PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

CONSOLIDATED FULL-YEAR REPORT

OF THE PGNiG GROUP

FOR 2015

CONSOLIDATED FULL-YEAR REPORT

FOR THE YEAR ENDED DECEMBER 31ST 2015 COMPRISES:

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FINANCIAL HIGHLIGHTS

for the year ended December 31st 2015

Consolidated financial data	PLNm Year ended Dec 31 2015	PLNm Year ended Dec 31 2014	EURm Year ended Dec 31 2015	EURm Year ended Dec 31 2014
Revenue	36,464	34,304	8,713	8,188
Operating profit/(loss)	3,290	3,843	786	917
Profit/(loss) before tax	3,014	3,626	720	866
Net profit/(loss) attributable to owners of the parent	2,134	2,823	510	674
Net profit/(loss)	2,136	2,822	510	674
Comprehensive income attributable to owners of the parent	1,767	2,602	422	621
Total comprehensive income	1,769	2,601	423	621
Net cash (used in)/generated by operating activities	7,258	6,979	1,734	1,666
Net cash (used in)/generated by investing activities	(3,147)	(3,680)	(752)	(878)
Net cash (used in)/generated by financing activities	(829)	(3,169)	(198)	(756)
Net increase/(decrease) in cash and cash equivalents	3,282	130	784	31
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (in PLN and EUR)	0.36	0.48	0.09	0.11
	As at Dec 31 2015	As at Dec 31 2014	As at Dec 31 2015	As at Dec 31 2014
Total assets	49,825	48,926	11,692	11,479
Total liabilities	19,084	18,757	4,478	4,401
Total non-current liabilities	12,795	12,384	3,002	2,905
Total current liabilities	6,289	6,373	1,476	1,496
Total equity	30,741	30,169	7,214	7,078
Share capital	5,900	5,900	1,384	1,384
Weighted average number of shares (million)	5,900	5,900	5,900	5,900
Book value per share and diluted book value per share (in PLN and EUR)	5.21	5.11	1.22	1.20
Dividend per share declared or paid (in PLN and EUR)	0.20	0.15	0.05	0.04

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

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

Average EUR/PLN exchange rates quoted by the NBP

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

CONSOLIDATED FINANCIAL STATEMENTS
OF THE PGNiG GROUP
FOR 2015

prepared in accordance with 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 2015

	Note	3 months ended Dec 31 2015	Year ended Dec 31 2015	3 months ended Dec 31 2014	Year ended Dec 31 2014
		audited	audited	audited	audited
Revenue	**3**	**9,769**	**36,464**	**11,487**	**34,304**
Raw materials and consumables used	4.1	(6,722)	(24,216)	(8,027)	(21,229)
Employee benefits expense	4.2	(908)	(2,714)	(823)	(2,827)
Depreciation and amortisation expenses		(717)	(2,790)	(600)	(2,502)
Services	4.3	(813)	(2,674)	(818)	(2,843)
Work performed by the entity and capitalised		312	953	313	980
Other income and expenses	4.4	(867)	(1,733)	(773)	(2,040)
Total operating expenses	**3**	**(9,715)**	**(33,174)**	**(10,728)**	**(30,461)**
Operating profit/(loss)		**54**	**3,290**	**759**	**3,843**
Finance income	5	21	80	18	86
Finance costs	5	(92)	(305)	(149)	(432)
Share in net profit/(loss) of equity-accounted entities	6	-	(51)	129	129
Profit/(loss) before tax		**(17)**	**3,014**	**757**	**3,626**
Income tax	7	(4)	(878)	(71)	(804)
Net profit/(loss)		**(21)**	**2,136**	**686**	**2,822**
Attributable to:					
Owners of the parent		(21)	2,134	688	2,823
Non-controlling interests		-	2	(2)	(1)
Earnings/(loss) and diluted earnings/(loss) per share attributable to holders of ordinary shares of the parent (PLN)	9	(0.004)	0.36	0.12	0.48

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

	3 months ended Dec 31 2015	Year ended Dec 31 2015	3 months ended Dec 31 2014	Year ended Dec 31 2014
	audited	audited	audited	audited
Net profit/(loss)	**(21)**	**2,136**	**686**	**2,822**
Other comprehensive income that will be reclassified to profit or loss if specific conditions are met, relating to:	**(208)**	**(334)**	**(193)**	**(197)**
Exchange differences on translating foreign operations	16	15	(34)	18
Hedge accounting	(277)	(431)	(196)	(265)
Deferred tax	53	82	37	50
Other comprehensive income that will not be reclassified to profit or loss, relating to:	**(46)**	**(33)**	**(13)**	**(24)**
Actuarial gains/(losses) on employee benefits	(56)	(35)	(19)	(32)
Deferred tax	10	2	6	8
Other comprehensive income, net	**(254)**	**(367)**	**(206)**	**(221)**
Total comprehensive income	**(275)**	**1,769**	**480**	**2,601**
Attributable to:				
Owners of the parent	(275)	1,767	482	2,602
Non-controlling interests	-	2	(2)	(1)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at December 31st 2015

	Note	As at Dec 31 2015	As at Dec 31 2014
		audited	audited
ASSETS			
Non-current assets			
Property, plant and equipment	11	32,967	33,528
Investment property	12	12	9
Intangible assets	13	1,138	1,113
Investments in equity-accounted entities	6	840	856
Other financial assets	14	275	243
Deferred tax assets	15	1,575	1,783
Other non-current assets	16	152	160
Total non-current assets		**36,959**	**37,692**
Current assets			
Inventories	17	2,229	3,189
Trade and other receivables	18	3,372	4,236
Current tax assets	19	7	5
Other assets	20	146	132
Derivative financial instrument assets	33	709	567
Cash and cash equivalents	21	6,239	2,958
Assets held for sale	22	164	147
Total current assets		**12,866**	**11,234**
Total assets		**49,825**	**48,926**
EQUITY AND LIABILITIES			
Equity			
Share capital	23	5,900	5,900
Share premium		1,740	1,740
Accumulated other comprehensive income		(637)	(270)
Retained earnings/(deficit)		23,733	22,794
Equity attributable to owners of the parent		**30,736**	**30,164**
Equity attributable to non-controlling interests		5	5
Total equity		**30,741**	**30,169**
Non-current liabilities			
Borrowings and other debt instruments	24	5,799	5,069
Employee benefit obligations	25	565	604
Provisions	26	1,728	1,803
Deferred revenue	27	1,511	1,581
Deferred tax liabilities	28	3,090	3,250
Other non-current liabilities	29	102	77
Total non-current liabilities		**12,795**	**12,384**
Current liabilities			
Trade and other payables	30	3,288	3,589
Borrowings and other debt instruments	24	583	769
Derivative financial instrument liabilities	33	1,165	593
Current tax liabilities	19	53	191
Employee benefit obligations	25	352	284
Provisions	26	694	720
Deferred revenue	27	154	227
Total current liabilities		**6,289**	**6,373**
Total liabilities		**19,084**	**18,757**
Total equity and liabilities		**49,825**	**48,926**

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

	Note	Year ended Dec 31 2015	Year ended Dec 31 2014
		audited	audited
Cash flows from operating activities			
Net profit/(loss)		2,136	2,822
Adjustments:			
Share in net profit/(loss) of equity-accounted entities		51	(129)
Depreciation and amortisation expenses		2,790	2,502
Net foreign exchange gains/(losses)		(24)	201
Net interest and dividend		127	127
Gain/(loss) on investing activities		578	739
Current tax expense		878	804
Other items, net	31	276	910
Income tax paid		(833)	(677)
Cash flows from operating activities before movements in working capital		**5,979**	**7,299**
Movements in working capital:			
Change in trade and other receivables	31	823	(128)
Change in inventories	31	960	189
Change in employee benefit obligations	31	29	11
Change in provisions	31	(85)	130
Change in current liabilities	31	(255)	(477)
Change in other assets	31	(13)	(31)
Change in deferred revenue	31	(180)	(14)
Net cash (used in)/generated by operating activities		**7,258**	**6,979**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment and intangible assets		77	30
Proceeds from disposal of shares in non-related entities		2	1
Payments for property, plant and equipment and intangible assets		(3,154)	(3,781)
Payments for shares in related entities		(59)	(1)
Interest received		-	4
Dividends received		2	3
Other items, net		(15)	64
Net cash (used in)/generated by investing activities		**(3,147)**	**(3,680)**
Cash flows from financing activities			
Proceeds from borrowings		1,639	152
Proceeds from issue of debt securities		309	377
Repayment of borrowings		(937)	(1,096)
Repayment of debt securities		(390)	(1,429)
Payment of finance lease liabilities		(38)	(50)
Proceeds from derivative financial instruments		84	84
Payment for derivative financial instruments		(81)	(98)
Dividends paid		(1,180)	(885)
Interest paid		(213)	(218)
Other items, net		(22)	(6)
Net cash (used in)/generated by financing activities		**(829)**	**(3,169)**
Net increase/(decrease) in cash and cash equivalents		**3,282**	**130**
Effects of exchange rate changes on the balance of cash held in foreign currencies	31	(1)	1
Cash and cash equivalents at beginning of period	**31**	**2,956**	**2,826**
Cash and cash equivalents at end of period	**31**	**6,238**	**2,956**

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

	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 2015 (audited)	**5,900**	**1,740**	**(66)**	**(216)**	**12**	**22,794**	**30,164**	**5**	**30,169**
Dividend	-	-	-	-	-	(1,180)	**(1,180)**	-	**(1,180)**
Purchase of shares from non-controlling interests	-	-	-	-	-	-	**-**	(2)	**(2)**
Changes in the Group – deconsolidation	-	-	-	-	-	(15)	**(15)**	-	**(15)**
Total comprehensive income	**-**	**-**	**15**	**(349)**	**(33)**	**2,134**	**1,767**	**2**	**1,769**
Net profit/(loss)	-	-	-	-	-	2,134	**2,134**	2	**2,136**
Other comprehensive income, net	-	-	15	(349)	(33)	-	**(367)**	-	**(367)**
As at Dec 31 2015 (audited)	**5,900**	**1,740**	**(51)**	**(565)**	**(21)**	**23,733**	**30,736**	**5**	**30,741**
As at Jan 1 2014 (audited)	**5,900**	**1,740**	**(84)**	**(1)**	**36**	**20,856**	**28,447**	**6**	**28,453**
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at December 31st 2015

1. GENERAL INFORMATION

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

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna ("PGNiG S.A.", "PGNiG", "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 2015 and for the period January 1st–December 31st 2015, with comparative financial data for the relevant periods of 2014.

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) and one jointly-controlled entity (joint venture). In the tables below are listed equity-accounted entities as well as PGNiG Group companies.

Equity-accounted joint ventures

No.	Company name	Country	% ownership interest	
			Dec 31 2015	Dec 31 2014
1.	SGT EUROPOL GAZ S.A. 1)	Poland	51.18%	49.74%

1) Including a 48.00% direct interest and a 3.18% (1.74% as at December 31st 2014) interest held indirectly through GAS-TRADING S.A.

No.	Company name	Country	The Group's % ownership interest as at		Consolidation method as at	
	PGNiG S.A.'s direct subsidiaries		Dec 31 2015	Dec 31 2014	Dec 31 2015	Dec 31 2014
1	BSiPG Gazoprojekt S.A.	Poland	75%[1)]	75%[1)]	full	full
2	Exalo Drilling S.A.	Poland	100%	100%	full	full
3	GEOFIZYKA Kraków S.A.	Poland	100%	100%	full	full
4	GEOFIZYKA Toruń S.A.	Poland	100%	100%	full	full
5	Geovita S.A.	Poland	100%	100%	full	full
6	Operator Systemu Magazynowania Sp. z o.o.	Poland	100%	100%	full	full
7	PGNiG Obrót Detaliczny Sp. z o.o.	Poland	100%	100%	full	full
8	PGNiG Serwis Sp. z o.o.	Poland	100%	100%	full	full
9	PGNiG Technologie S.A.	Poland	100%	100%	full	full
10	PGNiG TERMIKA S.A.	Poland	100%	100%	full	full
11	Polska Spółka Gazownictwa Sp. z o.o.	Poland	100%	100%	full	full
12	PGNiG Finance AB	Sweden	100%	100%	full	full
13	PGNiG Supply & Trading GmbH	Germany	100%	100%	full	full
14	PGNiG Upstream International AS	Norway	100%	100%	full	full
15	Polish Oil and Gas Company - Libya B.V.	The Netherlands	100%	100%	full	full
16	GAS-TRADING S.A.	Poland	79.58%[2)]	43.41%	-	equity
17	PGNiG SPV 5 Sp. z o.o.	Poland	100%	100%	-	-
18	PGNiG SPV 6 Sp. z o.o.	Poland	100%	100%	-	-
19	PGNiG SPV 7 Sp. z o.o.	Poland	100%	100%	-	-
	PGNiG S.A.'s indirect subsidiaries					
20	CHEMKOP Sp. z o.o.	Poland	85.51%[3)]	85.51%[3)]	-	-
21	Gas Assets Management Sp. z o.o.	Poland	100%[4)]	100%[4)]	-	-
22	Gas-Trading Podkarpacie Sp. z o.o.	Poland	78.82%[5)]	42.99%[5)]	-	-
23	GAZ Sp. z o.o.	Poland	100%[6)]	80%[6)]	full	full
24	NYSAGAZ Sp. z o.o.	Poland	100%[7)]	66.28%	-	-
25	Powiśle Park Sp. z o.o.	Poland	100%[6)]	100%[6)]	full	full
26	Zakład Gospodarki Mieszkaniowej Sp. z o.o.	Poland	100%[8)]	100%[8)]	-	-
27	Oil Tech International F.Z.E.	United Arab Emirates	100%[8)]	100%[8)]	full	full
28	Poltava Services LLC	Ukraine	99%[8)]	99%[8)]	full	full
29	PST Europe Sales GmbH	Germany	100%[9)]	-	full	-
30	XOOL GmbH	Germany	100%[10)]	100%[10)]	full	full
	Companies which were not PGNiG's subsidiaries as at December 31st 2015 but were PGNiG's subsidiaries in the comparative period					
31	Zakład Separacji Popiołów Siekierki Sp. z o.o.[11)]	Poland	70%	70%	-	-
32	Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji (in liquidation)	Poland	-	100%	-	-
33	BUD-GAZ P.P.U.H. Sp. z o.o. w likwidacji (in liquidation)	Poland	-	100%	-	-

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 direct interest is 43.41%, with a 36.17% interest held indirectly through PGNiG SPV 6 Sp. z o.o.

3) PGNiG's interest held indirectly through Operator Systemu Magazynowania Sp. z o.o.

4) PGNiG S.A.'s indirect interest in the company is 100%, with 99% held through PGNiG SPV 6 Sp. z o.o. and 1% held through PGNiG SPV 5 Sp. z o.o.

5) PGNiG's interest held indirectly through GAS-TRADING S.A.

6) PGNiG's interest held indirectly through Polska Spółka Gazownictwa Sp. z o.o.

7) PGNiG's interest held indirectly through PGNiG Termika S.A.

8) PGNiG's interest held indirectly through Exalo Drilling S.A.

9) PGNiG's interest held indirectly through PGNiG Supply & Trading GmbH.

10) PGNiG's interest held indirectly through PGNiG Supply & Trading GmbH and PST Europe Sales GmbH.

