Polskie Górnictwo Naftowe
i Gazownictwo SA

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER PERIODS
ENDED ON 31 MARCH 2006 AND 31 MARCH 2005

PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANANCIAL REPORTING STANDARDS

(in thousands of zlotys)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1st quarter / 2006 from 2006-01-01 to 2006-03-31	1st quarter / 2005 from 2005-01-01 to 2005-03-31
	(in PLN '000)	
Sales revenues	**5 098 575**	**3 783 788**
Change in inventory	243 448	138 650
Manufacturing cost of benefits for internal purposes	95 563	82 074
Consumption of raw materials and materials	(2 795 944)	(1 803 377)
Employee benefits	(375 604)	(394 368)
Amortization	(318 613)	(387 348)
External services	(764 649)	(191 108)
Other operating expenses (net)	(389 889)	(178 203)
Operating expenses in total	**(4 305 688)**	**(2 733 680)**
Profit on operating activities	**792 887**	**1 050 108**
Financial revenues	159 243	145 729
Financial expenses	(144 380)	(357 335)
Share in profits/(losses) of controlled entities measured using the equity method	259	(100)
Gross profit	**808 009**	**838 402**
Income tax	(187 186)	(241 978)
Net profit on business activities before obligatory profit sharing	**620 823**	**596 424**
Profit sharing	-	(52 107)
Net profit on business activities	**620 823**	**544 317**
Abandoned activity		
Profit for the financial year on abandoned activity	-	-
Net profit for the financial year	**620 823**	**544 317**
Assigned to:		
Shareholders of the holding company	620 174	544 137
Minority shareholders	649	180
Profit per share assigned per ordinary shareholder of the holding company		
- average weighted number of shares	5 900 000 000	5 000 000 000
- basic from profit for the financial year	0,11	0,11
- diluted from profit for the financial year	0,11	0,11

(in thousands of zlotys)

CONSOLIDATED BALANCE SHEET

	As of 2006-03-31 end of the first quarter / 2006	As of 2005-12-31 end of fourth quarter / 2005	As of 2005-03-31 end of the first quarter / 2005
ASSETS		(in PLN '000)	
Non-current assets (long-term)			
Tangible fixed assets	17 457 962	17 625 567	22 380 842
Investment real property	10 431	10 550	10 940
Intangible assets	1 007 083	952 717	859 409
Investments in associated companies measured using the equity method	512 334	512 076	462 545
Financial assets available for sale	21 691	21 358	19 113
Other financial assets	4 043 087	4 107 585	1 347
Deferred tax asset	396 575	384 504	446 496
Other non-current assets	15 898	17 248	15 967
Total non-current assets (long-term)	**23 465 061**	**23 631 605**	**24 196 659**
Current assets (short-term)			
Inventory	310 082	785 220	296 483
Trade and other receivables	2 826 527	2 618 350	2 145 595
Receivables due to current tax	24 772	30 883	24 853
Prepayments and accruals	281 668	17 501	163 961
Financial assets held for trading	526 813	30 391	564 014
Assets due to derivative financial instruments	180 592	120 273	281 804
Cash and cash equivalents	3 852 973	3 200 471	1 533 630
Total current assets (short-term)	**8 003 427**	**6 803 089**	**5 010 340**
Total assets	**31 468 488**	**30 434 694**	**29 206 999**
EQUITY AND LIABILITIES			
Equity			
Share capital	5 900 000	5 900 000	5 000 000
Revaluation reserve	1 086	1 086	1 086
Exchange differences from translation	(7 483)	(14 086)	(9 827)
Retained profits (losses)	15 545 554	14 925 338	13 295 505
Equity (assigned to the shareholders of the holding company)	**21 439 157**	**20 812 338**	**18 286 764**
Equity of minority shareholders	7 920	7 243	6 492
Total equity	**21 447 077**	**20 819 581**	**18 293 256**
Long-term liabilities			
Credits, loans and debt securities	2 415 498	2 369 082	264 708
Provisions	983 559	981 493	963 755
Deferred income	1 150 918	1 142 225	1 224 768
Provision for deferred tax	2 182 296	2 151 727	2 299 262
Total long-term liabilities	**6 732 271**	**6 644 527**	**4 752 493**
Short-term liabilities			
Trade and other liabilities	2 261 699	2 108 806	1 512 323
Credits, loans and debt securities	85 603	89 218	3 967 925
Liabilities due to derivative financial instruments	127 160	173 177	152 487
Liabilities due to current tax	173 142	75 201	176 918
Provisions	574 317	426 315	335 837
Deferred income	67 219	97 869	15 760
Total short-term liabilities	**3 289 140**	**2 970 586**	**6 161 250**
Total liabilities	**10 021 411**	**9 615 113**	**10 913 743**
Total Equity and Liabilities	**31 468 488**	**30 434 694**	**29 206 999**

(in thousands of zlotys)

CONSOLIDATED CASH FLOW STATEMENT

	1st quarter / 2006 from 2006-01-01 to 2006-03-31	1st quarter / 2005 from 2005-01-01 to 2005-03-31
	(in PLN '000)	
Cash flows from operating activities		
Net financial result	620 823	544 317
Adjusted by:		
Share in profits/(losses) of controlled entities measured using the equity method	(259)	100
Amortization	318 613	387 348
Net exchange gains (losses)	44 259	13 423
Net paid interest and dividends	13 631	112 927
Profit/loss on investment activities	(17 937)	8 555
Income tax for the current period	187 186	241 978
Paid income tax	(66 340)	(52 325)
Other net items	(58 180)	(99 784)
Net cash flows from operating activities before changes in working capital	**1 041 796**	**1 156 539**
Change in working capital:		
Change in net receivables	(236 097)	(228 879)
Change in inventory	475 138	311 872
Change in provisions	139 726	41 116
Change in short-term liabilities	363 601	425 904
Change in prepayments	(262 816)	(152 354)
Change in deferred income	(20 962)	17 648
Net cash flows from operating activities	**1 500 386**	**1 571 846**
Cash flows from investment activities		
Inflows from the sale of tangible and intangible fixed assets	6 654	2 048
Inflows from the sale of shares in entities not included in consolidation	-	-
Inflows from the sale of short-term securities	-	-
Acquisition of intangible assets and tangible fixed assets	(388 627)	(321 899)
Acquisition of shares in entities not included in consolidation	-	-
Acquisition of short-term securities	(475 182)	(296 914)
Received interest	5 129	64
Received dividends	-	-
Other net items	69 152	15 392
Net cash on investment activity	**(782 874)**	**(601 309)**
Cash flows from financial activities		
Net inflows from issuing shares and other capital instruments and surcharges for capital	-	-
Inflows from contracted credits and loans	6 859	8 325
Repayment of credits and loans	(6 436)	(237 224)
Inflows from issuance of debt securities	-	-
Redemption of debt securities	-	-
Repayment of liabilities due to financial lease	(7 007)	(4 975)
Inflows from forwards	4 229	20 501
Outflows from forwards	(46 044)	(47 903)
Paid dividends	-	(61 676)
Paid interest	(18 300)	(14 514)
Other net items	(521)	(8 949)
Net cash flows from financial activities	**(67 220)**	**(346 415)**
Change in the balance of net cash	**650 292**	**624 122**
Net exchange differences	2 210	2 910
Opening balance of cash and cash equivalents	**3 205 089**	**911 407**
Closing balance of cash and cash equivalents	**3 855 381**	**1 535 529**

(in thousands of zlotys)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Equity (assigned to the shareholders of the holding company)					Minority equity	Total equity
	Share capital	Revaluation reserve	Exchange differences from translation	Retained profits (losses)	**Total**		
	(in PLN '000)						
01.01.2005	**5 000 000**	**1 086**	**(11 993)**	**12 751 368**	**17 740 461**	**6 312**	**17 746 773**
Exchange differences from translation of foreign branches	-	-	2 166	-	**2 166**	-	**2 166**
Net profit for the first quarter of 2005	-	-	-	544 137	**544 137**	180	**544 317**
31.03.2005	**5 000 000**	**1 086**	**(9 827)**	**13 295 505**	**18 286 764**	**6 492**	**18 293 256**
01.01.2005	**5 000 000**	**1 086**	**(11 993)**	**12 751 368**	**17 740 461**	**6 312**	**17 746 773**
Emission of shares	900 000	-	-	-	**900 000**	-	**900 000**
Sale of shares above their face value	-	-	-	1 740 093	**1 740 093**	-	**1 740 093**
Exchange differences from translation of foreign branches	-	-	7 201	-	**7 201**	-	**7 201**
Share of the minority shareholders in profit distribution	-	-	-	(1)	**(1)**	(63)	**(64)**
Reduction of shares in subsidiary company – share of minority shareholders	-	-	-	5 000	**5 000**	80	**5 080**
Rising of share capital in controlled entity by minority shareholders	-	-	-	61	**61**	-	**61**
Exclusion of subsidiary company from consolidation	-	-	-	2 260	**2 260**	-	**2 260**
Received dividend from controlled entities measured using the equity method	-	-	-	(174)	**(174)**	-	**(174)**
Result on the transferred fixed assets as dividend	-	-	-	73 241	**73 241**	-	**73 241**
Dividend payment to the owner	-	-	-	(500 000)	**(500 000)**	-	**(500 000)**
Net profit for the first four quarters of 2005	-	-	-	811 099	**811 099**	918	**812 017**
31.12.2005	**5 900 000**	**1 086**	**(4 792)**	**14 882 947**	**20 779 241**	**7 247**	**20 786 488**
01.01.2006	**5 900 000**	**1 086**	**(4 792)**	**14 882 947**	**20 779 241**	**7 247**	**20 786 488**
Exchange differences from translation of foreign branches	-	-	6 603	-	**6 603**	-	**6 603**
The share capital paid up	-	-	-	42	**42**	28	**70**
Net profit for the first quarter of 2006	-	-	-	620 174	**620 174**	649	**620 823**
31.03.2006	**5 900 000**	**1 086**	**(7 483)**	**15 545 554**	**21 439 157**	**7 920**	**21 447 077**

1. Information on principles applied during the preparation of the consolidated report for the 1st quarter of 2006

1.1. Basis for the report and format of financial statements included in the report

The consolidated financial statements for the first quarter of 2006 presented in this consolidated report were prepared in accordance with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the provisions of the Ordinance of Council of Ministers of 19 October 2005 on current and periodic information provided by issuers of securities (Dz. U. No. 209 item 1749, "Ordinance") and cover the period from 1 January 2006 to 31 March 2006.
The consolidated financial statements are presented in PLN, and all figures, unless otherwise stated, are stated in PLN thousands.

