C. ADDITIONAL EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS 95
1. INFORMATION ON FINANCIAL INSTRUMENTS 95
2. INFORMATION ON OFF-BALANCE SHEET LIABILITIES, INCLUDING GUARANTEES AND SURETIES GRANTED BY THE COMPANY (ALSO BILL OF EXCHANGE LIABILITIES) 103
3. LIABILITIES TO CENTRAL OR LOCAL GOVERNMENT ARISING FROM OBTAINED TITLES TO BUILDINGS AND STRUCTURES 105
4. INFORMATION ON OPERATIONS ABANDONED OR PLANNED TO BE ABANDONED 105
5. MANUFACTURING COST 107
6. INCURRED AND PLANNED INVESTMENT OUTLAYS 107
7. INFORMATION ABOUT RELATED PARTY TRANSACTIONS 108
8. JOINT VENTURES 110
9. INFORMATION ON AVERAGE EMPLOYMENT 113
10. INFORMATION ON REMUNERATION PAID TO THE MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES 113
11. INFORMATION ON LOANS AND SIMILAR BENEFITS GRANTED TO MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES 114
12. INFORMATION ON SIGNIFICANT EVENTS PERTAINING TO PREVIOUS YEARS AND DISCLOSED IN THE FINANCIAL STATEMENTS FOR THE 2005 FINANCIAL YEAR 114
13. INFORMATION ON SIGNIFICANT POST-BALANCE SHEET EVENTS NOT INCLUDED IN THE FINANCIAL STATEMENTS 114
14. INFORMATION ON THE RELATIONSHIP BETWEEN THE PREDECESSOR IN TITLE AND THE ISSUER AS WELL AS THE METHOD AND RANGE OF ACQUIRING ASSETS AND LIABILITIES 115
15. FINANCIAL STATEMENTS ADJUSTED BY THE INFLATION RATIO 115
16. STATEMENT AND EXPLANATION OF DIFFERENCES BETWEEN DATA DISCLOSED IN THE FINANCIAL STATEMENTS AND COMPARABLE FINANCIAL DATA AS WELL AS THE PREVIOUSLY PREPARED AND PUBLISHED FINANCIAL STATEMENTS 116
17. CHANGES IN ACCOUNTING PRINCIPLES (POLICY) IN 2005 117
18. CHANGES IN ACCOUNTING PRINCIPLES (POLICY) AND THE METHOD OF PREPARING THE FINANCIAL STATEMENTS, INTRODUCED AS COMPARED TO THE PREVIOUS FINANCIAL YEAR AND THEIR IMPACT ON THE FINANCIAL AND ECONOMIC POSITION 118
19. INFORMATION ON UNCERTAINTY OF CONTINUING ACTIVITY, DESCRIPTION OF THESE UNCERTAINTIES AND INFORMATION WHETHER THE FINANCIAL STATEMENTS INCLUDE RELEVANT ADJUSTMENTS 118
20. INFORMATION ABOUT BUSINESS COMBINATIONS 118
21. PRESENTATION OF THE EFFECTS OF MEASURING SHARES IN CONTROLLED ENTITIES USING THE EQUITY METHOD IN THE COMPANY'S INDIVIDUAL FINANCIAL STATEMENTS 118
22. INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS 119
23. OTHER RELEVANT INFORMATION - THE PROCESS OF RESTRUCTURING THE COMPANY ... 119
24. OTHER RELEVANT INFORMATION - FOREIGN OPERATIONS 125
25. OTHER RELEVANT INFORMATION – LONG-TERM CONTRACTS FOR GAS DELIVERIES 128
26. OTHER RELEVANT INFORMATION - CONTRACTS FOR THE PURCHASE OF GAS FROM RUSSIA 129
27. OTHER RELEVANT INFORMATION - MANAGEMENT BOARD'S PLANS REGARDING FINANCING OF OPERATIONS 129

C. ADDITIONAL EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. INFORMATION ON FINANCIAL INSTRUMENTS

CLASSIFICATION OF ASSETS BY FINANCIAL INSTRUMENTS GROUP

Type of financial instrument	31 December 2005	31 December 2004
1. Assets held for trading	**120 273**	**232 620**
a) Derivatives	120 273	232 620
2. Originated loans and own receivables	**22 800**	**80 362**
a) Originated loans	22 800	80 362
3. Assets held to maturity	**2 652 843**	**715 444**
a) Short-term securities	1 951 245	418 409
b) Short-term currency deposits PLN	662 914	226 792
c) Short-term currency deposits (foreign currencies)	38 684	70 243
4. Assets available for sale	**1 646**	**3 098**
a) Shares in other entities	1 646	3 098
5. Hedging instruments with positive fair value	**-**	**-**
Total	**2 797 562**	**1 031 524**

VALUATION OF ASSETS CLASSIFIED AS FINANCIAL INSTRUMENTS

Type of financial instrument	measurement method as of 31 December 2005	value at acquisition price	value from balance sheet measurement	revaluation write-down as of 31 December 2005	change in write-downs in 2005	difference between fair value and value at acquisition price charged to revaluation reserve	amount charged in the current year to revaluation reserve
1. Assets held for trading		**-**	**120 273**	**-**	**-**	**-**	**-**
a) Derivatives	fair value	-	120 273	-	-	-	-
2. Originated loans and own receivables		**322 668**	**22 800**	**299 868**	**(14 121)**	**-**	**-**
a) Originated loans	fair value	322 668	22 800	299 868	(14 121)	-	-
3. Assets held to maturity		**2 651 880**	**2 652 843**	**-**	**-**	**-**	**-**
a) Short-term securities	fair value	1 950 419	1 951 245	-	-	-	-
b) Short-term currency deposits PLN**	fair value	662 781	662 914	-	-	-	-
c) Short-term currency deposits (foreign currencies)	fair value	38 680	38 684	-	-	-	-
4. Assets available for sale		**25 036**	**1 646**	**23 390**	**(501)**	**-**	**-**
a) Shares in other entities	fair value	25 036	1 646	23 390	(501)	-	-
5. Hedging instruments with positive fair value		**-**	**-**	**-**	**-**	**-**	**-**
Total		**2 999 584**	**2 797 562**	**323 258**	**(14 622)**	**-**	**-**

* Increases (-); decreases (+).
** The carrying value includes accrued interest in the amount of 963.5 thousand

Type of financial instrument	measurement method as of 31 December 2004	value at acquisition price	value from balance sheet measurement	revaluation write-down as of 31 December 2004	change in write-downs in 2004	difference between fair value and value at acquisition price charged to revaluation reserve	amount charged in the current year to revaluation reserve
1. Assets held for trading		**-**	**232 620**	**-**	**-**	**-**	**-**
a) Derivatives	fair value	-	232 620	-	-	-	-
2. Originated loans and own receivables		**366 108**	**80 362**	**285 746**	**(12 195)**	**-**	**-**
a) Originated loans	fair value	366 108	80 362	285 746	(12 195)	-	-
3. Assets held to maturity		**715 224**	**715 444**	**-**	**-**	**-**	**-**
a) Short-term securities	fair value	418 189	418 409	-	-	-	-
b) Short-term currency deposits PLN**	fair value	226 792	226 792	-	-	-	-
c) Short-term currency deposits (foreign currencies)	fair value	70 243	70 243	-	-	-	-
4. Assets available for sale		**43 396**	**3 098**	**40 298**	**(59)**	**-**	**-**
a) Shares in other entities	fair value	43 396	3 098	40 298	(59)	-	-
5. Hedging instruments with positive fair value		**-**	**-**	**-**	**-**	**-**	**-**
Total		**1 124 728**	**1 031 524**	**326 044**	**(12 254)**	**-**	**-**

* Increases (-); decreases (+).
** The carrying value includes accrued interest in the amount of 71.5 thousand

According to the Company the carrying value (after adjustment for revaluation write-downs) of originated loans reflects their fair value.

INTEREST ACCRUED ON ORIGINATED LOANS AND OWN RECEIVABLES

	31 December 2005	31 December 2004
Accrued and realized interest	198 862	38 230
Interest on receivables	34 140	9 372
Interest on originated loans	164 722	28 858
Accrued but unrealized interest	49 182	40 648
Interest on receivables	41 655	32 012
Interest on originated loans	7 527	8 636
Total	**248 044**	**78 878**

All unrealized interest has a maturity of less than 3 months.

CREATED REVALUATION WRITE-DOWNS ON ACCRUED BUT UNREALIZED INTEREST

	31 December 2005	31 December 2004
Revaluation write-down on receivables	39 831	31 820
Revaluation write-down on originated loans	7 527	8 636
Total	**47 358**	**40 456**

FINANCIAL LIABILITIES BY TITLE

Type of liability	**31 December 2005**	**including the amount from measurement charged to revaluation reserve**	**including the amount from measurement charged to financial result**
	amount		
1. Financial liabilities held for trading	**173 177**	**-**	**10 806**
a) Derivatives	173 177	-	10 806
2. Other financial liabilities	**2 326 400**	**-**	**(26 356)**
a) Credits and loans	2 326 215	-	(26 356)
b) Liabilities due to financial leasing	185	-	-
c) -	-	-	-
3. Hedging instruments with negative fair value	**-**	**-**	**-**
Total	**2 499 577**	**-**	**(15 550)**

* Increases (-) charged to expenses, decreases (+) charged to revenues.

Type of liability	**31 December 2004**	**including the amount from measurement charged to revaluation reserve**	**including the amount from measurement charged to financial result**
	amount		
1. Financial liabilities held for trading	**238 193**	**-**	**(149 157)**
a) Derivatives	238 193	-	(149 157)
2. Other financial liabilities	**4 270 199**	**-**	**563 786**
a) Credits and loans	4 231 784	-	564 424
b) Liabilities due to financial leasing	38 415	-	(638)
3. Hedging instruments with negative fair value	**-**	**-**	**-**
Total	**4 508 392**	**-**	**414 629**

* Increases (-) charged to expenses, decreases (+) charged to revenues.

EXPENSES DUE TO INTEREST ON FINANCIAL LIABILITIES

	31 December 2005	31 December 2004
Accrued and realized interest	315 570	241 190
Interest on bank loans	92 967	70 211
Interest on received loans	219 290	164 823
Interest on leasing	3 313	6 156
Accrued but unrealized interest	10 448	37 857
Interest on bank loans	8 356	6 923
Interest on received loans	2 092	30 934
Interest on leasing	-	-
Total	**326 018**	**279 047**

All unrealized interest has a maturity of less than 3 months.

DERIVATIVE FINANCIAL INSTRUMENTS

Objective and principles of financial risk management

Due to the type of business activity conduct by it, the Company is exposed to financial risks, including in particular:

- currency risk;
- interest rate risk;
- commodity risk;
- credit risk.

The Company manages exposure to various types of risk by aiming at their reduction to acceptable levels. To this end, the Company enters into hedging transactions involving derivatives.

Currency risk

The long-term portion of the Company's financial liabilities is denominated in EUR, whereas trade liabilities due to contracts for the purchase of gas are denominated in USD and EUR.
The key objective of the Company's activities connected with hedging currency risk is to protect it against exchange rate fluctuations, inherent to payments of the loan principal and interest as well as to payments for gas realized in foreign currencies. In order to hedge its liabilities, the Company uses primarily forwards, options and cross currency swaps with maturity of up to 5 years.

Commodity risk

The price risk connected with contracts for gas deliveries is substantial. Fluctuations in the price of crude oil products on fuel markets are the main risk factor. In certain contracts the formula for calculating the purchase price of gas limits the volatility of prices by using

average weighted prices from previous months. Additionally the energy law enables entities to apply for the amendment of the tariff, if the costs of purchasing gas increase by more than 5% during one quarter.

Credit risk

Credit risk resulting from third parties being unable to meet their obligations under contracts related to the Company's financial instruments is basically limited to the surplus of third parties' liabilities over those of the Company. The Company follows the principle of entering into transactions in financial instruments with multiple companies of high creditworthiness. As a result, the Company does not anticipate significant losses due to credit risk.

