



# **PGNiG**

**Polskie Górnictwo Naftowe  
i Gazownictwo SA**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE QUARTER PERIODS  
ENDED ON 30 JUNE 2006 AND 30 JUNE 2005**

**PREPARED IN ACCORDANCE WITH INTERNATIONAL  
FINANANCIAL REPORTING STANDARDS**

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	2nd quarter / 2006 from 2006-03-31 to 2006-06-30	2 quarters / 2006 from 2006-01-01 to 2006-06-30	2nd quarter / 2005 from 2005-03-31 to 2005-06-30	2 quarters / 2005 from 2005-01-01 to 2005-06-30
	(in PLN '000)			
<b>Sales revenues</b>	<b>3 085 213</b>	<b>8 183 788</b>	<b>2 394 082</b>	<b>6 177 870</b>
Change in inventory	(67 277)	176 171	(47 617)	91 033
Manufacturing cost of benefits for internal purposes	137 206	232 769	111 243	193 317
Consumption of raw materials and materials	(1 695 377)	(4 491 321)	(1 251 079)	(3 054 456)
Employee benefits	(435 772)	(811 376)	(418 756)	(813 124)
Amortization	(330 039)	(648 652)	(388 124)	(775 472)
External services	(565 165)	(1 329 814)	(288 946)	(480 054)
Other operating expenses (net)	(1 851)	(391 740)	(244 439)	(422 642)
<b>Operating expenses in total</b>	<b>(2 958 275)</b>	<b>(7 263 963)</b>	<b>(2 527 718)</b>	<b>(5 261 398)</b>
<b>Profit on operating activities</b>	<b>126 938</b>	<b>919 825</b>	<b>(133 636)</b>	<b>916 472</b>
Financial revenues	210 038	369 281	217 506	363 235
Financial expenses	(195 559)	(339 939)	(199 088)	(556 423)
Share in profits/(losses) of controlled entities measured using the equity method	(30 374)	(30 115)	57 715	57 615
<b>Gross profit</b>	<b>111 043</b>	<b>919 052</b>	<b>(57 503)</b>	<b>780 899</b>
Income tax	(5 259)	(192 445)	77 170	(164 808)
<b>Net profit on business activities before obligatory profit sharing</b>	<b>105 784</b>	<b>726 607</b>	<b>19 667</b>	<b>616 091</b>
Profit sharing	-	-	(37 738)	(89 845)
<b>Net profit on business activities</b>	<b>105 784</b>	<b>726 607</b>	<b>(18 071)</b>	<b>526 246</b>
<b>Abandoned activity</b>				
Profit for the financial year on abandoned activity	-	-	-	-
<b>Net profit for the financial year</b>	<b>105 784</b>	<b>726 607</b>	<b>(18 071)</b>	<b>526 246</b>
Assigned to:	105 395	725 569	(17 917)	526 220
Shareholders of the holding company	389	1 038	(154)	26
Minority shareholders	<b>105 784</b>	<b>726 607</b>	<b>(18 071)</b>	<b>526 246</b>

Profit per share assigned per ordinary shareholder of the holding company

- average weighted number of shares	5 900 000 000	5 900 000 000	5 000 000 000	5 000 000 000
- basic from profit for the financial year	0,02	0,12	(0,00)	0,11
- diluted from profit for the financial year	0,02	0,12	(0,00)	0,11

