PGNiG

Annual Report

2006

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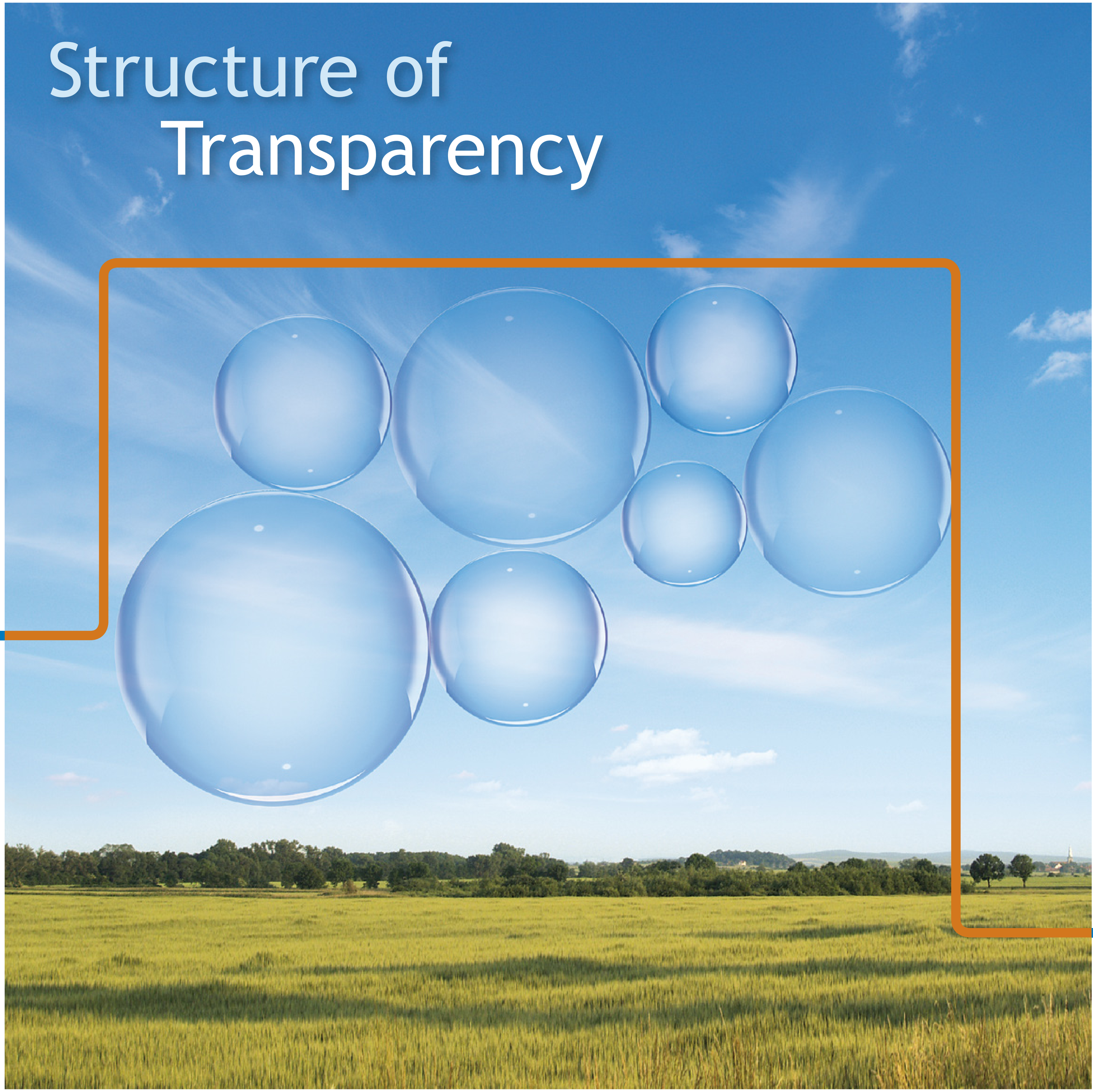
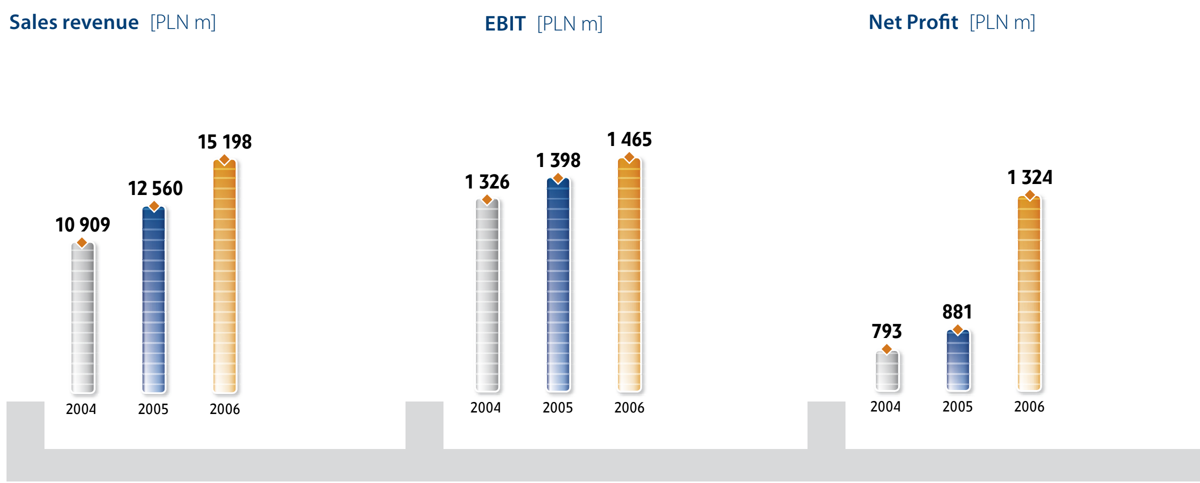


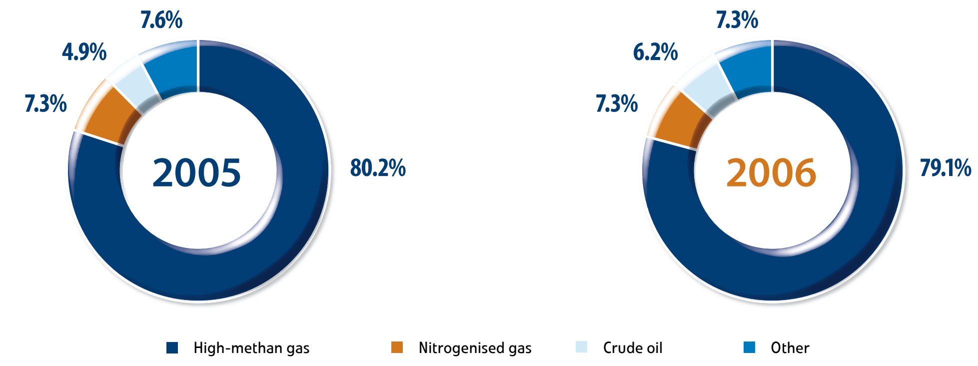
Financial Highlights



Selected Financials

	2004	2005	2006
Sales Revenue [PLN m]	10 909	12 560	15 198
EBIT	1 326	1 398	1 465
EBITDA	2 856	2 800	2 761
Net Profit	793	881	1 324
EPS [PLN]	0,16	0,17	0,22
DPS*	0,00	0,10	0,15
* Dividend for 2003 paid in 2004 was below PLN 0.01 per share			
Assets [PLN m]	28 420	30 364	30 740
Equity	17 747	20 768	21 208
Net debt	3 473	-742	-1 100

Sales breakdown



Ratios

	2004	2005	2006
Net profitability on sales	7.3%	7.0%	8.7%
ROE	4.5%	4.2%	6.2%
ROA	2.8%	2.9%	4.3%
Current ratio	0.7	2.3	2.6
Quick ratio	0.6	2.0	2.1
Debt to total liabilities	37.6%	31.6%	31.0%
Debt to equity	60.1%	46.2%	45.0%

Market cap at the end of 2006

21.2

PLN bn

Highest share price in 2006

4.13

PLN

Letter from the Chairman of the Supervisory Board

With stable rating outlook, we are looking ahead to the future with optimism, trusting that the company will continue pursuing the growth path, which will ensure both safe and secure gas supply to all customers and a satisfactory return on investment for the shareholders.

Ladies and Gentlemen,

One of the most noteworthy developments in 2006 was the adoption of the "Growth Directions of the PGNiG Group for the Years 2006-2011". The document sets out the primary goals for the Company, including the strengthening of its financial position, increase of the domestic gas production, expansion of the storage capacity and diversification of the sources and directions of gas supply to Poland. The latter one is a strategic objective of PGNiG.

The Supervisory Board has been continuously overseeing the progress on the projects launched by the Management Board into the implementation phase in 2006. Three of them are particularly worth mentioning, i.e. the acquisition of interests in the fields in the Norwegian Continental Shelf, decision on LNG terminal construction in Świnoujście and the integration of the trading function within PGNiG, in accordance with the requirements of the European Gas Directive.

Among other highlights, we noted intensified international activity of the exploration subsidiaries and ongoing increase of the storage capacity in line with the time schedule set out in the Act on mandatory stocks of crude oil, petroleum products and natural gas, which was under consultations in 2006.

The Supervisory Board is glad to recognise that, given such magnitude of the investment program, the IPO objectives are being effectively realised with the funds raised through the share issue, and the company value is consistently growing. The record high financial results achieved by the company in 2006 are yet another reason for satisfaction. The revenues of the PGNiG Group reached PLN 15.2 bn. Summing up the year 2006, on 5 February 2007, Standard & Poor's upgraded the rating of PGNIG to BBB+.

With stable rating outlook, we are looking ahead to the future with optimism, trusting that the company will continue pursuing the growth path, which will ensure both safe and secure gas supply to all customers and a satisfactory return on investment for the shareholders.

Andrzej Rościszewski
The Chairman of the Supervisory Board

Warsaw, May 2007

Letter from the President of the Management Board

Ladies and Gentlemen,

In the year 2006, the Management of the Polish Oil and Gas Company moved a number of strategic projects to the implementation phase with a view to ensuring safe and secure gas supply for the customers of the PGNiG Group and continued growth and modernisation of the company. The efforts were mainly focused on the development of the exploration and production activity, expansion of the underground gas storage capacity and projects supporting diversification of gas supply sources and directions. We also embarked on the unbundling of the trading function and the technical distribution of gas in accordance with the requirements of the European gas directive taking effect as of 1 July 2007, which entailed changes in the organisational structure of the PGNiG Group.

We intend to prepare the company for operation in a liberalised, European gas market and build a recognisable and reliable brand. Our goal is to strengthen the position of the PGNiG Group as a leading gas company in Central and Eastern Europe, that is fully capable of facing the competitive challenge.

Financial Condition

The year 2006 brought about a major improvement in the financial performance of the PGNiG Group. The revenue from sales totalled PLN 15.2 billion with net profit reaching PLN 1.3 billion, which represents an increase by 50% as compared to the year 2005. These results put the Group among the most profitable companies in Poland. In 2006, the company achieved a net profitability of 8.7%.

In the financial markets the company has earned the reputation of a stable player that strives for performance improvement at every level of the income statement. On 5 February 2007, Standard&Poor's upgraded the rating of PGNiG to "BBB+". In the rationale for its decision, the agency underlined the positive outlook for further value growth of the company and the improved financial liquidity of PGNiG. Specifically, the agency noted the good profit growth prospects for PGNiG in the exploration and production business and the increasing role of domestic production in the satisfaction of the growing demand for natural gas in Poland.

Diversification of Supply Sources and Directions

The projects undertaken by the company with a view to ensuring secure, uninterrupted gas supply have a long-term character and involve a major capital commitment. In addition to securing supplies under long-term contracts, in 2006 we developed relationships with a number of suppliers active in different areas of origination of the gas volumes distributed by the PGNiG Group. Building on a diversified supplier portfolio, the PGNiG Group is well positioned for successful international growth. The strategic significance of this policy was confirmed by the decisions on the construction of a receiving terminal for liquefied natural gas and the acquisition of fields in the Norwegian Continental Shelf.