1.2. Representation on compliance

The consolidated financial statement of the PGNiG Capital Group was prepared in accordance with the International Financial Reporting Standards which include International Accounting Standards and interpretations accepted by International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC).

1.3. General principles for preparation of financial statements covered by the report

The consolidated financial statements include financial statements of the holding company and financial statements of entities controlled by the holding company (or subsidiaries to the holding company) prepared as of 31 March of each reporting period. An entity is considered as controlled whenever the holding company has the ability to influence the financial and operational policy of the entity to achieve benefits on its operations.
As at the date of acquisition, assets and liabilities of the absorbed company are measured at their value. The surplus of the purchase price over fair value of identifiable net assets of the company is recognised under goodwill. In case the purchase price is lower than fair value of identifiable net assets to be taken over from the entity, the difference is recognised as profit in the profit and loss account in the period when the purchase was effected. Share of minor shareholders is disclosed in adequate proportion of fair value of assets and capitals. In following periods losses of individual minor shareholders above the value of their shares are charged to capitals of the holding company.
Whenever necessary in the financial statements of subsidiaries or associated companies adjustments are introduced to unify accounting principles applied by the company with the accounting principles applied by the holding company.
All transactions, balances, revenues and expenses between related parties included in consolidation are subject to consolidation eliminations.
Financial results of companies acquired or sold during the year are recognised in the consolidation financial statements from/until the moment they are acquired or sold respectively.
In case a subsidiary is no longer under control the consolidated financial statements should disclose the result for the part of the year included in the financial statements when the holding company retained control.
Minority shares include part of shares in BSiPG Gazoprojekt S.A. and Naft-Stal Sp. z o.o., which do not belong to the Capital Group.

The statutory individual financial statements the Company, published as part of consolidated financial statement of the Capital Group, was prepared according to Polish Accounting Standards defined in:
- the Accounting Act of 29 September 1994 (Dz. U. No. 76 item 694, 2002)
- the Ordinance of Council of Ministers of 19 October 2005 on current and periodic information provided by issuers of securities (Dz. U. No. 209 item 1744).

1.4. Accounting principles applied

In the first quarter of 2006, the Company and the Capital Group did no introduce any material changes in the accounting principles as compared to the principles applied to the financial statements and consolidated financial statements for the period ended 31 December 2005.

Investments in associated entities

An associated entity is the entity the holding company has a significant influence on, but does not exercise control by participating both in determination of the financial and operational policy of the associated company

and these are not joint ventures. Financial shares of the Capital Group in its associated companies are measured using the equity method, except the situation when an investment is classified as held for trading (see below). Investment in an associated company are measured at the purchase price plus changes in the share of the Capital Group in net assets, which took place from the balance sheet date, less impairment of individual investments. Losses of associated companies exceeding the value of the Group's share in these associated companies are not recognised.
As of the date of acquisition the surplus of the purchase price over fair value of identifiable net assets of the associated company is recognised under goodwill. In case the purchase price is lower than fair value of identifiable net assets of the associated company as of the date of acquisition, the difference is recognised as profit in the profit and loss account in the period when the acquisition was effected.
Profits and losses resulting from the transaction between the Capital Group and the associated company subject to consolidation eliminations in line with the share of the Capital Group in capitals of the associated company. Balance sheet dates of associated companies and the Capital Group are identical and both entities apply coherent accounting principles. Whenever necessary, in the financial statements of subsidiaries or associated companies adjustments are introduced to unify accounting principles applied by the company with the accounting principles applied by the holding company. Losses incurred by the associated company can certify for impairment of assets resulting in the need to create revaluation write-down at adequate level.

Shares in joint ventures

Share of the Capital Group in the joint venture is recognised using proportional consolidation method, according to which the proportional share in assets, liabilities, revenues and costs of the joint venture is recognised, item by item, including similar items in the consolidated financial statements.

Translation of items denominated in foreign currency

Polish zloty (PLN) is the functional and measurement currency also used for presentation purposes by PGNiG S.A. and its subsidiaries. Transactions denominated in currencies are preliminarily recognised at the exchange rate of the functional currency valid on the transaction date. Cash assets and liabilities denominated in foreign currency are translated at the exchange rate of the functional currency valid on the balance sheet date. All exchange differences are recognised in the consolidated cash flow statement, except for exchange differences occurring after translation of assets and liabilities of foreign entities. These differences are recognised directly under equity until the shares in these entities are sold. Non-cash items measured at historical cost in foreign currency are translated at the exchange rate from the transaction opening date. Non-cash items measured at fair value in foreign currency are translated at the exchange rate from date the fair value was determined.
To hedge against risks resulting from exchange rate fluctuations the holding company in the Capital Group use forwards and options in foreign currencies (see below accounting principles applied by the Capital Group with respect to derivative financial instruments).

Pakistan currency and EUR respectively are the functional currencies of the foreign branch (Operator branch in Pakistan) and one subsidiary (PGNiG Finance BV). As of the balance sheet date assets and liabilities of these foreign companies are translated to the presentation currency of PGNiG S.A. at the exchange rate valid on the balance sheet date, and their profit and loss accounts are translated at the average-weighted exchange rate for the given financial year. Exchange differences resulting from such translation are recognised directly in equity as a separate item. As the moment of sales of the foreign entity, accumulated deferred exchange differences recognised under equity and relating to the foreign entity are recognised in the profit and loss account.

Tangible fixed assets

In order to meet the requirements pursuant to IFRS 1 the entity measured tangible fixed assets at fair value as of the day IFRS are applied and recognised that value as the assumed cost on that date. Change in the value resulting from revaluation of tangible fixed assets has been recognised under “retained profit/loss”.

Tangible fixed assets are recognised in the balance sheet at value after remeasurement, reduced in the following periods by depreciation charges and impairment. Measurement is done whenever there are any indications that permanent impairment of tangible fixed assets occurred.
Increase in value due to the revaluation of tangible fixed assets is recognized in the revaluation reserve, except when the increase in value adjusts an earlier write-down recognized in the profit and loss account (in such a case, the increase in value is recognized also in the profit and loss account, but up to the value of the earlier writer-down). Decrease in value due to the revaluation of tangible fixed assets is recognized as costs in the period in the amount exceeding the earlier measurement of this asset recognized in the revaluation reserve.

Depreciation of remeasured tangible fixed assets is recognised in the profit and loss account. Upon the sale or the discontinuation of use of remeasured tangible fixed assets, the unsettled amount from revaluation related to such assets is transferred directly from the revaluation reserve to retained earnings.
Fixed assets under construction created for production purposes, rental or administration purposes as well as other undefined purposes are presented in the balance sheet at the manufacturing cost less impairment. Manufacturing cost is increased by charges and for defined assets by the cost of external financing capitalised in accordance with the rules defined in the accounting principles of the Capital Group. Depreciation of these fixed assets starts at the moment they are commissioned, pursuant to the principles relating to own fixed assets.
Depreciation is calculated for all fixed assets, except for land and fixed assets under construction, for the estimated economic useful life of these assets, using the straight-line method and the following annual depreciation rates:

Buildings and structures	- 2.50-20%
Machines and equipment, vehicles and other	- 3.33-50%

Assets used based on financial leasing agreement are depreciated for the period of economic useful life, respectively as own assets, no longer however that for the period of lease.
Gains and losses on sales/disposal or discontinuation of use of fixed assets are determined as the difference between sales revenues and net value of these fixed assets and are recognised in the profit and loss account.

Costs of external financing

External financing costs are recognised under expenses at the moment they are incurred in line with the master approach compliant with IAS 23.

Investment real property

Investment real property include real estates that are considered as source of revenues from rentals or / and for capital appreciation.
Initially investment property is recognised at the purchase price less transaction costs. After initial recognition, investment property is recognised at the purchase price. All investment real properties are measured in accordance with IAS 16, i.e. at the purchase price or manufacturing cost less accumulated amortization and accumulated revaluation write-downs due to impairment.
Investment property is derecognised from the balance sheet in case it is sold or permanently withdrawn of the investment property from use as no future benefits are expected from its sales. All gains or losses resulting from withdrawal of the investment property from the balance sheet are recognised in the profit and loss account in the period when such derecognition was effected.

Goodwill

Goodwill created during consolidation results from the occurrence, upon acquisition, of a surplus of costs connected with acquiring an entity over the fair value of identifiable items in assets as well as liabilities and equity of a subsidiary, associated entity or joint venture upon acquisition.
Goodwill is disclosed as an item in assets and is at least once a year subject to an analysis as to impairment.
Potential impairment is immediately recognized in the profit and loss account and is not subject to reversal in subsequent periods.
During the sale of a subsidiary, associated entity or joint venture, an appropriate potion of goodwill is taken into account when calculating the profit or loss on the sale.

Intangible assets

Intangible assets are recognized when they are likely to cause an inflow of economic benefits in the future, which may be closely related to those assets.

