27,141**
As at Dec 31 2014					
Gross carrying amount	78	28,536	13,467	2,583	**44,664**
Accumulated depreciation and impairment losses	(7)	(11,364)	(4,865)	(1,372)	**(17,608)**
Net carrying amount as at Dec 31 2014	**71**	**17,172**	**8,602**	**1,211**	**27,056**

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

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

	As at Dec 31 2014				As at Dec 31 2013			
	Initial carrying amount of capitalised finance lease	Accumulated depreciation	Impairment loss	Net carrying amount	Initial carrying amount of capitalised finance lease	Accumulated depreciation	Impairment loss	Net carrying amount
Plant and equipment	215	(74)	(1)	140	245	(68)	(1)	176
Vehicles and other	40	(13)	-	27	42	(10)	-	32
Total	**255**	**(87)**	**(1)**	**167**	**287**	**(78)**	**(1)**	**208**

11.2. Impairment losses on property, plant and equipment

	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total tangible assets**	Tangible assets under construction - exploration for and evaluation of mineral resources	Other tangible assets under construction	**Total property, plant and equipment**
As at Jan 1 2014	2	673	166	12	**853**	760	65	**1,678**
Increase	6	735	138	15	**894**	414	36	**1,344**
Decrease	(1)	(389)	(72)	(7)	**(469)**	(182)	(20)	**(671)**
Transferred	-	11	-	-	**11**	-	-	**11**
Currency translation differences	-	-	1	-	**1**	43	-	**44**
As at Dec 31 2014	**7**	**1,030**	**233**	**20**	**1,290**	**1,035**	**81**	**2,406**
As at Jan 1 2013	2	636	147	11	**796**	335	74	**1,205**
Increase	1	395	60	4	**460**	521	21	**1,002**
Decrease	(1)	(347)	(41)	(3)	**(392)**	(83)	(30)	**(505)**
Transfers	-	(11)	-	-	**(11)**	-	-	**(11)**
Currency translation differences	-	-	-	-	**-**	(13)	-	**(13)**
As at Dec 31 2013	**2**	**673**	**166**	**12**	**853**	**760**	**65**	**1,678**

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

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

Impairment losses recognised and reversed in the reporting period amounted to PLN 906m and PLN 469m respectively, of which PLN 776m and PLN 400m, respectively, concerned assets used directly in hydrocarbon production, with the balance attributable to other tangible assets used by the Group.

As at the end of the period, impairment losses on tangible assets were PLN 1,290m, of which:

- - PLN 1,030m were impairment losses on assets used directly in hydrocarbon production,
- - PLN 3m were impairment losses on distribution assets,
- - PLN 257m were impairment losses on other tangible assets.

12. INVESTMENT PROPERTY

	As at Dec 31 2014	As at Dec 31 2013
Net carrying amount at beginning of the period, net of accumulated depreciation and impairment losses	9	11
Transfer from/to property, plant and equipment	-	(1)
Depreciation expense for the reporting period	-	(1)
Net carrying amount at end of the period, net of accumulated depreciation and impairment losses	**9**	**9**
At beginning of period		
Gross carrying amount	13	15
Accumulated depreciation and impairment losses	(4)	(4)
Net carrying amount at beginning of the period	**9**	**11**
At end of the period		
Gross carrying amount	13	13
Accumulated amortisation and impairment losses	(4)	(4)
Net carrying amount at end of the period	**9**	**9**

The Group’s investment property includes office buildings held in whole or in part for rent. As at the end of the reporting period, the net carrying amount of the office buildings recognised as investment property was PLN 9m (also PLN 9m at the end of 2013).

In the reporting period, the Group derived PLN 13m of rental income from investment property (2013: PLN 3m).

Operating expenses incurred in connection with the rental of investment property were PLN 9m in the reporting period (2013: PLN 2m).

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

13. INTANGIBLE ASSETS

As at Dec 31 2014	Development expenses	Goodwill	Perpetual usufruct right to land – acquired for consideration**	Software	CO_2 emission allowances	Other intangible assets	**Total**
Net carrying amount as at Jan 1 2014, net of accumulated amortisation and impairment losses	1	44	670	258	37	154	**1,164**
Increase	-	-	-	1	55	-	**56**
Changes in the Group	-	-	-	-	-	-	**-**
Decrease	-	-	(7)	(1)	-	-	**(8)**
Currency translation differences	-	-	-	-	-	5	**5**
Transfers from tangible assets under construction and between asset groups	-	-	2	(92)	-	193	**103**
Impairment losses	-	-	-	(1)	-	(19)	**(20)**
Depreciation expense for the reporting period	-	-	(2)	(51)	(45)	(89)	**(187)**
Net carrying amount as at Dec 31 2014, net of accumulated amortisation and impairment losses	**1**	**44**	**663**	**114**	**47**	**244**	**1,113**
As at Jan 1 2014							
Gross carrying amount	5	44	689	583	283	341	**1,945**
Accumulated amortisation and impairment losses	(4)	-	(19)	(325)	(246)	(187)	**(781)**
Net carrying amount as at Jan 1 2014	**1**	**44**	**670**	**258**	**37**	**154**	**1,164**
As at Dec 31 2014							
Gross carrying amount	5	44	682	387	338	629	**2,085**
Accumulated amortisation and impairment losses	(4)	-	(19)	(273)	(291)	(385)	**(972)**
Net carrying amount as at Dec 31 2014	**1**	**44**	**663**	**114**	**47**	**244**	**1,113**

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

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

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

13.1. Impairment losses on intangible assets

	Development expenses	Goodwill	Perpetual usufruct right to land – acquired for consideration	Software	CO_2 emission allowances	Other intangible assets	**Total**
As at Jan 1 2014	**-**	**-**	**4**	**1**	**-**	**32**	**37**
Increase	-	-	1	1	-	15	**17**
Decrease	-	-	(1)	-	-	-	**(1)**
Currency translation differences	-	-	-	-	-	4	**4**
As at Dec 31 2014	**-**	**-**	**4**	**2**	**-**	**51**	**57**
As at Jan 1 2013	**-**	**-**	**3**	**-**	**-**	**8**	**11**
Increase	-	-	2	1	-	29	**32**
Decrease	-	-	(1)	-	-	(4)	**(5)**
Currency translation differences	-	-	-	-	-	(1)	**(1)**
As at Dec 31 2013	**-**	**-**	**4**	**1**	**-**	**32**	**37**

14. OTHER FINANCIAL ASSETS

	As at Dec 31 2014	As at Dec 31 2013
Loans advanced	191	185
Unlisted shares	88	96
Amounts receivable for sale of tangible assets	4	5
Other financial assets	2	1
Total, gross	**285**	**287**
Impairment losses	(42)	(45)
Total, net	**243**	**242**
Including net receivables from related entities (Note 36.1)	191	185

15. DEFERRED TAX ASSETS

	As at Dec 31 2014	As at Dec 31 2013
Obligations under length-of-service awards and severance	120	98
Provision for well decommissioning costs	141	121
Other provisions	157	131
Impairment losses on property, plant and equipment	145	105
Other impairment losses/write-offs	33	12
Negative valuation of derivative financial instruments	136	38
Connection charge	57	60
Investment tax credit (Norway)	305	317
Tax loss	602	1,247
Other deferred tax assets	87	104
Total	**1,783**	**2,233**

16. OTHER NON-CURRENT ASSETS

	As at Dec 31 2014	As at Dec 31 2013
Connection charge	129	58
Commission fees paid on borrowings, notes and other debt instruments	25	7
Other non-current assets	6	6
Total	**160**	**71**

17. INVENTORIES

	As at Dec 31 2014	As at Dec 31 2013
Materials		
At cost, including:	3,176	3,365
- gas fuel	2,389	2,513
- fuels for electricity and heat generation	331	343
At net realisable value, including:	3,064	3,338
- gas fuel	2,321	2,513
- fuels for electricity and heat generation	331	343
Semi-finished products and work in progress		
At cost	47	10
At net realisable value	47	10
Finished goods		
At cost	43	35
At net realisable value	42	27
Merchandise		
At cost	36	3
At net realisable value	36	3
Total inventories at cost	**3,302**	**3,413**
Total inventories, at the lower of cost and net realisable value	**3,189**	**3,378**

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

	Year ended Dec 31 2014	Year ended Dec 31 2013
Inventories at cost, at beginning of the period	**3,413**	**3,093**
Purchase	21,892	20,274
Other increases	215	95
Inventories recognised as expenses for the period	(21,606)	(19,609)
Currency translation differences	1	(2)
Other decreases	(613)	(438)
Inventories at cost, at end of the period	**3,302**	**3,413**
Impairment loss on inventories	**(113)**	**(35)**
Total net inventories at end of the period	**3,189**	**3,378**

17.2. Impairment losses on inventories

	As at Dec 31 2014	As at Dec 31 2013
Impairment losses at beginning of the period	**(36)**	**(29)**
Increase in impairment losses	(228)	(18)
Reversal of impairment losses	152	12
Currency translation differences	(1)	-
Impairment losses at end of the period	**(113)**	**(35)**

18. TRADE AND OTHER RECEIVABLES

	As at Dec 31 2014	As at Dec 31 2013
Trade receivables	3,944	4,044
VAT receivable	429	382
Other taxes, customs duties and social security receivable	134	37
Due and payable portion of loans advanced to related entities	45	31
Receivables from disposal of property, plant and equipment	12	1
Prepayments for tangible assets under construction	44	40
Other receivables	453	242
Total gross receivables	**5,061**	**4,777**
Including gross receivables (including due and payable portion of loans) from related entities (Note 36.1)	60	46
Impairment loss on doubtful receivables (Note 18.1)	**(825)**	**(691)**
Total net receivables	**4,236**	**4,086**
including:		
Trade receivables	3,504	3,570
VAT receivable	429	382
Other taxes, customs duties and social security receivable	131	35
Due and payable portion of loans advanced to related entities	6	-
Receivables from disposal of property, plant and equipment	12	1
Prepayments for tangible assets under construction	44	39
Other receivables	110	59
Including net receivables (including due and payable portion of loans) from related entities (Note 36.1)	16	10

Trade receivables arise mainly in connection with sale of gas fuel.