The key project in this area, launched in 2006, concerned the preparation of the Feasibility Study and Technical and Economic Assumptions for LNG Imports to Poland. On 15 December 2006, on the basis of its results and taking into account a range of technical and economic criteria, the Management Board decided on the location of the LNG regasification terminal in Świnoujście. Currently, the Company is preparing for the commencement of the construction phase. Initially, in 2011, the terminal will have the throughput capacity of 2.5 billion cu. m of gas per annum. With this innovative project, Poland will enter the worldwide LNG market and achieve greater flexibility of gas purchases while reducing its dependency on gas imports from a single direction.

In the year 2006, the company was also working towards establishing a connection with hydrocarbon fields in the North Sea. Talks with the Scandinavian counterparts were resumed regarding the development of the necessary infrastructure. At the same time, in the second half of last year, the Management Board of PGNiG started negotiations aimed at the acquisition of 15% interest in the exploration and production licences in the Skarv and Snadd fields in the Norwegian

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Continental Shelf from Mobil Development Norway A/S and ExxonMobil Production Norway Inc. The relevant conditional agreement was signed on 28 February 2007. The first oil and gas production from these fields is expected in mid 2011. The acquisition of interests in licence blocks in the Norwegian Sea opens up new businesses opportunities for the PGNiG Group and will enable its active participation in the international gas market. This also means the possibility of gaining new, valuable experience in offshore exploration and production well drilling in cooperation with such international companies as Shell, Statoil, Norsk Hydro or BP.

Development of Trading Activity

In 2006, the PGNiG Group sold 13.7 bcm of gas and 515 thousand tons of crude oil. The domestic consumption needs were fully secured owing to new long-term contracts concluded

Letter from the President of the Management Board

on 17 August 2006 with VNG AG (annual gas supply volume ranging from 400 to 500 million m^3 until 2016) and on 17 November 2006 concluded with RosUkrEnergo AG (for purchase of 2.5 billion m^3 of gas per annum, until 2009, with an option of extension for further two years).

In accordance with the prescriptions of Directive 2003/55/EC of the European Parliament and the Council and the amended Energy Law, the company started preparations for legal unbundling of the trading activity from the technical distribution of gas by 1 July 2007. As part of this process, Distribution System Operators will be spun off from the existing gas distribution companies. All wholesale and retail activities will be integrated in a newly established Trading Branch of PGNiG. The integration of the trading function in PGNiG will lead to the creation of a focused gas sales unit and implementation of new service standards aligned to the needs of individual customer segments. PGNiG is attaching great importance to strengthening its customer relations to make sure that the value proposition of PGNiG remains attractive for them and meets the requirements of a liberalised market after 1 July 2007.

However, full utilisation of the economic potential of the PGNiG Group in its core business depends on the revenues from gas sales, which are determined by the tariff regulations of the Chairman of the Energy Regulatory Authority. In this area, the key threat for efficient operation of the company stems from the fact that the real costs of gas imports and the necessary investments in storage capacity development are not fully reflected in the regulated tariffs. At the moment, the Group has limited options with respect to treating the domestic gas fields as its strategic reserve, and at the same time is not in the position to implement further investments in the exploration and exploitation of these reserves on fully satisfactory terms. The Management of PGNiG has been consistently advocating a tariff policy which would include all the pricing elements that are justifiable in terms of both the economic reality and the national energy security considerations.

Storage Capacity Expansion

The PGNiG Group currently operates seven underground gas storage facilities and is implementing a programme to increase their capacity up to 2.8 bcm by 2012, so that it corresponds to approx. 17% of the domestic gas consumption. The investments into storage infrastructure are a strategic decision of the PGNiG Group, which was driven not only by the new requirements of the act on stocks of crude oil, petroleum products and natural gas, which came in force in 2007, but is also seen as a step towards preparing the Company for the competitive game in the European gas market.

In 2006, the Company started the development of two new caverns in the Mogilno UGS was started and the preparations of further investment projects were underway, including the expansion of the UGS facilities in Wierzchowice and Strachocina. The expected capital expenditures for these purposes will total approx. PLN 1.4 bn.

Development of Exploration and Production Activity

The geophysical and drilling companies of the PGNiG Group carried out exploration in the Carpathians, the Carpathian Foredeep and the Polish Lowlands. The domestic reserves are estimated at 102.5 bcm of natural gas and 21.4 million tons of crude oil. As a result of these efforts, the volume of reserves in documented fields to the yearly production of the PGNiG Group, measured by the R/P ratio, is pegged at 26 years, which is a very good result comparing to such European gas companies as Shell, ExxonMobil, BP, Total or Gazprom. Also, the Reserves Replacement Ratio achieved by the Group stands at a very good level of 1.4, which means that the discoveries in new fields are greater than the depletion of the existing ones and the overall level of reserves is increasing. Nearly 30% of the gas sold in 2006 originated from the domestic production. Among other things, this was enabled by the commissioning of a new gas production facility in Jasionka near Rzeszów, development of the Biszcza-Księżopol fields and modernisation of the nitrogen removal plant in Odolanów.

Abroad, the PGNiG Group carried out joint exploration efforts with Pakistan Petroleum Ltd. Subsidiary companies of the Group were also pursuing acquisition of exploration licences in Libya, Algeria, Egypt and Denmark. At the beginning of January 2007, a memorandum of understanding was signed with the Indian Gujard State Petroleum Company with respect to exploration and production of oil and gas in India, Egypt, Yemen and other countries in the Middle and Far East. The presence of the PGNiG Group in these markets offers additional opportunities for diversification of the sources and directions of gas supply. At the same time, the access to fields outside of Poland strengthens the position and recognition of the PGNiG brand in the international arena.

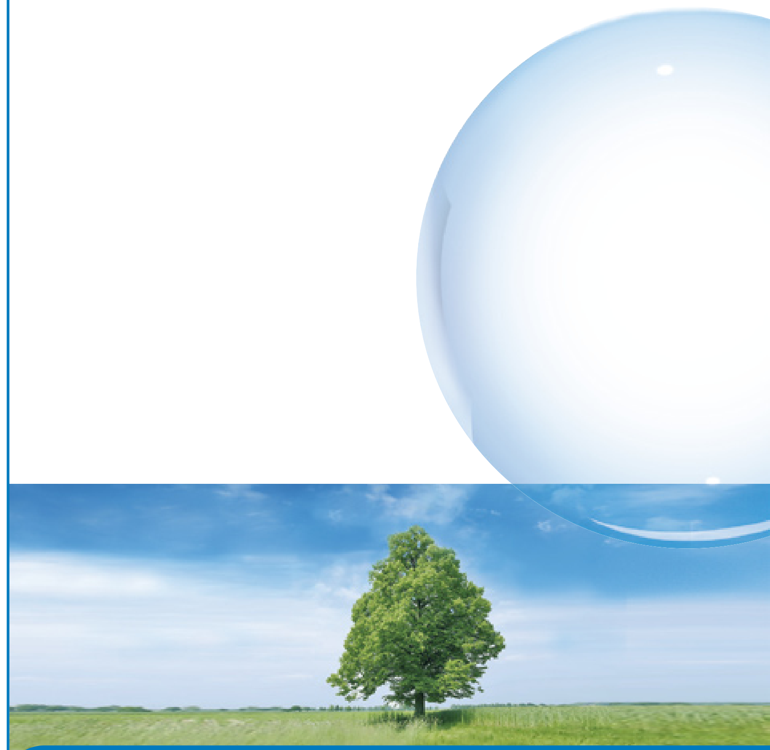
Ladies and Gentlemen,

in the last year, we launched a number of initiatives and projects that should have a long-term impact on our business activity. They have been defined in the Policy Directions for the PGNiG Group until 2011 adopted by the Management Board and the Supervisory Board. The document provides a set of guidelines with a view to optimizing the use of the Group's assets and structuring of the further development of the company.

We are undergoing a challenging process of change and transformation, which is aimed at the improvement of the Company's operating efficiency and increased cooperation within the Group in order to explore potential synergies. The year 2007 will be crucial for our future. The capabilities, unique expertise and commitment of nearly 30 thousand employees are our tremendous asset. In 2006, the primary objective was to build a favourable starting position for becoming a leading gas company in Central Europe and, subsequently, an active player in the international market. We hope that with our joint efforts we will ensure that Group is not only perceived as a reliable business partner in the Polish market, but also as a company that is increasingly well managed and is capable of facing the challenges of the liberalised European market.

Krzysztof Głogowski
President of the Management Board

Warsaw, May 2007



Composition of the Management Board and the Supervisory Board

Supervisory Board

At 31 December 2006 the Supervisory Board of PGNiG consisted of nine members:

- **Andrzej Rościszewski**
  Chairman of the Supervisory Board
- **Piotr 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.

Management Board

Composition of the Management Board of PGNiG (as at 31 December 2006):

- Zenon Kuchciak
  Vice-President of the Management Board
- Jan Anysz
  Vice-President of the Management Board
- Krzysztof Głogowski
  President
- Tadeusz Zwierzyński
  Vice-President of the Management Board
- Stanisław Niedbalec
  Vice-President of the Management Board

Direction of Growth

The main goal of the PGNiG Group is to strengthen its position as a leading gas company in Central Europe providing secure and competitive supply its customers.

Implementation of new strategic projects and optimized use of the existing resources are seen as the key value growth levers. The synergy of these two elements will secure the position of the company as a major independent player in the European gas market.

Diversification of supply sources, directions and routes

Catering for all customers of the PGNiG Group, for whom the security of supply – equally with the price – is the key supplier selection factor, the Management recognises the need for diversification of the sources, routes and directions of natural gas supply. By achieving this objective, the company will become a regional player cooperating with a number of gas suppliers and producers worldwide. This sort of activity will not only reinforce its position but also contribute to improved energy security of the country.

Strategic Objective

- The strategic objective of the PGNiG group is to provide oil and gas supply to its customers and to ensure the energy security of the country.

Initiatives

- As of the year 2011, new sources of gas supply will become available as a result of the construction of an LNG terminal and a pipeline connection from Norwegian fields. As the next step, the company plans to increase the technical capabilities for natural gas supply from different directions, among other things through the development of interconnections that will enable trade with the neighbouring markets. Other options under consideration include capital participation in long-term investment projects such as pipeline connections with the countries of the Caspian Sea Basin and the Middle East.

Storage capacity expansion

Apart from its commercial role, i.e. shaving the fluctuations of the natural gas demand in the summer and winter seasons, the storage infrastructure fulfils the needs related to ensuring the necessary stocks in case of potential emergencies and temporary disruptions of gas supply.

Strategic Goal

- The strategic goal is to increase the working capacity of the underground gas storage facilities by approx. 1.2 bcm, i.e. up to the total level of 2.8 bcm by the year 2012.

Initiatives

As part of this initiative, expansion of the following storage facilities is planned:

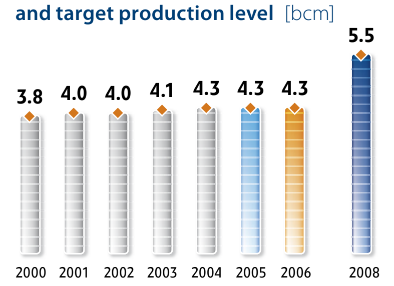
- **Wierzchowice UGS** – doubling of the working capacity from 0.6 bcm to 1.2 bcm (year 2011),
- **Mogilno UGS** in salt caverns – increase of the working capacity from 0.37 bcm to 0.44 bcm (year 2012),
- **Strachocina UGS** – doubling of the working capacity from 0.15 bcm to 0.30 bcm (year 2010),
- **Kosakowo UGS** in salt cavers – initial working capacity of 0.045 bcm by year 2012, to be further increased up to 0.25 bcm (year 2015).

