Annual Report 2007

PGNiG

Key Figures

Selected Financials

PLN m	2007	2006	2005
Sales revenue	16,652	15,198	12,560
EBIT	852	1,470	1,398
EBITDA	2,282	2,766	2,800
Net profit	916	1,328	881
EPS [PLN]	0.16	0.22	0.17
DPS [PLN]	0.19[1)]	0.15	0.10
Assets	28,402	30,677	30,364
Equity	21,022	21,153	20,768
Net debt	(1,446)	(1,082)	(742)

[1)] Dividend will be paid on 1st October of 2008.

Financial Ratios

	2007	2006	2005
Net profitability on sales	5.5%	8.7%	7.0%
ROE	4.4%	6.3%	4.2%
ROA	3.2%	4.3%	2.9%
Current ratio	1.8	2.7	2.3
Quick ratio	1.4	2.2	2.0
Debt to total liabilities	26.0%	31.0%	31.6%
Debt to equity	35.1%	45.0%	46.2%

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PGNiG in numbers

Gas and oil reserves

787
mboe

Natural gas imports

58.5
mboe
(9.3 bcm)

Natural gas sales

86.2
mboe
(13.7 bcm)

Oil and condensate sales

3.97
mboe
(542 ths. tonnes)

Length of distribution network*

107
ths km

* excluding connections

No. of customers

6.5
million

The PGNiG Group is the leader of the Polish natural gas market, as well as the only vertically integrated gas company in Poland. Its parent undertaking is Polskie Górnictwo Naftowe i Gazownictwo. Formation of the Group's enabled coordination of the upstream and downstream operations – from exploration and production, to storage, to trade and distribution of gaseous fuels.

The Company owes its competitive edge on the gas market, which is now in the process of deregulation, chiefly to the natural gas and crude oil production. The core business of the PGNiG Group includes trade in and distribution of natural gas. Following the separation of its gas trade business from the operation of the gas distribution network – completed in 2007 – the entire trading business has been taken over by PGNiG, while distribution is now handled by six Distribution System Operators belonging to the PGNiG Group.

On September 23rd 2005, PGNiG floated its shares on the Warsaw Stock Exchange, in the largest public offering in 2005. The Company's main shareholder is the State Treasury, which holds 84.75% of its shares.

Given its revenue and profit streams, the Company ranks among the largest and most profitable enterprises in Poland. In 2007, it posted PLN 16.7bn in revenue and PLN 916m in net profit. With the headcount of approximately 30 thousand, PGNiG is also counted among Poland's largest employers.

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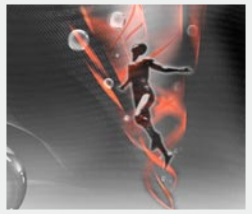


Letter from the President of the Management Board

In 2007, we continued along the path of value growth. Amid pressures related to the massive organisational change, PGNiG SA reported a net profit of PLN 2.2bn, which represented a 96.4% improvement year on year.

Dear Ladies and Gentlemen,

The year 2007 was a breakthrough one for our Group. Under the EU directive and the Polish Energy Law in effect since May 2005, July 1st 2007 marked the deadline for full deregulation of the electricity and gas markets in the EU member states. Since that day, all citizens of the EU have been free to choose their own suppliers of electricity and gas. The date represented a landmark for consumers of gas and electricity and for the entire industry. To comply with the requirements imposed by the new laws, our Group undertook an organisational and legal separation of its transmission network and gas trading business.

Designated as "integration of gas trade", the project involved a dozen or so thousand employees, mainly at the field units of the PGNiG Group. This extremely difficult – yet unavoidable – task was successfully completed. Simultaneously, throughout 2007 we continued to implement complex projects aimed at exploring new development opportunities and positioning our organisation for entry onto the Europe-wide gas market. The strong market position and financial standing of our Group will serve as a springboard for its further growth and continued implementation of its pipeline of upgrade and investment projects. A quantifiable measure of our success was the profit earned by the PGNiG SA and the 2007 dividend paid out to our shareholders.

In 2007, we continued along the path of value growth. Amid pressures related to the massive organisational change, PGNiG SA reported a net profit of PLN 2.2bn, which represented a 96.4% improvement year on year. The sales and gas production volume were not appreciably different from the levels seen in 2006, whereas revenue on sales of gas went up by 26.5%. The Company's improved financial standing is reflected in its key profitability ratios – return on equity rose from 6.6% to 12.1%, return on assets improved from 4.8% to 9.1%, while net sales margin widened from 9.1% to 14.3%.

Our Group posted a 31% year-on-year decline in consolidated net profit, which in 2007 dropped to PLN 916m. This change was largely attributable to the Distribution segment's operating loss of PLN 1.3bn, incurred due to the necessity to revaluate the non-current assets of the Distribution System Operators while, on the other hand, it was due to the separation of gas distribution from trading activities. Net of the revaluation effect, our profit for 2007 would have roughly doubled year on year.

The financial markets perceive PGNiG SA as a stable company, striving to improve its business efficiency across the board. Our financial credibility has been confirmed by the credit rating from Standards&Poor's, which was upgraded to BBB+ (stable outlook) on February 5th 2007.

In 2007, we continued to implement a series of projects aimed at enhancing the Company value. Our activities in the area of exploration, as well as geophysical and geological work are particularly worth noting. One of the cornerstones of our Group's strategy focused on expanding its oil and gas reserves outside of Poland has been PGNiG's involvement in the project on the Norwegian Continental Shelf. In 2007, PGNiG SA concluded an agreement with Mobil Development Norway A/S and ExxonMobil Production Norway Inc., providing for the purchase of a 12% interest in the combined reserves of the Skarv, Snadd and Idun fields. PGNiG Norway A/S of Norway was established specifically for that purpose.

On April 19th 2007, PGNiG SA and Energinet.dk signed a letter of intent concerning the Baltic Pipe construction project. On November 15th 2007, Energinet.dk, PGNiG SA and OGP GAZ-SYSTEM SA concluded a trilateral cooperation agreement, which represented one of the project's milestones. In June 2007, we obtained access to reserves from the Egyptian Bahariya field. In the same month, we joined a consortium formed to construct the Skanled gas-transmission pipeline, which is to connect Norway's Kårstø with Sweden and Denmark and acquired, for no consideration, a 15% interest in the project.

In December 2007, we won a tender in Libya, thus acquiring the right to conduct exploration work in the Murzuq oil basin. Around the same time, we also concluded an agreement for the transfer of a 40% interest in the exploration and production licence located in Denmark and owned by Willumsen Exploration Consultants ApS, whereupon we launched a promising exploration project in Denmark. Well in keeping with our Group's projects focused on identifying and acquiring new areas and sources of gas supplies is construction of an LNG terminal. With this innovative project – and I do not hesitate to call it that – PGNiG SA has joined the group of top-tier European players.

The projects I have described above are far from easy. Due to their long-term nature, they require substantial capital investment and an in-depth, comprehensive assessment of all potential opportunities and threats, which more often than not relate to a relatively distant future. The level of risk is monitored on an ongoing basis by the Company's Management and Supervisory Boards. It must be remembered though that PGNiG SA needs to look for new business opportunities that will build its value and help our Group gain a firmer foothold on the global gas market.

2007 was a breakthrough year for our core business. The spin-off of the Distribution System Operators and integration of the wholesale and retail business made it easier for the Company to put its business philosophy into practice. The key premise on which that philosophy rests is a customer-oriented approach, which finds its particular expression in the focus on service standardisation, continuous improvement of the service quality and provision of tailor-made solutions. We never cease to look for new business opportunities, pinning great hopes on the power industry development, as well as the projects launched by PGNiG SA's strategic customers operating in the petrochemical, construction and metallurgical industries. In 2007, we also commenced talks with certain electricity suppliers concerning joint electricity and gas sales.

There is, however, an obstacle to unlocking the full business potential of the PGNiG Group, namely the policy, which has not changed in years, whereby gas prices are regulated by administrative decisions. What it means in practical terms is that the binding gas tariffs imposed by the President of Energy Regulatory Authority are determined without taking into account the actual costs of gas imports or the capital expenditure required to expand gas storage capacity and execute upstream projects. The Management Board of PGNiG SA has repeatedly pointed to the need to shape the tariff policy so that the tariffs reflect the real, economically justified, price drivers, which is a prerequisite from the point of view of Poland's energy security.

Investments in the gas storage facilities are a strategic priority for our Group. In addition to the obligations imposed by law, such investments are another necessary condition for being able to succeed in the competitive European gas market, as they serve to optimise gas supplies to customers. 2007 saw the completion of the project aimed at upgrading the surface infrastructure of the Underground Gas Storage Facility in Swarzów. Work was also underway to expand the working capacity of the gas storage facilities in Wierzchowice, Mogilno and Strachocina, and preparations were started to build an underground gas storage facility in Kosakowo.

Throughout 2007, the PGNiG Group's drilling and geophysical subsidiaries were conducting exploration and prospecting work in three regions of Poland: the Carpathian Mountains, the Carpathian Foreland and the Polish Lowlands. Our efforts aimed at acquiring access to new exploration and licence areas abroad, including projects on the Norwegian Continental Shelf and in Denmark, stem from a carefully planned strategy designed to enhance the Group's value. We will also remain awake to emerging opportunities – in Libya, Algeria, Egypt and Kazakhstan. 2007 witnessed intensive development of our Group's exploration business and its geophysical and geological segment. The Group companies acquired a number of new contracts, located in Denmark, Oman, India, Syria, Uganda, Kazakhstan, Hungary and in other countries. It is worth noting that the contracts were concluded on the fully competitive global markets, which amply demonstrates our high capabilities.

Ladies and Gentlemen,
Thanks to the Company's sound financial standing we are able to implement our investment goals. The favourable assessment of PGNiG's credit risk, as confirmed by the rating agencies, and its creditworthiness make it possible to obtain project financing on attractive terms. All projects we undertake are intended to steadily enhance the Company value and strengthen its brand presence on international markets, while ensuring the satisfaction of both shareholders and customers.

Although fraught with challenges, last year was ultimately successful for our Group. A good deal of credit must be given to our employees, without whose dedication and competencies our success would not have been possible. It cannot be denied that changes in the PGNiG Group have required and will require a shake-up of the employment structure, as well as organisational streamlining needed to better exploit the existing synergies. This is always an immense effort which puts an organisation and its personnel to a test. However, the changes are designed to help the Group achieve a financial and market success, which in turn will enable its employees to lead more comfortable and settled lives. On behalf of PGNiG SA's Management Board and on my own behalf, I wish to thank all our employees for the commitment they have demonstrated so far, hoping for our further fruitful cooperation. I am absolutely certain that together we can achieve our objective of maintaining the PGNiG Group's strong market position and financial standing, but also of further strengthening of our presence in Central and Eastern Europe.

Michał Szubski
President of the Management Board
PGNiG SA

Warszawa, April 2008

PGNiG on the Warsaw Stock Exchange

Position on the Warsaw Stock Exchange

PGNiG whose debut on the Warsaw Stock Exchange ("WSE") took place on September 23rd 2005, is one of the largest Polish companies listed on the WSE. We enjoy the status of the Golden Company and our stock, apart from being included in the WIG20 index (since December 15th 2005), is also a constituent of the prestigious index of emerging market stocks selected by Morgan Stanley Capital International Inc. ("MSCI"). PGNiG is one of the six fuel companies which comprise the WIG-Paliwa index.

PGNiG stock's weight in the WSE indices

WIG	2.24%
WIG20	3.88%
WIG-Paliwa	19.41%

As at December 28th 2007.

Shareholder Structure

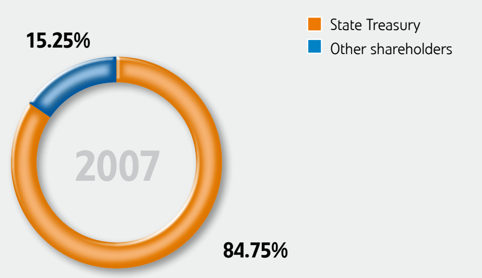
The State Treasury is the majority shareholder in PGNiG, holding 84.75% of shares and the same percentage of votes at the General Shareholders Meeting. The remaining shares are traded on the WSE. Our shareholder structure has not changed since the Company's debut on the WSE.

Investor Relations

Our investor relations activities are centred around mandatory activities prescribed by law. We are required to make regular disclosures and to publish material information which must be accessible to all investors on equal footing.

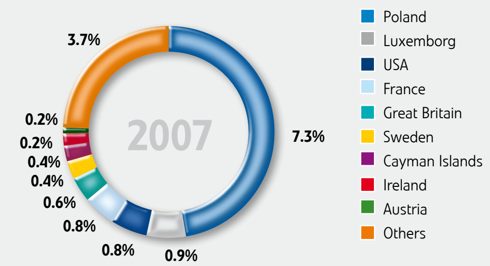
The investor relations efforts also include measures taken to cultivate good relationship with existing and prospective shareholders, such as organisation of road shows and participation in international investor conferences, meetings with portfolio managers, and continuous communication with analysts. Furthermore, the IR team is responsible for creation and maintenance of our corporate website, where current information and data on Company's performance, plans and the project pipeline are to be found. In April 2008, the Polish Association of Retail Investors (Stowarzyszenie Inwestorów Indywidualnych) recognised the efforts of our Investor Relations staff by awarding the team the first prize in the IR excellence ranking of the Polish listed fuel companies.

» Shareholder structure



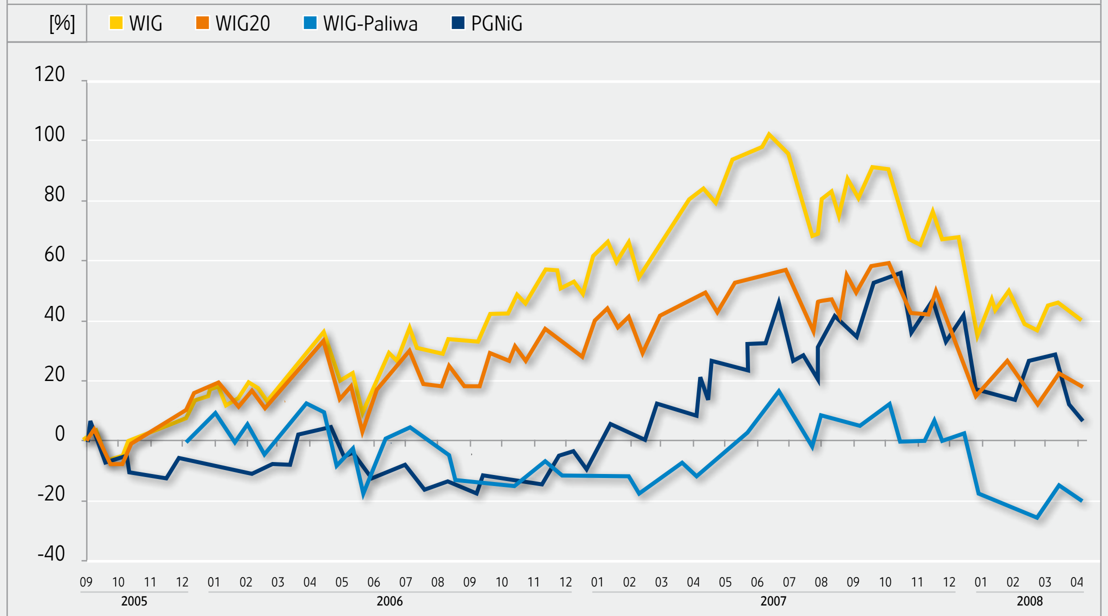
As at June 19th 2008.

» 15.25% free float structure by country



Figures as at September 2007.

» Percentage changes in PGNiG Stock Price, the WIG Index, WIG20 Index and WIG-Paliwa Index from the Company's stock-exchange debut



Base date for WIG-Paliwa is December 30th 2005.

Stock Price

Over 2007, the price of the PGNiG stock increased by 37.1%. With the dividend paid out at PLN 0.17 per share, the rate of return was 41.7%. The highest price at which our stock traded in 2007 was PLN 6.10 (at close on October 23rd 2007). The stock's strong performance confirms our stable financial standing. To compare, in 2007, the WIG and WIG20 indices gained 8.7% and 3.2%, respectively, while WIG-Paliwa, the index reflecting the economic situation in the fuel sector, recorded an increase to the order of 9.2%.

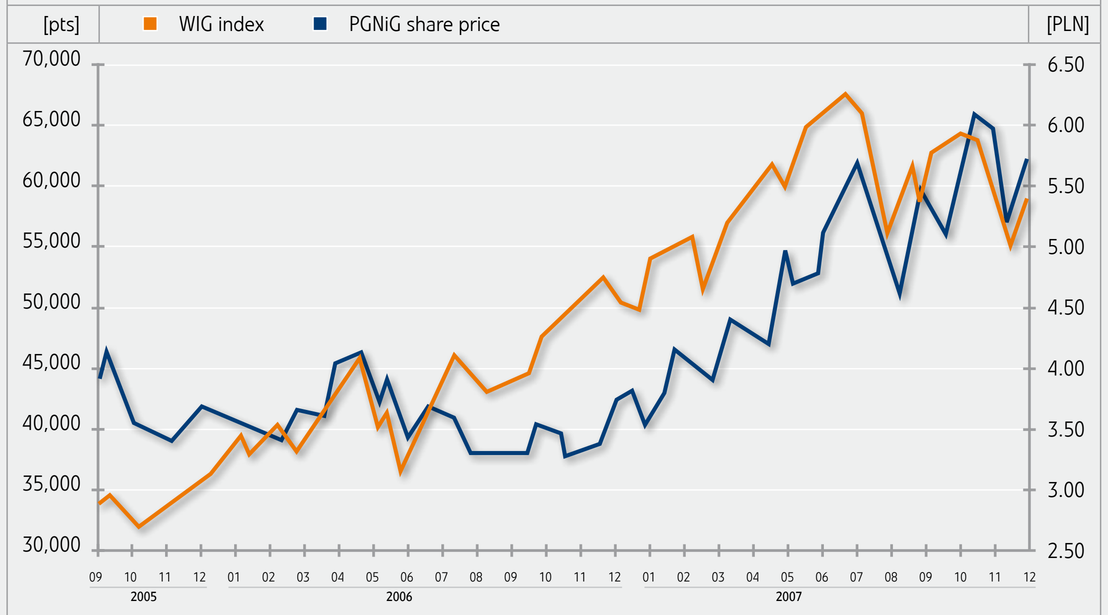
In 2007, the fluctuations in the value of indices on the global markets were driven mainly by the news on the U.S. economy. The slowdown in the United States and the threat of a recession triggered a sharp fall in the indices also on the Warsaw Stock Exchange in the second half of 2007. The behaviour of macroeconomic indicators, which reflect the condition of the U.S. economy, affected the price of the PGNiG shares to a considerably greater extent than the news from the Company.

Dividend

The decision-making process concerning the dividend payment and dividend amount is determined by various factors, such as performance, capital requirements under the investment programme, and the market conditions. The decision on profit distribution and payment of dividend for a given financial year is made by our General Shareholders Meeting. In June 2007, the 2006 profit was distributed. The dividend per share was PLN 0.17, i.e. 13% more than in the previous year (PLN 0.15). Pursuant to our Articles of Association, PGNiG may also distribute non-cash dividend, which was the case in 2006 and 2007 (the non-cash dividend was received by the majority shareholder, i.e. the State Treasury).

Changes of PGNiG stock price

» PGNiG stock price vs. WIG Index



Source: WSE.

February 2nd 2007
Standard&Poor's (S&P), a rating agency, upgraded PGNiG's long-term credit rating from BBB to BBB+, with stable outlook. The news was well received by the shareholders; over the following days, the share price climbed by 1.5%, to PLN 4.09.

March 1st 2007
The Q4 2006 consolidated quarterly report was published. The disclosed results were in line with analysts' expectations. On the same day, PGNiG also reported that it had concluded a conditional agreement for purchase of interests in the licences in the Norwegian Continental Shelf. The stock price over two consecutive trading days increased by 3.9%, from PLN 3.83 to PLN 3.98.

March 14th 2007
The President of Energy Regulatory Office resolved to extend the effective period for the gaseous fuels tariff until September 30th 2007. The decision was consistent with the market expectations (since January 1st 2007, the gaseous fuels tariff had risen by 9.9%). The stock price grew by 1.0%.

April 16th 2007
Information was disclosed on the conclusion of an agreement between PGNiG and Rafineria Trzebinia SA for the sale of approximately 15 thousand tonnes of crude oil a month, which accounts for ca. 30% of the domestic production, from the reserves located near Zielona Góra. The news had no impact on the stock price.

May 2nd 2007
PGNiG and Energinet.dk worked out an agreement on a direct gas pipeline project between Poland and Denmark. The Baltic Pipe project is a step towards achieving one of our strategic goals, i.e. diversification of gas supplies to Poland. The arrangement with Energinet.dk was well received by investors, which was reflected in the stock price – the next trading session saw a 1.1% rise in the share price, to PLN 4.69.

May 9th 2007
The Management Board of PGNiG resolved to reduce the Company's debt by repayment of a term loan facility with own funds, thus lowering debt servicing costs. The decision was well received by the capital market; over the next few days, the share price gained 1.5%, rising to PLN 4.91.

May 15th 2007
The Q1 2007 consolidated quarterly report was published. Investors expected very good results, which was reflected in the stock price. In the period between May 10th and May 15th, the price increased by 13.6%, from PLN 4.33 to PLN 4.92.

June 20th 2007
PGNiG joined the Skanled consortium after a free-of-charge acquisition of a 15% interest in the project consisting in construction of a pipeline connecting Norway (in the town of Kårstø), Sweden and Denmark. Our participation in the project was well received by investors; the stock price advanced by 4.5% over the next few trading days.

June 28th 2007
The General Shareholders Meeting of PGNiG resolved to pay out dividend for 2006 of PLN 1bn (PLN 0.17 per share). The dividend payout ratio was 63.39%. The news did not affect the stock price on the day of the announcement; however, over the next two weeks the price went up by 12.0%, from PLN 5.07 to PLN 5.68.

July 24th 2007
The Company published a new forecast assuming reduction in the natural gas production volume to 4.6 billion cu. m in 2008 and approximately 5.0 billion cu. m in 2009. Investors' reaction to the news was negative; on the next trading day the stock opened down 2.7%.

August 13th 2007
The Q2 2007 consolidated quarterly report was published. We posted results slightly below the market consensus. However, on the report publication date, the stock price gained 2.2%, rising from PLN 4.64 to PLN 4.74 as a result of a correction after a 4.3% decline on August 10th 2007.

August 16th 2007
The President of Energy Regulatory Office resolved to extend the effective period for the gaseous fuels tariff until December 31st 2007. Despite earlier indication of the Management Board that this might be the case, investors' reaction was negative; the stock lost 5.8%, falling from PLN 4.79 to PLN 4.51.

September 17th 2007
PGNiG was pre-qualified and qualified by the Norwegian Ministry of Petroleum and Energy, and on September 19th the Norwegian Ministry of Hydrocarbons and Energy approved the purchase a 12% interest in exploration and production licences on the Norwegian Continental Shelf. Both decisions were well received by investors; in the period from September 17th to September 19th, the stock price climbed by 3.0%, to PLN 5.42.

October 17th 2007
PGNiG and PGNiG Norway concluded a loan agreement to finalise the purchase of interests in the licences in the Norwegian Continental Shelf. Two days later, both companies concluded a guarantee agreement. The news was met with a positive reaction of the market. In the period from October 19th to October 23rd, the stock price grew by 7.6%, from PLN 5.67 to PLN 6.10, and reached its all-time high.

October 31st 2007
PGNiG Norway purchased interests in the PL212, PL212B and PL262 exploration and production licences in the Norwegian Continental Shelf. This was our first such significant international transaction in the E&P sector. The transaction is a key element in our strategy of securing more crude and natural gas reserves outside Poland. The information was met with a positive reaction from investors: over the subsequent week the stock price grew by 6.0%, to PLN 6.00 (on November 8th 2007).

November 14th 2007
The Q3 2007 consolidated quarterly report was published. The Company's performance fell short of the analysts' expectations, which resulted in a 4.2% decline of the stock price, to PLN 5.54. On the same day, the WIG index and WIG20 index lost 2.3% and 2.5%, respectively.

Management Board

Mr Michał Szubski

President of the Management Board

Graduate of the Faculty of Law and Administration at the University of Warsaw. He completed postgraduate courses in "Management of Energy Companies" and "Natural Gas Transport and Distribution". He joined PGNiG in 1994. He has held positions of Director of the Presidium Office of the Company, Director of the Legal Office, and Director of the Corporate Office. In October 2000, he was appointed Deputy Director for Restructuring, and later he served as General Director of Warsaw Gas Plant at Mazowiecki Zakład Gazowniczy. In 2003-2007, he served as President of the Management Board of Mazowiecka Spółka Gazownictwa Sp. z o.o. From July 2007 to March 2008 he was Advisor to the Management Board of PGNiG.

Mr Mirosław Dobrut

Vice-President of the Management Board for Gas and Trade

Graduate of the Faculty of Electrical Engineering at the Częstochowa University of Technology; completed training at the Gdańsk Foundation for Management Development. His entire professional career has been connected with the gas industry. He started as a trainee at the Gdańsk Gas Plant and climbed up the ranks to the position of director. He has worked at the Chamber of the Natural Gas Industry since 2005, first as a Director and later as President.

Mr Radosław Dudziński

Vice-President of the Management Board for Strategy

Graduate of the Warsaw University of Technology, with a specialisation in gas engineering. He also holds Executive MBA from the University of Illinois Urbana Champaign. He has been with PGNiG since 1998, moving up the ranks in the operations division, and later holding the positions of Director of the Strategy Office and Director of the Strategy and Restructuring Department.

Mr Sławomir Hinc

Vice-President of the Management Board for Finance

Graduate of the University of Gdańsk, with an MA in economics. He also studied at Wirtschaftsuniversität, Austria, and at Technische Fachhochschule, Germany. Mr Hinc received a PhD degree in Technical Sciences in a field of gas engineering form Warsaw University of Technology. He worked at the Audit and Business Consulting Department of Arthur Andersen Polska (1998–2000) and Andersen Business Consulting (2000–2004), where he headed power project teams. In 2004–2008, he was Financial Director at Gaz-System SA.

Mr Mirosław Szkałuba

Vice-President of the Management Board for HR and Restructuring

Graduate from the Oil and Drilling Faculty at the AGH University of Science and Technology of Kraków, with a degree of Master Engineer of Oil Mining. In 1998, he completed post-graduate courses in equity investments and corporate development projects at the Warsaw School of Economics. Mr Szkałuba has worked for PGNiG since 1994. Until 2005, he worked at the Exploration Department as specialist responsible for planning, supervision and settlement of exploration activities. In 2005–2008, he was a PGNiG Supervisory Board member appointed by the employees.

As at June 19th 2008.

Letter from the Chairman of the Supervisory Board

Dear Ladies and Gentlemen,

In the previous year, the Supervisory Board was closely monitoring all aspects of PGNiG SA's operations, while getting actively involved – in communication with the Management Board – in seeking solutions that would best serve the Company's interests.

There can be no doubt that the year 2007 brought with it some breakthrough developments for PGNiG SA and its Group, as well as a broader Polish power sector. July 1st 2007 saw full deregulation of the Polish electricity and gas markets, which forced the PGNiG Group to undertake a profound organisational change – a demanding exercise, which was nevertheless successfully accomplished.

At the same time, the Company continued to implement projects focused on diversifying gas supplies and ensuring Poland's energy security, while enhancing the Company value and reinforcing its foothold on the global markets. Aware of their importance for the Company and the risk they entail, the Supervisory Board is watching those efforts with close attention.

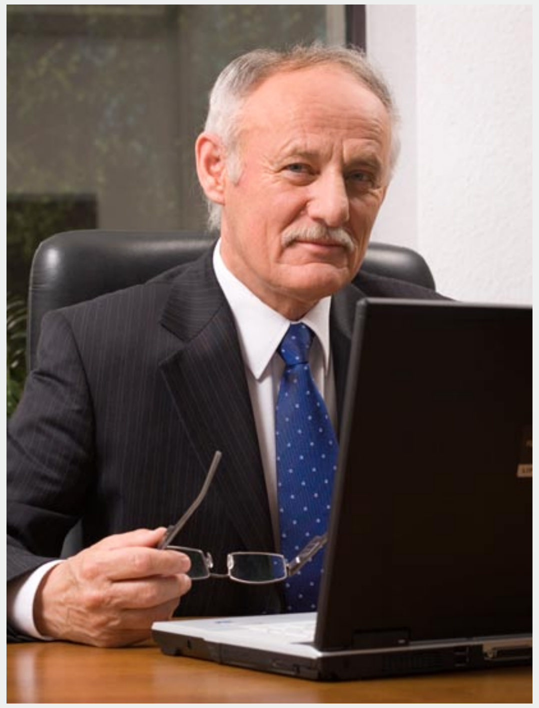
The activity of the Group's exploration and production subsidiaries offers great promise for the future. Throughout 2007, they managed to secure a number of new contracts, thereby solidifying their position in the fully competitive global markets.

PGNiG SA's impressive financial performance and the uptrend in its key profitability ratios is another source of satisfaction. In 2007, the Company stayed firmly on the value growth path, which fills us with optimism as regards its development prospects and the feasibility of continued execution of the ongoing modernisation and investment projects.

The Supervisory Board take an optimistic view on the employee relations going forward. It was largely due to the staff's commitment that the challenging transformations undertaken in 2007 within the PGNiG Group were a success. I strongly believe that the dialogue with the employees will continue. I also believe that this year will be at least as successful for the Company as the previous one, allowing it to deliver profits satisfactory to the shareholders, while giving grounds for contentment to all employees of the PGNiG Group.

Stanisław Rychlicki
Chairman of the Supervisory Board
PGNiG SA

Warszawa, April 2008



Supervisory Boards

Mr Stanisław Rychlicki
Chairman of the Supervisory Board
Graduate of the Faculty of Geology and Exploration at the AGH University of Science and Technology of Kraków. He has been following his carrier path with the Faculty of Drilling, Oil and Gas, where he currently serves as the Head of the Chair of Oil Engineering and Deputy Dean of the Faculty of Drilling, Oil and Gas. In 1980–1986, Mr Rychlicki was a professor at the University of Science and Technology in Algiers, Algeria.

Mr Marcin Moryń
Deputy Chairman of the Supervisory Board
Legal counsel, graduate of the Law and Administration Faculty at the University of Łódź. Since May 2006, Mr Moryń has been an acting director of the Department for Monitoring of Privatisation Commitments at the Ministry of State Treasury. In 2001–2006, he was Head of the Legal Department of the Ministry of State Treasury.

Mr Grzegorz Banaszek
Member of the Supervisory Board
Graduate of the Faculty of Organisation and Management at the University of Warsaw, and of the Warsaw School of Economics. Mr Banaszek is in charge of capital-market-related aspects of the Group's operations. He has cooperated with numerous financial institutions. Currently he serves as Organisation and Management Adviser to the President of the Management Board at Totalizator Sportowy Sp. z o.o.

Ms Agnieszka Chmielarz
Member of the Supervisory Board
Graduate of the Faculty of Chemistry at the Academy of Technology and Agriculture in Bydgoszcz. She has worked for PGNiG for many years. Currently, she works at the Trade Department of the Bydgoszcz Gas Plant.

Mr Mieczysław Kawecki
Member of the Supervisory Board
Graduated of the AGH University of Science and Technology of Kraków. He has worked in the oil E&P industry since 1976. Initially, he worked at the Oil and Gas Mining Plant in Sanok, and currently he serves as manager at the Underground Gas Storage Facility in Strachocina. Mr Kawecki is Grade I Mining Engineer.

Mr Hubert Konarski
Member of the Supervisory Board
Graduate of Faculty of Law at the University of Warsaw. In 1999–2001, he worked for PGNiG as a lawyer and negotiator responsible for domestic and international contracts. Since 2002, he has served as managing director at a gas and oil consultancy. He has authored a number of trade publications, chiefly on international contracts in the oil and gas sector.

Mr Mieczysław Puławski
Member of the Supervisory Board
Professor at the Warsaw School of Economics and School of Commerce and Law of Warsaw. Graduate of the Faculty of Foreign Trade at the former Central School of Planning and Statistics (now Warsaw School of Economics). In 1977–1978, he studied at the Faculty of Social and Political Sciences at the University of Basel. He also served as adviser to the President of the National Bank of Poland and the Minister of Finance.

Ms Jolanta Siergiej
Member of the Supervisory Board
Graduate of the Szczecin University of Technology. She was member of the supervisory boards of Geofizyka Kraków (1998–2000), and Poszukiwania Naftowe Diament (2001–2002) – both PGNiG's subsidiaries. Ms Siergiej is Grade III Mining Director. In 1995, she was appointed Chief Accountant of the PGNiG Branch in Zielona Góra.

Ms Joanna Stuglik
Member of the Supervisory Board
Graduate of the Faculty of Economics at the Cracow University of Economics. She earned a doctoral degree in economic sciences, specialising in strategic management and finance. Ms Stuglik has authored a number of publications on finance, particularly devoted to correlation between corporate budgets and strategic goals.

As at June 19th 2008.

Calendar of Corporate Events

January 2007

PNiG NAFTA of Piła continued the drilling of the AL-BORQ-1X well in the north-western part of Egypt, which was commissioned by Vegas Oil and Gas SA. The work commenced in late 2006. At the end of January, the company started drillings for Apache West Kanayes Corporation Ldc.

February 2007

A new natural gas mine in Jasionka near Rzeszów, Poland, was placed in operation by PGNiG. Producible reserves at Jasionka amount to 1.75 billion cu. m. The mine is estimated to yield 150 million cu. m of high-methane gas per annum. The capital expenditure on this project was approx. PLN 24m.

PGNiG, Mobil Development Norway A/S and ExxonMobil Production Norway Inc. entered into a conditional sale agreement related to the PL212, PL212B and PL262 licenses for production from the Skarv and Snadd deposits on the Norwegian Continental Shelf. Under to the agreement, PGNiG acquired a 15% interest in the licenses (which, after unitization, fell to 12%).

March 2007

PGNiG is the first Polish energy company to have officially opened a permanent representative office in Brussels. Consequently, we became an active participant of the European gas market forum. Our presence in Brussels enables us to continuously monitor the effects of the European legislation on the Polish gas market. This will also facilitate our efforts aimed at securing EU's support for specific projects, crucial for ensuring Poland's energy security.

PGNiG's General Shareholders Meeting approved establishment of Polskie LNG (PLNG) whose task will be to construct an LNG terminal in Świnoujście, Poland. After completion of the project, PLNG will operate the terminal (regasification). PGNiG acquired 100% shares in PLNG.

April 2007

PGNiG made it to the Global 2000 list compiled by Forbes. The ranking lists companies with the greatest importance for the global economy. PGNiG made its first appearance on position 1,170, which gives it the third place among Polish companies ranked on the list.

May 2007

PGNiG and Energinet.dk made an arrangement with a view to constructing a direct gas pipeline between Poland and Denmark (the Baltic Pipe). The co-operation with Energinet.dk on projects related to gas supply and transmission in the liberalized European market is another example of PGNiG developing its international presence.

PGNiG signed an arrangement with GB Petroleum Plc concerning joint exploration and production from hydrocarbons deposits under the licenses held by both companies. The venture will enable PGNiG to use GB Petroleum Plc's Tunisian and Moroccan licenses. Both companies expressed their intentions of long-lasting cooperation based on sharing expertise and experience.

June 2007

PGNiG won a tender for the exploration license in the Bahariya block in Egypt, with an area of 4,414.4 km². The block is located approx. 200 km south-west of Cairo, in the Western Desert. Over the last decade, many significant crude oil reserves were discovered in that area.

PGNiG joined the Skanled consortium, responsible for construction of a gas pipe running from Kårstø (Norway) to Sweden and Denmark, and acquired a 15% interest in the project, free of charge. By acquiring the interest, PGNiG gained the right to participate in decision-making processes within the consortium, the right to make decisions concerning transmission capacity booking, as well as the right to access the entire project documentation.

The Company completed legal separation of six Distribution System Operators (DSO), which was the key stage in the process of legal separation of gas trading from distribution assets. Such obligation was imposed on all companies operating in the EU members states. The solution adopted by PGNiG is similar to the model functioning in the UK.

July 2007

In accordance with the laws of Norway, PGNiG established a subsidiary undertaking – PGNiG Norway – with its registered office in Stavanger. The entire PGNiG Norway's share capital was acquired by PGNiG. The main responsibility of the newly-established company is development of the Skarv, Snadd and Idun reserves in the Norwegian Sea and production of natural gas and crude oil from these reserves.

Geofizyka Toruń was awarded a contract by Shell for the performance of seismic surveys in Syria. Shell had never before commissioned a company from Central Europe to perform such services. With the new assignment, the Toruń company joins the group of world's leading geophysical service providers.

August 2007

PNiG Kraków signed an agreement with EmbaJugNieft, a Polish and Kazakh company, for the performance of drilling and maintenance work. The relevant services are performed in the Atyrau region in Kazakhstan, under the Zhubantam-Zhusalysay license. The area lies in close Tengiz, the world's sixth largest deposit. The agreement was concluded for one year, with an extension option. The scope of work includes performance of two to four boreholes, with a depth of five to six kilometres.

September 2007

Geofizyka Kraków won a tender for seismic surveys to be performed for DONG Energy, a Danish energy consortium. This is the company's first contract with a Danish operator. The project commenced at the end of September / beginning of October, and it consists in exploration for geothermal water for local heating purposes.

October 2007

Completion of the project consisting in adjustment of the PGNiG Group's operations to the requirements of EU Directive 2003/55/EC and the amended Polish energy law, which obligated companies in the energy sector to separate gas trading from distribution. PGNiG assumed all the activities related to retail sale of gas and customer service across Poland. Concentration of trading activities in one entity will yield major benefits to the Company due to streamlining of customer service processes and, in the future, optimising costs of the trading activity.

Geofizyka Toruń won a tender for seismic surveys to be performed for GeoEnergy. 2D and 3D seismic surveys commenced in south-west Germany in November 2007. The company is not new to the German market – it has conducted geophysical research there for years and its brand name has already won recognition on the local market.

PGNiG Norway purchased from Mobil Development Norway A/S and ExxonMobil Production Norway Inc. interests in the PL212, PL212B and PL262 licenses which provide access to the reserves located on the Norwegian Continental Shelf. The company also assumed the rights and obligations resulting from a number of agreements pertaining to these reserves. USD 390m was paid for the licenses and as part of related settlements.

November 2007

PGNiG, Energinet.dk and OGP GAZ-SYSTEM SA signed a cooperation agreement concerning implementation of the Baltic Pipe project. The agreement was a consequence of the letter of intent for construction of the Baltic Pipe signed by Energinet.dk and PGNiG in May 2007.

December 2007

PGNiG signed an agreement for assignment of a 40% interest in the exploration and production license in Denmark owned by Willumsen Exploration Consultants ApS. Consequently, the company started exploration work in the area which offers good prospects for development of the production market. The remaining interests are owned by Odin Energi A/S (40%) and Nordsofonden (20%). The license can potentially lead to the discovery of crude oil reserves in the deposits of the Main Dolomite.

Corporate Governance

The premeditated strategy or effective management are not the only factors in success of a large company like PGNiG. In order to draw investors' attention, a company must demonstrate that it abides by principles of good supervision and management, namely corporate governance. The Management Board of PGNiG makes every effort to properly abide by these principles and to make our operations transparent to investors. As a result, this makes our company more attractive.

Governing Bodies of PGNiG

General Shareholders Meetings
The General Shareholders Meeting is the Company's highest governing body which operates pursuant to the rules stipulated in the Commercial Companies Code and the Rules of Procedure for the General Shareholders Meeting. Shareholders exercise their corporate rights through a general shareholders meeting. The General Shareholders Meeting reviews and approves director's reports as well as makes decisions on dividend amounts, form and record dates. The State Treasury, as the majority shareholder of PGNiG retains 84.75% of votes at the General Shareholders Meeting.

Supervisory Board
This governing body performs continuous supervision over the functioning of PGNiG in all areas of its operations, in accordance in the Rules of Procedure for the Supervisory Board. The Supervisory Board is composed of five to nine members, including one independent member, appointed by the General Shareholders Meeting of PGNiG for a common term of three years. The State Treasury is entitled to appoint or remove one member of the Supervisory Board.

Management Board
The Management Board is the executive governing body which manages the Company's operations and represents it in court and out of court. The Management Board is composed of two to seven persons, whereas the number of members is determined by the Supervisory Board. Members of the Management Board are appointed for a common term of three years. All issues relating to PGNiG's operations which had not been reserved for other governing bodies under relevant legal regulations or provisions of the Company's Articles of Association fall within the scope of responsibilities of the Management Board. The Management Board operates pursuant to legal regulations in force, and in particular pursuant to provisions of the Commercial Companies Code, the Company's Articles of Association and Rules of Procedure for the Management Board.

Compliance with the corporate governance requirements is of great importance to the Management Board of PGNiG. From its initial public offering in 2005 to the end of 2007 the Company complied with the rules presented in "Best Practices in Public Companies 2005" recommended by the Warsaw Stock Exchange. In 2007, PGNiG observed 49 out of 53 rules described therein. The Company's non-compliance with four rules (No. 2, 20, 28 and 43) was primarily due to the nature of the Company's legal situation.

» **Rule No. 2** (best practices of general shareholders meetings) recommends the need to justify a request for convening a general shareholders meeting and for including specific items in the meeting's agenda.
Pursuant to the internal regulations, namely Par. 57 of the Company's Articles of Association, requests concerning the subject or the convening of the General Shareholders Meeting must be justified by the Management Board whereas the Supervisory Board must render a written opinion on such requests.

» **Rule No. 20** (best practices of supervisory boards) provides that at least half of the supervisory board members should be independent members. The Company's Supervisory Board is composed of five to nine members and pursuant to Art. 12 of the Polish Commercialisation and Privatisation Act of August 30th 1996, representatives of the Company's employees sit on the Supervisory Board of PGNiG. At the same time, the State Treasury as the majority shareholder is entitled to appoint a majority of the Supervisory Board's members. In such a situation, PGNiG is unable to provide a larger number of independent members to sit on the Supervisory Board as it would be impossible for the State Treasury to exercise its rights in this respect.

» **Rule No. 28** (best practices of supervisory boards) obliges supervisory boards to operate in accordance with their publicly available rules of procedure. Pursuant to the rules of procedure, at least two committees may be established: the audit committee and the remuneration committee. The audit committee should be composed of at least two independent members.
As provided for in PGNiG's Articles of Association, there is only one independent member on the Supervisory Board, therefore the Company does not abide by this rule.

» **Rule No. 43** (best practices in the area of external relations) defines the procedure for selection of an auditor. According to the Rule, a recommendation of the audit committee is one of the requirements to make a decision on selection of the auditor.
Given the fact that the Company has not adopted Rule No. 28, Rule No. 43 was also repealed. The auditor is selected by the Supervisory Board of PGNiG.

Since 2008, PGNiG has observed the corporate governance rules laid down in "Best Practices of WSE Listed Companies" with an exception of three rules relating to independent members of the Supervisory Board and the audit committee within the Supervisory Board. Due to the importance of these rules, the Company is considering introduction of appropriate solutions so that the rules could be complied with in the future.

In order to minimise the risk related to the financial reporting process, PGNiG constantly upgrades individual modules of the integrated management system and works on improvement of practical skills of the employees using the system. We also use an expert system of general financial security management covering such areas as liquidity, exchange rate risk and budget-related processes.

PGNiG complies with the disclosure requirements by publishing current reports and interim financial reports and by holding press conferences. To secure wide coverage, our conferences on the PGNiG Group's financial performance are broadcast via the Internet. Additionally, our corporate information portal has been extended to offer quick and easy access to important operating and financial information on the Group. Our employees regularly participate in conferences devoted to best business practices. This contributes to the higher quality of our communication with the capital market.

The functionality and intuitiveness of our corporate portal (at www.pgnig.pl) was recognised in March 2008. Our web site ranked fifth place in the corporate web site ranking for Poland's 16 largest companies. The survey was conducted by Hallvarsson & Halvarsson, a Swedish consultancy.

Strategy

The PGNiG Group strives to become an increasingly more modern organisation operating as a logically streamlined and optimised capital group, managed by objectives and project-oriented.

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The PGNiG Group strives to become an increasingly more modern organisation operating as a logically streamlined and optimised capital group, managed by objectives and project-oriented. The Group seeks opportunities for better use of the synergies and economies of scale, and aspires to become an organisation ensuring both increase in shareholder value and minimisation of the operating risk. Our product offering will be, to an increasingly greater extent, based on modern gas-related energy solutions and complementary services. Retail and business customers' satisfaction is of the greatest importance to us, therefore we place a special emphasis on the reliability and continuity of our operations.

Long-term and sustainable value growth is our key strategic objective, which requires us to ensure continuous business development on the Polish and international markets. Our sound financial standing means a more secure energy environment for Poland. Therefore, our strategic priorities include:

- To increase the scale of operations by extending the value chain, to include all; activities from exploration and production to sales and customer service;
- To secure uninterrupted supplies of natural gas to our customers;
- To create a diversified and stable portfolio of natural gas sources;
- To develop our trading activity;
- To develop our R&D activity.

Trading strategy on international markets

The PGNiG Group launched projects designed to diversify supply sources in order to become independent from natural gas supplies originating from a particular direction or a particular supplier. Our strategy is focused primarily on balancing natural gas supplies from the eastern direction with an increased volume of natural gas imports from the north and concurrent increase in domestic gas production. To create a balanced portfolio of supplies, we plan to:

- Develop new infrastructure enabling natural gas supplies to Poland (LNG terminal in Świnoujście, new connections providing access to the Norwegian reserves: participation in the Skanled consortium and construction of the Baltic Pipe);
- Ensure proper structure of the import contracts (new contracts to be diversified and reflect market conditions; variable shares of long- and short-term contracts in the portfolio; securing stable supplies of natural gas to Poland at reasonable prices).

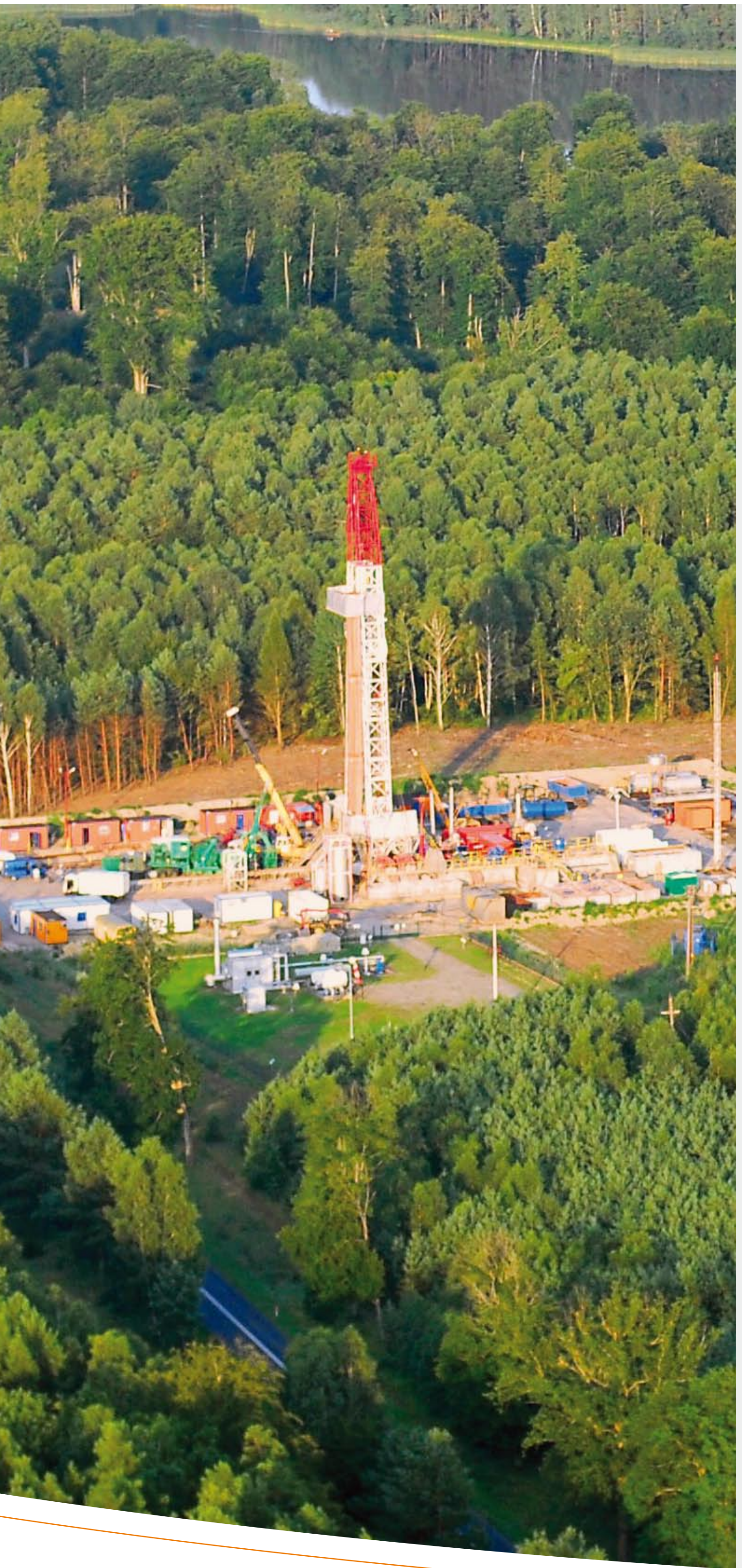
An equally important element of our international trading strategy is to start using derivative instruments in trading in hydrocarbons on commodity markets. Such international trading activities will not only offer attractive margins but will also be conducive to diversification of natural gas supply sources and risk management, thus making product offering price- competitive.

Strategy implementation

In 2007, we embarked upon a number of initiatives designed to diversify sources, directions and routes of natural gas supplies. The PGNiG Group assigned over PLN 1bn for this purpose.

In April 2007, PGNiG established Polskie LNG (PLNG), a special purpose vehicle responsible for construction and operation of an LNG terminal in Świnoujście. On January 10th 2008, PLNG executed an agreement with SNC Lavalin Services Ltd. for design of the LNG terminal.

As part of our plan to purchase reserves on the Norwegian Continental Shelf, we acquired a 12% interest in the licence covering Skarv, Snadd and Idun fields. In May 2007, we formed PGNiG Norway, our subsidiary responsible execution of this project. The Skanled gas pipeline project moved into the design stage last year, and the project's financial model was prepared. On June 20th 2007, we joined the Skanled gas pipeline construction and acquired 15% of shares in the consortium for no consideration. As part of the Baltic Pipe project, we executed a cooperation agreement with Energinet.dk, a Danish operator of transmission, energy and gas systems, and with OGP GAZ-SYSTEM SA, a Polish operator of gas transmission pipelines.



Exploration and production strategy

In order to increase the domestic natural gas and oil production capacity and to develop business internationally (i.e. to gain access to foreign reserves of natural resources), PGNiG runs a large-scale investment program which contributes to the growth of the Company value.

Domestic natural gas production is crucial not only in creating competitive pricing edge, but also in reinforcing the security of the Polish natural gas supplies. The increase in our oil production volumes mitigates the regulatory risk, and hence stabilises our financial performance. Maintenance and development of these operational areas, as well as our efficiency improvement, requires the following measures:

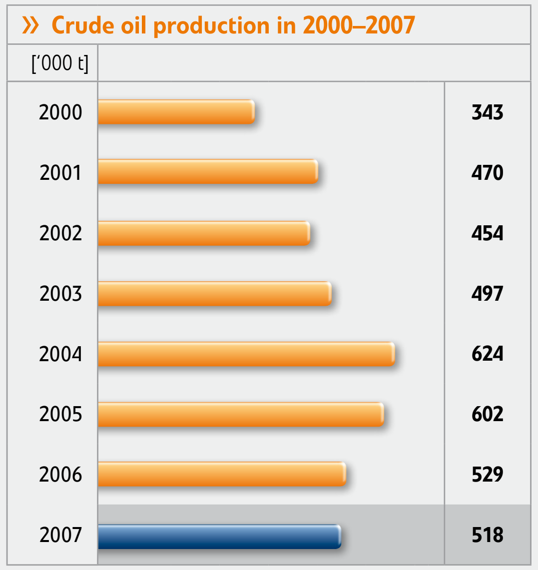
- Maintaining the domestic licence areas within the range of 45–50 thousand km² (submitting licence applications for new areas and extending the expired licences);
- Maintaining the environmental sustainability index within the range of 1.0–1.1 (performing domestic seismic surveys which enable better geological structure prospecting).

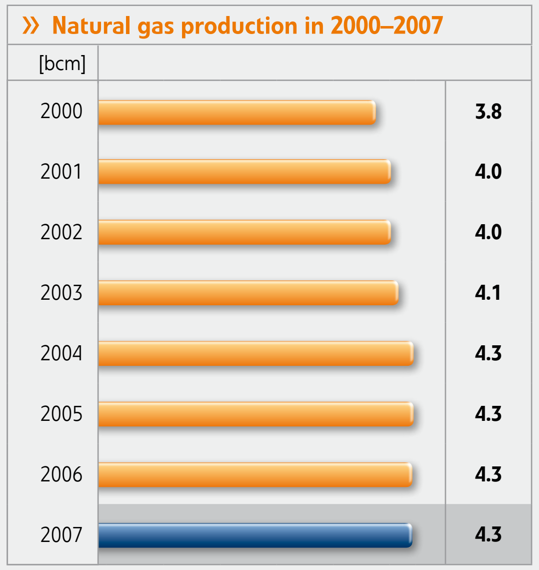
The strategy for development of our own resources involves not only increase in the domestic production volumes but also gaining access to foreign reserves and entering international markets. Accordingly, the PGNiG Group will apply for exploration and production licences in tender rounds, and form alliances with other companies, which will significantly reduce the risks of the Group's projects and facilitate our access to markets. Currently talks on acquisition of new oil assets are planned with several national oil companies. We also plan to obtain interests in licences or in other exploration and production projects directly from the companies willing to dispose of them.

Strategy implementation

In order to gain access to foreign reserves, PGNiG acquired a 12% interest in the exploration and production licence covering Skarv, Snadd and Idun fields in the North Sea. Moreover, we will continue similar activities in countries such as Libya, Algeria, Egypt, Pakistan or Denmark. It is thanks to these projects that the PGNiG Group is viewed as an active and strong partner.

The service companies within the PGNiG Group operate successfully on international markets, and the good reputation, which they have acquired, facilitates their development in both the prospected and in new areas. Apart from the acquisition of licences on the Norwegian Continental Shelf, in 2007 we also operated in Libya (where we won a tender for an exploration licence covering the Murzuq oil basin) and in Egypt (where won a tender for a Bahariya licence). As part of our strategy for increasing domestic natural gas production volumes, last year we developed Jasionka I (stage I) natural gas reservoir and connected OZG Jasionka I Stobiernia-Terliczka by transmission pipeline. Moreover, a total of 52 thousand metres of drillings was performed on 31 boreholes across Poland. In 2007, the expenditure on domestic and foreign exploration work totalled PLN 477m.





Storage strategy

The PGNiG Group is the leading company on the natural gas market in Poland and owns all domestic storage facilities connected to the gas distribution system. The current storage capacities allow the Group to store only natural gas reserves that can be used in case of short disruptions of supplies or to balance seasonal demand peaks. In order to fully meet the needs connected with abnormal peak growth, the storage capacity needs to be extended.

Extension of underground storage facilities will increase safety and ensure continuity of supplies to customers, which plays an important role in building our reliability as a supplier, and is one of the key drivers of our competitive advantage on the natural gas market. Extended facilities will also enable us to observe the regulatory requirements related to the mandatory reserves of natural gas held in storage.

The aggregate working storage capacity of the facilities in Poland amounts to approx. 1.66 billion cu. m. The storage facilities for high-methane gas are estimated to be extended to hold additional 0.9 billion cu. m (up to approx. 2.6 billion cu. m) by 2012. This project will allow us to comply with the Act on Reserves of Crude Oil, Petroleum Products and Natural Gas, as well as Rules of procedure to be followed when the state's fuel security is threatened or the petroleum market is disturbed. The aggregate storage capacity (including the nitrogen-rich gas facilities) will be 2.8 billion cu. m.