11) In accordance with the articles of association, decisions concerning significant activities require unanimous consent of the parties; as of June 30th 2015, the company became jointly controlled by PGNiG S.A.

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 PGNiG Group in 2015 were:

- Gas Asset Management Sp. z o.o. w organizacji (in formation) was registered with the National Court Register on February 17th 2015 and as of that date the company has been operating as Gas Assets Management Sp. z o.o.
- On March 5th 2015, Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji (in liquidation) was removed from the National Court Register.
- On March 12th 2015, the share capital of Zakład Separacji Popiołów Siekierki Sp. z o.o. was increased by PLN 9m, to PLN 10m, through an issue of 90 thousand new equal and indivisible shares with a par value of PLN 100 per share. The new shares were acquired by the existing shareholders pro rata to their existing holdings. As a result, the percentage share of PGNiG Termika in the share capital and total voting rights has remained unchanged. The share capital increase was registered with the National Court Register on April 23rd 2015.
- On June 23rd 2015, PST Europe Sales GmbH was entered in the Commercial Register maintained by the District Court in Munich, Germany. The company's share capital is EUR 500,000; all shares in the new company were acquired by PGNiG Sales & Trading.
- In June 2015, GAZ Sp. z o.o. repurchased its shares from minority shareholders and cancelled them. Since June 30th 2015 (the date of the GAZ General Meeting's resolution to cancel 40 shares repurchased from minority shareholders) Polish Gas Company Sp. z o.o. has been the sole shareholder of GAZ Sp. z o.o. As the shares were cancelled in accordance with Article 199.6 of the Commercial Companies Code, the share capital of GAZ Sp. z o.o. (PLN 300,000) and the par value per share (PLN 1,500) have not changed. The number of shares was reduced (from 200 to 160).
- On July 15th 2015, the Extraordinary General Meeting of PGNiG SPV 6 Sp. z o.o. of Warsaw resolved to increase the company's share capital from PLN 250,000 to PLN 51,381,000, i.e. by PLN 51,131,000, by issuing 511,310 new shares with a par value of PLN 100 per share. The shares were subscribed for by PGNiG S.A. The increase was registered with the National Court Register on September 22nd 2015.
- On July 16th 2015, Gas Assets Management Sp. z o.o., an indirect subsidiary of PGNiG S.A., acquired from PHZ BARTIMPEX SA 21,523 shares in GAS-TRADING S.A., representing 36.17% of the share capital and total votes at the General Meeting of GAS-TRADING S.A. Following the acquisition, the PGNiG Group holds a total of 79.58% of shares and votes at the General Meeting of GAS-TRADING S.A.

  Accordingly, the PGNiG Group's aggregate equity interest in Gas-Trading Podkarpacie Sp. z o.o. (a subsidiary of GAS-TRADING S.A.) increased to 78.82%.
- On August 28th 2015, the Extraordinary General Meeting of PGNiG Obrót Detaliczny Sp. z o.o. adopted a resolution to reduce the company's share capital by PLN 490,950,000 (from PLN 1,091,000,000 to PLN 600,050,000), by reducing the par value of 10,910,000 shares (from PLN 100 per share to PLN 55 per share). As within the statutory period of three months none of the company's creditors objected to the change, on January 4th 2016 the reduction of share capital was registered.
- On October 13th 2015, a spin-off of the assets related to the sale of natural gas and electricity to end users from PGNiG Sales & Trading GmbH of Munich (PST) was registered. The spun-off assets were contributed to PST Europe Sales GmbH (PST ES). The spun-off assets included 100%

of shares in XOOL GmbH, PST's subsidiary. Accordingly, the share capital of PST ES was increased from EUR 500 thousand to EUR 1m. PST holds 100% of shares in PST ES. PST ES holds 100% of shares in XOOL GmbH.

At the same time, a change of the company name from PST to PGNiG Supply & Trading GmbH was registered. Both companies have their registered offices in Munich, Germany.

The division of the existing operations into two companies was necessary to meet the regulatory requirements. PST ES will trade in natural gas and electricity (sell them to end users). PGNiG Supply & Trading GmbH will continue wholesale trade in natural gas on the European market.

- On October 28th 2015, 21,523 shares in GAS-TRADING S.A. were transferred from Gas Assets Management Sp. z o.o. to PGNiG SPV 6 Sp. z o.o., following enforcement proceedings conducted by a Court Enforcement Officer upon motion of the creditor, PGNiG SPV 6 Sp. z o.o., against the debtor, Gas Assets Management Sp. z o.o.
- On October 26th 2015, the General Meeting of GAZ Sp. z o.o. passed a resolution to amend the company's Articles of Association by increasing the par value of its shares to make their total par value equal to the share capital; as a result of the amendment, the share capital of PLN 300,000 is divided into 160 shares with a par value of PLN 1,875 per share.
- On October 28th 2015, the share capital of Gas Assets Management Sp. z o.o. was increased by PLN 1,340,000, to PLN 1,360,000. 6,700 shares in the increased share capital were acquired by PGNiG SPV 6 Sp. z o.o. as part of the conversion of debt (loan from PGNiG SPV 6 Sp. z o.o.) into the company's share capital. The increase was registered with the National Court Register on January 14th 2016.
- On October 28th 2015, PGNiG S.A. concluded with PGNiG Termika S.A. an agreement for sale of all 65,490 shares held in NYSAGAZ Sp. z o.o. of Wrocław.

  On the same day, October 28th 2015, PGNiG Termika S.A. purchased from VNG Polska Sp. z o.o., the other shareholder of NYSYGAZ Sp. z o.o., 33,320 shares. Currently, PGNiG Termika S.A. holds 100% of shares in NYSAGAZ Sp. z o.o.
- On December 30th 2015, BUD-GAZ Przedsiębiorstwo Produkcyjno-Usługowo-Handlowe Sp. z o.o. w likwidacji (in liquidation), a subsidiary, was removed from the National Court Register.

1.6. Composition of the PGNiG Management Board

As at the date of preparation of these financial statements, the Management Board of PGNiG S.A. was composed of the following six persons:

- Mr Piotr Woźniak – President of the PGNiG Management Board,
- Mr Janusz Kowalski – Vice-President of the PGNiG Management Board, Corporate Affairs,
- Mr Łukasz Kroplewski – Vice-President of the PGNiG Management Board, Development,
- Mr Bogusław Marzec – Vice-President of the PGNiG Management Board, Finance,
- Mr Maciej Woźniak – Vice-President of the PGNiG Management Board, Trade,
- Mr Waldemar Wójcik – Vice-President of the PGNiG Management Board.

In the period from January 1st to December 31st 2015, the following changes occurred in the composition of the PGNiG Management Board:

- On December 11th 2015, the PGNiG Supervisory Board removed Mr Mariusz Zawisza, President of the Management Board, Mr Jarosław Bauc, Vice-President of the Management Board, Finance, and Mr Zbigniew Skrzypkiewicz, Vice-President of the Management Board, Exploration & Production, from the PGNiG Management Board.

On the same day, the PGNiG Supervisory Board delegated Mr Piotr Woźniak, Member of the PGNiG Supervisory Board, to temporarily perform the duties of President of the PGNiG Management Board from December 11th 2015 to March 11th 2016.

After December 31st 2015, to the date of preparation of these financial statements, the following changes occurred in the composition of the PGNiG Management Board:

- On February 10th 2016, the PGNiG Supervisory Board concluded a qualification procedure and appointed the following persons to the PGNiG Management Board, as of February 11th 2016, for a joint term of office ending on December 30th 2016:
  - Mr Piotr Woźniak – President of the PGNiG Management Board,
  - Mr Janusz Kowalski – Vice-President of the PGNiG Management Board, Corporate Affairs,
  - Mr Łukasz Kroplewski – Vice-President of the PGNiG Management Board, Development,
  - Mr Bogusław Marzec – Vice-President of the PGNiG Management Board, Finance,
  - Mr Maciej Woźniak – Vice-President of the PGNiG Management Board, Trade.

1.7. Commercial proxies

As at the date of preparation of these financial statements, Ms Violetta Jasińska-Jaśkowiak was PGNiG S.A.'s commercial proxy.

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.

As at December 31st 2015, the Company's Commercial Proxies were:

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

The granted powers of proxy were joint powers of proxy, that is, a joint action of two commercial proxies was required for a legal transaction to be effective.

The following changes in the composition of the PGNiG Commercial Proxies occurred in 2015:

- On December 11th 2015, the PGNiG Management Board appointed Mr Janusz Kowalski, Mr Bogusław Marzec and Mr Maciej Woźniak as the Company's commercial proxies.

  The granted powers were several appointments.

- On December 23rd 2015, the PGNiG Management Board resolved to change the powers of proxy granted to all of the Company's commercial proxies and:

  - revoked the joint powers of proxy granted to Ms Violetta Jasińska-Jaśkowiak,

  - revoked the several powers of proxy granted to Mr Janusz Kowalski, Mr Bogusław Marzec and Mr Maciej Woźniak,

  - granted joint powers of proxy to Ms Violetta Jasińska-Jaśkowiak, Mr Janusz Kowalski, Mr Bogusław Marzec and Mr Maciej Woźniak.

After December 31st 2015, to the date of preparation of these financial statements, the following changes occurred in the composition of the PGNiG Commercial Proxies:

- Following their appointment to the PGNiG Management Board Mr Janusz Kowalski, Mr Bogusław Marzec and Mr Maciej Woźniak terminated their appointments as commercial proxies as of February 10th 2016.

1.8. Composition of the PGNiG Supervisory Board

As at the date of preparation of these financial statements, the PGNiG Supervisory Board consisted of eight members:

- Grzegorz Nakonieczny – Chairman of the Supervisory Board,
- Wojciech Bieńkowski – Deputy Chairman of the Supervisory Board,
- Magdalena Zegarska – Secretary,
- Sławomir Borowiec – Member,
- Ryszard Wąsowicz – Member,
- Mateusz Boznański – Member,
- Andrzej Gonet – Member,
- Krzysztof Rogala – Member.

In the period from January 1st 2015 to the date of preparation of these financial statements, the following changes occurred in the composition of the PGNiG Supervisory Board:

- On April 16th 2015, the Annual General Meeting of PGNiG S.A. appointed Ms Irena Ożóg and Mr Maciej Mazurkiewicz as new Supervisory Board members.
- On July 22nd 2015, Mr Wojciech Chmielewski resigned from the position of Chairman and Member of PGNiG's Supervisory Board, with effect as of that date.
- On July 28th 2015, the PGNiG Supervisory Board elected Ms Agnieszka Woś as Chairman of the Supervisory Board; previously, Ms Woś served as Vice-Chairman of the Board. Also, Mr Andrzej Janiak was elected Deputy Chairman of the PGNiG Supervisory Board.
- On October 19th 2015, the Extraordinary General Meeting of PGNiG removed from the Supervisory Board: Ms Agnieszka Woś.

  On the same day, the General Meeting appointed Mr Grzegorz Nakonieczny to the Supervisory Board.
- On December 4th 2015, the State Treasury, acting pursuant to Art. 35.1 of the Company's Articles of Association, appointed Mr Piotr Woźniak to the PGNiG Supervisory Board.
- On December 11th 2015, the PGNiG Supervisory Board delegated Mr Piotr Woźniak, Member of the PGNiG Supervisory Board, to temporarily perform the duties of the President of the PGNiG Management Board.
- On December 29th 2015, the PGNiG Extraordinary General Meeting removed Mr Andrzej Janiak, Mr Maciej Mazurkiewicz, Ms Irena Ożóg and Mr Janusz Pilotowski from the PGNiG Supervisory Board.

  On the same day, the Extraordinary General Meeting appointed Mr Wojciech Bieńkowski, Mr Mateusz Boznański, Mr Andrzej Gonet and Mr Krzysztof Rogala to the PGNiG Supervisory Board.

On February 10th 2016, having been appointed to the PGNiG Management Board, Mr Piotr Woźniak resigned as Member of the PGNiG Supervisory Board.

1.9. Shareholding structure of PGNiG S.A.

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

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

Shareholder	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	4,271,708,411	72.402%	-1.575%	70.827%	4,178,771,608
Other shareholders	1,628,291,589	27.598%	1.575%	29.173%	1,721,228,392
Total	**5,900,000,000**	**100.00%**	**0.00%**	**100.00%**	**5,900,000,000**

*As at September 30th 2015.
**As at December 31st 2015.

On December 2nd 2015, following acquisition of new shares in the increased share capital of Towarzystwo Finansowe Silesia Sp. z o.o. by the Minister of State Treasury in exchange for PGNiG shares, the State Treasury's interest in the share capital decreased by 92,936,803 shares (or 1.57% of the share capital). In 2015, the process of delivering Company shares to eligible employees continued. As at December 31st 2015, due to pending probate proceedings, the process was not completed. The shares to which eligible employees are entitled but which have not yet been distributed are held by the State Treasury.

1.10. 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 4th 2016.

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, loans, receivables and liabilities measured at adjusted cost.

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

2.1.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union ("EU") as at December 31st 2015.

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

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

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

2.2.1. First-time adoption of standards and interpretations

In the period covered by these consolidated financial statements, the Group adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee, and endorsed by the EU, which apply to the Group's business and are effective for annual reporting periods beginning on or after January 1st 2015.

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

Application of the above amendments to standards has not caused any material changes in the accounting policies of the 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 IAS 27 Equity Method in Separate Financial Statements – effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IAS 1 Disclosure Initiative – effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IFRS (2012−2014) – changes in the procedure of introducing annual amendments to IFRS – planned to be effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation – effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations – effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IAS 16 Property, Plant and Equipment – effective for reporting periods beginning on or after January 1st 2016;

The 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 2015 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 2015 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 10 and IAS 28 Sales or Contributions of Assets between an Investor and Its Associate/Joint Venture; The effective date has been postponed for an indefinite time;
- IFRS 14 Regulatory Deferral Accounts – effective for reporting periods beginning on or after January 1st 2016;
- IFRS 15 Revenue from Contracts with Customers – effective for reporting periods beginning on or after January 1st 2018;
- IFRS 16 Leasing – effective for reporting periods beginning on or after January 1st 2019;
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – effective for reporting periods beginning on or after January 1st 2016;
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – effective for reporting periods beginning on or after January 1st 2017;
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative – effective for reporting periods beginning on or after January 1st 2017;

The 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 material subsidiaries 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, associates or joint ventures 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. The same applies to jointly controlled entities (joint ventures) and associates – where financial statements of those entities reveal immaterial values, such entities are not measured with the equity method.

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 zloty (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 Supply & 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.

Included in the consolidated financial statements is foreign-currency denominated data of the Group's foreign entities and branches. Such data is translated into the Polish currency at mid exchange rates for respective currencies effective as at the end of the reporting period – for data derived from the statements of financial position, or at exchange rates computed as the arithmetic mean of mid exchange rates effective at the day ending each month of the financial year − for items of the statement of 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.

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

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

The cost of a licence for evaluation of natural gas and/or crude oil deposits and the cost of its extension is the charge for operations executed under the licence, recognised in the 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. Capitalised seismic survey expenses related to a given prospect are also recognised in profit or loss.

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 expense.

In the case of funds borrowed without a specific purpose, borrowing costs are calculated by applying the capitalisation rate to the capital expenditure on that asset. The capitalisation rate is the weighted average of rates applied to all borrowing costs which are recognised as the 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 obtained under the Polish Geological and Mining Law, 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.