In order to improve the operating efficiency of nitrogenised gas production plants and further shave the demand fluctuations, the construction of two underground gas storage facilities for nitrogenised gas is also planned:

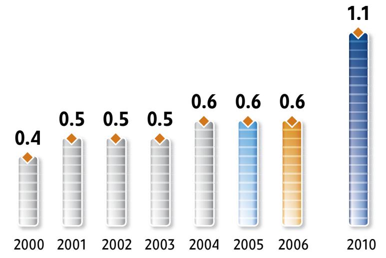
- **Daszewo UGS** – target working capacity of 30 million m^3 (in 2009; 20 million in 2008),
- **Bonikowo UGS** – target working capacity of 200 million m^3 (2009).

Our Strategy

Natural gas production in 2000–2006 and target production level [bcm]



Crude oil production in 2000–2006 and target production level [m tons]



Development of trading activity

Another element of the strategy to strengthen the economic position of the company is focused on maintaining the mutual relations with the current customers and developing new ones. This will be made possible through broadening the product and service offering. In order to achieve this objective, certain changes to the structure of the PGNiG Group will be necessary. The most significant transformation will affect the gas distribution companies, which will become distribution system operators. As a result, the retail activities will be integrated within PGNiG. This will have a fundamental impact on the alignment of service standards and quality improvement.

At the same time, a product diversification strategy will be implemented whereby the company will gradually reduce its dependency on the results generated from regulated gas sales. The available cash flows will be invested in other profitable market segments. The strategy is aimed primarily at proactive identification of new markets and stimulation of the customer demand for new services. The PGNiG Group will also look for synergies in the energy services sector (for example multiutility businesses) and opportunities for cooperation with other network providers. The growth of this business area should be supported by the research and development organization set up within PGNiG. It is worth noting that although the initiatives will be focused primarily on the gas market, the alternative energy markets and new revenue opportunities will also be assessed (particularly in the long-term horizon).

Strategic Goals

- Retain the leadership position in the liberalized Central European gas market
- Bring the domestic gas prices to a realistic level.
- Product diversification.

Initiatives

- Change in the national regulatory policy.
- Efficiency improvement in the trade activity:
  - ensuring the security of supply,
  - improvement of the customer service,
  - tailoring the product to specific customer needs,
  - marketing and promotional support.
- Integration of trade within PGNiG.
- Broadening of the service and product range (e.g. CNG, cogeneration, tri-generation).

Development of exploration and production activities in Poland and abroad

Considering the current and projected commodity prices, the value growth of the company will be driven by the performance of the upstream business. In the coming years, PGNiG intends to achieve the optimum production rate for the level of proven reserves and to continue with the reserves replacement efforts.

The strategic goal of the PGNiG Group encompasses the exploration and production of natural gas and crude oil also outside the territory of Poland. The plans for the next two years envisage launching new business activity in four or five countries. Access to new reserves and an increase in oil and gas production will have a direct impact on the value growth of the PGNiG Group.

Strategic Goals

- Enhance independence on external sources of supply.
- Retain competitive position in the liberalized gas market.
- Ensure independence of the company's performance from the regulatory policy.

Initiatives

- Growth of crude oil production and sales volume up to 1.1 million tons (as of 2010).
- Maintaining the natural gas production capabilities from domestic sources at the level of 5.5 bcm high-methane gas per annum (as of 2008).
- Replacement of domestic recoverable reserves of natural gas and crude oil (maintaining the reserves replacement ratio at the level of 1.1 of the production volume in the years 2006-2011).
- Exploration and production operations abroad.
- Internal restructuring within the upstream segment.

Boundaries of the playing field

Full utilisation of the economic potential of the PGNiG Group in its core business depends on the revenues from gas sales, which are driven by the tariff regulations of the President of the Energy Regulatory Authority.

Regulatory Environment

From the legal perspective, the activity of the PGNiG Group is based primarily on two legal acts:

Energy Law (Journal of Laws of 2003, No. 153, item 1504, as amended) dated 10 April 1997, together with secondary regulations – concerning the activities in respect of trade, transmission and storage of gas.

Geological and Mining Law (Journal of Laws of 1994, No. 27, item 96, as amended) dated 4 February 1994 – concerning the production activity and the related gas sales.

In addition, there is an act of 23 March 2007 on stocks of crude oil, petroleum products and natural gas and the principles of conduct in case of a threat to national fuel security or disruptions in the petroleum market (Journal of Laws of 2007, No. 52, item 343). This act obligates PGNiG to maintain mandatory stocks of natural gas which, by 2012, will have to reach the level of 30 days of the average daily volume of gas imports. Another important provision of this act concerns the guaranteed rate of return on capital employed in the storage activity at the level of at least 6%.

In accordance with the Energy Law, the activity in respect of trade, transmission and storage of gas is subject to obtaining a license from the Chairman of the Energy Regulatory Authority.

In 2006, the PGNiG Group held licenses for:

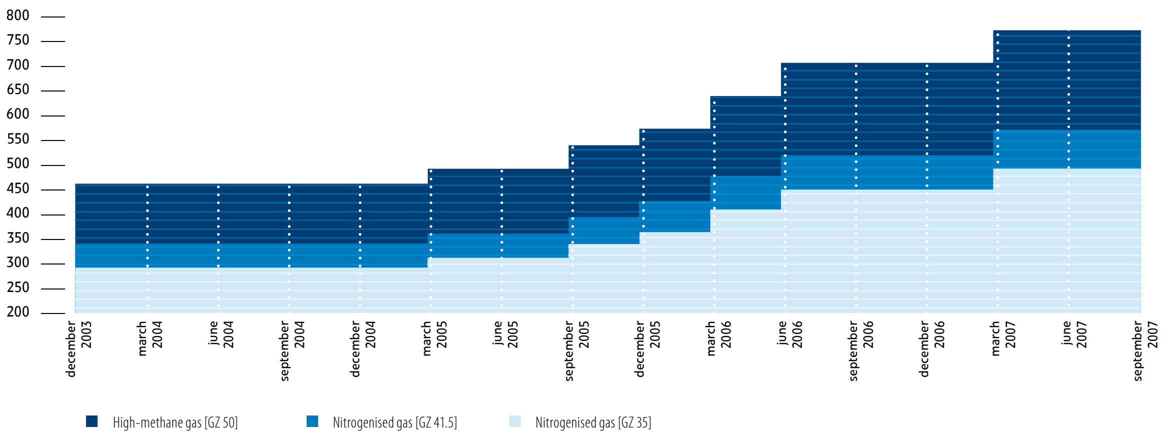
- Transmission and distribution of gas No. PPG/4/652/U/1/2/99/PK dated 30 April 1999,
- Trade in gas No. OPG/4/652/U/1/2/99/PK dated 30 April 1999,
- Foreign trade in gas No. OGZ/1/652/W/1/2/2001/AS dated 17 April 2001,
- Storage of gas No. MPG/2/652/W/2/2005/2006/BT dated 1 February 2006.

The business activity related to prospecting or exploration of mineral deposits, extraction of minerals from fields, non-reservoir storage of substances and waste disposal in the rock mass, including underground depleted deposits, is also subject to a license.

By 31 December 2007, PGNiG obtained:

- 66 licenses for prospecting and exploration of crude oil and natural gas deposits,
- 208 licenses for production of crude oil and natural gas from fields,
- eight licenses for underground gas storage (UGS),
- four licenses for waste disposal.

Tariff sales price for high-methane gas (GZ 50) and nitrogenised gas (GZ 35; GZ 41.5) from December 2003 to September 2007 [PLN/1000 m³]



Tariff Policy

The tariff level approved by the Chairman of the Energy Regulatory Authority is one of the key factors determining the results of the company. In accordance with the Energy Law, and, specifically, the ordinance of the Minister of Economy and Labour of 15 December 2004 concerning the detailed principles of tariff design and calculation and settlements in gas trade, the tariff level should take into account the justified costs of business activity and allow for a return on the capital employed.

The gas sales prices of PGNiG in the first quarter of 2006 were based on the gas tariff No. 1/2003 approved by the Chairman of the Energy Regulatory Authority (ERA) on 16 September 2003, as amended (last amendment dated 14 December 2005). On 17 March 2006, the Chairman of the Energy Regulatory Authority implemented new tariffs, which took into account the unbundling of the transmission activity (OGP GAZ-SYSTEM SA) from gas sales (PGNiG), and the increase in the cost of gas sourcing. The gas tariff No. 4 introduced new settlement terms and charges for:

- gas transmission through high-pressure networks – charged on the basis of the tariff applied by the Transmission System Operator GAZ-SYSTEM SA,
- gas transmission through transit networks – charged on the basis of the cost of transmission service purchased from the transit gas system operator SGT EuRoPol GAZ SA in accordance with the PGNiG tariff,
- storage of high-methane gas – based on the PGNiG tariff,
- gas as a commodity – based on the PGNiG tariff,
- subscription fees – based on the PGNiG tariff.

The principles of tariff setting are defined in the secondary regulations relative to the Energy Law. The applicable tariff design methodology is based on the calculation of prices and tariff rates based on the projected costs and planned natural gas sales volumes. In accordance with the guidelines issued by the regulator, the price calculation for gas trade took into account the cost of gas sourcing from all possible directions of gas supply, including imports and domestic production.

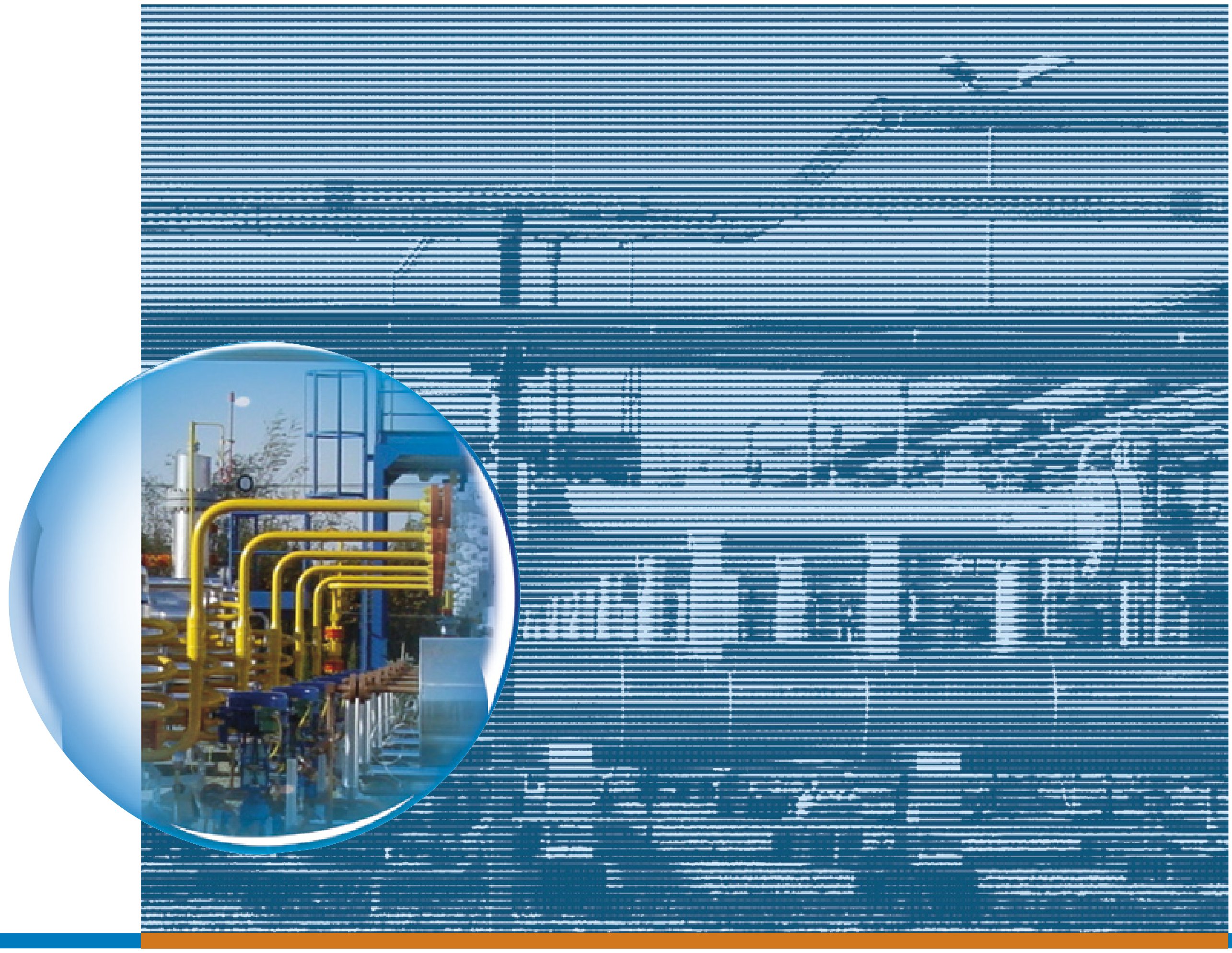
Effectively, this meant that both the foreign trade and domestic production was subject to price regulation. Thus, the resultant tariff price chargeable to consumers was lower than the purchase cost of imported gas, which had a negative impact on the financial results of the company throughout the year 2006. By decision of 15 December 2006, the Chairman of ERA approved the tariff adjustment requested by PGNiG with respect to the gas prices and extended the validity of the gas tariff No. 4 until 31 March 2007. Consequently, the gas price increased by 9.9% as of 1 January 2007. In March 2007, another decision was issued on the extension of the tariff being in force in the first quarter of 2007 until 30 September 2007.