Derivative financial instruments

In 2001, the Company for the first time applied accounting principles that were consistent with International Financial Reporting Standards and with regulations in force as of 2002, i.e. the Accounting Act and the Minister of Finance's Ordinance on financial instruments. In line with these regulations, businesses are required to recognize all derivatives at fair value.
The Company did not apply hedge accounting principles in 2005. Therefore changes in the fair value of hedged financial instruments and hedging instruments were presented in the profit and loss account for the given reporting period.

Fair value and cash flow hedges

The Company applies fair value and cash flows hedges to a portion of its credit and trade liabilities that are denominated in USD and EUR. To this extent the Company concludes derivative transactions with renowned financial institutions: forward transactions related to the purchase of foreign currencies or rights to such purchases (options). As a result of the debt restructuring process executed in 2005 the conditions of some transactions that hedge credit liabilities will need to be amended in order to adapt them to the new structure of debt. The Company's objective is to maintain hedging ratios related to its exposure to credit risk at the same level as in 2005.
The below note presents the measurement of derivative financial instruments.

MEASUREMENT OF DERIVATIVES

Hedged instrument	Value of the hedged instrument	Currency of the hedged instrument	Hedge type	Hedge start date	Hedge repurchase date	Instrument realization price or price range	Hedge currency	Risk hedged	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)
									Balance as of 31 December 2005		**Balance as of 31 December 2004**	
ABN syndicate EUR 18 million	18 000	EUR	Currency Swap with Final Exchange Option	30.11.2000	22.08.2005	3.8950	EUR	FX risk	-	-	3 312	-
ABN syndicate EUR 18 million	18 000	EUR	Currency Swap with Final Exchange Option	01.12.2000	22.02.2005	3.8950	EUR	FX risk	-	-	3 186	-
CSFB USD 100 million first tranche	100 000	USD	Currency Swap	20.06.2001	22.06.2006	4.0150	USD	FX risk	-	13 091	-	51 648
CSFB USD 100 million second tranche	100 000	USD	Currency Swap	04.09.2001	06.09.2006	4.2820	USD	FX risk	-	26 599	-	76 081
ABN syndicate EUR 90 million	90 000	EUR	Cross Currency Swap	05.10.2000	2003 - 2006	3.9900	EUR	FX and interest rate risk	-	-	-	7 646
ABN Eurobonds EUR	120 000	EUR	Currency Swap	23.10.2001	30.10.2006	3.8750	EUR	FX and interest rate risk	107 893	-	220 005	-
ABN Eurobonds EUR 25 million	25 000	EUR	Principal Only Cross Currency Swap	13.12.2002	26.10.2006	3.9750	EUR	FX risk	-	2 362	2 742	-
ABN Eurobonds EUR 25 million	25 000	EUR	Cross Currency Swap	19.12.2002	26.10.2006	3.9970	EUR	FX risk	-	2 956	3 375	-
Societe Generale EUR 25 million	25 000	USD	Currency Swap	07.09.2004	26.10.2006	4.3870	EUR	FX risk	-	13 083	-	7 707
Societe Generale EUR 25 million	25 000	EUR	Currency Swap	18.11.2004	26.10.2006	4.2499	EUR	FX risk	-	10 012	-	4 627
SMBC EUR 25 million	25 000	EUR	Currency Swap	16.09.2004	26.10.2006	4.3475	EUR	FX risk	-	12 100	-	6 730
SMBC EUR 25 million	25 000	EUR	Currency Swap	13.10.2004	26.10.2006	4.3000	EUR	FX risk	-	11 184	-	6 071
SMBC EUR 25 million	25 000	EUR	Currency Swap	20.12.2004	26.10.2006	4.1175	EUR	FX risk	-	6 867	-	1 303
Deutsche Bank Polska EUR 25 million	25 000	EUR	Swap	09.04.2003	26.10.2006	4.2890	EUR	FX risk	-	10 378	-	4 774
Deutsche Bank Polska EUR 25 million	25 000	EUR	Currency Swap	14.07.2004	26.10.2006	4.4450	EUR	FX risk	-	14 503	-	9 834
City Bank EUR 25 million	25 000	EUR	Currency Swap	14.07.2004	26.10.2006	4.4750	EUR	FX risk	-	15 248	-	9 095
City Bank EUR 25 million	25 000	EUR	Swap	11.04.2003	26.10.2006	4.2525	EUR	FX risk	-	9 456	-	3 845
liabilities for gas	10 000	USD	Collar	24.08.2005	10.01.2006	3.4600-3.2015	USD	FX risk	-	25	-	-
liabilities for gas	10 000	USD	Collar	24.08.2005	20.01.2006	3.4600-3.1900	USD	FX risk	13	90	-	-
liabilities for gas	10 000	USD	Collar	24.08.2005	10.01.2006	3.4600-3.1870	USD	FX risk	-	13	-	-
liabilities for gas	10 000	USD	Collar	07.09.2005	10.02.2006	3.3000-3.0490	USD	FX risk	356	25	-	-
liabilities for gas	10 000	USD	Collar	09.09.2005	21.02.2006	3.3500-3.0610	USD	FX risk	260	46	-	-
liabilities for gas	10 000	USD	Collar	14.09.2005	10.02.2006	3.3500-3.0910	USD	FX risk	221	53	-	-
liabilities for gas	10 000	USD	Collar	16.09.2005	21.02.2006	3.3300-3.0709	USD	FX risk	309	53	-	-
liabilities for gas	10 000	USD	Collar	29.09.2005	10.03.2006	3.4000-3.1365	USD	FX risk	238	200	-	-
liabilities for gas	10 000	USD	Collar	30.09.2005	10.03.2006	3.4300-3.1330	USD	FX risk	191	193	-	-
liabilities for gas	10 000	USD	Collar	13.10.2005	10.01.2006	3.3200-3.2095	USD	FX risk	42	35	-	-
liabilities for gas	10 000	USD	Collar	02.11.2005	10.04.2006	3.4000-3.2340	USD	FX risk	337	647	-	-
liabilities for gas	10 000	USD	Collar	02.11.2005	10.03.2006	3.4000-3.2370	USD	FX risk	238	533	-	-
liabilities for gas	10 000	USD	Collar	03.11.2005	20.03.2006	3.3800-3.2345	USD	FX risk	305	558	-	-
liabilities for gas	10 000	USD	Collar	10.11.2005	20.01.2006	3.5500-3.3360	USD	FX risk	1	858	-	-
liabilities for gas	10 000	USD	Collar	10.11.2005	20.01.2006	3.5500-3.3285	USD	FX risk	1	797	-	-
liabilities for gas	10 000	USD	Collar	10.11.2005	10.01.2006	3.5500-3.3530	USD	FX risk	-	930	-	-
liabilities for gas	10 000	USD	Collar	10.11.2005	10.01.2006	3.5500-3.3370	USD	FX risk	-	781	-	-
liabilities for gas	10 000	USD	Collar	10.11.2005	10.01.2006	3.5500-3.3275	USD	FX risk	-	695	-	-

MEASUREMENT OF DERIVATIVES (CONT.)

Hedged instrument	Value of the hedged instrument	Currency of the hedged instrument	Hedge type	Hedge start date	Hedge repurchase date	Instrument realization price or price range	Hedge currency	Risk hedged	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)
									Balance as of 31 December 2005		**Balance as of 31 December 2004**	
liabilities for gas	10 000	USD	Collar	14.11.2005	20.04.2006	3.5500-3.3365	USD	FX risk	159	1 291	-	-
liabilities for gas	10 000	USD	Collar	14.11.2005	10.04.2006	3.5500-3.3333	USD	FX risk	133	1 223	-	-
liabilities for gas	10 000	USD	Collar	15.11.2005	20.04.2006	3.5300-3.3460	USD	FX risk	179	1 357	-	-
liabilities for gas	10 000	USD	Collar	15.11.2005	10.02.2006	3.5300-3.3326	USD	FX risk	33	969	-	-
liabilities for gas	10 000	USD	Collar	16.11.2005	21.02.2006	3.6000-3.2595	USD	FX risk	23	553	-	-
liabilities for gas	10 000	USD	Collar	16.11.2005	20.03.2006	3.6000-3.2630	USD	FX risk	59	701	-	-
liabilities for gas	10 000	USD	Collar	18.11.2005	10.02.2006	3.5500-3.3075	USD	FX risk	26	790	-	-
liabilities for gas	10 000	USD	Collar	18.11.2005	10.02.2006	3.5500-3.3080	USD	FX risk	26	793	-	-
liabilities for gas	10 000	USD	Collar	18.11.2005	20.03.2006	3.5500-3.3075	USD	FX risk	89	964	-	-
liabilities for gas	10 000	USD	Collar	23.11.2005	20.04.2006	3.4800-3.2595	USD	FX risk	239	823	-	-
liabilities for gas	10 000	USD	Collar	23.11.2005	10.04.2006	3.4800-3.2570	USD	FX risk	208	761	-	-
liabilities for gas	10 000	USD	Collar	23.11.2005	10.03.2006	3.4800-3.2565	USD	FX risk	131	629	-	-
liabilities for gas	10 000	USD	Collar	23.11.2005	21.02.2006	3.5000-3.2430	USD	FX risk	68	471	-	-
liabilities for gas	10 000	USD	Collar	23.11.2005	10.05.2006	3.5000-3.2220	USD	FX risk	260	711	-	-
liabilities for gas	10 000	USD	Collar	24.11.2005	10.05.2006	3.4800-3.2328	USD	FX risk	288	762	-	-
liabilities for gas	10 000	USD	Collar	24.11.2005	10.02.2006	3.4800-3.2300	USD	FX risk	60	361	-	-
liabilities for gas	10 000	USD	Collar	29.11.2005	20.03.2006	3.4300-3.2050	USD	FX risk	216	433	-	-
liabilities for gas	10 000	USD	Collar	05.12.2005	19.05.2006	3.4500-3.2000	USD	FX risk	358	645	-	-
liabilities for gas	10 000	USD	Collar	05.12.2005	21.02.2006	3.4500-3.2010	USD	FX risk	111	301	-	-
liabilities for gas	10 000	USD	Collar	12.12.2005	20.03.2006	3.3500-3.1800	USD	FX risk	375	345	-	-
liabilities for gas	10 000	USD	Collar	12.12.2005	19.05.2006	3.3500-3.1750	USD	FX risk	590	547	-	-
liabilities for gas	10 000	USD	Collar	12.12.2005	10.04.2006	3.3500-3.1730	USD	FX risk	456	403	-	-
liabilities for gas	10 000	USD	Collar	20.12.2005	10.05.2006	3.3000-3.1500	USD	FX risk	730	434	-	-
liabilities for gas	10 000	USD	Collar	28.12.2005	20.01.2006	3.2500-3.2070	USD	FX risk	394	127	-	-
liabilities for gas	5 000	EUR	Collar	14.09.2005	20.01.2006	4.0300-3.9075	EUR	FX risk	7	288	-	-
liabilities for gas	10 000	EUR	Collar	15.09.2005	20.02.2006	4.0200-3.8760	EUR	FX risk	114	504	-	-
liabilities for gas	5 000	EUR	Collar	24.11.2005	20.04.2006	4.0300-3.9165	EUR	FX risk	145	457	-	-
liabilities for gas	5 000	EUR	Collar	29.11.2005	20.04.2006	4.0000-3.8830	EUR	FX risk	173	359	-	-
liabilities for gas	5 000	EUR	Collar	05.12.2005	19.05.2006	3.9900-3.8350	EUR	FX risk	231	278	-	-
liabilities for gas	5 000	USD	Call	03.11.2004	18.02.2005	3.4168	USD	FX risk	-	-	-	(1)
liabilities for gas	5 000	USD	Call	05.11.2004	10.03.2005	3.3810	USD	FX risk	-	-	-	(10)
liabilities for gas	5 000	USD	Call	10.11.2004	21.03.2005	3.3403	USD	FX risk	-	-	-	(23)
liabilities for gas	5 000	USD	Call	30.11.2004	20.01.2005	3.1750	USD	FX risk	-	-	-	(5)
liabilities for gas	5 000	USD	Collar	10.09.2004	10.01.2005	3.5400	USD	FX risk	-	-	-	2 735
liabilities for gas	5 000	USD	Collar	14.09.2004	20.01.2005	3.5305	USD	FX risk	-	-	-	2 661
liabilities for gas	5 000	USD	Collar	21.09.2004	10.01.2005	3.4670	USD	FX risk	-	-	-	2 370
liabilities for gas	5 000	USD	Collar	04.10.2004	20.01.2005	3.4712	USD	FX risk	-	-	-	2 366
liabilities for gas	5 000	USD	Collar	06.10.2004	10.02.2005	3.4590	USD	FX risk	-	-	-	2 262
liabilities for gas	5 000	USD	Collar	11.10.2004	10.02.2005	3.4150	USD	FX risk	-	-	-	2 071
liabilities for gas	5 000	USD	Collar	11.10.2004	10.02.2005	3.4205	USD	FX risk	-	-	-	2 044
liabilities for gas	5 000	USD	Collar	02.11.2004	18.02.2005	3.3320	USD	FX risk	-	-	-	1 622
liabilities for gas	5 000	USD	Collar	03.11.2004	18.02.2005	3.3095	USD	FX risk	-	-	-	1 513
liabilities for gas	5 000	USD	Collar	04.11.2004	10.03.2005	3.2805	USD	FX risk	-	-	-	1 355
liabilities for gas	5 000	USD	Collar	05.11.2004	10.03.2005	3.2790	USD	FX risk	-	-	-	1 348
liabilities for gas	5 000	USD	Collar	08.11.2004	21.03.2005	3.2285	USD	FX risk	-	-	-	1 112

MEASUREMENT OF DERIVATIVES (CONT.)