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

Pursuant to the Act on Trading in Greenhouse Gas Emission Allowances, the 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 life periods:

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

Intangible assets with an indefinite useful life are not amortised. Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment periodically (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.

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

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 resulting liability to the lessor is disclosed in the statement of financial position under "Borrowings and other debt instruments", with breakdown into current and non-current portion.

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

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

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

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, with respect to which the Group applies hedge accounting policies. For description of the applied hedge accounting policies, see Section 2.3.11.

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,
- other items.

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 financial position 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.

Inventories are measured 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”). (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 a 100% impairment loss.

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 in the Polish legal system, whereby profit can be allocated to the Company Social Benefits Fund, the Restructuring Fund or for other purposes, is not reflected in the IAS. Therefore, the Group recognises the aforementioned reductions in profit as the cost of the period.

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

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

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

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

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

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

2.3.16.2. Provision for costs of environmental liabilities

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

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

In the ordinary course of business, the 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 certificates of origin and energy efficiency certificates

If at a reporting date the number of certificates in not sufficient to meet the requirements stipulated in the Energy Law and the Energy Efficiency Act, companies recognise a provision for amortisation of certificates of origin and energy efficiency certificates or for the payment of substitution fee.

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

2.3.16.5. Other provisions

The 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 distribution system operators (currently Polska Spółka Gazownictwa Sp. z o.o.) disclose as accruals and deferrals the value of gas infrastructure received 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, borrowings and debt securities).

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

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

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

- it is classified as held for trading, or
- it was designated by the 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 redundancy benefits) which fall due wholly within 12 months after the end of the annual reporting period in which the employees render the related service.

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

Short-term employee benefits paid by the 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.

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.

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

Other current liabilities include in particular liabilities:

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

2.3.19. 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.

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

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). The Trade and Storage Segment also includes companies of the PGNiG Supply & Trading GmbH Group, whose business comprises trade in and distribution of natural gas and electricity, mainly in Germany.

Trade in and storage of natural gas in Poland is regulated under the Energy Law. Selling prices are set in tariffs subject to approval by the President of the Energy Regulatory Office. 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 amount of impairment losses recognised in 2015, see Note 11.3.

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.

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

2.4.3. 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, see Note 6.

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

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

<u>Proceedings concerning performance of the obligation to sell gas through the exchange market in 2013</u>

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

<u>Proceedings concerning performance of the obligation to sell gas through the exchange market in 2014</u>

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

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

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

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.

3. OPERATING SEGMENTS

3.1. Reportable segments

The tables below present revenue, costs, profits and losses, as well as assets, equity and liabilities of the Group's reporting segments for the years ended December 31st 2015 and December 31st 2014.

Year ended Dec 31st 2015	**Exploration and Production**	**Trade and Storage**	**Distribution**	**Generation**	**Other segments**	**Eliminations**	**Total**
Statement of profit or loss							
Sales to external customers	3,148	31,274	654	1,215	173	-	36,464
Inter-segment sales	1,707	468	3,931	672	152	(6,930)	-
Segment's total revenue	4,855	31,742	4,585	1,887	325	(6,930)	36,464
Depreciation and amortisation	(1,331)	(242)	(889)	(312)	(18)	2	(2,790)
Other costs	(2,429)	(31,119)	(2,246)	(1,208)	(313)	6,931	(30,384)
Segment's total costs	(3,760)	(31,361)	(3,135)	(1,520)	(331)	6,933	(33,174)
Operating profit/(loss)	**1,095**	**381**	**1,450**	**367**	**(6)**	**3**	**3,290**
Net finance costs							(225)
Share in net profit/(loss) of equity-accounted entities		(51)					(51)
Profit/(loss) before tax							**3,014**
Income tax							(878)
Net profit/(loss)							**2,136**
STATEMENT OF FINANCIAL POSITION							
Segment's assets	14,743	18,283	14,331	4,256	282	(5,240)	46,655
Investments in equity-accounted entities		840					840
Unallocated assets							755
Deferred tax assets							1,575
Total assets							**49,825**
Total equity							30,741
Segment's liabilities	4,065	4,616	2,515	2,016	128	(4,948)	8,392
Unallocated liabilities							7,602
Deferred tax liabilities							3,090
Total equity and liabilities							**49,825**
Other information							
Capital expenditure on property, plant and equipment and intangible assets	(1,460)	(171)	(1,180)	(353)	(7)	17	**(3,154)**
Impairment losses on assets	(2,947)	(1,797)	(121)	(56)	(18)	-	**(4,939)**
Impairment losses on unallocated assets							**(46)**

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 expenses	(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)**

3.2. Geographical areas

The Group's conducts its business activity primarily on the domestic market (Poland). In 2015, revenue from export sales to external customers accounted for 11.47% (2014: 14.89%) of total revenue from sales to external customers.

	Year ended Dec 31 2015	Year ended Dec 31 2014
Domestic sales:	**32,282**	**29,195**
High-methane gas	26,576	23,944
Nitrogen-rich gas	1,389	1,367
Crude oil and natural gasoline	703	789
Helium	7	12
Electricity	990	910
Heat	1,127	1,079
Geophysical and geological services	53	83
Drilling and well services	53	168
Construction and installation services	129	131
Distribution services	363	67
Connection charge	120	112
Other sales	772	533
Export sales:	**4,182**	**5,109**
High-methane gas	1,965	1,782
Nitrogen-rich gas	36	35
Crude oil and natural gasoline	1,174	1,758
Helium	68	108
NGL	68	107
Electricity	580	785
Geophysical and geological services	62	198
Drilling and well services	214	312
Construction and installation services	-	4
Other sales	15	20
Total	**36,464**	**34,304**

On foreign markets the Group sells its products mainly to customers in Germany (48.5% of export sales), Norway and Switzerland.

Most of the Group's non-current assets (other than financial instruments) are also located in Poland. Non-current assets located outside of Poland as at December 31st 2015 represented 12.50% of the Group's total assets (December 31st 2014: 13.13%).

	As at Dec 31 2015	As at Dec 31 2014
Value of non-current assets other than financial instruments located in Poland	29,854	30,100
Value of non-current assets other than financial instruments located abroad*	4,263	4,550
Total	**34,117**	**34,650**
% share of assets located outside of Poland in total assets	**12.50%**	**13.13%**
* Including PGNiG Upstream International AS	**3,646**	**4,041**

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 2015	Year ended Dec 31 2014
Cost of gas sold	(22,005)	(18,750)
Fuels for electricity and heat generation	(695)	(760)
Electricity for trading	(917)	(1,093)
Other raw materials and consumables used	(599)	(626)
Total	**(24,216)**	**(21,229)**

4.2. Employee benefits expense

	Year ended Dec 31 2015	Year ended Dec 31 2014
Salaries and wages	(1,839)	(2,091)
Social security contributions	(423)	(460)
Cost of future employee benefits	(72)	31
Other employee benefits expense	(380)	(307)
Total	**(2,714)**	**(2,827)**

4.3. Services

	Year ended Dec 31 2015	Year ended Dec 31 2014
Transmission services	(1,156)	(1,076)
Cost of written-off exploration and evaluation assets	(283)	(330)
Repair and construction services	(232)	(246)
Mineral resources production services	(168)	(111)
Rental services	(80)	(127)
Other services	(755)	(953)
Total	**(2,674)**	**(2,843)**

4.4. Other income and expenses

	Year ended Dec 31 2015	Year ended Dec 31 2014
Compensations, penalties, fines received	36	50
Other income	217	169
Net exchange differences related to operating activities	(94)	(59)
Net gain/(loss) on derivative instruments related to operating activities	43	(79)
Change in products	(52)	40
Change in impairment losses*	(747)	(863)
Change in provisions	(32)	(319)
Taxes and charges	(628)	(606)
Other expenses	(476)	(373)
Total	**(1,733)**	**(2,040)**
* Including changes in impairment losses on tangible assets under construction related to the exploration for and evaluation of mineral resources	(324)	(238)

5. FINANCE INCOME AND COSTS

	Year ended Dec 31 2015	Year ended Dec 31 2014
Finance income	**80**	**86**
Interest income	77	80
Dividends and other profit distributions	2	3
Other finance income	1	3
Finance costs	**(305)**	**(432)**
Loss on measurement and realisation of derivative financial instruments	(39)	(32)
Interest expense	(137)	(214)
Foreign exchange losses	(86)	(143)
Loss on disposal of investments	(1)	-
Commission fees paid on bank borrowings	(19)	(19)
Cost of guarantees	(3)	(3)
Other finance costs	(20)	(21)
Net finance income/(costs)	**(225)**	**(346)**

6. EQUITY ACCOUNTING FOR INVESTEES

6.1. Condensed financial information on equity-accounted investees

	As at Dec 31 2015	As at Dec 31 2014
SGT EUROPOL GAZ S.A.		
PGNiG Group's ownership interest*	51.18%	49.74%
Principal business activity	Transmission of natural gas	Transmission of natural gas
Key financial data**		
Non-current assets	2,465	2,714
Current assets	1,970	1,798
Non-current liabilities	401	569
Current liabilities	329	303
Revenue	1,225	1,183
Net profit/(loss)	78	32
GAS - TRADING S.A.* **		
PGNiG Group's ownership interest	79.58%	43.41%
Principal business activity	Trade	Trade
Key financial data**		
Non-current assets	-	12
Current assets	-	29
Non-current liabilities	-	-
Current liabilities	-	1
Revenue	-	111
Net profit/(loss)	-	0.4

* Including a 48% direct interest and a 3.18% (1.74% as at December 31st 2014) interest held indirectly through GAS-TRADING S.A.
** Data from financial statements prepared in accordance with the Polish Accounting Standards.
***In the reporting period, following an increase in the Group's equity interest, GAS - TRADING S.A. ceased to be consolidated with the equity method.

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.

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

	As at Dec 31 2015	As at Dec 31 2014
SGT EUROPOL GAZ S.A.		
Equity accounting for the investment*	1,564	1,527
Cost of acquisition of the interest	89	38
Share in changes in equity	1,653	1,565
Impairment losses	(813)	(725)
Net carrying amount of the investment	**840**	**840**
GAS-TRADING S.A.		
Equity accounting for the investment	-	15
Cost of acquisition of the interest	-	1
Share in changes in equity	-	16
Impairment losses	-	-
Net carrying amount of the investment	**-**	**16**
Total net carrying amount of the investments	**840**	**856**

*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 2015	Year ended Dec 31 2014
Net carrying amount of investments at beginning of period	856	727
Acquisition of shares	51	-
Deconsolidation	(16)	-
Valuation recognised in profit or loss, including:	**(51)**	**129**
Valuation of SGT EUROPOL GAZ S.A.	(51)	129
Valuation of GAS-TRADING S.A.	-	-
Net carrying amount of the investments at end of period	**840**	**856**

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 2015 prepared in accordance with the Polish Accountancy Act, adjusted for differences in the accounting policies applied by the Group and results on intercompany transactions. The differences in the accounting policies concerned recognition of interest expense 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 expense and principal repayments) and other risks known to the issuer.

In addition, in accordance with the information provided in Note *1.5 Changes in the Group's structure, including changes resulting from mergers, acquisitions or disposals of Group entities*, as a result of an indirect acquisition of additional shares in GAS - TRADING S.A., the Group acquired an additional 1.44% interest in EUROPOL GAZ.

As at December 31st 2015, the Parent measured the carrying amount of its equity interest (including the 1.44% of shares acquired through GAS-TRADING S.A.) in the joint venture using the equity method at PLN 1,653m. 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 company's current valuation of PLN 840m. As at the end of 2015, the difference in valuation due to the indirect acquisition of additional shares relative to December 31st 2014 was PLN 51m and was recognised in the statement of profit or loss for the year 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;

The other Group companies are separate CIT taxpayers.

The PTG is a separate entity exclusively for the purposes of corporate income tax, and it should not be viewed as a separate legal person. Also, its separate tax status does not extend to other taxes; in particular, each of the PTG member companies is a separate payer of VAT and of tax on civil-law transactions, and a separate remitter of personal income tax withholdings.

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

	Year ended Dec 31 2015	Year ended Dec 31 2014
Profit/(loss) before tax	3,014	3,626
Tax rate applicable in period	19%	19%
Tax calculated at the applicable tax rate	(573)	(689)
Permanent differences between profit/(loss) before tax and taxable income and the difference in tax rates	(305)	(115)
Tax expense in the consolidated statement of profit or loss	**(878)**	**(804)**
Current tax expense (Note 7.2)	(697)	(726)
Deferred tax expense (Note 7.3)	(181)	(78)
Effective tax rate	29%	22%

7.2. Current tax expense

	Year ended Dec 31 2015	Year ended Dec 31 2014
Profit/(loss) before tax (consolidated)	3,014	3,626
Consolidation adjustments	761	(42)
Differences between profit/(loss) before tax and tax base	(172)	(259)
Taxable income not recognised as income for accounting purposes	186	356
Tax deductible expenses not recognised as expenses for accounting purposes	(2,610)	(3,534)
Income not recognised as taxable income	1,906	2,233
Non-tax deductible expenses	(4,630)	(5,630)
Deductions from income	(472)	(478)
Income tax base	3,603	3,325
Tax rate applicable in the period	19%	19%
Income tax	(685)	(632)
Increases, reliefs, exemptions, allowances and reductions in/of income tax	(12)	(94)
Current tax expense disclosed in tax return for the period	(697)	(726)
Current tax expense disclosed in the consolidated statement of profit or loss	**(697)**	**(726)**

7.3. Deferred tax expense

	Year ended Dec 31 2015	Year ended Dec 31 2014
I. Deferred tax expense disclosed in the consolidated statement of profit or loss	**(181)**	**(78)**
Recognition and reversal of deferred tax due to deductible temporary differences	**(131)**	**35**
Impairment losses on financial assets, receivables and tangible assets under construction	94	58
Provisions for future liabilities	11	58
Costs of FX risk and interest rate risk hedges	137	97
Foreign exchange losses	(2)	(1)
Investment tax credit (Norway)	4	(169)
Tax loss for the period	(350)	10
Other deductible temporary differences	(25)	(18)
Recognition and reversal of deferred tax due to taxable temporary differences	**(50)**	**(113)**
Difference between tax and accounting value of non-current assets	79	85
Positive valuation of FX and interest rate risk hedges	(141)	(127)
Foreign exchange gains	1	3
Income on tax obligation arising in subsequent month	22	(13)
Other taxable temporary differences	(11)	(61)
II. Deferred tax expense disclosed in other comprehensive income, net, including:	**84**	**58**
Hedge accounting	82	50
Actuarial gains/(losses) on employee benefits	2	8
III. Other changes	**49**	**(470)**
Exchange differences on translating deferred tax attributable to foreign operations	155	22
Tax used - investment tax credit (Norway)	(45)	(462)
Deferred tax charged to property, plant and equipment (Norway)	(58)	(30)
Other changes	(3)	-
Total changes (I - III)	**(48)**	**(490)**

The current reporting period covered the tax period from January 1st to December 31st 2015. The CIT rate applicable in Poland in 2015 was 19%. In the comparative period, i.e. in 2014, the CIT rate was 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 2015 ranged from 12% to 42% (the same as in 2014).