The extension projects are aligned with the strategy of ensuring Poland's energy security, as well as with other programmes carried out at the national and the Community levels. They also fit in the operational programme Infrastructure and Environment for 2007–2013, and National Strategic Reference Framework for 2007–2013 (National Coherence Strategy), Poland's energy policy by 2025, and the Lisbon Strategy. Therefore, the PGNiG Group has taken steps designed to source EU funds to finance these projects.

The estimated cost of extending the storage capacities by 2012 will amount to approx. PLN 2bn.

Strategy implementation

In 2007, implementation of the strategy of increasing storage capacities included modernisation of the surface infrastructure at the Swarzów facility as well as work aimed at increasing the working capacity of the facilities in Wierzchowice, Mogilno and Strachocina. In Kosakowo we commenced preparation for construction of underground storage facilities, and the work included cavern leaching, systems assembly and connection of the facility to the grid. In 2007, the total capital expenditure related to underground storage facilities was PLN 61.2m.

Distribution strategy

The Distribution System Operators' priority related to capital expenditure will include optimised development of the distribution network through connection of new clients. By rolling out the gas distribution systems to municipalities adjacent to the transmission and distribution networks, we will increase the network's density thus enhancing our ability to supply gas to new locations. Market research into investment attractiveness of several geographical regions will be conducted prior to these activities.

We are able to source EU funds for extension of the distribution infrastructure as part of the Operational Programme Infrastructure and Environment. In order to use the funds effectively, the Distribution System Operators will actively participate in preparation of projects conducted by local governments, which involve system rollout or extension of the existing distribution network in areas with significant potential for gas consumption.

Another strategic objective in the area of distribution is to secure continuity and growth of service-generated revenue streams. This activity is regulated and includes long-term investments; therefore appropriate mechanisms must be created to guarantee stable revenue growth.

Distribution plays an important role in building the value of the PGNiG Group. Therefore, the Distribution System Operators cannot concentrate on growing sales alone as they also need to optimise costs while maintaining the quality standard of gas supplies. To this effect, the network assets must be managed effectively, and the following systems must be implemented: an integrated ISO-compliant system for managing quality, environment, and health and safety at workplace, an integrated billing system (both at DSOs and the Trading Division), and a system for weather risk management.

Strategy implementation

The year 2007 was a break-through year for the Distribution segment. The legal separation of gas trading from distribution resulted in the spin-off of Distribution System Operators. As a consequence, the segment became an independent business division. Each of the six distribution companies was assigned responsibilities and operational tasks. This is fundamental for implementation of the strategy.

Sales strategy

Future selling activities are an important part of our strategy. To be able to maintain its dominating position on the market, the Company must increase the number of its customers, divide the customer group into segments, and build lasting relations with its clients.

Alliances with companies operating in the electrical power engineering sector will help increase the number of customers, both individual and institutional. This objective will also be fulfilled by supplying gas to new regions of Poland, where we have not operated before, and by using new ways and methods of gas transmission, such as virtual gas pipelines. They offer possibilities of supplying gas to customers who are not connected to the distribution network with liquefied natural gas (LNG) by rail or road transport.

The customer segmentation based on modern principles will help us identify the most valuable groups of customers offering best business prospects. This will also facilitate development of an appropriate product and service offering tailored to the needs of particular customer groups. Customers are assigned to segments based on advanced assessment criteria, such as volume of gas supplies, balanced demand, seasonality, profitability, attractiveness of the sector, development prospects and sensitivity to competitors' offerings.

Our selling activities will also profit from continuous improvement of relations with clients. The most important tasks of our sales staff include identification of clients' individual needs and flexible structuring of tailored-made offerings. Within this framework, we are currently working of customer service standardisation, the most important objective being to build lasting relationship with the clients in the most attractive sectors.

The product offering is to be upgraded to meet the growing needs of our customers. This will additionally reduce our operating risks. The PGNiG Group derives a large portion of its revenue from sales of gas and related services regulated by the Energy Laboratory Office. Expansion into new non-regulated segments will generate additional value for PGNiG help reduce the risks involved. An enhanced requires calls for a new sales policy, reflecting the contemporary approach to customers, products and services.

Strategy implementation

As part of the strategy implementation, our organisation was restructured in 2007. The Gas Companies were transformed into Distribution System Operators, which resulted in concentration of retail sales in a single entity. This positively affected the customer service quality and standardisation.

Operating risks

The most important identified types of risks the PGNiG Group faces are regulatory risk, market and currency risk, risk of delayed exploratory work, risk of delayed projects, and risk related to estimation of capital expenditure.

Regulatory risk

The key tariff risk relates to the inadequacy of secondary legislation to the current primary acts concerning the Polish gas market. Such a situation occurred at the turn of 2007, when the lack of a tariff regulation adjusted to the amended Polish Energy Law delayed the proceedings related to the approval of Gaseous Fuel Tariff No.1/2008.

In 2008, further amendments may be made to the legal acts regulating operation of the gas sector. These amendments will be made, first and foremost, to the Polish Energy Law in terms of specific conditions under which the gas system operates. Once the amended Law enters into force, the tariff regulation will need to be amended again.

Market and currency risk

Prices of imported gas are determined in the U.S. dollar or the euro, and are based on indexation formulae reflecting the prices of petroleum products. Changes in foreign exchange rates and prices of petroleum products materially affect acquisition cost of imported gas. The market of crude oil and petroleum products has recently been to a large extent unpredictable, given the continual price changes. Material changes in fuel prices on the international markets affect the prices of imported gas. Therefore, accurate forecast of gas prices is encumbered with a substantial risk of error.

Risk of delayed exploratory work

Under the currently binding legal regulations, obtaining licences for exploration and prospecting of crude oil and natural gas deposits takes from one to one and a half years. Moreover, prior to the commencement of field work, it is necessary to obtain formal and legal permits and approvals for entering the area, to meet environmental protection-related requirements and to abide by the regulations governing tenders for a work contractor. Another several months pass before an agreement with the work contractor is signed. These factors create the risk of delayed exploratory work.

Risk of growing cost of exploration

Exploratory work is capital consuming, given the prices of energy carriers and materials. Cost of exploratory work is especially sensitive to fluctuation of steel prices, which are passed on prices of casing pipes and lifting casing used in drilling. An increase in prices of energy and materials also translates into an increase in the cost of exploratory work.

Risk of delayed investment projects

Investment work is substantially delayed by formal and legal issues beyond control of PGNiG which relate to the lack of land development plans approved by local administrative authorities. It is also delayed by problems of incorporating such investments into such plans and by difficulties with receiving administrative and other decisions. Moreover, the obligation to comply with the Public Procurement Act frequently protracts the tender procedure. Appeals and complaints filed by bidders lead to long-lasting court proceedings and, consequently, to delays in executing investment projects.

Risk related to estimation of capital expenditure

A protracted investment process exacerbates the risk related to estimation of capital expenditure. A variety of factors, such as price fluctuations of raw and production materials (notably steel), necessity to comply with the requirements regarding safety of individuals and property as well as environmental protection (Natura 2000), unforeseeable circumstances and market competition, may cause the estimated capital expenditure amounts to materially deviate from the original assumptions contained in the investment plan. Furthermore, major price hikes necessitate amendments to the agreements executed with contractors, which is yet another source of delay

Risk of loss of highly qualified personnel

The presence of foreign companies on the Polish market intensified the companies' takeover of highly qualified employees with vast professional experience. This risk is especially high with respect to professionals specialised in the exploration of natural gas and crude oil deposits.

Regulatory environment

The PGNiG Group's activities are regulated by the following laws:

- Polish Energy Law of April 10th 1997 (Dz. U. of 2003, No. 153, item 1504, as amended) – with respect to the activities in the area of trade in gaseous fuels, gas distribution and storage of gaseous fuels;
- Act on Reserves of Crude Oil, Petroleum Products and Natural Gas, as well as Rules of procedure to be followed when the state's fuel security is threatened or the petroleum market is disturbed, dated February 16th 2007 (Dz. U. of 2007, No. 52, item 343);
- with respect to the activities in the area of international trade in natural gas;
- Polish Geological and Mining Law of February 4th 1994 (Dz. U. of 1994, No. 27, item 96, as amended) – with respect to production activities and related sales of gas.

Business activities involving exploration and prospecting for mineral reserves, extraction of minerals from reserves, tankless storage of substances and storage of waste matter in rock mass, including in worked-out caverns, require licences from the Ministry of Natural Environment.

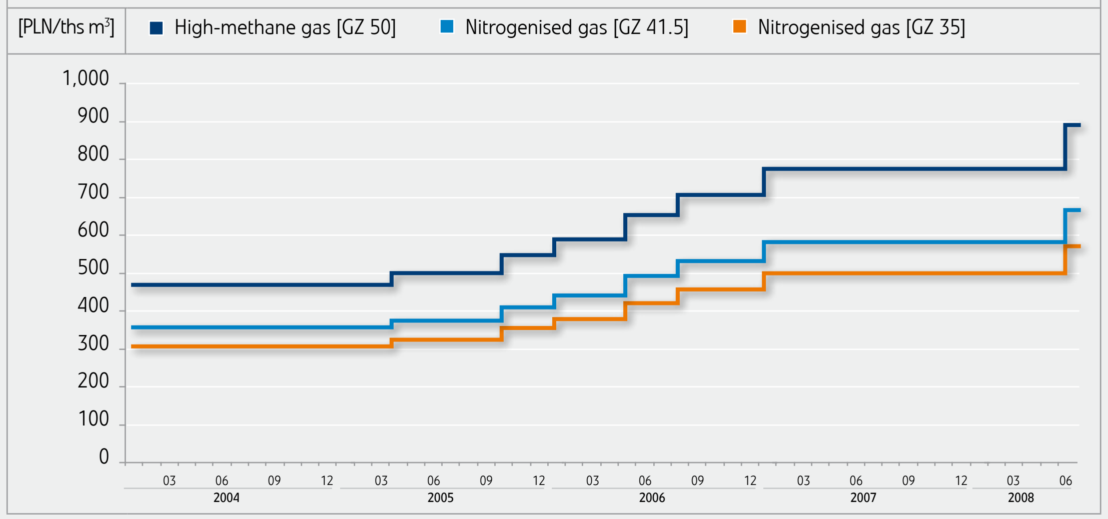
As at December 31st 2007, PGNiG held:

- 67 licences for exploration and prospecting for crude oil and natural gas reserves;
- 213 licences for production of crude oil and natural gas from reserves;
- 8 licences for underground gas storage (UGS);
- 4 licences for waste matter storage.

Tariff policy

The natural gas market in Poland is regulated by the Energy Regulatory Office. The regulation principally consists in determination of tariffs, and the tariff prices are crucial for our ability to generate revenue that can cover the incurred justified costs plus return on capital employed. For this reason, a key objective of the PGNiG Group's pricing policy is to make our revenue independent of these regulations. Currently, this revenue depends on regulated selling prices of gaseous fuels. The gas prices are officially regulated and directly connected with the applied tariff preparation methodology. The rules for determination of tariffs are stipulated in secondary legislation to the Polish Energy Law, and especially in the Tariff Regulation.

» Gaseous fuel wholesale tariff of PGNiG



The applied tariff preparation methodology is based on determination of prices and charge rates against forecast costs and gas sales targets, with the calculation of prices of gaseous fuels including the cost of acquisition of natural gas from all possible sources, that is of both imported and domestically produced gas. In practice this means that both international trade and domestic production are subject to regulated pricing. Given that the current prices of imported gas are higher than those of domestically produced gas, the inclusion of production cost for gas from domestic sources in the cost basket, taken into account in pricing, resulted in a situation where the tariff prices (applicable in settlements with customers) were determined below the level that would have been set based on the cost of acquisition of imported gas.

In 2007, settlements with customers were made according to Tariff No. 4 for Gaseous Fuels approved by the President of Energy Regulatory Office on March 17th 2006. By virtue of a decision of December 15th 2006, the Tariff was extended until March 31st 2007, and new prices of gaseous fuels were approved. Following the tariff changes effected as at January 1st 2007, the prices of gaseous fuels increased by 9.9%. By virtue of another decision issued in March 2007, the Tariff was extended until September 30th 2007. As it was reasonable to set new tariffs upon completion of the process of integration of trading business and enactment of secondary legislation to the current Polish Energy Law, PGNiG applied for another extension of the Tariff until the end of 2007. By virtue of a decision of August 17th 2007, the Company's application was approved.

On November 14th 2007, PGNiG applied to the President of Energy Regulatory Office for approval of the Gaseous Fuel Tariff No. 1/2008 for the period from January 1st 2008 to March 31st 2008. The tariff approval process commenced as late as February 20th 2008, only after the new Regulation of the Minister of Economy on detailed rules of tariff structuring and calculation and on settlements in gaseous fuels trade, dated February 6th 2008, took effect. On the same date, that is February 20th 2008, we amended the application in order to bring it to compliance with the new Tariff regulation. The amendment included a request for change of the term of the Tariff. On April 10th 2008, the President of Energy Regulatory Office approved the Gaseous Fuel Tariff No. 1/2008. Accordingly, the wholesale price of gaseous fuel increased by 15.34% as of April 25th 2008. With the transmission charge for gas transmission over the SGT EuRoPol GAZ networks included (currently, theses charges are included in the wholesale price of gaseous fuel), the tariff price of high-methane gas increased on average by 14.3%.

Gaseous Fuel Tariff No. 1/2008 of Polskie Górnictwo Naftowe i Gazownictwo SA, which, since October 1st 2007, has been supplying gaseous fuels under comprehensive agreements for supply of gaseous fuel to customers, from both transmission and distribution systems, includes:

- price of gaseous fuel (including cost of gas transmission over SGT EuRoPol GAZ networks);
- subscription charge for customer service;
- network charge for fuel transport;
- charge for storage of high-methane gas.

Exploration and Production

In the Exploration and Production segment, we conduct geophysical and geological research, exploration of and production from reserves, and preparation of products for sale.

Exploration and Production

Production of natural gas and crude oil

Our presence in the gas and oil production segment makes us a competitive player on the liberalised gas market. A portion of the gas we sell is produced at costs lower than the prices of imported gas. Thus, we may to a certain degree stave off the effects of rises in imported gas prices, driven by growing prices of oil derivatives to which underlie gas prices are index.

Two of our branches, the Zielona Góra Branch and Sanok Branch, carry out production of natural gas and crude oil in Poland.

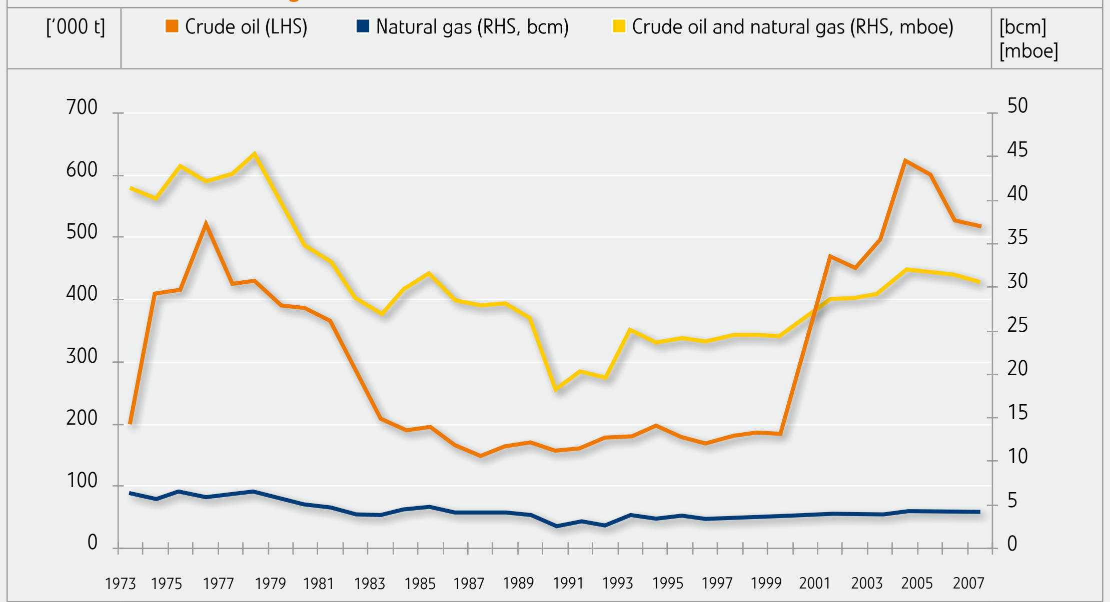
In 2007 (like in 2006), the PGNiG Group produced a total of 4.3 billion cu. m of natural gas (high-methane equivalent) – 2.4 billion cu. m was produced by the Zielona Góra Branch, and 1.9 billion cu. m by the Sanok Branch. The total volume of the gas produced split into 2.8 billion cu. m high-methane gas and 1.5 billion cu. m nitrogen-rich gas (compared with 2.9 billion cu. m and 1.4 billion cu. m in 2006, respectively).

The Zielona Góra Branch produces nitrogen-rich natural gas at 26 mines (including 16 gas mines and 10 oil and gas mines), while the Sanok Branch produces high-methane natural gas at 47 mines (including 25 gas mines, and 22 oil and gas mines). Nitrogen-rich gas produced from the mines in the Poznań, Zielona Góra or Wrocław regions is then processed in the Odolanów nitrogen removal facility. This is where we treat low-methane natural gas using a technology based on cryogenic processes. By removing nitrogen, we produce high-methane gas, LNG, LPG, gaseous and liquid helium, and liquid nitrogen.

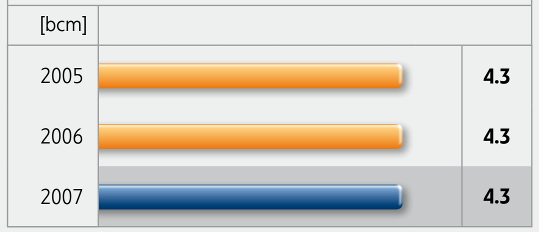
Natural gas is produced mainly by the Zielona Góra Branch at five mines (in Góra, Grodzisk Wielkopolski, Gorzów Wielkopolski, Karlino and Ostrów Wielkopolski) located in five different provinces. This branch produces from 25 oil reserves, of which the largest is the Barnówko-Mostno-Buszewo reserve (BMB), near Gorzów, and the smaller ones include Kosarzyn, Zielin or Buk. The total oil output in 2007 was 518 thousand tonnes, of which 472 thousand tonnes were attributable to the Zielona Góra Branch, and 46 thousand tonnes to the Sanok Branch. Compared with 2006, oil production dropped by 2%, from 529 thousand tonnes (in 2005, it was 602 thousand tonnes). The decline was an effect of natural decrease in production dynamics caused by development of new and depletion of the existing reserves. PGNiG plans to increase its oil output by developing and starting production from the Lubiatów-Międzychód-Grotów reserves (LMG), which should help raise the annual production volume to 1.1m tonnes.

Twelve boreholes were placed in operation in 2007. The ones located on the deposits in Żołynia, Kańczuga, Jasionka (stage 1–7 boreholes), Przemyśl and Radlin increased the natural gas production capacity by c.a. 600 cu. m per minute, and the borehole on the Buszewo deposit increased the oil production capacity by 70 tonnes per day.

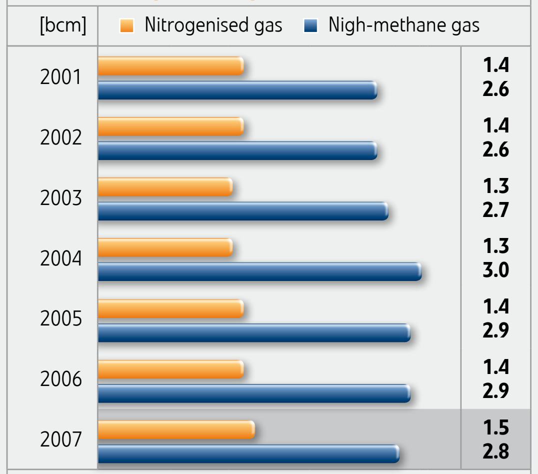
» Production of natural gas and crude oil in 1973–2007



» Production of natural gas in 2005–2007

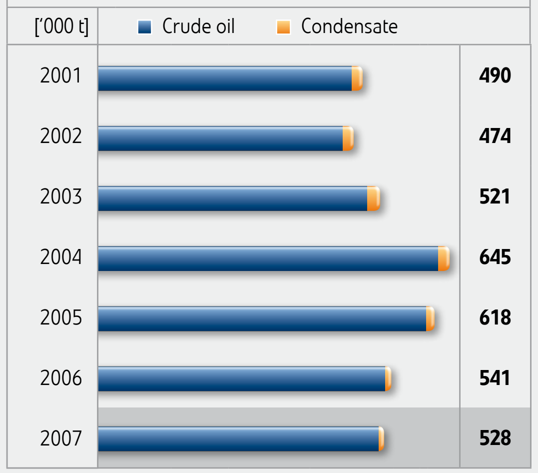


» Production of high-methane and nitrogen-rich gas in 2001–2007



Including the production of the Odolanów Nitrogen Removal Facility.

» Production of crude oil and condensate in 2001–20077



Non-regulated sales of gas and oil

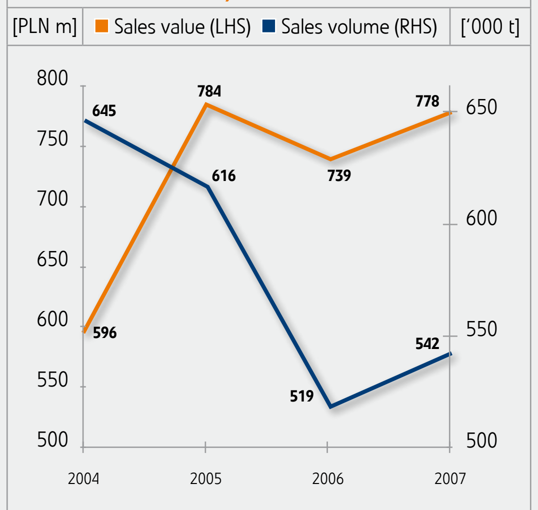
Our activities within the Exploration and Production segment include non-regulated sales of crude oil and natural gas. The oil is sold vie two main channels:

» to foreign customers, where it is delivered via pipelines under annually renewable contracts – 53% of total sales;
» to customers in Poland, where it is delivered by road tankers and railway tank cars – 47% of total sales.

We export oil (the "Druzhba" pipeline) to our major customers, namely Shell International Trading and Shipping Company Limited and BP Oil International Ltd. Most of the oil sold domestically is delivered to the ORLEN Group (the refineries in Płock, Jedlicze and Trzebinia). The rest is sold to local and direct customers of the production branches.

In 2007, our revenues on sales of crude oil and condensate went up by 4.6% year on year, to PLN 780m. The increase is an effect of higher sales volumes and rising oil prices on the international market. At the same time, the strengthening of the złoty against the U.S. dollar eroded the revenues (the selling price is computed in the U.S. dollar). In 2007, we sold a total of 542 thousand tonnes of crude oil and condensate, which represents a 4.4% increase on 2006 (519 thousand tonnes).

» Crude oil sales in 2004–2007 (in volume and value terms)



Non-regulated sales of gas are made by way of direct deliveries from our deposits (rather than via the transmission system). The sales transactions are executed on free-market terms, and the terms of delivery (including the gas price) are each time individually agreed upon with the customers and vary on a case-by-case basis. Direct sales of gas are not covered by the tariffs approved by the Energy Regulatory Authority.

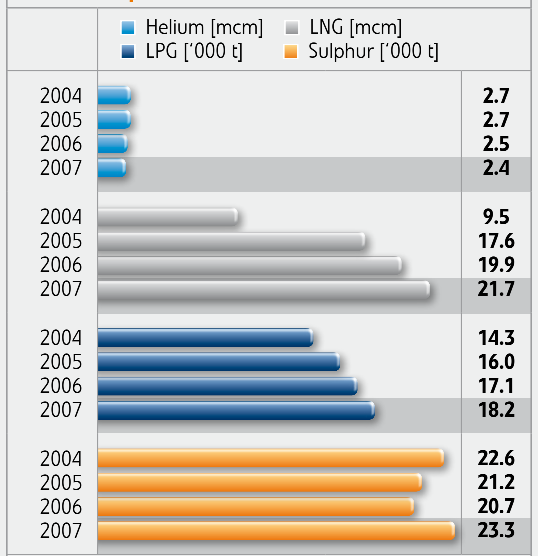
In 2007, we sold directly from our deposits 630 million cu. m of gas (high-methane equivalent), i.e. 11.3% more than in 2006. Direct sales represented 5.0% of total natural gas sales. The main type of gas sold in this way was nitrogen-rich gas bought by large customers, such as the Zielona Góra or Gorzów Wielkopolski CHP plants, Zakłady Azotowe in Tarnów-Mościce, or Arctic Paper Kostrzyń. Sales of high-methane gas outside the transmission system concentrate in south-eastern Poland. They are made mainly to small and medium-sized customers who are located close to the mines and do not have access to the transmission or distribution system.

Direct sales enable us to economically use deposits of gas which does not meet the quality standards of gas sold via networks and to attract customers who otherwise could not be served for technical or economic reasons.

Production of helium, LNG and LPG

By-products of the gas production and nitrogen removal process include sulphur, propane-butane (LPG), (gaseous and liquid) helium, and LNG. The last one is a relative novelty on the Polish market – we launched it in 2002. Since then, the LNG production volume has risen by 505% – from 3.6 million cu. m to 21.7 million cu. m (high-methane equivalent). The production volumes of sulphur and LPG go up every year.

» Production volume of helium, LNG*, LPG and sulphur in 2005–2007

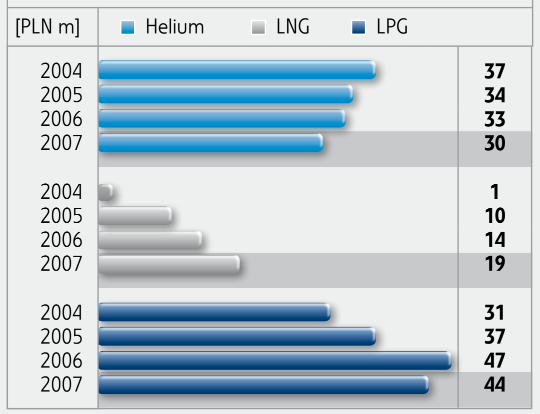


As equivalent of high-methane natural gas in normal conditions.

Sales of other products

Besides the non-regulated sales of natural gas and crude oil, we sell other products, namely helium, LNG and LPG. In 2007, revenues derived from such transactions went up by 14% year on year. However, this did not materially affect revenues of the entire PGNiG Group because these products represent only a marginal portion of total sales.

» Sales value of helium, LPG and LNG in 2004–2007

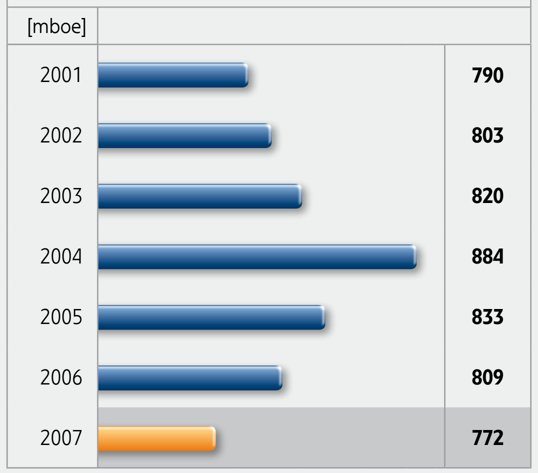


Reserves

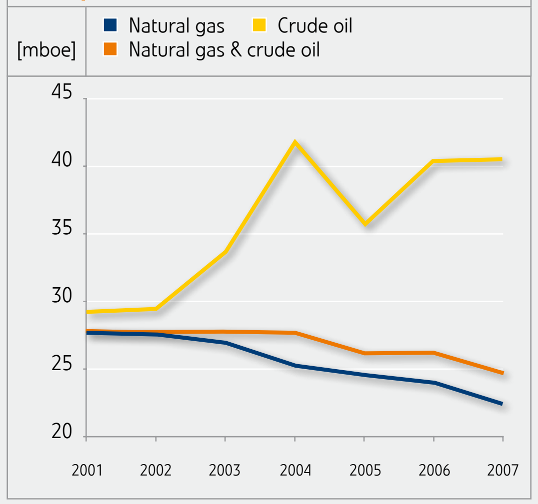
As at the end of 2007, the documented reserves of natural gas amounted to 98 billion cu. m (high-methane equivalent), while the reserves of crude oil were estimated at 21.2 million tonnes. The size of the reserves was favourably assessed by the Mineral Reserves Commission and approved by the Minister of Environment. Our total reserves, expressed as barrel of oil equivalent, were 772 million at the end of 2007.

In 2007, the reserves decreased by 3% year on year, driving down the reserve/production ratio from 25.8 in 2006 to 25.1. This means that with the current level of crude oil and natural gas production (excluding newly discovered resources), the reserves will be sufficient for 25 years of production. Over the same period, the crude oil reserves/production ratio rose by 9.3%, to 40.1.

» Reserves of gas and crude oil as barrel of oil equivalent in 2001–2007



» Ratios of gas, oil and gas & oil reserves to production volumes in 2001–2007

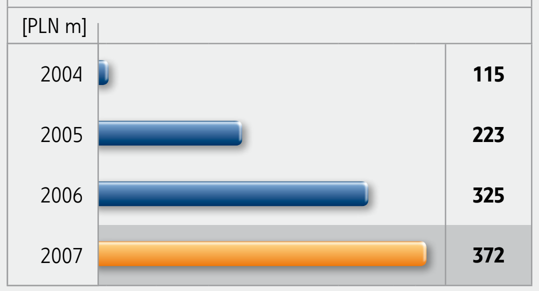


Exploration work and geophysical prospecting in Poland and abroad

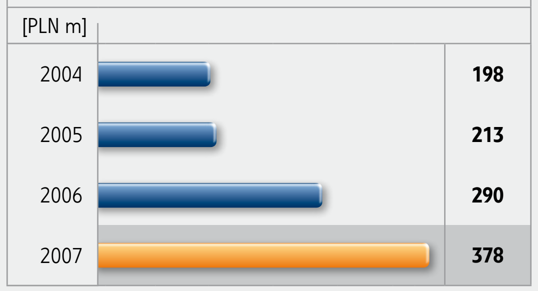
The PGNiG Group conducts exploration and prospecting work domestically and abroad. Its work in that area involves mainly exploration of geological structures for hydrocarbon reserves in the form of natural gas and crude oil. The exploration and prospecting of reserves comprise a study of historical data, geological analyses, as well as geophysical and drilling research. The work is conducted by PGNiG and the PGNiG Group's exploration and geophysical and geological service subsidiaries.

Carpathian Foreland and the Polish Lowlands. In total, 52 081 metres of drilling was done in 31 wells, of which 25 were exploration wells and six were appraisal wells. In four of the wells, drilling commenced in 2006 was continued. By the end of 2007, 24 wells had been drilled and tested. Sixteen wells were drilled with positive results (13 wells flowed gas and three wells flowed oil at commercial rates). Additionally, 1.6 thousand km of 2D seismic and 600 km^2 of 3D seismic were acquired in the area.

» PGNiG Group's revenue from geophysical and geological services in 2004–2007



» PGNiG Group's revenue from exploration services in 2004–2007



In 2007, the exploration and prospecting work (including geophysical surveying) carried out by the PGNiG Group companies was focused in three areas of Poland: the Carpathian Mountains, the

As a result of the exploration and prospecting work, PGNiG's producing reserves increased as follows:

- natural gas reserves – by 2.8 billion cu. m (high-methane gas equivalent);
- crude oil reserves – by 360 thousand tonnes.

Currently, we are also involved in various exploration and geophysical projects outside of Poland. In the Kirthar Block in Pakistan, we conducted exploration work jointly with Pakistan Petroleum Ltd. (we hold a 70% working interest in the block, while the Pakistani company holds the remaining 30%). In 2007, seismic data acquisition was completed in the area – with 161.7 km of 2D seismic shot. Based on the findings of the geological and geophysical surveys, it was decided that an exploration well in the southern part of the block will be drilled. The project is scheduled to commence in 2008.

In 2007, the exploration companies were also actively trying to acquire new exploration and licence areas. As a consequence, in January 2007 a memorandum of understanding concerning potential cooperation in the exploration and production of hydrocarbons in India, Egypt and Yemen was concluded with India's Gujart State Petroleum Company. Following a tender process, in mid-2007 we were awarded operatorship of new licence areas located in Libya and obtained the right to execute an Exploration and Production Sparing Agreement (EPSA) which defines the manner of conducting exploration and production work covered by the licence for Block 113. In February 2008, PGNiG Finance BV was transformed – for the purposes of the Libyan project – into POGC Libya BV, a company with an entirely different business profile.

December 2007 saw the conclusion of an agreement concerning transfer to PGNiG of a 40% interest in licence 1/05 located in mainland Denmark from the Danish company Willumsen Exploration Consultants Aps. The remaining interest in the licence is held by Odin Energi A/S (40%) and the Danish government-controlled company Nordsofonden (20%). The project is scheduled to commence in 2008.

The year 2007 witnessed the finalisation of purchase of a 15% working interest in three licence areas, covering the Skarv and Snadd fields on the Norwegian Continental Shelf, from Mobil Development Norway A/S and ExxonMobil Production Norway Inc. Following unitisation of the two fields with the Idun field, our interest in the expanded exploration and production area approximates 12%.

The PGNiG Group's involvement in the project on the Norwegian Continental Shelf is in line with our strategy designed to increase the reserves of crude oil and natural gas outside of Poland. Acquisition of interests in the exploration and production licences in Norway is a long-term investment meant to ensure diversified sources of natural gas supplies and, thereby, to increase the security of gas supplies to Poland.

In December 2007, upon approval of the field development plan by the Norwegian parliament, the implementation phase of the project formally commenced. Gas and oil production is due to be launched in the second half of 2011. Based on data approved by the Norwegian Petroleum Directorate, aggregate proved reserves of all the fields, corresponding to the interest in the licence acquired from ExxonMobil Production Norway Inc, are estimated at some 392 mboe, including:

- 239 mboe of natural gas (37.9 billion cu. m);
- 110 mboe of crude oil and condensate (15 million tonnes);
- 43 mboe of NGL (5.3 million tonnes).

The fields have significant exploration potential, estimated at 360 mboe (especially in the northern areas of the Snadd and Idun fields).

The fields are operated directly by BP Norge and indirectly by its partners – E.ON Ruhrgas Norge (purchase of an interest from Shell in August 2007) and StatoilHydro.

Investment projects – development of reserves

Our natural gas and crude oil production capacity can be expanded in two ways – by developing new reserves or by stepping up the productivity of its existing mines. In 2007, we were carrying out the following investment projects:

Project: Stobierna, Terliczka, Jasionka, Trzebowisko

The gas fields are being developed with a view to supplying high-methane gas to the national gas distribution system. Two tasks undertaken as part of the project were completed in 2006: development of the Stobierna-Terliczka fields and development of the Trzebowisko 3 field. 2007 saw the development of the Jasionka I gas field (stage I), as well as construction of a gas transmission pipeline connecting OZG Jasionka I with the Stobierna-Terliczka fields. The production rate of high-methane gas from the field has reached 150 million cu. m. The project is expected to be completed in 2009, together with development of the Jasionka I gas field (stage II). Total expenditure incurred on the project by the end of 2007 amounted to PLN 73m.

Project: Barnówko-Mostno-Buszewo (BMB)

The aim of the project is to maintain oil production rates from the reserves exploited since 2000 at current levels, while allowing the Company to achieve incremental production rates from new reserves which are just beginning to produce. Additional work, which proved necessary due to changes of the geological conditions of the fields, led to an increase in total expenditure on the project, which has reached approx. PLN 120m, of which PLN 82m was spent in 2007.

Project: Lubiatów-Międzychód-Grotów (LMG)

The objective of the project is to develop the Lubiatów-Międzychód-Grotów reserves of crude oil and natural gas and to facilitate transport, storage and sale of crude oil, natural gas, sulphur and liquefied petroleum gas (LPG) from the LMG petroleum mine. The project comprises construction of the LMG Central Facility (a hub for collection, distribution and treatment of reservoir fluids), construction of a dispatch terminal (to support collection, shipment in rail tank cars and sale of crude oil in the daily amount of 1.5 thousand tonnes, and to handle the pumping of crude oil to the PERN Druzhba Pipeline at the hourly rate of 800–1,100 cu. m), as well as construction of a gas pipeline to the nitrogen removal facility in Grodzisk. The total value of the project is approx. PLN 743m. The LMG field reserves are estimated at 8.1 million tonnes of crude oil (60 mboe) and 7.4 million cu. m of natural gas (47 mboe). The LMG project implementation is key to achieving the target crude production rate of 1.1 million tonnes.

In 2006, the Regional Court of Warsaw issued an order cancelling the tender process for development of the LMG reserves – which caused a delay in the project execution. In March 2008, two contractors submitted their bids, which are currently being evaluated by the tender panel.

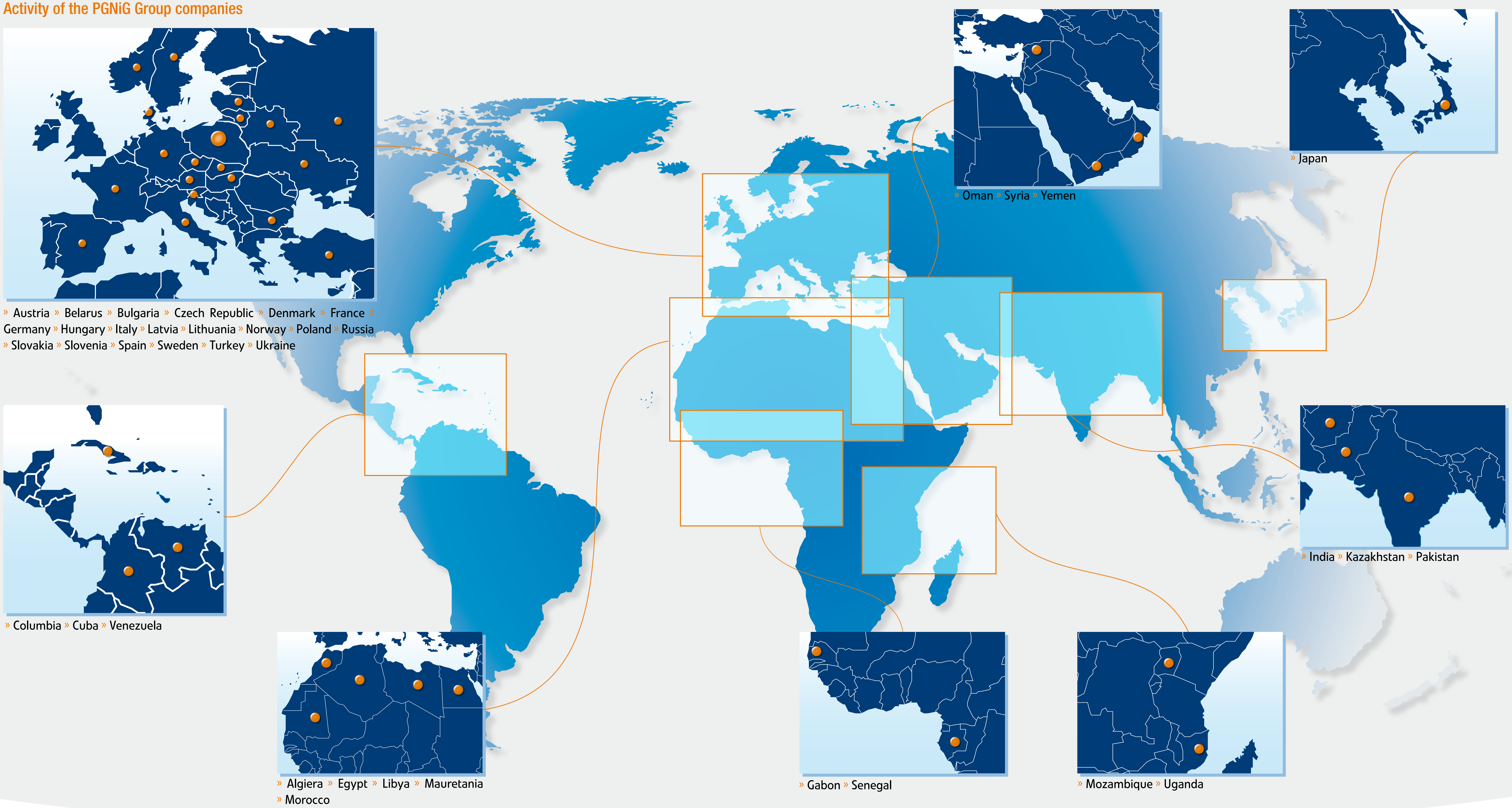
Project: Grodzisk Wielkopolski

The aim of the project is to enable the sale of gas from nitrogen-rich reserves after it has been processed to be of uniform composition – consistent with the properties of high-methane gas. The nitrogen removal facility to be constructed near Grodzisk Wielkopolski is aimed to intensify production of nitrogen-rich gas at the existing mines and from deposits intended for development, while ensuring that the scale of nitrogen-rich gas production is well-balanced between winter and summer months.

The project comprises development of the Wielichowo, Ruchocice, Jabłonna and Paproć gas fields, modernisation of KGZ Paproć (a natural gas mine), construction of the Przyłęk-KGZ Paproć gas pipeline, extension of the gas mixing plant and construction of the nitrogen removal facility in Grodzisk. The project is scheduled to be completed in 2010. The capital expenditure incurred on the project in 2007 was PLN 79m, while its total value is estimated to be in the region of PLN 380m.

In September 2006, PGNiG concluded a contract with PBG SA, providing for construction of the nitrogen removal facility in Grodzisk – an industrial unit used to remove nitrogen from nitrogen-rich natural gas. Its hourly processing capacity will be around 35 thousand cu. m.

Activity of the PGNiG Group companies



Trade and Storage

Our activities in the Trade and Storage segment comprise sales of imported natural gas and natural gas produced from the domestic reserves, as well as storage of gas.

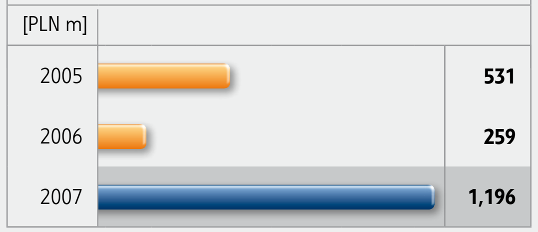
Trade and Storage

PGNiG is the largest Polish importer of gas under long-term contracts from Russia, from the countries of Central Asia (Turkmenistan and Uzbekistan) as well as from Germany, Ukraine and the Czech Republic. In 2007, imports totalled 9.3 billion cu. m (10.0 billion cu. m in 2006) and accounted for 68% of PGNiG's supplies of natural gas.

In 2007, our portfolio of gas import contracts included:

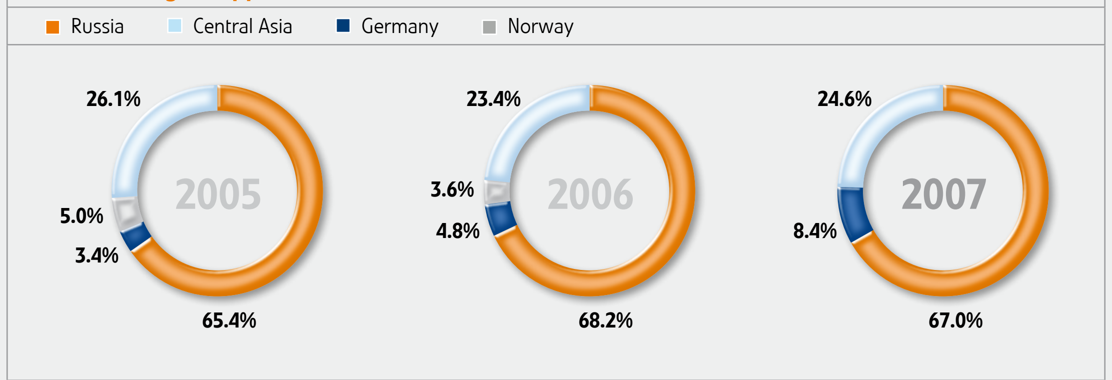
» Long-term contract (in force until 2022) for supplies of gas from Russia, with OOO Gazexport (which on November 1st 2006 changed its name into OOO Gazprom Export), dated September 25th 1996, referred to as the Yamal contract;
» Contract for imports of gas executed with VNG-Verbundnetz GAS AG, dated August 17th 2006, which will remain in force until October 1st 2016;
» Contract for sales of natural gas executed with VNG-Verbundnetz GAS AG/E.ON Ruhrgas AG, dated September 15th 2004, which will remain in force until September 30th 2008;
» Contract for sales of natural gas executed with RosUkrEnergo AG, dated November 17th 2006, which will remain in force until January 1st 2010 and may be extended for two years.

» Operating profit of the Trade and Storage segment in 2005–2007



In Q1 2007, PGNiG and DONG Energy A/S signed a Protocol, in which they expressed intention to continue their cooperation. In their future cooperation, the parties will take into account the European gas markets environment, and will carry out infrastructural projects in the Baltic Sea basin to ensure security of supplies. Moreover, PGNiG and Total E&P Norge A/S signed the General Terms of Natural Gas Sales, which act as a framework agreement and provide basis for execution of natural gas supply contracts. Under the General Terms of Natural Gas Sales, PGNiG is granted access to Norwegian gas terminals in Europe, thus being able to purchase natural gas in the periods of greater demand for the product and resell the surplus, if any.

» Sources of gas supplies in 2005–2007



The pie chart not include import of gas from Czech Republic and Ukraine as of small volume of gas imported from those countries.

Gas transmission

In Poland, two types of gas with different composition and parameters are transmitted via the gas transmission network:

» high-methane gas – with a nominal calorific value of 34.0 MJ/m³;
» nitrogen-rich gas – with a nominal calorific value 26.0 MJ/m³.

The high-methane natural gas transmission networks is used for collection of imported gas, gas from southern Poland as well as gas derived from the nitrogen-rich gas at the Odolanów Branch produced from the reserves in western Poland. The nitrogen-rich natural gas transmission networks serve to route the gas from the domestic reserves located in Polish Lowlands.

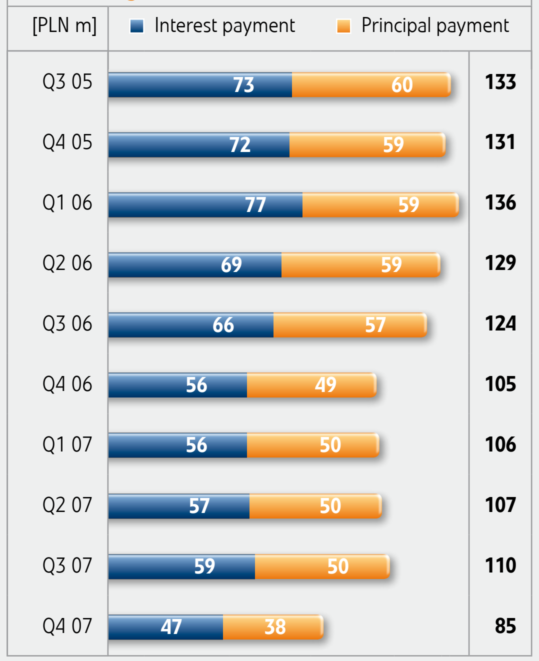
In Poland, gas transmission services are provided by OGP GAZ-SYSTEM SA. In 2005, PGNiG and OGP GAZ-SYSTEM SA executed a long-term operating lease agreement, whereby we are obliged to gradually sell certain components of the transmission network to OGP GAZ-SYSTEM SA. The agreement remains in force until 2022 (interest rates based on 3M WIBOR plus margin).

In July 2007, we executed an annex to the agreement whereby the distribution assets, whose total value amounts to PLN 852m, were excluded from the lease (in accordance with the Natural Gas Industry Policy of March 20th 2007 adopted by the Council of Ministers, aimed to enhance efficiency of the transmission and distribution networks). In line with the policy, the currently leased gas system had to be divided into transmission and distribution components, and subsequently, following the exclusion of distribution assets from lease, the gas system was transferred for use by the distribution system operators.

On October 1st 2007, PGNiG and OGP GAZ-SYSTEM SA entered into further two transmission agreements, one of which contemplates provision of high-methane gas transmission services and stipulates the terms of supply of gaseous fuel to and its collection from the transmission system. The other one relates to provision of nitrogen-rich gas transmission services and stipulates the terms of supply of gaseous fuel to and its collection from the transmission system. The agreements are effective until December 31st 2010, and their value is c.a. PLN 5.6bn, VAT inclusive.

The territory of Poland is an important section in an over-four-thousand-kilometre gas pipeline used for transmission of natural gas from the Yamal Peninsula to Germany and other countries of Western Europe. In Poland, the pipeline's diameter is 1,400 mm, and the section's length is 682 km. It is owned by SGT EuRoPol GAZ, in which PGNiG holds 48% of shares. Natural gas is collected in two interconnector terminal points in Włocławek and Lwówek Wielkopolski. In 2007, SGT EuRoPol GAZ transmitted nearly 30.8 bcm of natural gas.

» Interest and principal instalment under lease agreement in 2005–2007



Natural gas sales

The core business of the Trade and Storage segment comprises sales of high-methane and nitrogen-rich gas fed into the transmission and distribution networks. Gas trading is regulated by the Polish Energy Law, with prices established on the basis of tariffs approved by the President of Energy Laboratory Office.

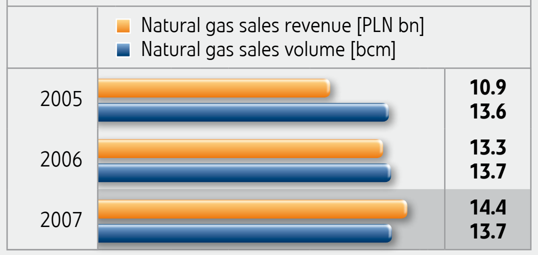
In 2007, the aggregate gas sales volume, measured as high-methane gas equivalent, was 13.7 billion cu. m, slightly above the 2006 figure. As two different types of gas are distributed, we operate two transmission networks interconnected with an installation for cryogenic separation of methane and nitrogen, located in Odolanów. In 2007, 1.4 billion cu. m of nitrogen-rich gas was processed in Odolanów, with 0.9 billion cu. m of high-methane gas fed into the network subsequent to nitrogen elimination, which corresponds to the 2006 production levels.

In 2007, sales of gas to gas companies, end customers and Distribution System Operators accounted for 58% of total gas sales. As a result of the legal separation of distribution and trade functions in the mid 2007, the Gas Companies were transformed into Distribution System Operators and the trading activities were taken over by PGNiG. Therefore, in H2 2007 we sold gas to end-customers, while the Distribution System Operators purchased gas for their own needs. Our main customers receiving gas from the distribution and transmission network primarily included companies from chemicals sector, the metallurgic industry and the power sector, as well as households. The latter were identified as the largest customer group, accounting for 99.6% of the entire PGNiG's customer base, with a 28.1% share in the sales volume. The most prominent share in the natural gas sales was claimed by industrial customers (60.5%), with the dominating position of nitrogen plants and companies from the refining and petrochemical sectors.

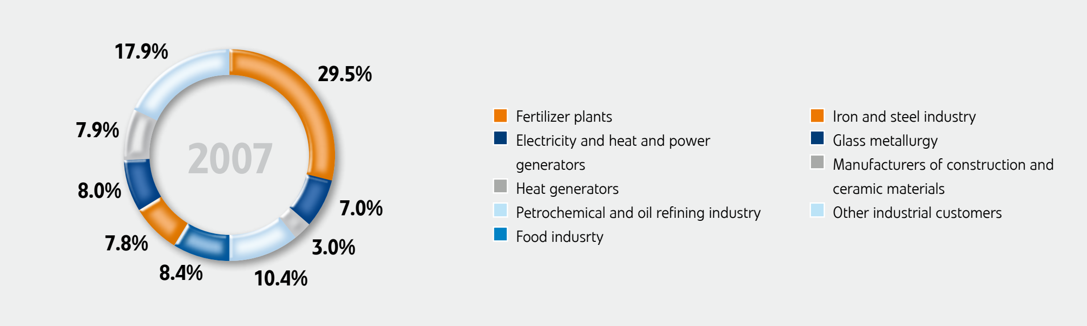
A future increase in natural gas volumes sold will be driven by development-oriented projects undertaken by our strategic customers, i.e. companies operating in the petrochemical, construction and metallurgical industries. In 2007, we started cooperation with several large potential customers. Some of them are companies operating in the power sector, with plans to partially replace hard-coal fired generating units with gas fired ones. The start of natural gas supplies to modernised power plants and CHP plants is planned for 2011–2012. Moreover, in 2007, we commenced negotiations with electricity suppliers concerning combined sales of electricity and natural gas. The preparation of a cooperation model and first joint implementations are expected in 2008.

Sales of natural gas directly from reserves as well as sales of other products of the PGNiG Group are conducted by the Exploration and Production segment on market terms, whereby prices are individually negotiated with customers on a case-by-case basis.

» Natural gas sales volume measured as high-methane gas equivalent in 2005–2007



» PGNiG's industrial customers in 2007



Storage

We currently own and operate six underground gas storage facilities (UGS) with a working capacity of 1.66 billion cu. m, which represents 13.5% of the annual gas consumption by our customers. The facilities are located in various geological structures (in salt caverns in Mogilno, and in worked out natural gas deposits at the other UGS facilities), and have different gas injection and reception capacity.

The table below sets forth the basic profiles of individual UGS facilities.

Currently, the storage facilities are suitable for storage of high-methane gas only. The two new storage facilities planned to be launched in Daszewo and Bonikowo in 2009 will used for storage of nitrogen-rich gas. This will enable the supplies of natural gas in the natural gas sub-system to be optimised and the demand for nitrogen-rich gas to be met in the vicinity of these facilities.

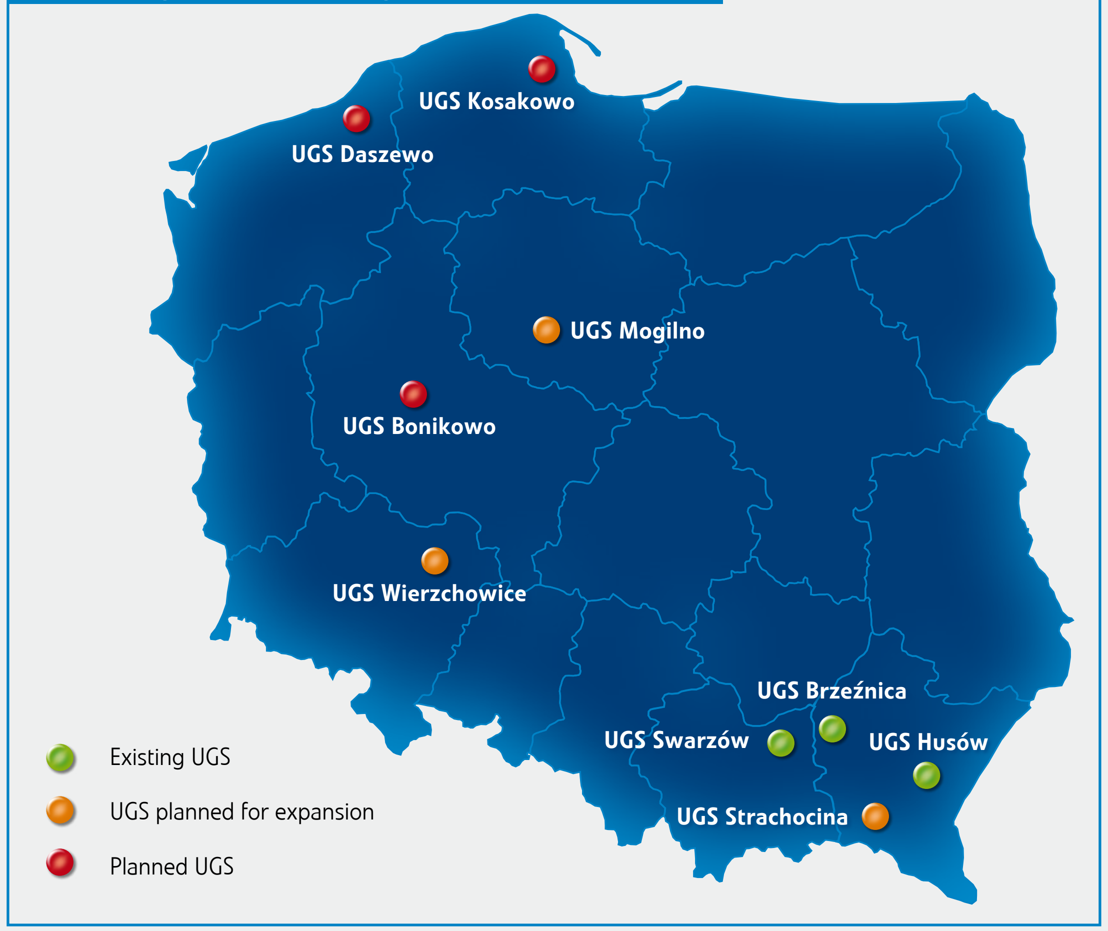
Our UGS facilities allow us to maintain an appropriate level of reserves for periods of short-term disruptions in gas supplies caused by system failures or limited gas availability. These facilities also help us meet our obligations to create and maintain mandatory reserves, and they reduce our susceptibility to seasonal fluctuations sudden short-term changes in demand for gas (as they support optimisation of the natural gas supply chain). Moreover, as the operator of these facilities, we are able to maintain steady production levels throughout the year: in periods of reduced demand, gas is injected to the storage facilities, while in times of peak demand (not coverable with the current production), it is retrieved from the facilities.