## CONSOLIDATED BALANCE SHEET

	As of 2006-06-30 end of the second quarter / 2006	As of 2005-12-31 end of year / 2005	As of 2005-06-30 end of the second quarter / 2005
<b>ASSETS</b>		(in PLN '000)	
<b>Non-current assets (long-term)</b>			
Tangible fixed assets	17 204 244	17 524 429	22 271 914
Investment real property	10 300	10 553	11 013
Intangible assets	988 096	952 698	822 816
Investments in associated companies measured using the equity method	481 961	512 076	520 263
Financial assets available for sale	24 696	21 358	17 553
Other financial assets	3 983 585	4 107 585	1 473
Deferred tax asset	428 786	384 504	405 134
Other non-current assets	16 219	17 248	12 404
<b>Total non-current assets (long-term)</b>	<b>23 137 887</b>	<b>23 530 451</b>	<b>24 062 570</b>
<b>Current assets (short-term)</b>			
Inventory	892 176	815 345	666 962
Trade and other receivables	1 805 174	2 618 350	1 201 256
Receivables due to current tax	10 290	30 883	12 439
Prepayments and accruals	191 468	17 501	113 750
Financial assets held for trading	240 573	30 391	63 193
Assets due to derivative financial instruments	237 561	120 273	317 682
Cash and cash equivalents	4 220 477	3 200 471	1 891 895
<b>Total current assets (short-term)</b>	<b>7 597 719</b>	<b>6 833 214</b>	<b>4 267 177</b>
<b>Total assets</b>	<b>30 735 606</b>	<b>30 363 665</b>	<b>28 329 747</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	5 900 000	5 900 000	5 000 000
Exchange differences from translation	(8 827)	(14 086)	(11 381)
Surplus from sale of shares above their face value	1 740 093	1 740 093	-
Other reserve capitals	2 829 178	2 624 841	2 625 612
Retained profits (losses)	10 071 057	10 509 489	10 153 061
<b>Equity (assigned to the shareholders of the holding company)</b>	<b>20 531 501</b>	<b>20 760 337</b>	<b>17 767 292</b>
Equity of minority shareholders	8 309	7 243	6 276
<b>Total equity</b>	<b>20 539 810</b>	<b>20 767 580</b>	<b>17 773 568</b>
<b>Long-term liabilities</b>			
Credits, loans and debt securities	2 475 593	2 369 082	192 373
Provisions	1 000 784	981 493	960 361
Deferred income	1 185 701	1 151 115	1 187 495
Provision for deferred tax	2 077 406	2 123 233	2 240 704
<b>Total long-term liabilities</b>	<b>6 739 484</b>	<b>6 624 923</b>	<b>4 580 933</b>
<b>Short-term liabilities</b>			
Trade and other liabilities	2 477 968	2 108 806	1 807 356
Credits, loans and debt securities	92 861	89 218	3 573 894
Liabilities due to derivative financial instruments	80 883	173 177	123 748
Liabilities due to current tax	228 013	75 201	79 127
Provisions	536 427	426 315	377 190
Deferred income	40 160	98 445	13 931
<b>Total short-term liabilities</b>	<b>3 456 312</b>	<b>2 971 162</b>	<b>5 975 246</b>
<b>Total liabilities</b>	<b>10 195 796</b>	<b>9 596 085</b>	<b>10 556 179</b>
<b>Total Equity and Liabilities</b>	<b>30 735 606</b>	<b>30 363 665</b>	<b>28 329 747</b>

## CONSOLIDATED CASH FLOW STATEMENT

	2nd quarter / 2006 from 2006-03-31 to 2006-06-30	2 quarters / 2006 from 2006-01-01 to 2006-06-30	2nd quarter / 2005 from 2005-03-31 to 2005-06-30	2 quarters / 2005 from 2005-01-01 to 2005-06-30
	(in PLN '000)			
<b>Cash flows from operating activities</b>				
Net financial result	105 784	726 607	(18 071)	526 246
Adjusted by:				
Share in profits/(losses) of controlled entities measured using the equity method	30 374	30 115	(57 715)	(57 615)
Amortization	330 039	648 652	388 124	775 472
Net exchange gains (losses)	73 052	117 311	(78 908)	(65 485)
Net paid interest and dividends	(122 169)	(108 538)	17 904	130 831
Profit/loss on investment activities	94 088	76 151	120 508	129 063
Income tax for the current period	5 259	192 445	(177 170)	164 808
Paid income tax	(25 285)	(91 625)	(26 018)	(78 343)
Other net items	(130 170)	(188 350)	(31 291)	(131 075)
<b>Net cash flows from operating activities before changes in working capital</b>	<b>360 972</b>	<b>1 402 768</b>	<b>237 363</b>	<b>1 393 902</b>
Change in working capital:				
Change in net receivables	1 022 801	786 704	948 203	719 324
Change in inventory	(551 963)	(76 825)	(375 845)	(63 973)
Change in provisions	(49 537)	90 189	(28 979)	12 137
Change in short-term liabilities	(712 232)	(348 631)	(177 060)	248 844
Change in prepayments	89 877	(172 939)	54 843	(97 511)
Change in deferred income	13 694	(7 268)	(31 634)	(13 986)
<b>Net cash flows from operating activities</b>	<b>173 612</b>	<b>1 673 998</b>	<b>626 891</b>	<b>2 198 737</b>
<b>Cash flows from investment activities</b>				
Inflows from the sale of tangible and intangible fixed assets	3 831	10 485	859	2 907
Inflows from the sale of shares in entities not included in consolidation	100	100	22	22
Inflows from the sale of short-term securities	-	-	193 786	193 786
Acquisition of intangible assets and tangible fixed assets	(281 755)	(670 382)	(265 577)	(587 476)
Acquisition of shares in entities not included in consolidation	-	-	-	-
Acquisition of short-term securities	318 785	(156 397)	296 914	-
Received interest	150 233	155 362	10 447	10 511
Received dividends	720	720	679	679
Other net items	58 225	127 377	14 877	30 269
<b>Net cash on investment activity</b>	<b>250 139</b>	<b>(532 735)</b>	<b>252 007</b>	<b>(349 302)</b>
<b>Cash flows from financial activities</b>				
Net inflows from issuing shares and other capital instruments and surcharges for capital	-	-	-	-
Inflows from contracted credits and loans	6 471	13 330	2 426 721	2 435 046
Repayment of credits and loans	(10 703)	(17 139)	(12 129)	(249 353)
Inflows from issuance of debt securities	-	-	-	-
Redemption of debt securities	-	-	(2 799 327)	(2 799 327)
Repayment of liabilities due to financial lease	(528)	(7 535)	(1 501)	(6 476)
Inflows from forwards	3 161	7 390	20 404	40 905
Outflows from forwards	(44 025)	(90 069)	(40 574)	(88 477)
Paid dividends	-	-	(80 760)	(142 436)
Paid interest	(9 109)	(27 409)	(21 616)	(36 130)
Other net items	740	219	(9 221)	(18 170)
<b>Net cash flows from financial activities</b>	<b>(53 993)</b>	<b>(121 213)</b>	<b>(518 003)</b>	<b>(864 418)</b>
<b>Change in the balance of net cash</b>	<b>369 758</b>	<b>1 020 050</b>	<b>360 895</b>	<b>985 017</b>
Net exchange differences	(2 254)	(44)	(2 631)	279
<b>Opening balance of cash and cash equivalents</b>	<b>3 855 381</b>	<b>3 205 089</b>	<b>1 535 529</b>	<b>911 407</b>
<b>Closing balance of cash and cash equivalents</b>	<b>4 225 139</b>	<b>4 225 139</b>	<b>1 896 424</b>	<b>1 896 424</b>

## STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Equity (assigned to the shareholders of the holding company)						Minority equity	Total equity
	Share capital	Exchange differences from translation	Surplus from sale of shares above their face value	Other reserve capitals	Retained profits (losses)	Total		
	(in PLN '000)							
<b>01.01.2005</b>	<b>5 000 000</b>	<b>(11 993)</b>	<b>-</b>	<b>2 393 165</b>	<b>10 359 289</b>	<b>17 740 461</b>	<b>6 312</b>	<b>17 746 773</b>
Exchange differences from translation of foreign branches	-	612	-	-	-	612	-	612
Share of the minority shareholders in profit distribution	-	-	-	-	(1)	(1)	(62)	(63)
Dividend payment to the owner	-	-	-	-	(500 000)	(500 000)	-	(500 000)
Transfers	-	-	-	232 447	(232 447)	-	-	-
Net profit for the second quarter of 2005	-	-	-	-	526 220	526 220	26	526 246
<b>30.06.2005</b>	<b>5 000 000</b>	<b>(11 381)</b>	<b>-</b>	<b>2 625 612</b>	<b>10 153 061</b>	<b>17 767 292</b>	<b>6 276</b>	<b>17 773 568</b>
<b>01.01.2005</b>	<b>5 000 000</b>	<b>(11 993)</b>	<b>-</b>	<b>2 393 165</b>	<b>10 359 289</b>	<b>17 740 461</b>	<b>6 312</b>	<b>17 746 773</b>
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	-	(2 093)	-	-	-	(2 093)	-	(2 093)
Share of the minority shareholders in profit distribution	-	-	-	-	(1)	(1)	(63)	(64)
Reduction of shares in subsidiary company – share of minority shareholders	-	-	-	-	-	-	80	80
Rising of share capital in controlled entity by minority shareholders	-	-	-	(42)	83	41	-	41
Exclusion of subsidiary company from consolidation	-	-	-	(332)	2 593	2 261	-	2 261
Received dividend from controlled entities measured using the equity method	-	-	-	-	(174)	(174)	-	(174)
Dividend payment to the owner	-	-	-	-	(500 000)	(500 000)	-	(500 000)
Transfers	-	-	-	232 050	(232 050)	-	-	-
Net profit for the first four quarters of 2005	-	-	-	-	879 749	879 749	914	880 663
<b>31.12.2005</b>	<b>5 900 000</b>	<b>(14 086)</b>	<b>1 740 093</b>	<b>2 624 841</b>	<b>10 509 489</b>	<b>20 760 337</b>	<b>7 243</b>	<b>20 767 580</b>

Polskie Górnictwo Naftowe i Gazownictwo Capital Group  
 Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards  
 for the 6 months periods ending on 30 June 2006 and 30 June 2005  
 (in thousands of zlotys)

	Equity (assigned to the shareholders of the holding company)						Minority equity	Total equity
	Share capital	Exchange differences from translation	Surplus from sale of shares above their face value	Other reserve capitals	Retained profits (losses)	Total		
(in PLN '000)								
<b>01.01.2006</b>	<b>5 900 000</b>	<b>(14 086)</b>	<b>1 740 093</b>	<b>2 624 841</b>	<b>10 509 489</b>	<b>20 760 337</b>	<b>7 243</b>	<b>20 767 580</b>
Exchange differences from translation of foreign branches	-	5 259	-	-	-	5 259	-	5 259
The share capital paid up by minority shareholders in the subsidiary entity	-	-	-	42	-	42	28	70
Correction of the remeasurement of assets	-	-	-	-	(74 706)	(74 706)	-	(74 706)
Dividend payment to the owner	-	-	-	-	(885 000)	(885 000)	-	(885 000)
Transfers	-	-	-	204 295	(204 295)	-	-	-
Net profit for the first quarter of 2006	-	-	-	-	725 569	725 569	1 038	726 607
<b>30.06.2006</b>	<b>5 900 000</b>	<b>(8 827)</b>	<b>1 740 093</b>	<b>2 829 178</b>	<b>10 071 057</b>	<b>20 531 501</b>	<b>8 309</b>	<b>20 539 810</b>

## **1. Information on principles applied during the preparation of the consolidated report for the 2<sup>nd</sup> quarter of 2006**

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

The consolidated financial statements for the second 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 30 June 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 balance sheet, consolidated profit and loss account, consolidated cash flow statement and statement of changes in consolidated equity was prepared in accordance with the same accounting principles as those applied in the consolidated financial statements for the period ended 31 December 2005 published on 31 May 2006.