Separately acquired or manufactured by the entity

Intangible assets acquired as part of a separate transaction are activated at purchase price.
After their initial recognition at purchase price, intangible assets are measured at revaluation value – fair value at revaluation less accumulated amortization and accumulated revaluation write-downs due to impairment.
Increases in value due to the revaluation of intangible assets are recognized in the revaluation reserve, except when the increase in value adjusts an earlier write-down recognized in the profit and loss account (in such a

case, the increase in value is recognized also in the profit and loss account, but up to the value of the earlier writer-down). Decreases in value due to the revaluation of intangibles are recognized as costs in the period in the amount exceeding the earlier measurement of this asset recognized in the revaluation reserve.
The amortization of remeasured intangible assets is recorded in the profit and loss account. Upon the sale or the discontinuation of the use of remeasured intangible assets, the unsettled amount from revaluation related to such assets is transferred directly from the revaluation reserve to retained earnings.
Intangible assets are amortized based on the straight-line method over the period of their expected economic useful life. The correctness of applied periods and amortization rates is periodically verified, at least once a year at the end of the financial year, and potential adjustments to amortization charges are applied in the following period.
The typically applied economic useful lives for the amortization of intangible assets:

Acquired concessions, licenses, patents and similar items	2 - 10 years
Acquired computer software	2 - 5 years

Perpetual usufruct rights to land acquired free of charge and for compensation are recognized in books as operational leasing. Perpetual usufruct rights acquired for compensation are presented as intangible assets and amortized during their useful life (the duration of the lease). However, perpetual usufruct rights acquired free of charge, i.e. pursuant to administrative decisions, are treated as operational leasing and are not recognized in intangible assets, nor are they amortized. They are only presented at fair value as an off-balance sheet item.

Intangible assets with an unspecified useful life are not subject to amortization.
Intangible assets with an unspecified useful life as well as intangible assets not yet used are subject to periodic (once a year) examination for impairment.

Other intangibles are examined for impairment when circumstances occur which suggest that the carrying value of these assets may be impossible to recover.
If evidence exists that points to possible impairment and the carrying value exceeds the estimated recoverable value, then the value of such assets or cash generating units, to which these assets belong, is lowered to the level of the recoverable value. The recovered value of assets corresponds to the higher of the two following values: net sales price or useful value.

R&D expenses

R & D expenses are not subject to activation and are presented in the profit and loss account as costs in the period, in which they were incurred.
R&D expenses are capitalized only when:

- a precisely specified project is realized (e.g. software or new procedures);
- it is likely that the asset will generate future economic benefits; and
- costs connected with the project can be reliably estimated.

R&D expenses are amortized using the straight-line method over their economic useful life.
If it is impossible to isolate the item of assets that was manufactured by the entity itself, R&D expenses as recognized in the profit and loss account in the period, in which they were incurred.

Leasing

Leasing is classified as financial leasing, when the terms and conditions of the agreement in principal transfer all potential benefits as well as risk resulting from being the owner onto the Lessee. All other forms of leasing are treated as operating leasing.

The Group as a Lessor

Accounts receivable for financial leasing are recognized under receivables in the net value of the Group's investment in leasing.
Revenues from financial leasing are recognized in appropriate periods taking into account the fixed rate of return on the net value of the Group's investment in leasing.
Revenues from operating leasing are recognized in the profit and loss account using the linear method during the period resulting from the leasing agreement.

The Group as a Lessee

Assets used based on financial leasing agreements are treated as the Group's assets and are measured at fair value upon their acquisition, no higher however than the current value of minimal leasing fees. The resulting

liabilities toward the Lessor are presented in the balance sheet under financial leasing liabilities. Leasing payments have been broken down into interest and the principal, so that the interest rate on the remaining liability will be fixed. Financial expenses are recorded in the profit and loss account. Revenues from operating leasing are recognized in the profit and loss account using the linear method during the period resulting from the leasing agreement.
Benefits obtained or due as incentives for concluding the operational leasing agreement are recorded in the profit and loss account using the linear method during the period resulting from the leasing agreement.

Investments

If market practices foresee the delivery of financial assets after a precisely specified period after the transaction date, investments in financial assets are recognized in books and derecognized from books upon the conclusion of the purchase or sale transaction.
All investments are measured initially at purchase price adjusted by transaction costs. Investments are classified as “held for trading” or “available for sale” and, on the balance sheet date, are measured at fair value. When investments have been classified as held for trading, profits and losses due to changes in their fair value are recognized in the profit and loss account for a particular period. In case of assets available for sale, profits and losses resulting from changes in fair value are recognized directly in capital until the sale of assets or recognition of impairment. At that time, accumulated profits and losses recognized previously in capital are reclassified into the profit and loss account for a particular period.
Financial assets with fixed or determinable payments and fixed maturity are classified as investments "held to maturity”, under the condition that the Group definitively intends and is capable of holding them until this date.
Long-term investments held to maturity are measured at adjusted purchase price determined using the effective interest rate. Discounts or bonuses obtained upon the acquisition of the investment and settled over the period during which it was held to maturity are taken into account when determining the adjusted purchase price. Profits or losses from investments measured at adjusted purchase price are recognized in revenues during their settlement (amortization) in the period and upon their derecognition from the balance sheet or upon the occurrence of impairment.

Fixed assets held for sale

Fixed assets (and groups of net assets held for sale) classified as held for sale are measured at the lower of the following two values: carrying value or fair value less sale related costs.
Fixed assets and groups of net assets are classified as held for sale, if their carrying value will be recovered as a result of a sale transaction rather than as a result of their further continuous use. This condition is considered as fulfilled only when the occurrence of a sale transaction is highly likely, and an asset (or group of net assets held for sale) is currently available for immediate sale.
When an asset is classified as held for sale, it is assumed that the company’s management intends to finalize the sales transaction within a year from the reclassification.

Inventory

Inventory is measured at purchase price or manufacturing cost not exceeding net sales price. Manufacturing costs consist of the cost of direct materials and, in specified cases, direct payroll costs and a justified portion of indirect costs. The balance sheet inventory of materials includes gas and other materials in stock. Gas in stock is measured at the weighted average purchase price of imported gas, actual manufacturing cost from domestic sources and the cost of denitration. Valuations of imported gas are performed using the exchange rate applied in the Single Administrative Document.
The net sales price corresponds to the estimated price of sales conducted during the course of normal economic activity, less all costs necessary to complete production and costs of leading to the sale of inventory or finding an acquirer (i.e. sales and marketing costs, etc.).

Trade and other receivables

Trade receivables are recognized and disclosed at initially invoiced amounts less revaluation write-downs. Receivables are written down based on the probability of their payment.
Write-downs of receivables connected with gas deliveries to small customers (low consumption of gas), settled in line with tariff groups 1-4, are calculated on a statistical basis. Write-downs are created based on analysis of historical data regarding settlement of receivables during the year. Using the results of the analysis, repayment ratios are calculated, and on this basis, the ageing analysis of receivables is prepared. A 100% write-down is created for receivables overdue by over 365 days and all accrued interest.

The Company creates write-downs for gas delivery receivables from customers belonging to tariff groups 5-7 that are overdue by more than 90 days. The write-downs are calculated on a case-by-case basis taking into account the financial condition of the debtor.
Write-downs on receivables are charged to other operating expenses or financial expenses, according to the type of receivables.
Irrecoverable receivables are charged to losses upon the assessment of their irrecoverability.
The write off or redemption of receivables due to expiry or irrecoverability results in the reduction in previously created write-downs.
Receivables redeemed or written-off due to expiry or irrecoverability which were not written down, or were partially written down, are classified as other operating expenses or financial expenses, as appropriate.

Cash and cash equivalents

Cash and cash equivalents disclosed in the balance sheet cover cash at bank and in hand as well as short-term investments with high liquidity and an initial maturity of no more than 3 months, easily exchangeable for specific cash amounts and subject to small impairment risk.
The balance of cash and cash equivalents disclosed in the consolidated cash flow statement consists of the above-specified cash and cash equivalents, less unpaid loans on the current account.

Impairment

On every balance sheet date, the Group evaluates whether there is any evidence indicating permanent impairment of assets. If such evidence exists, the recoverable value of a particular asset is estimated in order to determine the resulting potential write-down. When assets do not generate cash flows that are to a significant degree independent from flows generated by other assets, an analysis is conducted for the group of cash flow generating assets to which these particular assets belong.
In case of intangible assets with an unspecified useful life, a test for impairment is conducted annually, as well as, when evidence pointing to the occurrence of impairment is uncovered.
The recoverable value is determined as the higher of the two following values: fair value less sales costs or useful value. The latter corresponds to the current value of estimated future discounted cash flows using a discount rate that takes into account the current market value of money over time and risk specific for a particular asset.
If the recoverable value is lower than the net book value of an asset (or group of assets), the book value is decreased to the recoverable value. Impairment is recognized as costs in the period, in which it occurred, except for cases when an asset was recognized at remeasured value (then impairment is treated as a decrease of the earlier remeasurement).
Upon the reversal of impairment, the net value of an asset (group of assets) is increased to the newly estimated recoverable value, however no higher than the net value of this asset that would be determined, if impairment was not recognized in previous years. The reversal of impairment is recognized in revenue, if an asset was not subject to revaluation earlier – if it was, then reversal of impairment is recorded in the revaluation reserve.

Equity

Equity is recorded in accounting records by type and according to principles specified in legal regulations and in the holding company's by-laws.
Share capital is disclosed at face value in amounts complying with the by-laws of the holding company and the entry in the commercial register.
Capital contributions declared but not transferred are recognized as called up share capital. Own shares or called-up share capital is decreased by the value of the holding company's equity.
Capital from the issuance of shares above face value is created from the surplus of the issue price of shares over their face value less the cost of their issuance.
The costs of issuing shares incurred during the establishment of a joint stock company or an increase in share capital decreases the capital from the issuance of shares above face value to the surplus of their issue price above the face value of shares. The remaining portion is classified to other reserve capital.
The effects of revaluation and all changes in the remeasured tangibles fixed assets and intangibles assets are recorded in the revaluation reserve.
Amounts created from profit distribution, reclassifications from the revaluation reserve, retained profit / uncover loss and the result for the current year are presented in the financial statements as retained earnings.