Hedged instrument	Value of the hedged instrument	Currency of the hedged instrument	Hedge type	Hedge start date	Hedge repurchase date	Instrument realization price or price range	Hedge currency	Risk hedged	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)
									Balance as of 31 December 2005		**Balance as of 31 December 2004**	
liabilities for gas	5 000	USD	Collar	09.11.2004	21.03.2005	3.2390	USD	FX risk	-	-	-	1 159
liabilities for gas	5 000	USD	Collar	10.11.2004	20.01.2005	3.2350	USD	FX risk	-	-	-	1 190
liabilities for gas	5 000	USD	Collar	10.11.2004	18.02.2005	3.2170	USD	FX risk	-	-	-	1 072
liabilities for gas	5 000	USD	Collar	15.11.2004	20.01.2005	3.2405	USD	FX risk	-	-	-	1 217
liabilities for gas	5 000	USD	Collar	15.11.2004	21.03.2005	3.2250	USD	FX risk	-	-	-	1 097
liabilities for gas	5 000	USD	Collar	16.11.2004	20.01.2005	3.2280	USD	FX risk	-	-	-	1 155
liabilities for gas	5 000	USD	Collar	16.11.2004	18.02.2005	3.2235	USD	FX risk	-	-	-	1 102
liabilities for gas	5 000	USD	Collar	17.11.2004	10.01.2005	3.2300	USD	FX risk	-	-	-	1 186
liabilities for gas	5 000	USD	Collar	17.11.2004	10.02.2005	3.2225	USD	FX risk	-	-	-	1 103
liabilities for gas	5 000	USD	Collar	19.11.2004	21.03.2005	3.2005	USD	FX risk	-	-	-	987
liabilities for gas	5 000	USD	Collar	19.11.2004	18.02.2005	3.1915	USD	FX risk	-	-	-	955
liabilities for gas	5 000	USD	Collar	22.11.2004	10.03.2005	3.1760	USD	FX risk	-	-	-	881
liabilities for gas	5 000	USD	Collar	22.11.2004	21.03.2005	3.1700	USD	FX risk	-	-	-	855
liabilities for gas	5 000	USD	Collar	23.11.2004	20.01.2005	3.1725	USD	FX risk	-	-	-	882
liabilities for gas	5 000	USD	Collar	24.11.2004	18.02.2005	3.1435	USD	FX risk	-	-	-	739
liabilities for gas	5 000	USD	Collar	24.11.2004	21.03.2005	3.1279	USD	FX risk	-	-	-	678
liabilities for gas	5 000	USD	Collar	25.11.2004	20.01.2005	3.1325	USD	FX risk	-	-	-	691
liabilities for gas	5 000	USD	Collar	25.11.2004	10.02.2005	3.1320	USD	FX risk	-	-	-	688
liabilities for gas	5 000	USD	Collar	26.11.2004	10.01.2005	3.1430	USD	FX risk	-	-	-	752
liabilities for gas	5 000	USD	Collar	30.11.2004	10.03.2005	3.0940	USD	FX risk	-	-	-	536
liabilities for gas	5 000	USD	Collar	17.12.2004	18.02.2005	3.0325	USD	FX risk	-	-	-	305
liabilities for gas	10 000	USD	FX forward	05.09.2005	20.01.2006	3.1505	USD	FX risk	1 107	-	-	-
liabilities for gas	10 000	USD	FX forward	13.09.2005	20.01.2006	3.2013	USD	FX risk	600	-	-	-
liabilities for gas	10 000	USD	FX forward	14.09.2005	21.02.2006	3.1920	USD	FX risk	688	-	-	-
liabilities for gas	10 000	USD	FX forward	11.10.2005	20.01.2006	3.2173	USD	FX risk	440	-	-	-
liabilities for gas	10 000	USD	FX forward	06.12.2005	10.03.2006	3.2551	USD	FX risk	60	-	-	-
liabilities for gas	10 000	USD	FX forward	14.12.2005	10.03.2006	3.1828	USD	FX risk	776	-	-	-
liabilities for gas	10 000	USD	FX forward	28.12.2005	10.02.2006	3.2296	USD	FX risk	316	-	-	-
liabilities for gas	5 000	EUR	FX forward	20.09.2005	20.01.2006	3.9084	EUR	FX risk	-	219	-	-
liabilities for gas	5 000	EUR	FX forward	11.10.2005	20.03.2006	3.8972	EUR	FX risk	-	101	-	-
liabilities for gas	5 000	EUR	FX forward	29.11.2005	20.03.2006	3.9185	EUR	FX risk	-	206	-	-
liabilities for gas	5 000	USD	FX forward	13.09.2004	10.01.2005	3.6462	USD	FX risk	-	-	-	3 256
liabilities for gas	5 000	USD	FX forward	21.09.2004	20.01.2005	3.5845	USD	FX risk	-	-	-	2 926
Total									**120 273**	**173 177**	**232 620**	**238 193**

2. INFORMATION ON OFF-BALANCE SHEET LIABILITIES, INCLUDING GUARANTEES AND SURETIES GRANTED BY THE COMPANY (ALSO BILL OF EXCHANGE LIABILITIES)

As of 31 December 2005, the value of off-balance sheet liabilities amounted to PLN 979,924.7 thousand, of which the most significant portion constituted guarantees and sureties issued for the amount of PLN 870,423.2 thousand. Bill of exchange liabilities additionally amounted to PLN 9,251.9 thousand.

As of 31 December 2005, contingent liabilities arising from granted guarantees and sureties amounted to PLN 870,423.2 thousand, which accounts for 4.5% of total assets. During the previous year, total liabilities amounted to PLN 6,192,756.6 thousand, which accounted for 42.5% of the value of assets.

Real estate tax

Pursuant to the decision of the Supreme Administrative Court in Warsaw of 2 July 2001 made by 7 judges underground headings are not subject to real estate tax. Since in case of crude oil and gas mining, a well is considered a mining heading, the municipal offices proper for the area of activity of Zielonogórski Zakład Górnictwa Nafty i Gazu (ZZGNiG) waived the enforcement of real estate tax; whereas some of them decided that the well development system was taxable.

The tax obligation in respect to pipelines has been applicable since 2001. ZZGNiG created provisions for claims of municipal office due to real property tax in the amount of PLN 821.3 thousand, whereas municipalities in the Podkarpacie region have not forwarded any claims yet. Mines located in the Podkarpacie region did not declare or accrue real estate tax on excavations for the period of 2001 - 2005. The potential tax liability not disclosed in the financial statements together with interest amounted to PLN 58,220.0 thousand as of 31 December 2005.

Real estate claims

Additionally, claims are being submitted against PGNiG S.A. by the owners of real property:

- where gas pipelines are being planned;
- where existing gas pipelines and gas equipment is located.

Potential liabilities arising from claims related to real property cannot be estimated, due to the fact that such claims are often groundless (which has been confirmed by expert opinions).

CONTINGENT LIABILITIES ARISING FROM GRANTED SURETIES AND GUARANTEES

Borrower	Currency of the contingent liability	Amount of the contingent liability granted in foreign currency	Amount of the contingent liability* granted in PLN '000	Date of the contingent liability	Expiration date of the liability	Contingent liability valid until	Bank or other institution to which the contingency liability was granted	Type of contingent liability granted
System Gazociągów Tranzytowych "EuRoPol Gaz" S.A.	PLN	56 000	56 000	2009-09-30	1996-10-08	2012-09-30	Bank Gdański S.A.	credit surety
PGNIG S.A. Branch in Pakistan	USD	2 316	7 553	2008-12-31	2000-11-20	2008-12-31	Societe Generale Branch in Poland	bank guarantee
Supreme Court in Pakistan	USD	1 122	3 661	2008-01-30	2004-07-08	2008-01-30	Societe Generale Branch in Poland	bank guarantee
Gazexport Ltd.	USD	48 143	157 007	2006-02-08	2004-12-17	2006-02-08	Bank Handlowy w Warszawie S.A.	bank guarantee
Gazexport Ltd.	USD	48 143	157 007	2006-02-08	2004-12-17	2006-02-08	BNP Paribas (Suisse)	bank guarantee
Gazexport Ltd.	USD	100 000	326 130	2007-02-08	2005-12-14	2007-02-08	Societe Generale Branch in Poland	bank guarantee
Gazexport Ltd.	USD	50 000	163 065	2007-02-08	2005-12-14	2007-02-08	Bank PEKAO S.A. Head Office	bank guarantee
Total			**870 423**					

* Contingent liabilities in currencies translated at NBP exchange rates as of 31 December 2005 (EUR/PLN 3.8598; USD/PLN 3.2613)

CONTINGENT BILL OF EXCHANGE LIABILITIES

Entity to which the bill of exchange was issued	Currency of the bill of exchange	Amount of the bill of exchange	Amount of the bill of exchange in PLN	Bill of exchange expiry date
Towarzystwo Finansowo-Leasingowe S.A.	PLN	6 852	6 852	21.12.2006
Towarzystwo Finansowo-Leasingowe S.A.	PLN	2 400	2 400	15.12.2007
Total			**9 252**	

* Translated at the NBP exchange rate as of 31 December 2005 (EUR/PLN 3.8598)

3. LIABILITIES TO CENTRAL OR LOCAL GOVERNMENT ARISING FROM OBTAINED TITLES TO BUILDINGS AND STRUCTURES

As of 31 December 2005 and 31 December 2004 the Company did not have any liabilities to the State Budget or local self-government authorities due to obtaining ownership titles to buildings and structures.

4. INFORMATION ON OPERATIONS ABANDONED OR PLANNED TO BE ABANDONED

In order to comply with EU legislation, PGNiG abandoned its operations in the transmission of high pressure gas. Pursuant to the government "Program of restructuring and privatizing PGNiG", the above-mentioned operations have been taken over by OGP Gaz System Sp. z o.o., currently directly controlled by the State Treasury.

The isolation of transmission activity significantly influenced the structure of the financial result of PGNiG S.A. As of 8 July 2005 OGP Gaz System Sp. z o.o. took over the activities related to transmission services, whereas PGNiG S.A. began generating revenues on leasing agreements related to a portion of its transmission assets.

To sum up, due to the isolation of transmission activity PGNiG S.A. ceased to disclose the resulting margin in the sales result in the second half of 2005. This margin has been replaced by financial revenues and other operating revenues connected with leasing agreements related to transmission assets.