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

18.1. Impairment losses on receivables

	As at Dec 31 2014	As at Dec 31 2013
Impairment losses at beginning of the period	**(691)**	**(895)**
Increase in impairment losses	(561)	(368)
Reversal of impairment losses	350	518
Use of impairment losses	77	54
Impairment losses at end of the period	**(825)**	**(691)**

19. CURRENT INCOME TAX

	As at Dec 31 2014	As at Dec 31 2013
Current tax assets at beginning of the period	**48**	**150**
Exchange differences on translating current tax assets	-	(3)
Transfer between current tax assets and current tax liabilities	(43)	11
Other changes	-	(110)
Current tax assets at end of the period*	**5**	**48**
Impairment loss on current tax assets	-	-
Current tax assets at end of the period	**5**	**48**
Current tax liabilities at beginning of the period	**184**	**24**
Income tax expense recognised in profit or loss of the period	726	687
Income tax paid in the period	(677)	(495)
Transfer between current tax assets and current tax liabilities	(43)	11
Other changes	1	(43)
Current tax liabilities at end of the period	**191**	**184**

*Not all the subsidiaries belong to the tax group, therefore current tax assets and current tax liabilities do not offset each other.

20. OTHER ASSETS

	As at Dec 31 2014	As at Dec 31 2013
Valuation of long-term contracts	59	92
Other current assets	73	79
Total	**132**	**171**

21. CASH AND CASH EQUIVALENTS

	As at Dec 31 2014	As at Dec 31 2013
Cash in hand and at banks	619	842
Bank deposits	2,315	1,958
Other cash*	24	27
Total	**2,958**	**2,827**

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

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

22. ASSETS HELD FOR SALE

Item (or group) of non-current assets	Expected disposal date	Carrying amount as at Dec 31 2014	Terms of disposal
Shares in Huta Stalowa Wola S.A. (unrelated company), held for sale	2015	1	public invitation to negotiate
Other non-current assets held for sale	2015	146	tender
Total		**147**	

Item (or group) of non-current assets	Expected disposal date	Carrying amount as at Dec 31 2013	Terms of disposal
Assets associated with subsidiary Geovita S.A., held for sale	H1 2014	82	public invitation to negotiate
Other non-current assets held for sale	2014	6	tender
Total		**88**	

Liabilities associated with groups of assets held for sale	Carrying amount as at Dec 31 2013
Liabilities associated with subsidiary Geovita S.A., held for sale	15
Total	**15**

As at the end of 2013, the net carrying amount of non-current assets held for sale was PLN 88m. The most important item was the consolidated subsidiary Geovita S.A., classified as held for sale. On April 8th 2014, the PGNiG Management Board abandoned plans to sell Geovita S.A. after no satisfactory price offers were attracted in the sales process conducted by PGNiG S.A.

As at December 31st 2014, the net carrying amount of non-current assets held for sale was PLN 147m. The most important items included: an office building located in Warsaw, perpetual usufruct rights to land and other buildings and structures.

23. SHARE CAPITAL

	As at Dec 31 2014	As at Dec 31 2013
Total number of shares (million)	5,900	5,900
Par value per share (PLN)	1	1
Total share capital	**5,900**	**5,900**

24. BORROWINGS AND DEBT SECURITIES

	Note	As at Dec 31 2014	As at Dec 31 2013
Non-current		**5,069**	**5,385**
Bank borrowings	24.1., 24.2.	463	816
Debt securities	24.4.	4,533	4,460
Lease liabilities	24.5., 24.6.	73	109
Current		**769**	**2,276**
Bank borrowings	24.1., 24.2.	351	781
Borrowings	24.3%	11	22
Debt securities	24.4.	361	1,425
Lease liabilities	24.5., 24.6.	46	48
Total		**5,838**	**7,661**

24.1. Bank borrowings

As at Dec 31 2014

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2015	2016-2020	2021 and beyond
PLN	1M WIBOR + margin	204	204	193	1	10
PLN	3M WIBOR + margin	54	54	50	1	3
USD	LIBOR + margin	123	436	7	429	-
EUR	Eonia+margin	20	84	84	-	-
EUR	EURIBOR + margin	8	36	17	7	12
Total			**814**	**351**	**438**	**25**

As at Dec 31 2013

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

24.2. Obtained credit facilities and amounts available under the facilities

	As at Dec 31 2014	As at Dec 31 2013
Credit facilities obtained	1,578	1,590
Amounts drawn	(752)	(1,263)
Undrawn amounts	**826**	**327**

24.3. Borrowings

As at Dec 31 2014

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2015	2016-2020	2021 and beyond
PLN	1M WIBOR + margin	11	11	11	-	-
Total			**11**	**11**	**-**	**-**

As at Dec 31 2013

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

24.4. Debt securities

As at Dec 31 2014

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2015	2016-2020	2021 and beyond
PLN	3M WIBOR + margin	190	190	190	-	-
PLN	6M WIBOR + margin	2,478	2,478	95	2,383	-
EUR	4%	516	2,226	76	2,150	-
Total			**4,894**	**361**	**4,533**	**-**

As at Dec 31 2013

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

24.5. Finance lease liabilities

As at Dec 31 2014

Currency	Interest rate	Amount in original currency	Carrying amount
PLN	3%-5%	5	5
PLN	1M WIBOR + margin	32	32
PLN	5%-8%	15	15
USD	LIBOR + margin	17	60
USD	6% on average	2	6
EUR	EURIBOR + margin	-	1
Total			**119**

As at Dec 31 2013

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

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

	As at Dec 31 2014		
Maturing in:	Discounted payments disclosed in the statement of financial position	Interest	Actual lease payments due
up to 1 year	46	(1)	45
from 1 to 5 years	73	(4)	69
Total	**119**	**(5)**	**114**

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

25. EMPLOYEE BENEFIT OBLIGATIONS

	As at Dec 31 2014	As at Dec 31 2013
Liabilities under length-of-service awards	491	425
Liabilities under severance	100	78
Wages and salaries payable	74	57
Amounts payable for unused holiday entitlement	63	68
Termination benefits	10	25
Other employee benefit obligations	150	224
Total	**888**	**877**
Non-current employee benefit obligations	604	502
Current employee benefit obligations	284	375

25.1. Actuarial gains and losses for length-of-service award and retirement severance obligations

	As at Dec 31 2014	As at Dec 31 2013
Length-of-service awards		
Value of obligation disclosed in the statement of financial position at beginning of the period	425	175
Interest expense	11	3
Current service cost	24	19
Past service cost	17	1
Benefits paid	(61)	(62)
Actuarial gain/(loss)	69	282
Gain/(loss) due to curtailments or settlements	5	7
Reclassification to liabilities associated with assets held for sale	1	-
Value of obligation disclosed in the statement of financial position at end of the period	**491**	**425**
Retirement severance		
Value of obligation disclosed in the statement of financial position at beginning of the period	78	202
Interest expense	2	4
Current service cost	4	2
Past service cost	(1)	-
Benefits paid	(14)	(15)
Actuarial gain/(loss)	30	(108)
Gain/(loss) due to curtailments or settlements	1	(7)
Value of obligation disclosed in the statement of financial position at end of the period	**100**	**78**
Total value of obligation disclosed in the statement of financial position at end of the period	**591**	**503**

The technical rate applied to calculate the discounted value of the future retirement severance obligations was 0.9%, as the resultant of the 2.5% annual return on long-term treasury bonds and the 1.6% forecast annual salary growth (at the end of 2013 the applied technical rate was 2.4%, as the resultant of 4.35% and 1.9%, respectively).

26. PROVISIONS

	Provision for well decommissioning costs	Provision for penalty imposed by the Office of Competition and Consumer Protection	Provision for environmental liabilities	Provision for claims under extra-contractual use of land	Provision for liabilities associated with exploration work in Pakistan, Egypt and Libya	Provision for certificates of origin and energy savings certificates	Other provisions	**Total**
As at Jan 1 2014	**1,254**	**60**	**87**	**81**	**153**	**134**	**281**	**2,050**
Increase	439	-	7	6	24	228	114	**818**
Used/reversed	(74)	-	-	-	(14)	(134)	(114)	**(336)**
Currency translation differences	(11)	-	-	-	1	-	1	**(9)**
As at Dec 31 2014	**1,608**	**60**	**94**	**87**	**164**	**228**	**282**	**2,523**
As at Jan 1 2013	**1,661**	**60**	**94**	**77**	**28**	**-**	**222**	**2,142**
Increase	68	-	-	33	148	134	171	**554**
Used/reversed	(461)	-	(7)	(29)	(22)	-	(111)	**(630)**
Currency translation differences	(14)	-	-	-	(1)	-	(1)	**(16)**
As at Dec 31 2013	**1,254**	**60**	**87**	**81**	**153**	**134**	**281**	**2,050**
Non-current	1,580	-	86	45	4	-	88	**1,803**
Current	28	60	8	42	160	228	194	**720**
As at Dec 31 2014	**1,608**	**60**	**94**	**87**	**164**	**228**	**282**	**2,523**
Non-current	1,226	-	76	43	9	-	51	**1,405**
Current	28	60	11	38	144	134	230	**645**
As at Dec 31 2013	**1,254**	**60**	**87**	**81**	**153**	**134**	**281**	**2,050**

With respect to the costs of decommissioning of wells and site infrastructure in Poland, in 2014 the discount rate applied to calculate the provision for decommissioning costs was 0.01%, as the resultant of the 2.51% rate of return on assets and the inflation rate assumed at the NBP's continuous inflation target of 2.50% (as at the end of 2013, the discount rate was 1.8%, as the resultant of 4.35% and 2.50%, respectively).

At the end of 2014, PUI, a subsidiary operating in Norway, applied the following rates to calculate the provision for production infrastructure decommissioning costs: inflation rate at 2.00% and nominal discount rate at 4.67%.

27. DEFERRED REVENUE

	As at Dec 31 2014	As at Dec 31 2013
Non-current		
Non-depreciable portion of the value of gas service lines financed by gas buyers	337	387
Connection charge	382	403
Grants	843	740
Other deferred revenue	19	3
Total non-current	**1,581**	**1,533**
Current		
Non-depreciable portion of the value of gas service lines financed by gas buyers	48	48
Connection charge	19	19
Other deferred revenue	160	119
Total current	**227**	**186**

Grants

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

In 2014, the Parent received grants to finance the following projects:

- “Wierzchowice Underground Storage Facility” – PLN 46.6m (2013: PLN 31.9m),
- “Kosakowo Underground Storage Facility” – PLN 6.5m (2013: PLN 49.9m),
- “Husów Underground Gas Storage Facility” – PLN 6m (2013: PLN 17.8m);
- “LNG-based conversion of Ełk and Olecko from propane-butane to E-gas” – 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.