The scope of activity of the PGNiG Group encompasses field exploration, gas imports, production and storage, as well as trade and distribution of natural gas.

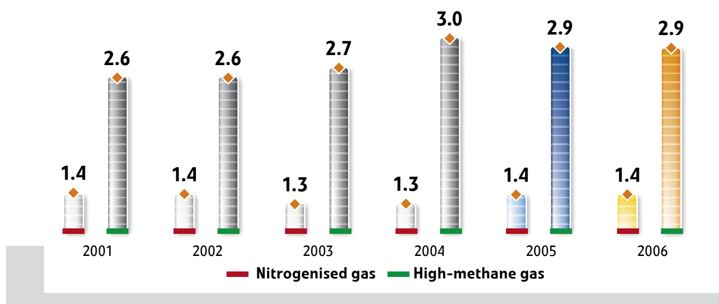
Core business

Segment
Exploration and Production

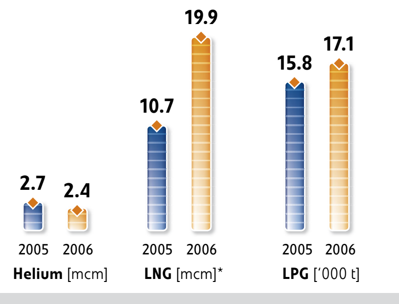
The Exploration and Production segment covers the entire process of oil and gas production starting from the geophysical surveys before the exploration phase until field operation and product preparation for marketing.



High-methane and nitrogenised gas production [bcm]
*Figures including production of the nitrogen removal plant in Odolanów.



Volume of helium, LNG and LPG production
* High-methane gas equivalent in normal conditions



Oil and gas production

Production of natural gas and crude oil is one of the key drivers ensuring the competitive position of the PGNiG Group in the liberalised gas market. A part of gas volumes sold by the company are sourced at a lower cost than the price of gas imports. This, to some extent, protects the Group from the adverse effect of growing gas import prices driven by the raise of the oil product prices which are the basis for indexation of gas prices. During the last eleven years, the company's domestic gas production increased from the level of 3.6 billion cu. m in 1996 to 4.3 billion cu. m in 2006, i.e. by 19%.

In the year 2006, PGNiG produced 4.3 billion cu. m of natural gas, after translation to high-methane gas volumes, which corresponds to the 2005 production level. Also in that year, the company produced 2.9 billion cu. m of high-methane gas and 1.4 billion cu. m of nitrogenised gas. The gas production volume (expressed as high-methane gas equivalent) in the Sanok Branch reached 1.9 billion cu. m, while the Branch in Zielona Góra produced 2.4 billion cu. m.

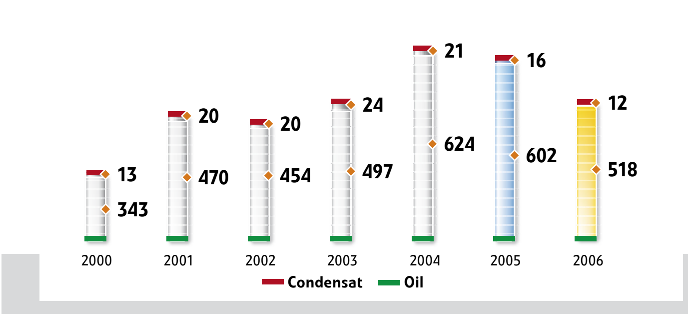
There are two branches of the Company engaged in the production of natural gas and crude oil across the country – based, respectively, in Zielona Góra and in Sanok.

The Branch in Zielona Góra extracts nitrogenised gas from 27 production plants (17 gas plants and 10 oil and gas plants), and high-methane gas is produced by the Branch in Sanok in 47 production plants (25 gas plants and 22 oil and gas plants). The nitrogenised gas produced from the fields is subsequently processed into high-methane gas in the nitrogen removal plant in Odolanów. The technology is based on low-temperature (cryogenic) processes. In 2006, the plant processed 1.49 billion cu. m of gas and produced 0.9 billon cu. m of high-methane gas. Besides high-methane gas, the products obtained from the cryogenic processing of nitrogenised gas include liquefied natural gas (LNG), LPG, gaseous and liquid helium and liquid nitrogen.

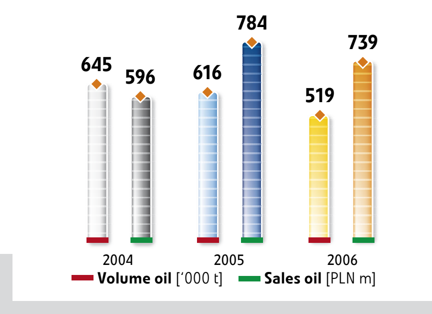
Natural gas production
4.3
bcm

Crude oil production
530
'000 t

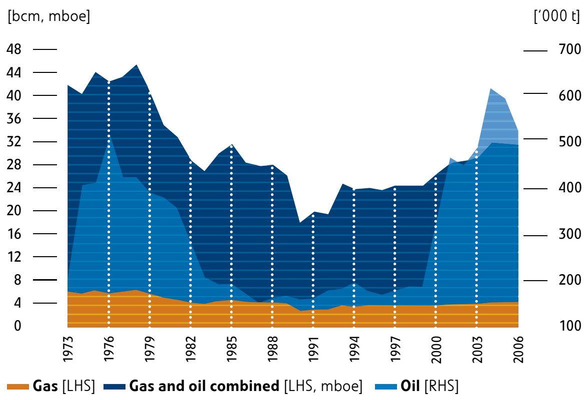
Crude oil and condensate production in 2000–2006 ['000 t]



Crude oil sales volume in 2004–2006



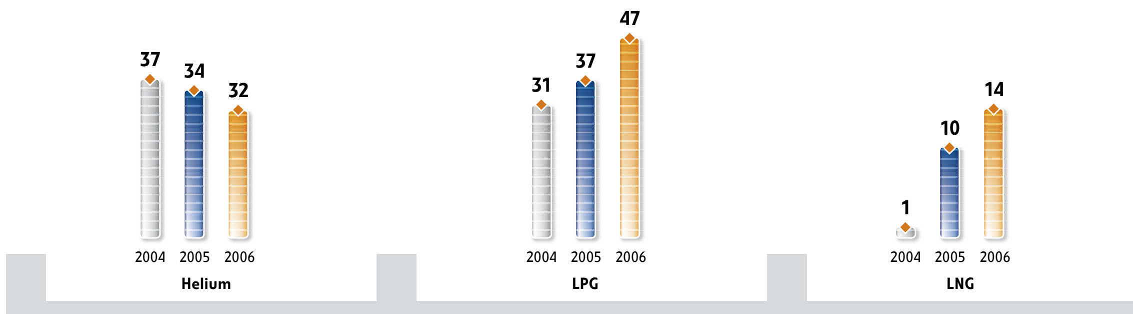
Natural gas and crude oil production in the years 1973–2006



Production of crude oil in carried out by the Branch in Zielona Góra, in five production plants (Góra, Grodzisk Wielkopolski, Gorzów Wielkopolski, Karlino, Ostrow Wielkopolski) in the territory of five voivodeships. The Branch operates 25 oil fields, including the largest oil field ever discovered in Poland, i.e. the BMB (Barnówko-Mostno-Buszewo) field, as well as smaller ones such as Kosarzyn, Zielin, Buk. The volume of oil production volume including condensate totalled 530 thousand tons in 2006 (against 619 thousand tons in 2005). The decline was due to a natural slowdown of the production dynamics as a result of the development of new fields and depletion of the existing ones. PGNiG intends to increase the annual oil production up to 1.1 million tons as of the year 2010.

Core business

Sales of LNG, LPG and helium in 2004–2006 [PLN m]



Sales of crude oil and natural gas directly from fields

Non-regulated sales of natural gas from the fields and the crude oil sales are also managed by the Exploration and Production segment. Currently, the company sells its crude oil production through two principal channels:

- pipeline sales to foreign customers under renewable yearly contracts – approx. 54% of total oil sales,
- sales volumes transported by trucks to domestic customers – approx 46%.

The pipeline sales (via the "Friendship" pipeline operated by PERN) is focused on the major customers of PGNiG: Shell International Trading and Shipping Company Limited and BP Oil International LTD. The bulk of domestic sales, in turn, goes to the companies of the PKN ORLEN Group with minor quantities distributed to local direct customers served by the production units.
In 2006, the revenues from crude oil sales, as compared to the 2005 result, decreased by 5.7% to PLN 739 million, despite much higher average oil sales price than in 2005. The lower revenues were mainly due to the reduction in sales volume (down to 518 thousand tons).

The non-regulated gas sales is realised through gas supply from PGNiG's fields. The gas is sold on market terms and the supply terms (including the price of gas) are negotiated individually with the customer depending on the specific parameters of each project. The gas sales outside of the system are not taken into account in the calculation of the tariffs approved by ERO.

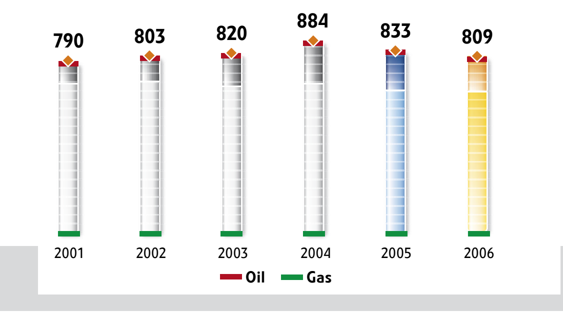
In 2006, PGNiG sold 566 million cu. m of gas directly from the fields (after translation of high-methane gas volumes), i.e. 3.7% more than in 2005. The bulk of this volume consisted of nitrogenised gas with the quality locally deviating from the system standards, which was purchased by a limited number of large consumers (including the CHP Plant in Zielona Góra, CHP Plant in Gorzów Wielkopolski, Fertilizer Plant in Tarnow-Mościce and Arctic Paper Kostrzyn). The non-regulated sales of high-methane gas concentrate in the South-East region of Poland. Those interested in purchasing the gas are mostly small or medium-sized consumers, located in the vicinity of the production plants and having no access to the transmission or distribution networks.

The direct sales offer an opportunity for achieving sound economics in the development of the fields with gas quality deviating from the grid standards and attracting those customers for whom system supply would not be technically or economically viable.