Facility	Type of project	Working capacity [bcm]	Target capacity [bcm]	Year completed
Wierzchowice	extension	0.58	1.20	2012
Husów		0.40	0.40	
Mogilno	extension	0.37	0.44	2012
Strachocina	extension	0.15	0.33	2012
Swarzów		0.09	0.09	
Brzeźnica		0.07	0.07	
Bonikowo	construction		0.20	2009
Kosakowo	construction		0.05	2012
Daszewo	construction		0.03	2009
Total		**1.66**	**2.81**	

The capacity of the currently used UGS facilities represents the average consumption of natural gas over 49 days. The facilities provide as with means to duly perform our gas sales contracts.

We follow an active policy of expanding the storage volumes of the facilities. In 2007, the related capital expenditure was PLN 61m. The most important tasks in this area in 2007 included:
- Underground Gas Storage facility in Wierzchowice – opening of the tender for construction of the facility's surface infrastructure;
- Underground Gas Storage facility in Kosakowo – execution of the contract for preparation of construction design for surface infrastructure (and obtaining relevant building permits); and preparation of construction and building design for the leaching unit and pipeline for brine discharge into the Puck Bay (and obtaining relevant building permits). Execution of the contract for delivery of leaching pumps, and the contract with INVESTGAS SA for construction of the leaching unit and the brine pipeline;
- Underground Gas Storage facility in Strachocina – execution of the contract for preparation of construction design (and obtaining relevant building permits) for the facility's surface infrastructure. Conclusion of the tender for drilling of wells.

Underground Gas Storage facilities in Poland



LNG

Given the continuous increase in crude oil prices, the interest in liquefied natural gas (LNG) has been growing on the global fuel markets. Imports of LNG to Poland will be an important source of supply necessary to meet the growing demand for gas. Importing LNG to Poland is also one of the elements of the strategy to diversify sources of natural gas supplies.

A feasibility study concerning LNG imports to Poland, prepared in December 2006 and containing an analysis of the project's technological and economic objectives, was used by the Management Board of PGNiG as a basis for the decision to build an LNG terminal in Świnoujście. It is assumed that the initial annual volumes of gas supplies from the LNG terminal to the network will be ca. 2.5 billion cu. m. Depending on demand for gas, the annual throughput may increase to 5.0 billion cu. m, with the target throughput of 7.5 billion cu. m annually. The first supplies of liquefied natural gas are planned for 2012.

In 2007, the implementation stage of the project of regasification terminal construction was executed, and included the following tasks:
- OGP GAZ-SYSTEM SA defined the conditions for connecting the terminal to the transmission system; negotiations of the relevant connection agreement commenced;
- Polskie LNG Sp. z o.o. was established; the company's main objective is to conduct regasification operations, and in particular unloading, reloading and regasification of LNG at the LNG terminal;
- An agreement was executed with the Nature Conservation Office in Szczecin for preparation of an environmental impact study for the project;
- A lease agreement was executed with Zarząd Morskich Portów Szczecin i Świnoujście SA (Port Authority) concerning real estate to be used for the purpose of the LNG Project, and the local zoning plan for Świnoujście was amended.

Concurrently with design and implementation work, development actions was carried out with view to concluding a long-term contract for LNG supplies.

Another major step was the execution of a contract between Polskie LNG and SNC Lavalin Services Ltd. in the early 2008. Under the contract, the Canadian company will prepare the design of and obtain a building permit for the project. The contract, with a value of PLN 26m, is expected to be completed within nine months.

CNG

Compressed natural gas (CNG) may be used as engine fuel in vehicles. Such application of CNG is both environment-friendly and economical. Currently, there are around 7.3 million CNG fuelled vehicles all over the world, with the number growing extremely fast. Numerous countries have developed various mechanisms supporting the use of natural gas as engine fuel. The number of CNG fuelled vehicles in Poland at the end of 2007 is estimated at 1.3 thousand, mostly owned by public transport companies and private road carriers.

As at the end of 2007, we owned 28 CNG filling stations. Funds for construction of further new stations are earmarked in the 2008 budget. On March 28th 2008, the President of Energy Regulatory Office issued a decision whereby PGNiG is released from the obligation to submit CNG tariffs for approval. Thus development of the CNG market will become significantly easier.

» Number of CNG service stations in Poland in 2006–2008

2006	23
2007	28
2008	33

Distribution

Activities of the Distribution segment are conducted by six Distribution System Operators, which are responsible for supplying natural gas to households, industrial customers and wholesale customers, as well as operation, maintenance and expansion of gas pipelines.

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In 2007, the segment posted an operating loss minus PLN 1.311bn. The loss followed from the asset revaluation, which brought on a PLN 1.317bn decrease in the segment's operating result, however with no impact on the cash flow. The principal causes for the asset revaluation at distribution companies comprised:

- Insufficient revenues under the distribution tariff approved by the Energy Regulatory Authority;
- Costs of distribution activities growing at a rate higher than projected in the previous years;
- Capital expenditure on replacement of distribution assets being higher than projected.

Distribution activities are conducted under licences and consist in transmission of natural gas via distribution networks to end customers. The activities are performed by the following six companies:

- Górnośląski Operator Systemu Dystrybucyjnego (GOSD), with its head office in Zabrze and operating branches in Opole and Zabrze;
- Karpacki Operator Systemu Dystrybucyjnego (KOSD), with its head office in Tarnów and operating branches in Jarosław, Jasło, Kielce, Kraków, Lublin, Rzeszów, Sandomierz and Tarnów;
- Mazowiecki Operator Systemu Dystrybucyjnego (MOSD), with its head office in Warszawa and operating branches in Białystok, Łódź and Warszawa;
- Pomorski Operator Systemu Dystrybucyjnego (POSD), with its head office in Gdańsk and operating branches in Bydgoszcz, Gdańsk and Olsztyn;
- Wielkopolski Operator Systemu Dystrybucyjnego (WOSD), with its head office in Poznań and operating branches in Kalisz, Koszalin, Poznań and Szczecin;
- Dolnośląski Operator Systemu Dystrybucyjnego (DOSD), with its head office in Wrocław and operating branches in Wrocław, Wałbrzych and Zgorzelec.

In 2006 and H1 2007, natural gas trade and distribution were handled by the gas companies operating within the PGNiG Group. To comply with the requirements of the Polish Energy Law implementing EU Directive 2003/55/EC, in 2007 we carried out a legal separation of gas trade and distribution. As a consequence, in mid-2007 Distribution System Operators, which replaced gas companies, were spun-off by way of taking over all of the assets of gas companies (their sole owner being PGNiG). Since Q4 2007, wholesale and retail sales were consolidated in PGNiG.

The restructuring process was divided into three stages:

- Stage I – organisational separation of trade and distribution by way of spinning off six Trading Branches from the existing gas companies (one Trading Branch per each gas company), whose structure comprised 23 gas distribution companies conducting trading activities;
- Stage II – division of gas companies and transfer of the six Trading Branches from each gas company to a separate temporary company;
- Stage III – integration of temporary companies with PGNiG.

The restructuring model was selected with a view to improving operating efficiency and strengthening the market position of the PGNiG Group. The organisational change within the PGNiG Group and at our Head Office leads to a greater transparency, concentration of competences and expertise, and optimisation of processes in individual business segments.

Operating results posted by the Distribution segment in 2005–2007

[PLN m]	
2005	133
2006	231
2007	(1,311)

	MOSD	WOSD	DOSD	GOSD	KOSD	POSD
No. of end customers [m]	1.5	0.9	0.8	1.2	1.4	0.7
Volume of distributed gas [bcm]	1.7	1.4	0.9	1.2	1.9	0.8
Pipeline length, excluding connections ['000 km]	6.9	19.8	42.5	16.2	7.9	13.4

Data for 2007.

The Distribution System Operators are strategic companies of the PGNiG Group. The profile of each individual Operator depends on the location, historical factors, advancement of urban development, industrialisation level, or even economic standing of local populations.

The Distribution System Operators (DSO) provide their services across Poland. The aggregate length of their network approximates 107 thousand km. The Operators deliver gas to 6.5 million individual and industrial customers (where the former account for 97% of the total number of customers).

The Distribution System Operators are responsible for management and operation of the distribution network by way of:

- transmitting natural gas to end customers;
- connecting new customers to the transmission network;
- managing transmission network assets;
- operating, maintaining and expanding the network.

When settling transactions with customers, the Distribution System Operators use the tariff effective as of April 25th 2008.

Public Relations

PGNiG in its actions comply with public concerns and protection of natural environment. As one of the biggest employers in the country, the Company takes special care of development and security of its workers.

Employees

Public Relations – Employees

Persons in the PGNiG Group
The PGNiG Group is one of the largest employers in Poland. As at the end of 2007, we employed 30,325 people, i.e. 528 more year on year. The increase results from the Group's development, especially the growth of the companies in the Exploration and Production segment.

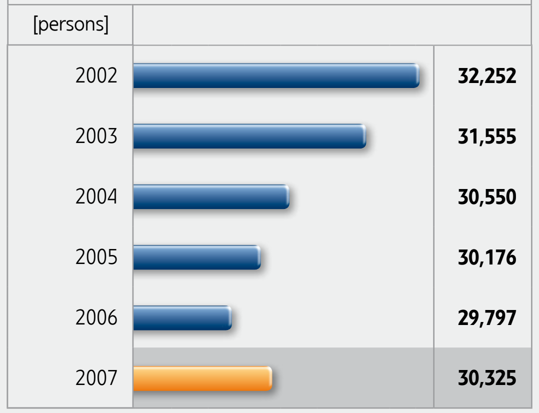
In 2007, some of the employees were transferred from the Distribution segment to the Trade and Storage segment.

In 2007, we continued the second stage of the "Programme of employment restructuring and employee protection measures for PGNiG branches and subsidiaries". In the period from January 1st 2004 to December 31st 2007, the restructuring process involved 5,785 people, including 1,489 in 2007 alone.

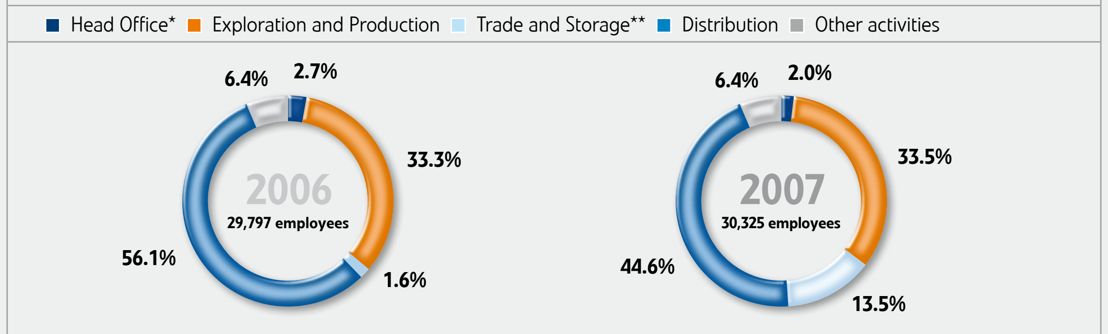
The employees covered by the restructuring process obtain severance pays guaranteed under the relevant provisions of the labour law and arising under PGNiG`s internal regulations, including collective labour agreements for PGNiG and its subsidiaries, as well as the Group's internal work and remuneration rules. Within the programme, each employee with at least five years of service at the PGNiG Group, and included in the programme after January 1st 2005 is granted additional protection benefits at amounts individually calculated in accordance with the programme's terms.

Implementation of the restructuring programme yielded savings on remuneration and employee benefits to the order of PLN 573m in 2004–2007, including PLN 277m in 2007 alone. The programme has been extended until the end of 2008.

» Employment at the PGNiG Group, year end in 2002–2007



» Employment at the PGNiG Group by segments in 2006–2007



* Head Office provides services for all segments and thus has not been allocated to any particular segment.
** Including companies consolidated with the equity method.

PGNiG Group as the largest employer
The PGNiG Group fulfils its obligations towards the employees and their families with utmost diligence. These obligations are chiefly connected with social services. The entitled persons enjoy the following benefits:
- organization and additional financing of holiday rest for children and young people;
- financial assistance and material support for poorest families;
- repayable financial housing assistance;
- organization and additional financing of various forms of recreation;
- rehabilitation in the form of organized prophylactic holidays at occupational health and recreation centres.

Internships
PGNiG organizes a students training programme for participants of the annual "Grasz o staż" initiative, the most popular and prestigious training programme addressed to Polish students and graduates. The programme has been organized since 1996 by PricewaterhouseCoopers and "Gazeta Wyborcza". We organize paid summer internships. We also offer unpaid internship to students of the Faculty of Gas Engineering at the Warsaw University of Technology, as well as periodic trainings for students from universities across Poland. The programme involves all our Polish subsidiaries.

Recruiting the best
In line with the adopted rules and in accordance with the arrangements included in the employment restructuring programme, we prefer internal recruitment for posts at the Head Office. Not only does it allow to make full use of our employees` potential, but it also motivates them to more effective work and development of their individual skills. External recruitment is carried out only when highly specialist competences not available in-house are sought.

During the recruitment process, the candidates` level of competence is determined on the basis of post-specific competence profiles. It is a combination of knowledge, skills, attitudes and motivation required for a given post.

Employees` professional development
The employees, their experience, knowledge, creativity and commitment, are our greatest asset. Thereby, investing in human resources creates favourable conditions for implementation of our plans. This approach also allows our employees to pursue their individual goals. Due to a wide spectrum of the subsidiaries` business activity, we allow our Group's entities a lot of leeway in establishing the scope and type of staff training.

The key role in establishing bonds between the Company and its employees is played by a training management system. Persons employed at the PGNiG Group are offered opportunities for improving their professional qualifications, for example through postgraduate studies, participation in national trade conferences, seminars and symposia, occupational training, and self-education (e-learning). Moreover, the employees participate in language courses, and have a chance to get a placement at our branches in Moscow and Brussels, where they can become acquainted with the ins and outs of everyday work in these units, as well as improve their language skills.

In 2007, our employees participated in various training courses on modern business organisation, tailored to the needs of the positions held by particular employees. The covered topics included project management, analysis of legal environment, business risk management, customer service, internal communication and team work. Most of these trainings were co-financed with EU funds, including the European Social Fund.

Such extensive training offering enables our employees to develop and enhance their professional qualifications, while the Company benefits from higher productivity. Personnel development translates into the growth of out Group's value, which is viewed positively primarily by investors and clients, and also by prospective employees.

Safety at work
Acting as a responsible employer, in 2007 we continued efforts aimed at improving working conditions, thus increasing our employees` safety. Every year, more new equipment is used in everyday work. Specialist training on operation of the new equipment, as well as occupational health and safety trainings, contribute to the improvement of work conditions.

The number of industry-specific occupational accidents in the PGNiG Group (drilling work, as well as crude oil and natural gas production) is relatively small; in 2007, it was below 13% of the total number of accidents.

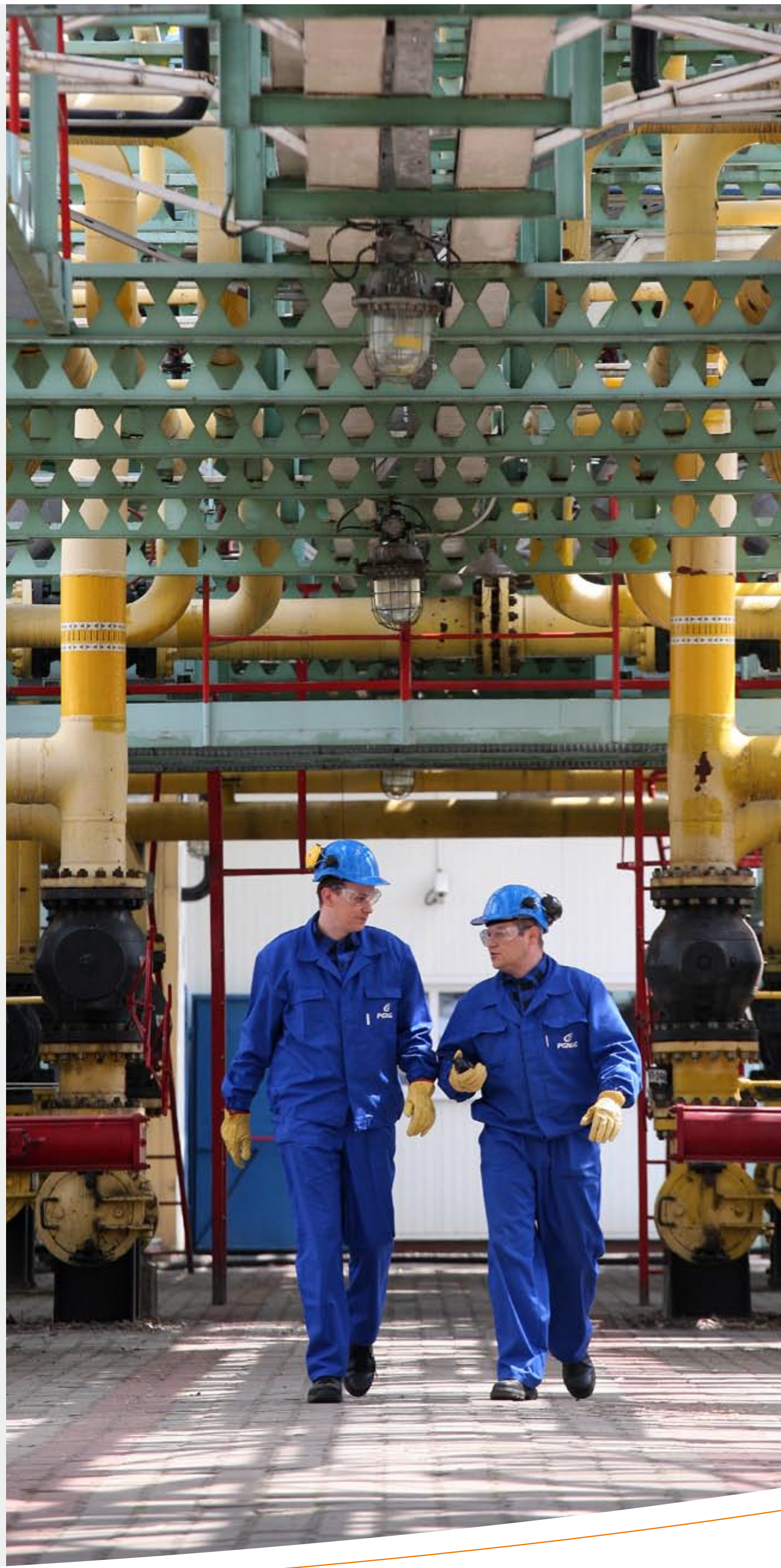
We are a team
An important element affecting the productivity and quality of work is integration and cooperation of the Group employees. Hence, various employees` activities are encouraged. Their main objective is to enhance team work, which translates into employees` higher productivity and improved relations at work. Work on the strengthening of internal communication began already in 2006. Due to the nature of our business and the broad range of operations, both traditional as well as electronic means of communication are used.

In 2007, an important element of the separation of trading function from gas distribution was the communication support of the changes. A lot of time and attention was devoted to it, and apart from internal publications, the management of the Project Committee took part in a series of meetings all over Poland, during which employees could express their concerns and receive explanations. These meetings – the so-called cascades communication based on direct contacts with the employees – are an important element our internal communication system. We also attach great importance to feedback from the employees. For example, a series of meetings on the integration of PGNiG trading activities concluded with an electronic survey, where respondents could assess the meeting and present more of their questions or concerns. From 2008 onward, we will hold ongoing surveys of employee satisfaction.

As part of our activities conducted to-date, the employees receive daily electronic newsletter highlighting the most important events in the PGNiG Group. We have also implemented a system based "communicators" – persons responsible for disseminating information among our employees across the Group. Work on launching of an SMS-based information system for the employees will be completed shortly. The system will support several thousand of the Company cellular phone numbers. We have also launched an IT platform enabling direct information exchange among the employees.

In 2006, PGNiG took steps in order to integrate all professional groups at the Company. Regular meetings improved relations among co-workers, and thus the quality and productivity of work.

Any initiatives concerning internal communication are consistent with our HR policy, which fosters employees` commitment, satisfaction and identification with the Company.



Public Relations – PGNiG as corporate citizen

The PGNiG Group companies demonstrate high level of social commitment, which is understood as responsibility towards both its employees and the society. We support initiatives which are aimed primarily at serving the Polish science and culture and protect and preserve the national heritage for the future generations. The PGNiG Group fulfils its social responsibility duties through sponsorship activities, but also through the PGNiG Foundation, in the context of employee relations and public relations of the PGNiG Group companies.

PGNiG for the Polish culture

In 2007, we were involved in projects of significant importance, both nationally and locally, for the Polish culture and science. Our corporate bodies support local activities of the gas companies and branches as well as initiative undertaken by our subsidiaries.

As part of our efforts to support Polish culture, we financed the renovation of a historic wooden altar at the St. Bernardine of Siena Church in Kraków. The monastery complex of the Bernardine Fathers built in 1453 and situated at the foot of the Wawel Hill with its preserved complete baroque fittings is an example of Polish and European heritage.

Noteworthy is also PGNiG's involvement in the activities of the Ignacy Łukasiewicz Memorial Museum of Oil Industry (Muzeum Przemysłu Naftowego i Gazownicziego im. Ignacego Łukasiewicza) in Bóbrka. We are one of two sponsors of the museum. In 2007, we took steps which in a long term should lead to revitalisation of the museum and its popularisation as one of the main tourist attractions in southern Poland. In 2007, the Supervisory Board of PGNiG approved a long-term sponsorship agreement with the museum. This activity is aimed at preserving the Polish historical and scientific heritage as well as popularising knowledge about the oil industry.

In 2007, the PGNiG Trading Division carried out a lot of valuable initiatives. We should mention at least the Polish Puppeteers Festival (Ogólnopolskie Spotkania Lalkarzy) in Kraków, cooperation with the Kraków Historical Museum and the Karol Szymanowski Philharmonic in Kraków or the annual great dragon parades which are organised by the Groteska Theatre (Teatr Lalki, Maski i Aktora "Groteska") in Kraków. In Lublin, we are involved in such projects as the International Festival Theatre Confrontations 2007 (Międzynarodowy Festiwal "Konfrontacje Teatralne" 2007) or the Paderewski International Musical Competition for the Blind (Międzynarodowy Konkurs Muzyczny dla Niewidomych im. I.J. Paderewskiego). In Koszalin, we were involved in the organisation of the concert celebrating the naming of Polish Radio Koszalin's recording studio after Czesław Niemen. In Jarosław, we supported a local initiative as part of the nationwide social campaign "Polish Parents Read to Their Children" (Tydzień Ogólnopolskiej Kampanii Społecznej "Cała Polska Czyta Dzieciom").

The support given to local initiatives can also be seen in projects undertaken by the Zielona Góra and Sanok Branches.

The Zielona Góra Branch supports all major artistic events in its region. It cooperates with such institutions as the L. Kruczkowski Theatre in Zielona Góra, the Cantor Old Music Foundation, the Lubuska Land Museum in Zielona Góra, the Zielona Góra Jazz Association, the Zielona Góra Philharmonic, or the University of Zielona Góra.

Also the Sanok Branch of PGNiG in its sponsorship activities focuses mainly on local initiatives in the Kraków, Rzeszów, Lublin and Warszawa Provinces, the most important of which are international events, including:

- Adam Didur Festival – attracting the greatest stars of opera, chamber and symphonic music and ballet, combined with a composers competition;
- International Pianists' Forum – Bieszczady without Borders (Międzynarodowe Forum Pianistyczne – Bieszczady bez granic) – gathering the winners of the most prestigious piano competitions, with concerts, master classes and lectures given by the greatest piano virtuosos;
- International pleinair painting workshops;
- International Accordion Festival (Międzynarodowe Spotkania Akordeonowe) – under the auspices of the Ministry of Culture (Grand Prix funded by Lech Kaczyński, President of the Republic of Poland).

Supporting culture and art and protecting the historical material heritage are the main and most important forms of activity in the area of public relations of the Distribution System Operators, our largest subsidiaries.

In 2007, Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. continued its cooperation with the National Museum in Warszawa, supporting day-to-day activities of the institution important for the national culture. In May 2007, in cooperation with the National Museum we organised an interesting exhibition at the Gas Industry Museum in Warszawa entitled "150 Years of Our Presence in the City".

Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. contributed to the 11th Shakespeare Festival, a show of European productions, which for several years has attracted a number of theatre lovers. The festival was accompanied by multiple artistic events and extensive educational programme, comprising meetings with artists, as well as drama, art, photography and journalist workshops. POSD also supported the Nova Opera House of Bydgoszcz as part of the organisation of the 14th Bydgoszcz Opera Festival.

In October 2007, following a two-year renovation work, Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. opened the Gas Industry Museum

in Paczków. Both the renovation and current operations of the Museum are entirely financed by Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. The Museum was established on the premises of the former gas company in 1991, and it is now the only venue in Poland featuring the whole gas production equipment preserved intact. Interestingly enough, the Museum houses Europe's largest collection of nearly 600 gas meters. The visitors may also see a Chemnitz fireless steam locomotive from 1927, closing cast-iron trap with a 1.2 cm diameter, and a clock dial for a 110 thousand cu. m tank. Most of the exhibits are in good working condition. The Museum's another attraction is its well-preserved beautiful industrial architecture.

In 2007, the gas company in Tarnów celebrated its 130th anniversary. The efforts of Tarnów historians and cultural community and the support of Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o. yielded an unusual presentation of the history of gas industry in the region during the 10th Jubilee Polish Comedy Festival Talia in Tarnów. The festival's opening was accompanied by the gala of KOSD.

Karpacki Operator Systemu Dystrybucyjnego commissioned the Tarnów branch of the Polish Association of Sanitary Engineers and Technicians to produce a publication that will be a first recording of the rich history of the gas industry in Tarnów. The publication of the monograph is planned for September 2008. Undoubtedly, it will be a very interesting book needed by the industry.

Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o. has long supported the Poznań Boys' Choir – one of the most well-known Polish choirs in the world – conducted by Jacek Sykulski. Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o. co-finances the organisation of concerts and releases of the choir's recordings. In 2007, WOSD contributed to the construction of the statues of renowned Poles, including Kazimierz Odnowiciel (a Polish king) in Pobiedziska and Hipolit Cegielski (advocate of organic work and pioneer of heavy industry) in Poznań. In particular, the latter was of great significance to WOSD given the importance of Hipolit Cegielski and his businesses for the growth of the Poznań gas company.

Also smaller companies of the PGNiG Group are involved in projects promoting the Polish culture.

Poszukiwanie Nafty i Gazu Kraków for several years has been engaged in promoting young artists by sponsoring the International Master Courses of Musical Interpretation in Zakopane organised by the Zakopane Academy of Arts. The company also co-organises exhibitions of young painters, actors and photographers, financially supports operetta concerts, and sponsors vernissages of Polish artists abroad. PNiG Kraków is also a patron of the Kraków Photography Association and the Władysław Bogacki Museum of History of Photography. In the Nafta gallery in Kraków, which is owned by PNiG Kraków, interesting exhibitions of documentary, historical and artistic photography are held. The exhibitions, which are devoted to the most important events in 20th-century Poland, are created by Władysław Klimczak, the icon of the Polish photography. They are well known in Poland and in the world. Additionally, PNiG Kraków sponsors operetta music concerts, and especially the Obligato Strauss Orchestra conducted by Jerzy Sobeńko, as well as the performances of famous singer – Krystyna Tyburowska.

In 2007, Gazoprojekt of Wrocław sponsored a number of musical events, including the Polish Festival of Academic Choirs Barbórka 2007. For several years, the company has cooperated with the PAX ET BONUM foundation, which organises the International Pax Et Bonum Per Musicam Festival in Wrocław.

The companies of the PGNiG Group not only support local communities but – by conduction international operations – they also promote the Polish culture and science abroad.

In 2007, Nafta Piła was listed among the patrons of Polish archaeology by the Nile. The 70 Years of Polish Archaeology in Egypt exhibition, housed at the Egyptian Museum, the world's most famous archaeological museum, presented impressive achievements of Polish archaeological missions in Egypt.

PGNiG for development of the gas industry

PGNiG and members of our group participate in all major industry events, including conferences, seminars, congresses and workshops, during which key issues related to the industry are discussed. In 2007, we participated in a seminar entitled "The Operator's Role on the Domestic and EU Gas Markets"; conference held in Stróże and organised by a branch of the Polish Association of Engineers and Sanitary Technicians; the GAZTERM conference in Świnoujście; the 5th International Scientific and Technical Conference entitled "The Role of Poland on the European and Global Oil and Gas Markets", organised by the Scientific and Technical Association of Engineers and Technicians of the Oil and Gas Industry; and the 5th Oil and Gas International Conference.

We maintain close cooperation with the Stanisław Staszic University of Science and Technology in Kraków, supporting the implementation of its initiatives. In 2007, these included the "CNG and Other Alternative Fuels – Building Market Position" workshops; International Scientific and Technical Conference organised to mark the 40th anniversary of the Faculty of Drilling, Oil and Gas; international conference on underground storage; and the 2nd Kraków Conference of Young Scientists. For a number of years now, our partner in this area has been the Institute of Molecular Physics of the Polish Academy

of Sciences in Poznań, well-known as the organiser of the annual scientific workshops called “Summer with Helium” in Odolanów.

Furthermore, cooperation is maintained between PNiG Kraków and post-secondary schools in Kraków offering technology degree courses. In April 2007, the company and the University of Science and Technology co-organised the Nauryz Spring Festival (Święto Wiosny Nauryz), celebrated by youths from Central Asia. The awareness of a unique character of the Asian countries, achieved through PNiG’s long-lasting presence in Asia, surely helps build bridges between our vastly different cultures.

Outside the industry, PGNiG also supports ambitious projects, such as a series of exhibitions under the label of “Architectural Touchstones – Honorary Prize of the Union of Polish Architects 1966–2006” (Architektoniczne punkty odniesienia – honorowa nagroda SARP 1966–2006), and the Competition of Knowledge on Poland and Contemporary World (Olimpiada Wiedzy o Polsce i Świecie Współczesnym). In 2007, we were a partner for the 2007 Economic Forum of Young Leaders (Forum Ekonomiczne Młodych Liderów 2007) in Krynica.

PGNiG for the Polish sports
The PGNiG Group is engaged in supporting sports initiatives, especially those aimed at promoting physical activity among Poles in local communities. In 2007, we were a partner of the annual Oil Race in Gorlice and the autumn round of football games in Świnoujście, and offered our regular support to events organised by the Polish Special Olympics Association (Stowarzyszenie Olimpiady Specjalne Polska). We were involved in the organisation of the 15th National and International Solidarity Race Lubelski Lipiec 80 in Lublin.

Our branches in Zielona Góra and Sanok also lend a hand of support to local sports organisations. The Zielona Góra Branch, for instance, acts as a sponsor of the local men’s basketball team, the bobsleigh section of the Nowiny Wielkie Student Sports Club (UKS Nowiny Wielkie), other student and municipal sports clubs and the Nafta Tennis Club (Klub Tenisowy Nafta). The Sanok Branch, on the other hand, was engaged in supporting the activities of the Naftowiec sailing club, the Górnik ski club, and the Górnik speedskating club. The Branch co-sponsors ski jumping tournaments and a number of other smaller scale sporting events organised at schools and at the regional level.

Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. maintains a cooperation with the Polonia Warsaw Basketball Club, which stands out as unique and exceptionally important for the capital city of Warszawa and whose matches are played in a friendly and welcoming atmosphere. Supporting a sports discipline which releases positive emotions is fully consistent with the communications strategy pursued by our Group.

For some years now, Gazoprojekt has provided support to athletes from Wrocław. One of the major events scheduled for 2007 was the CAPOWROCEK 2007 Capoeira and Brazilian Culture Festival (Festiwal Capoeira i Kultury Brazylijskiej CAPOWROCEK 2007), held in Wrocław for the first time in history. Also, the company co-sponsors the ODRA Wrocław Football Club’s youth section. The sponsorship is based on a continued cooperation with the club, whose members have benefited from Gazoprojekt’s support for a few years now.

It is worth noting that the PGNiG Group puts much effort in promoting physical activity also among its staff. Each year, a number of sporting events in various disciplines are held to integrate workers employed in the industry.

PGNiG and Corporate Social Responsibility
PGNiG supports charitable causes mainly through its Ignacy Łukasiewicz Foundation, set up in November 2004. We are the only donator to the Foundation, whose activity comprises broad-based support of culture and national heritage, including protection of historical monuments and promotion of science and education. The programmes currently under way focus on children and youths, and embrace such areas as health protection, promotion of sports, support and promotion of learning. The Foundation’s key statutory objectives are pursued through its cooperation with two prominent external partners, including Caritas. As part of the strategic partnership programme designated as “Wings Every Day”, the PGNiG Foundation has pledged long-term help to over 300 most needy children from all over Poland. The Foundation lends support to Caritas by covering the cost of meals for poor children at school canteens, as well as the cost of school supplies and books, and by providing for other day-to-day needs of the children; for instance it contributes to the cost of school travel, buys clothes and learning aids.

The PGNiG Foundation is a strategic partner of the “Student Volunteers” Programme, an initiative authored by the Polish-American Freedom Foundation and implemented by the Polish Association of Pedagogues and Youth Animators Klanza – an NGO whose members include active people, eager to seek new solutions to transform the educational reality. The Programme is designed to promote equal educational opportunities for children and young people living in rural areas and small towns. Groups of student volunteers design and run their own educational projects aimed to develop knowledge, skills and interests of children and youths over the school year and during summer and winter holidays. Each project is focused on a single field of knowledge, subject or activity. It may take the form of manual and artistic workshops, sports activities, computer classes, theatre workshops or language classes. The “Student Volunteers” Programme, run in association with the PGNiG Foundation, encourages proactive attitudes among pupils and students alike, by developing their sense of social responsibility and solidarity, while providing them with an attractive formula through which to pursue their passions and interests.

As a matter of fact, practically all branches and companies of the PGNiG Group are involved in charitable projects. In Kraków, the beneficiaries of those projects include: Anna Dymna’s “Against the Odds” Foundation, the Polish Committee for Children, and the Society of the Friends of Children. The PGNiG Branch in Sanok offers support to the Association for Employment, the “Health-Hospital” Foundation, the Bieszczady Section of the Mountain Voluntary Rescue Service, the Committee for the Protection of Children’s Rights as well as other organisations. The Branch provides on-going support to schools named after Ignacy Łukasiewicz – a founder of the Polish petroleum industry. Additionally, in 2007 the Company was involved in the EU project

called “The Way it Works”, which was connected with the implementation of the CSR concept in the Carpathian Region.

In Upper Silesia, the Distribution System Operator has been supporting the Silesian Scholarship Fund, sponsoring scholarships for university students. It also helps health-care centres – the Burn Injury Treatment Centre in Siemianowice Śląskie, the Silesian Cardiology Centre and the Upper Silesian Oncological Foundation for the benefit of the Oncological Centre Unit of the Marie Skłodowska-Curie Institute in Gliwice.

The concept of corporate social responsibility perfectly matches the growth strategy followed by Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. (POSD), and the year 2007 was a breakthrough period for the company as far as a conscious involvement in the affairs of local communities is concerned. As part of the involvement, POSD decided to send their business partners charity seasonal cards, with proceeds from the sale going to charity, instead of typical cards sold for commercial purposes. Moreover, the company became the chief partner of the “Christmas Gift” campaign, whose organisers, including the Municipality of Gdańsk, the Gdańsk Charity Foundation, and the Municipal Social Services Centre in Gdańsk, donate all proceeds from the sale of Christmas cards to fund gifts meant for children from the poorest families living in Gdańsk. It is noteworthy that the cards had been designed by children participating in artistic workshops held at the Youth Centre in Gdańsk. All branches of Pomorski Operator Systemu Dystrybucyjnego were vitally engaged in the charity cards initiative, each of them having selected a reputable charity organisation operating locally. Thus the range of support was not limited to the company’s primary location (Gdańsk) but also embraced the towns of Bydgoszcz and Olsztyn.

The proceeds from the sale of cards selected for distribution in Bydgoszcz were donated to the Regional Centre of Palliative Care – The Sue Ryder Home. In Olsztyn, on the other hand, the charity cards were prepared by women staying at the Social Welfare Centre in Bisztynek. Funds raised from the sale of cards were allocated to the purchase of materials used during art therapy sessions.

In addition, Pomorski Operator Systemu Dystrybucyjnego donated money to purchase specialist equipment for blind and visually impaired children attending the Public Kindergarten No. 35 in Gdańsk on the day of Saint Barbara’s Day celebrations held in Gdańsk (a holiday traditionally celebrated by miners). The equipment is indispensable in preparing the children to continue their education in primary school.

Another initiative undertaken by POSD is the Eko-style project, whereunder all employees were presented with environmentally friendly reusable shopping bags. The pro-environmental measures started at home, however the eco-friendly bags will be offered to all customers who sign a gas network connection agreement. In this way, both company employees and customers are offered a chance to actively participate in and endorse environmental protection.

A singular type of the social responsibility activity is the long-lasting involvement of the PGNiG Group members in undertakings aimed at enhancing safety of local populations. Having public safety at heart, Pomorski Operator Systemu Dystrybucyjnego purchased a modern training manikin and donated it to the Provincial Fire Department in Gdańsk to facilitate professional training in circulatory and respiratory resuscitation.

Projects serving the enhancement of public safety include the “I’m Safe” knowledge competition on precautionary measures held in Lublin and the “Safe Resident” project implemented for years now by Górnośląski Operator Systemu Dystrybucyjnego in cooperation with Vattenfall. In 2007, further efforts were put to promote initiatives involving the participation of grade 1 to 3 primary school children from Bytom and Ruda Śląska. The principles of safe use of the mass media are expounded during classes taught by competent educators. The culmination of the “Safe Resident” campaign was a knowledge competition on the safe use of the mass media and a contest for the best poster made by children.

One of the most remarkable initiatives, reaching beyond the Polish borders and constituting a testimony to a great corporate social responsibility, is PNiG Kraków’s involvement in developing a firmer relationship between Kazakhstan and Poland. One of the contributing factors is the company’s longstanding presence on the Kazakh market. In 2007, PNiG Kraków invited the representatives of the Kazakh embassy and journalists working for the Kazakh media to a meeting held in Kraków with surgeons working for the Department of Cardiovascular Surgery and Transplantology at the Institute of Cardiology of Collegium Medicum of the Jagiellonian University. Participants were afforded an opportunity to learn about potential trainings to be organised for cardiovascular surgeons from Kazakhstan in Kraków, and cooperation prospects. Also, a concept of establishing a sister city relationship between Kraków and Almaty was then born. For a considerable period of time, PNiG Kraków has offered its support to Poles living in Kazakhstan, the support being directed mainly to primary school children in Almaty and Kyzylorda. The company sends to Kazakhstan copies of masterpieces of the Polish literature as well as other educational aids. Owing to PNiG’s help, the children are offered a chance to discover and embrace Polish culture, history and tradition. Additionally, trips are organised for grandchildren of Polish expatriates from Kazakhstan to Polish towns and cities, such as Kraków, Kołobrzeg, Częstochowa, Warszawa and Poznań.

Public Relations – Environmental protection

Carbon Credit Trade System
Since 2005, PGNiG has been participating in the carbon credit trade system (CCTS). In the first settlement period, 2005–2007, we were granted carbon credits for the incineration unit in Odolanów, in an amount of 13,400 MgCO_2 annually, and in Zielona Góra (KRNiGZ Dębno), in an amount of 35,900 MgCO_2 annually. In mid 2007, as part of the existing carbon credit trade system, PGNiG reviewed the annual reports on carbon dioxide emissions for 2006 and brought the volumes of carbon dioxide emission in line with the amounts stipulated by the permit held. Following the cancellation of the carbon credits used in 2006, 6,454.7 MgCO_2 credit units were retained.

Under the CCTS, PGNiG collected data necessary to develop the National Plan for Distribution of Carbon Credits for 2008–2012 (KPRU II). In that settlement period, the system will be joined by the facilities of the Odolanów Branch, Zielona Góra Branch and the Gas Storage Facility in Mogilno.

Environmental Management Systems
Implementation and certification of the environmental management systems are among our priorities and they come as the key factor in implementing the sustainable development concept. We intentionally strive to reduce the adverse environmental impact of our operations in the area of exploration and production of crude oil and natural gas.

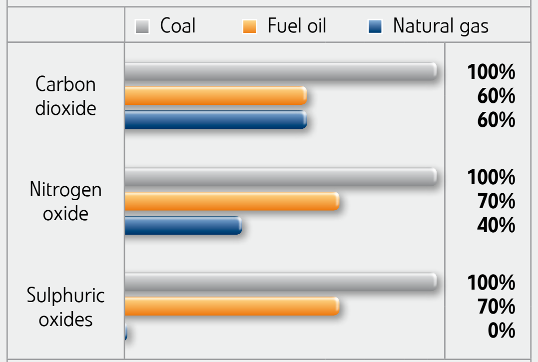
Certain companies of the PGNiG Group have already implemented an environmental management system based on the PN-EN ISO 14001 standard, thus meeting the legal requirements relating to environmental protection. Other effects of the implementation include improved efficiency of raw material and energy use, as well as reduced emissions of pollutants. All actions comply with the most stringent environmental protection standards. Obtaining a PN-EN ISO 14001 compliance certificate for the implemented management system will enable the Company to increase its environmental credibility in contacts with customers.

REACH (Registration, Evaluation, Authorisation of Chemicals) – chemical substances and preparations
In order to ensure compliance with the new regulations concerning mandatory registration of chemical substances, assessment of technical documentation, evaluation of substances and authorisations for use of substances in production and trading, which came into effect in H1 2007, we initiated work aimed at identifying the relevant substances produced in its operations or purchased and used by the PGNiG Group. Completion of the work is scheduled for 2008.

Natura 200 (Nature 2000)
As part of the national consultations regarding the Natura 2000 network, in 2007 the Ministry of Environment began identifying new special areas of habitat protection and new areas of special bird protection. We reported existence of the Natura 2000 areas within the operating areas of the PGNiG Group and/or potential conflicts between the planned investment, exploration and production projects and the Natura 2000 areas.

Natural gas as environment-friendly fuel
Natural gas is the most environment-friendly fuel – its use by businesses does not affect the natural environment. The sustainable development concept provides for the civilisation, technology and economy progress must involve the harmonisation of environmental-protection-related requirements with the rational use of natural resources. The currently developed environmental protection law obliges each business entity to prevent environmental hazards and creates an incentive system encouraging the application of technologies and raw materials supporting the environmental protection. Natural gas fired installations are currently on a large scale used by the power sector, industry and municipal services sector. Air polluting emissions from gas combustion are lower than those recorded for other fuels. The use of natural gas as feedstock and fuel in technological furnaces enables the energy consumption in numerous industrial processes to be reduced. The implementation of state-of-the-art technological processes in newly launched or modernised production installations leads to higher output and much lower pollutant emissions.

» Pollutant emissions from the combustion of natural gas and fuel oil in comparison with coal



Source: International Energy Agency.

Certificates, awards and distinctions

Our corporate communication policy, covering both relations with our employees and with the public, does not go unnoticed, as evidenced by the awards earned by companies of the PGNiG Group. The companies are steadily improving their business credibility by submitting to formal certification and audit processes.

The PGNiG Group was ranked fifth among the top hundred most valuable companies in Poland, according to a survey by A.T. Kearney and Newsweek in April 2008. The survey covered companies which were singled out on the basis of their revenues, profitability or important and renowned brands. Each company was valued based on financial and strategic information publicly available. This year, PGNiG climbed up the ranking by four positions in comparison with 2007. In April 2008, the Company was also named "Business Superbrand", which is an indication that PGNiG enjoys best reputation in the industry and offers the expected and recognisable benefits.

A separate group of the numerous awards won by our branches and subsidiaries are awards for environmental protection activities. For detailed information, see the Environmental Report attached to this Annual Report. In 2007, Górnośląski Operator Systemu Dystrybucyjnego (then operating under its previous name) took the fourth position among other companies from the Katowice Province in the 2007 edition of the "Pillars of Polish Economy" ranking prepared by Puls Biznesu, a business and financial management newspaper, and business intelligence agency Coface Intercredit Poland. This initiative seeks to promote companies which play important roles in their regions not only because of the scale of their business but also their importance to the local communities. By creating new work places and supporting the initiatives undertaken by the local authorities, these companies become driving forces of the regional economies. "Pillar of Polish Economy" is the title given to enterprises which, operating in fair and transparent way, are a pride of their communities.

In the same year, GOSD received the "European Crown 2007" award. What makes this award special is the fact that it is given by the media. Journalists cooperating with the Press, Radio and Television Studio and Programme Centre in Katowice honoured the company for its professionalism in gaseous fuel trading, which is highly praised and ensures customer satisfaction, and for good relations with the media.

In early February 2008, Pomorski Operator Systemu Dystrybucyjnego was named "Laureate of the Decade" in the 11th edition of the Pomeranian Quality Price Competition held by the Pomeranian Council of the Polish Federation of Engineering Associations NOT in Gdańsk. The award is all the more valuable because it is presented only once in ten years. Thus it confirms the high operating standards, quality systems and TQM (Total Quality Management) philosophy of the company. The Bydgoszcz Gas Distribution Division of POSD was for the third time named "Patron of the Garden of Arts in Bydgoszcz". This honourable title was awarded in recognition of the support for arts, sports and cultural projects carried out in the region in 2007. POSD was also honoured for the support to the 14th Bydgoszcz Opera Festival, 45th Bydgoszcz Music Festival devoted to Karol Szymanowski and music masters of the 20th century, 5th Bydgoszcz Jazz Festival, 7th European Athletics Festival, 2nd Bydgoszcz Festival of Street Running, the Give Heart To Children (Podaruj dzieciom serce) concert, and longstanding support to the Bydgoszcz Society of Palliative Care.

In 2007, Poszukiwania Naftowe Diament, a company of the PGNiG Group, recognised as one of the most dynamically developing companies in Poland, was among the finalists of the prestigious "Gazelles of Business" competition organised by Puls Biznesu. This confirms that Poszukiwania Naftowe Diament enjoys high reputation for fairness to the employees and guarantees timely provision of top quality services.

Another company of the PGNiG Group which in 2007 again was named one of the "Gazelles of Business" is Geofizyka Kraków. This time it improved its performance in the ranking by impressive 1,500 positions and was located at the 488th place in Poland and among top 50 in the Kraków region.

The year 2007 was a special year for Poszukiwania Nafty i Gazu Kraków. The company won a number of prestigious awards given by Polish business experts, including:

- "Leader of Export" award in Efficiency, from the Kraków Province Marshal;
- "Outstanding Polish Exporter", a medal from the Polish Exporters Association for best export services;
- "Pearl of the Polish Economy" certificate from the Polish Market magazine and the Institute of Economic Sciences of the Polish Academy of Sciences for "consistently pursuing the corporate policy and strategy and taking the lead among the most dynamic and most effective businesses in Poland";
- "Leader of Export" accolade for the amount of capital invested abroad;
- "Leader of Export" award in Profitability, from the Ministry of Economy.

The year 2007 saw successful completion of the certification audit of the quality management system at Mazowiecki Operator Systemu Dystrybucyjnego by KEMA Quality Polska.

In the same year, Górnośląski Operator Systemu Dystrybucyjnego renewed its external audit and received a certificate confirming that the company meets the requirements underlying the integrated quality management system, integrated environment management system and health and safety at work system. The audit was performed by the Polish Centre for Testing and Certification (Polskie Centrum Badań i Certyfikacji).

Having conducted recertification audit, in 2007 Det Norske Veritas awarded the Sanok Branch the Quality, Environmental and Safety Management System Certificate confirming compliance with ISO 9001:2000, ISO 14001:2004 and PN-N 18001:2004.

Besides the awards earned for exceptional achievements and professionalism, the PGNiG Group companies attach special importance to awards for their social commitment, both to the employees and the public.

Karpacki Operator Systemu Dystrybucyjnego is one of the 15 Polish companies awarded with the prestigious certificate "Friendly Employer". The contest was held by the National Commission of the Solidarity Trade Unions as part of the campaign "Employee Friendly Poland" held among Polish employers under the honourable patronage of President Lech Kaczyński. The certificates were awarded to employers which take particular care in work safety, observance of law and work standards, and allow employees to freely join trade unions. The certificate is a confirmation of the social responsibility towards employees. The Sanok Branch also received a distinction in the contest.

Pomorski Operator Systemu Dystrybucyjnego was the only gas company to be named "Company Exceptionally Friendly to Mothers" in the contest held in 2007 by Fundacja Świętego Mikołaja, Millward Brown SMG/KRC, and the "Rzeczpospolita" daily.

The "Reliable Employer" title, awarded by the Economic Review section of the Gazeta Prawna daily in the Bydgoszcz Province, went to another company of the PGNiG Group – Geofizyka Toruń, This is a countrywide contest, but the awards are presented separately for each region. The main criteria for candidate selection include employment dynamics in recent years, company growth and corporate image.

In 2007, the Group companies were also awarded for their commitment to social work. Karpacki Operator Systemu Dystrybucyjnego was honoured in the "Words of Wisdom" contest held by the Foundation "Education and Health" in the category "person or company financing Polish science and culture". This prestigious accolade is awarded by a pannel whose members include Jerzy Stuhr, Jacek Majchrowski, Jerzy Sadowski, Franciszek Ziejka, Grażyna Brodzińska or Krzesimir Dębski. Another award of special significance to the company is the Santa's Friend medal given by the Foundation for the Disabled in Stróże for the support in activities aimed at helping the disabled and poor.

Górnośląski Operator Systemu Dystrybucyjnego holds the honorary title of "Friend of the Silesia Grant Fund". The Foundation of the Silesia Grant Fund presents this title to companies which have been supporting it for years and thanks to which students may continue their education and make their dreams a reality.

A clear indication of the Group companies' serious commitment to the ideas of social responsibility and sustainable development is the fact that in February 2008 Pomorski Operator Systemu Dystrybucyjnego became participant in Global Compact, an initiative of the UN Secretary-General, Kofi Annan. It calls on companies to embrace ten universal principles in the areas of human rights, labour standards, environment and the anticorruption. In Poland this global programme promoting Corporate Social Responsibility is coordinated by the United Nations Development Programme. POSD is the first power company in Poland to become a full member of Global Compact. By drawing on the considerable experience gained under this initiative, POSD will certainly set an example for other companies of the PGNiG Group to follow.

PGNiG Group

Diversity of companies from the PGNiG Group allow to benefit from the effects of synergy in every part of our business. As a result, year by year PGNiG straightens its position on gas and oil market, both in Poland and abroad.

Structure of the PGNiG Group

Organisational structure

The PGNiG Group consists of production, trading and service companies incorporated under the commercial law. As at December 31st 2007, PGNiG held shares in 57 commercial-law companies, including:

- 27 companies in which PGNiG held over 50% of shares or votes;
- 16 companies in which PGNiG held between 20% and 50% of shares or votes;
- 14 companies with the Company's equity interest below 20% of shares or votes.
- The total nominal value of PGNiG's equity interests in the companies was PLN 6.3bn.

Equity changes

In 2007, the PGNiG Group added two new special purpose vehicles, namely Polskie LNG Sp. z o.o. and PGNiG Norway A/S, in which PGNiG holds 100% of shares. On the other hand, one of the non-material companies, Przedsiębiorstwo Wielobranżowe MED-FROZ SA w likwidacji (in liquidation), was deleted from the National Court Register (PGNiG had a 23.07% interest in the company's share capital).

The main objective of Polskie LNG Sp. z o.o. is the construction of the LNG regasification terminal and its subsequent operation. PGNiG Norway A/S was created to perform the agreement concluded by PGNiG concerning the purchase of interests in the deposit licence areas of the fields in the Norwegian Continental Shelf. The company's core business consists in the production of crude oil and natural gas.

In 2007, PGNiG increased its equity commitment in the following subsidiaries: GEOFIZYKA Toruń Sp. z o.o., PNiG Kraków Sp. z o.o., Zakład Robót Górniczych Krosno Sp. z o.o., Polskie LNG Sp. z o.o. and PGNiG Norway A/S. The changes did not affect the percentage equity interests held by PGNiG in the subsidiaries, as the Company is their sole shareholder.

Strategic Companies

Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.	100%
Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.	100%
Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o.	100%
Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o.	100%
Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.	100%
Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.	100%

Core Companies

PNiG Jasło Sp. z o.o.	100%
PNiG Kraków Sp. z o.o.	100%
PNiG NAFTA Sp. z o.o.	100%
GEOFIZYKA Kraków Sp. z. o.o.	100%
GEOFIZYKA Toruń Sp. z o.o.	100%
Poszukiwania Naftowe „Diament" Sp. z o.o.	100%
Zakład Robót Górniczych Krosno Sp. z o.o.	100%
SGT EUROPOL GAZ SA	48%
GAS-TRADING SA	43.41%
BSiPG Gazoprojekt SA	75%

Special Purpose Companies

PGNiG Finance BV *	100%
Górnictwo Naftowe Sp. z o.o.	100%
InterTransGas GmbH	50%
Dewon ZSA	36.38%
INVESTGAS SA	100%
NYSAGAZ Sp. z o.o.	51%
Polskie Elektrownie Gazowe Sp. z o.o. w likwidacji	48.48%
Polskie LNG Sp. z o.o.	100%
PGNiG Norway A/S	100%

Other Companies

MATERIAL

BUD-GAZ Sp. z o.o.	100%
BUG Gazobudowa Sp. z o.o.	100%
ZRUG Sp. z o.o. w Pogórskiej Woli	100%
ZUN Naftomet Sp. z o.o.	100%
Geovita Sp. z o.o.	100%

NON-MATERIAL

PI GAZOTECH Sp. z o.o.	69.44%
Sahara Petroleum Technology LLC	49%
PF-K GASKON SA	45.94%
ZRUG Sp. z o.o. w Poznaniu	40.06%
HS Szczakowa SA w upadłości	33.30%
ZRUG Zabrze Sp. z o.o.	21.82%
ZRUG Wrocław Sp. z o.o. w upadłości	15.88%
TeNET 7 Sp. z o.o. w likwidacji	10%
Walcownia Rur „JEDNOŚĆ" Sp. z o.o.	8.30%
IZOSTAL SA	4.61%
Zakłady Metalowe Dezamet SA	2 49%
Huta Stalowa Wola SA	0 85%
Agencja Rozwoju Pomorza SA	0 64%
WOC „TE-MA" Sp. z o.o. w likwidacji	20 97%
BN Naftomontaż Sp. z o.o.	88 83%

PP-UiH TURGAZ Sp. z o.o.	51.14%
ZRUG Warszawa SA w likwidacji	49%
GAZOMONTAŻ SA	45.18%
ZWUG INTERGAZ Sp. z o.o.	38.30%
ZRUG TORUŃ SA	31.33%
AUTOSAN SA	0.06%

Polski Serwis Płynów Wiertniczych Sp. z o.o.	14%
Polskie Konsorcjum Energetyczne Sp. z o.o.	9.50%
Agencja Rynku Energii SA	7.27%
JURLAN SA w upadłości	4.24%
Agencja Rozwoju Regionalnego „Karpaty" SA	1.96%
HSW – Zakład Kuźnia Matrycowa Sp. z o.o.	1.49%

*The Articles of Association of PGNiG Finance BV were amended on February 4th 2008. The company's new Articles of Association provide for, among other things, a change in its name from PGNiG Finance BV to POGC – Libya BV and change in its business profile.