Bank loans

Interest bearing bank loans are recorded at the value of obtained inflows less the direct cost of obtaining these resources. All interest bearing loans are then recognized at adjusted acquisition price using the effective interest rate method. Costs connected with obtaining loans as well as discounts or bonuses obtained when settling liabilities are taken into account when determining the adjusted acquisition price.
Gains and losses are recognized in the profit and loss account upon their derecognition from the balance sheet or when impairment is assessed and as a result of amortization.

Provisions

Provisions are created when as a result of future events a potential liability of a reliably estimated value, which in the future may result in the outflow of assets that generate economic benefits from the Company, is generated. The value of created provisions is verified at the balance sheet date in order to adjust its value to the current forecast. When the change of the value of cash over time is significant, the amount of the provision is determined as the level of the current value of expected future expenses necessary to settle the liability, whereas the estimated rate of return on risk free deposits is applied as the discount rate. If discounting is applied, the increase in the provision over time is recognized as the cost of external financing.
When the provisions concern the cost of liquidating assets connected with production, the initial value of the provision increases the value of the appropriate tangible fixed asset. Subsequent adjustments of the provisions resulting from changes in estimates are also treated as an adjustment of the value of the fixed asset.

Provisions for jubilee awards and retirement benefits

The Capital Group's entities implement a jubilee awards and retirement benefits scheme. Respective payments are charged to the profit and loss account in such a way as to spread the cost of jubilee awards and retirement benefits over the entire period of employment in respective companies. The costs due to the aforesaid benefits are determined by measurement of forecast individual entitlements using the actuarial method.

Provision for payment of welfare allowances

The constituent entities of the Capital Group create a provision for termination benefits paid to employees laid off in connection with the employment restructuring program. The provision is estimated based on the planned employment reduction and the amount of one-off severance payment.
The provision for restructuring costs is recognized only when the Group presents the detailed and formal restructuring plan to all interested parties.

Provision for gas allowances to former employees

The Company is obliged to pay gas allowances to former personnel employed until the end of 1995. These financial statements contain a provision for future expenses resulting from the payment of these benefits. The value of the provision for gas allowances is determined according to the principles of actuarial valuation applied for estimating the provision for jubilee awards and retirement benefits. Paid allowances are charged to the profit and loss account.

Provision for well reclamation costs

The Company creates a provision for future costs of well reclamation. The provision is calculated based on the average cost of well reclamation in individual mines over the last three years, adjusted by forecasted CPI and changes in the value of money over time. The application of a three year period in these calculations results from the varied number of reclaimed wells and their reclamation costs in particular years.

Provision for environmental protection purposes

The Capital Group's companies create provisions for future liabilities for the cost of reclaiming contaminated land or eliminating hazardous substances, if such a step is customary or if they are legally obliged to do so. The created provision reflects potential costs foreseen to be incurred, estimated and verified periodically according to current prices.

Special funds

Provisions also disclose special funds as they concern future events and certain legal obligations are imposed on the Group's companies in connection with these events. The fulfillment of these obligations is very probable and will result in the outflow of resources constituting economic benefits.
Special funds include the Company Social Benefits Fund (ZFŚS) and the Mine Liquidation Fund.

The Social Benefits Fund is created from obligatory charges and voluntary write-offs from net profit. Obligatory charges are created by the employer in accordance with the applicable regulations, based on the number of employees and minimum monthly wages. In these consolidated financial statements write-offs are treated as costs. The Social Benefits Fund can be used only for employee benefits.
The Mine Liquidation Fund is creased based on the Act of 27 July 2001 on amending the Mining and Geological Law. Write-offs are created in correspondence with other operating expenses.

Other provisions for future probable liabilities

The Capital Group's companies also created other provisions future probable expenses, such as provisions for warranty repairs, imposed fines, etc. Provisions for warranty repairs are recognized upon the sale of products in accordance with the Management Board's best estimates as to costs that will have to be incurred by the Group's company during the warranty period.
Provisions for imposed fines are recognized by the Group's companies when they receive decisions imposing such fines. This provision is disclosed in the amount of the imposed fine.

Prepayments and accruals

The Capital Group's constituent entities create prepayments for expenses pertaining to future reporting periods. They are presented in the balance sheet as a separate item in assets.
Accruals are due liabilities for goods and services, which have been received/rendered, but have not yet been paid, invoices or formally agreed upon with the supplier, together with amounts payable to employees (e.g. amounts for accrued vacation pay). These settlements are disclosed in the balance sheet in liabilities and equity together with trade liabilities as well as other liabilities.
The Capital Group's constituent entities recognize deferred income in order to allocate revenues to future reporting periods upon realization.
The holding company and the Gas Companies classify gas infrastructure received free of charge (by 1998) and connection fees as deferred income. Respective revenues are realized together with created depreciation charges on the aforesaid service lines. The settlements are disclosed in the balance sheet as a separate item under liabilities and equity.

Trade and other liabilities

Trade liabilities are liabilities that are due for goods and services, which have been delivered/performed as well as invoiced or formally agreed upon with the supplier.
Other liabilities include mainly liabilities resulting from the current activity of the Group's companies, i.e. from employee remuneration and other current benefits, as well as accrued costs and public–legal liabilities.

Sales revenues

Revenues are recognized in the amount of potential reliably estimated economic benefits that will be obtained by the Group from a particular transaction. The following criteria also apply when recognizing revenues:

Sales of goods and products

Sales revenues are recognized at the fair value of received or due payments and represent receivables for products, goods and services delivered as part of normal economic activity, less discounts, VAT and other sale connected taxes (excise duty). The sale of goods and products is recognized upon the delivery of goods and services together with transferred ownership rights.

Services

Revenues for services are recognized based on the degree to which they are realized upon the balance sheet date. If a service consists of an undeterminable number of activities performed over a specified period of time, then revenues are recognized using the linear method (evenly) over the course of that period. If a certain activity is more important than the other activities, the recognition of revenues is put off until such an activity is performed. When the result of a transaction related to the rendering of such a service cannot be reliably estimated, revenues form such a transaction are recognized only in the amount of incurred expenses, that an entity expects to recover.

Interest

Interest revenues are recognized increasingly, in reference to the principal receivable, in accordance with the effective interest rate method.

Dividends

Revenues from dividends are recognized upon the establishment of the rights of shareholders to receive payments.

Revenues from rental

Revenues from the rent of investment real property are recognized in accordance with conditions resulting from concluded rental agreements.

Construction contracts

When the result of a construction contract can be reliably estimated, revenues and expenses are recognized in reference to the delivery status of such a contract upon the balance sheet date. The delivery status is usually measured as a proportion of incurred costs to all estimates costs connected with the contract, except for situations, when such an approach would not reflect the actual delivery status. All changes to the scope of work, claim or bonuses are recognized in the degree, to which they have been agreed upon with the client.
When the value of a contract cannot be reliably estimated, revenues from such a contract are recognized in the degree, to which it is likely that that costs resulting from the contract will be covered by these revenues.
Costs connected with a contract are recognized as costs in the period to which they refer. When it is probable that the cost of a contract will exceed revenues, the expected loss on the contract is immediately recognized and disclosed as a cost.

State subsidies

State subsides granted for the purpose of retraining employees are recognized as revenues in particular periods, in order to ensure that they reflect respective costs.
State subsidies to fixed assets are presented in the balance sheet as prepayments and next are gradually, by way of annual write-offs, written off from the profit and loss account during the expected useful life of these assets.

Income tax

The obligatory charges consist of: current tax (CIT) and deferred tax.
The current tax liability is measured based on the taxable result (tax base) of a particular financial year. The tax profit (loss) differs from the net profit (loss) disclosed in books due to the exclusion of taxable revenues and future tax deductible expenses and items in expenses and revenues that will never be taxable. Tax liabilities are calculated based on tax rates that are binding in a particular year.
Deferred tax is calculated using the balance-sheet method as payable tax or tax to be returned in the future on differences between the carrying value of assets and liabilities and their corresponding tax values used for the calculation of the taxable base.
The provision for deferred tax is created on all temporary positive differences subject to taxation, whereas deferred tax assets are recognized up to the amount, to which its is probable that future taxable profits will be decreased by the recognized temporary negative differences. The item tax assets or tax liabilities is not created, if temporary differences are created due to goodwill or to the initial recognition of another transaction asset or liability, which does not influence the tax result or the book result. The deferred tax provision is recognized from temporary tax differences created as a result of investments in subsidies and associates as well as joint ventures, unless the Group is capable of controlling the reversal of temporary differences and it is likely that in the foreseeable future the temporary difference will not be reversed.
The value of the deferred tax asset is subject to an analysis as at every balance sheet date, and when the expected future taxable profits are insufficient to realize the asset or its part a relevant write-down in created.
Deferred tax is calculated using of tax rates that will be valid at the moment when the given asset is realized or the liability is due. Deferred tax is charged to the profit and loss account, except when it is related to the items directly recognized under equity. In the last case, deferred tax is charged directly to equity as well.

Derivatives and hedge accounting

In connection with the conducted activity the Group is exposed to financial risks connected with changes in exchange rates and interest rates. In order to hedge against such risks, the Group concludes transaction related to derivatives such as swaps, currency forwards and options, strategic currency options and cross currency interest rate swaps, so as to hedge against risks resulting from exchange rate fluctuations and changes in interest rates, which influence certain assets, liabilities and transactions in foreign currencies.
Such derivative financial instruments are measured at fair value.