Based on historical data on realization in the first half of 2005, the estimated effects of isolating transmission activity are presented below:

No.	**Item**	For the period from 1 January to 30 June 2005 in **PLN million**	For the period from 1 January to 31 December 2004 in **PLN million**
1)	Lost revenues from transmission fees	-842	-1 562
2)	Estimated decrease in the costs of operating activity (excluding amortization/depreciation)	264	556
	Result I	**-578**	**-1 006**
3)	Accounting charges to amortization/depreciation	110	219
	Result II	**-468**	**-787**
4)	Estimated value of revenues due to leasing installments in the period	272	578
	Result III	**-196**	**-209**

During the first half of 2005 PGNiG S.A. generated a revenue of PLN 842 million, PLN 1,562 million in the previous year, on the isolated activity (due to tariff fees for gas transmission) **(1)**.

In the first half of 2005 operating expenses connected with transmission activity (both indirect, as well as direct costs allocated based on formulas) equaled PLN 565 million and PLN 1,092 million in the previous year.

It needs to be stressed, however, that the transmission services covered by the above fees also include gas storage. As warehousing infrastructure and operations have been retained by PGNiG S.A., this activity has been isolated and separate fees have been set.

The presented revenue from transmission fees also covered gas transport services provided in Poland by the transit system of SGT EuRoPol Gaz (Yamal gas pipeline). PGNiG S.A. has remained the service recipient.

As a result of isolating transmission operations, PGNiG S.A. lost revenues connected with this type of activity, whereas only a part of the costs allocated to this activity were taken over by OGP Gaz System Sp. z o.o.

It is estimated that among the costs allocated to transmission activity in the first half of 2005 the categories subject to transfer (without depreciation) amounted to approx. PLN 264 million, and last year to approx. PLN 556 million **(2).**

Depreciation (without the depreciation of warehousing infrastructure) of transmission systems constitutes a separate item. In the first half of 2005 the above item amounted to PLN 110 million, whereas in the previous year it amounted to PLN 219 million **(3)**. Pursuant to the provisions of the Accounting Act related to the classification of leasing agreements, despite the fact that PGNiG S.A. formally remains the owner of the majority of the assets of the transmission system and still conducts the tax settlement of depreciation charges on these assets, their value and depreciation are disclosed in the financial statements of OGP Gaz System Sp. z o.o., which uses these assets based on leasing agreements. From a formal point of view, as a result of isolating transmission activity, the costs of PGNiG S.A. presented in financial statements will be decreased also by the value of the depreciation of transmission assets.

Lost revenues related to isolated transmission activity will also be compensated by revenues due to leasing agreements related to transmission assets. PGNiG will remain the owner of these assets (until the end of the lease period). Given the current interest rates the value of leasing installments for the first year of the leasing agreement's durations equaled PLN 578 million, whereas in the first half year of the agreement's duration they equaled PLN 272 million **(4).**

It should be emphasized that the above calculation does not take into account additional revenues, which PGNiG S.A. will obtain in order to cover the costs of warehousing as well as of purchasing transit services from SGT EuRoPol Gaz, which were thus far compensated with revenues due to transmission fees. The value of these costs in the first half of 2005 equaled PLN 150 million, whereas in 2004 they amounted to PLN 249 million. Appropriate fees, which are meant to cover these cost, have been introduce in PGNiG's Tariff no. 4/2006.

5. MANUFACTURING COST

	31 December 2005	31 December 2004
Manufacturing cost of fixed assets under construction for internal purposes	7 666	62 755
Manufacturing cost of fixed assets for internal purposes	41	59
Manufacturing cost of other products for internal purposes	4 433	1 101
Total manufacturing cost of products for internal purposes	**12 140**	**63 915**

6. INCURRED AND PLANNED INVESTMENT OUTLAYS

	Outlays incurred in the current period	**Outlays planned for 12 months from the balance sheet date**
Total outlays, including:	**372 033**	**1 012 809**
Non-financial non-current assets	372 033	1 012 809
- Own outlays of PGNiG S.A.	*250 788*	*787 809*
- Outlays on the transmission system	*121 245*	*225 000*
Other	-	-
Environmental protection	-	-

7. INFORMATION ABOUT RELATED PARTY TRANSACTIONS

FIGURES ON RELATED PARTIES (FOR THE YEAR ENDED 31 DECEMBER 2005)

	Registered office	Net sales	Net purchases	Dividend and profit sharing	Other interest receivable	Other interest payable
Related parties in total		**5 327 590**	**867 641**	**100 786**	**27 324**	**221 403**
Companies under full consolidation		**5 297 814**	**668 453**	**99 520**	**4 997**	**221 390**
Geofizyka Kraków Sp. z o.o.	Krakow	14	44 358	-	-	-
Geofizyka Toruń Sp. z o.o.	Toruń	3	52 910	-	-	-
PNiG Jasło Sp. z o.o.	Jasło	311	130 267	-	-	-
PNiG Kraków Sp. z o.o.	Krakow	487	56 490	-	505	5
PNiG NAFTA Sp. z o.o.	Piła	153	109 529	-	-	2
ZRG Krosno Sp. z o.o.	Krosno	543	35 841	-	-	-
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Wroclaw	597 085	1 416	-	2 254	-
Górnośląska Spółka Gazownictwa Sp. z o.o.	Zabrze	884 196	1 279	-	-	-
Karpacka Spółka Gazownictwa Sp. z o.o.	Tarnów	1 221 999	7 592	40 633	32	-
Mazowiecka Spółka Gazownictwa Sp. z o.o.	Warsaw	1 113 740	6 544	58 333	-	-
Pomorska Spółka Gazownictwa Sp. z o.o.	Gdansk	555 181	2 803	-	-	-
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poznań	922 659	1 098	-	1 065	-
BUG GAZOBUDOWA Sp. z o.o.	Zabrze	13	98 662	-	327	-
BN NAFTOMONTAŻ Krosno Sp. z o.o.	Krosno	77	46 428	-	814	-
ZUN NAFTOMET Sp. z o.o.	Krosno	5	11 737	-	-	-
PN DIAMENT Sp. z o.o.	Zielona Góra	494	39 827	368	-	-
Gazoprojekt S.A.	Wroclaw	3	7 169	186	-	-
PGNiG Finance B.V. (Netherlands)	Amsterdam	-	-	-	-	221 383
Geovita Sp. z o.o. Warsaw	Warsaw	28	1 427	-	-	-
Gaz System (PGNiG-Przesył) Sp. z o.o. Warsaw (only sales up to 30 April 2005)	Warsaw	823	13 076	-	-	-
Companies under full consolidation (companies of Naftomontaż Krosno Sp. z o.o.)		**-**	**-**	**-**	**-**	**-**
Naft-Trans Sp. z o.o. Krosno (only sales up to 30 June 2005)	Krosno	-	-	-	-	-
Naft-Stal Sp. z o.o.	Krosno	-	-	-	-	-
Companies consolidated by the equity method		**28 271**	**145 383**	**560**	**21 114**	**-**
EuRoPol Gaz S.A.	Warsaw	28 271	118 986	-	21 114	-
Gas Trading S.A.	Warsaw	-	-	173	-	-
INVESTGAS S.A.	Warsaw	-	26 397	387	-	-
Other related parties unconsolidated		**1 505**	**51 492**	**706**	**1 213**	**13**
Górnictwo Naftowe Sp. z o.o.	Warsaw	-	-	-	-	-
ZRUG Sp. z o.o. in Pogórska Wola	Pogórska Wola	408	6 031	-	-	-
BUD-GAZ Sp. z o.o.	Warsaw	313	11 294	-	-	-
PTG GAZOTECH Sp. z o.o. Warsaw	Warsaw	-	-	-	-	-
Turgaz Sp. z o.o.	Zielona Góra	660	32	-	-	-
NYSAGAZ Sp. z o.o.	Zgorzelec	-	-	-	-	-
ZRUG Sp. z o.o. w Warszawie S.A.	Warsaw	-	-	-	-	-
InterGasTrade GmbH	Potsdam	-	-	-	-	-
InterTransGas GmbH	Potsdam	-	-	-	-	-
ZRUG Sp. z o.o. in Poznań	Poznań	1	4 767	43	-	-
ZRUG w Toruniu S.A.	Toruń	-	-	-	-	-
ZRUG Sp. z o.o. in Zabrze	Zabrze	-	138	-	-	-
Sahara Petroleum Technology Llc (Sp. z o.o.) (Oman)	Muscat	-	-	-	-	-
Polskie Elektrownie Gazowe Sp. z o.o.	Warsaw	-	-	-	-	-
PFK Gaskon S.A.	Warsaw	-	-	-	-	-
BG GAZOMONTAŻ S.A.	Wołomin	121	7 673	-	-	-
ZWUG Intergaz Sp. z o.o.	Tarnowskie Góry	2	577	663	-	-
"DEWON" S.A. (Ukraine)	Kijev	-	-	-	1 213	0
Huta Szkła SZCZAKOWA S.A. in bankruptcy	Jaworzno	-	-	-	-	-
GAZSTALSA	Zielona Góra	-	19 428	-	-	13
MED. - FROZ S.A.	Zielona Góra	-	-	-	-	-
WOC TE-MA Sp. z o.o. in liquidation	Terespol	-	-	-	-	-
TENET 7 Sp. z o.o. (former GRESPOL 7 Sp. z o.o.)	Warsaw	-	1 552	-	-	-
Subsidiaries and associated entities of subsidiaries		**-**	**2 313**	**-**	**-**	**-**
PolGazTelekom S.A. Warsaw	Warsaw	-	-	-	-	-
Gas-Trading Podkarpacie Sp. z o.o. Dębica	Dębica	-	-	-	-	-
Zakład Gospodarki Mieszkaniowej Sp. z o.o. Piła	Piła	-	12	-	-	-
PBU Petromin Sp. z o.o. Wołomin	Wołomin	-	-	-	-	-
GEOTERMIA Sp. z o.o. Szczecin	Szczecin	-	-	-	-	-
Geofizyka Toruń Kish Ltd Iran	Iran	-	-	-	-	-
ALFA-CENTER Sp. z o.o. Warsaw	Warsaw	-	-	-	-	-
Gazobudowa Kraków Sp. z o.o. Krakow	Krakow	-	91	-	-	-
Gazobudowa Poznań Sp. z o.o. Poznań	Poznań	-	2 210	-	-	-
NAFTEK Sp. z o.o. Krosno	Krosno	-	-	-	-	-
Oil Tech International F.Z.E. Ajman	Ząbki	-	-	-	-	-
Mazowiecki Dom Inwestycyjny Sp. z o.o. Ząbki	Warsaw	-	-	-	-	-

FIGURES ON RELATED PARTIES (FOR THE YEAR ENDED 31 DECEMBER 2005) CONT.