Exploration and Production

GEOFIZYKA Kraków Sp. z o.o.

Geofizyka Kraków provides geophysical services in the area of 2D and 3D seismics and services related to the processing and interpretation of seismic data from geophysical surveys. The company also performs measurements, operations and special work in boreholes, interpretations and perforations, as well as offers drilling seismometry services.

In 2007, Geofizyka Kraków's sales revenue was PLN 226.5m, of which 64% came from exports. The PGNiG Group remained its key customer in the domestic market. The company provided field seismics services in Austria, Hungary, Denmark and Turkey. In the Czech Republic, Geofizyka Kraków performed an agreement for the acquisition and interpretation of the 2D and 3D seismics. The company signed contracts with MOL of Hungary and BRGM, a French scientific institution, for the processing of seismic data, and long-term framework agreements for the provision of services to customers in Latvia and Hungary. At the turn of 2007, Geofizyka Kraków acquired, among others, significant contracts in Pakistan and Libya and geophysical drilling contracts in Slovakia and Hungary.

In 2007, the unstable political situation in Pakistan caused a temporary suspension of work. However, the company – due to its long-term presence in the market – is able to minimise the risk related to the unstable situation and already in the first quarter of 2008 launched work under the contract for OGDCL, a Pakistani company.

On January 29th 2008, Geofizyka Kraków Libya JSC, a joint-stock company, was established to provide geophysical services in Libya. The shareholders of the newly established company comprise: Geofizyka Kraków (60%) and BARARI Co. For Oil Services (40%).

In 2008, the company plans to strengthen its position in Libya, Pakistan, Czech Republic, Slovakia, Hungary, Denmark and Austria and in the domestic market.

		2007	2006
Sales revenue	PLN '000	226,515	196,741
Net profit (loss)	PLN '000	2,073	6,111
Equity	PLN '000	64,013	61,688
Total assets	PLN '000	201,975	214,219
Headcount as at December 31st	persons	874	1,046

PGNiG is the sole shareholder of Geofizyka Kraków.
Financial data according to the IFRS (2006 data restated to ensure comparability).

Poszukiwania Nafty i Gazu Jasło Sp. z o.o.

Poszukiwania Nafty i Gazu Jasło performs comprehensive drilling work and offers specialist drilling services. The company has drilled the deepest research boreholes in Poland (with the depth of 7.5 km and 7.2 km) in the complex geological formations of the Carpathian Mountains.

In 2007, the company's revenue from sales of services was PLN 236.3m, with revenue from drilling work and servicing provided to the PGNiG Group accounting for 65% of the total. Drilling work and specialist servicing was commissioned by PGNiG under 12 drilling contracts. With regard to foreign markets, the company performed drilling work in Libya (it has a branch in Tripoli), reconstruction and drilling work in Ukraine, and specialist servicing in Lithuania, Latvia and Bulgaria.

In 2008 and over the next few years, PNiG Jasło's nearest strategic market will be Poland, with auxiliary markets being Libya, Germany, Russia and Ukraine for oil and geothermal services. Over the next five years the company plans to commit from 35% to 50% of its resources to foreign operations.

		2007	2006
Sales revenue	PLN '000	236,259	200,266
Net profit (loss)	PLN '000	12,092	1,259
Equity	PLN '000	114,592	102,830
Total assets	PLN '000	181,328	161,918
Headcount as at December 31st	persons	861	832

PGNiG is the sole shareholder of Poszukiwania Nafty i Gazu Jasło.
Financial data in accordance with the PAS.

GEOFIZYKA Toruń Sp. z o.o.

Geofizyka Toruń is a geophysical company offering seismic services, such as design work and acquisition of data, digital processing of data and comprehensive geophysical and geological interpretations. The company also provides services in the area of geophysical surveys and operations in boreholes, geology and hydrogeology, drilling, shallow geophysical tests and interpretations of the data.

In 2007, Geofizyka Toruń's revenue was PLN 314.6m. Sales to customers from outside the PGNiG Group accounted for 62% of total sales, while sales from exports of services represented 55% of total sales. Geofizyka Toruń's main markets included India and Syria. The services offered included a comprehensive range of seismic tests. The PGNiG Group was the company's most important domestic customer. Geofizyka Toruń also worked for FX Energy, a U.S. company, as well as for the open-cast mines of the Geological Institute, local government authorities and the construction sector.

In 2007, the company won 92 tenders, the most important of which included contracts for the acquisition of 2D seismics for Shell (Syria) and Reliance Industries (India) and 3D data for Oil India (India) and GeoEnergy (Germany).

In 2008, Geofizyka Toruń intends to continue strengthening its position on the domestic market and selected foreign markets (India, Syria) through the expansion of its service portfolio and optimal utilisation of its resources. The company also plans to enter into new foreign markets (Yemen, Egypt and Saudi Arabia) and invest in new technologies and projects with high growth potential and high rates of return.

		2007	2006
Sales revenue	PLN '000	314,550	301,758
Net profit (loss)	PLN '000	10,109	5,181
Equity	PLN '000	76,853	34,747
Total assets	PLN '000	144,452	131,570
Headcount as at December 31st	persons	1,213	1,187

PGNiG is the sole shareholder of Geofizyka Toruń.
Financial data in accordance with the PAS.

PGNiG Norway A/S

For the purposes of the Norwegian Continental Shelf project, PGNiG established PGNiG Norway A/S – a subsidiary based in Stavanger, Norway. PGNiG Norway A/S was registered in the Register of Business Enterprises on June 9th 2007. Its share capital was NOK 10,000,000; PGNiG acquired 100% shares in the company. In January 2008, the share capital of PGNiG Norway A/S was increased to NOK 497,000,000. The company's business comprises exploration and production of crude oil and natural gas and participation in infrastructural projects related to crude oil and natural gas transmission activities at sea.

In 2007, the Company fulfilled a number of conditions arising under the Polish and Norwegian laws which determined the execution of the agreement for the purchase of interests in licences covering the areas in the Norwegian Continental Shelf. The relevant decisions and authorisations were issued by the Minister of State Treasury, the General Shareholders Meeting of PGNiG, the Norwegian Ministry of Petroleum and Energy, and the Norwegian Ministry of Finance.

PGNiG Norway A/S is currently focused on the Skarv field development project. In December 2007, following approval of the Reserve Development Plan by the Norwegian Parliament, the implementation of the Skarv project formally commenced.

The project comprises execution of 16 boreholes, including 12 production boreholes and 4 injection wells. In the course of their development, the injection wells will be transformed into gas production boreholes with a view to using up the reserve. It is expected that the drilling will start operating at full capacity in June 2009.

		2007
Sales revenue	PLN '000	0
Net profit (loss)	PLN '000	(7,230)
Equity	PLN '000	217,521
Total assets	PLN '000	1,075,353
Headcount as at December 31st	persons	10

PGNiG is the sole shareholder of PGNiG Norway.
Financial data in accordance with the IFRS.

Poszukiwania Nafty i Gazu Kraków Sp. z o.o.

The core business of Poszukiwania Nafty i Gazu Kraków consists in geological, exploratory and production drilling, reconstruction of boreholes and servicing related to drilling, sampling and operation of boreholes. The company also provides mine rescue services as well as hospitality, catering, rental and training services.

In 2007, PNiG Kraków's sales revenue reached PLN 301.0m, with revenue from services provided to foreign customers from outside the PGNiG Group accounting for 68%, and revenue from services provided to PGNiG accounting for 28% of the total.

The major markets in which the company provided drilling services to foreign operators included Kazakhstan, Pakistan, Mozambique and Ukraine. The PGNiG Group, for which the company performed a lot of drilling and servicing work, remained its strategic customer in the domestic market. The company also signed new drilling contracts with operators in Pakistan and Kazakhstan and won a tender for drilling work in Uganda.

The main objective of PNiG Kraków is to continue to expand its operations in the countries where crude oil and natural gas deposits are explored and developed. The most promising export markets are Kazakhstan, Pakistan, Libya and India due to their rich reserves of crude oil and natural gas and relatively low production volumes. In 2008, the company intends to continue its operations in Kazakhstan, Pakistan, Mozambique and Ukraine under the existing contracts.

		2007	2006
Sales revenue	PLN '000	300,957	252,691
Net profit (loss)	PLN '000	22,725	9,867
Equity	PLN '000	113,866	97,927
Total assets	PLN '000	307,245	263,464
Headcount as at December 31st	persons	1,353	1,319

PGNiG is the sole shareholder of Poszukiwania Nafty i Gazu Kraków.
Financial data in accordance with the PAS.

Poszukiwania Naftowe "Diament" Sp. z o.o.

Poszukiwania Naftowe Diament Sp. z o.o. provides specialist drilling services. In addition, it conducts business activity comprising general construction engineering, road construction and construction of environmental protection on-ground structures. Moreover, the company provides vehicle repair, transport and equipment services.

In 2007, PN Diament's sales revenue amounted to PLN 161.3m, 67% of which accounted for sales to the PGNiG Group. The sales to the PGNiG Group comprised numberous specialist services, including repairs of production boreholes, cementing boreholes and work related to drilling fluids. The remaining 33% of sales revenue was derived from the provision of services related to general construction engineering, road construction, and general environmental protection projects as well as construction services for third-party, mainly domestic customers.

In 2008, the PGNiG Group will continue to be the company's key customer. Other customers are third-party companies with whom PN Diament in 2007 entered into new agreements for execution of research boreholes, maintenance work, execution of waste deposition cells in the waste matter storage facility along with the infrastructure, as well as digging, road work and site grading.

		2007	2006
Sales revenue	PLN '000	161,330	121,238
Net profit (loss)	PLN '000	13,253	9,103
Equity	PLN '000	82,004	72,398
Total assets	PLN '000	122,983	101,188
Headcount as at December 31st	persons	613	568

PGNiG is the sole shareholder of Poszukiwania Naftowe Diament.
Financial data in accordance with the PAS.

Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.

The company's core business comprises exploration of crude oil and natural gas reserves, provision of specialist drilling servicing, drilling of boreholes for underground storage of hydrocarbons, liquidation of boreholes in used-up reserves and reconstruction of developed boreholes.

In 2007, PNiG NAFTA posted total sales revenue of PLN 256.9m, 61% of which accounted for revenue from services provided for the PGNiG Group. Moreover, last year the company commenced drilling of boreholes for the underground gas storage facility in Mogilno – the project sponsored by INVESTGAS. PNiG NAFTA continued borehole drilling under the contracts on foreign markets concluded in the previous years and also under new contracts in India, Egypt and Hungary. Exports to customers outside the PGNiG Group represented approximately 30% of the revenue.

In 2008, the company will continue to drill boreholes in India, Egypt and Hungary. PNiG NAFTA conducts advanced marketing and trading activities aimed at diversifying drilling services on the Danish and German markets, where numerous projects on geothermal drilling are being prepared. Given the planned expansion of services outside Poland, the company intends to purchase new drilling equipment.

		2007	2006
Sales revenue	PLN '000	256,904	188,380
Net profit (loss)	PLN '000	32,315	11,083
Equity	PLN '000	100,933	69,903
Total assets	PLN '000	189,234	146,437
Headcount as at December 31st	persons	713	679

PGNiG is the sole shareholder of Poszukiwania Nafty i Gazu NAFTA.
Financial data in accordance with the PAS.

Zakład Robót Górniczych Krosno Sp. z o.o.

Zakład Robót Górniczych Krosno is a specialist service company providing services related to borehole mining. The services comprise in particular work in producing boreholes, including repair and reconstruction of oil and gas production boreholes, shallow drilling (up to approx. 1 km), production borehole recompletion, and liquidation of boreholes, infrastructure and drilling pits, as well as other liquidation of other effects of borehole mining. In addition, the company provides a wide range of drilling, measurement and laboratory services.

In 2007, ZRG Krosno posted total sales revenue of PLN 88.6m. The company's key domestic customer was the PGNiG Group (78% of total sales). Other customers include domestic borehole mining companies engaged in exploration of mineral reserves and geothermal water. ZRG Krosno also provided services on the international markets in Kazakhstan, Mozambique (for PNiG Kraków), Ukraine and Latvia.

In 2008, the company plans to purchase the drill for core drilling up to 1.5 km in depth, thanks to which ZRG Krosno will become one of the few European companies capable of providing professional and efficient core drilling services. The PGNiG Group will remain the company's key customer in the coming years; however, ZGR Krosno plans to diversify into other markets in Central and Eastern Europe.

		2007	2006
Sales revenue	PLN '000	88,560	60,104
Net profit (loss)	PLN '000	3,863	427
Equity	PLN '000	35,873	31,909
Total assets	PLN '000	57,900	47,417
Headcount as at December 31st	persons	427	411

PGNiG is the sole shareholder of Zakład Robót Górniczych Krosno.
Financial data in accordance with the PAS.

Trade and Storage

Polskie LNG Sp. z o.o.

Polskie LNG (PLNG) was established on March 29th 2007. PLNG's initial capital amounted to PLN 28m. The company's main objective is to conduct regasification operations, and in particular unloading, reloading and regasification of LNG at the LNG terminal.

Currently, in the first stage of the implementation of the project, the company is responsible for a number of tasks, including the obtainment of administrative permits and approvals upon which the construction of the terminal and preparation of the front end engineering design (FEED) are conditional. Subsequently, the company will select the general contractor for the construction phase of the project.

On October 9th 2007, PLNG's share capital was increased to PLN 39m, and on January anuary 8th 2008 – by another PLN 11m, to PLN 50m. The shares in the increased capital were covered by PGNiG with cash.

On October 17th 2007, PGNiG assigned to PLNG the lease agreement concerning real estate to be used for the purpose of the for the LNG terminal in Świnoujście (concluded between PGNiG and Zarząd Morskich Portów Szczecin i Świnoujście SA (Port Authority). The local zoning plan for Świnoujście was also amended.

On January 10th 2008, PLNG and SNC Lavalin Services Ltd. concluded an agreement for preparation of the front end engineering design of the LNG terminal together with the obtainment of required permits and approvals.

		2007
Sales revenue	PLN '000	0
Net profit (loss)	PLN '000	(689)
Equity	PLN '000	49,311
Total assets	PLN '000	50,760
Headcount as at December 31st	persons	19

PGNiG is the sole shareholder of Polskie LNG.
Financial data in accordance with the PAS.

INVESTGAS SA

INVESTGAS specialises in the execution of projects in the area of hydrocarbon storage and transport. It also executes specialist and general construction projects. The company provides services covering the entire investment process, from the preparation, to design, construction, technological start-up and operation of storage facilities in salt caverns and other facilities.

In 2007, the company's sales revenue totalled PLN 33.9m. Revenue from sales of services to PGNiG represented 86% of total sales revenue. The services performed for PGNiG included:

- operation, maintenance and extension of the Underground Gas Storage Cavern in Mogilno;
- preparation for the construction of the Underground Gas Storage facility in Kosakowo and the gas pipeline KGZ Kościan-KGHM Polkowice/Żukowice.

The company also conducted preparatory work preceding the construction of the fuel pipeline Ostrów Wielkopolski-Wrocław for PKN ORLEN SA.

INVESTGAS's objective is to maintain the dominating position on the market of construction and operation of gas and fuel gas storage facilities in Poland. The 2008 plans include continuation of the projects conducted in previous years, as well as preparatory work for commencement of the construction of the undersea Baltic Pipe. INVESTGAS's scope of business will be extended to include the provision of comprehensive solutions for execution of PGNiG's strategic projects. The company also plans to increase the value of its sales by acquiring new large fuel contracts.

		2007	2006
Sales revenue	PLN '000	33,941	22,358
Net profit (loss)	PLN '000	2,617	560
Equity	PLN '000	6,305	3,689
Total assets	PLN '000	20,483	15,589
Headcount as at December 31st	persons	86	75

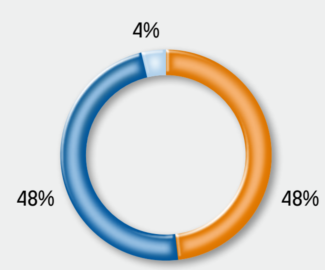
PGNiG is the sole shareholder of INVESTGAS.
Financial data in accordance with the PAS.

System Gazociągów Tranzytowych EuRoPol GAZ SA

The core business of SGT EuRoPol GAZ includes transmission of natural gas. The company transmits gas and sells throughput capacities along the Polish section of the transit gas pipeline system (from the border between Belarus and Poland to the interconnector terminal points on the border between Poland and Germany). In 2007, the company transported 30.8 billion cu. m of gas.

PGNiG holds 48% of shares in SGT EuRoPol GAZ. The company's share capital stands at PLN 80m and is divided into 800,000 shares, with a par value of PLN 100 per share.

» Shareholder structure



		2007	2006
Sales revenue	PLN m	1,508	1,326
Net profit (loss)	PLN m	418	288
Equity	PLN m	3,576	3,157
Total assets	PLN m	6,055	6,409
Headcount as at December 31st	persons	286	285

Financial data in accordance with the PAS.

Distribution

Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.

Dolnośląski Operator Systemu Dystrybucyjnego (DOSD) is the operating successor of Dolnośląska Spółka Gazownictwa. DOSD supplies gas to customers in the Provinces of Wrocław and Zielona Góra, as well as the Wolsztyn County of the Province of Poznań, within a total area of 12.9 thousand km². The company's core business is distribution of gas and management of gas networks.

In 2007, DOSD pumped 910.2 million cu. m of gas into the distribution system, with high-methane gas representing 72% of the volume. Moreover, the company connected new customers to the network. The target annual consumption of gas by the new customers is 29.0 million cu. m.

In 2007, DOSD upgraded the medium and low pressure networks. Approximately 33.6 km of the most failure-prone cast-iron pipelines were replaced. This, together with regular technical inspections, helped reduce the share of losses in gas sales.

In the coming years, the company intends to focus on maintaining its current market position and increasing the volumes of transported gas through:

- Extension of gas pipeline infrastructure to enable connection of new customers;
- Replacement of cast-iron gas pipelines and modernisation of low- and medium-pressure networks;
- Replacement of gas meters manufactured prior to 1992;
- Transport of liquefied gas and its gasification at the LNG unit.

		2007	2006
Sales revenue	PLN m	711	968
Net profit (loss)	PLN m	(166)	1288
Equity	PLN m	795	1,007
Total assets	PLN m	1,056	1,334
Headcount as at December 31st	persons	1,319	1,705
Network length (excluding connections)	km	6,920	6,813

PGNiG is the sole shareholder of Dolnośląski Operator Systemu Dystrybucyjnego.
Financial data according to the IFRS.

Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.

Górnośląski Operator Systemu Dystrybucyjnego (GOSD) was established as a result of the spin-off of the trade functions from Górnośląska Spółka Gazownictwa. GOSD supplies gas to 1.3 million customers in the Province of Kraków, five municipalities/communes in the Province of Łódź and three municipalities/communes in the Province of Kielce, within a total area of 25.2 thousand km². The company's core business is distribution of gas and management of gas networks.

The economic recovery in the region and the planned construction of new roads in the Provinces of Katowice and Opole contribute to the increased demand for gas from both business and retail customers. At the same time, the growing use of energy-saving technologies and higher temperatures recorded during the heating season prevent the occurrence of a direct linear relation between these up-trends and the volumes of gas distributed.

Following completion of the the Lubliniec-Częstochowa transmission gas pipeline in 2007, GOSD started connecting new clients located west of Częstochowa to its network. The towns of Herby and Blachownia are currently being connected, while the connection of towns of Wręczyca Wielka and Kłobuck is scheduled to start in 2008.

		2007	2006
Sales revenue	PLN m	1,127	1,543
Net profit (loss)	PLN m	19	12
Equity	PLN m	1,395	1,480
Total assets	PLN m	1,636	1,752
Headcount as at December 31st	persons	2,515	3,100
Network length (excluding connections)	km	19,827	19,676

PGNiG is the sole shareholder of Górnośląski Operator Systemu Dystrybucyjnego.
Financial data according to the IFRS.

Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o.

Karpacki Operator Systemu Dystrybucyjnego (KOSD) has been the operating successor of Karpacka Spółka Gazownictwa since June 29th 2007. The company's business includes distribution of gas and management of gas networks.

The company's operating area covers four provinces of south-eastern Poland (with a total area of 60.6 thousand km²): the Provinces of Kraków, Rzeszów, Kielce and Lublin. One of the main gas pipelines of the domestic transmission system runs through the region, fed with both imported and domestically-produced natural gas. The company also owns well-developed infrastructure in the form of transmission and distribution gas pipelines, compressor stations and gas storage facilities, as well as first- and second-degree reduction and metering stations.

KOSD plans to extend its distribution network through both the construction of traditional pipelines and development of the LNG market where KOSD will deal with liquefying and distributing the fuel. Liquefied gas distribution will support the initial extension of the company's geographical reach onto areas where the construction of traditional pipelines would not meet the necessary economic conditions. Once the local natural gas market is developed, the distribution of LNG in such areas will enable the economically viable construction of traditional pipelines, which will optimise investment processes and improve the operating efficiency of the assets.

Another business area where the company might find favourable conditions for growth is the CNG market. KOSD's activity would consist in the construction of connections to CNG stations, regular inspections of the stations' equipment and maintenance.

In addition to its core business, KOSD also plans to continue to provide additional services to its customers, including installation and maintenance of equipment, tightness tests and energy audits.

		2007	2006
Sales revenue	PLN m	1,562	2,188
Net profit (loss)	PLN m	(17)	99
Equity	PLN m	1,948	2,336
Total assets	PLN m	2,406	2,851
Headcount as at December 31st	persons	3,265	4,003
Network length (excluding connections)	km	42,546	42,228

PGNiG is the sole shareholder of Karpacki Operator Systemu Dystrybucyjnego.
Financial data according to the IFRS.

Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.

Following the separation of the distribution and trade businesses in 2007, Mazowiecka Spółka Gazownictwa was replaced by Mazowiecki Operator Sytemu Dystrybucyjnego (MOSD). MOSD supplies gas to customers in the Provinces of Warszawa, Łódź and Białystok, as well as in certain parts of the Provinces of Lublin, Olsztyn and Kielce. The company supplies gas to 1.5 million customers within an area of 87 thousand km².

In 2007, the company conducted projects consisting mainly in extension and upgrading of the gas network. The company signed four material connection agreements, under which the target gas consumption will be ca. 3.0 million cu. m. For 2008, MOSD plans construction of connections and pipelines for customers operating in the ceramic, metallurgy, and food processing, as well as cosmetics and chemical industries. These projects will support the target gas consumption of approximately 70.0 million cu. m.

		2007	2006
Sales revenue	PLN m	1,414	1,965
Net profit (loss)	PLN m	(508)	39
Equity	PLN m	1,380	2,015
Total assets	PLN m	1,801	2,728
Headcount as at December 31st	persons	2,920	3,527
Network length (excluding connections)	km	16,202	15,957

PGNiG is the sole shareholder of Mazowiecki Operator Systemu Dystrybucyjnego.
Financial data according to the IFRS.

Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o.

Pomorski Operator Systemu Dystrybucyjnego (POSD) has been the operating successor of Pomorska Spółka Gazownictwa since June 29th 2007. POSD is a gas network operator, responsible for gas distribution. The company's geographical reach (with ta total area of 53 thousand km²) covers the Provinces of Gdańsk and Bydgoszcz, a part of the Province of Olsztyn, as well as two municipalities/communes of the Province of Szczecin (Sławno and Postomino).

POSD's customer service mainly includes cusotmer connections. The company also offers transport of LNG and CNG. The liquefied gas distribution to new areas will enable POSD to generate additional revenues from gas transport and sales.

In 2007, the company commenced the construction of the Bytów-Słupsk pipeline. The primary objective of the extension is to improve security of gas supplies to Słupsk and its vicinity, as well as to enable connection of municipalities and communes located along the pipeline to the gas network. This project will ensure diversified gas supplies and connect the two gas systems supplying the Pomerania region: the POSD and the WOSD networks.

For 2008, POSD plans starting the construction of the Szczytno-Rybno pipeline. Construction of the gas network is necessary to secure uninterrupted gas supplies in the area. It will also enable large customers, as well as municipalities and communes to be connected to the gas network, including in particular towns located at the distant end of the network (Giżycko, Mikołajki, Węgorzewo and Ryn). The project will also support further development of the gas market.

Another planned project is the preparation of design documentation for the construction of the Brodnica-Nowe Miasto Lubawskie pipeline. The project's objective is to connect two separately operated systems within the area covered by POSD into a single streamlined system, which would guarantee secured and diversified gas supplies and the connection of municipalities and communes still remaining out of the reach of the gas network.

		2007	2006
Sales revenue	PLN m	737	971
Net profit (loss)	PLN m	(161)	7
Equity	PLN m	673	926
Total assets	PLN m	1,018	1,230
Headcount as at December 31st	persons	1,741	2,184
Network length (excluding connections)	km	7,936	7,626

PGNiG is the sole shareholder of Pomorski Operator Systemu Dystrybucyjnego.
Financial data according to the IFRS.

Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.

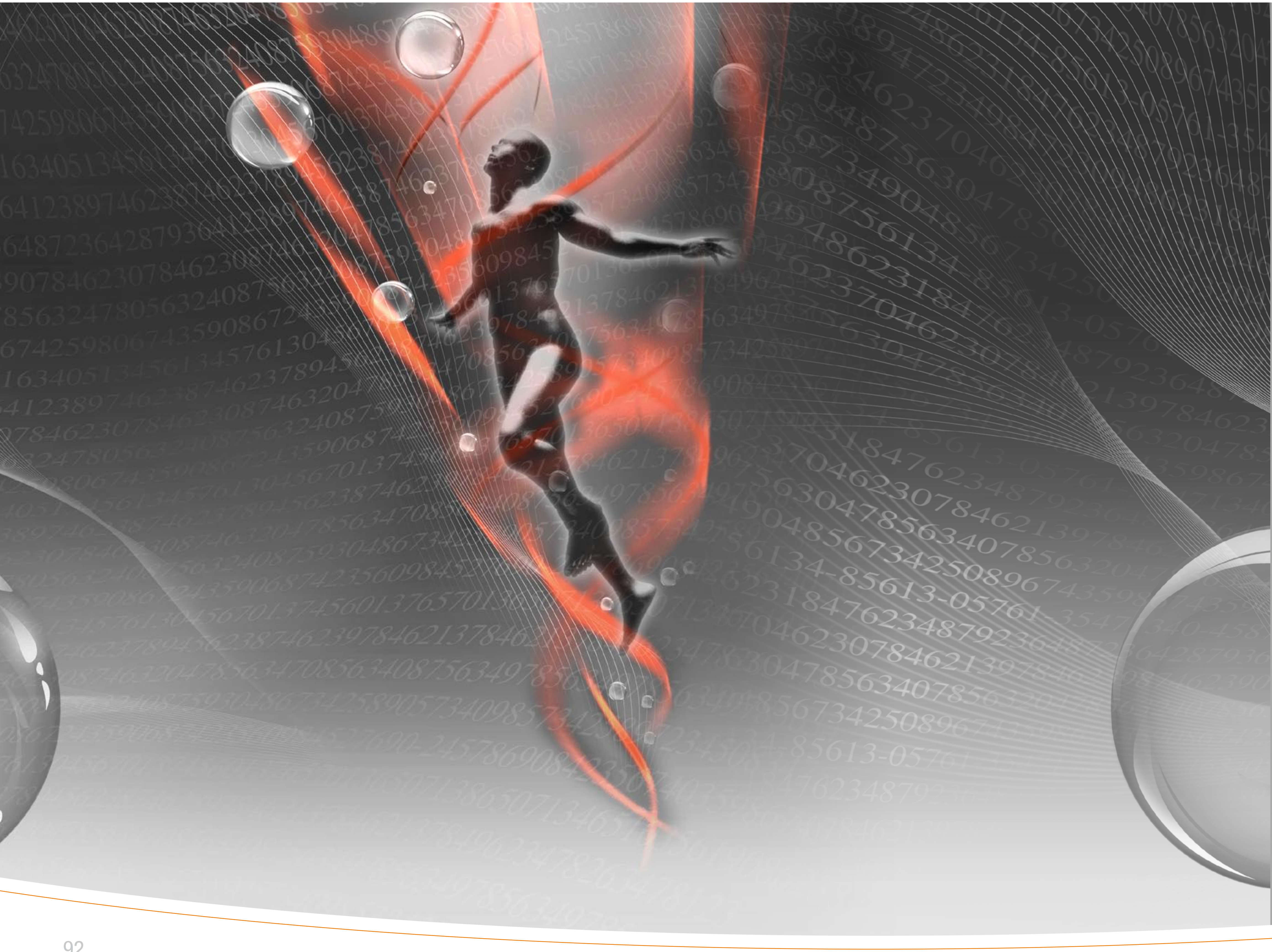
Wielkopolski Operator Systemu Dystrybucyjnego (WOSD) took over the operations of Wielkopolska Spółka Gazownictwa. WOSD currently manages a network of distribution pipelines covering an area of 59 thousand km², including the Provinces of Poznań and Szczecin, several municipalities/communes in the Provinces of Łódź, Wrocław and Zielona Góra, as well as one municipality in the Province of Gdańsk. The percentage of households and businesses connected to the gas network within the area of WOSD's operations is 44.4% (it is high in urban areas and towns, medium in mixed urban and rural areas, and low in typical rural areas).

The volume of gas transmitted in 2007 was affected by changes in the customer mix structure. In 2007, the company executed projects providing for the construction of gas pipelines together with gas stations for companies operating in the automotive, chemical, construction, wood, paper, hospitality, agricultural and food industries. The annual volume of gas distributed under these projects is planned at ca. 30.0 million cu. m. In 2008, the company plans to continue network extension and construction of connections for new customers operating in the construction, power, agricultural and food industries.

		2007	2006
Sales revenue	PLN m	1,117	1,501
Net profit (loss)	PLN m	(299)	(32)
Equity	PLN m	1,184	1,539
Total assets	PLN m	1,521	2,046
Headcount as at December 31st	persons	1,778	2,186
Network length (excluding connections)	km	13,432	12,963

PGNiG is the sole shareholder of Wielkopolski Operator Systemu Dystrybucyjnego.
Financial data according to the IFRS.

Consolidated Financial Statements



To the Shareholders and Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo S.A.

We have audited the attached consolidated financial statements of the Capital Group Polskie Górnictwo Naftowe i Gazownictwo S.A., with Polskie Górnictwo Naftowe i Gazownictwo S.A. with the registered office in Warsaw, ul. M. Kasprzaka 25 as its parent, including:

- consolidated balance sheet prepared as of 31 December 2007, with total assets and liabilities plus equity of PLN 28 401 901 thousand;
- consolidated income statement for the period from 1 January 2007 to 31 December 2007, disclosing a net profit of PLN 916 065 thousand;
- statement of changes in consolidated equity for the period from 1 January 2007 to 31 December 2007, disclosing an decrease in equity of PLN 131 595 thousand;
- consolidated cash flow statement for the period from 1 January 2007 to 31 December 2007, showing a net cash outflow of PLN 1 974 346 thousand;
- additional information and explanations.

Preparation of these consolidated financial statements is the responsibility of the Management Board of the Parent. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these consolidated financial statements.

The consolidated financial statements were drawn up using the full method as regards the Parent, 23 subsidiaries (including one controlled indirectly) and the equity method as regards 1 associated company and 1 co-subsidiary. The financial statements of 16 subsidiaries, associated company and co-subsidiary were subject to audit by other entities authorized to audit financial statements. We received the financial statements of 16 subsidiaries together with opinions resulting from audits of these financial statements. Our opinion on the audit of the consolidated financial statements in respect to the data of these entities has been based on opinions of certified auditors authorized to perform the audits. The data from the financial statements of subsidiaries in the case of which our audit was fully based on opinions of other certified auditors account for 4.3% and 8.4% of consolidated assets and consolidated sales revenues before consolidation adjustments, respectively.

Our audit of the consolidated financial statements was planned and performed in accordance with:

- section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2002 No. 76, item 694 with subsequent amendments),
- auditing standards issued by the National Council of Certified Auditors in Poland

in such a way as to obtain reasonable and sufficient basis for expressing an opinion as to whether the consolidated financial statements were free of material misstatements. Our audit included in particular examination of the consolidation documentation supporting the amounts and disclosures in the consolidated financial statements, assessment of the accounting principles (policy) applied in the preparation of the consolidated financial statements, related material estimates as well as evaluation of the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on the audit results and opinions of other certified auditors, the audited consolidated financial statements of Capital Group Polskie Górnictwo Naftowe i Gazownictwo S.A. for the 2007 financial year give a true and fair view of all the information essential for evaluating the financial position and financial result of the Capital Group for the 12-month period ended 31 December 2007 and, as at that date, in accordance with the International Financial Reporting Standards as approved by the European Union.

Without raising any qualifications as to the correctness and fairness of the audited consolidated financial statements, we would like to draw your attention to the note no. 6 to the consolidated financial statements where Management Board of the Parent indicated factors that influence assumptions made during valuation of shares of co-subsidiary SGT EuRoPol Gaz S.A. The valuation of SGT EuRoPol Gaz S.A. shares has been based on assumptions and future events that are independent of the Parent and its results cannot be precisely determined as at the date of the preparation of the consolidated financial statements. The Management Board of the Parent has also explained the reasons for impairment loss of the SGT EuRoPol Gaz S.A. shares.

The Report on the Capital Group's activities in the 2007 financial year is complete in the meaning of Article 49 clause 2 of the Accounting Act and regulation of the Minister of Finance dated October 19th 2005 on current and periodic information to be published by the issuers of securities and consistent with the underlying information disclosed in the audited consolidated financial statements.

Maria Rzepnikowska
Certified Auditor
No. 3499/1028

Piotr Sokołowski
Członek Zarządu
Biegły Rewident
nr ewid. 9752

Maria Rzepnikowska
Prezes Zarządu
Biegły Rewident
nr ewid. 3499

represented by

DELOITTE AUDYT Sp. z o.o.
ul. Piękna 18, 00-549 Warszawa
tel. 511-08-11, fax 511-08-13
NIP 527-020-07-86; REGON 010076870

Entity entitled to audit financial statements entered under number 73 on the list kept by the National Council of Certified Auditors

Warsaw, 4 April 2008

The above audit opinion is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

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Consolidated Financial Statements for the 12 month periods ended 31 December 2007 and 31 December 2006 Prepared in accordance with International Financial Reporting Standards.

Members of the Management Board

Chairman of the Board	**Michał Szubski**	
Vice Chairman of the Board	**Mirosław Dobrut**	
Vice Chairman of the Board	**Radosław Dudziński**	
Vice Chairman of the Board	**Sławomir Hinc**	
Vice Chairman of the Board	**Mirosław Szkałuba**	

Warsaw, 4 April 2008

Selected Financial Data

for the period ended 31 December 2007

		PLN		EUR	
		31 December 2007	31 December 2006	31 December 2007	31 December 2006
		(in PLN '000)		(in EUR '000)	
I.	Net revenue from sales of products, goods and materials	16 652 134	15 197 653	4 409 059	3 897 734
II.	Profit on operating activities	851 596	1 470 016	225 481	377 014
III.	Profit before tax	1 002 728	1 572 048	265 497	403 182
IV.	Net profit	916 065	1 327 905	242 551	340 567
V.	Net cash flows from operating activities	3 028 691	1 535 163	801 920	393 722
VI.	Net cash flows from investing activities	(2 455 582)	(867 160)	(650 175)	(222 400)
VII.	Net cash flows from financing activities	(2 547 455)	(294 974)	(674 501)	(75 652)
VIII.	Total net cash flows	(1 974 346)	373 029	(522 756)	95 671
IX.	Total assets	28 401 901	30 676 707	7 929 062	8 007 076
X.	Liabilities and provisions for liabilities	7 380 136	9 523 347	2 060 339	2 485 735
XI.	Non-current liabilities	3 879 566	6 725 269	1 083 073	1 755 395
XII.	Current liabilities	3 500 570	2 798 078	977 266	730 340
XIII.	Equity	21 021 765	21 153 360	5 868 723	5 521 341
XIV.	Share capital	5 900 000	5 900 000	1 647 125	1 539 987
XV.	Number of shares (weighted average in '000)	5 900 000	5 900 000	5 900 000	5 900 000
XVI.	Basic earnings per share (in PLN/EUR)	0.16	0.22	0.04	0.06
XVII.	Diluted earnings per share (in PLN/EUR)	0.16	0.22	0.04	0.06
XVIII.	Book value per share (in PLN/EUR)	3.56	3.59	0.99	0.94
XIX.	Diluted book value per share (in PLN/EUR)	3.56	3.59	0.99	0.94
XX.	Dividend declared or paid per share (in PLN/EUR)	0.17	0.15	0.05	0.04

Items I to VIII, XVI to XVII have been translated using the average EUR/PLN exchange rate defined as the arithmetic mean of average exchange rates defined by the National Bank of Poland (NBP) as at the last day of each month of the financial year. Items IX to XIV have been translated using the EUR/PLN exchange rate defined by the NBP as at the end of a given period.

Average EUR/PLN exchange rates defined by the NBP

	31 December 2007	31 December 2006
Average exchange rate during the period	3.7768	3.8991
Exchange rate as at the end of the period	3.5820	3.8312

Consolidated Income Statement

for the period ended 31 December 2007

in PLN thousand

	Additional information	31 December 2007	31 December 2006
		(in PLN '000)	
Sales revenue	3	**16 652 134**	**15 197 653**
Raw materials and consumables used	4	(8 331 611)	(8 611 516)
Employee benefits	4	(2 014 073)	(1 822 123)
Amortization		(1 430 273)	(1 296 140)
External services		(2 692 524)	(2 652 543)
Manufacturing cost of benefits for internal purposes		686 944	564 979
Other operating expenses (net)	4	(2 019 001)	89 706
Total operating expenses	3	**(15 800 538)**	**(13 727 637)**
Profit from operating activities		**851 596**	**1 470 016**
Financial revenue	5	282 287	289 811
Finance costs	5	(115 129)	(265 232)
Share of profits of associates measured using the equity method	6	(16 026)	77 453
Profit before tax		1 002 728	1 572 048
Income tax expense	7	(86 663)	(244 141)
Profit distribution		–	(2)
Net profit for the financial year		**916 065**	**1 327 905**
Attributable to:	9		
Equity holders of the parent		915 032	1 327 430
Minority interest		1 033	475
		916 065	**1 327 905**
Earnings per share attributable to ordinary equity holders of the parent	9		
- basic earnings per share		0.16	0.22
- diluted earnings per share		0.16	0.22

Consolidated Balance Sheet

as at 31 December 2007

in PLN thousand

ASSETS	Additional information	31 December 2007	31 December 2006
		(in PLN '000)	
Non-current assets (long-term)			
Property, plant and equipment	11	18 715 509	18 762 056
Investment property	12	10 578	6 765
Intangible assets	13	84 636	80 807
Investments in associates measured using the equity method	6	557 529	589 284
Available-for-sale financial assets	14	19 997	18 112
Other financial assets	15	2 292 154	3 275 379
Deferred tax asset	16	419 814	453 439
Other non-current assets	17	30 873	48 672
Total non-current assets (long-term)		22 131 090	23 234 514
Current assets (short-term)			
Inventories	18	1 215 980	1 351 203
Trade and other receivables	19	3 331 046	2 473 411
Current tax assets	20	17 499	17 187
Prepayments	21	82 355	32 326
Available-for-sale financial assets	22	22 406	23 265
Assets due to derivative financial instruments	36	17 442	5 723
Cash and bank balances	23	1 583 635	3 539 078
Assets classified held for sale		448	–
Total current assets (short-term)		6 270 811	7 442 193
Total assets		28 401 901	30 676 707

EQUITY AND LIABILITIES	Additional information	31 December 2007	31 December 2006
		(in PLN '000)	
Capital and reserves			
Share capital	26	5 900 000	5 900 000
Exchange differences from translation of foreign operations		(44 525)	(15 609)
Surplus from sale of shares above face value		1 740 093	1 740 093
Other reserves		3 478 081	2 890 068
Retained earnings		9 939 427	10 631 137
Equity (attributed to equity holders of the parent)		21 013 076	21 145 689
Minority interest		8 689	7 671
Total equity		21 021 765	21 153 360
Non-current liabilities			
Borrowings and debt securities	27	31 377	2 343 846
Provisions	29	1 153 805	1 179 882
Deferred income	30	1 142 366	1 144 270
Deferred tax liabilities	31	1 530 359	2 056 074
Other non-current liabilities	32	21 659	1 197
Total non-current liabilities		3 879 566	6 725 269
Current liabilities			
Trade and other payables	33	2 407 981	2 173 487
Borrowings and debt securities	27	106 724	113 621
Liabilities due to derivative financial instruments	36	36 185	55 067
Current tax liabilities	20	281 399	184 556
Provisions	29	181 220	173 765
Deferred income	30	487 061	97 582
Total current liabilities		3 500 570	2 798 078
Total liabilities		7 380 136	9 523 347
Total equity and liabilities		28 401 901	30 676 707

Consolidated Cash Flow Statement

for the period ended 31 December 2007

in PLN thousand

	Additional information	31 December 2007	31 December 2006
		(in PLN '000)	
Cash flows from operating activities			
Net profit		916 065	1 327 905
Adjusted by:		–	–
Share of profits of entities measured using the equity method		16 026	(77 453)
Amortization		1 430 273	1 296 140
Net foreign exchange gain/loss		61 145	33 039
Net interest and dividends		(226 892)	(191 952)
Profit/loss on investing activities		1 407 233	(145 979)
Income tax for the current period		86 663	244 141
Income taxes paid		(482 222)	(243 315)
Other net items		43 644	(36 077)
Net cash generated by operating activities before movements in working capital		3 251 935	2 206 449
Movements in working capital:			
Net change in receivables	34	(923 627)	(1 227)
Change in inventories	34	136 734	(535 802)
Change in provisions	34	44 530	(99 778)
Change in current liabilities	34	180 350	(10 612)
Change in cost prepayments	34	(48 806)	(12 566)
Change in deferred income	34	387 575	(11 301)
Net cash generated by operating activities		3 028 691	1 535 163

	Additional information	31 December 2007	31 December 2006
		(in PLN '000)	
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment as well as intangible assets		33 762	19 159
Proceeds from disposal of shares in entities not included in consolidation		–	4 598
Proceeds on sale of short-term securities		51 304	117 895
Payments to acquire property, plant and equipment as well as intangible assets		(2 979 987)	(1 582 072)
Payments to acquire shares in entities not included in consolidation		(12)	–
Payments to acquire short-term securities		–	–
Received interest		232 705	285 190
Received dividends		24 759	1 415
Proceeds from finance leases		179 330	243 248
Other net items		2 557	43 407
Net cash (used in)/generated by investing activities		(2 455 582)	(867 160)
Cash flows from financing activities			
Net proceeds from issue of equity shares and other capital instruments as well as capital contributions		–	–
Proceeds from borrowings		40 287	22 797
Repayment of borrowings		(2 335 664)	(15 072)
Proceeds from issue of debt securities		–	–
Redemption of debt securities		–	–
Repayment of liabilities due to finance leases		(39 836)	(25 335)
Proceeds from forwards		301	230 350
Payments for forwards		(101)	(242 434)
Dividends paid		(153 002)	(203 519)
Interest paid		(43 337)	(77 996)
Other net items		(16 103)	16 235
Net cash (used in)/generated by financing activities		(2 547 455)	(294 974)
Net changes in cash and bank balances		(1 974 346)	373 029
Net foreign exchange differences		18 903	(15 518)
Cash and bank balances at the beginning of the financial year		3 559 214	3 186 185
Cash and bank balances at the end of the financial year		1 584 868	3 559 214

Consolidated Statement of Changes in Equity

for the period ended 31 December 2007

in PLN thousand

	Equity (attributed to equity holders of the parent) (in PLN '000)				Equity (attributed to equity holders of the parent) (in PLN '000)		Minority interest	Total
	Share capital	Exchange differences from translation of foreign operations	Share premium	Other reserves	Retained earnings	Total		
1 January 2006	5 900 000	(15 609)	1 740 093	2 890 068	10 631 137	21 145 689	7 671	21 153 360
Exchange differences from translation of foreign operations	–	(28 916)	–	–	–	(28 916)	–	(28 916)
Payment of dividend by an associate consolidated using the equity method	–	–	–	–	(15 729)	(15 729)	–	(15 729)
Other changes	–	–	–	–	–	–	(15)	(15)
Reclassifications	–	–	–	588 013	(588 013)	–	–	–
Payment of dividends to equity holders of the parent	–	–	–	–	(1 003 000)	(1 003 000)	–	(1 003 000)
Net profit	–	–	–	–	915 032	915 032	1 033	916 065
31 December 2006	5 900 000	(44 525)	1 740 093	3 478 081	9 939 427	21 013 076	8 689	21 021 765
Inclusion of a subsidiary in consolidation								
1 January 2007	5 900 000	(14 086)	1 740 093	2 624 841	10 450 358	20 701 206	7 243	20 708 449
Exchange differences from translation of foreign operations	–	(1 523)	–	–	–	(1 523)	–	(1 523)
Inclusion of a subsidiary in consolidation	–	–	–	2 944	592	3 536	–	3 536
Other changes	–	–	–	42	(2)	40	(47)	(7)
Reclassifications	–	–	–	262 241	(262 241)	–	–	–
Payment of dividends to equity holders	–	–	–		(885 000)	(885 000)	–	(885 000)
Net profit	–	–	–	–	1 327 430	1 327 430	475	1 327 905
31 December 2007	5 900 000	(15 609)	1 740 093	2 890 068	10 631 137	21 145 689	7 671	21 153 360

1. General Information

Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG S.A.", "the Company"; "the Parent") is the Parent of PGNiG Capital Group ("the Capital Group", "the Group") with its registered office in Warsaw, Poland, postal code: 01-224, at 25 M. Kasprzaka St.. As of 23 September 2005, due to the sale of a new issue of shares on the Warsaw Stock Exchange ("WSE"), PGNiG S.A. was transformed from a entity wholly-owned by the State Treasury into a public company.

The Parent was created as a result of the transformation of the state enterprise operating under the name Polskie Górnictwo Naftowe i Gazownictwo into an entity wholly owned by the State Treasury. The transformation act and by-laws were drawn up in the form of a notarized deed of 21 October 1996.

In signing the act pursuant to which the state enterprise was transformed into a joint stock company the Minister of State Treasury executed the decisions specified in the Prime Minister's Ordinance of 30 September 1996 on the transformation of the state enterprise Polskie Górnictwo Naftowe i Gazownictwo with its registered office in Warsaw into a joint-stock company wholly owned by the State Treasury (Dz. U. No. 116 from 1996, item 553).

The Company was entered in the Commercial Register kept by the District Court for Warsaw, XVI Business Division on 30 October 1996, under number RHB 48382. Currently, the Company is entered in the Register of Entrepreneurs kept by the District Court for Warsaw, XIX Business Division of the National Court Register under number KRS 000059492.
The Company was assigned the statistical number REGON 012216736.

The joint stock company is the legal successor of the state enterprise. The state enterprise's assets and liabilities were contributed to the joint stock company and recognized in accounting records at amounts specified in the closing balances of the state enterprise.

The Company's core business involves exploration for and production of oil and gas, import, warehousing and sale of gaseous fuel.

The Capital Group is the only vertically integrated enterprise in the Polish gas sector and is the leader in areas of the gas sector in Poland. Polskie Górnictwo Naftowe i Gazownictwo S.A. is the Capital Group's parent.

The Capital Group's business involves explorations for deposits, natural gas and crude oil production from domestic deposits, import, warehousing as well as trading and distribution of gaseous fuels. The Capital Group is the main importer of gaseous fuels from Russia, Central Asia, Norway, Germany and the main producer of natural gas from domestic deposits. Natural gas and crude oil production is one of the key factors that ensures the Company's competitive position on the liberalized natural gas market.

Trading and distribution of natural gas, which are the Capital Group's core business along with the production of natural gas and crude oil, are regulated by the Energy Law and therefore subject to licensing. This also means that the Capital Group's revenue is dependent upon the level of gas fuel tariffs approved by the President of the Energy Regulatory Office. Exploration-production activities are regulated by the Geological and Mining Law and conducted based on awarded concessions.

In implementing the assumptions of Directive No. 2003/55/EC of the European Parliament and of the Council, which imposed the obligation to separate gas fuel trading and technical distribution activities, the Group underwent restructuring in 2007. Detailed information on the restructuring process is included in point 42 of these financial statements.

Approval of the financial statements

These Financial Statements were signed and approved by the Board of the Parent Company for publishing on 29th of April 2008.

Structure of the Capital Group

The Capital Group consists of commercial law companies that operate in the production, trading and services sectors.

As at 31 December 2007 the Parent held shares in 57 commercial law companies, including:
- 27 companies, in which PGNiG S.A. held over 50% of shares or votes;
- 16 companies, in which PGNiG S.A. held 20%-50% of shares or votes;
- 14 companies, in which PGNiG S.A. had less than 20% of shares or votes.

The total face value of the capital commitment of PGNiG S.A. in commercial law companies as at 31 December 2007 was equal to PLN 6 338.5 million.

Companies were divided into the following categories in the Capital Group due to their area of operation and significance to the Group's operations:
- strategic companies;
- core companies;
- special purpose entities;
- other companies (material and immaterial).

Strategic companies
Distribution System Operators (DSO) have been classified as strategic companies in the Capital Group. DSO's have been created as a result of the transformation of gas companies due to the implementation of the provisions of Directive No. 2003/54/EC and the Energy Law.

Trading and distribution operations were separated as a result of the above-mentioned imposed process. The business of DSO's involves the distribution of gas fuel as well as operation, repair and expansion of distribution systems.

The following entities are treated as strategic companies:
- Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.;
- Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.;
- Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o.;
- Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.;
- Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o.;
- Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.

Core companies
Core companies are entities 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 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 exploration for deposits, geophysical testing, servicing, gas transit services and design services.

Core companies include:
- Exploration companies (PNiG Kraków Sp. z o.o., PNiG Jasło Sp. z o.o., PNiG Piła Sp. z o.o.). These companies have a key influence on the achievement of strategic objectives and are an important link in the realization of tasks connected with increasing production and maintaining the resources renewability ratio.
- Service providing companies (PN Diament Sp. z o.o., Zakład Robót Górniczych Krosno Sp. z o.o.) The objective of this group of companies is to provide specialized services necessary for exploration and operation task as well as for borehole mining purposes.
- Geophysical companies (GEOFIZYKA Kraków Sp. z o.o., GEOFIZYKA Toruń Sp. z o.o.) Geophysical companies are important core entities in the field of deposit exploration which have a key influence on achieving strategic objectives connected with increasing production and maintaining the resources renewability ratio.
- SGT EUROPOL GAZ S.A. which operates the Transit Gas Pipeline System and GAS-TRADING S.A. (which is also a shareholder of SGT EUROPOL GAZ S.A.) which trades propane-butane and whose activity was also supposed to be related to the operation of the transmission system.
- SGT EUROPOL GAZ S.A. provides access to transmission capacity in the first thread of the Polish section of the transit gas pipeline system and provides natural gas transmission services as part of reserved capacities from the boarder between the Belarusian Republic and the Republic of Poland to end receipt/delivery points.
- Both entities are an important link among core companies and have an effect on gas fuel delivery to the entire Capital Group.
- Designing company (BSiPG Gazoprojekt S.A.) Due to the advisory, designing and project implementation work executed by the company as well as its specialization in gas industry problems it has been classified as a core company due to way it supports the operation of the entire Capital Group.

Special purpose entities
Special purpose entities are companies that have been established in order to fulfill the Capital Group's strategic objectives. Following an analysis of their effects (goal realization level, level of revenues) and the outlook of their results they are reclassified as core companies or wound up/sold, if they do not meet expectations.

This group includes the following entities:
- PGNiG Finance B.V. – company established to service PGNiG S.A. bond issues denominated in EUR. The Company is currently planned to be used for exploration-production activity in Libya.
- Górnictwo Naftowe Sp. z o.o. – incorporated on 22 December 2000 in order to realize the policy adopted by the Council of Ministers on 23 May 2000 – "Amendment of the organizational restructuring program of the state owned public utility – Polskie Górnictwo Naftowe i Gazownictwo". The Company's share capital is equal to PLN 50 000.00. The Company does not execute any operating activity.

in PLN thousand

- InterTransGas GmbH – the Company was established in order to build an interconnection between the Polish and European transmission system as well as in order to facilitate gas fuel transmission operations outside of Poland (the company is not currently executing its core activity).
- Dewon Z.S.A. – PGNiG S.A. became a shareholder in the company so as to obtained access to deposits located abroad, produce raw materials from such deposits and import them to Poland.
- INVESTGAS S.A. – the company was established to provide operation services to KPMG Mogilno.
- NYSAGAZ Sp. z o.o. – the company was established in order to upgrade (as to their consumption of natural gas) and operation of small heat-generating plants, as well as provide electricity delivery and production services. Currently, it is executing projects related to the use of natural gas for heat generation purposes.
- Polskie Elektrownie Gazowe Sp. z o.o. under liquidation – the company was established in order to execute investment projects related to the production of electricity and heat using natural gas, including the operation and servicing of cogeneration units. In June 2007 the shareholders passed a decision to wind up the company and initiate the liquidation process.
- Polskie LNG Sp. z o.o. – the company was established to build and then operate an LNG regasification terminal.
- PGNiG Norway A/S – the company was established under Norwegian law in order to execute a project connected with the development and production of gas and oil from the Skarv, Snadd and Idun deposits in the Norwegian Sea.

Other material companies

Other material companies in the Capital Group include entities that substantially support the Group's operations.

This group includes the following entities:

- BUD-GAZ Sp. z o.o. – provides real estate development and management services as well as offers training services.
- BUG Gazobudowa Sp. z o.o. – its activity involves designing, building and repairing pipelines, oil and gas mining equipment and facilities.
- ZRUG Sp. z o.o. in Pogórska Wola – its activity involves general construction work on line structures: pipelines, electric energy lines, electric traction, telecommunication lines.
- ZUN Naftomet Sp. z o.o. – the company's activity involves the manufacture, repair and maintenance of mining and construction machines.
- Geovita Sp. z o.o. – its activity involves the operation of leisure and tourist resorts.

Other immaterial companies

Other immaterial companies in the Capital Group include entities that are not directly related to the scope of operations executed by PGNiG S.A. or which do not significantly support the Capital Group's operations. This group includes companies that construct, repair and renovate 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 hold a substantial stake or whose objective does not justify the continuation of capital relations with PGNiG S.A.

List of companies that comprise the Capital Group

A list of companies in which PGNiG S.A. holds at least 5% of shares as of 31 December 2007 is presented in the table below.