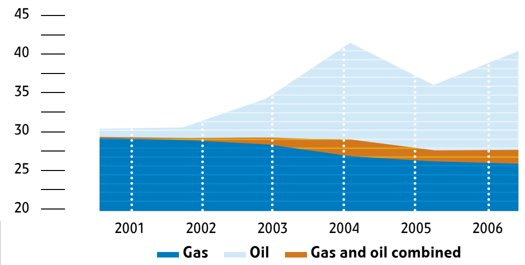
Sales of other products

In addition to selling natural gas sales directly from the fields and crude oil, PGNiG also markets other products such as helium, LNG and LPG. The sales value accounts for a small fraction of the total revenues of the PGNiG Group, yet they deliver a high operating margin. For example, the operating margin on helium sales in 2006 was 70%, and in case of LNG – 68%.

Volume of gas and oil reserves translated to barrels of oil equivalent in 2001–2006 [mboe]



R/P ratio for gas, oil and combined for oil and gas in years 2001–2006



Reserves

At the end of 2006, the natural gas reserves of PGNiG totalled 102.5 bcm (of which 98.5 bcm was approved by the Minister of Environment), whereas the crude oil reserves amounted to 21.4 million tons (approved in whole by the Minister of Environment). The total volume of reserves held by PGNiG, expressed as barrels of oil equivalent, totalled 809 million boe at the end of 2006.

With this high level of reserves, PGNiG was able to achieve a high reserves to production ratio. In 2006, it was pegged at 26.2, which means that with the current level of crude oil and natural gas production (without taking into account any new discoveries) the reserves will last for the next 26 years. The ratio for natural gas alone in the years 2000–2006 slightly decreased – from 27.7 to 24.1, whereas for crude oil it increased by 38% to 40.5.

Natural gas
Reserves
to Production Ratio
24.1

Crude oil
Reserves
to Production Ratio
40.5

In connection with the planned growth of natural gas and crude oil production, PGNiG set out on a number of investment projects. In 2006, the major projects underway included:

Investments

Development of Stobierna, Terliczka, Jasionka, Trzebowisko fields

The development of the natural gas fields of Stobierna, Terliczka, Jasionka, Trzebowisko is aimed at increasing the production of high-methane natural gas. Completion of the project is expected in 2008; total investment expenditures will reach PLN 69.8 million.

Development of Żołynia, Biszcza, Księżopol fields

The development of Żołynia, Biszcza, Księżopol fields is aimed at increasing the production of high-methane gas. Completion of the project is scheduled for 2008; total investment expenditures – PLN 76.3 million.

In 2006, development of the field of Biszcza-Księżopol was completed and the field was put on stream. The investment expenditures totalled PLN 24.3 million, the production of high-methane gas from the field reached 17.3 million cu. m.

Lubiatów-Międzychód-Grotów (LMG) Project

The goal of the project is to develop the crude oil and natural gas fields of Lubiatów-Międzychód-Grotów and the necessary capabilities for transportation, storage and sales of crude oil, natural gas, sulphur and liquefied petroleum gas (LPG) from the LMG Oil and Gas Production Plant. The total value of the project is estimated at PLN 681.5 million; the completion of the entire project is scheduled for the end of 2009. On 14 November 2006, PGNiG announced a tender for the general project contractor for construction of the LMG Oil and Gas Production Plant; the bidding process is currently in progress.

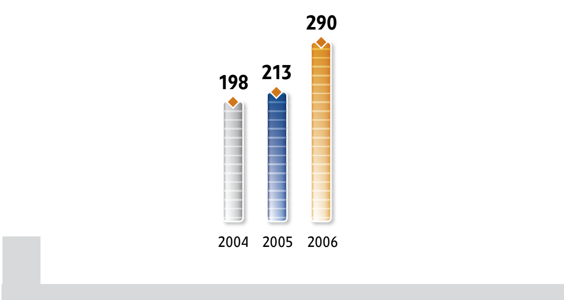
The LMG project is key for the achievement of the target level of crude oil production, i.e. 1.1 million tons as of the year 2010. The reserves of the Lubiatów-Międzychód-Grotów field are estimated at 7.2 million tons of crude oil and 5 bcm of natural gas.

Grodzisk Wielkopolski Project

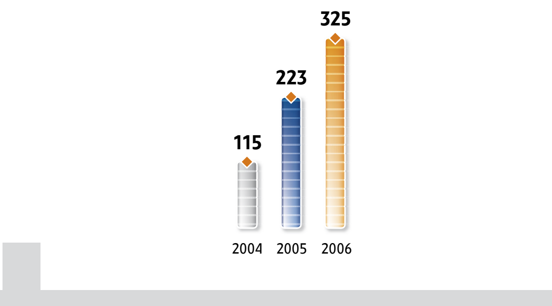
The purpose of the project is to market the gas from nitrogen-rich fields, following its prior processing to uniform composition to meet the specification of high-methane gas. The construction of a nitrogen removal plant near Grodzisk Wielkopolski will enable increased production of nitrogenised gas from the existing fields and the fields planned to be developed, and ensure balanced operation of the nitrogenised gas fields in the summer and winter seasons. The project consists in the development of the natural gas fields of Wielichowo, Ruchocice, Jablonna, Paproć-W, as well as upgrading of the KGZ Paproć production plant, construction of a gas pipeline from Przyłęk to KGZ Paproć production plant and a nitrogen removal plant. The value of the entire project is estimated at around PLN 330 million; the expected completion date – 2010.

On 27 September 2006, PGNiG signed a contract with PBG S.A. for the construction of the Grodzisk nitrogen removal plant, i.e. an industrial installation for removal of nitrogen from nitrogenised gas. The new plant will offer the total capacity of around 35 thousand cu. m/hour. The contract value is approx. PLN 120 million.

The revenues of the PGNiG Group from exploration services in 2004–2006 [PLN m]



The revenues of the PGNiG Group from exploration, geophysical and geological services in years 2004–2006 [PLN m]



Exploration and geophysical operations in Poland and abroad

The PGNiG Group carries out exploration efforts in Poland and abroad. They primarily consist in exploration for and development of geological structures containing hydrocarbon deposits in the form of natural gas and crude oil. The process of field exploration and appraisal comprises: processing of historic data, geological analyses, geophysical surveys and drilling tests. These activities are carried out either by PGNiG or the exploration subsidiaries of the PGNiG Group.

As a result of the efforts carried out in Poland, specifically within the Carpathians, the Carpathian Foredeep and the Polish Lowlands, the level of recoverable reserves increased by, respectively:

- 413 thousand tons of crude oil,
- 4.5 billion cu. m of natural gas (high-methane gas equivalent).

The drilling efforts of the exploration subsidiaries in 2006 were carried out both in Poland and abroad. Overall, they drilled 306.7 thousand meters. In Poland, 27 wells were drilled, of which 22 were successful (the success rate of 71%). The exploration abroad was focused primarily on the Kirthar block in Pakistan. PGNiG owns 70% interest in this block, with the remaining 30% held by Pakistan Petroleum Ltd.

In 2006, the exploration companies were actively pursuing acquisition of new foreign contracts. The results include a memorandum of understanding signed in January 2007 with the Indian Gujart State Petroleum Company concerning potential cooperation in hydrocarbon exploration and production in India, Egypt, Yemen and other countries of the Middle and Far East. Preparations were also underway for the execution of the conditional agreement with Mobil Development Norway A/S and ExxonMobil Production Norway Inc. (ExxonMobil) for the acquisition of 15% interest in three licenses for Skarv and Snadd fields in the Norwegian Continental Shelf for the price of US$ 360 million. The agreement was signed on 28 February 2007.

The acquisition of the three exploration and production licenses in Norway is the first major international transaction of this kind completed by PGNiG in the upstream segment. It fits in the strategy of the PGNiG Group aimed at increasing the volume of oil and gas fields owned by the company outside of Poland as a means of diversification of supply sources.

According to the figures approved by the Norwegian Petroleum Directorate (2006 Fact Book), the total volume of reserves in all the fields in which PGNiG is to acquire interests from ExxonMobil, is estimated at around

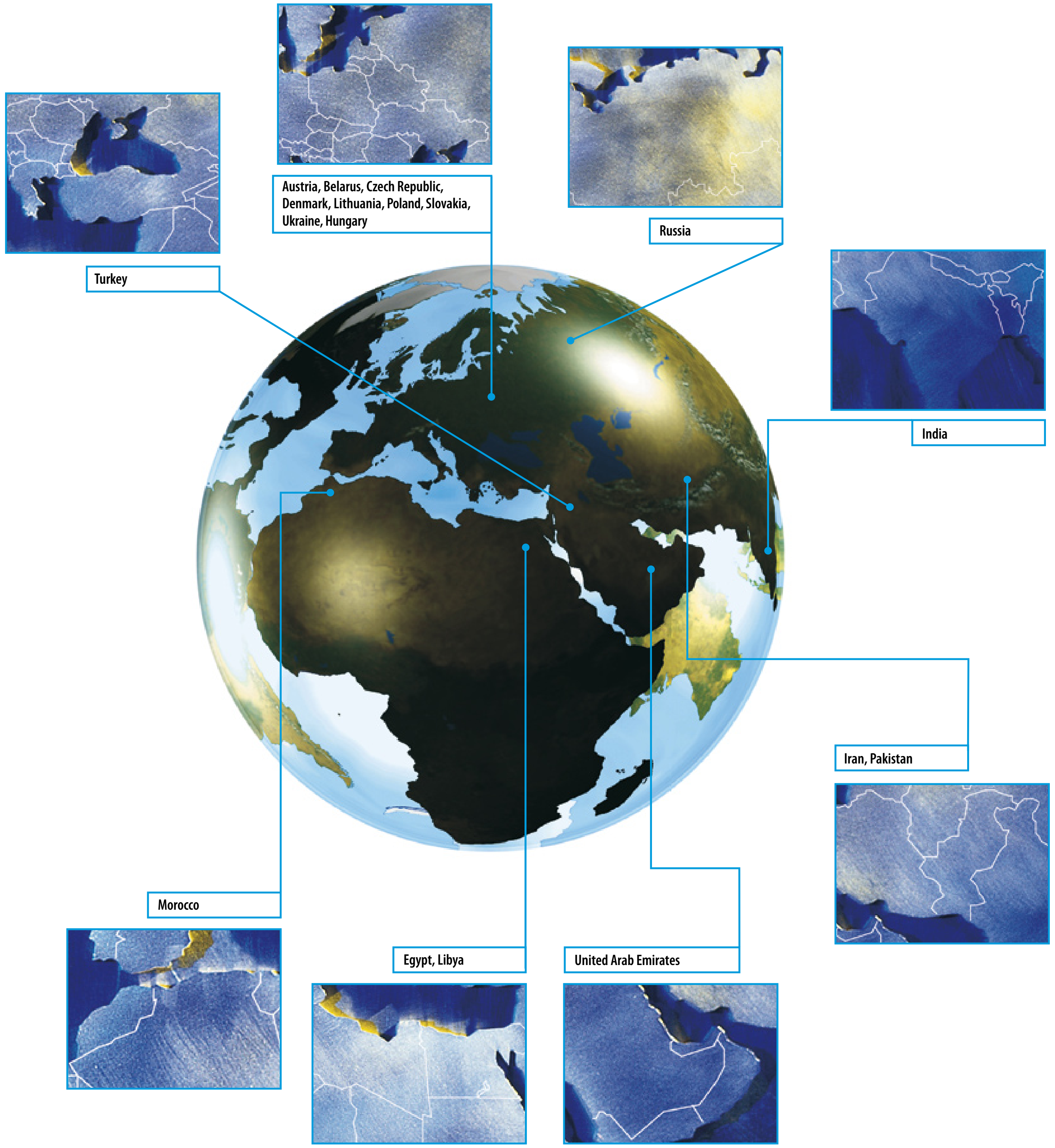
- 35.8 billion m^3 of natural gas,
- 18.3 million m^3 of crude oil and condensate (around 15 million tons),
- 5.8 million tons of NGL (Natural Gas Liquids).