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 second quarter of 2006, the Company and the Capital Group did not 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.

### **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.

As part of the implementation of the "Program of restructuring and privatizing PGNiG", adopted by the Polish Council of Ministers on 5 October 2004, pursuant to a decision by the Polish Securities and Exchange Commission, on 24 May 2005 the PGNiG shares were admitted to public trading.

By virtue of a relevant decision of the District Court of Warsaw, an increase in the share capital of PGNiG was registered on 6 October 2005. Following the increase, the Company's share capital amounts to PLN 5,900m and is divided into 5,900,000,000 shares.

The PGNiG shares have been listed at the Warsaw Stock Exchange since 20 October 2005.

The PGNiG Capital Group is the only vertically integrated operator in the Polish gas industry, and a leader in all the segments of that industry. Polskie Górnictwo Naftowe i Gazownictwo S.A. is the holding company of the PGNiG Capital Group.

PGNiG Capital Group is engaged in the following business areas: exploration and production of natural gas and crude oil, sales of domestically produced and imported natural gas, and sales of crude oil, natural gas storage, natural gas distribution. PGNiG Capital Group is the main importer of gas from Russia, Central Asia, Norway, Germany, and produces it from own domestic sources. The exploration and production of natural gas is one of key sources ensuring PGNiG Capital Group a competitive position on the liberalized gas market. The retail sales and gas distribution represent integral business area of the PGNiG Capital Group. The gas distribution companies of PGNiG Group are responsible for natural gas distribution to both industrial and retail customers in the respective regions of Poland. The distribution companies also conduct service within maintenance, repair and development of gas distribution network.

The trade and distribution of natural gas, which are the core activity of the PGNiG Capital Group next to natural gas and crude oil production, are regulated by the Polish Energy Law. Business activity in these areas requires a relevant license, and revenues are dependent on the gaseous fuel tariff approved by the President of the Energy Regulatory Authority. The exploration and production activities are regulated by the Geological and Mining Law, and are conducted by the Company based on relevant licences, as required by the provisions of the Law.

### **The structure of PGNiG Capital Group**

As of 30 June 2006 PGNiG held shares in 56 companies incorporated under the commercial law, including:

- 25 companies in which PGNiG held over 50% of shares;
- 17 companies in which PGNiG held between 20% and 50% of shares;
- 14 companies with PGNiG's shareholding below 20%.

The inclusive nominal value of equity involvement in the companies as of 30 June 2006 accounted for PLN 6.543,4 million. 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%).

#### 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.

#### 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.

#### 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.

#### **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 30 June 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
<b>Key entities</b>				
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%
<b>Core entities</b>				
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%
<b>Target entities</b>				
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. [UAH]*	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%

	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
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**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%
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%

In May 2006 PGNiG got a certificate from the National Court Register about crossing out the following entities from the Register of Entrepreneurs:

- HSW – Zakład Mechaniczny Sp. z o.o. w upadłości
- PZUO WARMA S.A. w upadłości.

On 30 June 2006 the Extraordinary General Meeting of INVESTGAS S.A. adopted a resolution concerning the acquisition by the company of 255 of its shares from Energopol - Warszawa S.A. with a view to their retirement. The 255 shares held by Energopol - Warszawa S.A. were valued at PLN 5,000,000. This price will be paid by the company from the amount which may be distributed by the company pursuant to Art. 348.1 of the Commercial Companies Code.

In connection with the above, the company's Extraordinary General Meeting resolved to retire the 255 shares and at the same time reduce its share capital from PLN 500,000 to PLN 245,000. Concurrently, by way of increase in the par value of each of the 245 shares held by PGNiG S.A. to PLN 2,050, the Extraordinary General Meeting increased the value of the company's share capital to PLN 502,250. The share capital increase will be effected using the capital reserves of INVESTGAS, created from profit. The changes described above have not yet been registered by the competent court. Once they have been registered, the company will become a wholly-owned subsidiary of PGNiG S.A.