The share of PGNiG S.A. in other companies

	Company	Share capital (PLN)	Share of PGNiG S.A. in the company's share capital (PLN)	Percentage of share capital held by PGNiG S.A.
	Strategic companies*			
1.	Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o.	1 310 749 000.00	1 310 749 000.00	100.00%
2.	Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.	1 197 314 000.00	1 197 314 000.00	100.00%
3.	Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.	930 819 000.00	930 819 000.00	100.00%
4.	Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.	847 159 000.00	847 159 000.00	100.00%
5.	Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o.	502 750 000.00	502 750 000.00	100.00%
6.	Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.	546 448 000.00	546 448 000.00	100.00%
	Core companies			
7.	PNiG Jasło Sp. z o.o.	100 000 000.00	100 000 000.00	100.00%
8.	PNiG Kraków Sp. z o.o.	105 231 000.00	105 231 000.00	100.00%
9.	PN „Diament" Sp. z o.o.	62 000 000.00	62 000 000.00	100.00%
10.	PNiG Piła Sp. z o.o.	60 000 000.00	60 000 000.00	100.00%
11.	GEOFIZYKA Kraków Sp. z o.o.	34 400 000.00	34 400 000.00	100.00%
12.	GEOFIZYKA Toruń Sp. z o.o.	66 000 000.00	66 000 000.00	100.00%
13.	Zakład Robót Górniczych Krosno Sp. z o.o.	26 903 000.00	26 903 000.00	100.00%
14.	BSiPG Gazoprojekt S.A.	4 000 000.00	3 000 000.00	75.00%
15.	SGT EUROPOL GAZ S.A.	80 000 000.00	38 400 000.00	48.00%
16.	GAS – TRADING S.A.	2 975 000.00	1 291 350.00	43.41%
	Special purpose entities			
17.	Górnictwo Naftowe Sp. z o.o.	50 000.00	50 000.00	100.00%
18.	PGNiG Finance B.V. **	EUR 20 000.00	EUR 20 000.00	100.00%
19.	NYSAGAZ Sp. z o.o.	3 700 000.00	1 887 000.00	51.00%
20.	InterTransGas GmbH **	EUR 200 000.00	EUR 100 000.00	50.00%
21.	INVESTGAS S.A.	502 250.00	502 250.00	100.00%
22.	Polskie Elektrownie Gazowe Sp. z o.o. under liquidation	2 500 000.00	1 212 000.00	48.48%
23.	Dewon ZSA **	UAH 11 146 800.00	UAH 4 055 205.84	36.38%
24.	Polskie LNG Sp. z o.o.	50 000 000.00	50 000 000.00	100.00%
25.	PGNiG Norway A/S **	NOK 497 327 000.00	NOK 497 327 000.00	100.00%

continued on next page

in PLN thousand

The share of PGNiG S.A. in other companies
continued from previous page

	Company	Share capital (PLN)	Share of PGNiG S.A. in the company's share capital (PLN)	Percentage of share capital held by PGNiG S.A.
	Other material companies			
26.	Geovita Sp. z o.o.	86 139 000.00	86 139 000.00	100.00%
27.	BUG Gazobudowa Sp. z o.o.	39 220 000.00	39 220 000.00	100.00%
28.	ZUN Naftomet Sp. z o.o.	23 500 000.00	23 500 000.00	100.00%
29.	ZRUG Sp. z o.o. (in Pogórska Wola)	4 300 000.00	4 300 000.00	100.00%
30.	BUD – GAZ Sp. z o.o.	51 760.00	51 760.00	100.00%
	Other immaterial companies			
31.	BN Naftomontaż Sp. z o.o. under liquidation (composition with creditors)	44 751 000.00	39 751 000.00	88.83%
32.	PI GAZOTECH Sp. z o.o.***	1 203 800.00	65 000.00	69.44% (46.30% of votes)
33.	PPUiH „TURGAZ" Sp. z o.o.	176 000.00	90 000.00	51.14%
34.	Sahara Petroleum Technology Llc **	OMR 150 000.00	OMR 73 500.00	49.00%
35.	PFK GASKON S.A.	13 061 325.00	6 000 000.00	45.94%
36.	GAZOMONTAŻ S.A.	1 498 850.00	677 200.00	45.18%
37.	ZRUG Sp. z o.o. (in Poznań)	3 781 800.00	1 515 000.00	40.06% (41.71% of votes)
38.	ZWUG INTERGAZ Sp. z o.o.	4 700 000.00	1 800 000.00	38.30%
39.	ZRUG TORUŃ S.A.	4 150 000.00	1 300 000.00	31.33%
40.	ZRUG Zabrze Sp. z o.o.	2 750 000.00	600 000.00	21.82%
41.	Polski Serwis Płynów Wiertniczych Sp. z o.o.	250 000.00	35 000.00	14.00%
42.	TENET 7 Sp. z o.o.	50 000.00	5 000.00	10.00%
43.	Polskie Konsorcjum Energetyczne Sp. z o.o.	100 000.00	9 500.00	9.50%
44.	Walcownia Rur JEDNOŚĆ Sp. z o.o.	220 590 000.00	18 310 000.00	8.30%
45.	Agencja Rynku Energii S.A.	1 376 000.00	100 000.00	7.27% (12.70% of votes)
46.	ZRUG Warszawa S.A. w likwidacji	6 000 000.00	2 940 000.00	49.00%
47.	TE-MA WOC Małaszewicze Terespol Sp. z o.o. under liquidation	262 300.00	55 000.00	20.97%
48.	HS Szczakowa S.A. in bankruptcy (liquidation of assets)	16 334 989.44	5 439 494.72	33.30%
49.	ZRUG Wrocław Sp. z o.o. in bankruptcy (liquidation of assets)	1 700 000.00	270 000.00	15.88%

* The value of capital and shares in strategic companies has been disclosed without taking into account increases in capital. Increases in capital, which amounted to PLN 872 475 831 in total, were not registered with the National Court Register as at 31 December 2007.
** Values provided in foreign currency. Where: EUR – euro, UAH – hrywna (Ukraine), OMR – rial (Oman), NOK – Norwegian krone.
*** on 23 April 2004, 854 shares with a value of PLN 1300 each and a total value of PLN 1 110 200 were redeemed without lowering the company's share capital and therefore the face value of existing shares is lower than the company's share capital.

In 2007, the following changes in the structure of the Capital Group took place:

1. six gas trading companies were entered in the National Court Register:
   » Mazowiecka Spółka Obrotu Gazem Sp. z o.o. (on 12 February 2007);
   » Karpacka Spółka Obrotu Gazem Sp. z o.o. (on 31 January 2007);
   » Wielkopolska Spółka Obrotu Gazem Sp. z o.o. (on 30 January 2007);
   » Górnośląska Spółka Obrotu Gazem Sp. z o.o. (on 27 February 2007);
   » Dolnośląska Spółka Obrotu Gazem Sp. z o.o. (on 21 February 2007);
   » Pomorska Spółka Obrotu Gazem Sp. z o.o. (on 8 February 2007);
   » additionally the share capitals of gas trading companies were increased as a result of their assumption of trading branches spun-off from gas companies (these changes were registered by the Court on 29 June 2007);

2. decreases in the share capitals of gas companies and alterations of their names to distribution systems operators were registered in the National Court Register:
   » Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o. (alteration registered on 26 June 2007);
   » Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. (alteration registered on 19 June 2007);
   » Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. (alteration registered on 27 June 2007);
   » Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. (alteration registered on 27 June 2007);
   » Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. (alteration registered on 27 June 2007);
   » Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o. (alteration registered on 22 June 2007);

3. on 21 May 2007, the share capital of Polskie LNG Sp. z o.o. in the amount of PLN 28000 thousand was registered in the National Court Register. All 28000 shares with a face value of PLN 1000 each were assumed by PGNiG S.A.;

4. on 9 June 2007, PGNiG Norway A/S with its seat in Stavanger, Norway, was registered. All 10000 shares with a face value of NOK 1000 each were assumed by the sole shareholder – PGNiG S.A. The total capital commitment of PGNiG S.A. in this entity amounted to NOK 10000 thousand;

5. Przedsiębiorstwo Wielobranżowe MED-FROZ S.A. under liquidation was removed from the National Court Register on 16 April 2007. PGNiG S.A. held a 23.07% stake in the company's share capital;

6. on 1 October 2007 the combination of PGNiG S.A. with the following companies was registered: Wielkopolska Spółka Obrotu Gazem Sp. z o.o., Mazowiecka Spółka Obrotu Gazem Sp. z o.o., Dolnośląska Spółka Obrotu Gazem Sp. z o.o., Górnośląska Spółka Obrotu Gazem Sp. z o.o., Karpacka Spółka Obrotu Gazem Sp. z o.o., Pomorska Spółka Obrotu Gazem Sp. z o.o., which was executed in the manner foreseen by Article 492 § 1 of the Code of Commercial Companies through the transfer of the entire property of Acquirees (Gas Trading Companies) to the Acquirer (PGNiG S.A.).The registration of the above-mentioned combination on 1 October 2007 simultaneously resulted in the removal of Gas Trading Companies from the Register of Entrepreneurs in the National Court Register.

Changes in the structure of the Capital Group occurred also in connection with the increase of capital commitment levels in subsidiaries, i.e.:

1. the share capital of PNiG Kraków Sp. z o.o. was increased by PLN 6381 thousand to PLN 105231 thousand. The increase of the aforementioned company's share capital was registered in the National Court Register on 15 June 2007;
2. the share capital of GEOFIZYKA Toruń Sp. z o.o. was increased by PLN 33000 thousand to PLN 66000 thousand. The increase of the aforementioned company's share capital was registered in the National Court Register on 18 April 2007.
3. the share capital of Zakład Robót Górniczych Krosno Sp. z o.o. was increased by PLN 101 thousand to PLN 26903 thousand. The increase of the aforementioned company's share capital was registered in the National Court Register on 27 July 2007;
4. the share capital of Polskie LNG Sp. z o.o. was increased by PLN 11000 thousand to PLN 39000 thousand. The increase of the aforementioned company's share capital was registered in the National Court Register on 8 October 2007. A subsequent increase in the company's share capital to PLN 50000 thousand, i.e. by PLN 11000 thousand was registered on 7 January 2008;
5. the share capital of PGNiG Norway A/S was increased by NOK 487327000. As at the end of 2007 the capital commitment of PGNiG S.A. in the aforementioned company was equal to NOK 497327000.

in PLN thousand

Other changes in the stake of PGNiG S.A. in other companies were related to the following operations:

1. on 4 July 2007 the decrease in the face value of shares in Huta Stalowa Wola S.A. (HSW S.A.) from PLN 6.86 per share to PLN 4.75 per share was registered in the National Court Register. Therefore the face value of the capital commitment of PGNiG S.A. in HSW S.A. decreased to PLN 2 066.07 thousand. The decrease of the face value of one share in Huta Stalowa Wola S.A. (HSW S.A.) was executed simultaneously with the increase of the share capital of HSW S.A. PGNiG S.A. did not participate in the increase of share capital and therefore the Company's stake in the share capital of HSW S.A. decreased to 0.85%;
2. the increase in the share capital of IZOSTAL S.A. by PLN 7 000 thousand was registered in the National Court Register on 22 August 2007. PGNiG S.A. did not participate in the abovementioned operation and therefore the Company's stake in the share capital of IZOSTAL S.A. decreased to 4.61% (from 6.05% before the increase);
3. the increase in the share capital of Agencja Rozwoju Pomorza S.A. by PLN 2 580 thousand was registered in the National Court Register on 14 September 2007. PGNiG S.A. did not participate in the abovementioned operation and therefore the Company's stake in the share capital of Agencja Rozwoju Pomorza S.A. decreased to 0.64% (from 0.8% before the increase).

The entities of the Capital Group included in consolidation

The following entities have been included in the consolidated financial statements for 2007: the Parent, twenty three subsidiaries (including one indirect subsidiary), one co-subsidiary and one associate.

Name of the Company:	Country	Percentage share in the share capital 31 December 2007	31 December 2006
Subsidiaries			
Geofizyka Kraków Sp. z o.o.	Poland	100.00%	100.00%
Geofizyka Toruń Sp. z o.o.	Poland	100.00%	100.00%
PNiG Jasło Sp. z o.o.	Poland	100.00%	100.00%
PNiG Kraków Sp. z o.o.	Poland	100.00%	100.00%
PNiG Piła Sp. z o.o.	Poland	100.00%	100.00%
Zakład Robót Górniczych Krosno Sp. z o.o.	Poland	100.00%	100.00%
PN Diament Sp. z o.o.	Poland	100.00%	100.00%
PGNiG Norway A/S***	Norway	100.00%	–
Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.	Poland	100.00%	100.00%
Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.	Poland	100.00%	100.00%
Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o.	Poland	100.00%	100.00%
Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.	Poland	100.00%	100.00%
Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o.	Poland	100.00%	100.00%
Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.	Poland	100.00%	100.00%
BUG Gazobudowa Zabrze Sp. z o.o.	Poland	100.00%	100.00%
BN Naftomontaż Krosno Sp. z o.o.	Poland	88.83%	88.83%
ZUN Naftomet Krosno Sp. z o.o.	Poland	100.00%	100.00%
BSiPG Gazoprojekt S.A.	Poland	75.00%	75.00%
PGNiG Finance B.V.	Netherlands	100.00%	100.00%
Geovita Sp. z o.o. Warszawa	Poland	100.00%	100.00%
INVESTGAS S.A	Poland	100.00%	49.00%
Polskie LNG Sp. z o.o.**	Poland	100.00%	–
Subsidiaries of BN Naftomontaż Krosno Sp. z o.o. – a subsidiary			
Naft-Stal Krosno Sp. z o.o.	Poland	59.88%	59.88%
Co-subsidiaries and associates			
SGT EUROPOL GAZ S.A.*	Poland	49.74%	49.74%
GAS-TRADING S.A.	Poland	43.41%	43.41%

* Incl. 48% – direct interest, and 1.74% – interest held indirectly by GAS-TRADING S.A.
** The company was registered in the National Court Register and as of 21 May 2007 is included in the group of subsidiaries consolidated using the full method.
*** PGNiG Norway A/S with its registered office in Stavanger, Norway, was registered on 9 June 2007 and included in the group of subsidiaries consolidated using the full method.

Composition of the Management Board of PGNiG S.A.:

According to the Company's By-laws, the Management Board of PGNiG S.A. is composed of two to seven people. The number of the members in the Management Board is defined by the entity that appoints the Management Board. Members of the Management Board are appointed for a joint three year term. Members of the Management Board or the entire Management Board are appointed by the Supervisory Board. Each of the Members of the Management Board can be dismissed or suspended by the Supervisory Board or the General Shareholders Meeting. During the period in which the State Treasury is the Company's shareholder and the Company employs 500 persons on average per year, the Supervisory Board appoints one person selected by the employees to the Management Board for one term.

As at 31 December 2007 the Management Board of PGNiG S.A. was composed of five persons:

» Krzysztof Głogowski – Chairman of the Management Board;
» Jan Anysz – Vice Chairman of the Management Board;
» Zenon Kuchciak – Vice Chairman of the Management Board;
» Stanisław Niedbalec – Vice Chairman of the Management Board;
» Tadeusz Zwierzyński – Vice Chairman of the Management Board.

There were no changes in the composition of the Management Board of PGNiG S.A. in 2007.

The following changes in composition of the Management Board of PGNiG S.A. took place after 31 December 2007:

On 12 March 2008, the Supervisory Board of PGNiG S.A. dismissed the following persons from the Management Board:

» Mr. Krzysztof Głogowskiego:
» Mr. Zenon Kuchciaka;
» Mr. Stanisław Niedbaleca;
» Mr. Tadeusz Zwierzyńskiego.

In addition, the Supervisory Board of PGNiG S.A. appointed the following persons to the Management Board on 12 March 2008:

» Mr. Michał Szubski as the Chairman of the Management Board of PGNiG S.A:
» Mr. Mirosław Dobrut as Vice Chairman of the Management Board of PGNiG S.A. responsible for technical and investment matters;
» Mr. Radosław Dudziński as Vice Chairman of the Management Board of PGNiG S.A. for strategic projects;
» Mr. Sławomir Hinc as Vice Chairman of the Management Board of PGNiG S.A. responsible for business and financial matters.

On 20 March 2008, the Supervisory Board of PGNiG S.A. dismissed Mr. Jan Anysz from the Management Board and simultaneously appointed Mr. Mirosław Szkałuba, who was selected by the employees of PGNiG S.A., as Vice Chairman of the Management Board.

As at the date of these financial statements, the composition of the Management Board of PGNiG S.A. was as follows:

» Michał Szubski – Chairman of the Management Board;
» Mirosła Dobrut – Member of the Management Board;
» Radosław Dudziński – Member of Management Board;
» Sławomir Hinc – Member of the Management Board;
» Mirosław Szkałuba – Member of the Management Board.

Proxies of PGNiG S.A.

As at 31 December 2007, PGNiG S.A. was represented by the following proxies:

» Ewa Bernacik;
» Bogusław Marzec.

On 30 July 2007, the power of attorney held by Mr. Bogusław Marzec was revoked. At the meeting held on 28 August 2007, the Management Board of PGNiG S.A. re-appointed Mr. Bogusław Marzec as the Company's proxy.

On 3 January 2008, the Management Board of PGNiG S.A. granted powers of attorney to Mr. Jan Czerepok, Mr. Marek Dobryniewski and Mr. Waldemar Wójcik.
These powers of attorney are joint powers of attorney, i.e. in order for documents to be effective from a legal point of view they must be signed by a proxy and a Member of the Management Board of PGNiG S.A.

On 17 March 2008, the power of attorney granted to Mr. Jan Czerepok was revoked.

As at the date of these financial statements, PGNiG S.A. was represented by the following proxies:
Ewa Bernacik;
» Bogusław Marzec;
» Marek Dobryniewski;
» Waldemar Wójcik.

Composition of the Supervisory Board of PGNiG S.A.

According to the Company's By-laws, the Supervisory Board of PGNiG S.A. is composed of five to nine members appointed by the Shareholders Meeting for the period of a three year joint term of office. As long as the State Treasury remains the Company's shareholder, the State Treasury is represented by the Minister of State Treasury, acting in cooperation with the Minister of Economy, who is authorized to appoint and dismiss one member of the Supervisory Board.
One member of the Supervisory Board appointed by the Shareholders Meeting should meet the following conditions:

1. should be elected according to the procedure referred to in § 36 item 3 of the By-laws of PGNiG S.A.;
2. cannot be a related party to the Company or the Company's subsidiary;
3. cannot be a Related Party to the parent or parent's subsidiary; or
4. cannot be a person that has any type of relations with the Company or any entity listed in point 2) and 3), which could significantly affect the ability of such a person to make unbiased decisions when acting a member of the Supervisory Board.

The relationships referred to above do not apply to membership in the Supervisory Board of PGNiG S.A.

Pursuant to § 36 item 3 of the By-laws of PGNiG S.A., the member of the Supervisory Board who should meet the above criteria is elected by way of a separate vote. The right to submit written nominations of candidates to the Supervisory Board that must meet the above conditions to the Chairman of the General Shareholders Meeting is reserved for shareholders who are presented at the General Shareholders Meeting whose subject is to select such a Member. If the shareholders do not elect candidates, candidates to the Supervisory Board that should meet the aforementioned conditions are proposed by the Supervisory Board.

Two-fifths of the Supervisory Board are appointed from persons designated by the Company's employees.

As at 31 December 2007, the Supervisory Board was composed of nine members as follows:

» Andrzej Rościszewski – Chairman of the Supervisory Board;
» Piort Szwarc – Vice Chairman of the Supervisory Board;
» Kazimierz Chrobak – Secretary of the Supervisory Board;
» Wojciech Arkuszewski – Member of the Supervisory Board;
» Mieczysław Kawecki – Member of the Supervisory Board;
» Marcin Moryń – Member of the Supervisory Board;
» Mieczysław Puławski – Member of the Supervisory Board;
» Mirosław Szkałuba – Member of the Supervisory Board;
» Jarosław Wojtowicz – Member of the Supervisory Board.

On 7 February 2008, Mr. Mirosław Szkałuba resigned as the Member of the Supervisory Board.

On 15 February 2008, the General Shareholders Meeting of PGNiG S.A. dismissed the following persons from the Supervisory Board:

» Mr. Piotr Szwarc;
» Mr. Jarosław Wojtowicz;
» Mr. Andrzej Rościszowski;
» Mr. Wojciech Arkuszewski.

In addition, the General Shareholders Meeting of PGNiG S.A. appointed the following persons to the Supervisory Board on 15 February 2008:

» Mr. Stanisław Rychlicki;
» Mr. Grzegorz Banaszek.

As at the date of these financial statements, the composition of PGNiG S.A. Supervisory Board was as follows:

» Stanisław Rychlicki – Chairman of the Supervisory Board;
» Marcin Moryń – Vice Chairman of the Supervisory Board;
» Kazimierz Chrobak – Secretary of the Supervisory Board;
» Grzegorz Banaszek – Member of the Supervisory Board;
» Mieczysław Kawecki – Member of the Supervisory Board;
» Mieczysław Puławski – Member of the Supervisory Board.

2. Information about Applied Accounting Principles

Basis of preparation of the consolidated financial statements

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) in the wording approved by the European Union (EU) as at 31 December 2007.

Due to the fact that the Company applied for the admission of its shares into public trading and the decision of the Securities and Exchange Commission dated 24 May 2005 to allow the public trading of PGNiG S.A. shares, the amended Accounting Act obligated the Group to prepare consolidated financial statements in accordance with IFRS as of 1 January 2005.

Pursuant to IAS 1 "Presentation of financial statements" IFRS consist of International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The scope of information disclosed in the consolidated financial statements is in line with the provisions of IFRS and the Ordinance on current and periodic information submitted by issuers of securities (Dz. U. No. 209, item 1744) issued by the Council of Ministers on 19 October 2005.

The key accounting principles applied by the Capital Group are presented below.

The consolidated financial statements are presented in PLN, and all figures, unless stated otherwise, are presented in PLN thousands.

The Group's financial statements were prepared based on the assumption of the Parent Company's and its subsidiaries' operating as a going concern for 12 months after the balance sheet date, i.e. until 31 December 2008.

According to the Parent Company's Management Board, on the date of signing the financial statements no facts or circumstances indicated the risk to the Company's operating as a going concern during 12 months after the balance sheet date due to intended or forced discontinuation or material limitation of its activities.

Statement of compliance

IFRS consist of standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

During the current year the Group adopted all new and verified standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") as approved for application in the UE and applicable to the Company's operations and to annual reporting periods beginning on or after 1 January 2007. The adoption of new and verified standards and interpretations did not result in changes in the Group's accounting principles that effected the figures disclosed in financial statements for previous years and the current year.

Effect of new standards and interpretations on the financial statements of the Capital Group

IFRS in the form approved by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board ("IASB"), except for the following standards, which as at 31 December 2007 had not yet been adopted for use:

- IFRIC 12 "Service Concession Arrangements"
  IFRIC 12 is effective for annual periods beginning on or after 1 January 2008. The interpretation provides guidelines to operators regarding concession arrangements for services between the public and private sector as regards the recognition of these arrangements for accounting purposes. IFRIC 12 applies to arrangements, in which the concession granting body controls or regulates what services shall be provided by an operator using specific infrastructure and also controls the remaining substantial share in the infrastructure at the end of the arrangement's duration.
- IFRIC 13 "Customer Loyalty Programs"
  IFRIC 13 is effective for annual periods beginning on or after 1 January 2008. The interpretation addresses accounting by entities that grant loyalty award credits. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits.
- IFRIC 14 "IRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".
  IFRIC 14 is effective for annual periods beginning on or after 1 January 2008.
- IAS 23 "Borrowing costs"
  Amendments to the standard are effective for annual periods beginning on or after 1 January 2009
- Revised IFRS 3 'Business Combinations' and corresponding amendments to IAS 27 'Consolidated And Separate Financial Statements'
  Amendments to the standards are effective for annual periods beginning on or after 1 July 2009
- Amendment to IFRS 2 'Share-Based Payment: Vesting Conditions Andcancellations'
  Amendments to the standard are effective for annual periods beginning on or after 1 January 2009
- Amendments to IAS 1 'Presentation Of Financial Statements: A Revised Presentation'
  Amendments to the standard are effective for annual periods beginning on or after 1 January 2009

Parent Company assessed the effects of these interpretations and changes in standards and concluded that the changes in IAS 1 and IAS 23 may affect the presentation of the financial statements upon application. The Group's reporting will as of 1 January 2009 take into account the proposed changes.

In the initial opinion of the Parent Company, the Group's application of IFRIC interpretations on the balance sheet date not materially affect the consolidated financial statements.

In addition, hedge accounting principles applicable to financial assets and liabilities portfolios continue to remain outside the scope of regulations adopted by the EU, as they have not been approved for use in the EU.

According to the estimates of the Parent Company the implementation of hedge accounting principles applicable to financial assets and liabilities portfolios in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" would not have had a material effect on the consolidated financial statements, if they had been adopted by the EU for use as of the balance sheet date.

Additionally, in preparing these consolidated financial statements the Group did not apply the following standards, amendments to standards and interpretations that have been published and approved for use in the EU, but which are not yet effective:

- IFRS 8 „Operating Segments"
  IFRS 8 was issued on 30th Nov 2006 and replaced IAS 14 *„Reporting Financial Information by Segment"*. IFRS 8 shall be effective first time for annual accounting periods beginning after 1st Jan 2009. The IFRS 8 specifies how the enterprise should report the information of operating segments and requires disclosure of information on the basis of internally used reports. The standard implements requirement to disclose information concerning products, services, geographic areas and key customers.
- IFRIC 11 "Group and Treasury Share Transactions"
  IFRIC 11 is effective for annual periods beginning on or after 1 January 2009. IFRIC 11 provides guidance on the application of IFRS 2 "Share-based Payment" to arrangements concerning share-based payment involving an entity's own equity instruments or the equity instruments of another entity from the same capital group (e.g. the parent's equity instruments). No guidance was available thus far as regards the method of recognizing share-based payment arrangements in an entity's financial statements as part of which the entity receives goods or services as consideration for the parent's capital instruments.

Parent Company assessed the effects of these interpretations and changes in standards and concluded that the changes in IFRS 8 may affect the presentation of the financial statements upon application. The Group's reporting will as of 1 January 2009 take into account the proposed changes.

According to the estimates of the Parent Company the remaining changes would not have had a significant effect on the consolidated financial statements, if they had been adopted by the Group as of the balance sheet date. The Group does not intend to adopt these standards and interpretations before their effective date.

Consolidation principles

The consolidated financial statements include the financial statements of the Parent and the financial statements of entities controlled by the Parent (or controlled by the Parent's subsidiaries) prepared as at 31 December 2007 and 31 December 2006, except for subsidiaries which would not have material effect on consolidated financial statements. An entity is considered as controlled whenever the parent company has the ability to influence the financial and operational policy of the entity to generate benefits from its operations.

As at the date of acquisition, assets and liabilities plus equity of an acquiree are measured at their fair value. The surplus of the acquisition price over the fair value of identifiable net assets of the entity is recognized as goodwill. In case the acquisition price is lower than the fair value of identifiable net assets acquired from the entity, the difference is recognized as profit in the income statement for the period when the acquisition took place. The share of minority equity holders is disclosed in appropriate proportions of the fair value of assets and equity. In subsequent periods losses attributable to individual minority equity holders over the value of their shares are charged to the Parent's equity.

Whenever necessary the financial statements of subsidiaries and associates are adjusted in order to standardize accounting principles applied by such an entity with the accounting principles applied by the Parent.

All transactions, balances, revenues and expenses regarding operations between related parties included in consolidation are excluded from consolidation.

The profit or loss of entities acquired or sold during the year is recognized in the consolidated 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 profit or loss for the part of the year covered by the financial statements when the Parent exercised such control.

Minority interest in 2007 includes the part of shares in BSiPG Gazoprojekt S.A., BN Naftomontaż Sp. z o.o. and Naft-Stal Sp. z o.o. that do not belong to the Capital Group.

Investments in associates

An associate is an entity which the Parent can influence significantly, but with respect to which it does not exercise control by participating both in the determination of the financial and operational policy of such an associate, and which is not a joint venture. The financial interest of the Capital Group in its associates is measured using the equity method, except for instances when an investment is classified as held for trading (see below). Investments in associates are measured at acquisition price after adjustment for changes in the Group's share in net assets that took place until the balance sheet date, less the impairment of individual investments. Losses of associates exceeding the value of the Group's share in such associates are not recognized.

The surplus of the acquisition price over the fair value of identifiable net assets of an associate as at the acquisition date is recognized under goodwill. When the acquisition price is lower than the fair value of identifiable net assets of an associate as at the acquisition date, the difference is recognized as profit in the income statement for the period when the acquisition was effected.

Gains and losses resulting from transactions between the Capital Group and an associate are subject to consolidation eliminations in line with the Group's share in such an associate's equity. The balance sheet dates of the associate and the Capital Group are identical and both entities apply uniform accounting principles. Whenever necessary the financial statements of associates are adjusted in order to standardize accounting principles applied by such an entity with the accounting principles applied by the Parent. Losses incurred by an associated entity can imply the impairment of its assets which results in the necessity to create an appropriate revaluation write-down.

Interests in joint ventures

The Group's interests in joint ventures are recognized using the equity method method, according to rules descibed for investment in associates.

Translation of items denominated in foreign currency

The Polish zloty (PLN) is the functional and measurement currency also used for presentation purposes by PGNiG S.A. and its subsidiaries, except for PGNiG Fiancé BV and PGNiG Norway A/S. Transactions denominated in foreign currencies are initially recognized at the exchange rate of the functional currency applicable on the transaction date. Cash assets and liabilities denominated in foreign currency are translated at the exchange rate of the functional currency applicable on the balance sheet date. All exchange differences are recognized in the consolidated cash flow statement, except for exchange differences arising from the translation of assets and liabilities plus equity of foreign entities. These differences are recognized directly in equity until the disposal of interests in these entities. 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 fair value was determined.

The Parent uses foreign currency forwards and options to hedge against risks resulting from exchange rate fluctuations (accounting principles applied by the Capital Group with respect to derivative financial instruments are provided below).

The Pakistani rupee (PKR) is the functional currency of the foreign branch (Operator Branch in Pakistan), where as the euro (EUR) and the Norwegian krone (NOK) are the functional currencies of two subsidiaries – PGNiG Finance BV and PGNiG Norway A/S, respectively. As at the balance sheet date the assets and liabilities of these foreign entities are translated into the presentation currency of PGNiG S.A. at the exchange rate valid on the balance sheet date, whereas their income statements are translated at the average exchange rate for a given financial year. Exchange differences resulting from such translation are recognized directly in equity as a separate item. Upon the sale of a foreign entity, accumulated deferred exchange differences recognized under equity that are related to a given foreign entity are recognized in the income statement.

Property, plant and equipment

Property, plant and equipment is initially measured at acquisition price or manufacturing cost (historical cost measurement model).

The acquisition price or manufacturing cost include the costs incurred on purchase or manufacture of property, plant and equipment and further expenditure incurred in order to increase the asset's useful life, replace major components or the asset's renovation. The acquisition price or manufacture cost of property, plant and equipment does not include interest on borrowings and exchange differences relating to manufacture of property, plant and equipment components, which are charged to profit or loss upon their incurrence.

Spare parts and service equipment are disclosed under inventories and recognized in profit and loss upon use. Material spare parts and emergency equipment qualifies for recognition as property, plant and equipment, if the Group expects to use such items for over a year and if it is possible to allocate them to individual components of property, plant and equipment.

The Group does not increase the carrying amount of property, plant and equipment by their current maintenance costs, which are charged to profit and loss upon incurrence. Current maintenance costs of property, plant and equipment, i.e. repair and maintenance, include labor costs and costs of used materials as well as can include the cost of immaterial spare parts.

Upon the initial recognition of an item of property, plant and equipment as an asset, the Group recognizes it at acquisition price or manufacturing cost less accumulated depreciation and impairment loss.

Depreciation is calculated for all property, plant and equipment, except for land and fixed assets under construction, during the estimated economic useful life of these assets using the straight-line method:

» Buildings and structures 2–40 years
» Plant and equipment, vehicles and other 2–35 years

Property, plant and equipment used under leases or similar agreements are depreciated over the asset's useful life, not longer however, than over the lease term.

Upon disposal or liquidation of property, plant and equipment, the historical cost and accrued depreciation are derecognized from the balance sheet, while any gains or losses are charged to profit and loss.

Fixed assets under construction are measured at acquisition price or the amount of total expenses directly connected with their manufacture, less impairment. Fixed assets under construction are not depreciated until they have been completed and commissioned.

Exploration and prospecting expenditure
Natural gas and oil exploration and prospecting expenditure includes geological work aimed at finding and documenting the deposit and are settled using the geological success method.

The Group recognizes expenditure incurred on initial land analysis (seismic work, development and drawing up of geological maps) directly as cost in the income statement for the period in which such expenditure was incurred.

The Group recognizes bore hole expenditure incurred during exploration and prospecting in assets, as fixed assets under construction.

Previously activated expenditure for bore holes deemed as negative are charged by the Group to the income statement for the period in which such bore holes were deemed negative.

After natural gas and/or oil production has been proven technically and commercially feasible, the Group reclassifies mineral resource exploration and assessment assets to fixed assets or intangible assets, depending on the what they pertain to.

Borrowing costs

Borrowing costs are recognized under expenses at the moment they are incurred in line with the benchmark treatment defined in IAS 23.

Investment property

Investment property is the property (land, building or part of a building, or both) treated by the Company as a source of rental income or held for capital appreciation or both. Investment property is initially recognized at acquisition price plus transaction costs.
The Group has decided to measure its investment property based on the cost model and after initial recognition measures all its investment property in line with the requirements of IAS 16 defined for such a model i.e. at acquisition price or manufacturing cost less accumulated depreciation and impairment loss.

Investment property is derecognized upon its disposal or decommissioning, if no benefits are expected in the future from its sale. All gains and losses arising from the derecognition of investment property are charged to profit or loss for the period in which such property is derecognized.
The Group depreciates investment property based on the straight-line method over the following useful life periods:

» Buildings and structures 2–40 years

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, controlled by the Group and which are likely to cause an inflow of economic benefits to the Group in the future.

The Group initially recognizes intangible assets at acquisition price or manufacturing cost. Subsequent to initial recognition, the Group measures intangible assets at acquisition price or manufacturing cost less amortization and total impairment loss.

The above amortization method reflects the manner in which the economic benefits associated with an intangible asset are used by the Group; however if the use of such benefits cannot be reliably determined, the straight-line method is applied. The adopted amortization method is applied consistently over subsequent periods, unless there is a change in the expected manner in which economic benefits will be used.

The amortization period and method are verified at least at the end of each financial year. If the expected useful life of an asset is significantly different from previous estimates, the amortization period is changed. If the manner in which economic benefits are expected to be used over time is altered significantly, the amortization method is changed accordingly, to reflect such an alteration. The above changes are recognized by the Group as changes of accounting estimates and are charged to the income statement for the period in such estimates are changed.

The following economic useful lives are typically applied in the amortization of intangible assets:

» Acquired licenses, patents and similar items 2–15 years
» Acquired computer software 2–10 years
» Land perpetual usufruct right 40–99 years

The perpetual usufruct right acquired free of charge pursuant to administrative decision issued based on the Law of 20 September 1990 amending the Law on land management and property expropriation is recognized by the Group off the balance sheet only.

Perpetual usufruct rights to land acquired in exchange for consideration are presented as intangible assets and amortized during their useful life. The useful life of the surplus of the first payment over the annual perpetual usufruct fee is equal to the perpetual usufruct period determined in the perpetual usufruct right agreement.

The period of perpetual usufruct acquired for a fee from an entity other than the State Treasury or local government unit is equal to the period from the usufruct acquisition date to the last day of the perpetual usufruct period determined in the perpetual usufruct agreement.

Intangible assets with an indefinite useful life are not subject to amortization.

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

R&D expenses
R&D expenses are not subject to activation and are presented in the income statement 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 income statement in the period, in which they were incurred.

Leases

Leases are classified as finance lease, when the terms and conditions of the agreement transfer in principal all potential benefits as well as risk resulting from being the owner onto the lessee. All other forms of leases are treated as operating leases.

The Group as a Lessor
Assets provided to other entities under finance leases are recognized in the balance sheet under receivables in the amount of the net lease investment, less the principal portion of lease payments for a given financial period calculated to reflect the fixed periodical return rate on the unsettled portion of the net lease investment.

Revenues from interest payable due to finance leases are recognized in appropriate periods using the fixed rate of return on the net value of the Company's receivables due to leases.

Revenues from interest payable due to operating leases are recognized in the income statement using the straight line method during the period resulting from the lease contract.

The Group as a Lessee
Assets used under finance leases are treated as the Group's assets and are measured at fair value upon their acquisition, not higher however than the current value of minimum lease payments. The resulting liabilities toward the Lessor are presented in the balance sheet under finance lease liabilities. Leasing payments have been broken down into interest and the principal, so that the interest rate on the remaining liability would be fixed. Financial expenses are charged to the income statement.

Revenues from operating leases are recognized in the income statement using the straight line method during the period resulting from the lease contract.

Financial assets
If market practice foresees 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. Gains and losses resulting from changes in fair value are recognized in the income statement for a given 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 acquisition 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 acquisition price. Gains or losses from investments measured at adjusted acquisition price are recognized in revenues during their settlement in the period and upon their derecognition from the balance sheet or upon the occurrence of impairment.

Derivatives, which are not considered hedging instruments are measured and recognized at their respective fair values through financial result. Changes in fair values are reported in income statement. Positive value of derivatives is stated in separate items of short-term assets.

Assets classified as held for sale
The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Such is the case, if the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), while its sale is highly probable.

An asset (or a group of assets for disposal) is classified as held for sale after an appropriate decision is passed by a body duly authorized to do so under the Company's By-laws/Articles of Association – the Company's Management Board, Supervisory Board or Shareholders Meeting/General Shareholders Meeting. In addition, an asset (or group of assets for disposal) must be actively offered for sale at a reasonable price as regards its current fair value. Additionally, it should be expected that the sale will be effected within one year from the date of such classification.

The Group does not depreciate non-current assets after they have been classified as held for sale.

Inventories
The value of inventories in the warehouse is determined at acquisition price or manufacturing cost or at net realizable value, whichever lower, less impairment resulting from decreases is economic usefulness. The acquisition price of manufacturing cost include all costs of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition.

Net realizable value is the difference between the estimated selling price in the ordinary course of business and the estimated costs of completion and the estimated costs necessary to make the sale.

Gas fuels stored in storage facilities are measured separately for each storage facility at the weighted average price of gas fuel acquisition.

The release of gas fuel for internal consumption in underground gas storage facilities (UGSF) as well as balance sheet differences are measured by the Company's head office at weighted average acquisition price, which consists of the cost of acquiring gas fuel from all sources abroad, actual cost of production from domestic sources, the cost of denitration and the cost of acquisition from other domestic sources. The release of gas fuel for external sales is measured at gas fuel acquisition cost, i.e. the average actual acquisition price.

Trade and other receivables
Trade receivables are initially recognized at fair value. Upon initial recognition, receivables are measured at amortized cost using the effective interest rate method. Measurement differences are charged to profit or loss. The Group does not discount receivables maturing in less than 12 months from the balance sheet date and in cases, when the discounting effect would be immaterial. Receivables are revalued based on the probability of their payment, if there is objective evidence that the receivables will not be fully recovered.
Revaluation write-downs of receivables for 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 an analysis of historical data regarding settlement of receivables during the year. Repayment ratios are calculated based on such analyses. These ratios are used for determining write-downs for respective groups in the ageing analysis of receivables.

The Group creates revaluation write-downs for gas delivery receivables from customers from tariff groups 5–7 that are overdue by more than 90 days. Their amounts are calculated individually based on the Group's information on the debtor's financial position.

A 100% write-down is created for all accrued interest.

Revaluation write-downs on receivables are charged to other operating expenses or financial expenses, respectively, according to the type of receivables, to which the revaluation write-down applies.

Irrecoverable receivables are charged to losses upon the assessment of their irrecoverability.

Write-off or derecognition of doubtful or irrecoverable receivables results in the reduction of previously created revaluation write-downs.

Receivables derecognized 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 bank balances
Cash and bank balances disclosed in the balance sheet include cash at bank and in hand as well as short-term highly liquid financial assets maturing within three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The balance of cash and bank balances in the consolidated cash flow statement consists of the above-specified cash and bank balances, less unpaid overdraft facilities.

Impairment
The Group evaluates on every balance sheet date whether there is any evidence indicating the impairment of assets. If circumstances that indicate impairment exist, the recoverable amount of a given asset is estimated in order to determine the resulting impairment loss. When an asset does not generate cash flows that are highly independent of cash flows generated by other assets, the analysis is carried out for the cash flow generating group of assets, to which such an asset belongs.

Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that an asset may be impaired.

The recoverable amount is determined as the higher of the two following values: fair value less cost to sell or value in use. The last value corresponds to the present value of estimated future cash flows discounted using a discount rate that reflects the current market time value of money and risks specific for a given asset.

If the recoverable amount of an asset (or asset group) is lower than its net carrying amount, the carrying amount is reduced to its recoverable amount. The related impairment loss is recognized as a cost in the period, when the impairment occurred.

At the moment impairment is reversed, the net value of an asset (or group of assets) is increased to the new estimated recoverable amount, however not higher than the net value of the asset that would have been determined, if impairment had not been recognized in previous years. Reversed impairment loss is recognized under revenues.

Equity
Equity is recorded in accounting records by type and in accordance with principles specified in legal regulations and in the Parent's By-laws.

Share capital is disclosed at face value in amounts complying with the Parent's By-laws and the entry in the commercial register.

Declared but not transferred capital contributions are recognized as called up share capital. Own shares and called-up share capital decreased the value of the Parent's equity.

The share premium is created from the surplus of the issue price of share over their face value less issue costs.

Share issue costs incurred upon incorporation of a joint stock company or increase in share capital are charged to the share premium up to the share premium amount, while the remaining amount is charged to other reserves.

The effects of measurement resulting from the first time adoption of IFRS and all changes in revalued property, plant and equipment as well as intangibles assets are charged to retained earnings/loss.

In accordance with IFRS, net previous year profit can be allocated only to capital or dividends for shareholders. The option foreseen by the Polish legal system under which profit can be allocated to the Company's Social Benefits Fund, Restructuring Fund, employee profit-sharing schemes or other purposes is not reflected in IFRS. Due to the above, the Group recognizes the aforementioned profit reductions as the cost of the period, in which the binding obligation to release the funds have occurred. Distribution of profit among employees is recognized in payroll cost, while funds released to the Company's Social Benefits Fund are recognized under employee benefits costs.

Borrowings
Interest bearing bank loans are recorded at the value of obtained inflows less the direct cost of obtaining these funds. Following initial recognition interest-bearing credit facilities and loans are recognized at adjusted acquisition price using the effective interest rate. The adjusted acquisition price includes borrowing costs as well as discounts and premiums received upon the settlement of the liability.

The difference between net inflows and redemption value is disclosed in financial revenues or expenses over the loan period.

Provisions
Provisions are created when a potential liability (legal or customary) of a reliably estimated value, which will most likely result in the outflow of economic benefit generating assets from the Company, is generated as a result of future events. The value of created provisions is verified at the balance sheet date in order to adjust its value to the current forecast.

The Group measures its provisions by discounting them, if the effect of changes in the time value of money is material; using a pre-tax discount rate that reflects current market estimates of the time value of money as well as risks related to a given liability that are not reflected in the most appropriate cost estimate. If a provision is discounted, increases in its value over time are recognized as borrowing costs. The discount rate should not bear the risk by which future estimated cash flows have been adjusted.

When provisions pertain to the cost of liquidating production related assets, the initial value of the provision increases the value of the respective fixed asset. Subsequent adjustments of the provision resulting from changes in estimates are also treated as an adjustment of a fixed asset's value.

A detailed description of the bases of the Group's provisions is provided in point 29.

Prepayments and accruals
The Capital Group's constituent entities create prepayments for expenses that pertain to future reporting periods. They are presented in the balance sheet under assets as a separate item.

Accruals are liabilities payable for goods or services that have been obtained/received, but not yet paid, billed or formally agreed with the supplier, together with amounts payable to employees (e.g. amounts related to accrued remuneration for paid vacations). These settlements are recognized in the balance sheet under equity and liabilities jointly with trade and other liabilities.

The Capital Group's constituent entities recognize deferred income in order to allocate revenues to future reporting periods upon realization.

Parent Company recognizes revenues of future periods related to forecast gas sales and additional charges for ordered and not collected gas made available under „take or pay contracts" as deferred income.

The Parent and DSO Companies recognized 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. These settlements are disclosed in the balance sheet under liabilities and equity as a separate item.

Trade and other liabilities
Trade liabilities are liabilities payable for goods or services, which have been obtained/received and have been billed or formally agreed 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 employee benefits as well as accruals and public–legal liabilities.

Financial liabilities
Financial liabilities are measured at amortized cost except for derivatives (negative value). Derivatives of negative value which are not considered hedging instruments are measured and recognized at their respective fair values through financial result. Changes in fair values are reported in income statement.

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

Sale of goods and products
Sales revenues are recognized at fair value of payments due or received and represent receivables for services, products and goods supplied under regular business operations less discounts, VAT and other sale-related taxes (excise duty). Sales of goods and products are recognized at the moment of delivery of goods and transfer of the related ownership title.

Services
Revenues from services are recognized according to their actual status as at the balance sheet date. If services include an indefinable number of actions performed within a finite period, revenues are recognized on a straight line basis (equally distributed) over the entire period. If a certain action is more important than other actions, the recognition of revenues is deferred until the action is performed. If the result of the service-related transaction cannot be reliably estimated, revenues from the transaction are recognized only up to the amount of incurred expenses, which the entity expects to recover.

Interest
Interest income is recognized incrementally with respect to the principal in line with the effective interest rate method.

Dividends
Dividend revenues are recognized when the cum dividend is established.

Rental income
Income from the rental of investment property is recognized in accordance with conditions resulting from concluded leases.

Construction contracts

Revenues from contracts are measured at the fair value of received or due payments.

If the outcome of a construction contract can be reliably measured, revenues and expenses are recognized in relation to the stage of completion of the contract as at the balance sheet date. The stage of completion is measured as the proportion of incurred costs to the total estimated contract costs except for cases when such a methodology would not reflect the actual stage of completion. Any changes in the scope of work, claims and bonuses are recognized at levels agreed with the client.

If a contract's value cannot be reliably estimated, contract revenues are recognized in ac-cordance with the probable level of contract costs that will be covered. Contract related costs are recognized as expenses of the period in which they were incurred.

If there is probability that contract costs will exceed revenues, the expected loss on the contract is immediately recognized as an expense.

Government grants

Government grants to non-current assets are presented in the balance sheet as deferred income and gradually charged to the income statement over their expected useful life in the form of annual write-offs.

Income tax

Obligatory tax charges include: Corporate Income Tax and deferred tax.

The current tax liability is calculated based on the tax base for a given financial year. Tax profit (loss) differs from net book profit (loss) due to the exclusion of taxable revenues and expenses classified as tax-deductible in following years and items of expenses and revenues, which will never be subject to taxation. Tax appropriations are calculated based on tax rates applicable in a given financial year.

Deferred tax is calculated based on the balance-sheet method as tax payable or refundable in the future based on the difference between the carrying amount of assets and liabilities and their corresponding tax values used for the calculation of the tax base.

A provision for deferred tax is created on all temporary positive differences subject to taxation, whereas deferred tax assets are recognized up to the amount of probable negative temporary differences that may decrease future taxable income. Tax assets or liabilities do not occur if the temporary difference results from goodwill or the initial recognition of another asset or liability in a transaction that does not effect either tax profit/loss or accounting profit/loss. The deferred tax provision is recognized from temporary tax differences created as a result of investments in subsidiaries 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 analysis as at every balance sheet date and if the expected future tax income is insufficient to realize the asset or its part, a relevant write-down is created.

Deferred tax is calculated based on tax rates applicable when the given asset is realized or the liability becomes due. Deferred income tax is charged to the income statement, except for cases when it concerns items directly recognized in equity. In the latter case, deferred tax is also charged directly to equity.

3. Segment Reporting

It has been decided that segments reporting will be conducted by business segments. The Group operates in the following four segments:

a. *Exploration and output*. This segment relates to the delivery of gas fuel, crude oil, geophysical and exploration services. It covers the entire gas and crude oil production process from pre-exploration geophysical testing up to production and preparation of products for sale.
b. *Trading and storage*. This segment deals with the purchase, sale and storage of gas fuel.
c. *Distribution* This segment deals with the delivery of gas fuel to end customers, mainly individual customers.
d. In Q3 of 2007 gas fuel trading (purchase and sale) was assigned to gas trading companies that were spun off on 29 June 2007(currently OSD companies). As of 1 October 2007 gas trading companies were merged with PGNiG S.A. and therefore gas fuel trading was assigned to PGNiG S.A. in Q4 of 2007. Therefore, the results of gas trading companies were taken into account in the trading and storage segment.
e. *Other activities*. This segment covers design services and the manufacture of machines for gas and crude oil mining equipment and facilities.

A segment's assets include all operating assets used by a segment, including cash, receivables, inventories as well as fixed assets less revaluation write-downs and amortization. While most assets can be directly allocated to individual segments, the value of assets used by two or more segments is allocated to individual segments based on the extent the respective segments use these assets.

Segment liabilities include any operating liabilities, mainly trade, payroll and tax liabilities, both due and accrued as well as any provisions for liabilities that can be allocated to a given segment.

Both segment assets and segment liabilities are net of deferred tax.

Intra-segment transactions were eliminated.

All transactions between segments are concluded based on internally agreed prices.

3. a. Business segments

The below tables present data on revenues and profits as well as certain assets and liabilities broken down into the Group's business segments for periods ended 31 December 2007 and 31 December 2006.

Period ended 31 December 2007	Exploration and output	Trading and storage	Distribution	Other	Eliminations	Total
Income statement			(in PLN '000)			
Sales to external customers	2 054 235	9 468 768	5 013 685	115 446	–	16 652 134
Sales between segments	1 851 423	4 416 236	1 643 624	218 236	(8 129 519)	–
Total segment revenues	3 905 658	13 885 004	6 657 309	333 682	(8 129 519)	16 652 134
Amortization/depreciation	(582 467)	(126 746)	(711 187)	(9 873)	–	(1 430 273)
Other expenses	(2 322 125)	(12 562 582)	(7 257 185)	(315 469)	8 087 096	(14 370 265)
Total segment expenses	(2 904 592)	(12 689 328)	(7 968 372)	(325 342)	8 087 096	(15 800 538)
Segment performance	1 001 066	1 195 676	(1 311 063)	8 340	(42 423)	851 596
Net financial expenses	–	–	–	–	–	167 158
Share in profits/(losses) of controlled entities measured using the equity method	–	(16 026)	–	–	–	(16 026)
Profit before tax	–	–	–	–	–	1 002 728
Income tax	–	–	–	–	–	(86 663)
Net profit	–	–	–	–	–	916 065
Balance sheet						
Segment assets	9 058 665	11 777 275	9 183 395	279 444	(2 938 092)	27 360 687
Investments in entities measured using the equity method	–	557 529	–	–	–	557 529
Unallocated assets	–	–	–	–	–	63 871
Deferred tax assets	–	–	–	–	–	419 814
Total assets	–	–	–	–	–	28 401 901
Total equity	–	–	–	–	–	21 021 765
Segment liabilities	2 183 691	3 655 773	2 397 611	86 075	(2 938 092)	5 385 058
Unallocated liabilities	–	–	–	–	–	464 719
Deferred tax provision	–	–	–	–	–	1 530 359
Total liabilities and equity	–	–	–	–	–	28 401 901
Other segment information						
Expenditure for property, plant and equipment and intangibles	(1 686 170)	(460 896)	(822 178)	(10 743)	–	(2 979 987)
Revaluation of assets	(2 661 341)	(2 617 292)	(10 531 312)	(5 488)	–	(15 815 433)
Revaluation of unallocated assets	–	–	–	–	–	(55 628)

Okres zakończony 31 December 2006 roku	Exploration and output	Trading and storage	Distribution	Other	Eliminations	Total
Income statement			(in PLN '000)			
Sales to external customers	1 822 481	4 167 322	9 110 156	97 694	–	15 197 653
Sales between segments	1 145 820	6 798 679	8 821	199 398	(8 152 718)	–
Total segment revenues	2 968 301	10 966 001	9 118 977	297 092	(8 152 718)	15 197 653
Amortization/depreciation	(486 477)	(132 662)	(666 434)	(10 567)	–	(1 296 140)
Other expenses	(1 494 106)	(10 574 781)	(8 221 246)	(285 415)	8 144 051	(12 431 497)
Total segment expenses	(1 980 583)	(10 707 443)	(8 887 680)	(295 982)	8 144 051	(13 727 637)
Segment performance	987 718	258 558	231 297	1 110	(8 667)	1 470 016
Net financial expenses	–		–	–	–	24 579
Share in profits/(losses) of controlled entities measured using the equity method	–	77 453	–	–	–	77 453
Profit before tax	–	–	–	–	–	1 572 048
Income tax	–	–	–	–	–	(244 141)
Profit distribution	–	–	–	–	–	(2)
Net profit	–	–	–	–	–	1 327 905
Balance sheet						
Segment assets	7 785 708	10 899 897	11 557 602	278 310	(915 238)	29 606 279
Investments in entities measured using the equity method	–	589 284	–	–	–	589 284
Unallocated assets	–	–	–	–	–	27 705
Deferred tax assets	–	–	–	–	–	453 439
Total assets	–	–	–	–	–	30 676 707
Total equity						21 153 360
Segment liabilities	1 303 902	1 643 053	2 649 919	92 767	(915 238)	4 774 403
Unallocated liabilities	–	–	–	–	–	2 692 870
Deferred tax provision	–	–	–	–	–	2 056 074
Total liabilities and equity	–	–	–	–	–	30 676 707
Other segment information						
Expenditure for property, plant and equipment and intangibles	(388 142)	(433 623)	(753 399)	(6 908)	–	(1 582 072)
Revaluation of assets	(2 597 972)	(2 152 999)	(9 368 214)	(3 305)	–	(14 122 490)
Revaluation of unallocated assets	–	–	–	–	–	(56 134)

3. b. Geographical segments

The Group operates mostly in Poland. Revenues from the export sales of products, goods and materials in 2007 represent 6.99% (6.68% in 2006) of total net revenues from the sales of products, goods and materials.

	31 December 2007	31 December 2006
	(in PLN '000)	
Domestic sales	15 488 495	14 182 478
High-methane gas	13 099 245	12 164 217
Nitrated gas	1 255 456	1 109 329
Crude oil	335 142	325 626
Helium	12 270	11 957
Propane-butane gas	43 712	46 503
Gasoline	1 650	6 286
Decompressed gas	18 513	12 992
Geophysical and geological services	36 702	28 930
Exploration services	75 018	59 648
Construction-assembly services	25 095	20 234
Design services	10 971	13 722
Hotel services	33 043	29 889
Other services	261 659	327 733
Other products	256 050	10 728
Goods and materials	23 969	14 684

	31 December 2007	31 December 2006
	(in PLN '000)	
Export sales	1 163 639	1 015 175
High-methane gas	27 877	24 023
Nitrated gas	–	–
Crude oil	442 731	413 511
Helium	18 228	20 773
Propane-butane gas	–	–
Gasoline	–	–
Decompressed gas	–	533
Geophysical and geological services	334 911	295 621
Exploration services	302 632	230 240
Construction-assembly services	14 098	4 811
Design services	875	990
Hotel services	–	–
Other services	6 197	8 547
Other products	14 114	11 240
Goods and materials	1 976	4 886
Total	16 652 134	15 197 653

Export sales is directed mainly to: Great Britan, India, Kazachstan, Libia, Egypt, Pakistan, Mozamique, Germany, Czech, Ukraine, Norway, Hungary, Austria and Slovenia.

The majority of the Group's assets are located in Poland. As at 31 December 2007, the value of assets located abroad represented 4.68% (0.57% as at 31 December 2006) of the total amount of assets.

	31 December 2007	31 December 2006
	(in PLN '000)	
Assets located in Poland	27 072 496	30 501 054
Assets located abroad*	1 329 405	175 653
Total	28 401 901	30 676 707

* Of the amount stated as at 31 December 2007, PLN 1 075 353 thousand was located in Norway (assets owned by the subsidiary – PGNiG Norway A/S).

The operations of the Group's constituent entities in Poland are not regionally diversified as regards risk and ROI level. Therefore, the Group presents information by business segments only.