The fields are under direct operatorship of British Petroleum, the remaining partners being Shell, Statoil and Norsk Hydro.

In addition to the exploration, the companies of the PGNiG Group are engaged in geophysical activities. They provide services related to acquisition, processing and interpretation of seismic data, as well as well logging. In 2006, the geophysical companies were operating in Poland (in the Carpathians, the Carpathian Foredeep and the Polish Lowlands) and abroad. Overall, they completed around 4.8 thousand km of 2D seismic and around 6 thousand km^2 of 3D seismics. They were also bidding for new contracts abroad, which resulted in the contract signed by Geofizyka Kraków Sp. z o.o. with the Norwegian company Hydro for performance of seismic surveys in Libya. The work began in January 2007.

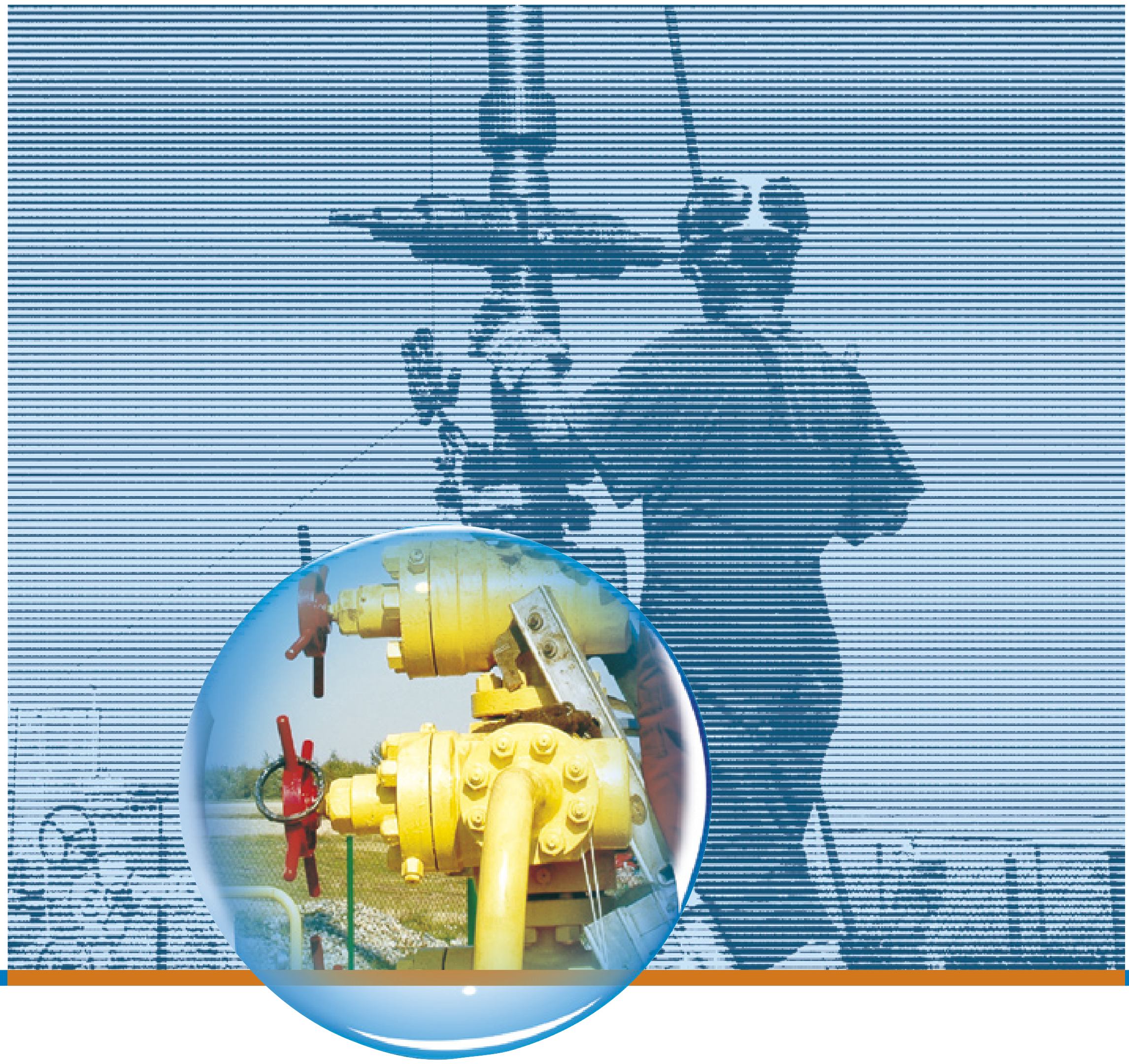
Core business

Presence of the PGNiG Group companies worldwide
Map of the world with marked locations

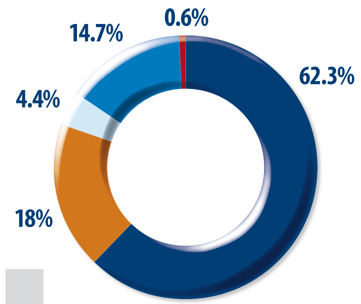


Segment
Trade and Storage

The Trade and Storage segment covers the imports realised by the company, revenues from the transmission assets lease agreement, tariff-based gas sales and storage activity. In 2006, the operating profit in this segment totalled PLN 259 million, with the underlying assets at the level of PLN 10.9 billion.

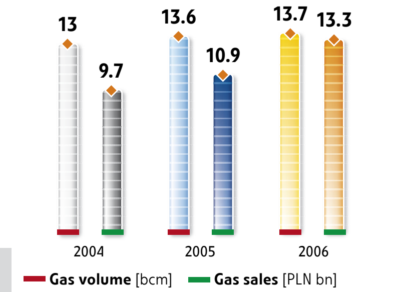


Breakdown of PGNiG customers in 2006



*The gas sales breakdown does not include direct gas sales from fields, which is reported under the Exploration and Production segment.

Volume of natural gas sales translated to high-methane gas equivalent in the years 2004–2006



Gas sales

In the year 2006, the operating profitability of the segment assets (operating profit/total assets) was 2.4% and clearly lagged behind the profitability in the Exploration and Production segment (12.6%). The performance of the segment largely depends on the gas tariff levels, which are approved by the Chairman of the Energy Regulatory Office.

Gas distribution companies are the primary gas consumer accounting for the aggregated purchase volume at around 8.1 billion cu. m of gas (high-methane gas equivalent) in 2006. Fertiliser plants are the second largest gas consumer with 18% share in the total volume of gas sold by PGNiG in 2006.

The revenues from gas sales in 2006 totalled PLN 13.3 billion and high-methane gas accounted for over 91% of the total gas sales revenue. The volume of gas sales reached 13.7 bcm and was slightly higher than in the year 2005.

Gas transmission

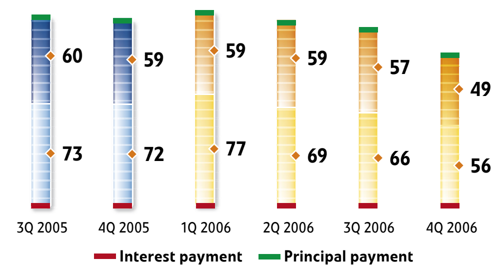
The gas transmission network in Poland consists of two principal elements:

- high-methane gas networks,
- nitrogenised gas networks.

The high-methane gas transmission system enables the transport of imported gas, gas from the fields located in southern Poland, as well as high-methane gas produced in the nitrogen removal plant in Odolanów from nitrogenised gas originating from the fields in the West of Poland. The nitrogenised gas system covers the western part of Poland and is supplied from domestic fields located in the Polish Lowlands.

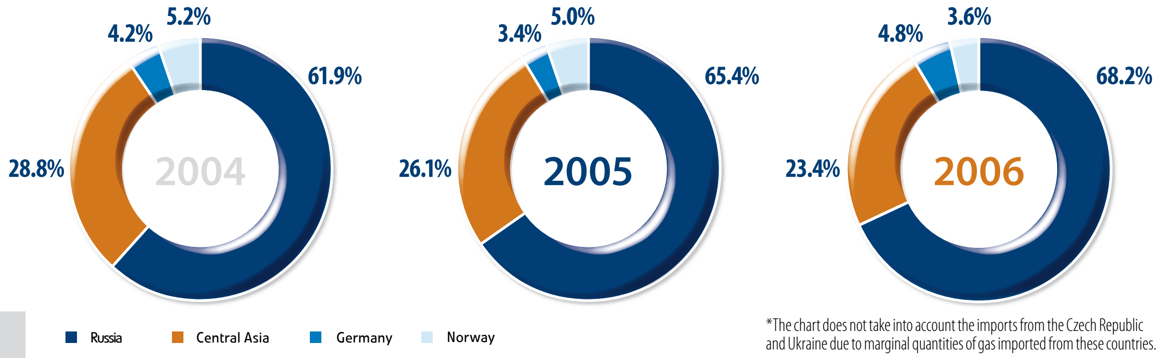
PGNiG has a long-term agreement with the Transmission System Operator OGP GAZ-SYSTEM SA in respect of lease of transmission assets. Pursuant to this agreement the ownership of the transmission assets will be progressively transferred onto the TSO. At the same time, PGNiG is required to gradually transfer certain elements of the transmission system to OGP GAZ-SYSTEM SA. In the years 2005–2006 OGP GAZ-SYSTEM SA acquired transmission assets for the total value of PLN 1.18 billion by way of contribution in kind by the State Treasury of the non-cash dividend payable to the State Treasury in respect of the profits generated by PGNiG. The term of the lease agreement ends in 2022, it is subject to an interest rate based on the 3M WIBOR rate plus a margin. The proceeds from the lease agreement in 2006 totalled PLN 494 million, of which the principal was PLN 225 million and the interest was PLN 269 million. At 31 December 2006, the value of the transmission assets covered by the lease agreement and owned by PGNiG totalled PLN 3.3 billion.

The interest and principal instalment under the lease agreement by quarter [PLN m]



Poland plays an important role in the gas transit from Russia to the European markets. PGNiG holds a 48% stake in SGT EuRoPol GAZ SA, the company owning the Polish section of Yamal gas pipeline, which is used to deliver gas to Germany and other countries in Western Europe. At the same time, PGNiG receives gas from the pipeline at two exit points in the territory of Poland – in Włocławek and Lwówek Wielkopolski.

Sources of gas supply in 2004–2006



*The chart does not take into account the imports from the Czech Republic and Ukraine due to marginal quantities of gas imported from these countries.

Imports

PGNiG is the largest Polish importer of gas from Russia, under a long-term imports contract, and from the countries of Central Asia (Kazakhstan, Uzbekistan, Turkmenistan), Norway and Germany, under medium-term contracts. In 2006, the gas imports volume reached 10 billion m^3 the bulk of which originated from Russia.

In 2006, PGNiG imported gas under the following contracts:

- long-term contract for supply of Russian gas of 25 September 1996 with OOO Gazexport (as of 1 November 2006, the company's name changed to OOO "Gazprom Eksport"), valid until the year 2022 (on 17 November 2006, Amendment No. 26 to the contract for supply of Russian gas was singed, which modified the formula for calculation of the purchase price),
- contract for gas imports of 17 August 2006 with VNG Verbundnetz Gas AG, valid until 1 October 2016,
- gas sales contract of 15 September 2004 with VNG Verbundnetz GAS AG/ E.ON Ruhrgas AG, valid until 30 September 2008,
- contract for imports of Norwegian gas of 5 May 1999 with Statoil ASA, Norsk Hydro Produksjon AS and Total E&P Norge AS, valid until 30 September 2006,
- contract for gas imports from Central Asia of 10 August 2005 with RosUkrEnergo AG, valid until 31 December 2006 (on 7 November 2006, a natural gas sales contract was signed between PGNiG and RosUkrEnergo AG; the contract will be in force until 1 January 2010 with a potential extension of the supply term for additional two years).