	Registered office	Gross receivables	Net receivables	Liabilities	Gross loans granted	Net loans granted	Loans received
Related parties in total		**699 614**	**569 140**	**228 653**	**322 668**	**22 800**	**0**
Companies under full consolidation		**570 495**	**565 372**	**82 893**	**55 621**	**22 800**	**0**
Geofizyka Kraków Sp. z o.o.	Krakow	-	-	2 816	-	-	-
Geofizyka Toruń Sp. z o.o.	Toruń	-	-	3 609	-	-	-
PNiG Jasło Sp. z o.o.	Jasło	27	27	17 948	-	-	-
PNiG Kraków Sp. z o.o.	Krakow	17	17	7 453	15 280	-	-
PNiG NAFTA Sp. z o.o.	Piła	1	1	6 301	-	-	-
ZRG Krosno Sp. z o.o.	Krosno	50	50	10 840	-	-	-
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Wroclaw	68 405	68 405	151	22 800	22 800	-
Górnośląska Spółka Gazownictwa Sp. z o.o.	Zabrze	86 422	86 422	264	-	-	-
Karpacka Spółka Gazownictwa Sp. z o.o.	Tarnów	103 574	103 574	359	-	-	-
Mazowiecka Spółka Gazownictwa Sp. z o.o.	Warsaw	108 245	108 245	1 164	-	-	-
Pomorska Spółka Gazownictwa Sp. z o.o.	Gdansk	52 316	52 316	164	-	-	-
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poznań	146 102	146 102	114	-	-	-
BUG GAZOBUDOWA Sp. z o.o.	Zabrze	5 123	-	14 727	-	-	-
BN NAFTOMONTAŻ Krosno Sp. z o.o.	Krosno	3	3	7 407	17 541	-	-
ZUN NAFTOMET Sp. z o.o.	Krosno	-	-	236	-	-	-
PN DIAMENT Sp. z o.o.	Zielona Góra	4	4	6 036	-	-	-
Gazoprojekt S.A.	Wroclaw	151	151	1 195	-	-	-
PGNiG Finance B.V. (Netherlands)	Amsterdam	0	0	1 979	-	-	-
Geovita Sp. z o.o. Warsaw	Warsaw	55	55	130	-	-	-
Gaz System (PGNiG-Przesył) Sp. z o.o. Warsaw (only sales up to 30 April 2005)	Warsaw	-	-	-	-	-	-
Companies under full consolidation (companies of Naftomontaż Krosno Sp. z o.o.)		**-**	**-**	**-**	**-**	**-**	**-**
Naft-Trans Sp. z o.o. Krosno (only sales up to 30 June 2005)	Krosno	-	-	-	-	-	-
Naft-Stal Sp. z o.o.	Krosno	-	-	-	-	-	-
Companies consolidated by the equity method		**3 392**	**3 392**	**54 679**	**252 671**	**-**	**-**
	Warsaw	3 392	3 392	50 893	252 671	-	-
Gas Trading S.A.	Warsaw	-	-	-	-	-	-
INVESTGAS S.A.	Warsaw	-	-	3 786	-	-	-
Other related parties unconsolidated		**125 727**	**376**	**91 081**	**14 376**	**-**	**-**
Górnictwo Naftowe Sp. z o.o.	Warsaw	1 003	-	-	-	-	-
ZRUG Sp. z o.o. in Pogórska Wola	Pogórska Wola	556	-	863	-	-	-
BUD-GAZ Sp. z o.o.	Warsaw	342	342	1 350	-	-	-
PTG GAZOTECH Sp. z o.o. Warsaw	Warsaw	84 552	-	84 552	-	-	-
Turgaz Sp. z o.o.	Zielona Góra	4	4	-	-	-	-
NYSAGAZ Sp.z o.o.	Zgorzelec	-	-	-	-	-	-
ZRUG Sp. z o.o. w Warszawie S.A.	Warsaw	69	-	-	-	-	-
InterGasTrade GmbH	Potsdam	-	-	403	-	-	-
InterTransGas GmbH	Potsdam	26	26	-	-	-	-
ZRUG Sp. z o.o. in Poznań	Poznań	-	-	-	-	-	-
ZRUG w Toruniu S.A.	Toruń	-	-	-	-	-	-
ZRUG Sp. z o.o. in Zabrze	Zabrze	4	4	-	-	-	-
Sahara Petroleum Technology Llc (Sp. z o.o.) (Oman)	Muscat	-	-	-	-	-	-
Polskie Elektrownie Gazowe Sp. z o.o.	Warsaw	-	-	-	-	-	-
PFK Gaskon S.A.	Warsaw	-	-	884	-	-	-
BG GAZOMONTAŻ S.A.	Wołomin	-	-	2 823	-	-	-
ZWUG Intergaz Sp. z o.o.	Tarnowskie Góry	-	-	-	-	-	-
"DEWON" S.A. (Ukraine)	Kijev	126	-	-	14 376	-	-
Huta Szkła SZCZAKOWA S.A. in bankruptcy	Jaworzno	39 045	-	-	-	-	-
GAZSTALSA	Zielona Góra	-	-	-	-	-	-
MED. - FROZ S.A.	Zielona Góra	-	-	-	-	-	-
WOC TE-MA Sp. z o.o. in liquidation	Terespol	-	-	-	-	-	-
TENET - 7 Sp. z o.o. (former GRESPOL 7 Sp. z o.o.)	Warsaw	-	-	206	-	-	-
Subsidiaries and associated entities of subsidiaries		**-**	**-**	**-**	**-**	**-**	**-**
PolGazTelekom S.A. Warsaw	Warsaw	-	-	-	-	-	-
Gas-Trading Podkarpacie Sp. z o.o. Dębica	Dębica	-	-	-	-	-	-
Zakład Gospodarki Mieszkaniowej Sp. z o.o. Piła	Piła	-	-	-	-	-	-
PBU Petromin Sp. z o.o. Wołomin	Wołomin	-	-	-	-	-	-
GEOTERMIA Sp. z o.o. Szczecin	Szczecin	-	-	-	-	-	-
Geofizyka Toruń Kish Ltd Iran	Iran	-	-	-	-	-	-
ALFA-CENTER Sp. z o.o. Warsaw	Warsaw	-	-	-	-	-	-
Gazobudowa Kraków Sp. z o.o. Krakow	Krakow	-	-	-	-	-	-
Gazobudowa Poznań Sp. z o.o. Poznań	Poznań	-	-	-	-	-	-
NAFTEK Sp. z o.o. Krosno	Krosno	-	-	-	-	-	-
Oil Tech International F.Z.E. Ajman	Ząbki	-	-	-	-	-	-
Mazowiecki Dom Inwestycyjny Sp. z o.o. Ząbki	Warsaw	-	-	-	-	-	-

PGNiG S.A. did not enter into any transactions with the remaining related parties in 2005.

8. JOINT VENTURES

In 2005, PGNiG S.A. cooperated with the following foreign companies in Poland: Apache Poland Sp. z o.o., CalEnergy Gas (Polska) Sp. z o.o. and CalEnergy Resources Poland Sp. z o.o., EuroGas Polska Sp. z o.o., FX Energy Poland Sp. z o.o.

Apache Poland

Registered office:
02-672 Warsaw, ul. Domaniewska 41
After Apache Poland Sp. z o.o. withdrew from the Agreement on Joint Operations in block 255 as of 31 January 2005, as a result of the assignment of rights PGNiG S.A. took over the additional shares and in cooperation with FX Energy Poland Sp. z o.o. (81.82% of shares) began exploiting the Wilga gas condensate deposit in block 255 with an estimated gas deposit of 194 million m^3.

CalEnergy

The Company's registered office is located in Warsaw.
02-765 Warsaw, Al. Wilanowska 206 m.19
Based on the Operating Agreement of Mining Users of 3 August 2000 concluded between PGNiG S.A., Petrobaltic and CalEnergy Gas (Polska), which covered the so-called "Piła" Area, three exploration wells were drilled: Borki-1, Borki-1z and Golce-1, with a negative result. The share of PGNiG S.A. is 10%. To satisfy the concession terms, one more exploration well must be drilled by 2006.
Within the "Płotki" area, due to the assignment of half of FX Energy's shares to CalEnergy in 2003, joint exploratory work was undertaken by PGNiG S.A. (51% shares), FX Energy (24.5%) and CalEnergy Resources Poland (24.5 %). The work resulted in the opening of well Zaniemyśl –3 in 2003/2004, in which a gas deposit of geological resources estimated at 1.4 billion m^3 was found. Currently construction work aimed at developing the deposits and initiating production in 2006 is underway. CalEnergy Resources Poland Sp. z o.o. notified about its intent to hand-over 24.5% of shares in the "Płotki" area to FX Energy Poland Sp. z o.o., except for the so called Expanded Zaniemyśl Area (EZA), which covers the gas deposit in Zaniemyśl and its immediate vicinity. An Operating Agreement of Mining Users covering the "Płotki-EZA" Area (the so-called Expanded Zaniemyśl Area) was concluded on 26 October 2005 by PGNiG S.A., CalEnergy Resources Poland Sp. z o.o. and FX Energy Poland Sp. z o.o., as part of which the parties to the agreement assumed the following percentage of shares: PGNiG S.A. – 51%, FX Energy – 24.5% and CalEnergy – 24.5%. A purchase-sale agreement related to the Zaniemyśl deposit is being negotiated.

EuroGas Polska

Registered office: 01-687 Warsaw, Lektykarska 18,

as well as: 43-200 Pszczyna, ul. Górnośląska 3

Limited liability company.

Its holding company is a joint-stock company in Utah, USA.

Apart from exploration (and production) of oil and natural gas, the scope of the company's activities covers also the production of methane from coal seams.

On 21 November 2000 PGNiG S.A. and EuroGas entered into an Agreement on Joint Operations in the Polish Eastern Carpathian Mountains. PGNIG S.A. was designated as the operator. The share of PGNiG S.A. is 30%. Preparations for seismic work have been initiated. Although the plan for seismic work has been approved; the work has not been executed due to the financial problems of EuroGas. Upon EuroGas's request, the activity of the office for joint operations was suspended until the company's financial situation has been cleared up. EuroGas extended its concessions for exploration work in the Carpathian Mountains until the end of 2004, but no work has been initiated thus far. A meeting of the Operating Committee was held in November 2005 upon the request of EuroGas. The Committee approved the 2006 plan for operations related to the "Bieszczady Mountains" concession. Pursuant to the decision of 13 December 2005 the Minister of the Environment extended the concession for exploration and assessment work granted to EuroGas on 6 July 2000, for 8 years, which will enable the parties to undertake exploration work, under the condition that EuroGas shows sufficient financial capacity to continue cooperation.

FX Energy Poland

Registered office: 00-613 Warsaw, ul. Chałubińskiego 8.

In Poland, operates as FX Energy Poland Sp. z o.o.

Its holding company is FX Energy Inc., a joint-stock company in Utah, USA.

"Płotki" area

PGNiG S.A. entered into an agreement with FX Energy regarding the exploration of hydrocarbons in the Fore-Sudetic Monocline (11 April 2000 and 12 May 2000), and then, upon the discovery of the Klęka deposit, into an agreement on the sale of natural gas from the Klęka region on 19 December 2000. The share of PGNiG S.A. in these agreements is equal to 51%.

FX Energy undertook to commit USD 16 million to exploratory work as an equivalent of costs already incurred by PGNiG S.A. in this region. By the end of 2003, FX Energy had financed work for USD 10.7 million (wells: Klęka 11 and Mieszków 1; seismic photographs of Donatowo, Kaleje, Zaniemyśl). However, due to financial problems, in 2002 the company was unable to settle liabilities for work performed by PGNiG S.A. as part of the joint undertaking on an ongoing basis. As a result of the Composition related to the Płotki area of

8 January 2003 concluded by PGNiG S.A. and FX Energy, the latter company repaid the outstanding liability together with interest by the end of 2003 and undertook to drill two wells. In one of the wells – Zaniemyśl-3 (joint undertaking of PGNiG S.A. – 51% shares, FX Energy – 24.5% shares and CalEnergy – 24.5% shares), a natural gas deposit was discovered at the beginning of 2004 with estimated geological resources of 1.4 billion m^3. Currently construction work aimed at developing the deposits and initiating production in 2006 is underway. The second well – Rusocin-1 – executed at the end of 2004/beginning of 2005 uncovered gas deposits which proved to be of no economic value. In the first half of 2004, as a result of the joint undertaking of PGNiG S.A. and FX Energy, field seismic work was carried out together with processing and interpretation in the Rusocin-Dolsk region for an amount of nearly PLN 1.6 million. In the first half of 2005, 2D seismic photos of the Mechlin area (50.3 km) were taken. The value of this work amounted to over PLN 1.3 million. Reprocessing and reinterpretation of the seismic data under the previous agreements with "Geofizyka" Toruń was also continued. The Ługi-1 exploration well drilled in the second half of 2005 did not show hydrocarbon deposits that would be of industrial value.

"Poznań" area

Following the conclusion of the Agreement on Cooperation in the Poznań Area on 8 January 2003 (concession area in which PGNiG S.A. cooperated with Conoco and Ruhrgas until 2002), FX Energy undertook to finance exploration work up to the amount of USD 4 million in exchange for 49% of shares in the joint undertaking. On 1 June 2004, an Agreement on Joint Operations within the "Poznań" area was signed, pursuant to which PGNiG S.A. acquired 51% of shares, and FX Energy – 49%. Reprocessing and reinterpretation of approx. 2600 running kilometers of seismic profiles was conducted and the Środa Wielkopolska-4 exploration well was drilled as part of the agreement. This well uncovered a natural gas deposits (approx. 750 million m^3 of with minable resources) in a red clay formation. A subsequent well - Środa Wielkopolska-5, drilled in the neighboring geological structure uncovered a small gas deposit with no commercial value. Further seismic work, reprocessing and interpretation of seismic adapt was conducted in order to prepare new sites for drilling in 2006 and subsequent years.