4. Employee Benefits and Other Net Operating Expenses

Raw ma terials and consumables used

	31 December 2007	31 December 2006
	(in PLN '000)	
Gas	(7 727 120)	(8 068 330)
Other materials and consumables	(604 491)	(543 186)
Total	(8 331 611)	(8 611 516)

Employee benefits

	31 December 2007	31 December 2006
	(in PLN '000)	
Payroll	(1 488 811)	(1 332 115)
Social security and other benefits	(525 262)	(490 008)
Total	(2 014 073)	(1 822 123)

Other operating expenses (net)	31 December 2007	31 December 2006
	(in PLN '000)	
Change in net provisions	43 981	160 993
Change in net write-downs*	(1 517 347)	(111 295)
Taxes and charges	(462 908)	(433 952)
Interest on net non-financial items	308 245	318 079
Exchange differences on net non-financial items	(185 353)	62 622
Value of goods and materials sold	(51 854)	(44 337)
Proceeds from deferred income previously recognized in the balance sheet	72 508	82 861
Loss on disposal of non-financial non-current assets	(19 395)	(19 724)
Difference from measurement of assets handed over as a dividend	226 567	175 379
Provisions for costs of withdrawal of assets from lease	(229 975)	–
Property insurance	(35 501)	(32 337)
Business trips within the country and abroad	(52 237)	(43 464)
Change in inventories	(16 703)	9 542
Other net expenses	(99 029)	(34 661)
Total	(2 019 001)	89 706

* Incl. revaluation of DCF write-off on assets of OSD companies (1 317 341) thousand PLN.

5. Financial Revenues and Expenses

	31 December 2007	31 December 2006
	(in PLN '000)	
Financial revenues	282 287	289 811
Profit from forward contracts valuation and redemption	30 098	–
Interest income	90 800	75 370
Exchange gains	–	–
Revaluation of investments	79 675	86 089
Gain on disposal of investments	50 194	108 301
Dividends and profit sharing	27 027	8 449
Other financial revenues	4 493	11 602
Financial expenses	(115 129)	(265 232)
Loss on measurement and redemption of forwards	–	(109 667)
Interest expense	(44 108)	(84 098)
Exchange losses	(44 651)	(30 837)
Discount of provision for reclamation of wells	–	(5 362)
Revaluation of investments	(16 245)	(27 696)
Loss on disposal of investment	–	–
Commission on credit facilities	(7 502)	(3 216)
Other financial expenses	(2 623)	(4 356)
Profit/loss on financing activity	167 158	24 579

6. Measurement of Associates Using the Equity Method

	31 December 2007	31 December 2006
	(in PLN '000)	
SGT EUROPOL GAZ S.A.		
Share of PGNiG S.A. Capital Group in the company's share capital*	49.74%	49.74%
Core business	Gas fuel transmission	Gas fuel transmission
Measurement of shares using the equity method	1 522 822	1 298 137
Acquisition price	38 400	38 400
Share in changes in capital	1 561 222	1 336 537
Impairment	(1 022 522)	(780 537)
Carrying amount of investment	538 700	556 000
GAS-TRADING S.A.		
Share of PGNiG S.A. Capital Group in the company's share capital	43.41%	43.41%
Core business	Trading	Trading
Measurement of shares using the equity method	17 538	31 993
Acquisition price	1 291	1 291
Share in changes in capital	18 829	33 284
Impairment	–	–
Carrying amount of investment	18 829	33 284
Total carrying amount of investment	557 529	589 284

* Including a 48% direct share and a 1.74% indirect share through Gas-Trading S.A.

6. a. Reconciliation of investments in associates measured using the equity method

	31 December 2007	31 December 2006
	(in PLN '000)	
Opening balance of the investment's carrying amount	589 284	512 076
Dividend paid by GAS-TRADING S.A.	(15 729)	–
Discontinued measurement of INVESTGAS S.A. using the equity method *	–	(245)
Measurement charged to profit/loss, including:	(16 026)	77 453
Measurement of SGT EUROPOL GAZ S.A.	(17 300)	62 200
Measurement of GAS TRADING S.A.	1 274	15 008
Release of impairment on shares in INVESTGAS S.A.*	–	245
Closing balance of the investment's carrying amount	557 529	589 284

* In 2006 due to the increase of PGNiG S.A.'s share in the entity to 100%, the company was included in consolidation using the full method.

The audit of financial statements of SGT EUROPOL GAZ S.A. for 2007 has not been finalised as at the preparation date of these financial statements.

The Parent estimated its share in the equity of SGT EUROPOL GAZ S.A. based on the value of such capital resulting from the financial statements of SGT EUROPOL GAZ S.A. as at 31 December 2007 prepared in accordance with the Polish Accounting Act, adjusted by differences in the accounting policies applied in the Group as well as the result on intra-Group transactions. The differences in accounting principles concerned the recognition of interest expenses in the net value of fixed assets. The Group applies the model approach for recognizing borrowing costs (IAS 23), under which the gross value of fixed assets does not include borrowing costs. Next Parent Company tested the measured shares of SGT EUROPOL GAZ S.A. for impairment using the discounted cash flows method, based on the data included in the financial plan of SGT EUROPOL GAZ S.A. for 2006–2019. The discounted cash flows include all cash flows generated by SGT EUROPOL GAZ S.A., also flows related to the servicing of interest-bearing external sources of funding (interest expense and repayment of loan or credit facility principal). As at 31 December 2007, in using the equity method, the Parent calculated the value of its stake in the co-subsidiary's equity at PLN 1 561 221 thousand.

The results of impairment tests show significant differences depending on the adopted assumptions.

Due to reasons out of the Company's control, the assumptions adopted in the measurement of the value of shares include a significant uncertainty related to material fluctuations in exchange rates and tariff policy changes.

Taking the above facts into account, the Parent Company decided to increase the existing impairment on the investment in SGT **EUROPOL GAZ** S.A. to the amount of PLN (1 022 522) thousand (at the end of 2006, the write-down amounted to PLN (780 537) thousand).

7. Income Tax

The Capital Group does not constitute a taxable capital group under Polish regulations. Each of the entities that comprises the Group is a separate taxpayer.

	Note	31 December 2007	31 December 2006
		(in PLN '000)	
Profit before tax		1 002 728	1 572 048
Tax rate applicable in the period		19%	19%
Tax according to the binding tax rate		(190 518)	(297 662)
Permanent differences between the gross profit (loss) and tax base		103 855	54 548
Tax liability disclosed in the consolidated income statement		(86 663)	(244 141)
Current income tax	7a	(578 753)	(366 366)
Deferred income tax	7b	492 090	122 225
Effective tax rate		9%	16%

7. a. Current income tax

	31 December 2007	31 December 2006
	(in PLN '000)	
Profit before tax (consolidated)	1 002 728	1 572 048
Consolidation adjustments	182 376	707 814
Differences between the gross profit and income tax base	1 776 266	(432 254)
Revenues not included in taxable income	2 178 306	3 425 636
Costs not classified as tax-deductible	(4 030 691)	(3 019 360)
Taxable income not classified as revenues for accounting purposes	1 637 765	1 571 801
Tax-deductible expenses not classified as expenses for accounting purposes	(1 671 381)	(1 572 627)
Deductions from income	(42 503)	(25 152)
Income tax base	2 961 370	1 847 608
Tax rate in a given period	19%	19%
Income tax	(562 660)	(351 046)
Increases, releases, exemptions, deductions and reductions of taxes	(16 093)	(15 320)
Current income tax disclosed in the tax return for the period	(578 753)	(366 366)
Current income tax recognized in the consolidated income statement	(578 753)	(366 366)

7. b. Deferred income tax

	31 December 2007	31 December 2006
	(in PLN '000)	
Origination and reversal of deferred tax due to negative temporary differences	(16 890)	46 876
Provisions due to payment of pension allowances	(3 990)	(11 266)
Provisions due to payment of severance and jubilee bonuses	6 537	8 548
Provision for payment of termination benefits	344	(1 458)
Provision for unused paid vacations	1 059	831
Provision for liquidation of wells	(13 177)	(16 244)
Revaluation write-down on fixed assets	19 316	28 488
Revaluation write-down on shares	(96)	(1 828)
Revaluation write-downs on interest on receivables	520	(68)
Measurement of forwards	(3 552)	(22 441)
Expenses related to transactions that hedge FX and interest rate risk	(19 217)	15 293
Exchange losses	11 997	2 678
Accrued interest on loans and liabilities	(953)	(354)
Connection fee	18 941	7 668
Tax loss	4 752	(1 070)
Unpaid payroll	294	2 338
Costs related to sales where the tax liability is originated in the subsequent month	(29 599)	28 107
Hyperinflationary remeasurement of deferred income	(1 027)	(1 027)
Other	(9 039)	8 681
Origination and reversal of deferred tax due to positive temporary differences	508 980	75 349
Exchange gains on credit facilities and deposits	426	5 769
Interest accrued on loans	(968)	(548)
Interest accrued on receivables	(498)	26
Measurement of financial instruments	852	21 765
Revenue due to tax obligation falling due in the next month	68 260	3 182
Difference between value of non-current assets for tax and accounting purposes*	456 762	46 934
Other	(15 854)	(1 779)
Deferred income tax disclosed in the consolidated income statement	492 090	122 225

* Incl. change in deferred income tax related to revaluation of DCF write-off on assets of OSD companies.

The current reporting period covers the tax period from 1 January 2007 to 31 December 2007.

A 19% CIT rate was applicable in 2007. The tax rate applicable in the comparative period, i.e. in 2006, was also 19%.

Regulations on VAT, CIT and social security contributions are subject to frequent changes, and there is often no reference to established regulations or legal precedents. Additionally, valid regulations include ambiguities that give rise to differences in the interpretation of tax regulations between the authorities and companies. Tax and other settlements (e.g. customs or foreign currency settlements) can be subject to inspection by authorities entitled to impose high fines. Liabilities assessed as a result of inspections have to be settled together with high interest. As a result, tax risk in Poland is higher than in countries where the tax system is more mature. There are not formal procedures in Poland that enable taxpayers to determine the final value of their tax liability. Tax settlements may be subject to inspection for a period of five years. Consequently, the amounts presented in the financial statements can change at a later date, after they have been finally assessed by tax authorities.

The balance of deferred tax presented in the financial statements is reduced by the adjustment arising from temporary differences whose realization for tax purposes is not 100% certain.

8. Discontinued Operations

The Group did not discontinue any operations in 2007, nor is it planning to discontinue any of its current operations.

9. Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary equity holders of the Parent by the weighted average number of issued ordinary shares that existed during the period.

Diluted earnings per share are calculated by dividing the net profit (loss) for the period attributable to ordinary equity holders (after the deduction of interest on redeemable preference shares that are convertible to ordinary shares) by the weighted average number of issued ordinary shares that existed during the period (adjusted by the effect of diluted shares and redeemable preference shares that are convertible to ordinary shares).

	31 December 2007	31 December 2006
Net profit attributable to equity holders of the Parent (in PLN '000)	915 032	1 327 430
Net profit attributable to equity holders of the Parent used for calculating diluted earnings per share (in PLN '000)	915 032	1 327 430
Weighted average number of issued ordinary shares used for calculating basic earnings per share ('000)	5 900 000	5 900 000
Weighted average number of issued ordinary shares used for calculating basic earnings per share ('000)	5 900 000	5 900 000
Basic earnings for the financial year per share attributable to ordinary equity holders of the Parent (in PLN)	0.16	0.22
Diluted earnings for the financial year per share attributable to ordinary equity holders of the Parent (in PLN)	0.16	0.22

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

Start date	End date	No. of ordinary shares on the market ('000)	Number of days	Weighted average number of shares (in '000)
31 December 2007				
2007-01-01	2007-12-31	5 900 000	365	5 900 000
Total			365	5 900 000
31 December 2006				
2006-01-01	2006-12-31	5 900 000	365	5 900 000
Total				5 900 000

10. Dividends Paid and Proposed

Dividends declared and paid in the period	31 December 2007	31 December 2006
Dividend paid per share (in PLN)	0.17	0.15
Number of shares ('000)*	5 900 000	5 900 000
Dividend value in PLN '000, including:	1 003 000	885 000
- dividend in kind paid to the State Treasury	849 998	681 481
- cash dividend paid to the State Treasury	2	68 519
- cash dividend paid to other equity holders	153 000	135 000

* Number of cum dividend shares for 2006 and 2005 paid in 2007 and 2006, respectively.

The effect on the result for the periods due to the surplus of the value of assets handed over as in-kind dividends over the net book value in the balance sheet as at the dividend payment date was presented in note 4.

11. Property, Plant and Equipment

	31 December 2007	31 December 2006
	(in PLN '000)	
Land	83 570	88 469
Buildings and structures	12 542 252	13 899 904
Technical equipment and machines	2 129 116	2 119 767
Vehicles and other	860 554	879 491
Total fixed assets	15 615 492	16 987 631
Fixed assets under construction	3 100 017	1 774 425
Total property, plant and equipment	18 715 509	18 762 056

Fixed Assets

31 December 2007	Land	Buildings and structures	Technical equipment and machines	Vehicles and other	Total
			(in PLN '000)		
As at 1 January 2007, including accumulated depreciation	88 469	13 899 904	2 119 767	879 491	16 987 631
Increase	132	102 578	11 297	4 071	118 078
Decrease	(5 305)	(103 244)	(50 552)	(40 320)	(199 421)
Reclassification from fixed assets under construction and between groups	2 215	850 083	405 927	170 614	1 428 839
Impairment loss	(964)	(1 284 344)	(20 495)	(12 879)	(1 318 682)
Depreciation for the financial year	(977)	(922 725)	(336 828)	(140 423)	(1 400 953)
As at 31 December 2007, including accumulated depreciation	83 570	12 542 252	2 129 116	860 554	15 615 492
As at 1 January 2007					
Gross value	94 947	27 651 578	3 520 586	1 493 880	32 760 991
Accumulated depreciation and impairment loss	(6 478)	(13 751 674)	(1 400 819)	(614 389)	(15 773 360)
Net carrying amount as at 1 January 2007	88 469	13 899 904	2 119 767	879 491	16 987 631
As at 31 December 2007					
Gross value	91 877	28 486 648	3 857 286	1 609 789	34 045 600
Accumulated depreciation and impairment loss	(8 307)	(15 944 396)	(1 728 170)	(749 235)	(18 430 108)
Net carrying amount as of 31 December 2007	83 570	12 542 252	2 129 116	860 554	15 615 492

31 December 2006	Land	Buildings and structures	Technical equipment and machines	Vehicles and other	Total
			(in PLN '000)		
As at 1 January 2006, including accumulated depreciation	102 852	13 769 416	2 182 381	894 141	16 948 790
Increase	2 268	545 237	89 326	30 248	667 079
Decrease	(7 409)	(376 905)	(50 466)	(84 337)	(519 117)
Reclassification from fixed assets under construction and between groups	(4 830)	744 064	223 631	120 116	1 082 981
Impairment loss	(3 435)	48 312	(13 902)	45 737	76 712
Depreciation for the financial year	(977)	(830 220)	(311 203)	(126 414)	(1 268 814)
As at 31 December 2006, including accumulated depreciation	88 469	13 899 904	2 119 767	879 491	16 987 631
As at 1 January 2006					
Gross value	104 989	26 787 280	3 295 431	1 446 158	31 633 858
Accumulated depreciation and impairment loss	(2 137)	(13 017 864)	(1 113 050)	(552 017)	(14 685 068)
Net carrying amount as at 1 January 2006	102 852	13 769 416	2 182 381	894 141	16 948 790
As at 31 December 2006					
Gross value	94 947	27 651 578	3 520 586	1 493 880	32 760 991
Accumulated depreciation and impairment loss	(6 478)	(13 751 674)	(1 400 819)	(614 389)	(15 773 360)
Net carrying amount as at 31 December 2006	88 469	13 899 904	2 119 767	879 491	16 987 631

11. a. Property, plant and equipment used under finance leases

The Capital Group uses the following property, plant and equipment under finance leases.

	31 December 2007			31 December 2006		
	Initial value of activated finance leases	Accumulated depreciation	Net carrying amount	Initial value of activated finance leases	Depreciation	Net carrying amount
			(in PLN '000)			
Buildings and structures	9 252	(3 240)	6 012	9 252	(3 082)	6 170
Technical equipment and machines	103 053	(43 183)	59 870	109 672	(45 933)	63 739
Vehicles and other	16 832	(6 327)	10 505	12 075	(5 418)	6 657
Total	129 137	(52 750)	76 387	130 999	(54 433)	76 566

11. b. Impairment of property, plant and equipment

	Land	Buildings and structures	Technical equipment and machines	Vehicles and other	Total fixed assets	Fixed assets under construction	Total property, plant and equipment
				(in PLN '000)			
As at 1 January 2007	3 436	11 097 059	606 729	255 110	11 962 334	273 834	12 236 168
Increase	1 974	1 876 146	190 120	28 458	2 096 698	127 164	2 223 862
Decrease	(1 010)	(591 802)	(169 625)	(15 579)	(778 016)	(21 893)	(799 909)
As at 31 December 2007	4 400	12 381 403	627 224	267 989	13 281 016	379 105	13 660 121
As at 1 January 2006	1	11 145 371	592 827	300 847	12 039 046	215 177	12 254 223
Increase	3 435	674 982	162 781	1 849	843 047	83 182	926 229
Decrease	–	(723 294)	(148 879)	(47 586)	(919 759)	(24 525)	(944 284)
As at 31 December 2006	3 436	11 097 059	606 729	255 110	11 962 334	273 834	12 236 168

The opening value of revaluation write-downs on property, plant and equipment was equal to PLN 11 962 334 thousand, including:
» assets used directly in production – PLN 2 010 584 thousand;
» distribution assets – PLN 9 191 066 thousand;
» other – PLN 760 684 thousand.

Revaluation write-downs were increased during the current year by PLN 190, 311 thousand (of which PLN 188 618 thousand was related to assets used directly in production) and decreased by PLN 255 118 thousand (of which PLN 233 752 thousand was related to assets used directly in production).

The increase of write-downs on distribution assets was connected mainly with the revaluation of the DCF write-down (Note 11.c.), whereas decreases on mining assets were connected with the verification of assumptions or discontinuation of indications of the need for write-downs or liquidation of assets.

The closing balance of revaluation write-downs on plant and equipment was equal to PLN 11 897 527 thousand, of which:
» PLN 1 965 450 thousand concerned assets used directly in production;
» PLN 9 181 738 thousand concerned distribution assets;
» PLN 750 339 thousand concerned other assets.

As at the end of 2007 expenditures on wells included in total value of write-offs for fixed assets under construction amounted to

347 402 thousand PLN (at the end of 2006 this write-off was equal to 225 416 thousand PLN).

11. c. Impairment loss in distribution companies

DSO companies tested their non-current assets for impairment on 31 December 2007. The analyses prepared by these companies showed that the book value of assets is higher than their current recoverable amount determined based on their cash flow generation capability.

Conducted impairment tests showed that the main reason for the impairment of fixed assets is connected with the forecasting of cash flows related only to gas fuel distribution operations.

DSO companies believe that the recoverable amounts of fixed assets decreased mainly due to the following factors:
» too low revenues generated on the distribution tariff approved by the Energy Regulatory Office;
» higher than planned increase of operating expenses in previous years;
» higher than planned increase of capital expenditure for the recovery of distribution assets in previous years.

The validity of tariffs was extended in the past due to the lack of new regulations to the amended Energy Law that would incorporate amendments resulting from the implementation of EU regulations. These delays resulted in limitations as to the Company's ability to regularly (every 12 months) introduce new tariffs, which would account for changes in the Company's operating environment, including for increased operating expenses and return on capital employed.

The analyses conducted on 31 December 2007 were based on the assumption that tariffs will be changed once every year and the conservative assumption that increases in distribution rates will be equal planned inflation.

DSO companies tested their non-current assets for impairment based on assumptions that took into account the following risks:
» the core business conducted by DSO companies related to gas fuel distribution is regulated;
» the level of revenues that can be generated is dependent upon administrative decisions issued by the President of the Energy Regulatory Office, including decisions that limit the rate of return on capital employed;
» it is highly unlikely that revenues will changed abruptly through tariff amendments due to limitations resulting from the fact that tariff fees are regulated.

The effects of the impairment of fixed assets in DSO companies on the financial statements of the Capital Group in Q4 of 2007 are presented in the below table:

Consolidated income statement	31 December 2007 (before impairment)	Impairment	31 December 2007 (net of impairment)
		(in PLN '000)	
Profit on operating activities	2 168 937	(1 317 341)	851 596
Gross profit	2 320 069	(1 317 341)	1 002 728
Income tax	(336 512)	249 849	(86 663)
Net profit for the financial year	1 983 557	(1 067 492)	916 065

Consolidated balance sheet	31 December 2007 (before impairment)	Impairment	31 December 2007 (net of impairment)
		(in PLN '000)	
ASSETS			
Total non-current assets (long-term)	23 448 431	(1 317 341)	22 131 090
including: Property, plant and equipment	20 032 850	(1 317 341)	18 715 509
Total current assets (short-term)	6 270 811	–	6 270 811
Total assets	29 719 242	(1 317 341)	28 401 901
EQUITY AND LIABILITIES			
Equity	22 089 257	(1 067 492)	21 021 765
including: Retained earnings	11 006 919	(1 067 492)	9 939 427
Total liabilities	7 629 985	(249 849)	7 380 136
Total equity and liabilities	29 719 242	(1 317 341)	28 401 901

The necessity to introduce the above adjustment results from the value of the Company's non-current assets estimated in 2004 based on forecasted cash flows with the assumption that market realities would be taken into account in the tariff policy. The amount of the revaluation write-down therefore results from the long-prevailing administrative policy of regulating gas fuel prices, which does not take into account market realities.

The created revaluation write-downs did not affect the Group's cash flows and the separate financial statements of PGNiG S.A., including the value of potential dividends.

It is expected that the subsequent, future tariffs of DSO companies will gradually admit an increase in ROCE in distribution rates. The process of reaching full ROCE will be spread over time and shall be accompanied by steps to improve the efficiency of companies after trading operations have been spun off. If subsequent tariffs of DSO companies shall be approved with delays and their validity shall be extended, then there is a risk that further revaluation write-downs will have to created on the assets of these companies.

12. Investment Property

	31 December 2007	31 December 2006
	(in PLN '000)	
Opening balance, including accumulated depreciation	6 765	10 553
Increase	–	–
Decrease	(5)	(8)
Reclassification from property, plant and equipment	4 512	(3 318)
Impairment loss	15	–
Depreciation for the financial year	(709)	(462)
Closing balance, including accumulated depreciation	10 578	6 765
Opening balance		
Gross value	9 505	13 680
Accumulated depreciation and impairment loss	(2 740)	(3 127)
Net carrying amount	6 765	10 553
Closing balance		
Gross value	14 398	9 505
Accumulated depreciation and impairment loss	(3 820)	(2 740)
Net carrying amount	10 578	6 765

The Group's investment property includes social and office buildings partially designated for renting as well as industrial buildings and structures. The carrying amount of social and office buildings recognized as investment property at the end of current period amounted to PLN 4285 thousand (PLN 2031 thousand in 2006), whereas the carrying amount of industrial buildings and structures at the end of current period amounted to PLN 4392 thousand (PLN (4734 thousand in 2006).

The Group's rental income in the current year amounted to PLN 2813 thousand (PLN 2714 thousand in 2006).

Operating expenses related to investment property and associated with rental income amounted to PLN 1959 thousand in the current year (PLN 1311 thousand in 2006).

Due to the immaterial nature of investment property in the balance sheet, the Group does not reassess such property in order to determine its fair value.

13. Intangible Assets

31 December 2007	R&D expenses	Goodwill	Other intangible assets	Total
	(in PLN '000)			
As at 1 January 2007, including amortization	592	–	80 215	80 807
Increase	–	–	4 110	4 110
Decrease	–	–	(1 821)	(1 821)
Reclassification from fixed assets under construction and between groups	883	–	37 030	37 913
Impairment loss	–	–	(7 762)	(7 762)
Amortization for the financial year	(343)	–	(28 268)	(28 611)
As at 31 December 2007, including accumulated amortization	1 132	–	83 504	84 636
As at 1 January 2007				
Gross value	1 262	–	141 974	143 236
Accumulated amortization and impairment loss	(670)	–	(61 759)	(62 429)
Net carrying amount as at 1 January 2007	592	–	80 215	80 807
As at 31 December 2007				
Gross value	2 145	–	189 805	191 950
Accumulated amortization and impairment loss	(1 013)	–	(106 301)	(107 314)
Net carrying amount as at 31 December 2007	1 132	–	83 504	84 636

31 December 2006	R&D expenses	Goodwill	Other intangible assets	Total
	(in PLN '000)			
As at 1 January 2006, including amortization	844	–	75 708	76 552
Increase	–	–	31 293	31 293
Decrease	–	–	(34 801)	(34 801)
Reclassification from fixed assets under construction and between groups	–	–	34 897	34 897
Impairment loss	–	–	(270)	(270)
Amortization for the financial year	(252)	–	(26 612)	(26 864)
As at 31 December 2006, including accumulated amortization	592	–	80 215	80 807
As at 1 January 2006				
Gross value	1 262	–	111 604	112 866
Accumulated amortization and impairment loss	(418)	–	(35 896)	(36 314)
Net carrying amount as at 1 January 2006	844	–	75 708	76 552
As at 31 December 2006				
Gross value	1 262	–	141 974	143 236
Accumulated amortization and impairment loss	(670)	–	(61 759)	(62 429)
Net carrying amount as at 31 December 2006	592	–	80 215	80 807

13. a. Impairment loss on intangible assets

	R&D expenses	Goodwill	Other intangible assets	Total
R&D expenses	(in PLN '000)			
As at 1 January 2007	–	–	270	270
Increase	–	–	7 762	7 762
Decrease	–	–	–	–
As at 31 December 2007	–	–	8 032	8 032
As at 1 January 2006	–	–	–	–
Increase	–	–	270	270
Decrease	–	–	–	–
As at 31 December 2006	–	–	270	270

14. Financial Assets Available for Sale

	31 December 2007	31 December 2006
	(in PLN '000)	
Unlisted shares (gross value)	72 817	71 438
Listed shares (gross value)	–	–
Total gross value	72 817	71 438
Unlisted shared (net value)*	19 997	18 112
Listed shares (net value)*	–	–
Total net	19 997	18 112

* Less revaluation write-downs.

15. Other Financial Assets

	31 December 2007	31 December 2006
	(in PLN '000)	
Finance leases receivables (note 15.a.)	2 288 845	3 272 126
Originated loans	2 070	7 421
Receivables from sale of fixed assets	–	163
Receivables from guarantees and security	1 230	1 208
Long-term deposits	211	138
Other	1 868	1 744
Total gross value	2 294 224	3 282 800
Impairment loss	(2 070)	(7 421)
Total net	2 292 154	3 275 379

15. a. Finance leases

The lease contract of 6 July 2005 signed between PGNiG S.A. and OGP Gaz-System Sp. z o.o. (currently OGP Gaz – System S.A.) is an element of the "PGNiG S.A. restructuring and privatization program" approved by the Council of Ministers on 5 October 2004. Transmission operations were separated from production and trading operations through the transfer of industrial assets for use to Gaz-System S.A. The lease covers property, movables and property rights. The contract was concluded for a period of 17 years.

The sum of fees, less discount, determined as at the contract conclusion date and payable during the period covered by the contract exceeds 90% of the market value of assets covered by the contract as at that date. Due to the above, the lease is recognized as a finance lease in accordance with IAS 17. Lease payments include a principal and interest. The interest portion is calculated based on WIBOR 3M rates applicable in the month preceding the month to which the calculated lease installment pertains plus a markup.

Inflows from the lease of the transmission system:

	31 December 2007	31 December 2006
	(in PLN '000)	
Interest installment	219 991	268 617
Principal installment	188 879	225 327
Total	408 870	493 944

The table below presents finance lease receivables by maturity:

	31 December 2007	31 December 2006
	(in PLN '000)	
- up to 1 year	163 772	218 924
- between 1 and 5 years	593 676	797 432
- over 5 years	1 695 169	2 474 694
Total	2 452 617	3 491 050
- current receivables	163 772	218 924
- non-current receivables	2 288 845	3 272 126

16. Deferred Tax Asset

	31 December 2007	31 December 2006
	(in PLN '000)	
Provisions due to payment of pension allowances	11 628	15 617
Provisions due to payment of severance and jubilee bonuses	70 299	59 088
Provision for payment of termination benefits	3 141	2 804
Provision for unused paid vacations	5 892	4 819
Provision for liquidation of wells	75 756	88 933
Revaluation write-down on fixed assets	71 765	86 413
Revaluation write-down on shares	10 236	10 333
Revaluation write-downs on interest on receivables	544	662
Measurement of forwards	6 911	29 680
Exchange losses	19 528	7 532
Interest accrued on loans and liabilities	180	1 133
Connection fee	59 973	35 878
Unpaid remuneration with Social Security premiums	17 276	16 324
Tax loss	4 752	7 781
Costs related to sales where the tax liability is originated in the subsequent month	–	23 512
Hyperinflationary remeasurement of deferred income	11 815	12 843
Other	50 118	50 087
Total	419 814	453 439

17. Other Non-Current Assets

	31 December 2007	31 December 2006
	(in PLN '000)	
Reusable materials	3 580	10 545
Financial costs settled over time	47	3 833
Mining usufruct establishment fees	722	21
Prepayments of leased fixed assets	312	32 491
Geological information	24 688	301
Other prepayments	1 524	1 481
Total	30 873	48 672

18. Inventories

	31 December 2007	31 December 2006
	(in PLN '000)	
Materials		
At acquisition price, including:	1 226 794	1 344 854
- gas fuel	958 302	1 145 864
At net realizable value, including:	1 193 990	1 313 369
- gas fuel	958 302	1 145 864
Semi-finished products and work in progress		
At acquisition price/manufacturing cost	15 658	18 956
At net realizable value	14 465	18 718
Finished products		
At acquisition price/manufacturing cost	6 143	17 801
At net realizable value	6 087	17 720
Goods		
At acquisition price	1 702	1 626
At net realizable value	1 438	1 396
Total inventory, at the lower of the following two values: acquisition price (manufacturing cost) and net realizable value	1 215 980	1 351 203

19. Trade and Other Receivables

	31 December 2007	31 December 2006
	(in PLN '000)	
Trade receivables	3 536 650	2 549 206
Trade receivables from related parties	48 463	48 207
Receivables due to VAT	283 221	272 218
Receivables from tax, customs duty and social security	6 080	2 779
Due portion of originated loans	141 536	198 820
Receivables from associates measured using the equity method	2 378	3 952
Finance lease receivables	163 772	218 924
Other receivables from related parties	85 798	83 747
Other receivables	149 499	159 583
Total gross receivables	4 417 397	3 537 436
Including gross receivables from related parties (note 36a)	278 175	334 726
Revaluation write-downs on doubtful debts (note 19.a.)	(1 086 351)	(1 064 025)
Total net receivables	3 331 046	2 473 411
including:		
Trade receivables	2 805 602	1 901 721
Trade receivables from related parties	3 689	3 182
Receivables due to VAT	283 221	272 218
Receivables from tax, customs duty and social security	6 080	2 779
Due portion of originated loans	–	–
Receivables from associates measured using the equity method	2 378	3 932
Finance lease receivables	163 772	218 924
Other receivables from related parties	2 193	30
Other receivables	64 111	70 625
Including net receivables from related parties (note 36a)	8 260	7 144

Trade receivables arise mainly from the sale of gas fuel and distribution services.

Standard terms of payment for receivables related to regular sales in the Capital Group are equal to 14–30 days.

19. a. Revaluation write-downs of receivables

	31 December 2007	31 December 2006
	(in PLN '000)	
Opening balance of revaluation write-downs	(1 064 025)	(1 133 210)
Creation of revaluation write-downs	(421 785)	(105 182)
Release of revaluation write-downs	395 934	180 295
Applied revaluation write-downs	8 172	6 704
Reclassification between current and non-current portion	(4 647)	(12 632)
Closing balance of revaluation write-downs	(1 086 351)	(1 064 025)

20. Current Tax Settlements

	31 December 2007	31 December 2006
	(in PLN '000)	
Opening balance of current income tax liabilities	184 556	75 201
Change in current tax receivables*	312	(13 696)
Opening balance of current income tax receivables	17 187	30 883
Closing balance of current tax receivables	17 499	17 187
Income tax (cost of the period)	578 753	366 366
Income tax paid in the period	(482 222)	(243 315)
Closing balance of current income tax liabilities	281 399	184 556

* The Capital Group is not a taxable capital group and therefore CIT assets and liabilities are netted off.

21. Prepayments

	31 December 2007	31 December 2006
	(in PLN '000)	
Deposit development costs	27 879	–
Property insurance	7 276	5 906
Measurement of long-term contracts	5 342	8 137
Geological information	2 375	98
Software support and update	3 357	2 183
Repairs settled over time	2 932	1 509
Prepayments of leased fixed assets	18 174	2 571
Rent and fees	1 852	3 720
Financial costs settled over time	207	1 523
Other expenses settled over time	12 961	6 679
Total	82 355	32 326

22. Financial Assets Available for Sale

	31 December 2007	31 December 2006
	(in PLN '000)	
Unlisted shares (gross value)	6 678	6 678
Listed shares (gross value)	–	–
Short-term deposit (gross value)	45	146
Investment fund units (gross value)	18 491	18 141
Treasury bills (gross value)	–	1 108
Total gross value	25 214	26 073
Unlisted shares (net value)*	3 870	3 870
Listed shares (net value)*	–	–
Short-term deposit (net value)	45	146
Investment fund units (net value)	18 491	18 141
Treasury bills (net value)	–	1 108
Total net	22 406	23 265

* Less revaluation write-downs.

23. Cash and Bank Balances

	31 December 2007	31 December 2006
	(in PLN '000)	
Cash in hand and at bank	211 570	191 797
Bank deposits	725 002	2 828 888
High liquidity short-term securities*	635 800	504 726
Other cash**	11 263	13 667
Total	1 583 635	3 539 078

* Bills (commercial, treasury, NBP, etc.), deposit certificates maturing within 3 months.
** Cash in transit, checks and bills of exchange maturing within 3 months.

Group member companies deposit cash in renown Polish and international banks, therefore the occurrence of concentration risk with respect to deposited cash is limited.

24. Assets Classified as Held for Sale

The following assets have been classified by the Capital Group as held for sale:

Non-current asset (or group)	Expected disposal date	Carrying amount as at 31 December 2007	Terms of disposal
Land and perpetual usufruct rights	2008	315	tender
Buildings and structures	2008	130	tender
Technical equipment and machinery	2008	3	tender
Vehicles	2008	–	tender
Other	2008	–	tender
Total		448	

in PLN thousand

25. Contingent Assets

25. a. Contingent receivables from received sureties and guarantees

Borrower	Amount of the contingent receivable in currency	Currency of the contingent receivable	Amount of the contingent receivable in PLN		Expiry date of the contingent receivable	Bank or other institution issuing guarantee	Type of the contingent receivable
Conditional receivables received by PGNiG S.A.							
PBG S.A.	14 516	PLN	14 516		2008/10/27	Bank PeKaO S.A.	Performance bond
K.D.P. Sp. z o.o.	8 400	PLN	8 400		2009/06/30	K.D.P. Sp. z o.o.	Declaration(*)
Huta Szkła Wymiarki S.A.	4 815	PLN	4 815		2008/06/30	Huta Szkła Wymiarki S.A.	Declaration (*), ordinary blanket mortgage
Huta Szkła Wymiarki S.A.	4 535	PLN	4 535		2008/06/30	Huta Szkła Wymiarki S.A.	Transfer of receivables as collateral; registered pledge
Zakład Elektroenergetyczny H. Cz. ELSEN Sp. z o.o.	2 871	PLN	2 871		2008/06/30	Zakład Elektroenergetyczny H. Cz. ELSEN Sp. z o.o.	Authorization to dispose of cash
Kopalnie i Zakłady Chemiczne Siarki SIARKOPOL S.A.	2 703	PLN	2 703		2009/03/30	Bank BPH S.A. Oddział w Kielcach oraz Bank Pekao S.A. I Oddział w Staszowie	Declaration(*)
GASLINIA Sp. z o.o.	2 300	PLN	2 300		2017/12/21	GASLINIA Sp. z o.o.	Declaration (*)
KRI S.A.	2 000	PLN	2 000		2017/12/17	KRI S.A.	Declaration (*)
PKN ORLEN S.A.	2 000	PLN	2 000		2008/01/15	Bank BPH S.A.	Tender bond
Minex Centrala Exportowo-Importowa S.A.	1 035	PLN	1 035		2008/12/15	Minex Centrala Exportowo-Importowa S.A.	Authorization to dispose of cash
PBG S.A.	1 035	PLN	1 035		2008/09/30	TUiR WARTA S.A.	Performance bond
POL-AQUA S.A.	1 021	PLN	1 021		2007/12/30	PZU S.A.	Performance bond
PZU Oddział Okręgowy w Łodzi	920	PLN	920		2010/06/30	Millennium Bank S.A.	Performance bond
ZRUG Sp. z o.o. Poznań	791	PLN	791		2008/04/30	Hestia S.A.	Performance bond
POLMAX S.A. Świebodzin	750	PLN	750		2011/04/27	BRE BANK S.A.	Performance bond and quality guarantee
BRENNTAG POLSKA Sp. z o.o. Kędzierzyn Koźle	703	PLN	703		2008/09/30	ABN AMRO Bank Polska S.A.	Payment guarantee
Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.	698	PLN	698		2009/02/10	PKO BP S.A.	Bank guarantee
STALBUD TARNÓW Sp. z o.o.	616	PLN	616		2008/03/31	Generali Towarzystwo Ubezpieczeń S.A.	Bank guarantee
INTERSPEED PHUP Sp. z o.o. Ostrowiec Św.	600	PLN	600		2008/07/14	ING Bank Śląski S.A.	Bank guarantee Declaration(*)
Gazomontaż S.A.	531	PLN	531		2007/12/22	TUiR WARTA S.A.	Performance bond
GAZSTAL S.A. Zielona Góra	529	PLN	529		2010/12/04	Bank BPH S.A. Lubuskie Centrum Korporacyjne Zielona Góra	Performance bond
Other (each with a value of less than PLN 500 thousand)	9 040	PLN	9 040		2007 to 2011	Various entities	Bank guarantees, performance bonds etc.
Conditional receivables received by DSO companies							
Other (each with a value of less than PLN 500 thousand)	2 979	PLN	2 979		2007 to 2010	Various entities	Bank guarantees, performance bonds etc.
Conditional receivables received by other companies of CG PGNiG							
Other (each with a value of less than PLN 500 thousand)	2 502	PLN	2 502		2007 to 2010	Various entities	Bank guarantees, performance bonds etc.
Total			67 890				

* Declaration of voluntary submission to enforcement pursuant to Article 777 § 1 item 5 of the Civil Procedure Code.

25. b. Contingent receivables due to received bills-of-exchange

Entity, which received the bill-of-exchange	Value of the bill-of-exchange granted in foreign currency	Currency of the bill of exchange	Value of the granted bill-of-exchange in PLN	Bill of exchange expiry date
Bills of exchange received by PGNiG S.A.				
K.D.P. Sp. z o.o.	8 361	PLN	8 361	30 April 2008
Huta Szkła Wymiarki S.A.	4 535	PLN	4 535	30 June 2008
Porcelana Śląska Sp. z o.o.	3 333	PLN	3 333	no time limit
Kopalnie i Zakłady Chemiczne Siarki SIARKOPOL S.A.	2 703	PLN	2 703	30 June 2008
ZP Jopex Franciszek Jopek	2 570	PLN	2 570	no time limit
Huta Szkła Deco-Glass Krosno	2 000	PLN	2 000	no time limit
Minex Centrala Exportowo-Importowa S.A.	1 035	PLN	1 035	15 December 2008
Kuźnia Glinik Sp. z o.o. Gorlice	1 000	PLN	1 000	no time limit
Huta Szkła MAKORA s.j. Krosno	1 000	PLN	1 000	no time limit
HUTA SZKŁA LUCYNA Zakład NYSA	900	PLN	900	no time limit
Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.	698	PLN	698	30 June 2008
Other received bills of exchange (each with a value of less than PLN 500 thousand)	3 494	PLN	3 494	since 2007 to 2011
Bills of exchange received by Distribution Companies				
ZRUG Spółka z o.o. Poznań	2 266	PLN	2 266	2007–2010
GAZOBUDOWA Sp. z o.o. Poznań	706	PLN	706	2005–2010
PHARMGAS Sp. z o.o.	2 135	PLN	2 135	2007–2010
PBG S.A.	1 231	PLN	1 231	2008–2011
PHARMGAS Sp. z o.o.	723	PLN	723	28 December 2009
TESGAS Sp. z o.o.	647	PLN	647	2007–2010
PUH INTER-TECH Komorniki	600	PLN	600	2007–2010
PHARMGAS Sp. z o.o.	524	PLN	524	30 January 2012
Other received bills of exchange (each with a value of less than PLN 500 thousand)	3 958	PLN	3 958	2007–2011, duration of the contract
Bills of exchange received by other companies from PGNiG S.A. Capital Group				
IZOSTAL S.A.	1 500	PLN	1 500	6 September 2012
EKO OPEN Sp. z o.o. Płock	644	PLN	644	16 November 2008
Other received bills of exchange (each with a value of less than PLN 500 thousand)	3 070	PLN	3 070	2007–2011, duration of the contract
Total			49 633	

26. Share Capital

	31 December 2007	31 December 2006
Total number of shares in '000	5 900 000	5 900 000
Face value per share in PLN	1	1
Total share capital (in PLN '000)	5 900 000	5 900 000

in PLN thousand

27. Borrowings and Debt Securities

	Currency	31 December 2007	31 December 2006	Effective interest rate	Repayment/ redemption date	31 December 2007	31 December 2006	Security
		Value in foreign currency				Value in PLN		
Long-term								
Lease liabilities	PLN	10 733	16 643	6–9%	2008–2010	10 733	16 643	–
Lease liabilities	CHF	5 998	10 048	Average 8%	11 July 2010	12 963	23 957	–
Lease liabilities	USD	3 154	1 555	Libor 1M	20 September 2012	7 681	4 526	–
Sindicated loan	EUR	–	600 000	Euribor 3M+0.25	27 July 2010	–	2 298 720	Distribution companies' securities
Total long-term						31 377	2 343 846	
Short-term								
Current part of lease liabilities	PLN	21 803	30 737	6–9%	2008	21 803	30 737	–
Current part of lease liabilities	CHF	4 469	4 868	Average 8%	2008	9 659	11 605	–
Current part of lease liabilities	USD	759	413	Libor 1M	2008	1 848	1 201	–
Current part of consortium credit*	EUR	–	1 283	Euribor 3M+0.25	2007	–	4 917	Distribution companies' securities
Short-term loan taken from Pekao S.A.	PLN	20 890	13 264	Wibor 1M+0.4	28 September 2008	20 890	13 264	Real estate mortgage, transfer of receivables from current and future contracts as collateral
Credit facility in Societe Generale S.A.	PLN	2 768	–	Wibor 1M+0.8	31 October 2008	2 768	–	Transfer of receivables as collateral, blank bill
Overdraft facility in Millennium S.A.	PLN	9 304	5 680	Wibor 1M+0.25	23 December 2008	9 304	5 680	Blank bill
Overdraft facility Raiffeisen Bank S.A.	PLN	–	2 278	Wibor 1W+0.40	30 May 2007	–	2 278	Blank bill
Operating loan taken from BRE S.A.	PLN	–	4 700	Wibor 1M+0.45	25 August 2007	–	4 700	Blank bill
Overdraft facility Raiffeisen Bank S.A.	PLN	–	2 959	Wibor 1M+0.40	31 May 2007	–	2 959	Blank bill
Operating loan taken from BRE S.A.	PLN	192	1 500	Wibor 1M+0.40	31 May 2008	192	1 500	Blank bill
Short-term credit in BPH S.A.	PLN	–	1 002	Wibor 1M+1.5	28 September 2007	–	1 002	Bill of exchange, inventories
Overdraft facility in Pekao S.A.	PLN	3 946	–	Wibor 1M+0.7	31 December 2008	3 946	–	Bill of exchange, registered pledge
Overdraft facility Raiffeisen Bank S.A.	PLN	4 000	–	Wibor 1M+0.7	28 December 2008	4 000	–	Bill of exchange, registered pledge
Operating loan taken from BRE S.A.	PLN	–	13 923	Wibor 1M+0.3	30 September 2007	–	13 923	Real estate mortgage i
Overdraft facility in BPH S.A.	PLN	19 462	–	Libor 1M+0.3	30 September 2008	19 462	–	Transfer of receivables as collateral
Overdraft facility in Societe Generale S.A.	PLN	–	1 668	Libor 1M+0.8	30 September 2007	–	3 978	Transfer of receivables as collateral
Overdraft facility in Societe Generale S.A.	USD	1 484	–	Libor 1M+0.4	31 August 2008	3 615	–	Transfer of receivables as collateral
Overdraft facility in BPH S.A. bank	PLN	–	5 899	Wibor 1M+0.3	30 September 2007	–	5 899	Seizure
Overdraft facility in BGK S.A. bank	PLN	–	8 283	Wibor 3M+0.5	25 April 2007	–	8 283	Seizure
Credit facility in ING Bank Śląski S.A.	PLN	4 801	293	Wibor 1M+1.2	27 November 2008	4 801	293	Blank bill, Transfer of receivables as collateral
Overdraft facility in BRE S.A.	PLN	1 236	–	Wibor 1M+1.2	13 November 2008	1 236	–	Cash deposits, mortgage, bill of exchange, registered pledge
Overdraft facility Raiffeisen Bank S.A.	PLN	3 000	–	Wibor 1M+1.2	30 April 2008	3 000	–	Cash deposits, mortgage, transfer of title to benefits from insurance policy
Operating loan taken from BRE S.A.	PLN	200	–	Wibor 1M+0.5	30 June 2008	200	–	
Short-term credit in Komercni Banka a.s. Czechy	CZK	–	5 000	Pribor 1M+1.5	30 June 2007	–	697	Transfer of receivables as collateral
Overdraft facility in Komercni Banka a.s. Czechy	CZK	–	4 198	Pribor 1M+1.5	31 May 2007	–	585	Transfer of receivables as collateral
Short-term credit in Volkswagen Bank Polska S.A.	PLN	–	68	0% trade credit	17 March 2007	–	68	Seizure
Loan taken from natural person (at subsidiary)	PLN	–	52	Wibor 1M+0.5	31 December 2007	–	52	–
Short-term total						106 724	113 621	

* Syndicated loan agreement of 27 July 2005 concluded between PGNiG and Bank Handlowy w Warszawie S.A., Bank Polska Kasa Opieki S.A., Caylon S.A., Fortis Bank N.V., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale S.A. Branch in Poland.

On 8 May 2007, the Management Board of PGNiG S.A. passed resolution No. 297/2007 which reduced the Parent Company's debt through the repayment of EUR 600 000 thousand of a term loan from the Parent Company's own funds other than funds generated by the issuance of B series shares, after having previously taken up a revolving credit in the same amount.

The reduction of the Parent Company's debt with the Parent Company's own funds other than funds generated by the issuance of B series shares will not adversely affect the realization of scheduled investment projects. The solution adopted by the Parent Company's will significantly reduce debt servicing costs by eliminating situations where the Parent Company's uses the loan to invest on the financial market, thereby incurring the costs of a market margin.

In addition, the Parent Company's Management Board emphasized that investment projects referred to in the B series share prospectus are still being realized using funds generated by the share issue.

In addition, the Group had credit lines, as listed in the note below.

27. a. Amount of granted and unused credit lines

	31 December 2007		31 December 2006	
	Amount of granted credit lines	Amount of unused credit lines	Amount of granted credit lines	Amount of unused credit lines
Bank	(in PLN '000)			
Komercni Banka a.s. Ostrava Czechy	1 348	1 348	1 393	112
Societe Generale S.A.	3 000	232	3 000	3 000
BPH S.A.	–	–	18 000	4 736
BRE Bank SA	5 000	5 000	5 000	300
RAIFFEISEN BANK S.A.	6 000	6 000	6 000	3 722
PEKAO S.A	4 500	4 308	4 500	41
Societe Generale S.A.	5 000	5 000	–	–
Millennium S.A.	10 000	696	6 000	319
PEKAO S.A	8 000	54	5 000	5 000
BPH S.A.	–	–	2 000	998
BPH S.A.	20 000	538	20 000	6 077
Societe Generale S.A.	3 653	38	4 366	579
BGK S.A.	10 000	10 000	10 000	1 717
BPH S.A.	6 000	6 000	6 000	101
BPH S.A.	–	–	3 787	3 598
HSBC S.A.	–	–	2 911	2 037
BRE Bank SA	2 000	764	2 000	2 000
ING Bank	5 000	199	3 000	2 707
BZ WBK S.A.	2 000	2 000	–	–
Millennium S.A.	–	–	1 400	1 400
PEKAO S.A	40 000	40 000	40 000	40 000
PKOBP S.A.	40 000	40 000	40 000	40 000
PEKAO S.A. (dawne BPH S.A.)	40 000	40 000	40 000	40 000
Bank Handlowy SA	40 000	40 000	40 000	40 000
Societe Generale S.A.	40 000	40 000	40 000	40 000
Millennium S.A.	40 000	40 000	40 000	40 000
BRE Bank SA	40 000	40 000	–	–
Total	371 501	322 177	344 357	278 444

Although not used in full, credit lines increase the Group's security as regards the payment of current liabilities.

28. Finance Lease Liabilities (Disclosed in Liabilities)

	31 December 2007		
	Value of payments (discounted) disclosed in the balance sheet)	Interest	Value of actual installments to be paid
Maturing:	(in PLN '000)		
up to 1 year	33 310	2 184	35 494
from 1 to 5 years	31 371	1 361	32 732
over 5 years	6	–	6
Total	64 687	3 545	68 232

	31 December 2006		
	Value of payments (discounted) disclosed in the balance sheet)	Interest	Value of actual installments to be paid
Maturing:	(in PLN '000)		
up to 1 year	43 543	3 397	46 940
from 1 to 5 years	45 126	2 292	47 418
over 5 years	–	–	–
Total	88 669	5 689	94 358

29. Provisions

	Jubilee bonuses and retirement severance pay	Provision for gas allowances	Provision for termination benefits	Other provisions for retirement and similar benefits	Provision for fines imposed by the Office for Competition and Consumer Protection	Provisions for environmental protection	Provision for contingent liabilities due to gas transmission services	Central Restructuring Fund	Other	Total
	(in PLN '000)				(in PLN '000)					
As at 1 January 2007	337 499	82 198	14 760	740 645	4 068	85 153	–	9 740	79 584	1 353 647
Created during the financial year	107 075	3 039	2 006	70 315	–	742	22 500	–	73 730	279 407
Reclassifications	–	–	4 869	–	–	(481)	–	–	(9 253)	(4 865)
Applied	(85 702)	(24 038)	(5 635)	(104 127)	(2 068)	(879)	–	(2 200)	(68 515)	(293 164)
As at 31 December 2007	358 872	61 199	16 000	706 833	2 000	84 535	22 500	7 540	75 546	1 335 025
Long-term 31 December 2007	304 020	38 802	11 467	684 552	–	81 276	–	–	33 688	1 153 805
Short-term 31 December 2007	54 852	22 397	4 533	22 281	2 000	3 259	22 500	7 540	41 858	181 220
As at 31 December 2007	358 872	61 199	16 000	706 833	2 000	84 535	22 500	7 540	75 546	1 335 025
Long-term 31 December 2006	281 837	58 826	9 017	713 381	–	84 411	–	–	32 410	1 179 882
Short-term 31 December 2006	55 662	23 372	5 743	27 264	4 068	742	–	9 740	47 174	173 765
As at 31 December 2006	337 499	82 198	14 760	740 645	4 068	85 153	–	9 740	79 584	1 353 647

Provisions for jubilee bonuses and retirement severance
Group entities implemented a jubilee bonuses and retirement severance scheme. Respective payments are charged to profit and loss in such a way as to spread the cost of jubilee bonuses and retirement severance over the entire period of employment in respective companies. Costs resulting from the aforesaid benefits are determined using the projected unit credit method.

Adopted in the calculation of the interest rate	31 December 2007	31 December 2006
Monthly average compensation increase rate	3.0%	3.0%
Actual annual discount rate	3.8%	3.8%
Total interest rate applied to interest calculation	6.8%	6.8%

The provision for jubilee bonuses is disclosed in the current value of liabilities resulting from actuarial calculations. The balance of provisions for retirement severance is recognized in the balance sheet in the net amount of the liability, i.e. after adjustment by unrecognized actuarial gains and losses and costs of past employment – non-eligible benefits.

Unrecognized actuarial gains and losses as well as past employment costs are charged to current profit and loss for 15 years.

	31 December 2007	31 December 2006
	(in PLN '000)	
Jubilee bonuses		
Opening balance of liability disclosed in the balance sheet	240 476	198 343
Interest expense	9 138	3 769
Current employment cost	16 247	14 519
Paid benefits	(38 633)	(34 216)
Actuarial gains/losses	42 885	58 061
Gains/losses due to restrictions and settlements	(7 017)	–
Closing balance of liability disclosed in the balance sheet	263 096	240 476
Retirement severance		
Opening balance of liability disclosed in the balance sheet	97 024	99 348
Current employment cost	5 750	5 081
Interest expense	4 015	1 717
Net actuarial profit/loss recognized during the year	75	(832)
Paid benefits	(8 286)	(5 816)
Past employment cost	909	909
Gains/losses due to restrictions and settlements	(3 711)	–
Other	–	(3 384)
Closing balance of liability disclosed in the balance sheet	95 776	97 023
Total closing balance of liability disclosed in the balance sheet	358 872	337 499

Provision for gas allowances to former employees
The Company pays gas allowances to its employees retired by the end of 1995. This system will be in force until 2010; thereafter the Company will cease to pay the allowance. The value of the provision for gas allowances is determined in accordance with actuarial valuation principles applied in the estimation of the provision for jubilee bonuses and retirement severance.

Provision for payment of termination benefits
Capital Group constituent entities create a provision for termination benefits paid to employees laid off in connection with the employment restructuring program. The provision is estimated based on planned employment reduction and amount of one-off severance payments.

The provision for restructuring costs is recognized only when the Group has presented a detailed and formal restructuring plan to all interested parties.

Other provisions for retirement and similar benefits
The Company also creates provisions for retirement benefits and similar, e.g. for group layoff severance pay.

Provision for well reclamation costs
The Company creates a provision for future costs of well liquidation and for contributions to the Mine Liquidation Fund.

The provision for well reclamation costs is calculated based on the average cost of well reclamation in particular mining facilities over the last three years, adjusted by forecasted CPI and changes in the time value of money. A three year time horizon was adopted in these calculations due to the varied number of reclaimed wells and their reclamation costs in individual years.

The gross value of the provision is charged to the relevant fixed asset. Subsequent adjustments of the provision resulting from changes of estimates are also treated as a fixed asset value adjustment.

The Mine Liquidation Fund is creased based on the Act of 27 July 2001 amending the Mining and Geological Law. Write-offs to the Mine Liquidation Fund are created at 3% to 10% of the value of the tax depreciation of mining assets applied in correspondence with other operating expenses.

The value of the provision for well reclamation cost is adjusted by unused write-offs to the Mine Liquidation Fund.

Provision for fines from the Office for Competition and Consumer Protection
The provision for fines from the Office for Competition and Consumer Protection is the highest item in this group of provisions. The Office for Competition and Consumer Protection claims that PGNiG S.A. has abused its power as a parent by delaying its technical approval for the connection of an existing boiler facility owned by the Municipality in Wysoka Mazowiecka to the existing measuring station.

As the decision of the Court of Appeals that amended the decision of the President of the Office for Competition and Consumer Protection has come into force thereby reducing the fine's amount, the Company released the related provision in 2006 and then, in February 2007, paid the reduced fine, simultaneously using the remaining amount.