Changes in the fair value of derivative financial instruments assigned to hedge cash flows in the portion that constitutes an effective hedge are charged directly to capital. Changes in the fair value of derivative financial instruments assigned to hedge cash flows in the portion that does not constitutes an effective hedge are classified to financial revenues or expenses of the reporting period.

If cash flow hedges (related to future liabilities or planned transactions) are connected with the recognition of an asset or liability in books, then upon the initial recognition of such an assets or liability, profits or losses relating to the financial instruments recognized previously in capital adjust the initial value of the asset or liability. If a cash flow hedging transaction is not connected with the creation of an assets or liability, the deferred value in capital is recognized in the profit and loss account in the period, in which the settlement of the hedged item is recognized in the profit and loss account.

In case of an effective fair value hedge, the value of the hedged item is adjusted by changes in fair value due to the hedged risk that are charged to the profit and loss account. Profits and losses resulting from the remeasurement of derivatives or revaluation of the currency portion of balance sheet items not constituting derivates are recognized in the profit and loss account.

Changes in the fair value of derivatives not constituting hedging instruments are recognized in the profit and loss account of the reporting period, in which the revaluation took place.

The hedges applied by the Company do not fulfill criteria for the application of special accounting principles related to hedges, Therefore, profits and losses due to changes in the fair value of hedges are recognized in the profit and loss account for the financial year.

The fair value of currency forward transactions is calculated based on forecasted balance sheet date exchange rates for forward transactions with a similar maturity profile.

The fair value of interest rate swaps is determined based on discounted cash flows until expiry.

Derivatives embedded in other financial instruments or agreements not constituting financial instruments are treated as separate derivatives, if the nature of the embedded instrument and the connected risk are not closely connected with the nature of the principal agreement or resulting risks and if principal agreements are not measured according to fair value, whose changes are recognized in the profit and loss account.

1.5. General information on the Issuer and its Capital Group

Polskie Górnictwo Naftowe i Gazownictwo S.A. (hereinafter referred to as “PGNiG S.A.”, “Company” or “holding company”), PGNiG Capital Group’s holding company (hereinafter referred to as “PGNiG S.A. Capital Group” or the “Group”) with registered office in Poland, 00-537 Warsaw, ul. Krucza 6/14. As of 23 September 2005, as a result of issue of shares, PGNiG S.A. was transformed from a company wholly owned by the State Treasury into a public company.

The holding company was created as result of the transformation of the state company Polskie Górnictwo Naftowe i Gazownictwo into a joint stock company wholly owned by the State Treasury. The transformation deed and the articles of association were signed in the form of a notarized deed of 21 October 1996.

While signing the above deed of transformation of the state enterprise, the Minister of Treasury followed the provisions of the Prime Minister’s Ordinance of 30 September 1996 on transformation of the enterprise Polskie Górnictwo Naftowe i Gazownictwo with registered office in Warsaw into a joint-stock company wholly owned by the State Treasury (Dz. U. No. 116 of 1996, item 553).

On 30 October 1996 the Company was entered to the commercial register under number RHB 48382. As of the date of registration the Company acquired legal personality. On 27 December 2001 PGNiG S.A. was entered into the National Court Register (Register of Entrepreneurs) under number KRS 0000059492. PGNiG S.A. was registered at National Economy Register under the number 012216736.

The joint stock company is a legal successor of the state enterprise. Asset and liabilities of the state enterprise were transferred via contribution in kind to the joint stock company and disclosed in accounting records at the value from the closing balance of the state enterprise.

The Company’s core business includes seeking and exploration of crude oil and gas, gas import, transfer and distribution.

PGNiG Capital Group consists of commercial companies specialized in production, trade and services. The Group’s holding company is Polskie Górnictwo Naftowe i Gazownictwo S.A.

The structure of PGNiG Capital Group

On account of business scope and severity for Capital Group functioning the subsidiary entities are divided into following groups:

- key entities
- core entities
- target entities
- other entities (business-critical and not).

Key entities

The key entities in the PGNiG Capital Group are six Gas Companies. These companies conduct service and trade activities within retail sales and distribution of gas, as well as activities within the scope of exploitation, maintenance, repair and development of gas distribution network. The Gas Companies were composed in the way of contribution of assets of former branches of PGNiG S.A. – 23 gas operators – and their area of operation covers all of Poland. The Gas Companies provide gas to more than six million customers – both industrial and households. The most numerous group of customers are individual receivers (95%).

The key companies group include:

- Lower Silesian Gas Company
- Upper Silesian Gas Company
- Carpathian Gas Company
- Mazovian Gas Company
- Pomeranian Gas Company
- Greater Poland Gas Company

Core entities

The core companies are of significant importance to PGNiG S.A. whose activities and actually fulfilled functions ensure the performance of the core tasks of PGNiG S.A. as well as which in general make diversifying the sources of acquiring gas and markets for selling gas easier. Most of the entities classified to this group were established from the branches of PGNiG S.A. These companies operate in the field of searching for deposits, geophysical testing and production for construction and assembly purposes.

The group of “core” companies includes:

- three exploration companies (PNiG Kraków Sp. z o.o., PNiG Jasło Sp. z o.o. , PNiG NAFTA Sp. z o.o. in Piła) – these companies operate mainly in the field of exploration and drillings for minerals, mostly crude oil and natural gas. These activities have significant impact on hitting strategic targets of PGNiG Capital Group in the field of increasing domestic exploration of natural gas and crude oil as well as keeping the resources renewal index on the desired level
- two service companies (PN “Diament” Sp. z o.o., Zakład Robót Górniczych Krosno Sp. z o.o.) – the role of these companies is to provide specialized services crucial for accomplishing exploration tasks and work related to drilling of wells
- two geophysical companies (Geofizyka Kraków Sp. z o.o., Geofizyka Toruń Sp. z o.o.) – these companies are important core companies in the field of exploration for deposits, the companies provide services in Poland and abroad in the field of programming, design, conducting and documenting research related to geophysics, preparation and interpretation of data
- two companies servicing Transit Gas Pipeline System (SGT “EUROPOL GAZ” S.A., GAS-TRADING S.A.) – these companies are involved in the Polish section of the Transit Gas Pipeline System particularly in gas pipeline transport from the Polish boarder with Belorussia to the final delivery stations in Włocławek and Lwówek as well as from the Polish boarder with Germany to the above mentioned final stations and have significant influence on the gas supplies to the PGNiG Capital Group
- one designer company (BSiPG “Gazoprojekt” S.A.) – the company due to carried studies and analyses, as well as specialisation in design of natural gas facilities and installations has been included into the group of core companies.

Target entities

The target companies are companies which were called up to accomplish long-term strategic goals of the PGNiG Capital Group. After the analysis of the performance they will be included to the group of core entities if the results are satisfactory or in the contrary case sold .

The group of target entities include:

- PGNiG Finance B.V. – founded in order to handle the issue of PGNiG bonds denominated in Euro
- Górnictwo Naftowe Sp. z o.o. – established on 22 December 2000 in order to execute the amendment of the “Organizational restructuring program of the state owned public utility company Polskie Górnictwo Naftowe i Gazownictwo” approved by the Council of Ministers on 23 May 2000; the company’s share capital is equal PLN 50,000.00, the company does not conduct any operating activity
- InterTransGas GmbH - the scope of the Company’s activities includes: designing, construction, operation and sale of the capacity of transmission infrastructure used to transmit gas upon order of third parties and for own purposes and rendering services connected with the transmission of gas in the pipelines of third parties. Such undertakings require an earlier increase in capital by the shareholders. One of the reasons of founding the company is constructing and exploiting of Börnicke – Police interconnector connecting Polish and European transmission system
- InterGasTrade GmbH – the reason for constitution of the company is trade in gas and other energy carriers in Europe
- Dewon S.A. – the company was established with the purpose of developing natural gas resources outside Poland and then exploiting them and importing to Poland
- INVESTGAS S.A. – the company was formed in order to provide service to KPMG Mogilno
- NYSAGAS Sp. z o.o. – the company was founded with the purpose of modernisation and exploitation of Zgorzelec, Bolesławiec and Wrocław thermal-electric power plants, providing services on the field of power supply and production power products
- Polskie Elektrownie Gazowe Sp. z o.o. – the company was founded to accomplish investment projects in the scope of production of electric energy and heat energy, mostly of gas, exploiting and service of CHP units.

Other business-critical entities

Other business-critical entities within PGNiG Capital Group are companies supporting the Capital Group’s processes, bringing added value with their unique services. To this group the following companies were included: “BUD-GAZ” PPUH Sp. z o.o., BUG Gazobudowa Sp. z o.o., ZRUG Sp. z o.o. in Pogórska Wola, ZUN Naftomet Sp. zo.o. and Geovita Sp. z o.o.

Other not business-critical entities

Other not business-critical entities are companies that are not connected directly with the activity of PGNiG S.A., which conduct the construction, repair and renovation of gas pipelines and companies whose shares have been assumed as a result of bank composition proceedings, as well as companies, in which PGNiG S.A. does not possess significant packages of shares or whose goals do not justify remaining in capital relations with PGNiG S.A

(in thousands of zlotys)

List of companies that comprise PGNiG Capital Group

The structure of the capital commitment of PGNIG S.A. in commercial companies, in which PGNiG S.A. possesses at least 5% of shares, as of 31 March 2006 is presented in the table below.