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

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

Name of the Company	Country	Percentage share in the share capital	
		30 June 2006	30 June 2005
<b>Subsidiaries</b>			
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%
<b>Subsidiaries of Naftomontaż Krosno Sp. z o.o. – a subsidiary</b>			
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%
<b>Subsidiaries and Associated Entities</b>			
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 disclosed in the consolidated financial statements for the second quarter of 2006

By the date of preparation of the financial statements for the second 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 30 June 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 used 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. 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.
2. 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.
3. 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.
4. On 10 May 2006 the Management Board of PGNiG received a note informing that Mrs. Magdalena Bąkowska was going to resign from her position as a member of the Supervisory Board of PGNiG from the date of the next General Meeting of Shareholders of PGNiG. The decision follows her intention to hold managerial position at PGNiG.
5. The Management Board of PGNiG informed that the Supervisory Board of PGNiG at the meeting on 20 May 2006 had approved the proposition of the Management Board of PGNiG of the distribution of the net profit of 2005. On 27 June 2006 the Annual General Shareholders Meeting resolved to distribute the net profit of PLN 1.132.229.947,23 for the financial year of 2005 in the following manner:
  1. PLN 885.000.000,00 shall be allocated to dividend (which means 0,15 PLN per share), including:

- PLN 750.000.000,00 as cash or non-cash dividend to the State Treasury, which determination of assets and the valuation method describes the Par. 63.7 of the Company's Articles of Association;
  - PLN 135.000.000,00 as Cash dividend to the other shareholders;
2. PLN 7.300.000,00 shall increase the Company's social benefits fund;
  3. PLN 27.600.000,00 shall be allocated to employee awards,
  4. PLN 8.000.000,00 shall be allocated to the employment restructuring fund,
  5. PLN 204.327.947,23 shall be allocated to the Company's reserve funds.
6. On 6 June 2006 PGNiG signed a Framework Agreement with Statoil SA. The Agreement will serve as a basis for concluding individual contracts for the supply of natural gas. It stipulates the general terms of cooperation in the area of gas supplies, while the detailed terms of individual supplies, such as quantity and price, will be specified on a case by case basis in Gas Agreements to be concluded in the future. The Agreement includes provisions guaranteeing PGNiG's access to delivery points of Norwegian gas in Europe, including to TTF and BEB/VEP hubs. This will enable PGNiG to purchase gas in the periods of higher demand and freely sell possible gas surpluses.
  7. On 7 June 2006 PGNiG S.A. and DONG Naturgas A/S signed Annex No. 5 to the Gas Purchase Agreement of 2 July 2001, pursuant to which all the deadlines related to the terms and conditions of Art. 12.7 of the Agreement were extended to 31 December 2006. However, subject to one month's notice, at the demand of either party to the Gas Purchase Agreement, such party may be released from all its rights and obligations under the agreement, and the agreement will be cancelled.
  8. On 7 June 2006 Annex No. 4 was signed to the BalticPipe Consortium Agreement between PGNiG S.A. and DONG Naturgas A/S of 2 July 2001. Pursuant to the Annex, all the deadlines related to the terms and conditions of Art. 17 of the Agreement were extended to 31 December 2006. However, subject to one month's notice, at the demand of either party to the Gas Purchase Agreement, such party may be released from all its rights and obligations under the agreement, and the agreement will be cancelled.
  9. On 13 June 2006 the Management Board of PGNiG reported that PGNiG's Supervisory Board had received a notification from the Internal Security Agency that control proceedings had been initiated with respect to Mr Bogusław Marzec, President of the Management Board. The Chairman has promptly taken relevant steps, as a result of which at the meeting held on 12 June 2006 the Supervisory Board made a decision whereby Mr Bogusław Marzec, President of the Management Board, was disallowed access to classified information.
  10. On 19 June 2006 the Extraordinary General Meeting of PGNiG appointed Mr Marcin Moryń to the supervisory Board of PGNiG.
  11. On 21 June 2006 Mr Bogusław Marzec resigned from the position of President of the Management Board of PGNiG.
  12. On 23 June 2006 the Supervisory Board decided to delegate Mr Mieczysław Puławski, an independent member of the Supervisory Board, to act as a President of the Management Board from 24 June 2006 until 12 September 2006. Mr Mieczysław Puławski was obligated to present to the Supervisory Board, by 26 September 2006, a report on the activities he took in this capacity. Moreover the Supervisory Board of PGNiG decided to initiate a selection procedure aimed at appointing a new President of the management Board of PGNiG.
  13. At the meeting on 23 June 2006 the Management Board of PGNiG decided to appoint Mr Bogusław Marzec as the Company's registered proxy, effective from 24 June 2006. The granted proxy is a joint proxy, which means that in order for the actions effected by the proxies to be valid, both proxies need to act jointly or one proxy needs to act jointly with a member of the Management Board of PGNiG.
  14. On 30 June 2006 PGNiG signed two annexes to two agreements between PGNiG and Operator Gazociągów Przesyłowych Gaz-System Sp. z o.o. ("OGP Gaz-System"), dated 29 June 2005. One of the agreements provides for high-methane gas transmission services, and stipulates the conditions for the supply of the gaseous fuel to the transmission system and its collection from the system. The subject of the other agreement is the provision of nitrogen-rich gas transmission services; the agreement also stipulates the conditions for the gaseous fuel supply to and collection from the system. The annexes extend the terms of the Agreements until 31 August 2006. Their value is estimated at PLN ca. 209 million (inclusive of VAT).