Imports in 2005

9.7 bcm

Imports in 2006

10.0 bcm

Liquefied natural gas (LNG)

Over the recent years, liquefied natural gas (LNG) has become increasingly important in Europe and worldwide as the source of natural gas supply. LNG imports to Poland are one of the options for diversification of the gas supply sources and a means of satisfying the growing demand. This involves a need for the construction of an LNG terminal together with adequate technical infrastructure, including storage and network facilities, to enable the imports of gas in the liquefied form by sea.

In 2006, PGNiG carried out a feasibility study and defined the technical and economic assumptions for the imports of liquefied natural gas to Poland. One of the key elements consisted in validating the profitability of an LNG terminal construction on the Polish shore with the first LNG deliveries scheduled for 2011. In December 2006, PGNiG took a decision on the location of a regasification terminal in Świnoujście.

The initial handling capacity of the terminal will be 2.5 bcm of gas per annum with potential for expansion up to 5 or even 7.5 bcm. LNG will be transported by methane carriers with capacity of around 140 thousand m^3 of liquefied gas (i.e. around 84 million m^3 of natural gas).

The construction of the LNG terminal on the coast is one of the strategic investment projects undertaken by PGNiG. It will enable deliveries of natural gas to Poland from diverse sources and thereby enhance the security of gas supply to the customers of the PGNiG Group.

PGNiG is developing the LNG terminal project in Świnoujście in line with the adopted time schedule. At the moment, the design and implementation phase is underway. In parallel, the company is talking to potential suppliers of liquefied natural gas to Poland. The investment execution phase will begin in 2008 and the completion is scheduled for the end of 2010.

In 2006, a special purpose vehicle under the name of Polskie LNG Sp. z o.o. (PLNG) was established as a wholly-owned subsidiary of PGNiG. PLNG will be responsible for the construction and operation of the terminal. In the initial phase, the company will be charged with, among other things, obtaining the necessary approvals and permits for the construction of the LNG terminal and the execution of technical and economic documentation related to FEED (Front End Engineering Design). Subsequently, the company will select the general project contractor for the construction of the LNG receiving terminal.

Storage facilities of PGNiG and their target capacity

Name	Type of investment	Working capacity [bcm]	Target capacity [bcm]	Planned completion year
Wierzchowice	expansion	0.50	1.20	2011
Husów		0.40	0.40	–
Mogilno	expansion	0.37	0.44	2012
Strachocina	expansion	0.15	0.30	2009
Swarzów		0.09	0.09	–
Brzeźnica		0.07	0.07	–
Bonikowo	construction		0.20	2009
Kosakowo	construction		0.045	2012
Daszewo	construction		0.03	2009
Total		**1.58**	**2.8**	

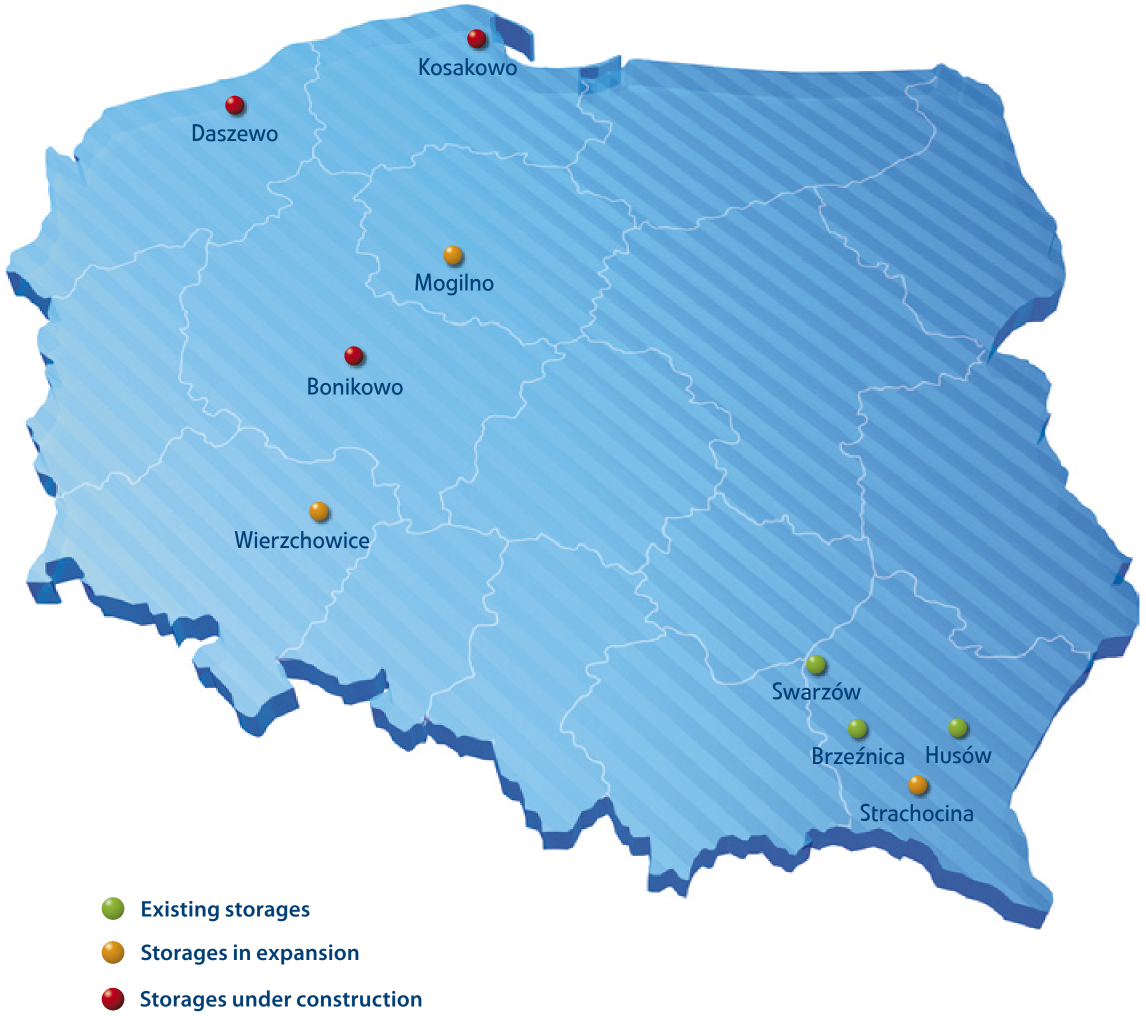
Storage

Gas storage guarantees the supply for the consumers and its primary role is to balance the gas system and to ensure the security of supply during the periods of peak demand. The storage facilities accommodate the surplus gas volumes from the system during the summer season and provide supplementary volumes to the system in winter. Currently, the company has seven gas storage facilities and operates six of them, with the total working capacity of 1.6 bcm, which represents 13.4% of the yearly gas consumption by the customers of PGNiG. On a daily basis, this corresponds to 49 days of average consumption.

The development and expansion of storage capacity is a key element of the business activity of the PGNiG Group. Not only does it lead to improved security of supply but also strengthens the competitive position of the company in a liberalised gas market. By the year 2012, the company plans to increase the existing storage capacity by 1.2 billion cu. m, i.e. up to the level of 2.8 billion cu. m. As one of the elements aimed at achieving this goal, capacity expansion is underway at the only gas storage facility in Poland located in salt caverns, in Mogilno. In the salt deposit "Mogilno II", on the site occupied by the existing storage facilities, two new caverns will be developed through the leaching process in order to store gas. The salt leaching and first gas injection are technically complex and time-consuming processes. After completion of the two caverns, the working capacity of the storage facility in Mogilno will increase by approximately 100 million m^3 (under normal conditions). The project completion is scheduled for 2012. On 17 October 2006, PGNiG signed a contract with Investgas SA for construction of two new caverns in the Mogilno Gas Storage Facility.

The existing storage facilities of PGNiG are designed for storage of high-methane gas. The company plans to develop two underground storage facilities for nitrogenised gas – in Daszewo and Bonikowo. This will enable optimisation of the natural gas supply in the nitrogenised gas system while meeting the increased demand for nitrogenised gas in these regions.

Existing and planned gas storage facilities of PGNiG



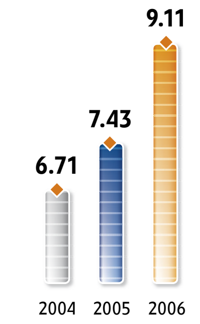
Working capacity
1.58
bcm

Target capacity
2.80
bcm

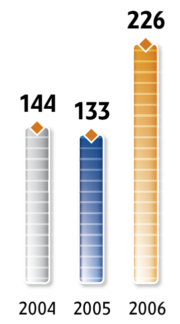
Segment
Distribution

The gas distribution companies are engaged in gas trade and providing sales support for small and medium customers, as well as the operation, maintenance and expansion of the distribution grid. The distribution networks (low, medium, higher and high pressure, both owned and operated by the companies) consist of around 105 thousand km of gas pipelines. The PGNiG Group is continuously expanding its network to meet the growing domestic demand for natural gas.

Sales of the Distribution segment [PLN bn]



Operating profit in the Distribution segment [PLN m]



Gas sales volume
8.10
bcm

Number of customers
6.4
m

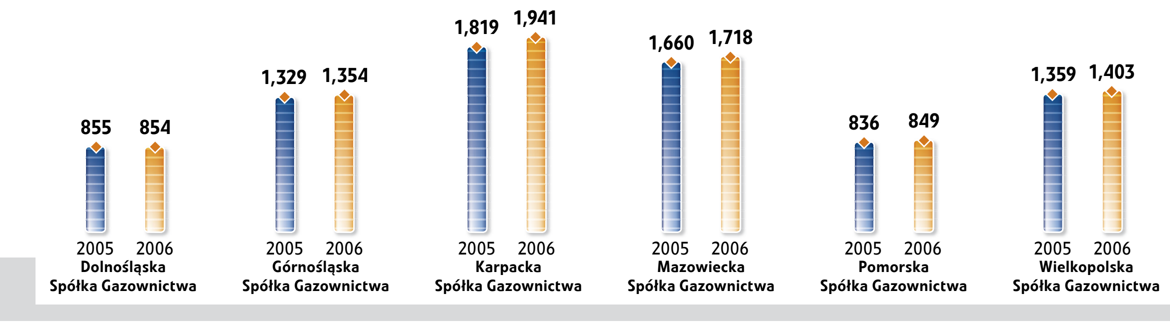
A number of different factors have a bearing on the activities and operations of the gas distribution companies, including demographics (population, standard of living, level of industrialisation), use of other fuels (e.g. coal), type of gas sold (high-methane or nitrogenised gas) and the cost levels of individual companies.