In the case of PGNiG Upstream International AS ("PUI"), the marginal tax rate is 78%. PUI's activities in the Norwegian Continental Shelf in 2015 were 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 carried forward. The interest rate applicable to such losses is calculated as a risk-free interest rate, net of income tax (27%). Tax losses incurred by PUI in earlier years (until 2012), increased by the accrued interest, reduce its current tax expense. Therefore, throughout the entire period of its existence, i.e. starting from its establishment until the end of 2015, the company paid no income tax in Norway.

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 2015.

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 2015	Year ended Dec 31 2014
Net profit/(loss) attributable to owners of the parent	2,134	2,823
Net profit/(loss) attributable to owners of the parent used to calculate diluted earnings/(loss) per share	2,134	2,823
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)	0.36	0.48
Diluted earnings/(loss) per share for the period, attributable to holders of ordinary shares of the parent (PLN)	0.36	0.48

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 2015				
01-01-2015	31-12-2015	5,900	365	5,900
Total			**365**	**5,900**
Dec 31 2014				
01-01-2014	31-12-2014	5,900	365	5,900
Total			**365**	**5,900**

10. DIVIDEND PAID AND PROPOSED

	Year ended Dec 31 2015	Year ended Dec 31 2014
Dividends declared and paid in the period		
Dividend per share paid (PLN)	0.20	0.15
Number of shares	5,900	5,900
Dividend paid	1,180	885
- dividend paid to owners of the parent	1,180	885
- dividend paid to non-controlling interests	-	-

On April 16th 2015, the Annual General Meeting of PGNiG S.A. passed a resolution on distribution of the Company's 2014 net profit and decided to allocate PLN 1,180m to dividend. This translated into dividend per share of PLN 0.20.

The dividend record date and the dividend payment date were set for July 15th 2015 and August 4th 2015, respectively.

The dividend for 2013 was paid on September 4th 2014. In accordance with the decision of the Annual General Meeting of PGNiG S.A., the dividend was PLN 885m (PLN 0.15 per share), and the dividend record date was August 14th 2014.

11. PROPERTY, PLANT AND EQUIPMENT

	As at Dec 31 2015	As at Dec 31 2014
Land	67	71
Buildings and structures	18,055	17,172
Plant and equipment	8,518	8,602
Vehicles and other	1,181	1,211
Total tangible assets	**27,821**	**27,056**
Tangible exploration and evaluation assets under construction	2,237	2,148
Other tangible assets under construction	2,909	4,324
Total property, plant and equipment	**32,967**	**33,528**

11.1. TANGIBLE ASSETS

As at Dec 31 2015	Land	Buildings and structures	Plant and equipment	Vehicles and other	**Total**
Net carrying amount as at Jan 1 2015, net of accumulated depreciation and impairment losses	71	17,172	8,602	1,211	**27,056**
Increase	-	126	-	1	**127**
Decrease	(1)	(142)	(18)	(5)	**(166)**
Currency translation differences	-	6	(199)	-	**(193)**
Transfers from tangible assets under construction and between asset groups	1	2,152	1,445	192	**3,790**
Impairment losses	(4)	(148)	(44)	(4)	**(200)**
Depreciation expense for the reporting period	-	(1,111)	(1,268)	(214)	**(2,593)**
Net carrying amount as at Dec 31 2015, net of accumulated depreciation and impairment losses*	**67**	**18,055**	**8,518**	**1,181**	**27,821**
As at Jan 1 2015					
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 Jan 1 2015	**71**	**17,172**	**8,602**	**1,211**	**27,056**
As at Dec 31 2015					
Gross carrying amount	78	30,570	14,552	2,704	**47,904**
Accumulated depreciation and impairment losses	(11)	(12,515)	(6,034)	(1,523)	**(20,083)**
Net carrying amount as at Dec 31 2015	**67**	**18,055**	**8,518**	**1,181**	**27,821**

* Of which property, plant and equipment worth PLN 3,994m serves as security in respect of liabilities in the amount of PLN 1,390m

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**

* Of which property, plant and equipment worth PLN 3,488m serves as security in respect of liabilities in the amount of PLN 682m

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

	As at Dec 31 2015				As at Dec 31 2014			
	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	182	(77)	(1)	104	215	(74)	(1)	140
Vehicles and other	38	(13)	-	25	40	(13)	-	27
Total	**220**	**(90)**	**(1)**	**129**	**255**	**(87)**	**(1)**	**167**

11.3. 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 2015	7	1,030	233	20	**1,290**	1,035	81	**2,406**
Increase	5	452	87	8	**552**	482	18	**1,052**
Decrease	(1)	(299)	(43)	(4)	**(347)**	(152)	(47)	**(546)**
Transfers	-	(5)	-	-	**(5)**	-	-	**(5)**
Currency translation differences	-	-	-	-	**-**	35	-	**35**
As at Dec 31 2015	**11**	**1,178**	**277**	**24**	**1,490**	**1,400**	**52**	**2,942**
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 the beginning of the period, impairment losses on tangible assets were PLN 1,290m, of which:

- - PLN 1,030m was attributable to 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.

Impairment losses recognised and reversed in the reporting period were PLN 552m and PLN 352m, respectively, of which PLN 528m and PLN 320m, 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 1,490m, of which:

- - PLN 1,238m were impairment losses on assets used directly in hydrocarbon production,
- - PLN 3m were impairment losses on distribution assets,
- - PLN 249m were impairment losses on other tangible assets.

12. INVESTMENT PROPERTY

	As at Dec 31 2015	As at Dec 31 2014
Net carrying amount at beginning of period, net of accumulated depreciation and impairment losses	9	9
Decrease	(3)	-
Transfer from/to property, plant and equipment	6	-
Net carrying amount at end of period, net of accumulated depreciation and impairment losses	**12**	**9**
At beginning of period		
Gross carrying amount	13	13
Accumulated depreciation and impairment losses	(4)	(4)
Net carrying amount at beginning of period	**9**	**9**
At end of period		
Gross carrying amount	17	13
Accumulated depreciation and impairment losses	(5)	(4)
Net carrying amount at end of period	**12**	**9**

The Group’s investment property includes office buildings and industrial buildings, held in whole or in part for rent. As at the end of the reporting period, net carrying amount of the office buildings recognised as investment property was PLN 6m (2014: PLN 9m); the value of industrial buildings (classified as investment property in 2015) was also PLN 6m.

In the reporting period, the Group derived PLN 3m of rental income from investment property (2014: PLN 3m).

Operating expenses incurred in connection with the rental of investment property were PLN 2m in the reporting period (2014: 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 2015	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 2015, net of accumulated amortisation and impairment losses	1	44	663	114	47	244	**1,113**
Increase	-	-	1	-	90	-	**91**
Decrease	-	-	-	-	-	(16)	**(16)**
Currency translation differences	-	-	-	1	-	3	**4**
Transfers from tangible assets under construction and between asset groups	-	-	(5)	118	3	44	**160**
Impairment losses	-	-	(18)	(1)	-	2	**(17)**
Amortisation expense for the reporting period	(1)	-	(2)	(60)	(59)	(75)	**(197)**
Net carrying amount as at Dec 31 2015, net of accumulated amortisation and impairment losses	**-**	**44**	**639**	**172**	**81**	**202**	1,138
As at Jan 1 2015							
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 Jan 1 2015	**1**	**44**	**663**	**114**	**47**	**244**	1,113
As at Dec 31 2015							
Gross carrying amount	5	44	677	499	430	617	**2,272**
Accumulated amortisation and impairment losses	(5)	-	(38)	(327)	(349)	(415)	**(1,134)**
Net carrying amount as at Dec 31 2015	**-**	**44**	**639**	**172**	**81**	**202**	1,138

* 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 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**
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)**
Amortisation 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 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 2015	**-**	**-**	**4**	**2**	**-**	**51**	**57**
Increase	-	-	21	1	-	5	**27**
Decrease	-	-	(1)	-	-	(11)	**(12)**
Transfers	-	-	(2)	-	-	-	**(2)**
Currency translation differences	-	-	-	-	-	4	**4**
As at Dec 31 2015	**-**	**-**	**22**	**3**	**-**	**49**	**74**
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**

14. OTHER FINANCIAL ASSETS

	As at Dec 31 2015	As at Dec 31 2014
Loans advanced	213	191
Unlisted shares	79	88
Amounts receivable for sale of tangible assets	4	4
Amounts receivable for sale of shares	2	-
Prepayments for tangible assets under construction	9	-
Other financial assets	2	2
Total, gross	**309**	**285**
Impairment losses	(34)	(42)
Total, net	**275**	**243**
Including net receivables from related entities (Note 36.1)	213	191

15. DEFERRED TAX ASSETS

	As at Dec 31 2015	As at Dec 31 2014
Obligations under length-of-service awards and severance	115	120
Provision for well decommissioning costs	127	141
Other provisions	178	157
Impairment losses on property, plant and equipment	204	145
Other impairment losses/write-offs	67	33
Negative valuation of derivative financial instruments	274	136
Connection charge	55	57
Investment tax credit (Norway)	289	305
Tax loss	217	602
Other deferred tax assets	49	87
Total	**1,575**	**1,783**

16. OTHER NON-CURRENT ASSETS

	As at Dec 31 2015	As at Dec 31 2014
Connection charge	127	129
Commission fees paid on borrowings, notes and other debt instruments	19	25
Other non-current assets	6	6
Total	**152**	**160**

17. INVENTORIES

	As at Dec 31 2015	As at Dec 31 2014
Materials		
At cost, including:	2,407	3,176
- gas fuel	1,748	2,389
- fuels for electricity and heat generation	278	331
At net realisable value, including:	2,100	3,064
- gas fuel	1,491	2,321
- fuels for electricity and heat generation	278	331
Semi-finished products and work in progress		
At cost	22	47
At net realisable value	22	47
Finished goods		
At cost	15	43
At net realisable value	15	42
Merchandise		
At cost	94	36
At net realisable value	92	36
Total inventories at cost	**2,538**	**3,302**
Total inventories, at the lower of cost and net realisable value	**2,229**	**3,189**

17.1. Change in inventories in the period

	Year ended Dec 31 2015	Year ended Dec 31 2014
Inventories at cost, at beginning of period	**3,302**	**3,413**
Purchase	24,635	21,892
Other increases	96	215
Inventories recognised as expenses for the period	(25,111)	(21,606)
Currency translation differences	(8)	1
Other decreases	(376)	(613)
Inventories at cost, at end of period	**2,538**	**3,302**
Impairment loss on inventories	**(309)**	**(113)**
Total net inventories at end of period	**2,229**	**3,189**

17.2. Impairment losses on inventories

	As at Dec 31 2015	As at Dec 31 2014
Impairment losses at beginning of period	**(113)**	**(36)**
Increase in impairment losses	(269)	(228)
Reversal of impairment losses	73	152
Currency translation differences	-	(1)
Impairment losses at end of period	**(309)**	**(113)**

18. TRADE AND OTHER RECEIVABLES

	As at Dec 31 2015	As at Dec 31 2014
Trade receivables	2,899	3,944
VAT receivable	431	429
Other taxes, customs duties and social security receivable	150	134
Due and payable portion of loans advanced to related entities	50	45
Receivables from disposal of property, plant and equipment	3	12
Prepayments for tangible assets under construction	15	44
Other receivables	614	453
Total gross receivables	**4,162**	**5,061**
Including gross receivables (including due and payable portion of loans) from related entities (Note 36.1)	52	60
Impairment loss on doubtful receivables (Note 18.1)	**(790)**	**(825)**
Total net receivables	**3,372**	**4,236**
including:		
Trade receivables	2,541	3,504
VAT receivable	431	429
Other taxes, customs duties and social security receivable	147	131
Due and payable portion of loans advanced to related entities	2	6
Receivables from disposal of property, plant and equipment	3	12
Prepayments for tangible assets under construction	15	44
Other receivables	233	110
Including net receivables (including due and payable portion of loans) from related entities (Note 36.1)	4	16

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

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

18.1. Impairment losses on receivables

	As at Dec 31 2015	As at Dec 31 2014
Impairment losses at beginning of period	**(825)**	**(691)**
Increase in impairment losses	(251)	(561)
Reversal of impairment losses	241	350
Use of impairment losses	44	77
Currency translation differences	1	-
Impairment losses at end of period	**(790)**	**(825)**

19. CURRENT INCOME TAX

	As at Dec 31 2015	As at Dec 31 2014
Current tax assets at beginning of period	**5**	**48**
Transfer between current tax assets and current tax liabilities	4	(43)
Other changes	(2)	-
Current tax assets at end of period*	**7**	**5**
Impairment loss on current tax assets	-	-
Current tax assets at end of period	**7**	**5**
Current tax liabilities at beginning of period	**191**	**184**
Income tax expense recognised in profit or loss of the period	697	726
Income tax expense in the period	(833)	(677)
Exchange differences on translating current tax liabilities	(1)	-
Transfer between current tax assets and current tax liabilities	4	(43)
Other changes	(5)	1
Current tax liabilities at end of period	**53**	**191**

*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 2015	As at Dec 31 2014
Valuation of long-term contracts	64	59
Other current assets	82	73
Total	**146**	**132**

21. CASH AND CASH EQUIVALENTS

	As at Dec 31 2015	As at Dec 31 2014
Cash in hand and at banks	508	619
Bank deposits	5,502	2,315
Other cash*	229	24
Total	**6,239**	**2,958**
including restricted cash	712	482

* Commercial bills, treasury bills, NBP bills, certificates of deposit, cash in transit, cheques and third-party notes maturing in less than three months.

The Group companies deposit their cash with reputable banks, which effectively limits any risk concentration related to cash deposits.

22. ASSETS HELD FOR SALE

Item (or group) of non-current assets	Expected disposal date	Carrying amount as at Dec 31 2015	Terms of disposal
Shares in held-for-sale companies in which the Parent holds a minority interest	2016	3	Shares to be offered for purchase to other shareholders and potential investors or voluntary cancellation of the shares
Other non-current assets held for sale	2016-2017	161	no-tender procedure; tenders
Total		**164**	

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	tenders
Total		**147**	

As at the end of 2015, the net carrying amount of non-current assets held for sale was PLN 164m. The highest-value item was an office building located in Warsaw.

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

* Fully paid-up capital.