28. DEFERRED TAX LIABILITIES

	As at Dec 31 2014	As at Dec 31 2013
Foreign exchange gains	2	5
Accrued interest	1	1
Valuation of derivative financial instruments, other financial assets, and financial liabilities	120	42
Income on tax obligation arising in subsequent month	15	3
Difference between tax and accounting value of non-current assets	2,985	3,075
Other deferred tax liabilities	127	84
Total	**3,250**	**3,210**

29. OTHER NON-CURRENT LIABILITIES

	As at Dec 31 2014	As at Dec 31 2013
Liabilities under licences, rights to geological information and mining rights	68	51
Other non-current liabilities	9	7
Total	**77**	**58**

30. TRADE AND OTHER PAYABLES

	As at Dec 31 2014	As at Dec 31 2013
Trade payables	1,290	1 802
VAT payable	1,074	1,104
Other taxes, customs duties and social security payable	336	275
Amounts payable under purchase of non-financial non-current assets	415	363
Accruals and deferred revenue and prepaid deliveries	212	290
Other liabilities	262	199
Total	**3,589**	**4,033**
Including amounts payable to related entities (Note 36.1)	13	16

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

Increase/(decrease) in cash and cash equivalents	Year ended Dec 31 2014	Year ended Dec 31 2013
1) Cash and cash equivalent in the statement of financial position at beginning of the period	2,827	1,948
a) Net effect of exchange rate changes on the balance of cash held in foreign currencies at beginning of the period	1	1
Cash and cash equivalents in the statement of cash flows at beginning of the period (1-a)	**2,826**	**1,947**
1) Cash and cash equivalents in the statement of financial position at end of the period	2,958	2,827
a) Net effect of exchange rate changes on the balance of cash held in foreign currencies end of the period	2	1
Cash and cash equivalents in the statement of cash flows at end of the period (2-b)	**2,956**	**2,826**
I. Increase/(decrease) in cash and cash equivalents in the statement of financial position (2-1)	131	879
II. Increase/(decrease) in exchange rate changes on the balance of cash held in foreign currencies (b-a)	1	-
Increase/(decrease) in cash and cash equivalents in the statement of cash flows (I - II)	**130**	**879**

Increase/(decrease) in trade and other receivables	Year ended Dec 31 2014	Year ended Dec 31 2013
(Increase)/decrease in other financial assets in the statement of financial position	**(1)**	**(70)**
Increase/(decrease) in trade and other receivables in the statement of financial position	**(150)**	**1,288**
Increase/(decrease) in shares – adjustment to investing activities	(5)	3
Increase/(decrease) in lease receivables in financial assets – adjustment to investing activities	1	-
Increase/(decrease) in investment receivables from disposal and purchase of intangible assets and property, plant and equipment	10	(4)
Increase/(decrease) in prepayments for property, plant and equipment	5	25
Due and payable portion of loans advanced	12	68
Increase/(decrease) in trade and other receivables in the statement of cash flows	**(128)**	**1,310**

(Increase)/decrease in inventories	Year ended Dec 31 2014	Year ended Dec 31 2013
(Increase)/decrease in inventories in the statement of financial position	**189**	**(314)**
Tangible assets under construction transferred to inventories (adjustment to investing activity)	-	(7)
(Increase)/decrease in inventories in the statement of cash flows	**189**	**(321)**

(Decrease)/increase in employee benefit obligations	Year ended Dec 31 2014	Year ended Dec 31 2013
(Decrease)/increase in employee benefit obligations in the statement of financial position	**11**	**140**
(Decrease)/increase in employee benefit obligations in the statement of cash flows	**11**	**140**

Increase/(decrease) in provisions	Year ended Dec 31 2014	Year ended Dec 31 2013
Increase/(decrease) in provisions in the statement of financial position	**473**	**(92)**
Increase/(decrease) in provision for well decommissioning costs which adjusts property, plant and equipment (adjustment to investing activity)	(343)	391
Increase/(decrease) in provisions in the statement of cash flows	**130**	**299**

Decrease/(increase) in current liabilities current liabilities	Year ended Dec 31 2014	Year ended Dec 31 2013
Decrease/(increase) in current liabilities in the statement of financial position	**(444)**	**366**
Decrease/(increase) in investment liabilities under purchase of intangible assets and property, plant and equipment	(52)	24
Other decrease/(increase) in liabilities	19	4
Decrease/(increase) in current liabilities in the statement of cash flows	**(477)**	**394**

(Increase)/decrease in other assets in the statement of financial position	Year ended Dec 31 2014	Year ended Dec 31 2013
(Increase)/decrease in other assets in the statement of financial position	**(89)**	**5**
(Increase)/decrease in other assets in the statement of financial position	**39**	**(87)**
Expense (fees and commission) related to the note issuance programme	19	(7)
(Increase)/decrease in other assets in the statement of cash flows	**(31)**	**(89)**

(Decrease)/increase in deferred revenue	Year ended Dec 31 2014	Year ended Dec 31 2013
(Decrease)/increase in deferred revenue in the statement of financial position	**89**	**170**
Property, plant and equipment received free of charge	-	(18)
Grants received for property, plant and equipment	(103)	(162)
Other (decrease)/increase in deferred revenue	-	(5)
(Decrease)/increase in deferred revenue in the statement of cash flows	**(14)**	**(15)**

Other items, net, under operating activity	Year ended Dec 31 2014	Year ended Dec 31 2013
Derivative financial instruments	(20)	(363)
Written-down expenditure on non-financial non-current assets	347	256
Acquired CO_2 emission allowances	(55)	(72)
Other items, net, under operating activity	638	609
Total	**910**	**430**

32. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

32.1. Financial instruments by category (carrying amounts)

Dec 31 2014	**Categories of financial instruments**									
Classes of financial instruments	Notes	Financial assets available for sale	Financial assets at fair value through profit or loss	Financial assets held to maturity	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Hedging instruments	Assets and liabilities excluded from the scope of IAS 39	**Total**
Total financial assets		**1**	**497**	**-**	**6,831**	**-**	**-**	**70**	**45**	**7,444**
Unlisted shares	14, 20	1	-	-	-	-	-	-	45	**46**
Trade and other receivables	18	-	-	-	3,676	-	-	-	-	**3,676**
Derivative financial instrument assets	33	-	497	-	-	-	-	70	-	**567**
Cash and cash equivalents	21	-	-	-	2,958	-	-	-	-	**2,958**
Other financial assets	14, 20	-	-	-	197	-	-	-	-	**197**
Total financial liabilities		**-**	**-**	**-**	**-**	**294**	**7,975**	**299**	**119**	**8,687**
Borrowings	24	-	-	-	-	-	825	-	-	**825**
Debt securities	24	-	-	-	-	-	4,894	-	-	**4,894**
Finance lease	24.5.	-	-	-	-	-	-	-	119	**119**
Trade payables	29, 30	-	-	-	-	-	2,256	-	-	**2,256**
Derivative financial instrument liabilities	33	-	-	-	-	294	-	299	-	**593**

Dec 31 2013	Categories of financial instruments									
Classes of financial instruments	Notes	Financial assets available for sale	Financial assets at fair value through profit or loss	Financial assets held to maturity	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Hedging instruments	Assets and liabilities excluded from the scope of IAS 39	**Total**
Total financial assets		**2**	**223**	**-**	**6,687**	**-**	**-**	**84**	**49**	**7,045**
Unlisted shares	14, 20	2	-	-	-	-	-	-	49	**51**
Trade and other receivables	18	-	-	-	3,669	-	-	-	-	**3,669**
Derivative financial instrument assets	33	-	223	-	-	-	-	84	-	**307**
Cash and cash equivalents	21	-	-	-	2,827	-	-	-	-	**2,827**
Other financial assets	14, 20	-	-	-	191	-	-	-	-	**191**
Total financial liabilities		**-**	**-**	**-**	**-**	**77**	**10,216**	**47**	**157**	**10,497**
Borrowings	24	-	-	-	-	-	1,619	-	-	**1,619**
Debt securities	24	-	-	-	-	-	5,885	-	-	**5,885**
Finance lease	24.5.	-	-	-	-	-	-	-	157	**157**
Trade payables	29, 30	-	-	-	-	-	2,712	-	-	**2,712**
Derivative financial instrument liabilities	33	-	-	-	-	77	-	47	-	**124**

32.2. Fair value hierarchy

	As at Dec 31 2014			As at Dec 31 2013		
Classes of financial instruments	level 1	level 2	level 3	level 1	level 2	level 3
Derivative financial instrument assets	-	567	-	-	307	-
Derivative financial instrument liabilities	-	593	-	-	124	-

32.3. Fair value of financial instruments

Classes of financial instruments	As at Dec 31 2014		As at Dec 31 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Total financial assets	**7,399**	**7,398**	**6,996**	**6,994**
Unlisted shares*	1	-	2	-
Trade and other receivables	3,676	3,676	3,669	3,669
Derivative financial instrument assets	567	567	307	307
Cash and cash equivalents	2,958	2,958	2,827	2,827
Other financial assets	197	197	191	191
Total financial liabilities	**8,687**	**8,687**	**10,497**	**10,497**
Borrowings	825	825	1,619	1,619
Debt securities	4,894	4,894	5,885	5,885
Finance lease	119	119	157	157
Trade payables	2,256	2,256	2,712	2,712
Derivative financial instrument liabilities	593	593	124	124

* Measured at cost less impairment losses.

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

	Year ended Dec 31 2014	Year ended Dec 31 2013
Total effect on net profit/(loss), including:	**(754)**	**(152)**
Financial assets available for sale	(3)	(4)
Impairment recognised in profit or loss for the reporting period	(3)	(4)
Financial assets and financial liabilities at fair value through profit or loss	92	362
Loans and receivables	66	191
Interest on deposits	67	56
Interest on receivables	53	58
Interest on loans advanced	13	9
Impairment losses on receivables	(62)	70
Impairment losses on loans	(7)	(2)
Foreign currency measurement of loans advanced in foreign currencies	2	-
Financial liabilities at amortised cost	(376)	(412)
Derivative financial instruments	(518)	(282)
Assets and liabilities excluded from the scope of IAS 39	(15)	(7)
Total effect on other comprehensive income, net, including:	**(265)**	**72**
Derivative financial instruments	(265)	72
Total effect on comprehensive income	**(1,019)**	**(80)**

32.5. Objectives and policies of financial risk management

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

- credit risk,
- market risk,
- liquidity risk.