The area of block 255 (Wilga).

Cooperation pursuant the Agreement on Joint Operations of 29 September 1999: share held by FX Energy Poland Sp. z o.o. – 81.82%, PGNiG S.A. – 18.18%. During cooperation between Apache, FX Energy and PGNiG S.A., three wells were drilled: Wilga 2, Wilga 3 and Wilga 4, of which one (Wilga-2) discovered a gas condensate deposit with minable resource of 194 million m^3. FX Energy is the operator of the block and the owner of the exploration concession. A gas purchase-sale agreement was concluded in 2005 with

Mazowiecka Spółka Gazownictwa and work related to developing the deposit and initiating production was conducted in 2006.

9. INFORMATION ON AVERAGE EMPLOYMENT

AVERAGE EMPLOYMENT (NUMBER OF EMPLOYEES BY TYPE)

	31 December 2005	31 December 2004
Blue-collar employees	3 137	3 877
White-collar employees	2 103	2 595
Managerial staff	656	783
Total	**5 896**	**7 255**

10. INFORMATION ON REMUNERATION PAID TO THE MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES.

REMUNERATIONS AND BONUSES PAID TO MEMBERS OF MANAGEMENT BODIES

Full name	**Total value of remunerations, benefits and bonuses paid in 2005**	**Total value of remunerations paid due to functions performed in controlled entities in 2005**	**Total**
Managerial staff as of 31 December 2005			
Jan Anysz – Member of the Management Board	263.1	46.9	**310.0**
Franciszek Krok – Member of the Management Board	223.0	203.6	**426.6**
Maria Teresa Mikosz - proxy	254.6	30.6	**285.2**
Zenon Kuchciak – proxy	16.5	-	**16.5**
Bartłomiej Pawlak* - proxy	-	-	**-**
Managerial staff, dismissed in 2005			
Marek Foltynowicz	249.6	266.4	**516.0**
Mieczysław Jakiel	233.9	684.5	**918.4**
Paweł Kamiński	223.1	79.0	**302.1**
Marek Kossowski	246.0	769.5	**1 015.5**
Jerzy Staniewski	56.0	633.8	**689.8**
Total	**1 765.8**	**2 714.3**	**4 480.1**

*Bartłomiej Pawlak did not collect any remuneration in 2005 for the performed functions.

REMUNERATIONS AND BONUSES PAID TO MEMBERS OF SUPERVISORY BODIES

Full name	Total value of remunerations, benefits and bonuses paid in 2005	Total value of remunerations paid due to functions performed in controlled entities in 2005	Total
Supervisory staff as of 31 December 2005			
Magdalena Bąkowska	30.6	-	**30.6**
Kazimierz Chrobak	15.5	-	**15.5**
Krzysztof Głogowski	1.7	-	**1.7**
Mieczysław Kawecki	5.3	-	**5.3**
Mieczysław Puławski	3.7	-	**3.7**
Andrzej Rościszewski	1.7	-	**1.7**
Mirosław Szkałuba	5.3	-	**5.3**
Piotr Szwarc	1.7	-	**1.7**
Supervisory staff, dismissed in 2005			
Andrzej Arendarski	29.0	606.8	**635.8**
Zbigniew Kamieński	18.9	-	**18.9**
Bogusław Kasprzyk	17.1	3.4	**20.5**
Wiesława Libera	10.2	-	**10.2**
Zbigniew Macioszek	14.7	-	**14.7**
Piotr Niewiarowski	10.2	-	**10.2**
Stanisław Perek	7.3	15.5	**22.8**
Tadeusz Soroka	18.9	154.1	**173.0**
Stanisław Speczik	5.1	-	**5.1**
Stanisław Stosur	10.2	-	**10.2**
Dawid Sukacz	21.8	-	**21.8**
Stanisław Zając	10.2	-	**10.2**
Total	**239.1**	**779.8**	**1 018.9**

11. INFORMATION ON LOANS AND SIMILAR BENEFITS GRANTED TO MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES

In the financial year, the Company did not conduct any transactions with members of the Management Board and Supervisory Bodies, their spouses, direct line family members and relations up to the second degree or related by care, adoption or guardianship with a member of management or supervisory bodies in the Company or companies, of which they are significant shareholders or partners. The Company granted no loans to these individuals.

12. INFORMATION ON SIGNIFICANT EVENTS PERTAINING TO PREVIOUS YEARS AND DISCLOSED IN THE FINANCIAL STATEMENTS FOR THE 2005 FINANCIAL YEAR

By the date of the financial statements for the 2005 financial year, no events had occurred that should have been recognized in the accounting records of the reporting period.

13. INFORMATION ON SIGNIFICANT POST-BALANCE SHEET EVENTS NOT INCLUDED IN THE FINANCIAL STATEMENTS

By the date of the financial statements for the 2005 financial year, no events had occurred that should have been recognized in the accounting records of the reporting period.

14. INFORMATION ON THE RELATIONSHIP BETWEEN THE PREDECESSOR IN TITLE AND THE ISSUER AS WELL AS THE METHOD AND RANGE OF ACQUIRING ASSETS AND LIABILITIES

Polskie Górnictwo Naftowe i Gazownictwo with registered office in Warsaw was transformed in 1996 into a joint stock company wholly owned by the State Treasury. The commercialization of the state company resulted only in an amended of its legal form – the assets and liabilities of the predecessor were taken over by Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna.

The commercialization act was drawn up in the form of a notarized deed (Repertory A No. 18871/96) and recorded in the District Court for Warsaw, XVI Business and Registry Division under number RHB 48382.

15. FINANCIAL STATEMENTS ADJUSTED BY THE INFLATION RATIO

Because the accumulated inflation for the last 3 years of the Company's operation did not exceed 100%, financial statements adjusted by the inflation ratio are not presented.

16. STATEMENT AND EXPLANATION OF DIFFERENCES BETWEEN DATA DISCLOSED IN THE FINANCIAL STATEMENTS AND COMPARABLE FINANCIAL DATA AS WELL AS THE PREVIOUSLY PREPARED AND PUBLISHED FINANCIAL STATEMENTS

Following the audit of the financial statements for 2005 and the disclosure of significant information with a material influence on the financial result after the preparation of the financial statements for the fourth quarter of 2005 the Company disclosed the following adjustments in these financial statements, as suggested by the Company's auditor.

Result from the financial statements for the fourth quarter of 2005	**973 220**
a) Changes in recognizing the measurement of assets handed over as a dividend from capital in the period's result	192 002
a') Changes in payments to the State Treasury due to profit distribution	(28 800)
b) Changes in provisions	89 084
c) Changes in revaluation write-downs	(54 155)
d) Lump sum income tax	(12 992)
e) Creation of deferred income due to contributions in kind	(9 017)
f) Other adjustments	(2 162)
g) Deferred income tax (increase of the deferred tax asset) related to applied adjustments	11 548
h) Income tax related to applied adjustments	(26 500)
Result from the financial statements for 2005	**1 132 228**

Explanation of the most significant values of adjusted items:

a) "Changes in recognizing the measurement of assets handed over as a dividend from capital in the period's result". This adjustment increased the result by PLN 192,002 thousand. This revenue was created as a result of paying a dividend to the owner in the form of assets with a value of PLN 500,000 thousand. As a result of this transaction non-current assets with a book value of PLN 307,998 thousand according to Polish Accounting Standards, but whose fair value equaled PLN 500,000 thousand, were handed over. Therefore a difference of PLN 192,002 thousand was created. The value of handed over assets was remeasured to fair value in order to ensure that the dividend liability was actually satisfied.
The unprecedented nature of this transaction as well as a lack of legal regulations in this field caused the Company to recognize the difference in supplementary capital in line with the prudence principle. However after consulting several opinions in this field and after discussing this issued with the auditor, the Company decided to disclose the difference of PLN 192,002 thousand as the current period's revenue which improved the result for 2005.

a') "Changes in payments to the State Treasury due to profit distribution". Due to the fact that the adjustment "Changes in recognizing the measurement of assets handed over as a dividend from capital in the period's result" concerned a period, in which the Company,

as a company wholly owned by the State Treasury, in accordance with binding regulations accrued profit distributions in the amount of 15% of the gross result less CIT, the Company disclosed PLN 28 800 thousand as statutory charge to the financial result.

b) "Changes in provisions". This adjustment in the total amount of PLN 89,084 thousand improved the financial result. The following constitute the most significant elements of the above total:
- release of a provision of PLN 84,000 thousand for the costs of obtaining geological information;
- release of a provision of PLN 40,000 thousand for the claims of owners of real property;
- creation of a provision of PLN (8,158) thousand for restructuring employment;
- increase of the provision for liquidating digging sites in connection with uncovering new digging sites for liquidation and creation of a provision for liquidating wells under construction, for a total of PLN (10,854) thousand;
- increase of the provision for the payment of gas allowances to pensioners in the amount of (9,480) thousand in connection with the alteration of the discount ratio applied when calculating the provisions;
- increase in the provision for land reclamation by a total of PLN (3,800) thousand.

c) "Changes in revaluation write-downs due to permanent impairment". The adjustment equal in total PLN (54,155) thousand had a negative effect on the result. The largest element of this adjustment accounts for an increase in revaluation write-downs on wells under construction due to permanent impairment in connection with the disclosure of information on the discontinuation of tests on four wells under construction by PLN (51,398) thousand.

d) "Lump sum income tax" The adjustment of PLN (12.992) thousand relates to the recognition of withholding tax paid on interest in connection with the repayment of a loan from the subsidiary - PGNiG Finance BV, in other operating expenses.

e) "Creation of deferred income due to contributions in kind". The adjustment of PLN (9.017) thousand relates to the creation of deferred income instead of other operating revenues in connection with contributions in kind made to gas companies.

17. CHANGES IN ACCOUNTING PRINCIPLES (POLICY) IN 2005

No changes took place in accounting principles (policy) during the reporting period.

18. CHANGES IN ACCOUNTING PRINCIPLES (POLICY) AND THE METHOD OF PREPARING THE FINANCIAL STATEMENTS, INTRODUCED AS COMPARED TO THE PREVIOUS FINANCIAL YEAR AND THEIR IMPACT ON THE FINANCIAL AND ECONOMIC POSITION

No changes in accounting policies were introduced during the last reporting period.

19. INFORMATION ON UNCERTAINTY OF CONTINUING ACTIVITY, DESCRIPTION OF THESE UNCERTAINTIES AND INFORMATION WHETHER THE FINANCIAL STATEMENTS INCLUDE RELEVANT ADJUSTMENTS

The Company's financial statements for the 2005 and 2004 year were prepared under the going concern assumption. There are no circumstances indicating that business continuity may be threatened in the foreseeable future.

20. INFORMATION ABOUT BUSINESS COMBINATIONS

No business combinations took place during the current reporting period. The Company's financial statements do not include the data of companies subject to business combinations.

21. PRESENTATION OF THE EFFECTS OF MEASURING SHARES IN CONTROLLED ENTITIES USING THE EQUITY METHOD IN THE COMPANY'S INDIVIDUAL FINANCIAL STATEMENTS

Pursuant to the Accounting Act of 29 September 1994 the Company measures investments in controlled entities at the acquisition price less permanent impairment write-downs.

For the purpose of these financial statements the Company measured shares in controlled entities, whose value calculated suing the equity method differs from their value calculated based on the acquisition price less permanent impairment write-downs.

The below table presents the effects of measuring shares in controlled entities on the Company's financial result:

	31 December 2005	31 December 2004
Net profit	1 132 228	746 713
Effects of measuring shares in controlled entities using the equity method	233 927	305 142
Net profit after taking into account the measurement of shares using the equity method	1 366 155	1 051 855

Applying the equity method to the measurement of shares in controlled entities would increase the value of shares in controlled entities by PLN 647,069 thousand in 2005 and PLN 540,232 thousand in 2004.

22. INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Company draws up the consolidated financial statements of PGNiG Capital Group in line with International Financial Reporting Standards.

23. OTHER RELEVANT INFORMATION - THE PROCESS OF RESTRUCTURING THE COMPANY

I. In 2005 PGNiG S.A. executed the "Program of restructuring and privatizing PGNiG S.A." approved by the Council of Ministers of the Republic of Poland on 5 October 2004, which incorporates amongst other the provisions of the Gas Directive (2003/55/EC) which obliges EU Member States to create Transmission System Operators (TSO) as of 1 July 2004 and Distribution System Operators (DSO) as of 1 July 2007.

a. As a result of negotiations aimed at obtaining the approval of creditors for the realization of the "Program of restructuring and privatizing PGNiG S.A." (especially the conclusion of leasing agreements with OGP Gaz-System Sp. z o.o. related to transmission system assets) appropriate annexes to credit agreements were signed in March 2005 and the company obtained the approval of the holders of Eurobonds for the redemption (buy-back) of bonds issued in 2001. As a result the process of redeeming Eurobonds was completed on 6 April 2005.

   In the second half of 2005 the Company undertook steps to further restructure debt. These activities resulted in a significant decrease of financial expenses and an improvement of financial liquidity. On 27 July 2005 PGNiG S.A. concluded an agreement for a syndicated loan of EUR 900,000 with a syndicate of banks. The above loan is divided into a term loan in the amount of EUR 600,000 and revolving credit in the amount of EUR 300,000. The revolving credit can also be granted, upon the appropriate request of PGNiG S.A., in an equivalent amount in USD or PLN. The credit was granted for the following periods: the term loan - until 27 July 2010, and the revolving credit – until 27 July 2008. The term loan was fully used to repay a syndicated loan of EUR 600,000 thousand. The revolving credit can be used to repay installments of other loans drawn by the Company or to finance the Company's general financial needs.

b. On 28 April 2005 the General Shareholders Meeting of PGNiG S.A. approved the free-of-charge disposal of 100% of shares in OGP Gaz-System Sp. z o.o. (which at that point operated under the name - PGNiG-Przesył Sp. z o.o.) to the State Treasury. The shares were handed over to the State Treasury on 13 May 2005 (together with 193 employees hired in the Company's head office). On 8 July 2005 the employees of six branches of Regional Transmission Branches (1988 people) were taken over by OGP Gaz-System

pursuant to Article 23' of the Labor Code and became the employees of the local Branches of OGP Gaz-System. Therefore, PGNiG S.A. fulfilled the requirements specified in the "Program of restructuring and privatizing PGNiG S.A." from 2004 as well as in Article 9k of the Energy Law concerning the direct subordination of transmission system operators to the State Treasury. The handing over of the package of 100% of shares in OGP Gaz-System to the State Treasury was preceded by an extensive and complicated process of reconciling the provisions of leasing agreements, the necessity to carry out additional analyses, consultations and explanations with the proper authorities in respect to the tax aspects of this undertaking and the final interpretation of regulations issued by the Council of Ministers and related to the methods of financing the disposal of shares as well as the form and conditions of payment for share acquired by the State Treasury.

c. According to the assumptions of the government program particular transmission system assets, including so-called "active" elements, are to be sold gradually to OGP Gaz-System Sp. z o.o. as of 1 November 2006. However in order to strengthen the financial standing and position of OGP Gaz-System Sp. z o.o. the Minister of the State Treasury decided to collect a dividend from the net profit generated by PGNiG S.A. in 2004 in a non-cash form, i.e. transmission system assets with a value of PLN 500,000 thousand, and subsequently contribute these assets to OGP Gaz-System Sp. z o.o. as an increase in this company's share capital. On 1 and 7 July 2005 the General Shareholders Meeting of PGNiG S.A. passed a series of resolutions related to the detailed definition and payment of a non-cash dividend to the State Treasury and the handover of the related assets to OGP Gaz-System Sp. z o.o. Appropriate agreements, liabilities and declarations on the completeness of the transmission system were passed in the form of notarized deeds, based on which OGP Gaz-System Sp. z o.o. commenced full economic (transmission) operation as of 8 July 2005. As a result of the above the share capital of OGP Gaz-System Sp. z o.o. increased to approx. PLN 537 million. This significantly improved the operating conditions of this company once it commenced its activity. Thus OGP Gaz System Sp. z o.o. became the owner of certain basic elements of the transmission system: gas pipelines, compression stations, system junctions, decompression and measuring stations as well as five entry points into the National Pipeline System located at the Polish border.

d. On 31 August 2005, pursuant to the resolution of the Extraordinary Shareholders Meeting of PGNIG S.A. from 1 July 2005 and in fulfilling its obligations resulting from the notarized deed of 7 July 2005, PGNIG S.A. submitted unrepealable sales offers related to the transmission system covered by the Leasing agreement in the form of 69 segments of the transmission system and separate sales offers related to assets in the form of

buildings, structures and equipment, whose ownership rights are not directly connected with the above mentioned segments.

e. As a result of arrangements made between the Ministry of the Economy and the Ministry of the State Treasury and upon the motion of the Management Board of PGNiG S.A. the By-laws of PGNiG S.A. were amended in order to enable the company to execute the restructuring and privatization process, especially to hand transmission assets over to OGP Gaz-System Sp. z o.o. (payment of dividends in non-cash form during the period of 2005-2009), conclude leasing agreements and obtain the status of a public company. Appropriate changes aimed at securing the interests of the State Treasury were executed based on resolutions issued during Extraordinary Shareholders Meetings held on 29 April 2005, 5 May 2005, and 22 June 2005. The uniform text of the Company's By-laws was approved by a resolution issued by the Extraordinary Shareholders Meeting held on 24 June 2005.

f. Development work and consultations related to the leasing agreement concluded between PGNIG S.A. and OGP Gaz-System Sp. z o.o. and concerning assets of the transmission system, which is of key importance to the "Program of restructuring and privatizing PGNIG S.A.", were conducted for several months. A measurement of the transmission assets covered by the agreement was conducted. Detailed consultations specifying the list of leased assets were held due to the necessity to adapt this list to the specification of the tangible dividends mentioned above.

   These efforts took into consideration amongst others the guidelines of the Minister of the State Treasure and the Minister of the Economy and Labor as well as those of the President of the ERA. Based on the methodology approved by the Energy Regulatory Authority, the Regulated Assets Value (RAV – income method),the value of the leasing agreement was defined as PLN 4,500,000 thousand. A long repayment period (204 monthly installments) for particular assets and a repurchase value of PLN 450,000 thousand applicable after the end of the leasing period was negotiated.

   Due to the necessity to adapt the specification of leased assets to the assets covered by the tangible dividend, which was passed by the Minister of the State Treasury on 29 April 2005, a specification of leased assets was adopted for the purpose of the Agreement. The legal status of real estate was therefore cleared and several thousand fixed assets were systematized in the form of complete transmission system segments according to separate listings and taking into account the valuation of assets based on the Regulated Asset Value method.

   The final text of the agreement concluded on 6 July 2005 by PGNIG S.A. and OGP Gaz-System Sp. z o.o. was approved by the Shareholders Meeting of PGNIG S.A. and the Shareholders Meeting of OGP Gaz-System Sp. z o.o. on 7 July 2005. As a result of

the abovementioned steps the entities that thus far had been branches of PGNIG S.A. - Regional Transmission Branches, were put into liquidation and their employees, based on principles specified in Article 23‘ of the Labor Code, became the employees of OGP Gaz-System.

g. Over a dozen agreements which regulated the economic relations between PGNiG S.A. and OGP Gaz-System Sp. z o.o., including amongst others key agreement (apart from the leasing agreement discussed above), were negotiated and signed:

- Agreement No. 1 on providing transmission services (high methane natural gas);
- Agreement No. 2 on providing transmission services (nitrated natural gas);
- Gas fuel sales agreement (for OGP’s purposes);
- Agreement on technical preparation and implementation of investments supporting the transmission system;
- Agreement on providing gas fuel storage services;
- Agreement on operational management of gas storage capacity;
- Agreement on gas fuel compression (Odolanów Branch) for the transmission system;
- Bilateral agreement on operation services related to gas pipelines, stations as well as gas stream management in the Ls and Lw system.

h. In accordance with the requirement of Directive 2003/55/EC, by way of Resolution no. 339/2004 of 22 June 2004 the Management Board of PGNiG S.A. passed the “Proprietary guidelines for Gas Companies on the creation of distribution system operators”, based on which Gas Companies isolated distribution system operators as of 1 July 2004 (in the form of these companies’ registered branches). The activities undertaken in 2005 and aimed at the legal separation of trade and distribution (development of the “Project of separating trade and technical distribution of gas in PGNiG Capital Group) have reached the stage of final financial analyses of several possible, from both a legal and an economic perspective, options of organizing trade and distribution.

II. As a part of the internal restructuring process of PGNiG S.A.

a. On 13 May 2005, the Extraordinary Shareholders Meeting of PGNIG S.A. approved the creation of Zakład Robót Górniczych Krosno Sp. z o.o. with registered office in Krosno, approved that shares be covered with a non-cash contribution in the form of assets constituting an organized portion of PGNIG S.A. (on the assets of PGNiG’s Branch - Zakład Robót Górniczych in Krosno). PGNiG S.A. acquired 26,802 shares with

a value of PLN 26,802 thousand. In July 2005 ZRG Krosno commenced its business activity.

b. The liquidation (accounting-settlement) process of the Geovita Branch of PGNIG S.A. has been completed. On 28 June 2005, the Management Board of PGNiG S.A. passed a resolution regarding the liquidation of the Geovita Branch of PGNiG S.A. with registered office in Warsaw.

c. The process of liquidating six Regional Transmission Branches was formally begun on 8 July 2005. This process was completed on 28 February 2006 and result in the following:

- assignment of several thousand agreements with PGNiG S.A. (RTBs) to OGP Gaz-System Sp. z o.o.;
- realization of reporting obligations and financial-accounting settlements;
- settlement of investments (outlays), modernization and repairs conducted thus far by RTBs;
- archivization and transfer of the documents of PGNiG S.A. to OGP Gaz-System Sp. z o.o. with the assumption that the technical documentation of leased assets remains the property of PGNiG S.A. and is only used by OGP Gaz-System Sp. z o.o.;
- management of the (redundant) assets of PGNiG S.A. and entrusting these assets to administrators that are supervised by OGP Gaz-System Sp. z o.o.;
- continuation of uncompleted court and administrative proceedings (to which PGNiG S.A. is a party) by the employees of OGP Gaz-System Sp. z o.o. as of 1 March 2006;
- settlement and liquidation of the bank account of RTBs.

d. Realization of the Employment restructuring program

PGNiG S.A. Capital Group has been implementing an Employment restructuring program since 2000. This program assumes a broad diversification of restructuring activities, from retiring employees who have reached the retirement age and who are eligible for earlier retirement, pre-retirement benefits, hiring employees in companies in which PGNiG S.A. has a share in capital, as well as in employee companies, or in entities that cooperate with PGNiG S.A., to limiting employment to part-time or reducing its size at selected positions and liquidation of positions.

The second stage of the Employment restructuring program was initially planned for 2003 - 2006. However following consultations with the Head Offices of Trade Unions the Employment restructuring program (the second stage) was adapted to new domestic

regulations and EU directives as well as to changes in the labor code, insurance law, the new act on the promotion of employment, the new act on pre-retirement benefits, the amended Public Procurement Act.

As a result, a new amended Employment structuring program was prepared, which was later approved by the corporate bodies of PGNiG S.A. (by the resolution of the Extraordinary Shareholders Meeting of PGNiG S.A. of 15 July 2005). The main changes in the Program included: extension of its duration until the end of 2007, adjustments to the scope of functions that should remain a part of the PGNiG Capital Group as well as a new, higher one-off severance payments. The amended Program will additionally enable the Company to finance severance payments from the Central Restructuring Fund created to support the restructuring of employment in those entities of the Capital Group whose difficult financial position will require such support. The amended Program assumes that a maximum of 4,142 individuals will be covered by the restructuring process during the period of 2004 -2007, which in total with the number of individuals covered by the restructuring process in 2003 (1,406 individuals) gives forecasted total of 5,548 people.