24. BORROWINGS AND DEBT SECURITIES

	Note	As at Dec 31 2015	As at Dec 31 2014
Non-current		**5,799**	**5,069**
Bank borrowings	24.1., 24.2.	1,241	463
Debt securities	24.4.	4,514	4,533
Lease liabilities	24.5., 24.6.	44	73
Current		**583**	**769**
Bank borrowings	24.1., 24.2.	283	351
Borrowings	24.3.	-	11
Debt securities	24.4.	258	361
Lease liabilities	24.5., 24.6.	42	46
Total		**6,382**	**5,838**

24.1. Bank borrowings

As at Dec 31 2015

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2016	2017-2021	2022 and beyond
PLN	1M WIBOR + margin	160	160	152	6	2
PLN	3M WIBOR + margin	43	43	41	-	2
USD	LIBOR + margin	151	574	6	23	545
EUR	Eonia+margin	18	76	76	-	-
EUR	EURIBOR + margin	157	671	8	-	663
Total			**1,524**	**283**	**29**	**1,212**

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**

24.2. Obtained credit facilities and amounts available under the facilities

	As at Dec 31 2015	As at Dec 31 2014
Credit facilities obtained	2,350	1,578
Amounts drawn	(1,487)	(752)
Undrawn amounts	**863**	**826**

24.3. Borrowings

As at Dec 31 2015

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2016	2017-2021	2022 and beyond
	none in the reporting period	-	-	-	-	-
Total			-	-	-	-

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**	**-**	**-**

24.4. Debt securities

As at Dec 31 2015

Currency	Interest rate	Amount in original currency	Carrying amount	including repayable in:		
				2016	2017-2021	2022 and beyond
PLN	3M WIBOR + margin	110	110	110	-	-
PLN	6M WIBOR + margin	2,469	2,469	74	2,395	-
EUR	4%	517	2,193	74	2,119	-
Total			**4,772**	**258**	**4,514**	**-**

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**	**-**

24.5. Finance lease liabilities

As at Dec 31 2015

Currency	Interest rate	Amount in original currency	Carrying amount
PLN	3%-5%	2	2
PLN	1M WIBOR + margin	21	21
PLN	6%-8%	10	10
USD	LIBOR + margin	13	50
USD	6% on average	1	2
EUR	EURIBOR + margin	-	1
Total			**86**

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**

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

	As at Dec 31 2015		
	Discounted payments disclosed in the statement of financial position	Interest	Actual lease payments due
Maturing in:			
up to 1 year	42	(2)	41
from 1 to 5 years	44	(5)	39
Total	**86**	**(7)**	**80**

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

25. EMPLOYEE BENEFIT OBLIGATIONS

	As at Dec 31 2015	As at Dec 31 2014
Liabilities under length-of-service awards	481	491
Liabilities under severance	115	100
Wages and salaries payable	56	74
Amounts payable for unused holiday entitlement	47	63
Redundancy benefits	36	10
Other employee benefit obligations	182	150
Total	**917**	**888**
Non-current employee benefit obligations	565	604
Current employee benefit obligations	352	284

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

	As at Dec 31 2015	As at Dec 31 2014
Length-of-service awards		
Value of obligation disclosed in the statement of financial position at beginning of period	491	425
Interest expense	5	11
Current service cost	23	24
Past service cost	(25)	17
Benefits paid	(53)	(61)
Actuarial gain/(loss)	41	69
Gain/(loss) due to curtailments or settlements	(1)	5
Reclassification to liabilities associated with assets held for sale	-	1
Value of obligation disclosed in the statement of financial position at end of period	**481**	**491**
Retirement severance		
Value of obligation disclosed in the statement of financial position at beginning of period	100	78
Interest expense	1	2
Current service cost	4	4
Past service cost	(10)	(1)
Benefits paid	(15)	(14)
Actuarial gain/(loss)	35	30
Gain/(loss) due to curtailments or settlements	-	1
Value of obligation disclosed in the statement of financial position at end of period	**115**	**100**
Total value of obligation disclosed in the statement of financial position at end of period	**596**	**591**

The technical rate applied to calculate the discounted value of future retirement severance obligations was 1.4%, and resulted from a 2.9% annual return on long-term Treasury bonds and a 1.5% forecast annual salary growth (at the end of 2014 the applied technical rate was 0.9%, and resulted from the rates of 2.5% and 1.6%, respectively).

26. PROVISIONS

	Provision for well decommissioning costs	Provision for UOKiK fine	Provision for environmental liabilities	Provision for claims under extra-contractual use of land	Provision for liabilities associated with exploration work abroad	Provision for certificates of origin and energy efficiency certificates	Other provisions	**Total**
As at Jan 1 2015	**1,608**	**60**	**94**	**87**	**164**	**228**	**282**	**2,523**
Increase	193	11	4	18	18	214	71	**529**
Used/reversed	(210)	(6)	-	(59)	-	(227)	(111)	**(613)**
Currency translation differences	(18)	-	-	-	-	-	1	**(17)**
As at Dec 31 2015	**1,573**	**65**	**98**	**46**	**182**	**215**	**243**	**2,422**
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**
Non-current	1,540	-	90	25	4	-	69	**1,728**
Current	33	65	8	21	178	215	174	**694**
As at Dec 31 2015	**1,573**	**65**	**98**	**46**	**182**	**215**	**243**	**2,422**
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**

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

At the end of 2015, PUI, a subsidiary operating in Norway, applied the following rates to calculate the provision for production infrastructure decommissioning costs: inflation rate of 2.00% and nominal discount rate of 3.79%.

27. DEFERRED REVENUE

	As at Dec 31 2015	As at Dec 31 2014
Non-current		
Non-depreciable portion of the value of gas service lines financed by gas buyers	288	337
Connection charge	360	382
Grants	843	843
Other deferred revenue	20	19
Total non-current	**1,511**	**1,581**
Current		
Non-depreciable portion of the value of gas service lines financed by gas buyers	47	48
Connection charge	20	19
Other deferred revenue	87	160
Total current	**154**	**227**

Grants

The Group is executing 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 to ensure proper operation of the gas distribution system.

In 2015, the Parent received grants to finance the following projects:

- "Kosakowo Underground Storage Facility" – PLN 4.8m (2014: PLN 6.5m),
- "Husów Underground Gas Storage Facility" – PLN 11.2 (2014: PLN 6m);

The grants 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 2015	As at Dec 31 2014
Difference between tax and accounting value of non-current assets	2,829	2,985
Valuation of derivative financial instruments, other financial assets, and financial liabilities	181	120
Other deferred tax liabilities	80	145
Total	**3,090**	**3,250**

29. OTHER NON-CURRENT LIABILITIES

	As at Dec 31 2015	As at Dec 31 2014
Liabilities under licences, rights to geological information and mining rights	47	68
Amounts payable under purchase of non-financial non-current assets	11	-
Other non-current liabilities	44	9
Total	**102**	**77**
Including related entities (Note 36.1.)	-	-

30. TRADE AND OTHER PAYABLES

	As at Dec 31 2015	As at Dec 31 2014
Trade payables	956	1,290
VAT payable	1,115	1,074
Other taxes, customs duties and social security payable	258	336
Amounts payable under purchase of non-financial non-current assets	383	415
Accruals and deferred revenue and prepaid deliveries	311	212
Other liabilities	265	262
Total	**3,288**	**3,589**
Including amounts payable to related entities (Note 36.1)	9	13

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

Change in cash	Year ended Dec 31 2015	Year ended Dec 31 2014
1) Cash and cash equivalent in the statement of financial position at beginning of period	2,958	2,827
a) Net effect of exchange rate changes on the balance of cash held in foreign currencies at beginning of period	2	1
Cash and cash equivalents in the statement of cash flows at beginning of period (1-a)	**2,956**	**2,826**
1) Cash and cash equivalents in the statement of financial position at end of period	6,239	2,958
a) Net effect of exchange rate changes on the balance of cash held in foreign currencies end of the period	1	2
Cash and cash equivalents in the statement of cash flows at end of period (2-b)	**6,238**	**2,956**
I. Increase/(decrease) in cash and cash equivalents in the statement of financial position (2-1)	3,281	131
II. Increase/(decrease) in exchange rate changes on the balance of cash held in foreign currencies (b-a)	(1)	1
Increase/(decrease) in cash and cash equivalents in the statement of cash flows (I - II)	**3,282**	**130**

Change in trade and other receivables	Year ended Dec 31 2015	Year ended Dec 31 2014
(Increase)/decrease in other financial assets in the statement of financial position	**(32)**	**(1)**
Change in trade and other receivables in the statement of financial position	**864**	**(150)**
Increase/(decrease) in shares – adjustment to investing activities	-	(5)
Change 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	(9)	10
Increase/(decrease) in prepayments for property, plant and equipment	(20)	5
Due and payable portion of loans advanced	17	12
Change in amounts receivable for sale of shares	3	-
Dividend receivable	-	-
Changes in the Group	-	-
Other changes in receivables	-	-
Change in trade and other receivables in the statement of cash flows	**823**	**(128)**

Change in inventories	Year ended Dec 31 2015	Year ended Dec 31 2014
Change in inventories in the statement of financial position	**960**	**189**
Change in inventories in the statement of cash flows	**960**	**189**

Change in employee benefit obligations	Year ended Dec 31 2015	Year ended Dec 31 2014
Change in employee benefit obligations in the statement of financial position	**29**	**11**
Change in employee benefit obligations in the statement of cash flows	**29**	**11**

Change in provisions	Year ended Dec 31 2015	Year ended Dec 31 2014
Change in provisions in the statement of financial position	**(101)**	**473**
Increase/(decrease) in provision for well decommissioning costs which adjusts property, plant and equipment (adjustment to investing activity)	16	(343)
Change in provisions in the statement of cash flows	**(85)**	**130**

Change in current liabilities	Year ended Dec 31 2015	Year ended Dec 31 2014
Change in current liabilities in the statement of financial position	**(301)**	**(444)**
Change in investment liabilities under purchase of intangible assets and property, plant and equipment	21	(52)
Other changes in liabilities	25	19
Change in current liabilities in the statement of cash flows	**(255)**	**(477)**

Change in other assets in the statement of financial position	Year ended Dec 31 2015	Year ended Dec 31 2014
Change in other assets in the statement of financial position	**8**	**(89)**
Change in other assets in the statement of financial position	**(14)**	**39**
Expense (fees and commission) related to the note issuance programme	(7)	19
Change in other assets in the statement of cash flows	**(13)**	**(31)**

Change in deferred revenue	Year ended Dec 31 2015	Year ended Dec 31 2014
Change in deferred revenue in the statement of financial position	**(143)**	**89**
Grants received for property, plant and equipment	(37)	(103)
Change in deferred revenue in the statement of cash flows	**(180)**	**(14)**

Other items, net, under operating activity	Year ended Dec 31 2015	Year ended Dec 31 2014
Derivative financial instruments	28	(20)
Written-down expenditure on non-financial non-current assets	284	347
Acquired CO_2 emission allowances	(90)	(55)
Other items, net, under operating activity	54	638
Total	**276**	**910**

32. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT POLICY

32.1. Financial instruments by category (carrying amounts)

Dec 31 2015	**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**	**687**	**-**	**9,247**	**-**	**-**	**22**	**45**	**10,002**
Unlisted shares	14, 20	1	-	-	-	-	-	-	45	**46**
Trade and other receivables	18	-	-	-	2,779	-	-	-	-	**2,779**
Derivative financial instrument assets	33	-	687	-	-	-	-	22	-	**709**
Cash and cash equivalents	21	-	-	-	6,239	-	-	-	-	**6,239**
Other financial assets	14, 20	-	-	-	229	-	-	-	-	**229**
Total financial liabilities		**-**	**-**	**-**	**-**	**371**	**8,313**	**794**	**86**	**9,564**
Borrowings	24.1., 24.3.	-	-	-	-	-	1,524	-	-	**1,524**
Debt securities	24.4.	-	-	-	-	-	4,772	-	-	**4,772**
Finance lease	24.5.	-	-	-	-	-	-	-	86	**86**
Trade payables	29, 30	-	-	-	-	-	2,017	-	-	**2,017**
Derivative financial instrument liabilities	33	-	-	-	-	371	-	794	-	**1,165**

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**	**-**	**6,787**	**-**	**-**	**70**	**45**	**7,400**
Unlisted shares	14, 20	1	-	-	-	-	-	-	45	**46**
Trade and other receivables	18	-	-	-	3,632	-	-	-	-	**3,632**
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	24.1., 24.3.	-	-	-	-	-	825	-	-	**825**
Debt securities	24.4.	-	-	-	-	-	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**

32.2. Fair value hierarchy

	As at Dec 31 2015			As at Dec 31 2014		
Classes of financial instruments	level 1	level 2	level 3	level 1	level 2	level 3
Derivative financial instrument assets	-	709	-	-	567	-
Derivative financial instrument liabilities	-	1,165	-	-	593	-

32.3. Fair value of financial instruments

Classes of financial instruments	As at Dec 31 2015		As at Dec 31 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Total financial assets	**9,957**	**9,956**	**7,355**	**7,354**
Unlisted shares*	1	-	1	-
Trade and other receivables	2,779	2,779	3,632	3,632
Derivative financial instrument assets	709	709	567	567
Cash and cash equivalents	6,239	6,239	2,958	2,958
Other financial assets	229	229	197	197
Total financial liabilities	**9,564**	**9,564**	**8,687**	**8,687**
Borrowings	1,524	1,524	825	825
Debt securities	4,772	4,772	4,894	4,894
Finance lease	86	86	119	119
Trade payables	2,017	2,017	2,256	2,256
Derivative financial instrument liabilities	1,165	1,165	593	593

* 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 2015	Year ended Dec 31 2014
Total effect on net profit/(loss), including:	**(399)**	**(754)**
Financial assets and financial liabilities at fair value through profit or loss	109	92
Loans and receivables	133	66
Interest on deposits	64	67
Interest on receivables	25	53
Interest on loans advanced	13	13
Impairment losses on receivables	37	(62)
Impairment losses on loans	(7)	(7)
Foreign currency measurement of loans advanced in foreign currencies	1	2
Financial liabilities at amortised cost	(255)	(376)
Derivative financial instruments	(379)	(518)
Assets and liabilities excluded from the scope of IAS 39	(7)	(18)
Total effect on other comprehensive income, net, including:	**(431)**	**(265)**
Derivative financial instruments	(431)	(265)
Total effect on comprehensive income	**(830)**	**(1,019)**

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 2015	As at Dec 31 2014
Cash and cash equivalents	6,239	2,958
Trade and other receivables	2,794	3,676
Loans and other financial assets	229	197
Positive value of derivative financial instruments	709	567
Total	**9,971**	**7,398**

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 2015, the Group invested its long-term cash surplus of significant value in a diversified portfolio of deposits held with reputable banks.

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.

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

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.

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

As at December 31st 2015, the amount of unimpaired past due receivables, as disclosed in the Group’s statement of financial position, was PLN 418m (2014: PLN 906m).

Delay	As at Dec 31 2015	As at Dec 31 2014
Up to 1 month	328	806
From 1 to 3 months	59	57
From 3 months to 1 year	14	21
from 1 to 5 years	17	22
over 5 years	-	-
Total net past due receivables	**418**	**906**

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 used (implied) market volatility for annual periods, and applied the average change of 10% as at the end of 2015 in the analysis of sensitivity to exchange rates (as at the end of 2014: 10%), a +/-50 bp change in the analysis of sensitivity to interest rates (as at the end of 2014, +/-100 bp) and a 30% change for energy commodity derivatives (December 31st 2014: 30%).

In connection with the change in 2015 of intervals for which market volatility is measured (from semi-annual to annual), in order to ensure data comparability the volatility level for energy commodity derivative transactions in 2014 was changed from 40% to 30%. For exchange rate and interest rate sensitivity analyses, the 2014 volatility levels remained unchanged.

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.

As at December 31st 2015, a 10% strengthening of EUR, USD, NOK and other currencies against the zloty would reduce the net profit by PLN 173, ceteris paribus (PLN 118m on stronger NOK, PLN 28m on stronger EUR, PLN 27m on stronger USD, and nil on 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 used to hedge the loan advanced to PGNiG Upstream International AS, which is eliminated from the consolidated financial statements.