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

32.5.1. Credit risk

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

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

- 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

	As at Dec 31 2014	As at Dec 31 2013
Cash and cash equivalents	2,958	2,827
Trade and other receivables	3,676	3,669
Loans and other financial assets	197	191
Positive value of derivative financial instruments	567	307
Total	**7,398**	**6,994**

32.5.1.1. Cash and cash equivalents

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

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

In 2014, the Group invested its long-term cash surplus of significant value in highly liquid, credit risk-free instruments, in particular treasury bills and bonds.

32.5.1.2. Trade and other receivables

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 made at the Polish Power Exchange do not generate exposure to credit risk, as the system of guaranteed settlements through the agency of the Commodity Exchange Clearing House provides each member of the Clearing House with the safety of settlements in the case of insolvency of any individual market participants. In order to minimise the risk of uncollectible receivables arising in connection with sale transactions executed outside of the PPE, uniform rules designed to secure trade receivables are in place and must be observed while concluding general supply contracts.

Prior to the conclusion of a sale contract of significant value, the financial standing of the potential customer is reviewed in order to assess the customer's creditworthiness. Such assessment serves as the basis for determining the form of security required in connection with the contract. For new contracts, the type of security instrument used is agreed between PGNiG S.A. and the customer. As part of the mandatory harmonisation of sale contracts with the requirements of the Polish Energy Law, the Company enters into negotiations with certain customers with to create or strengthen contract performance security. In 2014, the process of procuring security for receivables was adapted to the changing conditions in the energy market, particularly with respect to securing past-due receivables from small and medium-sized business customers.

Balances of receivables from customers are monitored on an ongoing basis, in line with the Group's policy. If payment is not received within the contractual term, appropriate steps are taken, in line with the Group's debt collection procedures.

32.5.1.3. Loans and other financial assets

Exposure to credit risk under loans advanced arises in connection with loans advanced by the Parent to the PGNiG Group companies: subsidiaries not accounted for with the full method, associates and joint ventures. Loans to those entities are advanced in line with an internal procedure, which stipulates detailed rules governing the conclusion and monitoring of loan agreements, thus minimising the Group's exposure to credit risk under such agreements. Loans are advanced only if the borrower meets a number of conditions and provides appropriate security.

32.5.1.4. Positive value of derivative financial instruments

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

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

As at December 31st 2014, the value of unimpaired past due receivables, as disclosed in the Group's statement of financial position, was PLN 906m (2013: PLN 418m).

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

Delay	As at Dec 31 2014	As at Dec 31 2013
Up to 1 month	806	324
From 1 to 3 months	57	67
From 3 months to 1 year	21	20
from 1 to 5 years	22	5
over 5 years	-	2
Total net past due receivables	**906**	**418**

32.5.1.5. Guarantees issued

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

32.5.2. *Market risk*

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

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

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

32.5.2.1. Sensitivity analysis

To determine a reasonable range of changes which may occur with respect to currency or interest rate risks, the Group assumed an (implied) market volatility level for semi-annual periods, i.e. an average change of 10% as at the end of 2014 for the analysis of exchange rate sensitivity (as at the end of 2013:10%), +/-100 bpfor the analysis of interest rate sensitivity (as at the end of 2013, also +/-100 bp) and 40% for energy commodity derivatives (December 31st 2013: 15%).

32.5.2.2. Currency risk

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

The hedging measures implemented by the Group are mainly intended to provide protection against the currency risk accompanying payments settled in foreign currencies (mainly payments for gas fuel supplies). To hedge its trade payables, the Group uses call options, option strategies and forward transactions.

The results of the analysis of sensitivity to currency risk carried out as at December 31st 2014 indicate that net profit would have been lower by PLN 306m, had the EUR/PLN, USD/PLN, NOK/PLN and the other currencies’ exchange rates increased by 10%, ceteris paribus (net profit decrease of PLN 249m due to stronger NOK, decrease of PLN 61m due to stronger USD, decrease of PLN 1m due to stronger EUR, and increase of PLN 5m due to strengthening of the other currencies).

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

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

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

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

As at December 31st 2014, net profit would have been higher by PLN 282m, if the EUR, USD, NOK and the other currencies depreciated against the złoty by 10%, ceteris paribus (net profit higher by PLN 249m due to weaker NOK, higher by PLN 46m due to weaker USD, lower by PLN 8m due to weaker EUR, and lower by PLN 5m due to depreciation of the other currencies). A positive result would be mainly attributable to an increase in the positive portion of the fair value of financial derivatives (positive fair value of swap transactions in NOK). Any increase in foreign exchange gains from valuation of the Euronotes in EUR would be offset by an increase in the negative portion of the fair value of financial derivatives for EUR. The result for EUR would be slightly reduced due to the decrease in assets (receivables) measured in the same currency. On the other hand, any decrease in the valuation of the USD-denominated credit facility contracted by PGNiG Upstream International AS would have a positive effect on net profit, which would be partially offset by a decrease in assets (receivables) measured in the same currency.

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

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

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

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

The adverse effect on the net profit of NOK-denominated financial instruments would be substantially amplified by an increase in valuation of the USD credit facility contracted by PGNiG Upstream International AS and reduced by an increase in the valuation of assets in this currency. Any

increase in foreign exchange losses from valuation of the Euronotes in EUR would be offset by an increase in the positive portion of the fair value of financial derivatives for EUR.

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

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

Dec 31 2014	Carrying amount	Currency risk							
	Exchange rate change by:	*10%*				*-10%*			
		EUR	*USD*	*NOK*	*other currencies*	*EUR*	*USD*	*NOK*	*other currencies*
Financial assets									
Other financial assets*	-	-	-	-	-	-	-	-	-
Trade and other receivables	385	16	13	2	7	(16)	(13)	(2)	(7)
Derivative financial instrument assets**	555	234	-	-	-	-	-	299	-
Cash and cash equivalents	382	27	9	-	2	(27)	(9)	-	(2)
Effect on financial assets before tax		**277**	**22**	**2**	**9**	**(43)**	**(22)**	**297**	**(9)**
19% tax		(53)	(4)	(1)	(2)	8	4	(56)	2
Effect on financial assets after tax		**224**	**18**	**1**	**7**	**(35)**	**(18)**	**241**	**(7)**
Total currencies		*250*				*181*			
Financial liabilities									
Borrowings and debt securities (including finance lease)	2,849	235	50	-	-	(235)	(50)	-	-
Trade and other payables	920	43	36	10	3	(43)	(36)	(10)	(3)
Derivative financial instrument liabilities**	298	-	11	299	-	245	7	-	-
Effect on financial liabilities before tax		**278**	**97**	**309**	**3**	**(33)**	**(79)**	**(10)**	**(3)**
19% tax		(53)	(18)	(59)	(1)	6	15	2	1
Effect on financial liabilities after tax		**225**	**79**	**250**	**2**	**(27)**	**(64)**	**(8)**	**(2)**
Total currencies					*556*				*(101)*
Total increase/decrease		(1)	(61)	(249)	5	(8)	46	249	(5)
Total currencies		**(306)**				**282**			
Exchange rates as at end of the reporting period and their changes:									
EUR/PLN	4.2623	-	4.6885	4.6885	4.6885	-	3.8361	3.8361	3.8361
USD/PLN	3.5072	3.8579	-	3.8579	3.8579	3.1565	-	3.1565	3.1565
NOK/PLN	0.4735	0.5209	0.5209	-	0.5209	0.4262	0.4262	-	0.4262

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

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

Dec 31 2013	**Carrying amount**	**Currency risk**							
	Exchange rate change by:	*10%*				*-10%*			
		EUR	*USD*	*NOK*	*other currencies*	*EUR*	*USD*	*NOK*	*other currencies*
Financial assets									
Other financial assets*	9	-	-	-	-	-	-	-	-
Trade and other receivables	317	13	14	1	3	(13)	(14)	(1)	(3)
Derivative financial instrument assets**	251	230	15	-	-	-	-	329	-
Cash and cash equivalents	995	20	66	11	2	(20)	(66)	(11)	(2)
Effect on financial assets before tax		**263**	**95**	**12**	**5**	**(33)**	**(80)**	**317**	**(5)**
19% tax		(50)	(18)	(2)	(1)	6	15	(60)	1
Effect on financial assets after tax		**213**	**77**	**10**	**4**	**(27)**	**(65)**	**257**	**(4)**
Total currencies			*304*				*161*		
Financial liabilities									
Borrowings and debt securities (including finance lease)	3,449	230	115	-	-	(230)	(115)	-	-
Trade and other payables	1,088	47	52	7	3	(47)	(52)	(7)	(3)
Derivative financial instrument liabilities**	124	-	-	329	-	241	10	-	-
Effect on financial liabilities before tax		**277**	**167**	**336**	**3**	**(36)**	**(157)**	**(7)**	**(3)**
19% tax		(53)	(32)	(64)	(1)	7	30	1	1
Effect on financial liabilities after tax		**224**	**135**	**272**	**2**	**(29)**	**(127)**	**(6)**	**(2)**
Total currencies					*633*				*(164)*
Total increase/decrease		(11)	(58)	(262)	2	2	62	263	(2)
Total currencies			**(329)**				**325**		
Exchange rates as at end of the reporting period and their changes:									
EUR/PLN	4.1472	-	4.5619	4.5619	4.5619	-	3.7325	3.7325	3.7325
USD/PLN	3.0120	3.3132	-	3.3132	3.3132	2.7108	-	2.7108	2.7108
NOK/PLN	0.4953	0.5448	0.5448	-	0.5448	0.4458	0.4458	-	0.4458

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

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

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

Dec 31 2014	10%		-10%	
	for EUR	*for USD*	*for EUR*	*for USD*
Effect on equity before tax	93	135	(49)	(42)
19% tax	(18)	(26)	9	8
Effect on financial assets/liabilities after tax	75	109	(40)	(34)
Total currencies	**184**		**(74)**	

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

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

32.5.2.3. Interest rate risk

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

The Group is exposed to interest rate risk primarily in connection with its financial liabilities. For detailed information on the Group's financial liabilities and the applicable interest rates, see Note 24.

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

The Group analysed the sensitivity of financial instruments under contracted borrowings, notes in issue and variable-rate lease liabilities, assuming interest rate changes of -/+/-100 bp for 2014 (-/+/-100 bp as at the end of 2013).