3,260 employees were covered by the Program in various forms during the period of 2004-2005, including:

- in the branches of PGNiG S.A. - 1,055 people;
- in gas companies - 1,385 people;
- in other subsidiaries - 713 people;
- in RTB's (up to 30 June 2005) - 107 people.

Savings in employee payroll and benefits during this period reached PLN 144 million, whereas the restructuring effect (after adjustments for restructuring costs and financial consequences resulting from necessary recruitment) was equal to PLN 61 million. Total employment in entities covered by the Program decreased by 5,511 people during the period of 1 January 2003 to 31 December 2005 (including the transfer of 2,181 employees in connection with the separation of OGP GAZ – SYSTEM Sp. z o.o. from PGNiG S.A. Capital Group). In 2005 alone 1,542 people were covered by restructuring activities and PLN 13,466.3 thousand was spent on these activities (including: benefits from an additional write-off to the Company's Social Benefits Fund – PLN 9,321 thousand; statutory severance payment – PLN 4,145.3 thousand).

24. OTHER RELEVANT INFORMATION - FOREIGN OPERATIONS

The share of PGNiG S.A. in foreign companies

Ukraine

"Dewon" S.A. was established on 17 November 1999. Its share capital amounts to UAH 11,146.8 thousand. PGNiG S.A. holds a 36.38% stake in the share capital of "Dewon" S.A. (the capital commitment of PGNiG S.A. in "Dewon" S.A. equals UAH 4,055.2 thousand). The other main shareholders of "Dewon" S.A. include: "Prawniczij alians" Sp. z o. o.; Ferrous Trading Limited Liability; NAK "Nafogaz Ukrainy".
Dewon S.A. was established with the purpose of developing natural gas resources outside Poland as well as creating a market for the services of Polish drilling, geophysical and construction & assembly companies.

Currently the company is implementing the project of operating the Sachalijskie fields based on the agreement on joint operations with Połtawanaftogazgeologia, the holder of the exploration and operation concession of the "Sachalińskie" field in the Kharkov District.
At the end of 2004, pursuant to the decision of the Ukrainian Natural Resources Commission, the license granted to „Połtawanaftogazgeologia" for the experimental-industrial exploitation of the "Sachalińskie" deposit was revoked and granted to "Ukrnaftoburenie". As a result of an appeal launched against this decision, pursuant to the judgment of the Court of Appeals of 1 September 2005, the prior mentioned decision was revoked and the concession was once again granted to "Połtawanaftogazgeologia", but was not taken away from "Ukrnaftoburenie". This matter is to be settled at the upcoming meeting of the Ukrainian Council of Ministers.
Thus far, the company has completed phase I of work on the "Sachalińskie" field:

- the construction of three wells has been completed (no. 18, 21 and 113);
- three wells were opened and commissioned for the production of gas and condensate: No. 21 (daily output capacity of 90 thousand m^3 of gas and 3.4 tones of condensate), No. 18 (daily output capacity – 130 thousand m^3 of gas and 28 tones of condensate) and Nr 113 (daily output capacity - 150 thousand m^3 of gas and 25 tones of condensate). All produced resources are sold. The plans to reconstruct well no. 7 have be abandoned as not viable from an economic perspective;
- in 2005 the company generated a net result of UAH 2,156 thousand (PLN 1,433 thousand translated using the average exchange rate of 0.6648 PLN/1UAH) and allocated this profit in tits entirety to the drilling of well No. 113;
- completed construction of mine (UKPG) together with service pipelines;

- development of appropriate gas field infrastructure (roads, power lines, network of gas collective lines from wells and other facilities);
- completed construction of transmission pipeline connecting the field with the Ukrainian transmission system.

The above work was financed by the shareholders and a bank. The Company's main creditors are: Miasto Bank and PGNiG S.A. (loan of USD 3,096.6 thousand).

In May 2005 the company began the drilling of well no. 113. This operation was financed from the company's own resources. Production from this well was commenced on 1 February 2006.

In 2006 the company plans to begin repaying its loans from Miasto Bank and PGNiG S.A.

The company plans also to drill a further three wells. Decisions concerning other activities are dependent upon the position of shareholders.

Oman

"Sahara Petroleum Technology Llc" registered on 23 November 2000, with a share capital of OMR 150 thousand, in which PGNiG S.A. acquired 49% of shares (the capital employed by PGNiG S.A. in Sahara Petroleum Technology Llc is equal to OMR 73.5 thousand).

The company's main objective is to provide technical services related to reconditioning and reconstruction of wells, linear technique operations, maintenance of heads of exploration machines as well as light and medium drilling jobs using the technical potential of PGNiG S.A. In principle, the company should provide services primarily to Petroleum Development Oman, the holder of the concession for the operation of most gas fields in Oman.

Germany

Two agreements were concluded on 1 July 2005 in Potsdam between PGNiG S.A. and VNG-Verbundnetz Gas AG that established the following two companies which operate based on German law:

- **InterTransGas GmbH (ITG)** – which transmits natural gas;
- **InterGasTrade GmbH (IGT)** – which trades natural gas.

Both partners acquired 50% of shares in each of the companies. The share capital of both established companies is equal EUR 200 thousand and their registered offices are located in Potsdam.

On 9 August 2005 ITG GmbH was registered in the commercial register in Potsdam under number HRB 18775P. The scope of the Company's activities includes: designing, construction, operation and sale of transmission capacity. One of the goals of ITG GmbH is to construct and operate the Börnicke – Police trans-border connector.

As to the operation of IGT- due to the reservation voiced by the German partner in relation to the justification of the decision issued by the President of the Office for Competition and Consumer Protection concerning the approval of concentration, the partners (VNG and PGNiG) decided to refrain from registering the company until a second decision is obtained

form the Office for Competition and Consume Protection. Therefore the partners did not settle the called-up share capital and the documents related to the company's establishment are being stored by the relevant notary public. The President of the Office for Competition and Consumer Protection issued the second decision on 18 January 2006.

The share of PGNiG S.A. in exploration licenses:

Pakistan

Exploration work in Pakistan is conducted by the Operating Branch of PGNiG S.A. in Pakistan.

In May 2005 PGNiG S.A. obtained an exploration concession from the Government of Pakistan, applicable to the Kirthar block in the Western part of the Sind province for a period of three years. Based on the concession, the Company can carry out exploration work and is able to continue overdue drilling obligations transferred from the Mekhtar block. During the period of May to September 2005 all archived data, including seismic and geological information and data on wells, pertaining to the area covered by the concession was acquired. These materials were analyzed and assumptions concerning the work schedule were adopted. The reprocessing of 283 running kilometers of old seismic profiles was commenced and they will be subsequently interpreted. Data from two wells previously drilled in this area was parallelly interpreted.

In accordance with the concession agreement related to the Kirthar block, PGNiG S.A. was obliged to resell 25% of shares to a Pakistani company. Of all the submitted offers that of Pakistan Petroleum Ltd., which wanted to assume not 25% but 30% of shares, was found to be most credible. In December 2005, following negotiations and after the approval of the Management Board of PGNiG S.A., an assignment agreement was signed by both parties, pursuant to which PGNiG S.A. handed over 30% of shares to Pakistan Petroleum Ltd. The costs of exploration work will be covered by both parties, proportionally to their share in the undertaking.

The Company created a full provision, in the amount of USD 2,316 thousand million, for the potential liability to the Government of Pakistan (covered by the bank guarantee) that will occur if the Company withdraws from drilling wells.

Since the beginning of operations in 1997 until the end of 2005 PGNIG S.A. has spent USD 17,880 thousand on its operations in Pakistan, whereas USD 1,122 thousand is the subject of court litigation with Tullow.

India

Exploration concession for blocks RJ–ON-90/4 and RJ-ON-90/5 in Radjastan (shareholders: Oil India Ltd., Essar Oil Ltd. and PGNiG S.A.). PGNiG S.A. holds a 25% share in the concession.

Upon the withdrawal of Essar from the exploration concession at the RJ-ON-90/5 block, cooperation and the agreement between PGNiG S.A. and Essar Oil Ltd. have expired. In 2005, PGNiG S.A. did not carry out any joint work in India.

25. OTHER RELEVANT INFORMATION – LONG-TERM CONTRACTS FOR GAS DELIVERIES

Agreements for the sale of gas fuel from the transmission system are concluded based on the Energy Law and in accordance with binding gas fuel trade tariffs. However agreements regarding the sale of gas directly from deposits are subject to Geological and Mining Law and are settled in accordance with prices negotiated based on economic profitability which takes into account development costs and costs of gas production and transmission.

In 2005, PGNiG S.A. signed ten gas fuel sales agreements, including six agreements for the sale of gas from the transmission system and four agreements based on which gas is supplied directly from fields. The above agreements have been concluded with the following entities:

1. PPUH Sun Garden Sp. z o.o. - end customer;
2. HPL Pustków Sp. z o.o. - end customer;
3. TOP GAZ Sp. z o.o. – entity which distributes gas fuel in the Kolonowskie and Zawadzkie communes
4. ZPiUT A. Brzozowski Sp. z o.o. – entity which distributes gas fuel in the city of Kotki
5. Projekt Energia Sp. z o.o. – entity which distributes gas fuel in the Wieczfnia Kościelna commune
6. OGP Gaz-System Sp. z o.o. - for the purpose of operating the transmission system
7. PWiK Sp. z o.o. in Przemyśl – gas from domestic deposits
8. BNG Naftomontaż Przemyśl Sp. z o.o. – gas from domestic deposits
9. “Ekopak” s.c. – gas from domestic deposits
10. Hurtownia „Kameleon” Art. Przem. M. Martowicz, R. Mikuś s.j. – gas from domestic deposits.

In 2005 nine clients began collecting gas based on sales agreements concluded in the afore mentioned year. In accordance with the provision of the agreement Projekt Energia Sp. z o.o.

will begin collecting gas as of April 2006. Zakłady Azotowe w Tarnowie – Mościcach S.A. began collecting gas based on an agreement concluded in 2004.

26. OTHER RELEVANT INFORMATION - CONTRACTS FOR THE PURCHASE OF GAS FROM RUSSIA

Deliveries of high-methane gas from Russia are executed based on long-term contract No. 2102-14/RZ-1/25/96 of 25 September 1996 (the Yamal Contract).

Information on the Yamal Contract:

1. Duration – until 31 December 2022.
2. Minimum and maximum annual volume of gas acquired by PGNiG S.A. – gradually increasing from 6.6 billion m^3 in 2003 to 9.0 billion m^3 in 2015 and subsequent years (according to GOST), with an option of a +/- 10% change until 2009;
3. Gas prices – indexed monthly and correlated to prices of agreed upon oil products listed on the Rotterdam exchange;
4. The volume of gas received in 2005 – 6,808.0 million m^3 (according to GOST).

27. OTHER RELEVANT INFORMATION - MANAGEMENT BOARD'S PLANS REGARDING FINANCING OF OPERATIONS

The Company has sufficient cash to ensure the on-hand and timely settlement of financial liabilities to commercial partners and the State Budget. As a result of the process of restructuring sources of financing which is being conducted by the Management Board of PGNiG S.A. the Company's total level of debt was decreased from PLN 4,076,294 thousand as of 31 December 2004 to PLN 2,315,880 thousand as of 31 December 2005. The Company settled all its liabilities to banks, which became payable in the second half of 2005 and prepaid all long-term liabilities resulting from credit agreements concluded in the period of 1990 - 2004. As of 31 December 2005, PGNiG S.A. possessed only one syndicated loan. This will enable the Company to significantly decrease financial expenses over the course of 2006.

The Company has the following overdrafts:

- Societe Generale - PLN 40,000 thousand;
- Pekao S.A. – PLN 40,000 thousand;
- Bank Millennium S.A. - PLN 40,000 thousand.

By 31 December 2005, no overdraft was used.