Due to the above, the remaining balance as at 31 December 2007 applies solely to the fine of the President of the Office for Competition and Consumer Protection, who concluded that the actions of PGNiG S.A. constitute unfair competition, due to the Company's abuse of its dominant position on the domestic natural gas transmission market by refusing to provide natural gas transmission services to PHZ Bartimpex S.A. as regards gas produced outside of Poland.

Provisions for environmental protection
Capital Group companies create provisions for future liabilities due to the reclamation of contaminated soil or elimination of hazardous substances if there is a legal or customary obligation to do so. The created provision reflects potential costs foreseen to be incurred, estimated and verified periodically according to current prices.

Central Restructuring Fund
The Central Restructuring Fund was created in order to provide termination benefits for employees covered by the Restructuring Program. Detailed principles of the fund's operation as well as the catalogue of increases and expenses are specified in the Company's internal resolutions.

Provision for contingent liabilities due to gas transmission services
Subsequent to the objection raised by SGT EUROPOL GAZ S.A. against the decision made by President of the Energy Regulatory Office on gas transmission tariff in 2007, PGNiG S.A. calculated additional costs to be borne by the Company in case the tariff for 2007 has been rejected. Pursuant to the tariff effective in 2nd half 2005, estimated surcharge for gas transmission services to be paid in 2007 may amount to 22 500 thousand PLN. For this reason, PGNiG S.A. made in 2007 a provision in equal amount to cover these liabilities.

Other provisions
Capital Group constituent entities create other provisions for future, probable expenses related to commercial activity.

30. Deferred Income

	31 December 2007	31 December 2006
	(in PLN '000)	
Long-term		
Undepreciated value of gas service lines financed by customers	707 721	775 465
Connection fee	427 203	365 566
Other	7 442	3 239
Total long-term	1 142 366	1 144 270
Short-term		
Undepreciated value of gas service lines financed by customers	60 888	55 620
Connection fee	15 720	15 021
Gas sales forecast	396 612	–
Other	13 841	26 941
Total short-term	487 061	97 582

31. Deferred Tax Provision

	31 December 2007	31 December 2006
	(in PLN '000)	
Exchange gains	2 619	3 109
Accrued interest	1 605	1 427
Measurement of financial instruments	3 112	1 087
Revenue due to tax obligation falling due in the next month	13 338	69 209
Difference between the value of non-current assets for tax and accounting purposes	1 502 548	1 975 225
Other	7 137	6 017
Total	1 530 359	2 056 074

32. Other Non-Current Liabilities

	31 December 2007	31 December 2006
	(in PLN '000)	
Liabilities due to concessions, rights to geological information and mining usufruct	20 577	388
Other non-current liabilities	1 082	809
Total	21 659	1 197

33. Trade and Other Liabilities

	31 December 2007	31 December 2006
	(in PLN '000)	
Trade liabilities	885 061	977 506
Trade liabilities to related parties	9 894	17 455
Liabilities due to VAT	800 840	612 060
Tax, customs duty and social security liabilities	124 204	113 429
Payroll liabilities	40 421	34 062
Liabilities due to unused paid vacations	32 164	20 619
Liabilities due to purchase of non- financial fixed assets	271 484	208 211
Liabilities due to purchase of non- financial fixed assets from affiliated entities	34 092	44 255
Liabilities due to resolved supplementary contribution to the equity capital *	82 472	82 472
Liabilities to associates measured using the equity method	27 794	9 316
Other liabilities to related parties	910	1 069
Accruals and advances for deliveries	66 734	24 772
Other	31 911	28 261
Total	2 407 981	2 173 487
Including related parties (note 39.a.)	155 162	154 567

* Dispute contribution to the capital of Gazotech Sp. z o.o., issue described in note 40.

34. Reasons for Differences Between Balance Sheet Changes in Certain Items and Changes Arising from the Cash Flow Statement

	31 December 2007	31 December 2006
	(in PLN '000)	
1) Cash opening balance	3 539 078	3 181 567
a) Opening balance of net exchange differences on cash*	(20 136)	(4 618)
Opening balance of cash and bank balances in the cash flow statement (1-a)	3 559 214	3 186 185
2) Cash closing balance	1 583 635	3 539 078
b) Closing balance of net exchange differences on cash	(1 233)	(20 136)
Closing balance of cash and bank balances in the cash flow statement (2-b)	1 584 868	3 559 214
I. Change in the balance of cash in the balance sheet (2-1)	(1 955 443)	357 511
II. Change in net exchange differences on cash (b-a)	18 903	(15 518)
Change in the balance of cash in cash flow statement (I. – II.)	(1 974 346)	373 029

* Negative amounts denote that cash exchange losses prevailed and are charged to the balance of cash in the balance sheet. These differences are eliminated in the cash flow statement.

	31 December 2007	31 December 2006
	(in PLN '000)	
Balance sheet change in other financial assets	983 225	832 206
Balance-sheet change in net receivables	(857 635)	88 314
Change in lease receivables in financial assets – adjustment to investing activity	(983 280)	(834 081)
Change in lease receivables – adjustment of investing activities	(55 151)	(43 276)
Change in receivables due to dividends (15%) to the State Treasury – adjustment of financing activities	–	(47 890)
Change in receivables due to inclusion of Investgas S.A. in consolidation	–	5 239
Change in investment receivables due to sale of intangible assets and property, plant and equipment	(6 857)	(3 427)
Other	(3 929)	1 688
Change in net receivables disclosed in the cash flow statement	(923 627)	(1 227)

	31 December 2007	31 December 2006
	(in PLN '000)	
Balance-sheet change in inventory	135 223	(535 858)
Fixed assets under construction reclassified to inventories – adjustments to investing activities	1 511	56
Change in inventories disclosed in the cash flow statement	136 734	(535 802)

	31 December 2007	31 December 2006
	(in PLN '000)	
Balance-sheet change in provisions	(18 622)	22 603
Change in the provision for reclamation of wells that adjusted property, plant and equipment – adjustment of investing activities	63 152	(114 412)
Change in the provisions for inclusion of Investgas SA in consolidation	–	(7 969)
Change in provisions in the cash flow statement	44 530	(99 778)

	31 December 2007	31 December 2006
	(in PLN '000)	
Balance sheet change of current liabilities	234 494	66 147
Change in investment liabilities due to acquisition of intangible assets and property, plant and equipment	(53 110)	(99 200)
Change in liabilities due to dividend (15%) to the State Treasury – adjustment of financing activities	–	28 800
Change in liabilities due to inclusion of Investgas SA in consolidation	–	(3 195)
Other	(1 034)	(3 164)
Change in liabilities disclosed in the cash flow statement	180 350	(10 612)

	31 December 2007	31 December 2006
	(in PLN '000)	
Balance sheet change in other assets	17 799	(31 424)
Balance sheet change in prepayments	(50 029)	(16 330)
Prepayments for fixed assets under lease – re-classification in operating activity	(16 576)	35 062
Change in prepayments due to consolidation of Investgas S.A.	–	126
Change in prepayments in the cash flow statement	(48 806)	(12 566)

	31 December 2007	31 December 2006
	(in PL '000)	
Balance sheet change in deferred income	387 575	(80 708)
Deferred income for fixed assets under lease – re-classification in operating activity	–	69 818
Subventions for fixed assets	–	(411)
Change in deferred income	387 575	(11 301)

35. Financial Instruments and Financial Risk Management

35. a. Financial instruments – by category (carrying amount)

	31 December 2007	31 December 2006
	(in PLN '000)	
Financial assets measured at fair value through profit or loss	–	–
Available-for-sale financial assets (unlisted shares)	23 867	21 982
Financial investments held to maturity	–	–
Loans and receivables	6 713 237	8 826 802
Positive value of derivatives (hedge instruments, not applied in hedge accounting)	17 442	5 723
Cash assets (cash at cash desk and on bank accounts; cheques and cash on way	222 833	205 464
Financial liabilities measured at amortized cost	1 570 112	3 851 981
Negative value of derivatives	36 185	55 067

Values of recognized financial instruments do not differ at all or are only slightly different from their fair values, and, therefore, the values shown in foregoing table may be considered as the financial instruments' fair values.

35. b. Net gains and losses on financial assets and liabilities

	31 December 2007	31 December 2006
	(in PLN '000)	
Financial assets measured at fair value through profit or loss	–	–
Financial assets available for sale	471	(2 552)
Impairment recognized in profit or loss for the period	471	(2 552)
Financial investments held to maturity	–	–
Loans and receivables	416 996	403 375
Interest accrued on deposits, BSB, REPO	76 730	58 113
Interest on receivables*	308 998	319 141
Interest on loans granted	14 070	17 257
Revaluation write-downs on receivables	(16 992)	(26 536)
Revaluation write-downs on loans	63 735	60 805
Measurement of originated foreign currency loans	(29 545)	(25 405)
Positive value of derivatives	17 442	5 723
Financial liabilities measured at amortized cost	(45 300)	(67 336)
Negative value of derivatives	(36 185)	(55 067)
Total impact on result	353 424	284 143

* Incl. interest on receivables due to finance lease in amount of 19 085 thousand PLN in 2007 (vs. 268 617 thousand PLN in 2006).

35. c. Objectives and principles of financial risk management

The business operations of the Parent are associate with financial risks, including in particular:

» credit risk;
» market risk, including:
  interest rate risk,
  currency risk,
  commodity risk;
» liquidity risk.

Credit risk

Credit risk is defined as the probability of late settlement or failure to settle liabilities by a counterparty. Credit risk resulting from third parties being unable to meet their obligations under contracts related to the Group's financial instruments is in principle limited to the potential surplus of third parties' liabilities over those of the Group. The Capital Group follows the principle of entering into transactions in financial instruments with multiple companies of high creditworthiness. When selecting financial partners who will be entrusted with a portion of held assets, the Group firstly takes into account their financial standing verified by rating agencies and their market share and reputation.

The Group has the following credit risk exposure:

» originated loans;
» trade receivables;
» deposits;
» derivatives;
» granted financial guarantees.

The Group's maximum exposures to credit risk with respect to individual classes of financial instrument is presented below:

Maximum credit risk exposure

	31 December 2007	31 December 2006
	(in PLN '000)	
Originated loans	–	–
Deposits in other entities (bank deposits, BSB, REPO)	1 379 549	3 353 146
Trade receivables	5 333 688	5 473 656
Positive value of derivatives	17 442	5 723
Granted financial guarantees	7 902 149	5 837 852
Total	14 632 828	14 670 377

Exposure to credit risk due to originated loans results only from loans granted by the Parent to subsidiaries from the Capital Group. Loans are granted to these companies in line with the internal procedure – "Principles of granting loans by Polskie Górnictwo Naftowe I Gazownictwo S.A. to companies from the Capital Group and with capital participation of PGNiG S.A." which defines in detail the process of concluding and monitoring loan agreements which minimizes the Parent's exposure to the resulting credit risk. Loans are granted only after the applying companies have met specified terms and provided collateral. In addition, subsidiaries support the shared interest of the Group, which significantly reduces the related credit risk.

The highest credit risk exposure is associated with receivables. Receivables from gas fuel sales effected by PGNiG S.A. are the largest item among receivables.

In order to minimize the risk of the irrecoverability of receivables from sold gas fuel, standardized gas fuel sales contracts are being introduced to secure trade receivables.

Large potential clients are verified and their financial position analyzed based on generally available financial information (in the Register of Debtors) in order to determine a client's financial reliability. PGNiG S.A. requests special collateral, if a client has been entered in the Register of Debtors.

Clients are analyzed on an ongoing basis as to the fulfillment of contractual obligations related to financial settlements. Each client is obligated to make payments for natural gas deliveries in accordance with the contractual provisions. Clients are billed on a monthly basis. The majority of concluded contracts require that clients make advance payments within deadlines provided for in contracts. At the beginning of each month, an invoice that specifies payment dates is issued for planned payments. Clients have to pay for actually used gas fuel at the end of each month within deadlines foreseen in the contract. The standard payment period is 14 days, but there are also other terms of payment.

PGNiG S.A. accepts the following instruments as security:

» Mortgages (ordinary, capped amount);
» Bank guarantees;
» Deposits;
» Ordinary and registered pledges;
» Insurance guarantees;
» Blank bills of exchange;
» Declarations of voluntary submission to enforcement pursuant to Article 777 of the Civil Proceedings Code;
» Assignment of receivables arising from long-term contracts;
» Cash deposits on accounts indicated by the Commercial Branch of PGNiG S.A.;
» Ratings;
» Sureties.

In the case of new contracts, the form of security is agreed between PGNiG S.A. and the Client. It is expected that due to the process of harmonizing contracts with Energy Law requirements, negotiations will be undertaken with certain clients in order to establish or increase security.

The balance of receivables from clients is monitored on a regularly based on internal regulations. Appropriate debt collection procedures are undertaken if payment is delayed.

Statutory interest is accrued on each delayed payment.

The Group identifies, measures and minimizes its own credit risk exposure to individual banks in which it has deposits. Credit exposure was reduced by diversifying the portfolio of counterparties (in particular with regard to banks) with whom deposit transactions are concluded. The Group additionally signed Framework Agreements with all banks in which its funds are deposited that define the terms of concluding and settling all types of financial transactions. In 2007 the Group invested significant long-term surpluses of liquid cash in credit-risk-free instruments with high liquidity, in particular in treasury bills and bonds issued by the State Treasury.

The Group measures the related credit risk through the continuous verification of the financial standing of banks, reflected in fluctuations of financial ratings granted by the following rating agencies: Fitch, Standards&Poor's and Moody.

Credit risk (resulting from granted guarantees) to which the Capital Group is exposed is in principle limited to the risk that banks in which the Group purchased the guarantees in question will default. However, the Group purchases guarantees in renowned banks with high ratings and therefore the probability of default and the related risk are insignificant.

The abovementioned risk is measured through the ongoing verification of the financial standing of banks which sell guarantees, similarly as with the risk related to deposit transactions.

Credit risk exposure resulting from concluded derivatives is equal to the carrying amount of their positive balance sheet measurement at fair value. Similarly as with deposit transactions, derivative transactions are concluded with renowned banks that have a good financial standing. In addition, Framework Agreements or ISDA master agreements, which regulate the principles of cooperation and define threshold values, have been concluded with all cooperating banks.

As a result of all these activities the Group does not anticipate any significant credit risk related losses.

Market risk
Market risk is defined as the probability of the unfavorable effect of changes on financial and commodity markets on the economic value or profit/loss of a business.

The core task in the market risk management process involves the identification, measurement, monitoring and mitigation of basic risk sources including:
» currency risk;
» interest rate risk;
» commodity (gas, crude oil) risk.

Currency risk
Currency risk is defined as the probability of the unfavorable effect of FX fluctuations on a company's profit/loss.

In 2007, the long-term portion of the Group's financial liabilities included a EUR denominated loan in the amount of EUR 600 million. The above loan was repaid and transformed into a credit facility on 14 May 2007. Trade liabilities due to long-term gas fuel purchase contracts are denominated in USD and EUR.

The Group's exposure to currency risk is significant and is presented in the "Sensitivity analysis".

The key objective of the Parent's currency risk hedging activities is to protect it against exchange rate fluctuations inherent to foreign currency payments for gas fuel. The Company hedges its liabilities primarily using forwards and option-based strategies.

Interest rate risk
Interest rate risk is defined as the probability of the unfavorable effect of interest rate fluctuations on a company's profit/loss.

Interest rate risk resulting from originated loans and received credit facilities was insignificant and the Capital Group did not hedge this risk.

The Parent measures market (currency and interest rate) risk by monitoring VAR on a daily basis. VAR (Value At Risk) denotes the maximum loss, with a certain probability (e.g. 99%), resulting from changes in market (fair) value that may be incurred over a period of n work days. VAR is estimated based on the variance – covariance method using the Mondrian scheme.

Commodity risk
Commodity risk is defined as the probability of the unfavorable effect of commodity price fluctuations on a company's profit/loss.

The Group's exposure to commodity risk associated mainly with gas fuel delivery contracts is substantial. Fluctuations in the prices of crude oil products on fuel markets are the main risk factor. In certain contracts the formula for calculating the purchase price of gas fuel limits the volatility of prices by using weighted average prices from previous months. Additionally, the energy law enables entities to apply for the amendment of the tariff, if the gas purchase cost increases by more than 5% during one quarter.

In 2007, the Parent did not identify in detail and hedge this risk.

As at 31 December 2007 the Group had financial instruments which were carried at fair value or amortized costs and were exposed to commodity risk.

Liquidity risk
The key objective of the liquidity risk management process is the ongoing control and planning of liquidity. The liquidity level is controlled through the preparation of cash flows projections that cover a period of at least 12 months and are regularly updated every month. The realization of planned cash flows is verified on a regular basis and includes among others an analysis of unrealized cash flows, their causes and effects. Liquidity risk related threats should not be associated only with the loss of the Company's liquidity. Structural excessive liquidity, which negatively impacts the profitability of a company, is another significant threat.

The Capital Group controls and plans its financial liquidity level on an ongoing basis. As at 31 December 2007, the Group had agreements for credit facilities for a total of PLN 371 501 thousand (PLN 344 357 thousand in 2006) in order to hedge liquidity risk. Relevant details have been presented in note 27.a.

In 2007, Capital Group constituent entities used credit facilities only to a small extent.

In order to avoid excessive liquidity, the Capital Group invests cash surpluses mostly in profitable securities issued by the State Treasury and deposits in renowned banks.

Liquidity risk was significantly mitigated by the Management Board's approval of the "Liquidity Management Procedure for PGNiG S.A." on 4 July 2007. The procedure was implemented in all organizational units and regulated activities that ensure proper liquidity management through: payments, cash flow projections, optimized free cash management, obtaining and restructuring funds for current business activities and investments, hedging the risk of temporary liquidity loss due to unexpected disruptions and servicing of concluded loan agreements.

Liquidity risk is measured based on ongoing cash flow control which takes into account probable cash flow dates and the planned net cash position.

Analysis of maturity of financial liabilities recognized at amortized cost

31 December 2007	Liabilities due to credits and loans taken	Liabilities due to finance lease	Trade liabilities	Total expenditures
	(in PLN '000)			
up to 1 year	73 414	35 494	2 407 980	2 516 888
1 to 5 years	–	32 733	17 654	50 387
over 5 years	–	6	4 005	4 011
Total	73 414	68 233	2 429 639	2 571 286

31 December 2006	Liabilities due to credits and loans taken	Liabilities due to finance lease	Trade liabilities	Total expenditures
	(in PLN '000)			
up to 1 year	65 161	46 940	1 393 317	1 505 418
1 to 5 years	2 298 720	47 418	1 170	2 347 308
over 5 years	–	–	27	27
Total	2 363 881	94 358	1 394 514	3 852 753

In the current period as well as in the past period taken for comparison, the Group has paid all liabilities due to credits and loans taken on time. No case of violation of any agreement which might result in premature liability maturity has occurred.

Analysis of derivatives maturity

	Value as per balance sheet on 31st Dec 2007*	Contracted cash flowe, incl.:	Upto 1 year	From 1 year to 5 years	3–5 years	Above 5 years
			(in PLN '000)			
- interest swaps for hedging purpose	12 733	62 850	61 278	1 572	–	–
- in-coming cash flows	–	1 042 967	61 278	981 689		–
- out-going cash flows	–	(980 117)	–	(980 117)		–
- foreign currency options**	(32 537)	–	–	–	–	–
- in-coming cash flows	–	–	–	–	–	–
- out-going cash flows	–	–	–	–	–	–
- premium paid on otionsi	1 061	–	–	–	–	–
Total	(18 743)	62 850	61 278	1 572	–	–

	Value as per balance sheet on 31st Dec 2006*	Contracted cash flowe, incl.:	Upto 1 year	From 1 year to 5 years	3–5 years	Above 5 years
			(in PLN '000)			
- foreign currency forwards	(16 083)	(13 792)	(13 792)	–	–	–
- in-coming cash flows	–	1 047 780	1 047 780	–	–	–
- out-going cash flows	–	(1 061 572)	(1 061 572)	–	–	–
- foreign currency options**	(33 261)	–	–	–	–	–
- in-coming cash flows	–	–	–	–	–	–
- out-going cash flows	–	–	–	–	–	–
Total	(49 344)	(13 792)	(13 792)	–	–	–

* Balance sheet value (i.e. difference between positive and negative value results, both based on assets) represents fair value, i.e. discounted payments effected under swap contracts. Cash flows are given without discount.
** In case of foreign currency options, due to their contingent nature (i.e. actual cash flow is subject to foreign currency rate of exchange level at the moment of option realization on the market) no related cash-flows are recognized.

No other material risks were identified in the daily business operations of the Capital Group.

Risk Management Policy
In order to effectively manage financial risk, the Parent's Management Board approved the "Financial Risk Management Policy for PGNiG S.A.", which defines the competencies and tasks allocated to individual organizational units in the process of financial risk management and control, on 17 February 2003.

The Parent Company is responsible for financial risk management in the Company and compliance with the adopted policy, whereas risk management related duties are assigned to individual organizational units.

The following units are responsible for compliance with the "Financial Risk Management Policy for PGNiG S.A." and its regular update:
1. the Risk Committee, which presents proposed principles, carries out an ongoing assessment of the adequacy of the risk policy and implements necessary modifications;
2. the Management Board, which formally approves the policy.

Sensitivity analysis
Sensivity analysis of instruments for hedging of future off-balance sheet liabilities due to gas supplies shows that increase (decrease) of currency rates of exchange would cause respective increase (decrease) in value of such liabilities and increase (decrease) of positive value of instruments hedging such liabilities. Total value of hedges in the period they refer to is lower than value of off-balance sheet liabilities due to gas supplies.

Results of ForEx sensivity analysis as on 31st Dec 2007 show that net profit would be lower by 46.85 m PLN if exchange rates of EUR, USD, NOK, and other currencies to PLN were higher by 10% providing all other variables remained at the same level (profit would be lower by 69.70 m PLN owing to NOK appreciation and higher by 20.65, 2.14 and 0.05 m PLN owing to appreciation of USD, EUR, and other currencies vs. PLN, respectively). The highest impact on sensivity analysis had positive and negative value of derivatives (of CCIRS type), which hedge the loan granted to PGNiG Norway A/S; this loan, however, is not recognized in consolidad financial statements

In case the loan were recognized in balance sheet (in the same way as in separate financial statements) the flows arising from that loan and hedging transactions would counteract and set-off reciprocally, and, therefore, changes in positive (negative) valuation of the loan would be set-off by negative (positive) changes in valuation of CCIRS transaction. Therefore, in total effect, those items would not be sensitive for ForEx and interest rate fluctuations.

Lower profit would be mainly caused by increase in negative portion of fair value of financial derivatives (negative fair value of swap transactions).

Negative impact on result of financial instruments denominated in NOK would be mitigated to some extent by increase in positive portion of fair value of financial derivatives denominated in USD and EUR and evaluation of assets in these currencies. Increase in currency rates of exchange to PLN by 10% would cause reduction of negative portion of fair value of financial derivatives denominated in USD and EUR and increase in negative ForEx differences on trade liabilities denominated in these currencies.

Net profit as on 31st Dec 2007 would be higher by 15.00 m PLN if exchange rates of EUR, USD, NOK, and other currencies to PLN were lower by 10% providing all other variables remained at the same level (profit would be higher by 69.70 m PLN owing to depreciation of NOK and lower by 51.33, 3.31 and 0.05 m PLN owing to depreciation of USD, EUR, and other currencies vs. PLN, respectively). Positive result would be mainly caused by increase in positive portion of fair values of financial derivatives (positive value of swap deals denominated in NOK). Positive result would be considerably reduced by increase in negative portion of fair values of USD-based financial derivatives hedging liabilities and expenses arising from purchases of gas fuel.

Results of ForEx sensivity analysis as on 31st Dec 2006 show that net profit would be higher by 76.66 m PLN if exchange rates of EUR, USD, and other currencies to PLN grew by 10% providing that all other variables remained at the same level (profit would increase by 117.52 m PLN resulting from USD appreciation and be lower by 39.11 m PLN resulting from EUR appreciation, 3.20 m PLN owing to CHF depreciation and by 1.45 m PLN due to appreciation of other currencies). It would mainly pertain to considerable advantage of positive ForEx differences from revaluation of cash assets and increase in positive value of derivatives over increase in negative ForEx differences from revaluation of liability due to loan denominated in EUR. Increase in negative ForEx differences on other liabilities would be set-off by reduction of negative value of derivatives.

In case of depreciation of USD, EUR, and other currencies vs. PLN by 10% and providing that all other variables remained at the same level, net profit as on 31st Dec 2006 would be lower by 118.89 m PLN (profit would be lower by 155.41 m PLN due to USD depreciation and higher by 34.77 and 3.2 m PLN due to appreciation of EUR and CHF, respectively, then lower by 1.45 m PLN owing to depreciation of other currencies). It would mainly pertain to higher increase in negative ForEx differences arising from revaluation of cash and cash equivalents. These negative ForEx differences would exceed positive ForEX differences arising from liability revaluation made at lower exchange rate, which would be to the major extent set-off by increase in negative value of derivatives.

On next pages detailed results of sensivity analysis of financial derivatives denominated in foreign currencies in the Group on ForEx fluctuations for 2007 and 2006 are given.

Analysis of foreign currence-based financial instrument sensivity on change of exchange ratest

	Balance sheet value as on 31st Dec 2007	For Ex risk							
	change in rate of exchange:	10%				–10%			
	(in PLN '000)	for EUR	for USD	for NOK	for other currencies	for EUR	for USD	for NOK	for other currencies
Financial assets									
Financial assets held for sale	9 029	36	867	–	–	(36)	(867)	–	–
Other financial assets	–	–	–	–	–	–	–	–	–
Trade and other receivables	165 545	1 958	8 498	243	5 855	(1 958)	(8 498)	(243)	(5 855)
Financial assets for trading	–	–	–	–	–	–	–	–	–
Assets from derivatives	17 442	7 989	13 776	(16 093)	–	(59)	(226)	83 797	–
Cash and cash equivalents	91 671	1 193	4 611	2 839	525	(1 193)	(4 611)	(2 839)	(525)
Effect on financiakl assets before taxation	–	11 176	27 752	(13 011)	6 380	(3 246)	(14 202)	80 715	(6 380)
Tax – 19%	–	(2 123)	(5 273)	2 472	(1 212)	617	2 698	(15 336)	1 212
Effect on financial assets after taxation	–	9 053	22 479	(10 539)	5 168	(2 629)	(11 504)	65 379	(5 168)
Total foreign currencies		26 161				46 078			
Financial liabilities									
Credits, loans and debentures (incl. finance lease)	35 765	–	1 314	–	2 262	–	(1 314)	–	(2 262)
Trade and other liabilities	484 279	9 609	32 126	2 632	4 061	(9 609)	(32 126)	(2 632)	(4 061)
Liabilities arising from financial instruments	36 185	(1 086)	(31 188)	70 406	–	10 449	82 616	(2 701)	–
Effect on financial liabilities before taxation	–	8 523	2 252	73 038	6 323	840	49 176	(5 333)	(6 323)
Tax – 19%	–	(1 619)	(428)	(13 877)	(1 201)	(160)	(9 343)	1 013	1 201
Effect on financial liabilities after taxation	–	6 904	1 824	59 161	5 122	680	39 833	(4 320)	(5 122)
Total foreign currencies		73 011				31 071			
Total increase/decrease		2 149	20 655	(69 700)	46	(3 309)	(51 337)	69 699	(46)
Total foreign currencies		(46 850)				15 007			
Rates of exchange at the balance sheet day and their changes:									
EUR/PLN	3.5820	3.9402	3.5820	3.5820	3.5820	3.2238	3.5820	3.5820	3.5820
USD/PLN	2.4350	2.4350	2.6785	2.4350	2.4350	2.4350	2.1915	2.4350	2.4350
NOK/PLN	0.4497	0.4497	0.4497	0.4947	0.4497	0.4497	0.4497	1.9453	0.4497

The Company measured sensivity of financial instruments arising from loans granted and taken and lease liabilities of variable interest rate on change of interest rate by +/– 100 bp.

As on 31st Dec 2007 sensivity of liabilities due to loans and lease based on variable interest rate on change of interest rate by +/– 100 bp. was of +/– 1.38 m PLN.

As on 31st Dec 2006 sensivity of liabilities due to loans and lease based on variable interest rate on change of interest rate by +/– 100 bp was of +/– 24.58 m PLN.

Analysis of foreign currence-based financial instrument sensitivy on change of exchange ratest

	Balance sheet value as on 31st Dec 2007	For Ex risk							
	change in rate of exchange:	10%				–10%			
	(in PLN '000)	for EUR	for USD	for CHF	for other currencies	for EUR	for USD	for CHF	for other currencies
Financial assets									
Financial assets held for sale	6 760	–	676	–	–	–	(676)	–	–
Other financial assets	594	59	–	–	–	(59)	–	–	–
Trade and other receivables	157 283	2 222	11 846	–	1 661	(2 222)	(11 846)	–	(1 661)
Financial assets for trading	–	–	–	–	–	–	–	–	–
Assets from derivatives	5 723	11 006	127 610	–	–	(139)	(5 584)	–	–
Cash and cash equivalents	1 860 666	176 754	7 853	2	1 457	(176 754)	(7 853)	(2)	(1 457)
Effect on financiakl assets before taxation	–	190 041	147 985	2	3 118	(179 174)	(25 959)	(2)	(3 118)
Tax – 19%	–	(36 108)	(28 117)	–	(592)	34 043	4 932	–	592
Effect on financial assets after taxation	–	153 933	119 868	2	2 526	(145 131)	(21 027)	(2)	(2 526)
Total foreign currencies		276 329				(168 686)			
Financial liabilities									
Credits, loans and debentures (incl. finance lease)	2 351 246	230 364	679	3 954	128	(230 364)	(679)	(3 954)	(128)
Trade and other liabilities	664 500	10 135	55 113	–	1 202	(10 135)	(55 113)	–	(1 202)
Liabilities arising from financial instruments	55 067	(2 179)	(52 889)	–	–	18 401	221 697	–	–
Effect on financial liabilities before taxation	–	238 320	2 903	3 954	1 330	(222 098)	165 905	(3 954)	(1 330)
Tax – 19%	–	(45 281)	(552)	(751)	(253)	42 199	(31 522)	751	253
Effect on financial liabilities after taxation	–	193 039	2 351	3 203	1 077	(179 899)	134 383	(3 203)	(1 077)
Total foreign currencies		199 670				(49 796)			
Total increase/decrease		(39 106)	117 517	(3 201)	1 449	34 768	(155 410)	3 201	(1 449)
Total foreign currencies		76 659				(118 890)			
Rates of exchange at the balance sheet day and their changes:									
EUR/PLN	3.8312	4.2143	3.8312	3.8312	3.8312	3.4481	3.8312	3.8312	3.8312
USD/PLN	2.9105	2.9105	3.2016	2.9105	2.9105	2.9105	2.6195	2.9105	2.9105
CHF/PLN	2.3842	2.3842	2.3842	2.6226	2.3842	2.3842	2.3842	2.1458	2.3842

Analysis of financial instrument sensivity on change of interest rate

	balance sheet value (in PLN '000)	change by: +100 bp	change by: –100 bp
State as on 2007-12-31			
Loans granted*	64 687	647	(6)
Lease liabilities**	73 414	734	(7)
Total	138 101	1 381	(13)
State as on 2006-12-31			
Loans granted*	2 368 798	23 688	(237)
Lease liabilities**	88 669	887	(9)
Total	2 457 467	24 575	(246)

Due to inaccurate identification of the risk related to change of prices on goods, sensitivity analyzis for this type of risk has not been carried out.

36. Hedging Derivatives Measured at Fair Value Through Profit or Loss

Derivative valuation methods
In accordance with International Financial Reporting Standards the Parent discloses all derivatives in the financial statements at fair value.

As at 31 December 2007, the Parent held 2 types of derivatives: FX forwards and risk reversal strategies (foreign currency call (purchase) and put (sell) options). Measurement at fair value was carried out using the Risk Hedging application. The fair value of currency forwards is estimated by discounting the difference between the purchased non-base currency (USD or EUR) translated at the spot rate and the sold base currency (PLN) through profitability curves assigned to both currencies. The profitability curve is created using deposit rates up to one year and swap rates over one year. Market data as at 31 December 2007.

The measurement of Call and Put options at fair value was carried out in line with the Garman-Kohlhagen model based on the following market data: interest rates, FX rates and volatility as at 31 December 2007.

Hedge accounting
In 2007 the Capital Group did not apply hedge accounting principles. Therefore changes in the fair vale of hedged financial instruments and hedging instruments were presented in the income statement for the reporting period.

Derivatives

Face value in respective currency	Maturity day	Price of price range by which the instrument may be realized	Valuation vs. instrument's fair value: 31 December 2007	Valuation vs. instrument's fair value: 31 December 2006
	Collar			
USD 10 m	10 January 2008	2.8600–2.6195	(1 840)	–
USD 10 m	10 January 2008	2.8600–2.6185	(1 830)	–
USD 10 m	10 January 2008	3.0000–2.6750	(2 394)	–
USD 10 m	18 January 2008	2.9900–2.6550	(2 187)	–
USD 10 m	8 February 2008	2.9900–2.6550	(2 171)	–
USD 10 m	10 March 2008	2.9900–2.6490	(2 105)	–
USD 10 m	18 January 2008	2.9900–2.6000	(1 639)	–
USD 10 m	8 February 2008	2.9900–2.5945	(1 581)	–
USD 10 m	10 March 2008	2.9900–2.5890	(1 542)	–
USD 10 m	8 February 2008	2.9500–2.5815	(1 456)	–
USD 10 m	8 February 2008	2.9500–2.5680	(1 329)	–
USD 10 m	18 January 2008	2.9500–2.5690	(1 332)	–
USD 10 m	10 March 2008	2.9000–2.5680	(1 352)	–
USD 10 m	10 March 2008	2.8700–2.5690	(1 360)	–
USD 10 m	18 January 2008	2.8700–2.5665	(1 307)	–
USD 10 m	10 January 2008	2.8000–2.5599	(1 245)	–
USD 10 m	20 February 2008	2.8000–2.5500	(1 175)	–
EUR 5 m	8 February 2008	3.8700–3.7070	(621)	–
USD 10 m	20 March 2008	2.8300–2.5300	(1 035)	–
USD 10 m	20 March 2008	2.8300–2.5300	(1 035)	–
USD 10 m	10 January 2008	2.7000–2.4755	(433)	–
USD 10 m	20 February 2008	2.7500–2.4350	(312)	–
USD 10 m	10 April 2008	2.7500–2.3705	(171)	–
USD 10 m	20 February 2008	2.7500–2.3760	(105)	–
USD 10 m	10 April 2008	2.7500–2.3380	(102)	–
USD 10 m	20 February 2008	2.7500–2.2700	(6)	–
USD 10 m	20 March 2008	2.7500–2.2765	(21)	–
USD 10 m	10 April 2008	2.7500–2.3350	(97)	–
USD 10 m	10 April 2008	2.7500–2.3400	(106)	–
USD 10 m	9 May 2008	2.7700–2.3100	(82)	–
USD 10 m	20 May 2008	2.7400–2.3100	(79)	–
EUR 5 m	25 January 2008	3.7800–3.5630	(69)	–
EUR 5 m	10 April 2008	3.7600–3.5830	(167)	–
USD 10 m	18 January 2008	2.6500–2.3510	(9)	–
EUR 5 m	22 February 2008	3.7400–3.5700	(110)	–
USD 10 m	20 February 2008	3.7400–2.2850	(10)	–
USD 10 m	20 March 2008	3.7400–2.2750	(19)	–
EUR 5 m	25 March 2008	3.7500–3.5470	(84)	–
USD 10 m	18 April 2008	3.7400–2.2730	(27)	–
USD 10 m	9 May 2008	2.7300–2.2740	(30)	–

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in PLN thousand

Derivatives
continued from previous page

Face value in respective currency	Maturity day	Price of price range by which the instrument may be realized	Valuation vs. instrument's fair value 31 December 2007	Valuation vs. instrument's fair value 31 December 2006
EUR 5 m	9 May 2008	3.7500–3.5090	(36)	–
USD 10 m	18 January 2008	2.6300–2.3100	(1)	–
USD 10 m	20 February 2008	2.6600–2.3075	(15)	–
USD 10 m	20 February 2008	2.6600–2.2860	(5)	–
USD 10 m	18 January 2008	2.6400–2.3275	(3)	–
USD 10 m	8 February 2008	2.6300–2.3050	(5)	–
USD 10 m	18 April 2008	2.6500–2.3000	(18)	–
EUR 5 m	18 April 2008	3.7600–3.4600	(1)	–
USD 10 m	20 February 2008	2.6400–2.2930	(4)	–
USD 10 m	20 May 2008	2.6600–2.2940	(17)	–
USD 10 m	20 May 2008	2.6600–2.2980	(22)	–
USD 10 m	9 May 2008	2.6600–2.2980	(22)	–
USD 10 m	18 January 2008	2.6400–2.2990	–	–
USD 10 m	10 April 2008	2.7000–2.2910	(30)	–
USD 10 m	10 March 2008	2.7200–2.2980	(26)	–
NOK 300 m	9 May 2008	2.7100–2.2960	(46)	–
USD 10 m	10 January 2007	3.2900–2.9980	–	(890)
USD 10 m	10 January 2007	3.2600–2.9965	–	(876)
EUR 5 m	19 January 2007	4.0600–3.8985	–	(362)
USD 10 m	10 January 2007	3.1200–2.9080	–	(145)
EUR 5 m	19 January 2007	4.0200–3.8000	–	(48)
USD 10 m	18 January 2007	3.1100–2.9070	–	(208)
EUR 5 m	18 January 2007	3.1200–2.9250	–	(313)
USD 10 m	21 February 2007	3.2850–2.9985	–	(1 050)
USD 10 m	20 March 2007	3.2900–2.9980	–	(1 134)
USD 10 m	9 February 2007	3.2950–3.0185	–	(1 193)
USD 10 m	9 February 2007	3.2850–3.0200	–	(1 206)
USD 10 m	9 March 2007	3.2800–3.0060	–	(1 171)
USD 10 m	9 March 2007	3.2800–2.9900	–	(1 040)
USD 10 m	20 February 2007	3.2500–2.9970	–	(1 033)
USD 10 m	9 March 2007	3.2500–2.9970	–	(1 094)
USD 10 m	9 February 2007	3.2300–2.9940	–	(978)
USD 10 m	18 January 2007	3.2600–3.0000	–	(937)
USD 10 m	20 March 2007	3.2500–2.9980	–	(1 130)
EUR 5 m	20 February 2007	4.1100–3.8935	–	(391)
EUR 5 m	20 March 2007	4.1100–3.8870	–	(397)
USD 10 m	20 February 2007	3.2200–3.0025	–	(1 078)
EUR 5 m	20 February 2007	4.0900–3.8740	–	(316)
EUR 5 m	20 March 2007	4.0900–3.8800	–	(368)
USD 10 m	9 February 2007	3.1900–3.0275	–	(1 270)
USD 10 m	20 March 2007	3.1900–2.9995	–	(1 129)

Face value in respective currency	Maturity day	Price of price range by which the instrument may be realized	Valuation vs. instrument's fair value 31 December 2007	Valuation vs. instrument's fair value 31 December 2006
USD 10 m	18 January 2007	3.2500–3.0015	–	(951)
EUR 5 m	10 April 2007	4.0000–3.8600	–	(278)
USD 10 m	18 January 2007	3.2100–3.0110	–	(1 041)
USD 10 m	9 February 2007	3.2200–3.0035	–	(1 060)
USD 10 m	9 March 2007	3.2100–3.0075	–	(1 175)
USD 10 m	10 April 2007	3.1400–2.9975	–	(1 134)
USD 10 m	10 April 2007	3.0900–2.9900	–	(1 034)
USD 10 m	10 January 2007	3.1500–2.9920	–	(832)
USD 10 m	10 April 2007	3.1000–2.9640	–	(851)
USD 10 m	10 May 2007	3.1000–2.9250	–	(651)
USD 10 m	20 March 2007	3.1000–2.9370	–	(622)
USD 10 m	10 May 2007	3.0900–2.9160	–	(586)
USD 10 m	10 May 2007	3.0900–2.9115	–	(561)
USD 10 m	20 April 2007	3.0800–2.9160	–	(543)
USD 10 m	18 May 2007	3.0800–2.9100	–	(551)
USD 10 m	20 April 2007	3.0700–2.8990	–	(437)
USD 10 m	18 May 2007	3.0600–3.8730	–	(334)
USD 10 m	20 February 2007	3.0450–2.9240	–	(423)
EUR 10 m	20 April 2007	3.0450–2.8815	–	(316)
USD 10 m	18 May 2007	3.0400–2.8565	–	(231)
EUR 5 m	10 May 2007	3.9500–3.7570	–	(8)
EUR 5 m	10 April 2007	3.9500–3.7580	–	(11)
USD 10 m	18 January 2007	2.9700–2.8890	–	(77)
USD 10 m	20 March 2007	2.9900–2.8600	–	(91)
USD 10 m	20 April 2007	2.9700–2.8635	–	(86)
USD 10 m	18 May 2007	2.9700–2.8560	–	(74)
USD 10 m	20 April 2007	2.9800–2.8505	–	(60)
USD 10 m	10 May 2007	2.9500–2.8460	–	31
USD 10 m	18 May 2007	2.9600–2.8230	–	76
USD 10 m	18 May 2007	2.9600–2.8175	–	94
USD 10 m	8 June 2007	2.9600–2.7875	–	174
EUR 5 m	20 June 2007	3.9200–3.7447	–	51
EUR 5 m	18 May 2007	3.9000–3.7335	–	88
			(32 826)	(33 261)
	Option "Call"			
EUR 5 m	10 January 2008	3.8400	200	–
EUR 5 m	10 March 2008	3.6800	317	–
USD 10 m	18 April 2008	2.5800	419	–
USD 10 m	18 April 2008	2.5700	413	–
			1 349	–

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in PLN thousand

Derivatives
continued from previous page

Face value in respective currency	Maturity day	Price of price range by which the instrument may be realized	Valuation vs. instrument's fair value	
			31 December 2007	31 December 2006
	Forward			
USD 1.54 m	5 May 2008	2.7495	(484)	–
USD 0.56 m	1 April 2008	2.7450	(174)	–
USD 10 m	10 January 2007	3.0853	–	(1 759)
USD 10 m	10 January 2007	3.0545	–	(1 451)
USD 10 m	10 April 2007	3.0797	–	(1 776)
USD 10 m	9 March 2007	3.0581	–	(1 538)
USD 10 m	20 February 2007	3.0595	–	(1 537)
USD 10 m	18 January 2007	3.0603	–	(1 516)
USD 10 m	18 January 2007	3.0434	–	(1 347)
USD 10 m	20 February 2007	3.0395	–	(1 338)
USD 10 m	10 April 2007	3.0336	–	(1 321)
USD 10 m	20 April 2007	2.9929	–	(925)
USD 10 m	20 March 2007	2.9964	–	(935)
USD 10 m	18 January 2007	2.9928	–	(843)
USD 10 m	10 May 2007	2.9857	–	(868)
USD 10 m	20 February 2007	2.9940	–	(886)
USD 10 m	20 February 2007	2.9862	–	(808)
USD 10 m	20 February 2007	2.9742	–	(689)
USD 10 m	20 March 2007	2.9719	–	(693)
USD 10 m	20 March 2007	2.9540	–	(515)
USD 10 m	20 February 2007	2.9599	–	(547)
USD 10 m	18 January 2007	2.8900	–	183
USD 10 m	8 June 2007	2.8561	–	384
USD 10 m	8 June 2007	2.8500	–	444
USD 10 m	10 January 2007	2.8595	–	496
USD 10 m	20 June 2007	2.8477	–	456
USD 10 m	8 June 2007	2.8490	–	453
USD 10 m	10 January 2007	2.8775	–	317
USD 10 m	9 February 2007	2.8760	–	299
USD 10 m	9 March 2007	2.8720	–	309
USD 10 m	9 February 2007	2.8733	–	326
USD 10 m	9 March 2007	2.8698	–	331
USD 10 m	10 January 2007	2.8771	–	321
USD 10 m	20 March 2007	2.8792	–	226
USD 10 m	9 February 2007	2.8842	–	217
USD 10 m	18 January 2007	2.8874	–	209
USD 10 m	18 January 2007	2.8874	–	209
USD 10 m	20 March 2007	2.8991	–	29
			(658)	(16 083)

Face value in respective currency	Maturity day	Price of price range by which the instrument may be realized	Valuation vs. instrument's fair value	
			31 December 2007	31 December 2006
	Swap			
NOK 300 m	17 January 2011	0.4686	4 605	–
NOK 300 m	17 January 2011	0.4627	4 833	–
NOK 300 m	17 January 2011	0.4596	2 522	–
NOK 300 m	17 January 2011	0.4534	1 868	–
NOK 300 m	17 January 2011	0.4588	2 265	–
NOK 300 m	17 January 2011	0.4461	(2 701)	–
			13 392	–
Total			(18 743)	(49 344)
out of which:	positive value	assets	17 442	5 723
	negative value	liabilities	(36 185)	(55 067)

in PLN thousand

37. Contingent Liabilities

37. a. Contingent liabilities arising from granted sureties and guarantees

Borrower	Amount of the contingent liability in currency	Currency of the contingent liability	Amount of the contingent liability in PLN	Expiry date of the contingent liability	Bank or other institution issuing guarantee	Type of the contingent liability
Contingent liability granted by PGNiG S.A.						
Kingdom of Norway	627 556	EUR	2 247 904	1 January 2050	PGNiG Norway A/S	guarantee of performance by a subsidiary of liabilities towards the State of Norway
EUROPOL GAZ S.A.	56 000	PLN	56 000	30 September 2012	Bank Milenium S.A.	loan suraty
The President Islamic Republic of Pakistan	2 316	USD	5 639	31 December 2008	Societe Generale Oddział w Polsce	bank guarantee
Egyptian General Petroleum Corporation	500	USD	1 218	28 February 2012	National Societe Generale Bank S.A.E.	bank guarantee
Gazprom-Export Ltd.	90 000	USD	219 150	8 February 2008	Societe Generale Oddział w Polsce	bank guarantee
Gazprom-Export Ltd.	90 000	USD	219 150	8 February 2008	Bank PEKAO S.A. Centrala	bank guarantee
National Oil Corporation Libia	10 800	USD	26 298	15 May 2008	Societe Generale Oddział w Polsce	bank guarantee
Gazprom-Export Ltd.	210 000	USD	511 350	8 February 2009	BNP Paribas Oddział w Polsce	bank guarantee
Gazprom-Export Ltd.	42 000	USD	102 270	8 February 2009	PKO Bank Polski	bank guarantee
Contingent liability granted by Distribution Companies**						
Contingent liability granted by Distribution Companies**	1 250 000	EUR	4 477 500	27 January 2012	Consortium of banks – agent Bank Handlowy S.A. in Warsaw	re-payment guarantee
Contingent liability granted by Geofizyka Kraków Sp. z o.o.						
Customs office in Pakistan	330	USD	804	31 December 2009	Customs office in Pakistan	customs bond
Oil India Company LTD	2 363	USD	5 753	31 August 2008	Oil India Company LTD	performance bond
OGDCPakistan	100	USD	5 753	27 June 2008	OGDCPakistan	performance bond
NCL-Pakistan	200	USD	487	17 June 2008	NCL-Pakistan	bid bond
Oil India Limited Libya	182	USD	443	8 August 2008	Oil India Limited Libya	performance bond
Oil Gas Development Company Pakistan	1 470	USD	3 579	20 December 2008	Oil Gas Development Company Pakistan	performance bond
Dong VE A/S	28	EUR	69	1 April 2008	Dong VE A/S	performance bond
Contingent liability granted by Geofizyka Toruń Sp. z o.o.						
INSTYTUT GEOLOGICZNY	23	PLN	23	30 January 2009	RAIFFEISEN BANK	performance bond
RELIANCE INDIE	499	USD	1 215	29 February 2008	BRE BANK	performance bond
OIL INDIA	558	USD	1 358	15 November 2010	RAIFFEISEN BANK	performance bond
RELIANCE INDIE	1350	USD	3 287	13 October 2008	RAIFFEISEN BANK	performance bond
CAIRN INDIE	500	USD	1 218	16 January 2008	RAIFFEISEN BANK	performance bond
OIL INDIA	763	USD	1 857	14 April 2008	RAIFFEISEN BANK	performance bond
OIL INDIA	232	USD	565	20 May 2008	RAIFFEISEN BANK	bid bond
GSPC	25	USD	61	5 February 2008	BRE BANK	bid bond
GSPC	25	USD	61	21 March 2008	BRE BANK	bid bond
RELIANCE INDIE	50	USD	122	8 December 2008	RAIFFEISEN BANK	performance bond
RELIANCE INDIE	235	USD	572	30 September 2008	RAIFFEISEN BANK	performance bond
RELIANCE INDIE	10	USD	24	30 December 2008	RAIFFEISEN BANK	performance bond
OIL INDIA	408	USD	993	17 November 2008	RAIFFEISEN BANK	performance bond
OIL INDIA	408	USD	993	25 June 2009	RAIFFEISEN BANK	performance bond
OIL INDIA	60	USD	146	2 April 2008	RAIFFEISEN BANK	bid bond

continued on next page

in PLN thousand

Contingent liabilities arising from granted sureties and guarantees
continued from previous page

Borrower	Amount of the contingent liability in currency	Currency of the contingent liability	Amount of the contingent liability in PLN		Expiry date of the contingent liability	Bank or other institution issuing guarantee	Type of the contingent liability
Contingent liability granted by PNiG Jasło Sp. z o.o.							
PBK S.A.	987	PLN	987		4 December 2009	Bank Pekao S.A.	performance bond
Contingent liability granted by Gazobudowa Zabrze Sp. z o.o.							
OGDC Company Pakistan	84	USD	204		18 October 2009	OGDC Company Pakistan	offer guaranteee
Contingent liability granted by Naftomontaż Krosno Sp. z o.o.							
BRE Bank S.A.	180	EUR	646		30 May 2008	IMP Promont Montaza Lubljana	performance bond
ERGO Hestia	450	PLN	450		28 February 2008	ABB Zamech Gazpetro	performance bond
ERGO Hestia	239	PLN	239		25 October 2008	ZRUG Sp. z o.o. w Pogórskiej Woli	performance bond
Contingent liability granted by Naftomontaż Krosno Sp. z o.o.							
MICROTECH LTD Sp. z o.o. Wrocław	112	PLN	112		18 December 2009	TUiR CIGNA STU S.A. Warszawa	avail
Contingent liability granted by Diament Sp. z o.o.							
POZ-BRUK Sp. z o.o.	740	PLN	740		31 January 2008	POZ-BRUK Sp. z o.o.	guarantee of building material supply
NCC Roads Sp. z o.o.	202	PLN	202		1 July 2009	NCC Roads Sp. z o.o.	performance bond
WUPRINŻ Sp. z o.o.	27	PLN	27		10 November 2009	WUPRINŻ Sp. z o.o.	performance bond
MITEX S.A	77	PLN	77		30 June 2009	MITEX S.A	performance bond
Lasy Państwowe	9	PLN	9		22 May 2009	Lasy Państwowe	performance bond
Gmina Kozienice	15	PLN	15		12 June 2009	Gmina Kozienice	performance bond
ABM Sp. z o.o.	375	PLN	375		24 August 2009	ABM Sp. z o.o.	performance bond
EKOMEL Sp. z o.o.	16	PLN	16		29 November 2010	EKOMEL Sp. z o.o.	performance bond
Związek Międzygminny Odra	202	PLN	202		14 July 2008	Związek Międzygminny Odra	performance bond
Zakład Zagospodarowania Odpadów	294	PLN	294		28 September 2008	Zakład Zagospodarowania Odpadów	performance bond
GS Engineering&Construkt.	535	PLN	535		14 February 2010	GS Engineering&Construkt.	performance bond
Lafarge Cement S.A.	155	PLN	155		21 January 2008	Lafarge Cement S.A.	payment guarantee
ZWKiUK Sp. z o.o.	200	PLN	200		7 January 2008	ZWKiUK Sp. z o.o.	bid bond
Contingent liability granted by Investgas S.A.							
PKN ORLEN S.A.	802	PLN	802		31 December 2010	Deutche Bank PLC Warszawa	performance bond
Total			7 902 149				

* Contingent liabilities in foreign currency are translated at the NBP exchange rate as at 31 December 2007.
** Six distribution companies, (previously trading companies) (100% subsidiaries of PGNiG S.A.) jointly and severally granted a surety on the repayment of a syndicated loan contracted by PGNiG S.A. The syndicated loan agreement of 27 July 2005 was concluded between PGNiG S.A. and Bank Handlowy w Warszawie S.A., Bank Polska Kasa Opieki S.A., Caylon S.A., Fortis Bank N.V., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale S.A. Branch in Poland.Under general succession, Distribution System Operators are the Company's Guarantors.

As at 31 December 2007 the agreement concluded by PGNiG S.A. and Gas Trading Companies (currently Distribution System Operators) on 22 September 2005, which concerned a guarantee in connection with the Loan Agreement concluded between PGNiG S.A. and a consortium of banks on 27 July 2005, was binding. The aforementioned agreement concerned a joint and several, irrevocable and unconditional guarantee granted by the Companies to Bank Handlowy w Warszawie S.A. (the Loan Agent) of the timely repayment of a loan of no more than EUR 1 250 000 thousand within 18 months after the termination date of the agreement for Loan Tranche A, i.e. by 27 January 2012. The Company repaid EUR 600 000 thousand of the term loan and simultaneously secured access to the same amount as part of a revolving loan. Now, the guarantees granted by the Distribution System Operators constitute the bank's security.

37. b. Contingent bill of exchange liabilities

Bill of exchange issuer and beneficiary	Amount of the bill of exchange in foreign currency	Bill of exchange currency	Amount of the bill of exchange in PLN	Bill of exchange expiry date
Bills of exchange issued by PGNiG S.A.				
Towarzystwo Finansowo-Leasingowe S.A.	6 852	PLN	6 852	31 December 2009
Bills of exchange issued by Geofizyke Kraków Sp. z o.o.				
ECS,BPH Leasing,Sogelege	2 546	PLN	2 546	30 September 2011
Bills of exchange issued by Geofizyka Toruń Sp. z o.o.				
RAIFFEISEN BANK POLSKA S.A.	6 000	PLN	6 000	30 May 2008
BANK ROZWOJU EKSPORTU S.A.	5 000	PLN	5 000	25 August 2008
BANK PEKAO S.A.O/TORUŃ	1 500	PLN	1 500	31 May 2008
BANK PEKAO S.A.O/TORUŃ	3 000	PLN	3 000	31 May 2008
Bills of exchange issued by PNiG Jasło Sp. z o.o.				
Bank PeKaO S.A.	4 000	PLN	4 000	31 December 2008
Bank PeKaO S.A.	4 000	PLN	4 000	31 December 2008
Bank PeKaO S.A.	987	PLN	987	4 December 2009
Bills of exchange issued by Diament Sp. z o.o.				
BRE BANK S.A.	4 000	PLN	4 000	30 January 2014
Bills of exchange issued by Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.				
Krajowa Izba Gospodarcza	1 691	PLN	1 691	30 April 2008
Bills of exchange issued by Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.				
Europejski Fundusz Leasingowy	190	PLN	190	15 February 2009
Bills of exchange issued by Gazobudowa Zabrze Sp. z o.o.				
FORTIS Bank Polska S.A.	50	PLN	50	31 July 2007
PKN Orlen S.A.	20	PLN	20	no time limit
BRE Bank S.A.	8 000	PLN	8 000	14 November 2008
TU ALLIANZ Polska S.A. W-wa	3 000	PLN	3 000	14 March 2007
ERGO HESTIA Katowice	1 000	PLN	1 000	no time limit
UNIQUA TU S.A.	1 391	PLN	1 391	18 October 2008
PKN Orlen S.A.	10	PLN	10	no time limit
BRE Leasing W-wa	509	PLN	509	20 July 2007
BRE Leasing W-wa	423	PLN	423	22 September 2008
TUiR CIGNA STU S.A.	549	PLN	549	31 October 2008
Bills of exchange issued by Naftomontaż Krosno Sp. z o.o.				
Control Process Sp. z o.o. Tarnów	75	PLN	75	25 November 2009
Control Process Sp. z o.o. Tarnów	29	PLN	29	25 November 2009
Control Process Sp. z o.o. Tarnów	105	PLN	105	25 November 2009
CIGNA STU O/Kielce	44	PLN	44	28 March 2008
CIGNA STU O/Kielce	69	PLN	69	30 October 2010
CIGNA STU O/Kielce	14	PLN	14	14 November 2010
CIGNA STU O/Kielce	3	PLN	3	29 April 2009
CIGNA STU O/Kielce	135	PLN	135	2 August 2008
Total			55 192	

37. c. Other contingent liabilities

Real estate tax

The resolution of the Supreme Administrative Court in Warsaw issued on 2 July 2001, which was passed by a panel of 7 judges, decided that underground mining headings are not subject to real estate tax. Since in the case of oil and gas production wells are mining headings, local authorities from the Zielona Góra Branch's area of operation withdrew from the enforcement of real estate tax; however some authorities have decided that well supporting infrastructure is subject to taxation.