As at December 31st 2014, the sensitivity of liabilities under borrowings, notes in issue, and variable-rate lease liabilities to interest rate changes of -/+/-100 bp was -/+ PLN 58m (-/+ PLN 77m as at the end of 2013). The sensitivity of loans advanced to interest rate changes of -/+/-100 bp for 2014 was -/+ PLN 2m (-/+ PLN 2m as at the end of 2013).

32.5.2.3.1. Sensitivity of financial instruments to interest rate changes

Dec 31 2014	**Carrying amount**	*Change by:*	
		+100 bp	**-100 bp**
Loans advanced	197	2	(2)
Borrowings and other debt instruments	825	8	(8)
Notes issued	4,894	49	(49)
Lease liabilities	119	1	(1)
Total liabilities	**5,838**	**58**	**(58)**

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

32.5.2.4. Commodity price risk

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

The Group's exposure to commodity price risk arises mainly 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 fuel deliveries, the pricing formula relies on a weighted average of the prices from previous months, which mitigates the volatility risk.

Commodity risk is also related to electricity trading, certificates of origin and carbon credits. Electricity trading is conducted on regulated exchange markets in Poland and abroad, but the Group also enters into transactions outside of the regulated markets, under framework agreements. The Group actively manages its exposure to commodity price risk using implemented VaR measures. VaR values are measured and VaR limits are set and actively monitored to limit the potential losses related to the exposure to commodity price risk assumed by the Company.

In addition, under the Energy Law an application for tariff adjustment may be filed if, within a quarter, the purchase costs of gas rise by more than 5%. In 2014, the Group closely monitored and hedged against the risk. To hedge against commodity price risk, the Group used Asian call options settled as European options, risk reversal option strategies, commodity swaps, as well as futures and forwards.

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

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

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

Dec 31 2014	**Carrying amount**	**Price risk**									
	Price change by:	*40%*					*-40%*				
		Gasoil	Fuel oil	Title Transfer Facility	Electricity	Gas - trading activities in Germany	Gasoil	Fuel oil	Title Transfer Facility	Electricity	Gas - trading activities in Germay
Financial assets											
Energy commodity derivative assets	12	2	-	-	-	-	1	-	-	-	4
Effect on financial assets before tax		**2**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**4**
19% tax		(0)	-	-	-	-	(0)	-	-	-	(1)
Effect on financial assets after tax		**2**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**3**
Total commodities				*2*					*4*		
Financial liabilities											
Energy commodity derivative liabilities	295	-	1	65	-	4	-	-	12	-	-
Effect on financial liabilities before tax		**-**	**1**	**65**	**-**	**4**	**-**	**-**	**12**	**-**	**-**
19% tax		-	-	(12)	-	(1)	-	-	(2)	-	-
Effect on financial liabilities after tax		**-**	**1**	**53**	**-**	**3**	**-**	**-**	**10**	**-**	**-**
Total commodities				*57*					*10*		
Total increase/decrease		2	(1)	(53)	-	(3)	1	-	(10)	-	3
Total commodities				**(55)**					**(6)**		

Dec 31 2013	**Carrying amount**	**Price risk**									
	Price change by:	*15%*					*-15%*				
		Gasoil	Fuel oil	Title Transfer Facility	Electricity	TGE Gas	Gasoil	Fuel oil	Title Transfer Facility	Electricity	TGE Gas
Financial assets											
Energy commodity derivative assets	56	-	3	-	1	-	-	-	-	-	21
Effect on financial assets before tax		**-**	**3**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**21**
19% tax		-	(1)	-	-	-	-	-	-	-	(4)
Effect on financial assets after tax		**-**	**2**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**17**
Total commodities		*3*					*17*				
Financial liabilities											
Energy commodity derivative liabilities	-	2	-	19	-	21	5	4	22	1	-
Effect on financial liabilities before tax		**2**	**-**	**19**	**-**	**21**	**5**	**4**	**22**	**1**	**-**
19% tax		-	-	(4)	-	(4)	(1)	(1)	(4)	-	-
Effect on financial liabilities after tax		**2**	**-**	**15**	**-**	**17**	**4**	**3**	**18**	**1**	**-**
Total commodities		*2*	*15*	*15*	*17*	*21*	*26*	*22*	*19*	*1*	*-*
Total increase/decrease		(2)	2	(15)	1	(17)	(4)	(3)	(18)	(1)	17
Total commodities		**(31)**					**(9)**				

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

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

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

Dec 31 2014	*Price change by:* 40%			-40%		
	Gasoil	Fuel oil	Title Transfer Facility	Gasoil	Fuel oil	Title Transfer Facility
Effect on equity before tax	56	43	337	(48)	(35)	(224)
19% tax	(11)	(8)	(64)	9	7	43
Effect on financial assets/liabilities after tax	**45**	**35**	**273**	**(39)**	**(28)**	**(181)**

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

The analysis of derivative instruments' sensitivity to fluctuations of commodity prices, charged to equity, as presented in the table above, shows that a 40% increase (15% increase at the end of 2013) in commodity prices would result in equity increase through other comprehensive income. A 40% decline in the prices (15% decline at the end of 2013) would reduce equity. This is due to the fact that the Group uses derivatives to hedge against an increase in prices of energy commodities, and the valuation of the effective portion of such hedges is charged to equity.

32.5.3. *Liquidity risk*

The main objective of the liquidity risk management is to monitor and plan the Company's liquidity on a continuous basis. Liquidity is monitored through at least 12-month projections of future cash flows, which are updated once a month. PGNiG S.A. reviews the actual cash flows against projections at regular intervals – an exercise which comprises an analysis of unmet cash-flow targets, as well as the related causes and effects.

The liquidity risk should not be equated exclusively with the risk of loss of liquidity by the Group. An equally serious threat is that of having excess structural liquidity, which could adversely affect the Group’s profitability.

The Group monitors and plans its liquidity levels on a continuous basis. As part of its strategy to hedge against liquidity risk, as at December 31st 2014 the Group had in place the following debt security issuance programmes:

- Under the Note Issuance Programme Agreement executed by the Parent on June 10th 2010, the Parent may issue discount or coupon notes maturing in one to twelve months, for an aggregate amount of up to PLN 7,000m. The Agreement was originally concluded with six banks (Bank Pekao S.A., ING Bank Śląski S.A., PKO BP S.A., Bank Handlowy w Warszawie S.A., Societe Generale S.A. and BNP Paribas S.A., Polish Branch). Under an annex of November 25th 2011, BRE Bank S.A. (currently mBank S.A.), Bank Zachodni WBK S.A. and Nordea Bank Polska S.A. acceded to the Agreement. Under an annex of August 8th 2014, Nordea Bank Polska was excluded from the Agreement, and the Agreement's term was extended until July 31st 2020. As at December 31st 2014, no debt was outstanding under the Agreement.
- On August 25th 2011, the Parent and PGNiG Finance AB executed documentation for a Euro Medium Term Notes Programme with Societe Generale S.A., BNP Paribas S.A. and Unicredit Bank AG, pursuant to which PGNiG Finance AB may issue notes with maturities of up to ten years, up to the aggregate amount of EUR 1,200m. The first tranche of PGNiG Finance AB securities under the Programme, comprising PLN 500m 5-year Euronotes, was issued on February 10th 2012. As at December 31st 2014, nominal debt outstanding under the Euronotes was PLN 2,131m (translated at the mid rate quoted by the National Bank of Poland for December 31st 2014).
- On May 22nd 2012, the Parent executed an agreement for organisation of a note programme for up to PLN 4,500m with Bank Pekao S.A. and ING Bank Śląski S.A. On July 30th 2012, the issued five-year notes were floated on the Catalyst market, a multilateral trading facility operated by BondSpot. In the reporting period no notes were issued. As at December 31st 2014, nominal debt outstanding under the Programme was PLN 2,500m.
- On October 2nd 2014, the Parent executed an agreement for organisation of a note programme for up to PLN 1,000m with Bank Gospodarstwa Krajowego. In 2014, no notes were issued under the programme.
- On July 4th 2012, PGNiG Termika S.A. executed a note programme with the following banks: ING Bank Śląski S.A., PKO Bank Polski S.A., Nordea Bank Polska S.A. and Bank Zachodni WBK S.A. On November 1st 2014, two of the underwriters for the issue, PKO BP and Nordea Bank, mergered. As a result of negotiations held with three banks: PKO BP, ING Bank Śląski and BZ WBK, concerning the terms of the Note Programme, on December 15th 2014 annexes were signed to amend the underwriting, agency and deposit agreements. Under the Programme, PGNiG Termika S.A. may issue coupon or discount notes up to PLN 1,500m. In accordance with the annexes, the Programme is to expire on December 29th 2019, though it may be extended for two years, i.e. until December 29th 2021.

As at December 31st 2014, PGNiG TERMIKA S.A.'s nominal debt under notes in issue was PLN 190m.

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

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

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

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

32.5.3.1. Financial liabilities at amortised cost, by maturity

As at Dec 31 2014	Liabilities under borrowings and notes	Finance lease liabilities	Trade payables	Total
up to 1 year	628	45	2,179	2,852
from 1 to 5 years	5,108	69	63	5,240
over 5 years	5	-	14	19
Total	**5,741**	**114**	**2,256**	**8,111**

As at Dec 31 2013	Liabilities under borrowings and notes	Finance lease liabilities	Trade payables	Total
up to 1 year	2,207	53	2,654	4,914
from 1 to 5 years	5,314	115	54	5,483
over 5 years	-	-	4	4
Total	**7,521**	**168**	**2,712**	**10,401**

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

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

32.5.3.2. Derivative financial instruments by maturity

Dec 31 2014	Carrying amount*	Contractual cash flows, including:	up to 1 year	from 1 to 5 years	over 5 years
Interest rate swaps (IRS) and forward contracts, used as risk hedging instruments	193	180	9	171	-
- *inflows*	-	5,423	647	4,776	-
- *outflows*	-	(5,243)	(638)	(4,605)	-
Forward contracts	19	(1)	(15)	14	-
- *inflows*	-	962	872	90	-
- *outflows*	-	(963)	(887)	(76)	-
Futures contracts	(5)	(1)	-	(1)	-
- *inflows*	-	5	3	2	-
- *outflows*	-	(6)	(3)	(3)	-
Currency options**	50	-	-	-	-
- *inflows*	-	-	-	-	-
- *outflows*	-	-	-	-	-
Commodity options**	(2)	-	-	-	-
- *inflows*	-	-	-	-	-
- *outflows*	-	-	-	-	-
Commodity swaps	(281)	-	-	-	-
- *inflows*	-	-	-	-	-
- *outflows*	-	-	-	-	-
Total	**(26)**	**178**	**(6)**	**184**	**-**

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

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

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

33. DERIVATIVE FINANCIAL INSTRUMENTS

Measurement of derivative financial instruments

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

As at December 31st 2014, the Group held the following types of derivatives: Cross Currency Interest Rate Swaps (CCIRS), Interest Rate Swaps (IRS), purchased European and Asian currency call options, purchased and sold currency and commodity forwards (physically settled), purchased and sold futures, as well as purchased average rate forwards. In 2014, the Group also hedged against commodity price risk using Asian call options, risk reversal strategies (purchase of Asian commodity call options and sale of put options) and purchased commodity swaps.