	Company	share capital (PLN)	The share of PGNiG S.A. in the company's share capital (PLN)	The % share of PGNiG S.A. in the company's share capital
	Key entities			
1.	Carpathian Gas Company	1 570 832 000,00	1 570 832 000,00	100,00%
2.	Upper Silesian Gas Company	1 288 403 000,00	1 288 403 000,00	100,00%
3.	Mazovian Gas Company	999 634 000,00	999 634 000,00	100,00%
4.	Greater Poland Gas Company	864 071 000,00	864 071 000,00	100,00%
5.	Pomeranian Gas Company	563 031 000,00	563 031 000,00	100,00%
6.	Lower Silesian Gas Company	552 762 000,00	552 762 000,00	100,00%
	Core entities			
7.	PNiG Jasło Sp. z o.o.	100 000 000,00	100 000 000,00	100,00%
8.	PNiG Kraków Sp. z o.o.	98 850 000,00	98 850 000,00	100,00%
9.	PNiG NAFTA Sp. z o.o.	60 000 000,00	60 000 000,00	100,00%
10.	GEOFIZYKA Kraków Sp. z o.o.	34 400 000,00	34 400 000,00	100,00%
11.	GEOFIZYKA Toruń Sp. z o.o.	33 000 000,00	33 000 000,00	100,00%
12.	PN "Diament" Sp. z o.o.	62 000 000,00	62 000 000,00	100,00%
13.	Zakład Robót Górniczych Krosno Sp. z o.o.	26 802 000,00	26 802 000,00	100,00%
14.	SGT „EUROPOL GAZ" S.A.	80 000 000,00	38 400 000,00	48,00%
15.	GAS - TRADING S.A.	2 975 000,00	1 291 350,00	43,41%
16.	BSiPG "Gazoprojekt" S.A.	4 000 000,00	3 000 000,00	75,00%
	Target entities			
17.	PGNiG Finance B.V. [EUR]*	20 000,00	20 000,00	100,00%
18.	Górnictwo Naftowe Sp. z o.o.	50 000,00	50 000,00	100,00%
19.	InterTransGas GmbH [EUR]*	200 000,00	100 000,00	50,00%
20.	"Dewon" Z.S.A. [Hrywna]*	11 146 800,00	4 055 205,84	36,38%
21.	INVESTGAS S.A.	500 000,00	245 000,00	49,00%
22.	NYSAGAZ Sp. z o.o.	3 700 000,00	1 887 000,00	51,00%
23.	"Polskie Elektrownie Gazowe" Sp. z o.o.	2 500 000,00	1 212 000,00	48,48%
	Other business-critical entities			
24.	"BUD - GAZ" PPUH Sp. z o.o.	51 760,00	51 760,00	100,00%
25.	BUG Gazobudowa Sp. z o.o.	39 220 000,00	39 220 000,00	100,00%
26.	ZRUG Sp. z o.o. (w Pogórskiej Woli)	4 300 000,00	4 300 000,00	100,00%
27.	ZUN Naftomet Sp. z o.o.	23 500 000,00	23 500 000,00	100,00%
28.	Geovita Sp. z o.o.	86 139 000,00	86 139 000,00	100,00%
	Other not business-critical entities			
29.	BN Naftomontaż Sp. z o.o.	44 751 000,00	39 751 000,00	88,83%
30.	PPUiH "TURGAZ" Sp. z o.o.	176 000,00	90 000,00	51,14%
31.	PFK GASKON S.A.	13 061 325,00	6 000 000,00	45,94%
32.	ZWUG "INTERGAZ" Sp. z o.o.	4 700 000,00	1 800 000,00	38,30%
33.	"IZOSTAL" S.A.	22 488 000,00	1 360 000,00	6,05%
34.	TeNET 7 Sp. z o.o.	50 000,00	5 000,00	10,00%
35.	Agencja Rynku Energii S.A.	1 376 000,00	100 000,00	7,27%
36.	ZRUG Warszawa S.A. w likwidacji	6 000 000,00	2 940 000,00	49,00%
37.	Sahara Petroleum Technology Llc [RO]*	150 000,00	73 500,00	49,00%
38.	"GAZOMONTAŻ" S.A.	1 498 850,00	677 200,00	45,18%
39.	"ZRUG" Sp. z o.o. (w Poznaniu)	3 780 000,00	1 515 000,00	40,08%
40.	HS "Szczakowa" S.A. w upadłości	16 334 989,44	5 439 494,72	33,30%
41.	"ZRUG TORUŃ" S.A.	4 150 000,00	1 300 000,00	31,33%

(in thousands of zlotys)

42.	Przeds. Wielobranżowe "MED - FROZ" S.A. w likwidacji	151 700,00	35 000,00	23,07%
43.	ZRUG Zabrze Sp. z o.o.	2 750 000,00	600 000,00	21,82%
44.	"TE-MA" WOC Małaszewicze Terespol Sp. z o.o. w likwidacji	262 300,00	55 000,00	20,97%
45.	Zakład Remontowy Urządzeń Gazowniczych Wrocław Sp. z o.o. w upadłości	1 700 000,00	270 000,00	15,88%
46.	Polski Serwis Płynów Wiertniczych Sp. z o.o.	250 000,00	35 000,00	14,00%
47.	„Walcownia Rur JEDNOŚĆ" Sp. z o.o.	220 590 000,00	18 310 000,00	8,30%
48.	PI GAZOTECH Sp. z o.o.	1 203 800,00	65 000,00	69,44%
49.	Polskie Konsorcjum Energetyczne Sp. z o.o.	100 000,00	9 500,00	9,50%

1.6. The entities of the Capital Group included in consolidation for the first quarter of 2006

The following entities have been included in the consolidated financial statements for the first quarter of 2006: the Holding Company, twenty subsidiaries, one co-subsidiary and two associated entities.

Name of the Company	Country	Percentage share in the share capital	
		31 March 2006	31 March 2005
Subsidiaries			
Geofizyka Kraków Sp. z o. o.	Polska	100,00%	100,00%
Geofizyka Toruń Sp. z o. o.	Polska	100,00%	100,00%
PNiG Jasło Sp. z o. o.	Polska	100,00%	100,00%
PNiG Kraków Sp. z o. o.	Polska	100,00%	100,00%
PNiG Piła Sp. z o. o.	Polska	100,00%	100,00%
ZRG w Krośnie Sp. z o.o.**	Polska	100,00%	-
Lower Silesian Gas Company	Polska	100,00%	100,00%
Upper Silesian Gas Company	Polska	100,00%	100,00%
Carpathian Gas Company	Polska	100,00%	100,00%
Mazovian Gas Company	Polska	100,00%	100,00%
Pomeranian Gas Company	Polska	100,00%	100,00%
Greater Poland Gas Company	Polska	100,00%	100,00%
Gazobudowa Zabrze Sp. z o. o.	Polska	100,00%	100,00%
Naftomontaż Krosno Sp. z o. o.	Polska	88,83%	100,00%
Naftomet Krosno Sp. z o. o.	Polska	100,00%	100,00%
Diament Sp. z o.o.	Polska	100,00%	100,00%
Gazoprojekt S.A.	Polska	75,00%	75,00%
PGNiG Finance B.V.	Holandia	100,00%	100,00%
Geovita Sp. z o.o. Warszawa	Polska	100,00%	100,00%
Subsidiaries of Naftomontaż Krosno Sp. z o.o. – a subsidiary			
Naft-Trans Krosno Sp. z o. o. in liquidation*	Poland	Not consolidated	99,70%
Naft-Stal Krosno Sp. z o.o.	Poland	59,88%	98,50%
Subsidiaries and Associated Entities			
EUROPOL GAZ S.A.	Poland	49.74%	49.74%
Gas Trading S.A.	Poland	43.41%	43.41%
INVESTGAS S.A.	Poland	49.00%	49.00%

* As a result of bankruptcy and then liquidation the Company was excluded from consolidation.
** The Company was established as a result of transformation of OZRG Krosno (branch of PGNiG S.A.). The Company started its business activities on 1 July 2005.

1.7. Materials events that occurred after the closing period, which were not discloser in the consolidated financial statements for the first quarter of 2006

By the date of preparation of the financial statements for the first quarter 2006, no events had occurred that should have been recognized in the accounting records of the reporting period.

1.8. Changes in the composition of the entity during the presented period, therein as a result of business combinations or sale of entities of the Capital Group, long-term investments, restructuring and discontinued operations

In the period from 1 January to 31 March 2006 no changes in composition of the PGNiG occurred.

1.9. Explanations to the seasonal or cyclic nature of the issuer activity in the presented period

Gas sale in the PGNiG Capital Group is subject to seasonal fluctuations. Gas sales increase significantly in winter and decrease in the summer. Such seasonal sales nature is not observed in respect to crude oil sales by PGNiG Capital Group. Gas sales in winter significantly surpass that in summer (June –July) and depend greatly on the ambient temperature. The scope of fluctuation is determined by low temperatures in winter and high temperatures in summer. The seasonal nature of gas sales concerns to a considerable extent clients from the communal-household sector which uses gas for heating purposes, and to a lesser extent clients from the industrial sector. The seasonality of sales contributes to the need to increase gas storage and transmission capacity, including distribution networks, in order to meet the peak demand of end users and ensure national gas supply safety.

1.10. Information on segments of activity

It was assumed that the main classification of lines of business is based on sector segmentation. The Capital Group operates in the following four segments:

a) The production and output segment is the supplier of gas, crude oil, geophysical and prospecting services. This segment covers the entire gas and crude oil production process, starting from geophysical testing which is undertaken before prospecting for production purposes is commenced and preparation of output for sale.

b) The trade and storage segment deals in the purchase and sale of gas as well as storage.

c) The distribution segment deals in the purchase, sale and supply of gas to end customers, primarily individual customers.

d) The others segment delivers services connected with designing and manufacture of machines for gas and crude oil equipment and facilities.

A segment's assets include all operational assets used by the segment, including mainly cash, receivables, inventory, tangible fixed assets less revaluation write-downs. While a majority of assets can be directly assigned to specific segments, the value of assets used by two or more segments is allocated to particular segments based on the level, in which they are use by particular segments.