15. On 12 July 2006 the Management Board resolved to temporarily use the Company's funds, including proceeds from the increase in share capital performed in September 2005, towards reduction of the Company's debt by 600 million EUR. The debt will be repaid after the Company has guaranteed the availability of funds of at least the same value in the form of a revolving credit facility. The current balance of liquid cash on bank and trust accounts, as well as cash flow forecast until the end of 2006 indicate that the Company will have at its disposal own cash resources sufficient to finance day-to-day operations and current investments.
16. On 21 July Mr Bartłomiej Pawlak resigned from his position as a Vice President of the Management Board of PGNiG. Mr Bartłomiej Pawlak acted as the Company's registered proxy since 29 November 2005 and as the Vice President of the Management Board responsible for strategic projects since 6 April 2006.
17. On 24 July 2006 the Management Board of PGNiG appointed Mr Tadeusz Zwierzyński as the Company's registered proxy. The granted proxy is a joint proxy, which means that in order for the actions effected by the proxies to be valid, both proxies need to act jointly or one proxy needs to act jointly with a member of the Management Board of PGNiG.
18. On 27 July the Supervisory Board of PGNiG decided to initiate a selection procedure aimed at appointing a member of the Management Board of PGNiG – Vice President for Strategic Projects.
19. On 28 July the General Shareholders Meeting approved the non-public issues of bonds to be placed with the companies of the PGNiG Capital Group as a part of bond issue programme. This intra-group issue will provide for a more efficient use of funds within the PGNiG Capital Group. Companies with excess liquidity will be able to invest their free cash in the bonds issued by PGNiG S.A., and companies in need of cash will have the possibility to contract loans from PGNiG S.A. The maximum par value of the outstanding bonds will not exceed PLN 500m. The Programme will continue for three years. The par value per bond will not be lower than PLN 10,000. The bonds will be issued on market terms – the Programme provides for the issue of fixed-interest and variable-interest bonds as well as for issues to be sold at a discount.

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

On 20 June 2006 the Management Board of PGNiG received the decision of the President of the Energy Regulatory Authority, dated 30 June 2006, refusing to approve change of gaseous fuel prices contained in PGNiG's Gaseous Fuel Tariff No.4. The change of gaseous fuel prices was to become effective as of 1 July 2006. PGNiG applied for approval of the amended tariff following a change in the business conditions with respect to trade in gaseous fuel, which consisted in:

1. increase in gas acquisition cost above the level adopted for the calculation of prices in the approved tariff for reasons that could not be predicted and were beyond the Company's control, such as: higher purchase prices of imported gas denominated in the transaction currency and higher currency acquisition cost;
2. increase in imported gas purchases.

On 4 July 2006 PGNiG S.A. appealed against the decision of the President of the Energy Regulatory Authority of 20 June 2006 refusing to approve the change of the tariff as requested by PGNiG S.A. In PGNiG's opinion, the President's decision was issued as a result of misinterpretation of a number of provisions of both substantive and procedural law.

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

In the period from 1 January to 30 June 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**

On 27 June 2006 the Annual General Shareholders Meeting resolved to allocate PLN 885.000.000,00 to dividend.

<b>Declared dividend</b>	885 000 000
<b>Average weighted number of shares *</b>	5 900 000 000
<b>Dividend per share (in PLN)</b>	0,15

\* The Company doesn't have preferred shares

The Annual General Shareholders Meeting resolved to distribute the net profit of PLN 1.132.229.947,23 for the financial year of 2005. The most of the sum - PLN 885.000.000,00 shall to be allocated to dividend, including:

- PLN 750.000.000,00 as cash or non-cash dividend to the majority shareholder - State Treasury, which determination of assets and the valuation method describes the Par. 63.7 of the Company's Articles of Association;
- PLN 135.000.000,00 as cash dividend to the other shareholders,

The rest shall be allocated primarily to the Company's reserve funds.

At the same time Annual General Shareholders Meeting of PGNiG decided to set the dividend record date at 27 July 2006 and the dividend payment date at 2 October 2006.

#### **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 2<sup>nd</sup> quarter of 2006" and in the "Summary financial statements of PGNiG S.A. for the 2<sup>nd</sup> 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 10.05.2006 - 31.07.2006	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	0	84.75%	5 000 000 000
Other	0	0	0	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	857	0	0	0	0	857
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 second quarter of 2006 no 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 PGNiG or the PGNiG's subsidiary, if the total value constitutes the equivalent of at least 10 percent of the PGNiG's equity, 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 30 June 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 30 June 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 Board 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 Board 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.

On 19 June 2006 the Extraordinary General Meeting of PGNiG appointed Mr Marcin Moryń to the supervisory Board of PGNiG.

On 21 June 2006 Mr Bogusław Marzec resigned from the position of President of the Management Board of PGNiG and on 23 June 2006 the Management Board of PGNiG decided to appoint Mr Bogusław Marzec as the Company's registered proxy, effective from 24 June 2006. The granted proxy is a joint proxy, which means that



in order for the actions effected by the proxies to be valid, both proxies need to act jointly or one proxy needs to act jointly with a member of the Management Board of PGNiG.