If the loan 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 loan and the cash flows from the hedging transactions would offset one another. As a result, the changes in positive (negative) valuation of the loan 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 effect from the change in valuation of the CCIRS was lower than in the previous year, as in 2015 the amount outstanding under the loan advanced to PGNiG Upstream International AS was partly repaid, and therefore the sensitivity analysis covered a lower value of the hedged instrument.

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 used by PGNiG Upstream International AS and an increase in valuation of the EUR credit facility contracted by the company in the reporting period; and reduced by an amount of increase in the valuation of assets in those currencies. 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 2015, a 10% depreciation of EUR, USD, NOK and other currencies against the zloty would add PLN 168m to the net profit, ceteris paribus (PLN 118m on weaker NOK, PLN 27m on weaker EUR, PLN 23m on weaker USD, and nil on depreciation of the other currencies). The 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. Any decrease in the valuation of the EUR- and USD-denominated credit facilities contracted by PGNiG Upstream International AS would have a positive effect on net profit, which would be partially offset by a decrease in assets (mainly cash and – to a lesser extent – receivables) measured in the same currency.

As at December 31st 2014, a 10% strengthening of EUR, USD, NOK and other currencies against the zloty would reduce the net profit by PLN 306, ceteris paribus (PLN 249m on stronger NOK, PLN 1m on stronger EUR, PLN 61m on stronger USD, and PLN 5m on 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 used to hedge the loan advanced to PGNiG Upstream International AS, which is eliminated from the consolidated financial statements.

If the loan 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 loan and the cash flows from the hedging transactions would offset one another. As a result, the changes in positive (negative) valuation of the loan 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 a USD-denominated 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, a 10% depreciation of EUR, USD, NOK and other currencies against the zloty would add PLN 282m to the net profit (PLN 249m on weaker NOK, PLN 8m on weaker EUR, PLN 46m on weaker USD, and PLN 5m on depreciation of the other currencies). The 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.

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

Dec 31 2015	**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*	3	-	-	-	-	-	-	-	-
Trade and other receivables	391	20	18	2	-	(20)	(18)	(2)	-
Derivative financial instrument assets**	326	234	-	-	-	-	12	138	-
Cash and cash equivalents	834	22	58	1	2	(22)	(58)	(1)	(2)
Effect on financial assets before tax		**276**	**76**	**3**	**2**	**(42)**	**(64)**	**135**	**(2)**
19% tax		(52)	(15)	-	-	8	12	(26)	-
Effect on financial assets after tax		**224**	**61**	**3**	**2**	**(34)**	**(52)**	**109**	**(2)**
Total currencies		*290*				*21*			
Financial liabilities									
Borrowings and debt securities (including finance lease)	3,567	294	63	-	-	(294)	(63)	-	-
Trade and other payables	601	17	30	11	2	(17)	(30)	(11)	(2)
Derivative financial instrument liabilities**	-	-	16	138	-	235	-	-	-
Effect on financial liabilities before tax		**311**	**109**	**149**	**2**	**(76)**	**(93)**	**(11)**	**(2)**
19% tax		(59)	(21)	(28)	-	15	18	2	-
Effect on financial liabilities after tax		**252**	**88**	**121**	**2**	**(61)**	**(75)**	**(9)**	**(2)**
Total currencies		*463*				*(147)*			
Total increase/decrease		(28)	(27)	(118)	-	27	23	118	-
Total currencies		**(173)**				**168**			
Exchange rates as at end of the reporting period and their changes:									
EUR/PLN	4.2615	-	4.6877	4.6877	4.6877	-	3.8354	3.8354	3.8354
USD/PLN	3.9011	4.2912	-	4.2912	4.2912	3.5110	-	3.5110	3.5110
NOK/PLN	0.4431	0.4874	0.4874	-	0.4874	0.3988	0.3988	-	0.3988

** 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 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**	358	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**	4	-	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.

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

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

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)**	

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 liabilities under borrowings, notes in issue and variable-rate leases assuming interest rate changes of +/-50 bp in 2015 (2014: +/-100 bp).

As at December 31st 2015, a +/-50 bp change of interest rates would result in a +/- PLN 40m change in the amount of liabilities under borrowings, notes in issue, variable-rate leases and derivative financial instrument (IRS) (2014: -/+ PLN 73m). In 2015, a +/-50 bp change of interest rates would result in a +/- PLN 1m change in the amount of loans advanced (2014: -/+ PLN 2m).

32.5.2.3.1. Sensitivity of financial instruments to interest rate changes

Dec 31 2015	**Carrying amount**	*Change by:*	
		+50 bp	**-50 bp**
Loans advanced	215	1	(1)
Borrowings and other debt instruments	1,524	8	(8)
Notes issued	4,772	24	(24)
Lease liabilities	86	-	-
Derivative financial instrument (IRS) liabilities	83	8	(8)
Total liabilities	**6,465**	**40**	**(40)**

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)
Derivative financial instrument (IRS) liabilities	106	15	(15)
Total liabilities	**5,944**	**73**	**(73)**

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 2015, the Group closely monitored and hedged 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. In the sensitivity analysis for 2015, a 30% volatility was assumed for such instruments (December 31st 2014: 30%).

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

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

Dec 31 2015	**Carrying amount**	**Price risk**									
	Price change by:	*30%*					*-30%*				
		Gasoil	Fuel oil	Title Transfer Facility	Electricity	Gas - trading activities in Germany	Gasoil	Fuel oil	Title Transfer Facility	Electricity	Gas - trading activities in Germany
Financial assets											
Energy commodity derivative assets	382	-	-	5	1	-	-	-	1	14	1
Effect on financial assets before tax		**-**	**-**	**5**	**1**	**-**	**-**	**-**	**1**	**14**	**1**
19% tax		-	-	(1)	-	-	-	-	-	(3)	-
Effect on financial assets after tax		**-**	**-**	**4**	**1**	**-**	**-**	**-**	**1**	**11**	**1**
Total commodities				*5*					*13*		
Financial liabilities											
Energy commodity derivative liabilities	1 081	-	-	-	14	1	-	-	-	1	-
Effect on financial liabilities before tax		**-**	**-**	**-**	**14**	**1**	**-**	**-**	**-**	**1**	**-**
19% tax		-	-	-	(3)	-	-	-	-	-	-
Effect on financial liabilities after tax		**-**	**-**	**-**	**11**	**1**	**-**	**-**	**-**	**1**	**-**
Total commodities				*12*					*1*		
Total increase/decrease		-	-	4	(10)	(1)	-	-	1	10	1
Total commodities				**(7)**					**12**		

Dec 31 2014	Carrying amount	Price risk									
	Price change by:	*30%*					*-30%*				
		Gasoil	Fuel oil	Title Transfer Facility	Electricity	TGE Gas	Gasoil	Fuel oil	Title Transfer Facility	Electricity	TGE Gas
Financial assets											
Energy commodity derivative assets	209	-	-	8	-	-	-	-	-	-	4
Effect on financial assets before tax		**-**	**-**	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**4**
19% tax		-	-	(1)	-	-	-	-	-	-	(1)
Effect on financial assets after tax		**-**	**-**	**7**	**-**	**-**	**-**	**-**	**-**	**-**	**3**
Total commodities		*7*					*3*				
Financial liabilities											
Energy commodity derivative liabilities	483	-	2	-	-	4	-	-	9	-	-
Effect on financial liabilities before tax		**-**	**2**	**-**	**-**	**4**	**-**	**-**	**9**	**-**	**-**
19% tax		-	-	-	-	(1)	-	-	(2)	-	-
Effect on financial liabilities after tax		**-**	**2**	**-**	**-**	**3**	**-**	**-**	**7**	**-**	**-**
Total commodities		*5*					*7*				
Total increase/decrease		-	(2)	7	-	(3)	-	-	(7)	-	3
Total commodities		**2**					**(4)**				

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

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

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

Dec 31 2015	*Price change by:*	30%			-30%		
		Gasoil	Fuel oil	Title Transfer Facility	Gasoil	Fuel oil	Title Transfer Facility
Effect on equity before tax		1	(4)	495	-	5	(395)
19% tax		-	1	(94)	-	(1)	75
Effect on financial assets/liabilities after tax		**1**	**(3)**	**401**	**-**	**4**	**(320)**

Dec 31 2014	*Price change by:*	30%			-30%		
		Gasoil	Fuel oil	Title Transfer Facility	Gasoil	Fuel oil	Title Transfer Facility
Effect on equity before tax		41	31	237	(33)	(24)	(167)
19% tax		(8)	(6)	(45)	6	4	32
Effect on financial assets/liabilities after tax		**33**	**25**	**192**	**(27)**	**(20)**	**(135)**

The analysis of derivative instruments' sensitivity to fluctuations of commodity prices, charged to equity, as presented in the table above, shows that a 30% increase (30% increase at the end of 2014) in commodity prices would result in an increase in equity through other comprehensive income. A 30% decline in the prices (30% decline at the end of 2014) 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 2015 the Group had in place the following debt 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 withdrew from the Agreement, and the Agreement's term was extended until July 31st 2020. As at December 31st 2015, 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 2015, 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 2015).
- On May 22nd 2012, the Parent executed a PLN 4,500m Note Issuance Programme agreement with Bank Pekao S.A. and ING Bank Śląski S.A. PLN 4,500m note issuance programme 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 2015, nominal debt outstanding under the Programme was PLN 2,500m.
- On October 2nd 2014, the Parent executed with Bank Gospodarstwa Krajowego an agreement for organisation of a note issuance programme for up to PLN 1,000m. The agreement expires on September 30th 2024. Under the Programme, PGNiG may issue notes with maturities of at least 12 months. In accordance with the agreement, the proceeds from the Programme may only be used to finance capital expenditure related to, among other things, maintenance of production capacity, diversification of gas supply sources, oil and gas exploration and appraisal, development of the power segment and ongoing projects involving the construction of storage infrastructure. In the period covered by these financial statements, PGNiG did not issue any notes under the Programme. As at December 31st 2015, no debt was outstanding under the Agreement.
- On July 4th 2012, PGNiG Termika S.A. executed a note issuance programme agreement 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 Issuance Programme, on December 15th 2014 annexes were signed to amend the underwriting, agency and deposit agreements, subsequently amended by annexes of August 18th and December 11th 2015. Under the Programme, PGNiG Termika S.A. may issue coupon or discount notes for 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 2015, PGNiG TERMIKA S.A.'s nominal debt under notes in issue was PLN 110m and comprised debt issued in Q4 2015.

Moreover, the Group companies were parties to credit facility agreements of up to PLN 2,350m (2014: PLN 1,578m). For more information, see Note 24.2.

Any surplus cash is invested in a diversified portfolio of deposits held 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 ensures proper liquidity management through the settlement of payments, preparation of cash-flow projections, optimum management of free cash flows, securing and restructuring of financing for day-to-day operations and investment projects, protection against the risk of temporary liquidity loss due to unforeseen disruptions, and appropriate servicing of credit agreements.

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

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

32.5.3.1. Financial liabilities at amortised cost, by maturity

As at Dec 31 2015	Liabilities under borrowings and notes	Finance lease liabilities	Trade payables	Total
up to 1 year	467	41	1,915	2,423
from 1 to 5 years	5,310	39	64	5,413
over 5 years	550	-	38	588
Total	**6,327**	**80**	**2,017**	**8,424**

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**

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 2015	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	220	286	(28)	314	-
- inflows	-	4,795	268	4,527	-
- outflows	-	(4,509)	(296)	(4,213)	-
Forward contracts	52	21	6	15	-
- inflows	-	159	18	141	-
- outflows	-	(138)	(12)	(126)	-
Futures contracts	(24)	(19)	(3)	(16)	-
- inflows	-	32	21	11	-
- outflows	-	(51)	(24)	(27)	-
Currency options**	8	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
Commodity options**	(6)	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
Commodity swaps	(706)	-	-	-	-
- inflows	-	-	-	-	-
- outflows	-	-	-	-	-
Total	**(456)**	**288**	**(25)**	**313**	**-**

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**	**-**

* 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 2015, 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 2015, 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 2015.

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		Hedged risk
					As at Dec 31 2015	As at Dec 31 2014	
			Cross Currency Interest Rate Swap				
Euronotes	500	EUR	1-3 years	4.1580	159	193	currency exchange rate and interest rate
loan	2,940	NOK	1-3 years	0.5049	144	-	currency exchange rate and interest rate
loan	4,350	NOK	1-3 years	0.5033	-	53	currency exchange rate and interest rate
loan	730	NOK	1-3 months	0.5595	-	53	currency exchange rate and interest rate
					303	**299**	
			Interest Rate Swap				
loan	1,500	PLN	1-3 years	-	(83)	(106)	interest rate
					(83)	**(106)**	
			Forward				
CO_2 emission allowances	9	EUR	3-12 months	4.3849	(1)	-	currency exchange rate
payments for gas	40	USD	1-3 months	3.9530	2	-	currency exchange rate
payments for gas	70	USD	3-12 months	3.7112	14	-	currency exchange rate
trading activities	103	electricity	1–3 months	157.9198	4	-	energy prices
trading activities	510	electricity	1–3 months	164.8958	(4)	-	energy prices
trading activities	1,072	electricity	3–12 months	164.7299	10	-	energy prices
trading activities	395	electricity	3–12 months	164.2402	(9)	-	energy prices
trading activities	161	electricity	1–3 years	164.1005	5	-	energy prices
trading activities	230	electricity	1–3 years	165.9836	(5)	-	energy prices
trading activities	0.15	gas – OTC	more than 3 years	15.6068	(1)	-	gas prices
trading activities	7	gas – OTC	1-3 years	21.8953	(176)	-	gas prices

trading activities	1	gas – OTC	6-12 months	17.9978	(16)	-	gas prices
trading activities	2	gas – OTC	3-6 months	21.7167	(61)	-	gas prices
trading activities	0.48	gas – OTC	1-3 months	16.2471	(3)	-	gas prices
trading activities	7	gas – OTC	1-3 years	22.1167	197	-	gas prices
trading activities	1	gas – OTC	6-12 months	19.3960	20	-	gas prices
trading activities	2	gas – OTC	3-6 months	21.2013	57	-	gas prices
trading activities	1	gas – OTC	1-3 months	16.8227	8	-	gas prices
trading activities	1	electricity – OTC	1-3 years	33.5467	(18)	-	energy prices
trading activities	0.02	electricity – OTC	3-6 months	36.4040	(1)	-	energy prices
trading activities	1	electricity – OTC	1-3 years	33.8782	28	-	energy prices
trading activities	0.04	electricity – OTC	6-12 months	30.7475	1	-	energy prices
trading activities	0.05	electricity – OTC	3-6 months	36.4039	1	-	energy prices
loan	850	NOK	3-12 months	0.4697	-	(5)	currency exchange rate
payments for gas	35	USD	1-3 months	3.3562	-	5	currency exchange rate
trading activities	1	electricity	1–3 months	168.8870	-	7	energy prices
trading activities	1	electricity	1–3 months	171.4998	-	(6)	energy prices
trading activities	1	electricity	3–12 months	171.0307	-	12	currency exchange rate
trading activities	1	electricity	3–12 months	174.9214	-	(12)	currency exchange rate
payments for gas	65	EUR	1-3 months	4.2385	-	2	currency exchange rate
payments for gas	40	EUR	3-12 months	4.2732	-	1	currency exchange rate
payments for gas	10	EUR	1-3 years	4.2997	-	-	currency exchange rate
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	0.15	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	0.23	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	0.36	electricity – OTC	1-3 years	39.2200	-	(2)	energy prices