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

Hedge accounting

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

33.1. Derivative financial instruments

Hedged item	Par value in currency	Currency / asset	Maturity date	Exercise price (exercise price range)	Measurement at fair value As at Dec 31 2014	Measurement at fair value As at Dec 31 2013	Hedged risk
Cross Currency Interest Rate Swap							
Euronotes	500	EUR	1-3 years	4.1580	193	108	currency and interest rate risk
loan	730	NOK	1-3 months	0.5595	53	35	currency and interest rate risk
loan	4,350	NOK	1-3 years	0.5033	53	(14)	currency and interest rate risk
loan	3,900	NOK	1-3 months	0.5051	-	(25)	currency exchange rate and interest rate
loan	1,150	NOK	1-3 months	0.5664	-	64	currency exchange rate and interest rate
					299	**168**	
Interest Rate Swap							
loan	1,500	PLN	more than 3 years	1	(106)	(23)	interest rate risk
					(106)	**(23)**	
Forward							
loan	850	NOK	3-12 months	0.4697	(5)	-	foreign exchange risk
payments for gas	35	USD	1-3 months	3.3562	5	-	foreign exchange risk
trading activities	1	electricity	1–3 months	168.8870	7	-	energy price risk
trading activities	1	electricity	1–3 months	171.4998	(6)	-	energy price risk
trading activities	1	electricity	3–12 months	171.0307	12	-	energy price risk
trading activities	1.40	electricity	3–12 months	174.9214	(12)	-	energy price 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
trading activities	2	gas – OTC	1-3 months	22.5500	(3)	-	gas prices
trading activities	6	gas – OTC	3-6 months	25.6800	(27)	-	gas prices
trading activities	3	gas – OTC	6-12 months	24.2500	(11)	-	gas prices
trading activities	1	gas – OTC	up to 1 month	21.9100	1	-	gas prices
trading activities	2	gas – OTC	1-3 months	22.7100	3	-	gas prices
trading activities	6	gas – OTC	3-6 months	25.0900	23	-	gas prices
trading activities	3	gas – OTC	6-12 months	24.1200	11	-	gas prices
trading activities	-	electricity – OTC	1-3 months	39.9000	(1)	-	energy prices
trading activities	2	electricity – OTC	6-12 months	50.7600	(33)	-	energy prices
trading activities	-	electricity – OTC	3-6 months	41.3000	1	-	energy prices
trading activities	3	electricity – OTC	6-12 months	48.6000	36	-	energy prices
trading activities	19	gas – OTC	1-3 years	25.0900	(69)	-	gas prices
trading activities	15	gas – OTC	1-3 years	24.8700	50	-	gas prices
trading activities	7	gas – OTC	more than 3 years	26.3100	32	-	gas prices
trading activities	-	electricity – OTC	1-3 years	39.2200	(2)	-	energy prices
trading activities	1	electricity – OTC	1-3 years	40.1100	4	-	energy prices
loan	333	NOK	1-3 months	0.4978	-	1	currency exchange rate
payments for gas	10	EUR	1-3 months	4.2659	-	(1)	currency exchange rate
payments for gas	29	EUR	3-12 months	4.2189	-	(1)	currency exchange rate
payments for gas	130	USD	1-3 months	3.1221	-	(14)	currency exchange rate
payments for gas	80	USD	3-12 months	3.1234	-	(7)	currency exchange rate
payments for gas	24	EUR	1-3 months	4.2889	-	(3)	currency exchange rate
payments for gas	78	EUR	3-12 months	4.2660	-	(6)	currency exchange rate
					19	**(31)**	

Futures

trading activities	1	gas – EEX AG	3-6 months	25.2100	(3)	-	gas prices
trading activities	-	gas – EEX AG	3-6 months	25.7800	2	-	gas prices
trading activities	-	gas – EEX AG	6-12 months	24.2100	2	-	gas prices
trading activities	-	electricity – EEX AG	3-6 months	43.6500	(1)	-	energy prices
trading activities	2	electricity – EEX AG	6-12 months	35.8600	(6)	-	energy prices

trading activities	-	electricity – EEX AG	1-3 months	38.9300	1	-	energy prices
trading activities	1	electricity – EEX AG	6-12 months	35.1400	3	-	energy prices
trading activities	-	gas – ICE ENDEX B.V.	3-6 months	23.4600	(1)	-	gas prices
trading activities	1	gas – ICE ENDEX B.V.	6-12 months	22.1500	(1)	-	gas prices
trading activities	1	gas – ICE ENDEX B.V.	3-6 months	25.2200	2	-	gas prices
trading activities	-	gas – ICE ENDEX B.V.	6-12 months	22.5500	1	-	gas prices
trading activities	3	gas – EEX AG	1-3 years	24.3100	(9)	-	gas prices
trading activities	2	gas – EEX AG	1-3 years	24.2800	6	-	gas prices
trading activities	1	electricity – EEX AG	1-3 years	37.0800	(3)	-	energy prices
trading activities	-	electricity – EEX AG	1-3 years	35.9500	2	-	energy prices
trading activities	1	electricity	1-3 months	151.3070	-	7	energy prices
trading activities	1	electricity	1-3 months	151.3070	-	(3)	energy prices
trading activities	10	electricity	3-12 months	151.8480	-	8	energy prices
trading activities	10	electricity	3-12 months	151.8480	-	(12)	energy prices
trading activities	0.2	TGE gas	1-3 months	116.8200	-	1	gas prices
					(5)	**1**	
		Call options					
payments for gas	25	EUR	1-3 months	4.3350	-	-	foreign exchange risk
payments for gas	72	EUR	3-12 months	4.3915	4	-	foreign exchange risk
payments for gas	45	EUR	1-3 years	4.4975	5	-	foreign exchange risk
payments for gas	260	USD	1-3 months	3.4221	29	-	foreign exchange risk
payments for gas	90	USD	3-12 months	3.4575	12	-	foreign exchange risk
payments for gas	21	EUR	3-12 months	4.3515	-	1	currency exchange rate
payments for gas	265	EUR	3-12 months	4.3848	-	6	currency exchange rate
payments for gas	180	USD	3-12 months	3.3077	-	5	currency exchange rate
					50	**12**	
		Commodity call options					
payments for gas	1.015	Title Transfer Facility (TTF)	3-12 months	23.67	4	-	commodity price risk
payments for gas	1.091	Title Transfer Facility (TTF)	1-3 years	24.95	8	-	commodity price risk
payments for gas	0.502	FO	3-12 months	643.72	-	3	commodity prices
payments for gas	0.038	FO	1-3 years	630.00	-	1	commodity prices
payments for gas	0.251	GO	3-12 months	955.38	-	8	commodity prices
payments for gas	0.020	GO	1-3 years	955.00	-	1	commodity prices
payments for gas	5.800	TTF	1-3 months	28.11	-	1	commodity prices

payments for gas	8.650	TTF	3-12 months	26.73	-	26	commodity prices
					12	**40**	
Put commodity options							
payments for gas	0.024	FO	3-12 months	391.25	(7)	-	commodity price risk
payments for gas	0.013	GO	3-12 months	672.12	(7)	-	commodity price risk
					(14)	**-**	
Commodity swap							
payments for gas	0.087	FO	1-3 months	598.25	(18)	-	commodity price risk
payments for gas	0.136	FO	3-12 months	483.61	(77)	-	commodity price risk
payments for gas	0.052	GO	1-3 months	896.24	(15)	-	commodity price risk
payments for gas	0.107	GO	3-12 months	773.05	(71)	-	commodity price risk
payments for gas	4.301	Title Transfer Facility (TTF)	1-3 months	24.24	(41)	-	commodity price risk
payments for gas	4.692	Title Transfer Facility (TTF)	3-12 months	23.83	(58)	-	commodity price risk
payments for gas	0.186	Title Transfer Facility (TTF)	1-3 years	23.90	(1)	-	commodity price risk
payments for gas	0.085	FO	3-12 months	602.18	-	1	commodity prices
payments for gas	0.028	GO	1-3 months	869.77	-	4	commodity prices
payments for gas	0.049	GO	3-12 months	893.39	-	6	commodity prices
payments for gas	1.730	TTF	1-3 months	27.47	-	3	commodity prices
payments for gas	7.050	TTF	3-12 months	25.79	-	17	commodity prices
payments for gas	4.135	TTF	1-3 months	27.78	-	(10)	commodity prices
payments for gas	2.035	TTF	3-12 months	27.16	-	(5)	commodity prices
					(281)	**16**	
			Total		**(26)**	**183**	
		including:	- positive valuation (assets)		**567**	**307**	
			- negative valuation (liabilities)		**(593)**	**(124)**	

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

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

	Year ended Dec 31 2014	Year ended Dec 31 2013
Net gain/(loss) on valuation of derivative financial instruments – unrealised	70	257
Net gain/(loss) on valuation of derivative financial instruments – realised	(496)	(177)
Total net gain/(loss) on valuation of derivative financial instruments recognised in profit or loss	**(426)**	**80**
including:		
recognised in raw materials and consumables used	(315)	(53)
recognised in other income and expenses	(79)	168
recognised in finance income or costs	(32)	(35)
Net gain/(loss) on valuation of derivative financial instruments recognised in other comprehensive income -– unrealised	**(265)**	**72**
Total net gain/(loss) on valuation of derivative financial instruments – recognised in equity	**(691)**	**152**

34. CONTINGENT LIABILITIES AND RECEIVABLES

During preparation of these consolidated financial statements of the PGNiG Group for 2014, an analysis of individual contingent items was carried out for the following purposes:

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

As a result of the analysis, as at the end of the comparative period contingent receivables fell by PLN 193m and contingent liabilities fell by PLN 2,698m compared with the data disclosed in the consolidated financial statements of the PGNiG Group for 2013.