On 23 June 2006 the Supervisory Board decided to delegate Mr Mieczysław Puławski, an independent member of the Supervisory Board, to act as a President of the Management Board from 24 June 2006 until 12 September 2006. Mr Mieczysław Puławski was obligated to present to the Supervisory Board, by 26 September 2006, a report on the activities he took in this capacity. Moreover the Supervisory Board of PGNiG decided to initiate a selection procedure aimed at appointing a new President of the management Board of PGNiG.

On 21 July Mr Bartłomiej Pawlak resigned from his position as a Vice President of the Management Board of PGNiG. Mr Bartłomiej Pawlak acted as the Company's registered proxy since 29 November 2005 and as the Vice President of the Management Board responsible for strategic projects since 6 April 2006.

On 24 July 2006 the Management Board of PGNiG appointed Mr Tadeusz Zwierzyński as the Company's registered proxy. The granted proxy is a joint proxy, which means that in order for the actions effected by the proxies to be valid, both proxies need to act jointly or one proxy needs to act jointly with a member of the Management Board of PGNiG.

On 27 July the Supervisory Board of PGNiG decided to initiate a selection procedure aimed at appointing a member of the Management Board of PGNiG – Vice President for Strategic Projects.

### **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 and petrochemicals 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 was described in point 1.24 of the consolidated financial statements for the period ended 31 March 2006 published on 15 May 2006.

## 2. Additional explanatory notes to the financial statements

### 2.1. Deferred tax

	Deferred tax asset	Provision for deferred income tax
<b>Opening balance as of 1 January 2005</b>	<b>384 504</b>	<b>2 123 233</b>
a) increases	78 274	37 699
b) decreases	(33 992)	(83 526)
<b>Closing balance on 30 June 2006</b>	<b>428 786</b>	<b>2 077 406</b>

### 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
<b>Opening balance as of 1 January 2005</b>	<b>818 131</b>	<b>13 040</b>	<b>651 448</b>	<b>48 444</b>	<b>26 377</b>	<b>879 153</b>	<b>254 057</b>	<b>9 612</b>	<b>2 700 262</b>
a) increases	43 684	750	63 879	241	844	58 629	23 997	-	<b>192 024</b>
b) reclassification	-	(2 763)	-	-	-	30	2 733	-	-
b) decreases	(6 251)	(1 039)	-	(286)	(887)	(64 749)	(47 983)	(4 473)	<b>(125 668)</b>
<b>Closing balance on 30 June 2006</b>	<b>855 564</b>	<b>9 988</b>	<b>715 327</b>	<b>48 399</b>	<b>26 334</b>	<b>873 063</b>	<b>232 804</b>	<b>5 139</b>	<b>2 766 618</b>

### 2.3. Provisions

<b>Provision for retirement and similar benefits</b>	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
<b>Opening balance as of 1 January 2005</b>	<b>297 691</b>	<b>102 683</b>	<b>76 637</b>	<b>25 721</b>	<b>5 760</b>	<b>508 492</b>
a) increases	12 787	1 194	50 221	-	1 711	<b>65 913</b>
b) decreases	(11 825)	(11 529)	(26 489)	(2 046)	(286)	<b>(52 175)</b>
<b>Closing balance on 30 June 2006</b>	<b>298 653</b>	<b>92 348</b>	<b>100 369</b>	<b>23 675</b>	<b>7 185</b>	<b>522 230</b>

<b>Other provisions</b>	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 environment protection	Provision for leased fixed assets returns	Provisions for renegotiation of import gas prices	Other	Total
<b>Opening balance as of 1 January 2005</b>	<b>572 278</b>	<b>25 764</b>	<b>60 098</b>	<b>35 569</b>	<b>81 285</b>	<b>50 224</b>	<b>74 098</b>	<b>899 316</b>
a) increases	30 132	341	-	8 315	-	84 946	11 767	<b>135 501</b>
b) decreases	(5 312)	-	(5 450)	-	-	-	(9 074)	<b>(19 836)</b>
<b>Closing balance on 30 June 2006</b>	<b>597 098</b>	<b>26 105</b>	<b>54 648</b>	<b>43 884</b>	<b>81 285</b>	<b>135 170</b>	<b>76 791</b>	<b>1 014 981</b>