trading activities	1	electricity – OTC	1-3 years	40.1100	-	4	energy prices
					52	**19**	
			Futures				
trading activities	26	CO_2 emission allowances	3–12 months	37.1285	1	-	prices of CO_2 emission allowances
trading activities	26	CO_2 emission allowances	3–12 months	37.1413	(1)	-	prices of CO_2 emission allowances
trading activities	0.10	gas – EEX AG	1-3 years	20.9545	(3)	-	gas prices
trading activities	0.04	gas – EEX AG	6-12 months	20.2500	(1)	-	gas prices
trading activities	0.05	gas – EEX AG	1-3 years	20.6333	1	-	gas prices
trading activities	0.21	gas – ICE ENDEX B.V.	1-3 years	19.2164	(3)	-	gas prices
trading activities	1	gas – ICE ENDEX B.V.	6-12 months	17.2111	(6)	-	gas prices
trading activities	1	gas – ICE ENDEX B.V.	3-6 months	19.3634	(16)	-	gas prices
trading activities	0.09	gas – ICE ENDEX B.V.	1-3 months	16.2659	(1)	-	gas prices
trading activities	0.13	gas – ICE ENDEX B.V.	1-3 years	19.0103	2	-	gas prices
trading activities	1	gas – ICE ENDEX B.V.	6-12 months	17.8396	7	-	gas prices
trading activities	1	gas – ICE ENDEX B.V.	3-6 months	19.7822	14	-	gas prices
trading activities	0.07	gas – ICE ENDEX B.V.	1-3 months	16.5040	1	-	gas prices
trading activities	1	gas – POWERNEXT SA	1-3 years	19.3753	11	-	gas prices
trading activities	0.12	gas – POWERNEXT SA	6-12 months	17.9809	2	-	gas prices
trading activities	0.38	gas – POWERNEXT SA	3-6 months	19.7383	8	-	gas prices
trading activities	0.13	gas – POWERNEXT SA	1-3 months	16.1546	1	-	gas prices
trading activities	1	gas – POWERNEXT SA	1-3 years	19.8459	(19)	-	gas prices
trading activities	0.07	gas – POWERNEXT SA	6-12 months	18.2438	(1)	-	gas prices
trading activities	0.39	gas – POWERNEXT SA	3-6 months	20.5228	(9)	-	gas prices
trading activities	0.12	gas – POWERNEXT SA	1-3 months	16.4669	(1)	-	gas prices
trading activities	1	electricity – EEX AG	1-3 years	32.9545	(14)	-	energy prices
trading activities	0.02	electricity – EEX AG	3-6 months	38.2955	(1)	-	energy prices
trading activities	0.23	electricity – EEX AG	1-3 years	32.1423	4	-	energy prices
trading activities	1	gas – EEX AG	3-6 months	25.2100	-	(3)	gas prices
trading activities	0.48	gas – EEX AG	3-6 months	25.7800	-	2	gas prices
trading activities	0.40	gas – EEX AG	6-12 months	24.2100	-	2	gas prices
trading activities	0.15	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	0.13	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	0.28	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	0.47	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	0.49	electricity – EEX AG	1-3 years	35.9500	-	2	energy prices
					(24)	**(5)**	
		Call options					
payments for gas	9	EUR	1-3 months	4.4600	-	-	currency exchange rate
payments for gas	36	EUR	3-12 months	4.5068	1	-	currency exchange rate
payments for gas	70	USD	1-3 months	3.8857	5	-	currency exchange rate
payments for gas	40	USD	3-12 months	4.2350	2	-	currency exchange rate
payments for gas	25	EUR	1-3 months	4.3350	-	-	currency exchange rate
payments for gas	72	EUR	3-12 months	4.3915	-	4	currency exchange rate
payments for gas	45	EUR	1-3 years	4.4975	-	5	currency exchange rate
payments for gas	260	USD	1-3 months	3.4221	-	29	currency exchange rate
payments for gas	90	USD	3-12 months	3.4575	-	12	currency exchange rate
					8	**50**	
		Commodity call options					
payments for gas	4.140	TTF	1-3 months	21.07	-	-	commodity prices
payments for gas	3.129	TTF	3-12 months	21.89	-	-	commodity prices
payments for gas	1.015	Title Transfer Facility (TTF)	3-12 months	23.67	-	4	commodity prices
payments for gas	1.091	Title Transfer Facility (TTF)	1-3 years	24.95	-	8	commodity prices
					-	**12**	
		Put commodity options					
payments for gas	0.263	TTF	1-3 years	19.00	(6)	-	commodity prices
payments for gas	0.024	FO	3-12 months	391.25	-	(7)	commodity prices
payments for gas	0.013	GO	3-12 months	672.12	-	(7)	commodity prices

					(6)	**(14)**	
		Commodity swap					
payments for gas	7.696	TTF	1-3 months	20.49	(161)	-	commodity prices
payments for gas	14.596	TTF	3-12 months	20.56	(358)	-	commodity prices
payments for gas	7.680	TTF	1-3 years	19.00	(110)	-	commodity prices
payments for gas	0.107	FO	1-3 months	312.77	(39)	-	commodity prices
payments for gas	0.043	FO	3-12 months	315.70	(20)	-	commodity prices
payments for gas	0.023	GO	1-3 months	552.13	(10)	-	commodity prices
payments for gas	0.019	GO	3-12 months	516.27	(8)	-	commodity prices
payments for gas	0.087	FO	1-3 months	598.25	-	(18)	commodity prices
payments for gas	0.136	FO	3-12 months	483.61	-	(77)	commodity prices
payments for gas	0.052	GO	1-3 months	896.24	-	(15)	commodity prices
payments for gas	0.107	GO	3-12 months	773.05	-	(71)	commodity prices
payments for gas	4.301	Title Transfer Facility (TTF)	1-3 months	24.24	-	(41)	commodity prices
payments for gas	4.692	Title Transfer Facility (TTF)	3-12 months	23.83	-	(58)	commodity prices
payments for gas	0.186	Title Transfer Facility (TTF)	1-3 years	23.90	-	(1)	commodity prices
					(706)	**(281)**	
				Total	**(456)**	**(26)**	
		including:	- positive valuation (assets)		**709**	**567**	
			- negative valuation (liabilities)		**(1,165)**	**(593)**	

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 2015	Year ended Dec 31 2014
Net gain/(loss) on valuation of derivative financial instruments – unrealised	57	70
Net gain/(loss) on valuation of derivative financial instruments – realised	(327)	(496)
Total net gain/(loss) on valuation of derivative financial instruments recognised in profit or loss	**(270)**	**(426)**
including:		
recognised in raw materials and consumables used	(274)	(315)
recognised in other income and expenses	43	(79)
recognised in finance income or costs	(39)	(32)
Net gain/(loss) on valuation of derivative financial instruments recognised in other comprehensive income -– unrealised	**(431)**	**(265)**
Total net gain/(loss) on valuation of derivative financial instruments – recognised in equity	**(701)**	**(691)**

34. CONTINGENT LIABILITIES AND RECEIVABLES

34.1. Contingent receivables

	As at Dec 31 2015	As at Dec 31 2014
From related entities:		
guarantees and sureties received	-	1
promissory notes received	-	78
Total contingent receivables from related entities	**-**	**79**
From other entities:		
guarantees and sureties received	6	104
promissory notes received	14	52
other contingent assets	31	154
Total contingent receivables from other entities	**51**	**310**
Total contingent assets	**51**	**389**

As at the end of 2015, contingent receivables declined, primarily due to: results of an analysis of the probability of consumption of economic benefits performed as at the reporting date; expiry of bank guarantees and performance bonds; and expiry of promissory notes securing a loan surety and amounts receivable for gas fuel.

34.2. Contingent liabilities

	As at Dec 31 2015	As at Dec 31 2014
To other entities		
guarantees and sureties issued*	7,711	7,889
promissory notes issued	1,435	1,559
other contingent liabilities	27	72
Total contingent liabilities to other entities	**9,173**	**9,520**
Total contingent liabilities	**9,173**	**9,520**

* Contingent liabilities in foreign currencies translated into the zloty at exchange rates quoted by the National Bank of Poland for December 31st 2015.

Although the strengthening of the US dollar in 2015 resulted in an increase in the value of contingent liabilities measured in this currency (mainly the performance bond for National Oil Corporation of Libya), this increase was fully offset by changes caused by expiry of certain contingent liabilities following termination of agreements in respect of which the sureties/guarantees had been provided.

35. OFF-BALANCE SHEET LIABILITIES

35.1. Operating lease liabilities

	As at Dec 31 2015	As at Dec 31 2014
up to 1 year	2	4
from 1 to 5 years	1	1
Total	**3**	**5**

35.2. Commitments under executed agreements concerning acquisition of property, plant and equipment (not yet disclosed in the statement of financial position)

	As at Dec 31 2015	As at Dec 31 2014
Commitments under executed agreements	6,532	5,069
Completion of agreements as at the reporting date	(2,767)	(3,478)
Contractual liabilities maturing after the reporting date	**3,765**	**1,591**

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 2015	31	-	Dec 31 2015	1	1	-	-	7
	Dec 31 2014	40	-	Dec 31 2014	5	5	-	-	7
Non-equity-accounted non-consolidated subsidiaries and associated entities and joint ventures	Dec 31 2015	4	(19)	Dec 31 2015	1	1	263	215	2
	Dec 31 2014	8	(44)	Dec 31 2014	10	5	236	197	6
Related entities – total	Dec 31 2015	**35**	**(19)**	Dec 31 2015	**2**	**2**	**263**	**215**	**9**
	Dec 31 2014	**48**	**(44)**	Dec 31 2014	**15**	**10**	**236**	**197**	**13**

In 2015, there were no material transactions with shareholders, other than the dividend distribution discussed in Note 10.
In 2015, 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 zloty exceed in a calendar year the equivalent of EUR 100 thousand in the case of transactions involving merchandise or EUR 30 thousand in the case of transactions involving rendering of services, sale or provision of intangible assets.

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	The Group's % ownership interest as at		Nature of relationship	
			Dec 31 2015	Dec 31 2014	Dec 31 2015	Dec 31 2014
1.	InterTransGas GmbH w likwidacji (in liquidation)	Germany	-	50.00%	-	joint control
2.	Sahara Petroleum Technology LLC in liquidation	Oman	49.00%	49.00%	joint control	joint control
3.	PFK GASKON S.A.	Poland	45.94%	45.94%	significant influence	significant influence
4.	GAZOMONTAŻ S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)1)	Poland	45.18%	45.18%	-	significant influence
5.	ZRUG Sp. z o.o.	Poland	-	40.06%	-	significant influence
6.	ZWUG INTERGAZ Sp. z o.o.	Poland	38.30%	38.30%	significant influence	significant influence
7.	Dewon ZSA	Ukraine	36.38%	36.38%	significant influence	significant influence
8.	ZRUG TORUŃ S.A. w upadłości likwidacyjnej (in liquidation bankruptcy)1)	Poland	25.24%	25.24%	-	significant influence
9.	Elektrociepłownia Stalowa Wola S.A.	Poland	50.00%	50.00%	joint control	joint control
10.	Gazobudowa Kraków Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy)1)	Poland	47.20%	47.20%	-	significant influence
11.	Geotermia Sp. z o.o.	Poland	25.00%	25.00%	significant influence	significant influence
12.	ALFA-CENTER Sp. z o.o.1)	Poland	45.94%	45.94%	-	significant influence

1) Following an analysis of whether there is significant influence/joint control of the company, as at December 31st 2015 the company was not classified as an associate/joint venture

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 2015, the PGNiG Group generated the highest turnover with the following entities in which the State Treasury (directly or indirectly) holds equity interests: Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A., Polski Koncern Naftowy ORLEN S.A., ORLEN Południe S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., Grupa LOTOS S.A., Grupa Azoty Zakłady Azotowe PUŁAWY S.A., Zakłady Azotowe w Tarnowie - Mościcach S.A., Grupa Azoty Zakłady Azotowe Kędzierzyn S.A., Grupa Azoty Zakłady Chemiczne POLICE S.A., KGHM Polska Miedź S.A. and Anwil S.A.

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.

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

	Year ended Dec 31 2015	Year ended Dec 31 2014
Remuneration paid to management staff	**36.12**	**40.73**
Parent	7.68	11.69
Subsidiaries	19.13	25.58
Joint ventures	9.31	2.65
Associates	-	0.81
Remuneration paid to supervisory staff	**10.07**	**7.03**
Parent	0.36	0.37
Subsidiaries	4.05	4.89
Joint ventures	5.66	1.26
Associates	-	0.51
Total	**46.19**	**47.76**

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

	As at Dec 31 2015	As at Dec 31 2014
Management staff		
Interest rate (%)	5.99%	1%
Maturing in	3 months	3 years
Amount of outstanding loans	0.01	0.01
Supervisory staff		
Interest rate (%)	1%	-
Maturing in	3 years	-
Amount of outstanding loans	0.01	-
Total amount of outstanding loans	**0.02**	**0.01**

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

	Year ended Dec 31 2015		
Name	Total remuneration, additional benefits and bonuses paid in 2015	Total remuneration for holding key positions at subordinates in 2015	Total remuneration paid in 2015
Total remuneration paid to Management Board members, including:	**7.677**	**2.905**	**10.582**
Piotr Woźniak – President	0.013	0.043	**0.056**
Bogusław Marzec – Vice-President	0.011	0.040	**0.051**
Janusz Kowalski – Vice-President	0.011	0.037	**0.048**
Maciej Woźniak – Vice-President	0.011	0.038	**0.049**
Waldemar Wójcik – Vice-President	1.457	0.492	**1.949**
Violetta Jasińska-Jaśkowiak – Proxy	0.494	0.105	**0.599**
Persons who were Management Board members in 2015 but not as at Dec 31 2015:			
Mariusz Zawisza	1.961	0.891	**2.852**
Jarosław Bauc	1.645	0.771	**2.416**
Zbigniew Skrzypkiewicz	1.645	0.488	**2.133**
Persons who were Management Board members in 2014 but not as at Dec 31 2014:			
Jerzy Kurella	0.429	-	**0.429**
Total remuneration paid to Supervisory Board members, including:	**0.361**	**-**	**0.361**
Grzegorz Nakonieczny	0.009	-	**0.009**
Wojciech Bieńkowski	0.001	-	**0.001**
Magdalena Zegarska	0.045	-	**0.045**
Sławomir Borowiec	0.045	-	**0.045**
Mateusz Boznański	0.001	-	**0.001**
Wojciech Chmielewski	0.025	-	**0.025**
Andrzej Gonet	0.001	-	**0.001**
Andrzej Janiak	0.045	-	**0.045**
Maciej Mazurkiewicz	0.032	-	**0.032**
Irena Ożóg	0.032	-	**0.032**
Janusz Pilitowski	0.045	-	**0.045**
Krzysztof Rogala	-	-	**-**
Ryszard Wąsowicz	0.045	-	**0.045**
Agnieszka Woś	0.036	-	**0.036**
Piotr Woźniak	0.001	-	**0.001**
Total	**8.038**	**2.905**	**10.943**

Name	Year ended Dec 31 2014 Total remuneration, additional benefits and bonuses paid in 2014	Total remuneration for holding key positions at subordinates in 2014	Total remuneration paid in 2014
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 Moryń	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**