34.1. Contingent receivables

	As at Dec 31 2014	As at Dec 31 2013
From related entities:		
guarantees and sureties received	1	1
promissory notes received	78	180
Total contingent receivables from related entities	**79**	**181**
From other entities:		
guarantees and sureties received	104	126
promissory notes received	52	98
other contingent assets	154	189
Total contingent receivables from other entities	**310**	**413**
Total contingent assets	**389**	**594**

As at the end of 2014, contingent receivables declined, primarily due to an analysis of the probability of consumption of economic benefits performed as at the reporting date, and the expiry of bank guarantees and performance bonds, as well as the expiry of promissory notes securing the payment of amounts receivable for gas fuel.

34.2. Contingent liabilities

	As at Dec 31 2014	As at Dec 31 2013
To other entities		
guarantees and sureties issued*	7,889	7,564
promissory notes issued	1,559	473
other contingent liabilities	72	-
Total contingent liabilities to other entities	**9,520**	**8,037**
Total contingent liabilities	**9,520**	**8,037**

* Contingent liabilities in foreign currencies translated into the złoty at exchange rates quoted by the National Bank of Poland for December 31st 2014

The increase in contingent liabilities under guarantees and sureties issued in 2014 was primarily attributable to changes in exchange rates for the currencies in which the liabilities are denominated. The strengthening of the euro against the złoty in 2014 caused an increase in contingent liabilities related to guarantees issued by the Parent: a guarantee of repayment of liabilities under Euronotes and a performance bond provided to the Government of Norway in respect of PUI (growth by a total of PLN 99m, translated at the exchange rate quoted by the NBP for December 31st 2014). The depreciation of the złoty against the US dollar contributed to a PLN 31m increase in USD-denominated guarantees (including a performance bond in respect of National Oil Corporation of Lybia). Further, at the request of Elektrociepłownia Stalowa Wola S.A. the Parent issued a PLN 63m surety for a borrowing.

Higher contingent liabilities under promissory notes issued in 2014 were chiefly attributable to creation of security for the purpose of agreements concerning EU co-financed projects and an agreement for the provision of transmission services.

35. OFF-BALANCE SHEET LIABILITIES

35.1. Operating lease liabilities

	As at Dec 31 2014	As at Dec 31 2013
up to 1 year	4	9
from 1 to 5 years	1	4
Total	**5**	**13**

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

	As at Dec 31 2014	As at Dec 31 2013
Commitments under executed agreements	5,069	6,527
Completion of agreements as at the reporting date	(3,478)	(4,506)
Contractual liabilities maturing after the reporting date	**1,591**	**2,021**

36. RELATED ENTITIES

36.1. Related-party transactions

Related party	Turnover from Jan 1 to	Sales to related parties	Purchases from related parties	Balance as at	Receivables from related parties, gross	Receivables from related parties, net	Loans to related parties, gross	Loans to related parties, net	Liabilities to related parties
Equity-accounted associated entities and joint ventures	Dec 31 2014	40	-	Dec 31 2014	5	5	-	-	7
	Dec 31 2013	35	-	Dec 31 2013	4	4	-	-	6
Non-equity-accounted non-consolidated subsidiaries and associated entities and joint ventures	Dec 31 2014	8	(44)	Dec 31 2014	10	5	236	197	6
	Dec 31 2013	21	(69)	Dec 31 2013	11	6	216	185	10
Related entities – total	Dec 31 2014	**48**	**(44)**	Dec 31 2014	**15**	**10**	**236**	**197**	**13**
	Dec 31 2013	**56**	**(69)**	Dec 31 2013	**15**	**10**	**216**	**185**	**16**

In 2014, there were no material transactions with shareholders, other than the dividend distribution discussed in Note 10.
In 2014, neither the Parent nor its subsidiaries entered into any material transactions with related parties otherwise than on arm's length terms.
The Group prepares documentation for related-party transactions in accordance with Art. 9a of the Corporate Income Tax Act. The procedure is applied each time the PGNiG Group entities execute agreements, annexes to agreements, orders (detailed agreements) or orders placed under framework agreements with related entities - if the total amounts payable/receivable (to/from one contractor under one agreement) or their equivalent in the złoty exceed in a calendar year the equivalent of EUR 100 thousand in the case of transactions involving merchandise or EUR 30 thousand in the case of transactions involving rendering of services, sale or provision of intangible assets.

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For a list of non-consolidated subsidiaries, see Note *1.4. These financial statements contain consolidated data*. The table below presents non-equity-accounted associated entities and joint ventures:

Non-equity-accounted joint ventures and associated entities			
Company name	Country	% ownership interest	
		Dec 31 2014	Dec 31 2013
1. InterTransGas GmbH w likwidacji (in liquidation)	Germany	50.00%	50.00%
2. Sahara Petroleum Technology Llc w likwidacji (in liquidation)	Oman	49.00%	49.00%
3. PFK GASKON S.A.	Poland	45.94%	45.94%
4. GAZOMONTAŻ S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation)	Poland	45.18%	45.18%
5. ZRUG Sp. z o.o.	Poland	40.06%	40.06%
6. ZWUG INTERGAZ Sp. z o.o.	Poland	38.30%	38.30%
7. Dewon ZSA	Ukraine	36.38%	36.38%
8. ZRUG TORUŃ S.A. w upadłości likwidacyjnej (in bankruptcy by liquidation)	Poland	25.24%	25.24%
9. Elektrociepłownia Stalowa Wola S.A.	Poland	50.00%	50.00%
10% Gazobudowa Kraków Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation)	Poland	47.20%	47.20%
11. Geotermia Sp. z o.o.	Poland	25.00%	25.00%
12. ALFA-CENTER Sp. z o.o.	Poland	45.94%	45.94%
13. Gas-Trading Podkarpacie Sp. z o.o.	Poland	42.99%	42.99%

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

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

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

In 2014, the Group generated the highest turnover with the following entities in which the State Treasury holds (directly or indirectly) equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A., Polski Koncern Naftowy ORLEN S.A., Orlen Południe S.A., Grupa Azoty Zakłady Azotowe PUŁAWY S.A., Zakłady Azotowe w Tarnowie - Mościcach S.A., Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., Grupa LOTOS S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., Energa Obrót S.A., and Polskie Sieci Elektroenergetyczne S.A.

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

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

	Year ended Dec 31 2014	Year ended Dec 31 2013
Remuneration paid to management staff	**39.69**	**37.29**
Parent	10.65	5.20
Subsidiaries	25.58	23.02
Joint ventures	2.65	8.26
Associates	0.81	0.81
Remuneration paid to supervisory staff	**7.03**	**5.42**
Parent	0.37	0.36
Subsidiaries	4.89	3.25
Joint ventures	1.26	1.25
Associates	0.51	0.56
Total	**46.72**	**42.71**

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

	As at Dec 31 2014	As at Dec 31 2013
Management staff		
Interest rate (%)	1%	1%-3%
Maturing in	3 years	3–5 years
Amount of outstanding loans	0.01	0.01
Supervisory staff		
Interest rate (%)	-	-
Maturing in	-	-
Amount of outstanding loans	-	-
Total amount of outstanding loans	**0.01**	**0.01**

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

	Year ended Dec 31 2014		
Name	Total remuneration, additional benefits and bonuses paid in 2014	Total remuneration for holding key positions at subordinates in 2014	Total remuneration paid in 2014
Total remuneration paid to Management Board members, including:	**11.688**	**3.780**	**15.468**
Mariusz Zawisza – President	1.178	0.757	**1.935**
Jarosław Bauc – Vice-President	0.971	0.674	**1.645**
Waldemar Wójcik – Vice-President	0.711	0.505	**1.216**
Zbigniew Skrzypkiewicz – Vice-President	0.965	0.608	**1.573**
Violetta Jasińska-Jaśkowiak – Proxy	0.499	0.101	**0.600**
Persons who were Management Board members in 2014 but not as at Dec 31 2014:			
Andrzej Parafianowicz	0.610	0.411	**1.021**
Jerzy Kurella	1.070	0.724	**1.794**
Persons who were Management Board members in 2013 but not as at Dec 31 2013:			
Grażyna Piotrowska-Oliwa	0.541	-	**0.541**
Radosław Dudziński	0.492	-	**0.492**
Jacek Murawski	2.339	-	**2.339**
Mirosław Szkałuba	2.312	-	**2.312**
Total remuneration paid to Supervisory Board members, including:	**0.372**	**0.024**	**0.396**
Wojciech Chmielewski	0.045	-	**0.045**
Agnieszka Chmielarz	0.017	-	**0.017**
Józef Głowacki	0.017	-	**0.017**
Mieczysław Kawecki	0.017	0.024	**0.041**
Marcin Moroń	0.017	-	**0.017**
Janusz Pilitowski	0.045	-	**0.045**
Agnieszka Woś	0.029	-	**0.029**
Ewa Sibrecht-Ośka	0.017	-	**0.017**
Jolanta Siergiej	0.017	-	**0.017**
Magdalena Zegarska	0.029	-	**0.029**
Sławomir Borowiec	0.029	-	**0.029**
Andrzej Janiak	0.035	-	**0.035**
Ryszard Wąsowicz	0.029	-	**0.029**
Agnieszka Trzaskalska	0.010	-	**0.010**
Bogusław Nadolnik	0.022	-	**0.022**
Total	**12.060**	**3.804**	**15.864**

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

36.6. Fees paid to the audit firm for the mandatory audit of the full-year consolidated financial statements of the Group and for the rendering of other services

	Year ended Dec 31 2014	Year ended Dec 31 2013
Audit of the full-year consolidated financial statements	0.06	0.09
Audit of the full-year separate financial statements	0.06	0.10
Other assurance services, including review of financial statements	0.47	0.50
Other services	0.01	-
Total	**0.60**	**0.69**