## 2.4. Industry segments

Period ended 30 June 2006	Exploration and production	Trade and storage	Distribution	Other	Elimination	Total
<b>Profit and loss</b>						
External sales	872 800	2 082 637	5 180 712	47 639		8 183 788
Sales between lines of business	475 710	3 928 636	4 928	75 892	(4 485 166)	-
Total revenue	1 348 510	6 011 273	5 185 640	123 531	(4 485 166)	8 183 788
Amortization	(232 572)	(78 229)	(332 651)	(5 200)		(648 652)
Other costs	(790 990)	(5 588 607)	(4 605 320)	(114 894)	4 484 500	(6 615 311)
Total cost	(1 023 562)	(5 666 836)	(4 937 971)	(120 094)	4 484 500	(7 263 963)
Result on operating activity	<b>324 948</b>	<b>344 437</b>	<b>247 669</b>	<b>3 437</b>	<b>(666)</b>	<b>919 825</b>
Net interest and other financial expenses						29 342
Share in profits/(losses) of controlled entities measured using the equity method		(30 115)				(30 115)
Gross profit						<b>919 052</b>
Income tax						(192 445)
Result for the financial year on abandoned activity						-
Dividend						-
Net profit/loss						<b>726 607</b>
<b>Balance sheet</b>						
Segment assets	7 276 175	11 164 544	10 993 787	245 002	(356 008)	29 323 500
Shares in associated entities		481 961				481 961
Unassigned assets						501 359
Deferred tax asset						428 786
Total assets						<b>30 735 606</b>
Total equity						20 539 810
Liabilities of the line of business	1 025 648	1 636 205	1 965 386	81 141	(355 715)	4 352 665
Unassigned liabilities						3 765 725
Provision for deferred tax						2 077 406
Total Equity and Liabilities						<b>30 735 606</b>
<b>Other segmental information</b>						
Capital expenditure for tangible fixed assets	(141 568)	(184 327)	(340 705)	(3 782)		<b>(670 382)</b>
Revaluation write-downs on assets	(331 763)	(1 906 553)	(471 315)	(3 450)		<b>(2 713 081)</b>
Revaluation write-downs on unassigned assets						(53 537)

Period ended 30 June 2005*	Exploration and production	Trade, storage, transmission	Distribution	Other	Elimination	Total
<b>Profit and loss</b>						
External sales	691 397	1 565 385	3 884 058	37 030		6 177 870
Sales between lines of business	402 576	2 755 423	13 039	66 272	(3 237 310)	-
Total revenue	1 093 973	4 320 808	3 897 097	103 302	(3 237 310)	6 177 870
Amortization	(221 074)	(221 779)	(326 821)	(5 798)		(775 472)
Other costs	(659 218)	(3 552 987)	(3 403 355)	(102 401)	3 232 035	(4 485 926)
Total cost	(880 292)	(3 774 766)	(3 730 176)	(108 199)	3 232 035	(5 261 398)
Result on operating activity	<b>213 681</b>	<b>546 042</b>	<b>166 921</b>	<b>(4 897)</b>	<b>(5 275)</b>	<b>916 472</b>
Net interest and other financial expenses						(193 188)
Share in profits/(losses) of controlled entities measured using the equity method		57 615				57 615
Gross profit						<b>780 899</b>
Income tax						(164 808)
Result for the financial year on abandoned activity						-
Dividend						(89 845)
Net profit/loss						<b>526 246</b>
<b>Balance sheet</b>						
Segment assets	7 218 631	9 600 885	10 798 332	240 449	(791 258)	27 067 039
Shares in associated entities		520 263				520 263
Unassigned assets						337 311
Deferred tax asset						405 134
Total assets						<b>28 329 747</b>
Total equity						17 773 568
Liabilities of the line of business	1 186 002	1 921 733	1 924 698	100 366	(792 084)	4 340 715
Unassigned liabilities						3 974 760
Provision for deferred tax						2 240 704
Total Equity and Liabilities						<b>28 329 747</b>
Other segmental information	691 397	1 565 385	3 884 058	37 030		6 177 870
Capital expenditure for tangible fixed assets	402 576	2 755 423	13 039	66 272	(3 237 310)	-
Revaluation write-downs on assets	1 093 973	4 320 808	3 897 097	103 302	(3 237 310)	6 177 870
Revaluation write-downs on unassigned assets	(221 074)	(221 779)	(326 821)	(5 798)		(775 472)

\*The data adjusted ensure comparability with the financial statements for the first half of 2006.

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.

## 2.5. Revenues from sales of products, goods and materials

	<b>30.06.2006</b>	<b>30.06.2005</b>
High-methane gas	6 641 994	5 062 777
Nitrated gas	620 856	474 458
Crude oil	345 323	328 542
Helium	15 122	17 414
Propane-butane gas	18 837	13 913
Gasoline	3 831	5 257
Decompressed gas	693	637
Geophysical and geological services	165 318	69 255
Prospecting services	122 158	107 818
Goods and materials	13 415	11 911
Other sales of products and services	236 241	85 888
<b>Total</b>	<b>8 183 788</b>	<b>6 177 870</b>

## 2.6. Revenues from leasing payments

	<b>30.06.2006</b>	<b>30.06.2005</b>
Interest	146 158	-
Repayments	118 825	-
<b>Total*</b>	<b>264 983</b>	<b>-</b>

\*The leasing contract became effective on 8th July 2005

## 2.7. Operating expenses

	<b>30.06.2006</b>	<b>30.06.2005</b>
<b>Consumption of raw materials and materials</b>		
Gas purchase	(4 251 755)	(2 838 954)
Consumption of other raw materials and materials	(239 566)	(215 502)
<b>Total</b>	<b>(4 491 321)</b>	<b>(3 054 456)</b>

	<b>30.06.2006</b>	<b>30.06.2005</b>
<b>External services</b>		
Purchase of transmission services from OGP Gaz System Sp. z o.o.	(871 702)	-
Other external services	(458 112)	(480 054)
<b>Total</b>	<b>(1 329 814)</b>	<b>(480 054)</b>