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

	Year ended Dec 31 2015	Year ended Dec 31 2014
Audit of the annual consolidated financial statements	0.06	0.06
Audit of the annual separate financial statements	0.06	0.06
Other assurance services, including review of financial statements	0.47	0.47
Other services	-	0.01
Total	**0.59**	**0.60**

36.7. Joint operations

Dec 31 2015

Name of joint contractual arrangement	Country where joint operation is conducted	Interests in joint operations	Business of joint operations
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%; Calenergy Resources Poland 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 Bieszczady licence area	Poland	PGNiG S.A. 51%; ORLEN Upstream sp. z o.o. 49%	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 Kamień Pomorski licence area	Poland	PGNiG S.A. 51%; LOTOS Petrobaltic S.A. 49%	Oil and gas exploration and production
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 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 a subdivision of the Lubben licence area in east Germany (Brandenburg)	Germany	PGNiG S.A. 36%; Central European Petroleum Gmbh 39%; Rohöl-Aufsuchungs AG 25%	Oil and gas exploration and production
Joint operation in the Kirthar licence area	Pakistan	PGNiG S.A. 70%; Pakistan Petroleum Ltd. 60%	Oil and gas exploration and production
Joint operation in the Skarv Unit (PL212, PL212B, PL262) licence area	Norway	PGNiG UI 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	PGNiG UI 15%, BP 30%, Statoil 30%, EON 25%	Oil and gas exploration and production
Joint operation in the PL702 licence area	Norway	PGNiG UI 40%, OMV 60%	Oil and gas exploration and production
Joint operation in the PL703 licence area	Norway	PGNiG UI 40%, OMV 60%	Oil and gas exploration and production
Joint operation in the PL707 licence area	Norway	PGNiG UI 30%, Edison 50%, North 10%, Lime 10%	Oil and gas exploration and production
Joint operation in the PL711 licence area	Norway	PGNiG UI 20%, Repsol 30%, OMV 20%, Idemitsu 20%	Oil and gas exploration and production
Joint operation in the PL756 licence area	Norway	PGNiG UI 50%, Idemitsu 25%, Rocksource 25%	Oil and gas exploration and production
Joint operation in the PL756 licence area	Norway	PGNiG UI 40%, VNG 20%, Statoil 20%, Explora 20%	Oil and gas exploration and production
Joint operation in the Morvin Field (PL134B) licence area	Norway	PGNiG UI 6%, Statoil 64%, Eni 30%	Oil and gas exploration and production
Joint operation in the Gina Krog Unit (PL029C) licence area	Norway	PGNiG UI 8%, Statoil 58.7%, Total 30%, Det norske 3.3%	Oil and gas exploration and production

Dec 31 2014

Name of joint contractual arrangement	Country where joint operation is conducted	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 Kirthar licence area	Pakistan	PGNiG S.A. 70%; Pakistan Petroleum Ltd. 60%	Oil and gas exploration and production
Joint operation in the Skarv Unit (PL212, PL212B, PL262) licence area	Norway	PGNiG UI 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	PGNiG UI 15%; BP 30%; Statoil 30%; EON 25%	Oil and gas exploration and production
Joint operation in the PL558 licence area	Norway	PGNiG UI 30%; EON 30%; Det norske 20%; Petoro 20%	Oil and gas exploration and production
Joint operation in the PL646 licence area	Norway	PGNiG UI 20%; Lundin Norway 20%; Wintershall 40%; Noreco 20%	Oil and gas exploration and production
Joint operation in the PL648S licence area	Norway	PGNiG UI 50%; OMV 50%	Oil and gas exploration and production
Joint operation in the PL702 licence area	Norway	PGNiG UI 40%; OMV 60%	Oil and gas exploration and production
Joint operation in the PL703 licence area	Norway	PGNiG UI 40%; OMV 60%	Oil and gas exploration and production
Joint operation in the PL707 licence area	Norway	PGNiG UI 30%; Edison 50%; North 10%; Lime 10%	Oil and gas exploration and production
Joint operation in the PL711 licence area	Norway	PGNiG UI 20%; Repsol 30%; OMV 20%; Idemitsu 20%	Oil and gas exploration and production
Joint operation in the PL756 licence area	Norway	PGNiG UI 50%; Idemitsu 25%; Rocksource 25%	Oil and gas exploration and production

37. EMPLOYEES (NUMBER OF STAFF)

Employees by segments as at end of period	As at Dec 31 2015	As at Dec 31 2014
Exploration and Production	8,903	10,221
Trade and Storage	3,748	4,218
including equity-accounted entities	286	289
Distribution	10,678	12,173
Heat and Power Generation	1,071	1,068
Other segments	1,305	1,605
Total	**25,705**	**29,285**

38. RESTRUCTURING PROCESS WITHIN THE GROUP

In accordance with the terms of the 'Programme for Workforce Streamlining and Redundancy Payments to the Employees of the PGNiG Group for 2009–2011 (Stage 3)', 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 the Extraordinary General Meeting on September 24th 2014. Thus, as of January 1st 2015 the Programme was no longer in effect.

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.

In accordance with the PGNiG Group Efficiency Improvement Programme, PGNiG Group companies are also implementing other programmes related to workforce streamlining, including voluntary redundancy programmes. The Programme is part of initiatives designed to improve the Group's cost effectiveness and organisational efficiency pursued under the PGNiG Group's Strategy for 2014–2022, 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 2015	As at Dec 31 2014
Borrowings, finance lease liabilities and liabilities under debt securities in issue	6,382	5,838
Trade and other payables	3,443	3,857
Cash and cash equivalents (-)	(6,239)	(2,958)
Net debt	**3,586**	**6,737**
Equity (attributable to owners of the parent)	**30,736**	**30,164**
Equity and net debt	**34,322**	**36,901**
Leverage	10.4%	18.3%

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. On May 29th 2015, the Warsaw Court of Appeals issued a final decision partly allowing PGNiG S.A.'s appeal and, among other things, reduced the penalty imposed on PGNiG to PLN 5.5m.

In September 2015 both PGNiG S.A. and the President of UOKiK filed cassation complaints against the Court of Appeals judgement. As at the date of preparation of these financial statements, the Supreme Court has not issued any decision on whether to accept the cassation complaints for examination.

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.

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. for alleged delay in complying with the President of UOKiK's decision of December 31st 2013 where it relates to optional reduction by business customers of gaseous fuel quantities and capacity contracted for future years. In their response, PGNiG S.A. and PGNiG OD presented grounds for their actions and stated that by taking those actions they duly complied with the decision. On September 24th 2015, the President of UOKiK issued a decision to impose a financial penalty of PLN 10.4m on PGNiG S.A. for a delay in compliance with the decision referred to above.

The President of UOKiK also decided to discontinue the proceedings against PGNiG OD. The President of UOKiK found that PGNiG OD had performed the obligations under the President of UOKiK's decision of December 31st 2013.

On November 2nd 2015, PGNiG S.A. filed an appeal against the decision of the President of UOKiK with the Competition and Consumer Protection Court at the Regional Court of Warsaw. As at the date of this report, the Competition and Consumer Protection Court had not notified PGNiG S.A. of a hearing date.

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

The proceedings concerning the dispute with PBG S.A. ended in 2014, as no settlement was made between PGNiG S.A. and PBG S.A. w upadłości układowej (in company voluntary arrangement) with respect to PGNiG S.A.'s claims for damages under the Grodzisk Nitrogen Rejection Unit Construction Project contract.

With respect to the other two entities identified in the request to call for a conciliation hearing, i.e. Chart Inc-Process System Division and Thermo Design Engineering Ltd., on March 18th 2015 the District Court for Poznań–Stare Miasto of Poznań issued a decision to discontinue the proceedings.

40.3. Proceedings initiated by the President of the Energy Regulatory Office

Proceedings concerning breach of terms of the Licence to trade in natural gas with foreign partners in 2007 and 2008

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.

In May 2015, the Company filed a cassation complaint. By the date of these financial statements, no final ruling was issued in the case.

Proceedings instituted on April 28th 2014

Proceedings concerning failure to comply with the obligation to diversify gas supplies in 2012, instituted by the President of the Energy Regulatory Office on April 28th 2014. The proceedings are pending, and the Company provides the regulator with required explanations and documents.

Decisions concerning breach of terms of the Licence to trade in natural gas with foreign partners in 2009 and 2010

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

On January 21st 2016 and January 22nd 2016, PGNiG S.A. filed appeals against the decisions of the President of the Energy Regulatory Office with the Competition and Consumer Protection Court at the Regional Court of Warsaw.

40.4. Proceedings before the Arbitration Court

On May 13th 2015, the Company called PAO Gazprom and OOO Gazprom Export (Gazprom) to arbitration proceedings before the Arbitration Court in Stockholm. The dispute relates to change of the price terms of the long-term gas supply contract of September 25th 1996 (Contract). Calling Gazprom to arbitration opens the arbitration procedure provided for under the Contract. The value of the claim or the date of resolution cannot be specified at this stage of the dispute.

The Company became entitled to initiate arbitration proceedings in early May 2015 following the expiry of six months from the date of the request to renegotiate the Contract price terms. Submitting the dispute for resolution by the Arbitration Court does not preclude trade negotiations and an amicable settlement with the supplier.

On February 1st 2016, the Company filed a claim against OAO Gazprom and OOO Gazprom Export in the arbitration proceedings instigated before the Arbitration Court in Stockholm on May 13th 2015.

The steps taken by PGNiG aim to bring the Contract terms in line with the current conditions on the European natural gas market.

40.5. Supplementary agreement to the long-term agreement with Qatar Liquefied Gas Company Limited

In connection with a delay in construction of the LNG Terminal in Świnoujście and PGNiG's inability to collect the contracted LNG deliveries starting from January 1st 2016, on October 21st 2015, PGNiG and Qatar Liquefied Gas Company Limited (3) (Qatargas) of Doha, Qatar, signed a new supplementary agreement ("Agreement") to the LNG sale contract of June 29th 2009 ("Long-Term Contract").

The Agreement extends the effective period for the performance of the Long-Term Contract as set out in a supplementary agreement of December 9th 2014. Settlements made in accordance with the terms of the supplementary agreement have effectively mitigated the risk of PGNiG S.A. having to make payments under the take-or-pay clause in 2015 – the entire volume of gas which was originally to be supplied to Świnoujście in 2015 was placed by the Quatari partner in other markets.

Pursuant to the Agreement, PGNiG and Qatargas changed the terms on which the Long-Term Contract will be performed in the first six months of 2016. In that period, Qatargas will place the volumes specified in the Long-Term Contract on other markets, and PGNiG will cover any difference between the LNG price under the Long-Term Contract and the market price obtained by Qatargas. Should the price be lower than PGNiG finds satisfactory, any unsold LNG supplies will be shifted to later years of the Long-Term Contract.

Further, given the need to ensure the security of natural gas supplies to Poland, the Agreement also specifies the terms on which PGNiG and Qatargas will agree on LNG supplies in the first half of 2016, if need be, once the Świnoujście terminal becomes fully operational.

40.6. Collective dispute with the employer

As a result of the rejection by the Employer on May 21st 2015 of demands put forward by trade unions active at PGNiG, a collective dispute was formally initiated.

The trade unions demanded that PGNiG:

1. Increase pay by 6% in 2015;

2. Increase the value of vouchers to PLN 2,000 per year;

3. Distribute the 2014 annual bonus in an amount equal to 11.7% of the calculation basis, that is in accordance with the annual bonus calculation rules applied in 2013;

In the opinion of the Management Board, the demands specified in item 1 and item 2 could not give rise to a collective dispute within the meaning of Art. 1 of the Act on Resolution of Collective Disputes of May 23rd 1991, as these matters are governed by the Company's Collective Labour Agreement.

As regards item 3, the Company did not grant the demand for the following reasons:

- deregulation of the Polish gas market and increased competition;
- changes in the market environment (dramatic decline in crude oil prices on global markets);
- changes of the regulatory regime.

In July 2015, mediation between the parties began. An impartial mediator, proposed by the Minister of Labour and Social Policy, was engaged to help solve the dispute. As the parties failed to reach an agreement, on September 24th 2015, a report detailing the issues agreed on and differences was drawn up in the presence of the mediator.

On October 8th 2015, the trade unions called a strike ballot, which was carried out in October 12th–30th 2015. 82% of all eligible employees voted in the ballot, with 95.88% of them voting in favour of industrial action, including a strike. The protest action in the form of a union rally in front of the Company's Head Office was carried out on November 24th 2015.

The collective dispute between the trade unions and the Employer ended on December 16th 2015. The resulting agreement took into consideration both the interests of employees and the Employer's financial standing, and provided for, among other things, payment of the bonus for 2014 and an additional recharge of employee vouchers.

In accordance with the agreement, the employees obtained these benefits in December 2015. The cost incurred by the Employer in connection with the agreement was PLN 50m.

41. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

- On January 25th 2016 PGNiG S.A. terminated its agreement with Standard&Poors Rating Services Ltd ("S&P") for credit rating of the Company and rating of the bonds issued by its subsidiary PGNiG Finance AB.

  Therefore, S&P will soon withdraw its rating, which has been BBB-, with stable outlook, since November 28th 2012.

  Both the Company and the bonds issued by PGNiG Finance AB maintain an investment grade rating from Moody's Investors Service.

- On February 9th, the National Court Register registered changes in the Articles of Association of Gaz Sp. z o.o. of Błonie, an indirect subsidiary of PGNiG, concerning the number of shares. As of that date, Gaz Sp. z o.o.'s share capital, amounting to PLN 300,000, is divided into 160 shares with a par value of PLN 1,875 per share.

- On February 10th 2016, the Company's Supervisory Board appointed Deloitte Polska Sp. z o.o. sp.k., with registered office at Al. Jana Pawła II 19, 00-854 Warsaw, as the auditor of the Company's financial statements and consolidated financial statements for the financial years 2016, 2017 and 2018.

  The resolution to appoint the auditor was passed in compliance with applicable laws, the Company's internal regulations and professional standards.

  Deloitte Polska Sp. z o.o. sp.k. is entered in the list of qualified auditors maintained by the National Chamber of Statutory Auditors under Reg. No. 73. The Company used the services of the firm (which previously operated under the name of Deloitte Audyt Sp. z o.o.) to audit PGNiG's separate and consolidated financial statements in 2003-2012.

  On February 19th 2016 an appeal was filed with the National Appeals Chamber against the appointment of Deloitte Polska Sp. z o.o. sp.k. as the Company's auditor. The appeal was lodged by one of the bidders participating in the tender to select an auditor of the Company's separate and consolidated financial statements for 2016, 2017 and 2018. Until the National Appeals Chamber issues a judgment or a decision ending the appeal proceedings, the Company may not enter into an agreement with Deloitte Polska Sp. z o.o. sp.k.

PGNiG Management Board:

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

Warsaw, February 19th 2016

MANAGEMENT BOARD'S REPRESENTATIONS

1. REPRESENTATION ON RELIABILITY OF THE FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS OF THE PGNiG GROUP FOR 2015

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

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

2. REPRESENTATION ON APPOINTMENT OF THE ENTITY QUALIFIED TO AUDIT THE CONSOLIDATED FINANCIAL STATEMENTS OF THE PGNiG GROUP FOR 2015

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

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

PGNiG Management Board:

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