36.7. Joint operations

Name of joint contractual arrangement	Country where joint operation is carried out	Interests in joint operations	Business of joint operations
Joint operation in four exploration areas in south-eastern Poland	Poland	PGNiG S.A. 50%; Chevron Polska Energy Resources Sp. z o.o. 50%	First phase of joint exploration for unconventional gas deposits
Joint operation in the Górowo Iławieckie licence area	Poland	PGNiG S.A. 51%; LOTOS Petrobaltic S.A. 49%	Oil and gas exploration and production
Joint operation in the Kamień Pomorski licence area	Poland	PGNiG S.A. 51%; LOTOS Petrobaltic S.A. 49%	Oil and gas exploration and production
Joint operation in the Płotki licence area	Poland	PGNiG S.A. 51%; FX Energy 49%	Oil and gas exploration and production
Joint operation in the Płotki-PTZ (the Extended Zaniemyśl Area) licence area	Poland	PGNiG S.A. 51%; FX Energy 24.5%; Cal Energy 24.5%	Oil and gas exploration and production
Joint operation in the Poznań licence area	Poland	PGNiG S.A. 51%; FX Energy 49%	Oil and gas exploration and production
Joint operation in the Warszawa-Południe (blocks 254 and 255) licence area	Poland	PGNiG S.A. 49%; FX Energy 51%	Oil and gas exploration and production
Joint operation in the Ostrowiec licence area	Poland	PGNiG S.A. 49%; FX Energy 51%	Oil and gas exploration and production
Joint operation in the Kutno licence area	Poland	PGNiG S.A. 50%; FX Energy 50%	Oil and gas exploration and production
Joint operation in the Bieszczady licence area	Poland	PGNiG S.A. 51%; Eurogas Polska Sp. z o.o. 24%; Energia Bieszczady Sp. z o.o. 25%	Oil and gas exploration and production
Joint operation in the Sieraków licence area	Poland	PGNiG S.A. 51%; Orlen Upstream Sp. z o.o. 49%	Oil and gas exploration and production
Joint operation in the Karpaty Zachodnie licence area	Poland	PGNiG S.A. 40%; Energia Karpaty Zachodnie Sp. z o.o. Sp. k. 60%	Oil and gas exploration and production
Joint operation in the Karpaty Wschodnie licence area	Poland	PGNiG S.A. 20%; Energia Karpaty Wschodnie Sp. z o.o. Sp. k. 80%	Oil and gas exploration and production
Joint operation in the Skarv Unit (PL212, PL212B, PL262) licence area	Norway	PUI 11.9175%; BP 23.835%; Statoil 36.165%; EON 28.0825%	Oil and gas exploration and production
Joint operation in the PL212E licence area	Norway	PUI 15%; BP 30%; Statoil 30%; EON 25%	Oil and gas exploration and production
Joint operation in the PL558 licence area	Norway	PUI 30%; EON 30%; Det norske 20%; Petoro 20%	Oil and gas exploration and production
Joint operation in the PL646 licence area	Norway	PUI 20%; Lundin Norway 20%; Wintershall 40%; Noreco 20%	Oil and gas exploration and production
Joint operation in the PL648S licence area	Norway	PUI 50%; OMV 50%	Oil and gas exploration and production
Joint operation in the PL702 licence area	Norway	PUI 40%; OMV 60%	Oil and gas exploration and production
Joint operation in the PL703 licence area	Norway	PUI 40%; OMV 60%	Oil and gas exploration and production
Joint operation in the PL707 licence area	Norway	PUI 30%; Edison 50%; North 10%; Lime 10%	Oil and gas exploration and production
Joint operation in the PL711 licence area	Norway	PUI 20%; Repsol 30%; OMV 20%; Idemitsu 20%	Oil and gas exploration and production
Joint operation in the PL756 licence area	Norway	PUI 50%; Idemitsu 25%; Rocksource 25%	Oil and gas exploration and production

37. EMPLOYEES (NUMBER OF STAFF)

Employees by segments as at end of the period	As at Dec 31 2014	As at Dec 31 2013
Exploration and Production	10,221	10,754
Trade and Storage	4,218	4,357
including equity-accounted entities	289	287
Distribution	12,173	13,050
Generation	1,068	1,066
Other Segments	1,605	1,990
Total	**29,285**	**31,217**

38. RESTRUCTURING PROCESS WITHIN THE GROUP

In 2014, the Programme for Workforce Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3) (the “Programme”), approved by the Extraordinary General Meeting of PGNiG S.A. on December 11th 2008, was continued. By virtue of a resolution of the Extraordinary General Meeting of PGNiG S.A. of December 7th 2011, the term of the Central Restructuring Fund (CRF) was extended until December 31st 2015, and the term of the Programme was extended accordingly.

However, in accordance with the Programme terms, on August 19th 2014 the PGNiG Management Board passed a resolution to terminate the Programme with effect from December 31st 2014, which was approved, by virtue of a resolution, by the Extraordinary General Meeting on September 24th 2014. Thus, as of January 1st 2015 the Programme was no longer in effect.

The Programme was based on a stand-by principle, which meant that it could be launched in special circumstances and required the entities covered by it to apply uniform procedures. Any 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.

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

In the reporting period, one-off redundancy payments were made from the Central Restructuring Fund to 15 former employees of BUD-GAZ Sp. z o.o. w likwidacji (in liquidation), for a total of PLN 1m.

In accordance with Par. 8.3 of the Programme, the contributions to the Central Restructuring Fund were made from the Company's net profit. The total amount contributed to the CRF was PLN 43m, of which PLN 40.6m was paid out as redundancy payments to laid-off employees of companies covered by the Programme.

At present, the funds held under the CRF amount to PLN 2.4m.

As the capital reserve held in the CRF was used to finance redundancy payments under the Programme which expired on December 31st 2014, on January 2nd 2015 the HR Department filed a request to the Company's Management Board to liquidate the CFR and transfer the remaining funds of PLN 2.4m to the Company's statutory reserve funds.

In accordance with the PGNiG Group Efficiency Improvement Programme, PGNiG Group companies are also implementing other programmes related to workforce streamlining, including Voluntary

Termination Programmes. The PGNiG Group Efficiency Improvement Programme is part of an effort to improve the Group's cost and organisational efficiency pursued under the PGNiG Group's Strategy for 2015–2022 adopted in December 2014.

39. CAPITAL MANAGEMENT

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

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

	As at Dec 31 2014	As at Dec 31 2013
Borrowings, finance lease liabilities and liabilities under debt securities in issue	5,838	7,661
Trade and other payables	3,857	4,275
Cash and cash equivalents (-)	(2,958)	(2,827)
Net debt	**6,737**	**9,109**
Equity (attributable to owners of the parent)	**30,164**	**28,447**
Equity and net debt	**36,901**	**37,556**
Leverage	18.3%	24.3%

40. OTHER IMPORTANT INFORMATION

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

Anti-trust proceedings instigated on December 28th 2010

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

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

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

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

Anti-trust proceedings instigated on February 22nd 2013

On February 22nd 2013, the President of UOKiK instigated anti-trust proceedings concerning practices employed by PGNiG S.A. which infringe collective consumer interests. The President of the UOKiK accused PGNiG S.A. of using provisions classified as abusive clauses in contract forms based on which comprehensive gas fuel supply contracts are concluded. PGNiG S.A. voluntarily agreed to revise the above contract forms with respect to the questioned clauses. By virtue of a decision of June 28th 2013, the President of UOKiK resolved not to impose a fine on PGNiG S.A. and obliged the Company to fulfil its commitment. On July 29th 2014, PGNiG S.A. notified the President of the UOKiK that it had fully complied with the obligation imposed on it by virtue of the above decision.

Anti-trust proceedings instigated on April 3rd 2013

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

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

In the course of the proceedings, PGNiG S.A. submitted a motion to the President of the UOKiK for a commitment decision, in which it voluntarily agreed to revise certain provisions in its contracts with non-household customers. By virtue of a decision of December 31st 2013, the President of UOKiK resolved not to impose a fine on the Company and obliged the Company to fulfil its commitment. PGNiG S.A. performed its obligations set out in the President of UOKiK's commitment decision within the deadlines specified therein. On August 1st 2014, PGNiG Obrót Detaliczny Sp. z o.o. (PGNiG OD) 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 OD became a party. PGNiG OD is in the course of performing the obligation (in the part corresponding to its scope of business) imposed under the decision of the President of UOKiK dated December 31st 2013.

Proceedings concerning non-compliance with the decision of December 31st 2013

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 (Dz.U. No. 50, item 331, as amended) on PGNiG S.A. and PGNiG Obrót Detaliczny Sp. z o.o. on suspicion of a delay in compliance with Section I).4) of the conclusion of the President of UOKiK's decision of December 31st 2013. On the same date, PGNiG S.A. and PGNiG OD were requested to provide explanation within 21 days. In their response, PGNiG S.A. and PGNiG OD 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 of December 31st 2013. By the date hereof, the President of UOKiK had not issued any final ruling on the case.

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

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

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

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

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

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

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

On September 16th 2014, the District Court for Poznań–Stare Miasto of Poznań, 10th Commercial Division, considered PGNiG S.A.'s request to call for a conciliation hearing. Given the incorrect representation of the party called upon, the Court decided to summon the court supervisor and postpone the hearing until November 7th 2014.

On November 7th 2014, a hearing was held before the District Court of Poznań - Stare Miasto concerning PGNiG S.A.'s request to call on PBG S.A. w upadłości układowej (in company voluntary arrangement) for a conciliation hearing concerning PGNiG S.A.'s claims for compensation under the contract for the "Grodzisk Nitrogen Rejection Unit Construction Project". 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, which concluded the proceedings with respect to PBG S.A.

As regards the two other entities covered by the request, i.e. Chart Inc. and Thermo Design, the case has been suspended for a year from March 17th 2014 until PGNiG S.A. makes the prepayment for costs of translation of the request together with appendices, for the purpose of its delivery to these entities. The proceedings will be reopened once the prepayment is made, but failure to make the prepayment within one year from the suspension thereof will result in discontinuance of the proceedings without interrupting the limitation period for PGNiG S.A.'s claims against the other contractors.

41. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

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

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

The Court of Appeal decided to change the challenged Decision by reducing the fine imposed on the Company to PLN 500 thousand, given the small extent of the breach, steps taken by PGNiG to meet the obligation to diversify gas supply sources, limited diversification opportunities and little harm involved in the breach. In the remaining part, the appeal was dismissed.

Following the receipt of the written statement of reasons from the Court of Appeal, the Company will consider further action, if any. By the date hereof, the Company had not received the statement of reasons.

PGNiG Management Board:

President of the Management Board	Mariusz Zawisza	....
Vice-President of the Management Board	Jarosław Bauc	....
Vice-President of the Management Board	Zbigniew Skrzypkiewicz	....
Vice-President of the Management Board	Waldemar Wójcik	....

Warsaw, February 19th 2015