Liabilities of segments include all operational liabilities, mainly trade, payroll and tax liabilities, due as well as accrued, as well as provisions for liabilities that can be assigned a particular segment.
Neither assets nor liabilities of segment include deferred tax.
Internal transactions within segments have been eliminated.
All transactions between segments are concluded based on internally agreed prices.

1.11. Brief description of significant achievements or failures of the issuer in the period covered with the report, including the list of related events

1. On 1 January 2006 PGNiG was informed by the National Gas Dispatch Centre about pressure decrease at inter-connector point on the Polish-Ukraine border in Drozdowicze. It means that the volume o gas delivered from Ukraine decreased. It is affected by the shut off of natural gas supplies by Gazprom of Russia to Ukraine.
   This limitation constituted 14 percent of total gas consumed in Poland.
   On 3 January 2006 at 8.00 a.m. gas deliveries from Ukraine were resumed. In the light of the above the situation in the scope of gas delivery in Drozdowicze was back to normal and stable.
   Again on 22 January 2006 due to lower supplies of imported gas on the Polish-Ukrainian border in Drozdowicze PGNiG made a decision to limit gas delivery to chemical plants (Zakłady Wielkiej Syntezy Chemicznej) and PKN Orlen.
   On 7 February 2006 starting at 10.00 p.m. gas delivery to all industrial customers were resumed.

2. On 6 January 2006 PGNiG informed about convening the Extraordinary General Shareholders Meeting of PGNiG that was to be held on 13 February 2006. The agenda of the meeting included amendments to the Company's Articles of Association and the Rules of Procedure of the General Shareholders Meeting of PGNiG.

3. On 12 January 2006 the Supervisory Board of PGNiG decided to initiate a selection procedure aimed at appointing members to the Management Board of PGNiG, i.e.: President of the Management Board, Vice-President of the Management Board for the Economic and Financial Matters, Vice-President of the Management Board for the Technical and Investment Matters.

(in thousands of zlotys)

4. On 17 February 2006 the Supervisory Board of PGNiG appointed to the Management Board: Mr Stanisław Niedbalec for the post of the Vice-President of the Management Board for the Technical and Investment Matters and Mr Bogusław Marzec for the post of Vice-President of the Management Board for the Economic and Financial Matters.

5. On 1 February the President of Energy Regulatory Office has granted PGNiG license for storing natural gas for a period from 10 February 2006 to 31 December 2025. The license applies to storage of natural gas in six underground gas storage facilities with total working capacity 1621,73 million m^3 exploited by PGNiG.

6. On 3 March 2006 the Supervisory Board dismissed Mr. Franciszek Krok, Vice-President for Trade and Marketing Matters from the Management Board of PGNiG. The competences of the President of the Management board were assigned to Mr Bogusław Marzec, Vice-President of the Management Board for the Economic and Financial Matters (Mr Jan Anysz was responsible for the competences of the President until then). Moreover the Supervisory Board of PGNiG decided to initiate a selection procedure aimed at appointing members of the Management Board of PGNiG, i.e.: Vice-President of the Management Board for Strategic Projects, Vice-President for Trade and Marketing.

7. On 24 March 2006 the Supervisory Board of PGNiG decided to initiate a selection procedure aimed at appointing President of the Management Board of PGNiG.

8. The Supervisory Board of PGNiG on the meeting held on 6 April 2006 appointed Mr Bartłomiej Pawlak to the position of the Vice-President of the PGNiG Management Board responsible for strategic projects and on 7 April 2006 appointed Mr Zenon Kuchciak to the position of the Vice-President of the PGNiG Management Board responsible for trade and marketing. Mr Bartłomiej Pawlak and Mr Zenon Kuchciak acted as the Company’s registered proxies since 29 November 2005.

9. On 20 April 2006 the Management Board of PGNiG reported a change in the Company’s oil production forecast in relation to the information contained in the Issue Prospectus of PGNiG. The forecast was reduced from 1.4 million tonnes to approx. 1.1 million tonnes in 2008.
   The adjustment was made after the recoverable oil reserves in Lubiatów and Grotów turned out lower than expected, and geological research showed significant variations in the reservoir properties of those reserves.
   Currently further survey work is conducted on the Grotów deposit. Its results may also influence the final size of the resources and the hydrocarbons production forecast for the Lubiatów – Międzychód – Grotów project.

10. The Supervisory Board on the meeting held on 25 April 2006 appointed Mr Bogusław Marzec to the position of the President of PGNiG Management Board. Mr Bogusław Marzec acted as the Vice-President of PGNiG Management Board responsible for economic and financial issues since 17 February 2006.

1.12. Factors and events, in particular extraordinary ones, significantly affecting financial results

On 20 March 2006 PGNiG was informed by the Energy Regulatory Office of the decision of the President of the Energy Regulatory Office dated 17 March 2006 approving the change in the tariff for gaseous fuel prices.
The tariff will be valid for 9 months, starting form 1 April 2006.

The table below presents the amended gaseous fuel prices for tariff groups of high-methane gas and nitrogenised gas customers, as well as the standing charges.

Tariff group	**Price for gaseous fuel**	**Standing charge rates**
	zł/m3	**zł/miesiąc**
For high-methane gas customers GZ 50 (E)		
E1 - E4	**0,7086**	**541,00**
For nitrogenized gas customers GZ 35 (Ls)		
Ls1 – Ls4	**0,4490**	**541,00**
For nitrogenized gas customers GZ 41,5 (Lw)		
Lw1 – Lw4	**0,5240**	**541,00**

(in thousands of zlotys)

The amended tariff will be implemented in accordance with Art. 47 section 3 subsection 1 and art. 47 section 4 of the Energy Law.

1.13. Information on issue, redemption and repayment of debt and capital securities

In the period from 1 January to 31 March 2006 no such events took place in the Capital Group.

1.14. Information on paid (or declared) dividend, total and per share, broken down by ordinary and preference shares

The resolution on distribution of the net profit for 2005 will be discussed on the meeting of the Supervisory Board and afterwards will be forwarded to the Ordinary General Shareholders Meeting.

1.15. Selected financial data, with basic items of the summary financial statements (also recalculated into EUR)

Selected financial data have been presented in the "Interim consolidated financial statements of the PGNiG S.A. Capital Group for the 1st quarter of 2006" and in the "Summary financial statements of PGNiG S.A. for the 1st quarter of 2006".

1.16. The position of the Management Board government in respect to possibility of realization of previous result forecasts for a given year, in light of results presented in the quarterly report as compared to the forecast results

PGNiG did not publish result forecast for 2006.

1.17. Identification of total number of shareholders with at least 5 percent of votes at the general meeting of the shareholder directly or indirectly through subsidiaries, as of the date of submittal of the quarterly report, including indication of the number of shares held by such entities, their percent share in the share capital, the number of related votes and their percent share in total number of votes at the general meeting as well as indication of changes in ownership structure of major share packages of the issuer since submittal of the previous quarterly report

Shareholder	Share in the number of votes at the Shareholders Meeting as of the date of submission of the previous quarterly report in %	Number of shares as of the date of submission of the previous quarterly report*	Percentage change in the period 15.04.2005 - 16.09.2005	Share in number of votes in % at the Shareholders Meeting as of the date of submission of the report	Number of shares as of the date of submission of the report**
State Treasury	100%	5 900 000 000	15.25%	84.75%	5 000 000 000
Other	0	0	15.25%	15.25%	900 000 000
Total:	100%	5 900 000 000		100%	5 900 000 000

1.18. Statement of changes in the number of the issuer shares or related rights (options) held by issuer managers and supervisors, based on issuer information, since the submittal of the previous quarterly report

	Number of shares, options as of the date of submission of the previous quarterly report	Acquisition	Sales	Increases, due to change in composition	Decreases, due to change of composition	Number of shares, options as of the date of submission of the report
Management Board	41 542	0	10 040	0	31 502	0
Supervisory Board	0	0	0	0	0	0

1.19. Information about pending court proceedings, and proceedings before the authority competent to the arbitrary proceedings or the state administration authority, including information on proceedings related to liabilities and receivables of the issuer or the issuer's subsidiary, if the total value constitutes the equivalent of at least 10 percent of the issuer's equity

In the first quarter of 2006, except for proceedings referred to in Chapter V of the Prospectus, no other proceedings were initiated.

1.20. Information on issuer's or issuer subsidiary's related party transaction or transactions, if the total value of these transactions (total value of all transactions concluded in the period from the beginning of the financial year) exceeds the equivalent of EUR 500,000

In the period from 1 January to 31 March 2006, there were no non-standard transactions in the Capital Group between related parties, where the transaction value exceeded EUR 500.0 thousand.

1.21. Information on issuer's or issuer subsidiary's granting loan collateral or guarantee to one entity or unit controlled by the entity, if the total value of the existing collaterals or guarantees constitutes the equivalent of at least 10% of the issuer's equity

In the period from 1 January to 31 March 2006, there was no such guarantee or surety granted in the Capital Group.

1.22. Other information deemed by the issuer as relevant to the evaluation of issuer's employment and financial standing as well as financial result and any relevant changes as well as other information relevant to the assessment of the issuer's standing

The Supervisory Bard of PGNiG during the session held:

- on 6 April 2006 appointed Mr Bartłomiej Pawlak to the position of the Vice-President of the PGNiG Management Bard responsible for strategic projects
- on 7 April 2006 appointed Mr Zenon Kuchciak to the position of the Vice-President of the PGNiG Management Board responsible for trade and marketing
- on 25 April 2006 appointed Mr Bogusław Marzec to the position of the President of the PGNiG Management Board.

Mr Bogusław Marzec has acted as the Vice-President of the PGNiG Management Board responsible for economic and financial issues since 17 February 2006.