Pipeline tax was introduced in 2001. The Zielona Góra Branch in previous years created provisions for the claims of local authorities regarding real estate tax in the amount of PLN 821.3 thousand. Due to favorable adjudication of claims lodged by PGNiG S.A., the Company, after re-assessment of the risk of any possible future claims arising therefrom, came to the conclusion such risk is rather low and, therefore, discharged in 2007the provision established for this purpose. Whereas the Podkarpacie municipal authorities have not forwarded any such claims. Therefore the mining facilities located in the Podkarpacie region neither declared nor accrued real estate tax on excavations for the period of 2001–2005. The potential tax liability, not disclosed in the financial statements, together with interest is equal to PLN 60 642.2 thousand as at 31 December 2007 (PLN 59 290.3 thousand in 2006).

Real estate claims

Additionally, claims related to the following have been lodged against PGNiG S.A. by land owners:

» land via which pipelines are planned to run;
» land where gas pipelines and other facilities have been installed.

Potential liabilities arising from claims concerning real property cannot be quantified due to the fact that such claims are often groundless (which is confirmed by expert opinions).

38. Off-Balance Sheet Liabilities

38. a. Operating lease liabilities

	31 December 2007	31 December 2006
	(in PLN '000)	
Up to one year	1 952	3 067
From 1 to 5 years	1 082	4 824
Over 5 years	–	–
Total	3 034	7 891

38. b. Investment liabilities

	31 December 2007	31 December 2006
	(in PLN '000)	
Liabilities arising from signed contracts	625 761	423 281
Stage of completion of contracts as at the balance sheet date	320 755	151 492
Contractual liabilities after the balance sheet date	305 006	271 789

39. Information on Related Parties

39. a. Related party transactions

Related party		Sales to related parties	Purchase from related parties	Gross receivables from related parties	Net receivables from related parties	Gross loans granted to related parties	Net loans granted to related parties	Liabilities to related parties
		(in PLN '000)		(in PLN '000)				
Associates were consolidated using equity method	31 December 2007	50 302	96 113	2 378	2 378	131 083	–	27 794
	31 December 2006	35 243	86 231	3 952	3 932	192 361	–	9 316
Subsidiaries and associates not included in consolidation	31 December 2007	21 458	215 834	134 261	5 882	12 523	–	127 368
	31 December 2006	7 143	168 916	131 954	3 212	13 880	–	145 251
Total related parties	31 December 2007	71 760	311 947	136 639	8 260	143 606	–	155 162
	31 December 2006	42 386	255 147	135 906	7 144	206 241	–	154 567

The most important transactions with shareholders in 2007 and 2006 were dividend payments specified with details in Note 10.

39. b. Remuneration paid to Members of the Management and Supervisory Boards of companies from the Capital Group

	31 December 2007	31 December 2006
	(in PLN '000)	
Remuneration of Members of the Management Board	21 854	14 340
Parent	1 780	1 308
Subsidiaries	11 364	11 320
Co-subsidiary	8 130	1 160
Associates	580	552
Remuneration of Members of the Supervisory Board	9 235	6 151
Parent	305	286
Subsidiaries	3 287	3 196
Co subsidiary	5 153	2 119
Associates	490	550
Total	31 089	20 491

39. c. Loans granted to Members of the Management and Supervisory Boards of companies from the Capital Group

	31 December 2007	31 December 2006
Members of the Management Board		
Interest rate (%)	1%-5%	1%-6%
Repayment terms (period)	1.5–10 years	3–12 years
Value of loans remaining to be paid	110	190
Remuneration of Members of the Supervisory Board		
Interest rate (%)	0%-5%	0%-6%
Repayment terms (period)	1.25–5 years	1–3 years
Value of loans remaining to be paid	17	9
Total value of loans remaining to be paid	127	199

39. d. Remuneration paid to Members of the Parent's Management and Supervisory Board

Full name	31 December 2007 Total compensation, additional benefits and bonuses paid in 2007 (in PLN '000)	Total remuneration due to duties performed in subsidiaries paid in 2007	Total remuneration paid in 2007
Management Board in total, including:	1 779.89	2 816.67	4 596.56
Głogowski Krzysztof – Chairman of the Management Board	222.74	840.75	1 063.49
Anysz Jan – Member of the Management Board	270.31	178.21	448.52
Kuchciak Zenon – Member of the Management Board	242.26	779.49	1 021.75
Niedbalec Stanisław – Member of the Management Board	251.72	377.95	629.67
Zwierzyński Tadeusz – Member of the Management Board	226.04	130.28	356.32
Marzec Bogusław – Proxy	315.06	470.38	785.44
Bernacik Ewa – Proxy	251.76	39.61	291.37
Supervisory Board in total, including:	304.74	128.47	433.21
Rościszewski Andrzej	33.86	–	33.86
Szwarc Piotr	33.86	56.66	90.52
Chrobak Kazimierz	33.86	6.00	39.86
Arkuszewski Wojciech	33.86	–	33.86
Kawecki Mieczysław	33.86	31.95	65.81
Moryń Marcin	33.86	–	33.86
Puławski Mieczysław	33.86	–	33.86
Szkałuba Mirosław	33.86	33.86	67.72
Wojtowicz Jarosław	33.86	–	33.86
Total	2 084.63	2 945.14	5 029.77

Full name	31 December 2006 Total compensation, additional benefits and bonuses paid in 2006 (in PLN '000)	Total remuneration due to duties performed in subsidiaries paid in 2006	Total remuneration paid in 2006
Management Board in total, including:	1 307.90	701.04	2 008.94
Management as at 31 December 2006			
Głogowski Krzysztof – Chairman of the Management Board **	48.05	100.58	148.63
Anysz Jan – Member of the Management Board	196.59	56.58	253.17
Kuchciak Zenon – Member of the Management Board *	186.18	149.30	335.48
Niedbalec Stanisław – Member of the Management Board	172.24	50.85	223.09
Zwierzyński Tadeusz – Member of the Management Board *	80.69	9.28	89.97
Marzec Bogusław – Proxy *	241.84	23.79	265.63
Bernacik Ewa – Proxy **	53.89	32.03	85.92
Management members in 2006 not performing duties as at 31 December 2006			
Krok Franciszek – Member of the Management Board	32.99	95.21	128.20
Pawlak Bartłomiej – Member of the Management Board *	52.21	149.30	201.51
Puławski Mieczysław – Chairman of the Management Board	48.05	–	48.05
Mikosz Maria Teresa – Proxy ***	195.17	34.12	229.29
Supervisory Board in total, including:	285.89	63.69	349.58
Supervisory Board as at 31 December 2006			
Rościszewski Andrzej	32.03	–	32.03
Szwarc Piotr	32.03	52.10	84.13
Chrobak Kazimierz	32.03	4.00	36.03
Arkuszewski Wojciech	32.03	–	32.03
Kawecki Mieczysław	32.03	7.59	39.62
Moryń Marcin	17.29	–	17.29
Puławski Mieczysław	24.02	–	24.02
Szkałuba Mirosław	32.03	–	32.03
Wojtowicz Jarosław	5.87	–	5.87
Management members in 2006 not performing duties as at 31 December 2006			
Bąkowska Magdalena	14.87	–	14.87
Głogowski Krzysztof	24.02	–	24.02
Kamieński Zbigniew	7.64	–	7.64
Total	1 593.79	764.73	2 358.52

* Total, for all functions performed in the Management Board and as the proxy.
** Since the day of appointment.
*** Until the day of dismissal.

in PLN thousand

39. e. Joint ventures not included in consolidation

In 2007, PGNiG S.A. cooperated with the following foreign companies in Poland: CalEnergy Gas (Polska) Sp. z o.o., EuroGas Polska Sp. z o.o., Energia Bieszczady Sp. z o.o. and FX Energy Poland Sp. z o.o.

CalEnergy Gas (Polska) Sp. z o.o., registered office: Warsaw 02-765, Al. Wilanowska 206 m. 19

As a result of the "Operating Agreement between Mining Users for the Płotki – PTZ area" (the so called expanded Zaniemyśl area) signed on 26 October 2005 between PGNiG S.A., CalEnergy Gas (Polska) Sp. z o.o. and FX Energy Poland Sp. z o.o., the parties assumed the following shares in the joint venture: PGNiG S.A.– 51%, CalEnergy Gas (Polska) Sp. z o.o.– 24.5% and FX Energy Poland Sp. z o.o.– 24.5%. In 2007, PGNiG S.A., as the operator, continued production from the "Zaniemyśl" natural gas deposit which was commenced in 2006.

EuroGas Polska Sp. z o.o., registered office: Pszczyna 43-200, ul. Górnośląska 3
Energia Bieszczady Sp. z o.o., registered office: Warsaw 00-060, ul. Królewska 27

On 1 January 2007, PGNiG S.A., Eurogas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o. signed an "Agreement on Joint Operations in the Bieszczady region". Shares in the "Bieszczady" venture are distributed as follows: PGNiG S.A. – 51%, EuroGas Polska Sp. z o.o. – 24%, Energia Bieszczady Sp. z o.o. – 25%. The area covered by the "Bieszczady" agreement covers concession blocks 416, 417, 436, 437, 438, 456, 457. Concessions as well as mining usufruct for crude oil and natural gas exploration and prospecting within these blocks are held by PGNiG S.A. According to the "Bieszczady" agreement, PGNiG S.A. is the operator authorized to conduct all joint ventures.

FX Energy Poland Sp. z o.o., with register office in: Warsaw 00-613, ul. T. Chałubińskiego 8

- In 2007 PGNiG S.A. continued joint output works along with FX Energy Poland Sp. z o.o. in the following fields:
- "Płotki" (Agreement on Joint Operations of 12th May 2000 as amended);
- "Płotki" – "PTZ" – in cooperation with CalEnergy Resources Poland Sp. z o.o. (co called "Expanded ZANIEMYŚL Area", Operating Agreement of Mine Users of 26th October 2005);
- "Poznań" (Agreement on Joint Operations of 1st June 2005);
- Block 255 (Agreement on Joint Operations of 29th October 1999).

In continuation of joint operations in "Płotki" field, "Agreement On Transfer Of Mining Usufruct Of "KLĘKA" Natural Gas Deposit" and "Agreement On Settlement Of Natural Gas Extracted From KLĘKA-11 Well" were concluded with FX Energy Poland Sp. z o.o. on 9th Jan 2007. In this area 3-D seismic tests were already completed and an exploration borehole was made. Currently, capacity measurements and deposit mining trials are being carried-out.

In 2007, mining of "Zaniemyśl" natural gas deposit located in "Płotki"-"PTZ" field was continued. Mining of Winna Góra-1 deposit in "Poznań" field already started. 3D seismic tests and analyses for preparation of new boreholes were completed.

In 2007 PGNiG S.A. concluded "Agreement on Transfer of Mining Usufruct of Block 255" with FX Energy Poland Sp. z o.o. Pursuant to this Agreement, FX Energy Poland Sp. z o.o. transferred to PGNiG S.A. 18.8% shares in mining usufruct. In 2007 natural gas output from Wilga well (Blok 255) was continued.

None the above-mentioned joint ventures were included in consolidation in 2007 and 2006, as all the related assets, liabilities, revenues and expenses have been recognized in the income statement and balance sheet of PGNiG S.A. proportionally to its share in respective joint ventures.

39. f. Foreign operations

PGNiG S.A.'s shares in foreign companies

Ukraine

"Dewon" Z.S.A. is an unlisted joint stock company. It was incorporated on 17 November 1999. The main objective and goal of the Company is to provide crude oil and natural gas production as well as well reconstruction services, develop and operate deposits in the Ukraine.

The share capital of the Company amounts to UAH 11 146.8 thousand, i.e. PLN 5 366.1 thousand (based on the NBP's exchange rate of 31 December 2007) and is divided into 120.0 thousand shares with a face value of UAH 92.89 each. Capital commitment in the company amounts to UAH 4 055.2 thousand, i.e. PLN 1 952.2 thousand (based on the NBP's exchange rate of 31 December 2007).

The shareholder structure is as follows:

PGNiG S.A.	36.38%
Prawniczyj Alians Sp. z o.o.	25.99%
Ferrous Trading Ltd.	25.08%
NAK Neftiegaz Ukrainy	12.13%
Oszkader Walentyna Georgijewna	0.41%
SZJu Ltawa Sp. z o.o.	0.01%

Natural gas production was launched by the Company in November 2003. Gas is produced from the Sakhalin gas condensate deposit in the Krasnokuck Region of the Kharkov Province (East Ukraine). The Company produces hydrocarbons, natural gas and condensate and sells these products on the Ukrainian market.

The Sakhalin deposit is operate based on a joint venture agreement with PoltavaNaftoGasGeologia. PoltavaNaftoGasGeologia is a subsidiary of the State-owned enterprise "Nadra Ukrainy" and holds a concession for gas exploration and production from the Sakhalin deposit.

Oman

The share capital of Sahara Petroleum Technology Llc amounts to RO 150.0 thousand (Omani rial), i.e. PLN 978.4 thousand (based on the NBP's exchange rate of 24 December 2007) and is divided into 150.0 thousand shares with a face value of RO 1 each. The capital commitment of PGNiG S.A. in the company amounts to RO 73.5 thousand, i.e. PLN 479.4 thousand (based on the NBP's exchange rate of 24 December 2007). The shareholder structure is as follows:

PGNiG S.A.	49%
Petroleum and Gas Technology llc P.O. Box 3641, Ruwi, Oman	51%

The Company was founded by Zakład Robót Górniczych in Krosno (PGNiG S.A. branch until 30 June 2005, presently fully owned by PGNiG S.A.) in 2000. The company's main objective is to provide technical services related to reconditioning and reconstruction of wells, linear technique operations, maintenance of heads of exploration machines as well as light and medium drilling jobs using the technical potential of PGNiG S.A.

PGNiG S.A. is planning to withdraw its interest from the company.

Germany

On 1 July 2005, in Potsdam PGNiG S.A. and VNG-Verbundez Gas AG signed two incorporation agreements pursuant to German law:

- InterTransGas GmbH (ITG)
- InterGasTrade GmbH (IGT)

Both partners acquired 50% of shares in each of the companies. The share capital of the each incorporated company amounts to EUR 200 thousand (i.e. PLN 358.2 thousand based on the NBP's average exchange rate of 31 December 2007). Their registered offices are located in Potsdam.

InterGasTrade GmbH has not been entered into the commercial register.

On 9 August 2005, InterTransGas GmbH was entered into the commercial register in Potsdam.

The scope of the company's activities includes the construction, operation and sale of transmission capacity.

InterTransGas GmbH was incorporated to build an interconnector between the Polish and European gas transmission system, which would constitute one of the elements of the diversification of gas supplies to Poland. At present, based on the Partners' decision, InterTransGas GmbH operates at minimum cost. When circumstances will enable the construction of a pipeline connecting the Polish and German transmission system, the company will be able to start its core activity defined in its Articles of Association.

In 2007, pursuant to the resolution of the Shareholders Meeting, the registered office of InterTransGas GmbH was moved from Potsdam to Lipsk.

Norway

On 24 May 2007, PGNiG S.A. formed a subsidiary in Norway – PGNiG Norway A/S with registered office in Stavanger, Norway, a limited liability company acting as a special purpose entity for the operations of PGNiG in Norwegian Continental Shelf (NCS). The Company was registered on 9 June 2007.

All 10 000 shares with a face value of NOK 1 000 each were assumed by the sole shareholder – PGNiG S.A. On 18 October 2007, the share capital of PGNiG Norway A/S was increased by NOK 487 327 thousand. At the end of 2007, the capital commitment of PGNiG S.A. in the company amounted to NOK 497 327 thousand, i.e. PLN 223 648 thousand (based on the NBP's exchange rate of 31 December 2007).

PGNiG Norway enables the Capital Group to achieve the following goals:

- Gas supply diversification;
- Increased gas supply safety;
- International expansion in the oil and gas exploration and production sector;
- Development of international gas fuel trading operations.

PGNiG Norway A/S was incorporated in particular to execute an agreement signed on 28 February 2007 between PGNiG S.A., Mobil Development Norway A/S and ExxonMobil Produktion Norway Inc. regarding the Company's purchase of shares in concession regulated deposits on Norwegian Continental Shelf, i.e. the Skarv, Snadd and Idun deposits (licenses

PL 212, PL 212B, PL 262). According to the joint venture agreement, PGNiG Norway A/S holds the right to 11.9175% (after the unitization of the Skarv, Snadd and Idun deposit, on 14 September 2007) of production from the Skarv/Snadd/Idun deposit.

Polskie Górnictwo Naftowe i Gazownictwo S.A. with registered office in Warsaw is the sole shareholder of PGNiG Norway A/S. The scope of PGNiG Norway's business operations includes in particular crude oil and natural gas production as well as other similar and related operations. PGNiG Norway A/S can also take part in infrastructural projects such as the construction and operation of pipelines.

A loan agreement was signed between PGNiG S.A. (Creditor) and PGNiG Norway A/S (Borrower) on 16 October 2007. According to the Agreement the Creditor granted a loan of NOK 3 800 000 thousand, i.e. PLN 1 846 420 thousand (based on the NBP's exchange rate of 16 October 2007), to the Borrower. The loan was granted for the period until 20 December 2022. Funds obtained from the loan were used to finance the purchase of shares in licenses PL212, PL212B and PL262 on the Norwegian Continental Shelf and to cover costs related to their development. The value of the disbursed loan of NOK 1 800 000 thousand, i.e. PLN 809 460 thousand (based on the NBP's exchange rate of 31 December 2007) and the accrued interest of NOK 29 082 thousand, i.e. PLN 13 078.18 thousand (based on the NBP's exchange rate of 31 December 2007) are disclosed in the Company's balance sheet as at 31 December 2007. As at 31 December 2007, the total receivables of PGNiG S.A. due to the originated loan amounted to PLN 1 829 082 thousand, i.e. PLN 822 538.18 thousand (based on the NBP's exchange rate of 31 December 2007).

As at 31 December 2007, the total commitment of PGNiG S.A. in PGNiG Norway A/S amounted to NOK 2 326 409 thousand (capital share in the amount of NOK 497 327 thousand and the loan plus interest in the amount of NOK 1 829 082 thousand), i.e. PLN 1 046 186.13 thousand (capital share – PLN 223 647.95, loan – 822 538.18).

On 19 October 2007, PGNiG S.A. and PGNiG Norway A/S signed an agreement assigning all rights and obligations resulting from the agreement on the purchase of shares in licenses PL212, PL212B, PL262 on the Norwegian Continental Shelf, signed on 28 February 2007 between PGNiG S.A. (as the Buyer), Mobil Development Norway A/S and ExxonMobil Production Norway Inc. (as the Seller). The agreement came in force on 30 October 2007, i.e. on the closing day of the transaction involving the purchase of shares in licenses PL212, PL212B and PL262 on the Norwegian Continental Shelf.

On 19 October 2007 a guarantee agreement was signed between PGNiG S.A. and PGNiG Norway A/S. According to the Agreement, PGNiG S.A. issued a guarantee to PGNiG Norway for EUR 627 555.65 thousand, i.e. PLN 2 308 903 thousand (based on the NBP's exchange rate of 19 October 2007). The guarantee expires on 1 January 2050.

The agreement was signed to secure the potential liabilities of PGNiG Norway A/S resulting from concessions or from binding laws toward Norway and specific Norwegian entities. The guarantee is required by § 10-7 of the Norwegian Law on oil related operations of 1996. Such a guarantee is a standard document required with respect to mining operations in Norway. The guarantee is secured by a bill of exchange with recourse issued by PGNiG Norway A/S. PGNiG S.A. will receive remuneration from PGNiG Norway A/S for the issuance of the guarantee in the form of a mutual performance involving the pre-emptive right to a portion of produced crude oil and natural gas.

The value of the above-mentioned guarantee as at 31 December 2007 was equal to PLN 2 247 904.33 thousand (after translation using the NBP's exchange rate applicable on 31 December 2007).

On 30 October 2007, PGNiG Norway A/S purchased share in licenses PL 212, PL212B and PL 262 on the Norwegian Continental Shelf, with the rights and obligations resulting from agreements regarding deposits, from Mobil Development Norway A/S and ExxonMobil Production Norway Inc. (ExxonMobil). The Licenses was acquired under the agreement of 28 February 2007 between PGNiG S.A. and ExxonMobil. The resulting rights and obligations were assumed by PGNiG Norway A/S pursuant to the agreement of 19 October 2007. PGNiG Norway A/S paid a fee of USD 360 million, i.e. PLN 908.6 million (based on the NBP's exchange rate of 30 October 2007), for the license. PGNiG Norway A/S additionally paid approx. USD 3.5 million, i.e. PLN 8.8 million (based on the NBP's exchange rate of 30 October 2007) and NOK 170 million, i.e. PLN 79.9 million (based on the NBP's exchange rate of 30 October 2007), due to settlements and cost reimbursements foreseen by the Agreement that were incurred by ExxonMobil from 1 January 2007 to 30 October 2007 due to ExxonMobil's share in the Licenses. The price for the license was financed by PGNiG Norway A/S using a loan from the Company and capital contributions made by the Company, which were financed from the Company's own funds.

The Group's shares in exploration concessions:

Norwegian Continental Shelf project

The Capital Group's commitment to the works being performed in the Norwegian Continental Shelf (NCS) is an element of PGNiG S.A.'s strategy aimed at increasing the Company's crude oil and gas resources outside Poland. The acquisition of shares in three exploration-production concessions in Norway is a long-term investment aimed at diversifying gas supply sources, which will increase the safety of gas supplies to Poland.

As a result of PGNiG Norway A/S acquiring, on 30 October 2007, shares in concession regulated deposits on the NCS, i.e. Skarv, Snadd and Idun deposits (licenses PL 212, PL 212B, PL 262), in accordance with joint-venture agreement, the Group holds 11.9175% of rights, as at 31 December 2007, in production from the Skarv/Snadd/Idun deposit (after the unitization of the Skarv, Snadd and Idun deposits on 14 September 2007).

According to the information confirmed by the Norwegian Petroleum Directorate (NPD), total volume of all deposits, in which PGNiG S.A. is going to acquire shares from ExxonMobil, is estimated as follows:

- 37.9 billion of natural gas;
- 16.8 million m^3 of crude oil and condensate (approx. 15 million tons);
- 5.3 million tons of NGL (Natural Gas Liquids).

The Oil fields are located in the Norwegian Sea, approx. 200 km west of Sandnessjoen, at a depth of 350 to 450 m. At present, the production project is in the deposit development phase. The deposit's development involves the construction of an off-shore mining, storage and loading platform on the Skarv field which contains oil and gas/condensate. Undersea connection will be built for the Snadd and Idun fields. Gas will be transported through the Gassled network, whereas oil will be transported by tankers. This is one of the largest projects currently underway in Norway.

British Petroleum is the direct operator of the aforementioned deposits; the other partners include Shell, Statoil, Norsk Hydro and E.ON AG (after the completion of the purchase of 28% of shares in the Skarv-Idun deposits from Shell in February 2007).

Gas and oil production is planned to commence in the second half of 2011. According to estimates, capital expenditure related to deposit development will amount to approx. USD 5 billion, of which approx. USD 600 million will be incurred by the Group. Capital expenditure incurred by the Group (through a subsidiary of PGNiG S.A.) and disclosed in the Group's balance sheet as at 31 December 2007 amounted to NOK 2 220 691 thousand, i.e. PLN 998 645 thousand (according to the NBP's exchange rate applicable on 31 December 2007), where the related direct costs recognized in the income statement amounted to NOK 14 268 thousand, i.e. PLN 6 734 thousand (translated at the average NOK exchange rate constituting the arithmetic mean of average exchange rates defined by the NBP for the last day of each month in the financial year).

Other foreign exploration

PGNiG S.A. is conducting exploratory work in Pakistan based on the Agreement concluded between PGNiG S.A. and the Pakistan Government on 18 May 2005 as regards hydrocarbon exploration within the Kirthar concession regulated region., the scope of obligatory work defined in the concession agreement as well as results of the geological analysis of the block performed based on existing geological and geophysical data.

Exploration work within the Kirthar block is conducted together with Pakistan Petroleum Ltd. (PPL), in accordance with the following distribution of shares and expenses: PGNiG S.A. 70% and PPL – 30%.

In 2007, seismic testing was completed and field data processing was begun. At present, structural seismic maps are being developed. The results of geological and geophysical testing as well as an economic analysis of the planned venture justified the decision to drill an exploratory bore-hole in the southern part of the Kirthar concession area.

On 18th June 2007, a Memorandum of Understanding on the assignment to PGNiG S.A. of 40% of shares in concession 1/05 covering the mainland of Denmark was signed with Willumsen Exploration Consultants Aps (WeXco), a Denmark-based company. Assignment agreement was concluded on 6th Dec 2007. Current concession holders are PGNiG S.A., WeXco-Willumsen Exploration Consultants Aps and Odin Energi AIS, a Norwegian state enterprise holding interests of 40%, 40% and 20%, respectively. At the beginning of 2008 review of historical seismic records aiming at preparation of 3-D seismic work project started. Seismic works are scheduled for completion in 2009.

In 2007, PGNiG S.A. conducted work aimed at obtaining concessions in such countries as Libya, India and Egypt.

The Group's foreign branches:
The Group has branches, which conduct operating activity or support the development of the Group's operations abroad.

PGNiG S.A. – Parent:
- Operator Branch in Pakistan – Islamabad

Geofizyka Kraków Sp. z o.o.
- Operator Branch in Pakistan – Islamabad;
- Slovak Plant in Bratislava;
- Czech Plant in Ostrava;
- Libya Branch – Tripoli.

Geofizyka Toruń Sp. z o.o.
- Geofizyka Toruń Branch Office Jebel Ali, Dubai, United Arab Emirates

PNiG Jasło Sp. z o.o.
- Libya Branch

PNiG Kraków Sp. z o.o.
- Pakistan Branch
- Kazachstan Branch;

PNiG Piła Sp. z o.o.
- India Branch;
- Egypt Branch.

Gazobudowa Zabrze Sp. z o.o.
- Representative office in Germany.

40. Employment (No. of Employees)

Employment at the end of period, by segments	31 December 2007	31 December 2006
PGNiG S.A. Head Office*	604	811
Exploration and output	10 151	9 919
Trade and storage	4 104	467
including companies consolidated using the equity method	294	293
Distribution	13 538	16 705
Other	1 928	1 895
Total	30 325	29 797

* The Head Office of PGNiG S.A. provides services to all other segments and is therefore not allocated to any of these segments.

41. Company Social Benefits Fund

Pursuant to the Act of 4 March 1994 on Company Social Benefits Funds (Dz. U. of 1996 No. 70, item 335 as amended) the Company's Social Benefits Fund is created by employers have more than 20 full time employees. The Capital Group creates write offs to Company Social Benefits Fund. The fund provides financing for the Company's social initiatives, employee loans and other social expenses.

The Capital Group offset the fund's assets with its liabilities to the fund, as these assets are not the Capital Group's separate assets. Due to the above, the balance sheet as at 31 December 2007 disclosed a net balance (social fund receivables/liabilities) of PLN 658 thousand; while as at 31 December 2006 the balance (social fund receivables/liabilities) was equal to PLN (7 905) thousand.

The below table presents the fund's assets, liabilities and costs.

	31 December 2007	31 December 2006
Company Social Benefits Fund – assets and liabilities	(in PLN '000)	
Granted employee loans and other receivables	65 557	56 183
Cash	29 858	18 750
Short-term prepayments	–	–
Other current liabilities	(8 895)	(6 074)
Liabilities due to Company Social Benefits Fund	(85 862)	(76 764)
Balance	658	(7 905)
Write-offs to the Company Social Benefits Fund (cost of the period)	(62 622)	(55 946)

The balance is settled in future periods upon refunding.

42. Information on the Capital Group's Restructuring Process

In 2007, the Company implemented the Capital Group restructuring process regarding:
- Separation of trading activity and technical distribution of gas fuel;
- Asset restructuring;
- Employment restructuring.

Separation of trading activity and technical distribution of gas fuel
In implementing the requirements of Directive No. 2003/55/EC of the European Parliament and the Council, the Energy Law imposed the obligation to separate gas fuel trading and technical distribution operations by 1 July 2007. The obligation also applied to six regional Gaz Companies operating within PGNiG Capital Group (Dolnośląska, Górnośląska, Karpacka, Mazowiecka, Pomorska and Wielkopolska). Based on an in-depth legal and tax analysis it was determined that the least expensive solution would be to divide Gaz Companies (by spinning off local trading units) and then to merge the spun-off temporary Companies (Trading Companies) with PGNiG S.A. The above-mentioned procedure of fulfilling imposed obligations will help the Company minimize tax liabilities and ensure the general succession of concessions and all gas fuel delivery contracts (approx. 6.3 million). As a result, Trading Divisions were created in the six Gas Companies as of 31 December 2006, as confirmed by an entry in the National Court Register. The Management Boards of these Gas Companies provided them with the required assets and human resources. The Articles of Incorporation of 6 Gas Trading Companies with registered offices in Warsaw (Dolnośląska Spółka Obrotu Gazem, Górnośląska Spółka Obrotu Gazem, Karpacka Spółka Obrotu Gazem, Mazowiecka Spółka Obrotu Gazem, Pomorska Spółka Obrotu Gazem, Wielkopolska

Spółka Obrotu Gazem) were simultaneously signed on 27 December 2006. All shares (with a value of PLN 50 thousand each) in the share capitals of these Companies were assumed by PGNiG S.A., as their sole partner.

In 2007, the division of Gas Companies was registered along with the reduction in their capital and changes in their Articles of Association which restricted their operations and changed their names. A uniform name was agreed: (Dolnośląski, Górnośląski, etc.) Operator Systemu Dystrybucyjnego (Distribution System Operator). On 30 June 2007, the President of the Energy Regulatory Office issued a decision that approved the new role of DSO companies as distribution system operators for one year. On 29 June 2007, the increase in the capital of six Gas Trading Companies was registered, which in accordance with the Code of Commercial Companies meant that the most important stage of the legal separation of trading activities and technical distribution had been completed and DSO companies spun off. The total share capital contributed to the Trading Companies amounted to approx. PLN 538 million. On 3 July 2007, an Extraordinary Shareholders Meeting of PGNiG S.A. passed a resolution that approved the combination of Gas Trading Companies and PGNiG S.A. At the end of July and beginning of August 2007, Gas Trading Companies organized General Shareholders Meetings in connection with the combination with PGNiG S.A. On 20 September 2007, an Extraordinary Shareholders Meeting of PGNiG S.A. approved the Management Board's motion to amend the By-laws of PGNiG S.A. as regards the scope of its operations by adding the operations taken over from GAS Trading Companies as well as operations to be conducted by Gas works within the structure of the Commercial Division. As of 1 July 2007, the Commercial Division commenced its operation as a separate organizational unit of PGNiG S.A. It was decided that the Division's registered office will be located in Warsaw, at ul. Kasprzaka, where all the organizational units of the Commercial Division's Headquarters will be located. 3 145 employees were transferred from the Gas Companies to Gas Trading Companies (pursuant to Article 23 of the Labor Code). They will become the employees of the Commercial Division (Gas works) upon the integration of trading operations in PGNiG S.A. Gas Trading Companies were integrated with PGNiG S.A. as of 1 October 2007. Appropriate agreements were concluded in order to regulate mutual economic relations between PGNiG S.A. and individual DSO's. The following constituted the key agreements: agreements on distribution services, IT services, operations of CNG stations, meter reading services, cooperation between DSO's and Gas Trading Companies, leases. During all implementation stages of the Project negotiations were conducted with all trade unions in the Capital Group and the PGNiG S.A. Employee Council based on the "Agreement between the Head Offices of Oil and Gas Mining Sector Trade Unions and PGNiG S.A. on the protection of employee rights in PGNiG Capital Group during the implementation of the government restructuring and privatization program and harmonization of the organizational structure to the Energy Law provisions, in particular with respect to the integration of Trading operations and transformation of Gas Companies into Distribution System Operators" concluded on 7 December 2006.

Restructuring of the Parent's assets

The asset restructuring process includes actions aimed at the utilization of assets that are obsolete and technologically useless to the Parent's ongoing business operations. This mainly applies to property, including land, perpetual usufruct right, buildings and structures, as well as separately owned premises, co-operative ownership rights to residential and commercial premises. Efforts to sell or lease out the above-mentioned non-current assets have been intensified. These efforts are aided by the current favorable situation on the real estate market. With the help of its proxies the Parent is also continuing actions aimed at regulating the legal status of property, where buildings whose construction was funded by the Parent are located. These activities include the instigation of administrative ownership regulating procedures, conclusion of contracts for the use or exchange of real property, sale of titles to expenditure. Total net value of the Parent's property that was sold in 2007 and excluded from its operations amounts to approx. PLN 7 million.

Employment restructuring program

Since 2000, an *"Employment Restructuring And Social Assistance Program For Employees Of PGNiG SA's Regional Branches And Subsidiary Companies"* has been in course in PGNiG S.A. Program duration was extended by end of 2008. In 2007, 587 employees were covered by this Program.

43. Main Reasons of Uncertainty of Estimate Data

During the Group's application of the accounting policy referred to in clause 2 of these financial statements, the Company made the following assumptions regarding uncertainty and estimates that had the most significant impact on values presented in the financial statements. Due to the above, there is a risk of material changes in the future periods regarding the following areas:

Supplementary contribution to shareholders' equity of PI GAZOTECH Sp. z o.o.

In 2007 two suits initiated by PGNiG S.A. regarding acknowledgement of resolutions passed by the Extraordinary Shareholders Meeting of PI GAZOTECH Sp. z o.o. on supplementary contribution to the shareholders' equity of this company as invalid were pending and none of them was finally adjudicated by 31st Dec 2007.

On 4th Feb 2008 the Court of Appeal dismissed the appeal submitted by PGNiG S.A. in the case regarding acknowledgment of resolutions passed by the Extraordinary Shareholders Meeting of PI GAZOTECH Sp. z o.o on 23rd Apr 2004, including the resolution obliging PGNiG S.A. to pay supplementary contribution in cash amounting to 52 000 thousand PLN to the shareholders' equity of this company as invalid. The sentence is legally binding. On 6th Feb 2008 PGNiG S.A. submitted the motion for written substantiation of the sentence.

On 5th Feb 2008 the Court of Appeal in Warsaw dismissed the appeal submitted by PGNiG S.A. in the case regarding consideration of the resolution on redemption of the shares passed by the Shareholders' Meeting of PI GAZOTECH Sp. z o.o. on 23rd Apr 2004 as non-existent. The sentence is legally binding. Written substantiation of the sentence was delivered to the Company by the Court of Appeal in Warsaw. PGNiG S.A. is considering submission of a cassation complaint on legally binding sentence.

At the time, when these Statements were made, two actions brought by PGNiG S.A. against PI GAZOTECH Sp. z o.o. were pending. First suit refers to acknowledgement of the resolution passed by the Extraordinary Shareholders Meeting of PI GAZOTECH Sp. z o.o. on 19th Jan 2005 obliging PGNiG S.A. to pay supplementary contribution in cash to the shareholders' equity of PI GAZOTECH Sp. z o.o. in amount of 25 999 thousand PLN as invalid, whereas the second one refers to acknowledgement of the resolution passed by the Shareholders Meeting of PI GAZOTECH Sp. z o.o. on 6th Oct 2005 obliging PGNiG S.A. to pay supplementary contribution in cash to the shareholders' equity of PI GAZOTECH Sp. z o.o. in amount of 6 552 thousand PLN as invalid.

The Parent Company estimated likelihood of incurring additional costs with respect to both cases in accordance to prudence principle.

With respect to the foregoing, the Parent Company recognized liabilities towards and receivables from PI Gazotech Sp. z o.o. due to supplementary contributions to the shareholders' equity of the said company in amount of 82 472 thousand PLN, write-off of the same amount created for these receivables and provision for possible costs amounting to 924 thousand PLN in the Financial Statements for 2007 and in the accounting records

Impairment of non-current assets

The Group's basic operating assets include mine assets, transmission infrastructure and gas storage facilities. These assets were tested for impairment. The Group calculated and recognized impairment losses in the accounting records based on the assessment of their useful life, planned liquidation or disposal. Assumptions regarding the use, liquidation and disposal of certain assets may change. Appropriate information regarding the value of impairment loss has been provided in Note 11b.

Useful life of fixed assets

Depreciation rates applied to main groups of fixed assets were presented in point 2 of the financial statements. The useful lives of fixed assets were defined based on assessments of technical services responsible for their operation. These estimates are connected with uncertainty regarding the future operating environment, technological changes and market competition, which may result in a modified assessment of the economic useful life of assets and their remaining useful life, which may significantly impact the value of these assets and future depreciation costs.

Provisions for environmental protection

The provision for well reclamation costs and other provisions for environmental protection presented in note 29 constitute the main items of provisions in the financial statements. The above provision is based on estimated future liquidation and reclamation costs, which are significantly affected by the adopted discount rate and the estimated cash flow generating period.

Impairment of shares in SGT EUROPOL GAZ S.A.
The Management Board tested shares in SGT EUROPOL GAZ S.A. for impairment using the DCF method and in doing so based its calculations on data included in the financial plan of SGT EUROPOL GAZ S.A. for 2006–2019, as described in more detail in note 6. Impairment tests disclosed significantly different results depending on the assumption adopted with respect to future cash flows, discount rates and the estimated cash flow generating period, which may significantly affect the value of shares in the future.

44. Statement and Explanation of Differences Between Data Disclosed in the Financial Statements and Comparative Financial Data as Well as the Previously Prepared and Published Financial Statements

As compared to data presented in the financial statements for the 4th quarter of 2007 published on 28 February 2008, the following changes have been introduced in these financial statements:

Changes in profit on operating activities

	(in PLN '000)
Profit on operating activities from the financial statements for Q4 of 2007	1 301 886
a) change in provisions	20 034
b) provision for costs of withdrawal of fixed assets from lease	(229 975)
c) change in re-valuation write-offs for assets	(232 417)
d) others	(7 932)
Profit on operating activities from the financial statements for 2007	851 596

Changes in net profit for the financial period

	(in PLN '000)
Net profit for the reporting period from the financial statements for Q4 of 2007	1 252 060
a) change in provisions	20 034
b) provision for costs of withdrawal of fixed assets from lease	(229 975)
c) change in re-valuation write-offs for assets	(232 417)
d) others	(13 327)
e) income tax related to adjustments made	(34)
f) adjustment to deferred income tax	119 724
Net profit for the reporting period from the financial statements for 2007	916 065

The Company also made two changes in the income statement for 2006 in order to ensure the comparability of data for the comparative and current period.

The first alteration consists in the reclassification of revenue from forwards, in the amount of PLN 230 350 thousand, from financial revenue to financial expenses. Therefore, these revenues and expenses are netted off and presented under financial expenses. This alteration was made within data on financing activity and did not effect profit or loss.

The second alteration consists in the reclassification of additional revenues from the settlement of deferred income, i.e. PLN 5 407 thousand, and deferred tax on this amount, i.e. PLN (1 027) thousand, from "Other net operating expenses" to "Income tax". The recognition of these amounts resulted in an increase of the operating profit/loss by PLN 5 407 thousand and the net profit/loss by PLN 4 380 thousand. The above alteration results from the introduction of a hyperinflationary adjustment to deferred income related to infrastructure received free of charge during the period of 1995–1996.

The value of equity has changed due to the above adjustment. The reconciliation of equity for comparative periods is presented in the below table.

	31 December 2007	31 December 2006
	(in PLN '000)	
Equity before the adjustment	21 208 111	20 767 580
Hyperinflationary adjustment to deferred income related to infrastructure received free of charge during the period of 1995–1996.	(54 751)	(59 131)
Equity after the adjustment	21 153 360	20 708 449

The introduction of the restatement adjustment to deferred income resulted in an increase in assets and liabilities plus equity. Additionally, items related to the Company's Social Benefits Fund have been netted off in the balance sheets for comparative periods. The effects of these changes on assets and liabilities plus equity are presented in the below table.

	31 December 2006
	(in PLN '000)
Total Assets/Liabilities plus equity before adjustments	30 739 647
Hyperinflationary adjustment to deferred income related to infrastructure received free of charge during the period of 1995–1996.	12 843
Net off of items related to the Company's Social Benefits Fund	(75 783)
Total Assets/Liabilities plus equity after adjustments	30 676 707

In a balance sheet for 2006 re-classification of expenditures for exploration was made and amount of 1 005 901 thousand PLN was transferred from intangible to tangible fixed assets (to the item of "Fixed assets under construction). This change had effect on presentation only and did not cause any change to any other balance sheet items.

Moreover, few corrections of erroneous presentation in operating activity segment of income statement for 2006 were made. The most important correction referred to error in presentation of changes in finance lease. This error consisted in improper presentation of adjustment to "prepayments and accruals" section with respect to finance lease, which was presented in "other items, net" instead of in the items of "changes in prepayments/accruals". For this reason, amount of 70 124 thousand PLN was transferred from "other items, net" to the items of "changes in prepayments/accruals". Equal amounts of 35 062 thousand PLN each were transferred to "changes in costs prepaid" and "changes in deferred income" items. Changes in cash flow statement were made within the operating activity segment and they had no effect on other items of cash flow statement.

The re-classifications made had no material effect on any basic figure of financial statement, nevertheless they provide better presentation of financial and material conditions of the Capital Group and assure comparability of data coming from previous and current accounting periods.

45. Capital Management

Primary objective of the Group's capital management is assurance of ability to operate as a going concern with consideration of completing scheduled capital projects and increasing the Group goodwill to the favor of shareholders.

The Group monitors capital conditions using the leverage factor, which is counted as a ratio of net debt to a sum of total capital and net debt. The Group principle is to keep this factor at the value of no more than 35%. The Group includes in net debt all credits and loans, finance lease liabilities and trade and other liabilities minus cash and cash equivalents. Total capital comprises equity capital assigned to the shareholders of the Parent Company.

	31 December 2007	31 December 2006
	(in PLN '000)	
Credits, loans and finance lease liabilities	138 101	2 457 467
Trade and other liabilities	2 711 039	2 359 240
Cash and cash equivalents (–)	(1 583 635)	(3 539 078)
Net debt	1 265 505	1 277 629
Equity capital (assigned to the shareholders of the Parent Company)	21 013 076	21 145 689
Capital and net debt	22 278 581	22 423 318
Leverage factor	5.68%	5.70%

46. Post-Balance Sheet Events

a. On 3 January 2008, the Management Board of PGNiG S.A. granted powers of attorney to Mr. Jan Czerepok, Mr. Marek Dobryniewski and Mr. Waldemar Wójcik. These powers of attorney are joint powers of attorney, i.e. in order for documents to be effective from a legal point of view they must be signed by a proxy and a Member of the Management Board of PGNiG S.A.

b. On 7 January 2008, the District Court in Szczecin, XVII Business Division of the National Court Registered, registered the increase in the share capital of Polskie LNG Sp. z o.o. ("PLNG") with registered office in Świnoujście. The company's share capital was increased by PLN 39 000 thousand to PLN 50 000 thousand, i.e. by PLN 11 000 thousand. Shares in the increased share capital were covered by PGNiG S.A., the sole shareholder, through a cash contribution. After the registration of the increase in share capital, the total number of votes is equal to 50 000. PGNiG S.A. holds 100% of shares in PLNG, which represents 100% of votes at the shareholders meeting.

c. On 29 January 2008, Geofizyka Kraków Sp. z o.o., a 100% subsidiary of PGNiG S.A., established a joint venture in the form of a joint stock company that operates under the provision of Libyan law under the name "Geofizyka Kraków Libia Spółka Akcyjna" with registered office in Janzur – Al-Jifara District ("Geofizyka Kraków Libia Spółka Akcyjna"). Shares in the share capital of Geofizyka Kraków Libia Spółka Akcyjna were divided among two shareholders:

- Geofizyka Kraków Sp. z o.o. with registered office in Krakow – 6 000 shares with a face value of LYD 100 each, which represents 60% of its share capital, i.e. LYD 600 thousand, and 60% of votes at the general shareholders meeting;
- "BARARI Co" with registered office in Tripoli, Libya, – 4 000 shares with a face value of LYD 100 each, which represents 40% of its share capital, i.e. LYD 400 thousand, and 40% of votes at the general shareholders meeting.

The company's share capital is equal to LYD 1 000 thousand (which constitutes the equivalent of PLN 2 040 thousand in accordance with exchange rate table no. 4/B/NBP/2008 of 23 January 2008) and is divided into 10 000 shares with a face value of LYD 100 each.

In accordance with the above-mentioned percentage share in share capital and Libyan law, the subscribers paid the amount of LYD 300 thousand, which constituted 30% of the value of the company's share capital, upon the company's incorporation. The remaining amount of cash to be paid for shares shall be paid within five years as of the registration of the Company's registration.

All shares assumed by Geofizyka Kraków Sp. z o.o. were covered by a cash contribution.

The scope of the company's business activities includes in particular:

- Geological testing for the purpose of identifying oil and gas deposits using various geological, geophysical and geochemical resources.
- Designing and performance of geophysical tests.
- Interpretation and analysis of seismic data as well as submission of geological studies.
- Data processing and interpretation as well as services with respect to IT data.
- Drilling work for seismic testing purposes.
- Development of technical designing operations as well as exploratory drilling work.
- Preparation of test and studies on soil layers.
- Crude oil engineering services.

The Issuer would like to inform that apart from the above-mentioned shareholdership in Geofizyka Kraków Libia Spółka Akcyjna, Geofizyka Kraków Sp. z o.o. is related to Geofizyka Kraków Libia Spółka Akcyjna also through the membership of its employees in the management of the later mentioned company.

d. On 31 January 2008 the Extraordinary Shareholders Meeting of PGNiG S.A. passed resolutions regarding the allocation of reserve capital – "Central Restructuring Fund for 2005–2007", to a one-off payment (termination benefit) for former employees of ZUN Naftomet Sp. z o.o. in Krosno, approval of PGNiG S.A.'s purchase of a 11 159 m2 plot located in Warsaw, at ul. Kasprzaka 25A, and approval for the assumption of new shares in Geofizyka Kraków Sp. z o.o.

e. The District Court for Warsaw, XII Business Division of the National Court Register, issued a decision on 24 January 2008 regarding the increase in the share capital of Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. ("MOSD"). The share capital of the above-mentioned entity was increased from PLN 930 819 thousand to PLN 1 217 350 thousand, i.e. by PLN 286 531 thousand, through the issuance of 286 531 new, equal and indivisible shares with a face value of PLN 1 000 each. The newly created shares were assumed by the sole shareholder – PGNiG S.A., and covered by a non-cash contribution in the form of non-current assets that constituted elements of the transmission or distribution network. The book value of contributed-in-kind assets recorded in the accounting records of PGNiG S.A. amounts to PLN 286 531 thousand. After the registration of the increase in MOSD's share capital, the total number of votes is equal to 1 217 350. PGNiG S.A. holds 100% of shares in MOSD, which represents 100% of votes at the shareholders meeting. The scope of MOSD's operations includes, in particular, gas fuel transport through distribution networks.

f. Mr. Mirosław Szkałuba resigned as the Member of the Supervisory Board of PGNiG S.A. as of 7 February 2008. Mr. Mirosław Szkałuba tendered his resignation due to the fact that he is the employee-backed candidate for Member of the Management Board of PGNiG S.A.

g. District Court in Kraków, XII Business Division of the National Court Register issued a decision on 12th Feb 2008 on increase in the shareholders' equity of Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o. ("KOSD"). The share capital of the above-mentioned entity was increased from 1 310 749 thousand PLN to 1 476 112 thousand PLN i .e. by 165 363 thousand PLN by issue of 165 363 new, equal and non-divisible shares of a face value of 1 000 PLN each. New shares were assumed by the sole shareholder PGNiG and covered by non-cash contribution in the form of non-current assets that constituted elements of transmission and distribution network. Book value of the assets contributed in kind recorded in accounting records of PGNiG SA amounts to 165 363.67 thousand PLN. After registration of increase in the shareholders' equity of KOSD, total number of votes in this company is equal to 1 476 112. PGNiG is a holder of 100% interest in KOSD, which represents 100% votes at shareholders' meeting. The scope of KOSD's operations includes, in particular, gas fuel transport through distribution networks.

h. The District Court for Gdańsk-Północ, VII Business Division of the National Court Register, issued a decision on 29 February 2008 regarding the increase of the share capital of Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. (POSD). The share capital of the above-mentioned entity was increased from PLN 502 750 thousand to PLN 596 141 thousand, i.e. by PLN 93 391 thousand, through the issuance of 93 391 new, equal and indivisible shares with a face value of PLN 1 000 each. The newly created shares were assumed by the sole shareholder – PGNiG S.A., and covered by a non-cash contribution in the form of non-current assets that constituted elements of the transmission or distribution network. The book value of contributed-in-kind assets recorded in the accounting records of PGNiG S.A. amounts to PLN 93 391.88 thousand.

   After the registration of the increase in POSD's share capital, the total number of votes is equal to 596 141. PGNiG holds 100% of shares in POSD, which represents 100% of votes at the shareholders meeting. The scope of POSD's operations includes, in particular, gas fuel transport through distribution networks.

i. The Extraordinary Shareholders Meeting of PGNiG S.A. dismissed the following persons from the Supervisory Board on 15 February 2008:
   » Mr. Piotr Szwarc;
   » Mr. Jarosław Wojtowicz;
   » Mr. Andrzej Rościszowski;
   » Mr. Wojciech Arkuszewski.

   The Extraordinary Shareholders Meeting of PGNiG S.A. also appointed the following persons to the Supervisory Board on 15 February 2008:
   » Mr. Stanisław Rychlicki;
   » Mr. Grzegorz Banaszek.

j. The Supervisory Board of PGNiG S.A. dismissed the following persons from the Management Board on 12 March 2008:
   » Mr. Krzysztof Głogowski;
   » Mr. Zenon Kuchciak;
   » Mr. Stanisław Niedbalec;
   » Mr. Tadeusz Zwierzyński.

   The Supervisory Board of PGNiG S.A. also appointed the following persons to the Management Board on 12 March 2008:
   » Mr. Michał Szubski as the Chairman of the Management Board;
   » Mr. Mirosław Dobrut as Vice Chairman of the Management Board responsible for technical and investment matters;
   » Mr. Radosław Dudziński as Vice Chairman of the Management Board responsible for strategic projects;
   » Mr. Sławomir Hinc as Vice Chairman of the Management Board responsible for business and financial matters.

k. On 20 March 2008, the Supervisory Board of PGNiG S.A. dismissed Mr. Jan Anysz from the Management Board and simultaneously appointed Mr. Mirosław Szkałuba, who was selected by the employees of PGNiG S.A., as Vice Chairman of the Management Board.

Definitions and Abbreviations

bcm billion cubic metres

Central Asian countries Kazakhstan, Uzbekistan and Turkmenistan.

CNG fuel, compressed natural gas at a pressure of 20–25 MPa, used as vehicle fuel for spark ignition and compression ignition engines.

Direct gas pipeline the gas pipeline used for transmission of gaseous fuel directly to the customer's installation, omitting the gas system.

Distribution transport of gaseous fuels to customers via distribution networks.

Distribution network a gas network of low, medium and high pressure, other than a mine pipeline or a direct pipeline; the responsibility for network traffic rests with a distribution system operator.

DSO Distribution system operator an energy company involved in the distribution of gaseous fuels, responsible for network traffic in the gas distribution system, ongoing and long-term security of the system's operation, as well as operation, maintenance, repair and necessary extension of the distribution network, including interconnections with other gas systems in the relevant geographical area.

Emissions trading instrument of environmental protection policy used by national governments under the provisions of the Kyoto Protocol. The businesses are granted credits, the surplus of which may be sold on the market. Each country is assigned the upper limit of permissible emission of pollution. The limit is divided among and sold to businesses in the form of allowances. If a given enterprise does not use the assigned credits, it may sell them to other businesses, which exceed the acceptable limits.

E&P Exploration and Production – one of PGNiG's segments of operation; the companies operating in this segment are engaged in exploration, geophysical and geological work; the segment also involves production of natural gas and crude oil.

ERO Energy Regulatory Office. Under the relevant regulations, the President of ERO is responsible for approving the tariffs submitted by holders of licences which authorise them to conduct business involving trade in and storage of gaseous fuels.

Gasoline mixture of hydrocarbons of low molecular weight, emitted by wet natural gas and refinery gases, among other things, used as solvent and petrol additive.

KGZ natural gas mine.

KRNiGZ crude oil and natural gas mine.

LNG (Liquefied Natural Gas) natural gas in a liquid state with the temperature of – 163°C. During the liquefaction process, natural gas is cooled down to – 163°C, thus reducing its volume by 630 times.

mcm million cubic metres

MPZP local land development plan (miejscowy plan zagospodarowania przestrzennego).

Natural gas natural mixture of paraffin hydrocarbons, primarily consisting of methane (up to 98% in high-methane gas); in the earth's crust found in the form of reserves.

OGP GAZ-SYSTEM abbreviated name of Operator Gazociągów Przesyłowych GAZ-SYSTEM SA (Transmission System Operator OGP GAZ-SYSTEM SA). The company was established on April 16th 2004 under the name PGNiG Przesył Sp. z o.o. as a wholly-owned subsidiary of PGNiG. On April 28th 2005, 100% of the company shares were acquired by the State Treasury. Currently, OGP GAZ-SYSTEM conducts business activities of a gas transmission system operator under a licence issued by the Energy Regulatory Office.

PGNiG Polskie Górnictwo Naftowe i Gazownictwo SA (Polish Oil and Gas Company SA).

PGNiG Group the PGNiG Group.

REACH (Registration, Evaluation and Authorisation of Chemicals) regulation adopted by the Council and the European Parliament concerning the safe use of chemicals which are subject to registration, evaluation, and, in some cases, to authorisation and restrictions as far as trading and the range of applications is concerned. The regulation has been implemented in the EU member states, Norway, Iceland and Liechtenstein. The implementation of REACH is supervised by the European Chemicals Agency based in Helsinki.

SGT EuRoPol GAZ abbreviated name of System Gazociągów Tranzytowych EuRoPol GAZ SA. The company is responsible for natural gas transmission along the Polish section of the Yamal transit pipeline, connecting the Russian Federation with Western Europe.

TPA (Third Party Access) right to free use of transmission services and free choice of a supplier.

Transmission transportation of gaseous fuels through transmission networks to distribution networks or end customers connected to the transmission network.

Transmission network a gas network of low, medium and high pressure, other than a mine pipeline or a direct pipeline; the responsibility for network traffic rests with a transmission system operator.

TSO Transmission system operator an energy company involved in the transmission of gaseous fuels, responsible for network traffic in the gas transmission system, ongoing and long-term security of the system's operation, as well as operation, maintenance, repair and necessary extension of the transmission network, including interconnections with other gas systems.

UGS underground gas storage. The PGNiG Group is the exclusive owner of underground gas storage facilities operated domestically. Six such facilities are in Poland – five of them located in worked out natural gas caverns, and the sixth one in a salt cavern in Mogilno.

Yamal Contract contract for purchase of Russian natural gas, concluded by PGNiG and Gazexport on September 25th 1996 in Warsaw.

Yamal Pipeline transit gas pipeline between Russia and Western Europe, running through the territory of Poland and other countries.

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in PLN thousand

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