Mr Bartłomiej Pawlak and Mr Zenon Kuchciak since 29 November 2005 acted as registered proxies of PGNiG.

1.23. Factors, which according to the issuer will affect the results over at least one subsequent quarter

Main factors that might affect the Company's results over the coming quarter are: exchange rates and interest rates, affecting gas purchase costs and debt servicing costs as well as crude oil prices on the international market.

1.24. Changes in contingent liabilities or contingent assets, which occurred since the end of the last financial year

The major change in contingent liabilities, which occurred from the closing date of the last financial year is expiration of bank sureties granted by PGNiG SA securing payments to Gazexport Ltd for gas supplies of total value 96.143 thousand USD. These sureties were replaced by bank sureties securing payments to Gazexport Ltd for gas supplies in 2006 of total value 150.000 thousand USD.

(in thousands of zlotys)

2. Additional explanatory notes to the financial statements

2.1. Deferred tax

	Deferred tax asset	Provision for deferred income tax
Opening balance as of 1 January 2005	**384 504**	**2 151 727**
a) increases	38 637	48 959
b) decreases	(26 566)	(18 390)
Closing balance on 31 March 2006	**396 575**	**2 182 296**

2.2. Revaluation write-downs on assets

	Fixed assets	other financial assets	Investments in associated companies measured using the equity method	Financial assets available for sale	Inventory	Short-term receivables	Due amount of long-term loans	Financial assets held for trading	Total
Opening balance as of 1 January 2005	**817 988**	**13 040**	**651 448**	**48 444**	**26 342**	**879 153**	**254 057**	**9 612**	**2 700 084**
a) increases	-	-	16 863	15	523	37 638	11 188	-	**66 227**
b) reclassification	(2 126)	(1 407)	-	-	-	27	1 381	-	**(2 125)**
b) decreases	(14 599)	-	-	(18)	(900)	(21 929)	(21 115)	-	**(58 561)**
Closing balance on 31 March 2006	**801 263**	**11 633**	**668 311**	**48 441**	**25 965**	**894 889**	**245 511**	**9 612**	**2 705 625**

(in thousands of zlotys)

2.3. Provisions

Provision for retirement and similar benefits	Provision for jubilee bonuses and retirement severance pay	Provision for pension allowances	Company's Social Benefits Fund	Provision for welfare allowances	Other provisions for retirement and similar benefits	Total
Opening balance as of 1 January 2005	**297 691**	**102 683**	**76 637**	**25 721**	**5 760**	**508 492**
a) increases	8 509	-	38 063	75	1 605	**48 252**
b) decreases	(7 921)	-	(7 290)	(620)	-	**(15 831)**
Closing balance on 31 March 2006	**298 279**	**102 683**	**107 410**	**25 176**	**7 365**	**540 913**

Other provisions	Provision for reclamation of wells	Fund for liquidation of a mine	Provision for penalties imposed by the Office for Competition and Consumer Protection	Provision for gas pitch	Provision for gas pitch	Provisions for renegotiation of import gas prices	Other	Total
Opening balance as of 1 January 2005	**572 278**	**25 764**	**60 098**	**35 569**	**81 285**	**50 224**	**74 098**	**899 316**
a) increases	30 000	38	-	-	-	84 946	4 263	**119 247**
b) decreases	-	-	-	-	-	-	(1 600)	**(1 600)**
Closing balance on 31 March 2006	**602 278**	**25 802**	**60 098**	**35 569**	**81 285**	**135 170**	**76 761**	**1 016 963**

(in thousands of zlotys)

2.4. Industry segments

Period ended 31 March 2006	Exploration and production	Trade and storage	Distribution	Other	Elimination	Total
Profit and loss						
External sales	498 092	1 086 512	3 489 728	24 243		5 098 575
Sales between lines of business	214 718	2 522 705	2 975	30 720	(2 771 118)	-
Total revenue	712 810	3 609 217	3 492 703	54 963	(2 771 118)	5 098 575
Amortization	(116 744)	(33 252)	(165 910)	(2 707)	-	(318 613)
Other costs	(354 514)	(3 362 157)	(2 993 928)	(47 594)	2 771 118	(3 987 075)
Total cost	(471 258)	(3 395 409)	(3 159 838)	(50 301)	2 771 118	(4 305 688)
Result on operating activity	**241 552**	**213 808**	**332 865**	**4 662**	**-**	**792 887**
Net interest and other financial expenses						14 863
Share in profits/(losses) of controlled entities measured using the equity method		259				259
Gross profit						**808 009**
Income tax						(187 186)
Result for the financial year on abandoned activity						-
Dividend						-
Net profit/loss						**620 823**
Balance sheet						
Segment assets	7 305 828	12 000 517	11 644 156	241 323	(836 069)	30 355 755
Shares in associated entities		512 334				512 334
Unassigned assets						203 824
Deferred tax asset						396 575
Total assets						**31 468 488**
Total equity						21 447 077
Liabilities of the line of business	1 068 719	2 181 181	2 533 436	82 790	(836 069)	5 030 057
Unassigned liabilities						2 809 058
Provision for deferred tax						2 182 296
Total Equity and Liabilities						**31 468 488**
Other segmental information						
Capital expenditure for tangible fixed assets	(75 507)	(94 210)	(217 512)	(1 398)		**(388 627)**
Revaluation write-downs on assets	(509 811)	(1 670 051)	(464 508)	(3 202)		**(2 647 572)**
Revaluation write-downs on unassigned assets						(58 053)

(in thousands of zlotys)

Period ended 31 March 2005	Exploration and production	Trade, storage, transmission	Distribution	Other	Elimination	Total
Profit and loss						
External sales	340 356	827 018	2 600 804	15 610		3 783 788
Sales between lines of business	192 640	1 857 190	7 247	21 529	(2 078 606)	-
Total revenue	532 996	2 684 208	2 608 051	37 139	(2 078 606)	3 783 788
Amortization	(108 143)	(115 322)	(160 987)	(2 896)		(387 348)
Other costs	(295 094)	(1 936 512)	(2 167 815)	(37 011)	2 090 100	(2 346 332)
Total cost	(403 237)	(2 051 834)	(2 328 802)	(39 907)	2 090 100	(2 733 680)
Result on operating activity	**129 759**	**632 374**	**279 249**	**(2 768)**	**11 494**	**1 050 108**
Net interest and other financial expenses						(211 606)
Share in profits/(losses) of controlled entities measured using the equity method		(100)				(100)
Gross profit						**838 402**
Income tax						(241 978)
Result for the financial year on abandoned activity						-
Dividend						(52 107)
Net profit/loss						**544 317**
Balance sheet						
Segment assets	7 496 759	10 240 132	11 360 853	240 725	(1 344 466)	27 994 003
Shares in associated entities		462 545				462 545
Unassigned assets						303 955
Deferred tax asset						446 496
Total assets						**29 206 999**
Total equity						18 293 256
Liabilities of the line of business	1 104 695	1 865 082	2 360 830	63 764	(1 347 636)	4 046 735
Unassigned liabilities						4 567 746
Provision for deferred tax						2 299 262
Total Equity and Liabilities						**29 206 999**
Other segmental information						
Capital expenditure for tangible fixed assets	(51 995)	(119 972)	(149 412)	(520)		**(321 899)**
Revaluation write-downs on assets	(499 517)	(1 830 177)	(463 554)	(3 483)		**(2 796 731)**
Revaluation write-downs on unassigned assets						(66 920)

The data presented in the table 2.4. are difficult to compare because, while complying with EU legislation, PGNiG abandoned its operations in the transmission of high pressure gas. In 2005 the segment of trade, storage and transmission concerned activity relevant to purchase and sale of gas, storage and transmission of gas by high pressure pipelines, however in 2006 the segment described as “trade and storage” include activities concerning only purchase, sale and storage of 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.

(in thousands of zlotys)

2.5. Revenues from sales of products, goods and materials

	31.03.2006	31.03 2005
High-methane gas	4 166 579	3 185 775
Nitrated gas	402 678	298 505
Crude oil	227 599	162 243
Helium	7 557	8 737
Propane-butane gas	12 277	7 930
Gasoline	1 886	2 192
Decompressed gas	4 318	1 927
Goods and materials	7 038	3 802
Other sales of products and services	268 643	112 677
Total	**5 098 575**	**3 783 788**

2.6. Revenues from leasing payments

	31.03.2006	31.03 2005
Interest	77 008	-
Repayments	59 395	-
Total*	**136 403**	**-**

*The leasing contract became effective on 8th July 2005

2.7. Operating expences

	31.03.2006	31.03 2005
Consumption of raw materials and materials		
Gas purchase	(2 681 155)	(1 700 351)
Consumption of other raw materials and materials	(114 789)	(103 026)
Total	**(2 795 944)**	**(1 803 377)**

	31.03.2006	31.03 2005
External services		
Purchase of transmission services from OGP Gaz System Sp. z o.o.	(556 533)	-
Other external services	(208 116)	(191 108)
Total	**(764 649)**	**(191 108)**

2.8. Adjustments to the consolidated financial statements prepared in accordance with Polish Accounting Standards (PAS) for comparative period

	31.03 2005
Equity according to PAS	**9 394 742**
Revaluation of tangible fixed assets on 1 January 2004	10 983 062
Adjustment of actuarial gains/losses	(5 567)
Deferred tax	(2 085 473)
Payments from profit for social activity	-
Equity of minority shareholders	6 492
Equity according to IFRS	**18 293 256**
Financial result according to PAS	**594 708**
Revaluation of tangible fixed assets on 1 January 2004	(60 376)
Adjustment of actuarial gains/losses	(2 068)
Deferred tax	11 873
Payments from profit for social activity	-
Result of minority shareholders	180
Financial result according to IFRS	**544 317**