At the end of 2006, the gas distribution companies served 6.4 million customers. The gas customers are divided into three segments:

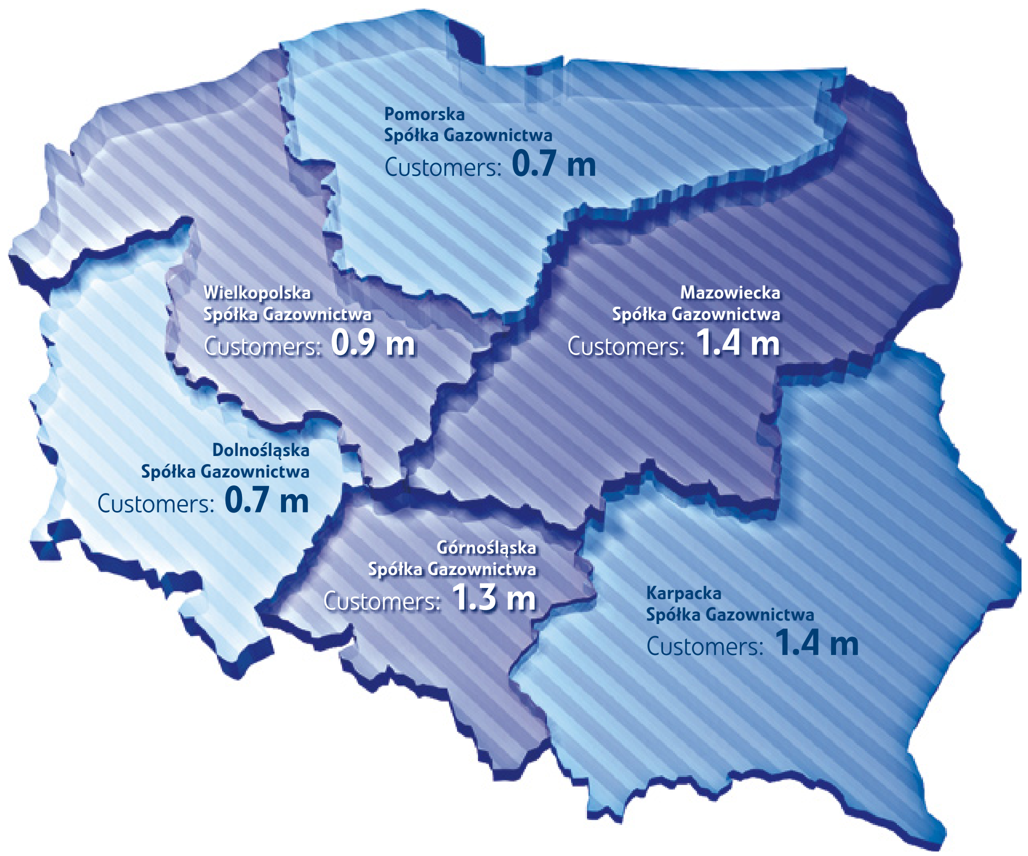
- corporate customers, including strategic ones (gas consumption over 15 million m^3/year) and key customers (gas consumption ranging between 2–15 million m^3/year).
- individual customers (sales below 3 million m^3/year),
- business customers (sales up to 2 million m^3/year).

The gas distribution companies are the main consumer of the gas volumes sold by PGNiG, which are subsequently distributed to the end customers – both commercial and domestic. In 2006, the volume of gas sold to the distribution companies totalled 8.1 bcm, which represents a growth by 3.3 % with respect to the year 2005.

Gas sales to gas distribution companies in 2005–2006 [mcm]



Geographic coverage of the gas distribution companies and number of customers served
(as at 31 December 2006)



Unbundling of distribution from trade activity

In 2006, PGNiG and the gas distribution companies were working to align their organisational structure with the requirements of the European Gas Directive (2003/55/EC), which provides for the legal unbundling of gas distribution form commercial activities and separation of distribution system operators (DSOs) by 1 July 2007.

The Management of PGNiG adopted a model for unbundling of the trade and distribution functions, assuming that:

- all wholesale and retail activities will be integrated within PGNiG,
- distribution activity will remain with the distribution system operators to be established on the basis of the existing gas distribution companies. The transformation of gas distribution companies into distribution system operators will be effected on the basis of the network assets held by the companies, which currently constitute around 95% of the asset base of the gas distribution companies.

In implementation of the Plan for the unbundling of the trading activity and gas distribution in the PGNiG, trading branches were spun off from the gas distribution companies in 2006. In addition, gas trading companies were set up and all shares in them were acquired by PGNiG.

As a result of tariff price increases and a new tariff design methodology for distribution, which takes into account the justifiable costs of gas distribution, as well as a return on the capital engaged, the 2006 operating profit in the distribution segment reached PLN 226 million, which represents an increase by 70% with respect to the result for the year 2005.

With our joint efforts we will make sure that the PGNiG Group not only is perceived as a reliable business partner in the Polish market but also as an increasingly well managed company capable of facing the challenges of a liberalised European market.

External relations

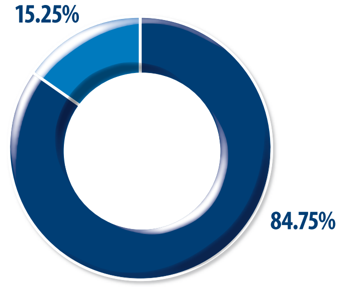
PGNiG
on the Warsaw Stock Exchange

In 2006, the PGNiG share price increased by 3.7%. However, taking into account the payout of dividend in the amount of PLN 0.15 per share, the rate of return reached 8.1%. The investors holding PGNiG shares from the company's debut to the end of 2006 achieved the rate of return of 21.0%.

Shareholders of PGNiG

The State Treasury is the majority shareholder in PGNiG with 84.75% of votes in the General Meeting. The shareholding structure has remained unchanged since the company's debut on the WSE, i.e. since 23rd September 2005.
The market capitalization reached PLN 21.2 billion (with the value of free-float shares exceeding PLN 3.3 bn).

PGNiG shareholders structure



PGNiG share price in 2006

The highest price at which PGNiG shares were traded in 2006 reached PLN 4.13, influenced by very good results of the company in the first quarter of the year, as well as high investor expectations as regards the annual financial results. During the same period, the value of the WIG and WIG20 indices increased by 39.9% and 21.9%, respectively. The value of the main index reflecting economic situation in the fuel sector, WIG-Paliwa, decreased by 12.5% during the same period, which confirms a remarkable stability of PGNiG in addition to its excellent financial standing and predictable business performance. In 2006, PGNiG also distinguished itself with the lowest risk exposure among the fuel sector companies, measured by the standard deviation of daily return rates. An investment in PGNiG shares in 2006 represented an opportunity for the investor to participate in the profits generated by the fuel sector companies at low risk levels.

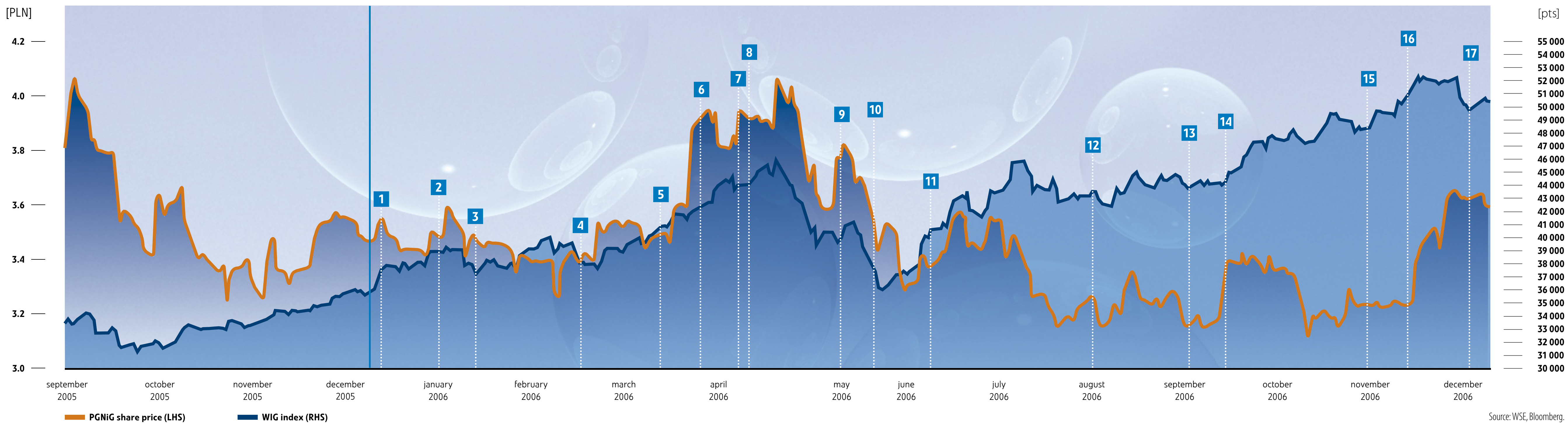
Average share trade volume
4.40 m

Highest share price
4.13 PLN

Rate of return since first listing
21.0 %

External relations

PGNiG WIG index and share price from 23rd September 2005 to 31st December 2006



Source: WSE, Bloomberg.

1 **1st January 2006**

Gazprom cuts the gas supply to Ukraine. For Poland, this means a reduction of the supply volume corresponding to 14% of annual consumption. This information failed to undermine the shareholders' confidence in the company and PGNiG's credibility as the main supplier of natural gas to Poland. The share price proved totally immune to these political developments.

2 **26th January 2006**

The share price closes at PLN 3.58 (during the day it even reaches the level of PLN 3.68). The price change resulted mainly from exceptionally low temperatures noted in January (-30 °C) which, in turn resulted in increased investor expectations in respect of the financial results for the first quarter of 2006.

3 **7th February 2006**

Resumption of gas deliveries to industrial customers. Following the conflict between Russia and Ukraine and the reduction of gas supply to Poland, the situation stabilised in accordance with the market expectations, hence a minor change in price.

4 **1st March 2006**

Publication of the consolidated quarterly report for the fourth quarter of 2005. Following a one-day share price decrease in anticipation of poor results for the fourth quarter of 2005, the market changed its forecasts in respect of the company's financial results for 2006 and in the course of the two subsequent weeks the share price increased by 9% (up to PLN 3.55).

5 **12th April 2006**

Information on the appointment of advisors for the LNG terminal construction. The market responded positively to this information and the PGNiG share price increased from PLN 3.58 at opening, to PLN 3.75 at closing (+4.7%).

6 **20th April 2006**

Change to the oil production volume (decrease from the planned 1.4 billion tons in 2008 to 1.1 billion tons). Due to this information, the share price dropped by 3.5% on the following day.

7 **25th April 2006**

Appointment of Bogusław Marzec as the President of the Management Board of PGNiG. The Appointment of the new President of the Board received a positive response from the market. The share price kept increasing over the following days.

8 **10th May 2006**

Publication of the revised consolidated quarterly report for the fourth quarter of 2005. Following revision of the results for the fourth quarter of 2005, the company increased its net profit for the period, as well as in all quarters of 2005. This information had a positive influence on the share price which, on 11th May reached the record breaking PLN 4.08 (+4.6%).

9 **15th May 2006**

Publication of the consolidated quarterly report for the first quarter of 2006. The company's results were consistent with market expectations, hence the share price experienced only a slight change.

10 **20th May 2006**

Decision on the distribution of the profit generated by the company in 2005 (PLN 0.15 per share), including PLN 750 million in the form of a dividend in kind for the main shareholder – the State Treasury. The Decision on the dividend payment received a positive response from the market, however, due to a correction in the emerging markets, the share price dropped from PLN 3.9 to PLN 3.67 (-5,9%) on 22nd May 2006.

11 **20th June 2006**

Decision of the President of the Energy Regulatory Office (ERO) rejecting the application for a change of the gas tariff. The information received a negative market response, as a result of which the share price dropped by 5.4% within two days.

12 **11th August 2006**

Publication of the consolidated quarterly report for the second quarter of 2006. The company's results were slightly below the market consensus causing a minor drop of the share price.

13 **11th September 2006**

The Supervisory Board appointed Krzysztof Głogowski as the President of the Management Board of PGNiG. The market response was positive and the share price kept increasing over the following few days.

14 **20th September 2006**

Decision of the President of the Energy Regulatory Authority (ERA) rejecting the application for a change of the gas tariff. Although the decision was to a large extent expected by the market, the share price dropped by 3.2% in two days.

15 **14th November 2006**

Publication of the consolidated quarterly report for the third quarter of 2006. The figures published by PGNiG were generally in line with the market expectations. The share price, following speculations as to the results on the previous day, remained unchanged.

16 **18th November 2006**

Signing the Yamal contract amendment. Despite a 10% increase in the price of imported gas, the share price was not affected by this information.

17 **16th December 2006**

Decision of the President of the Energy Regulatory Authority (ERA) on the tariff change for gaseous fuels. The investors expected a favourable decision of the President of ERA two weeks earlier. These expectations caused the share price to increase by 13%, up to the level of PLN 3.66 as at 18 December 2006.

Corporate governance

The legal environment and the regulations in force on the capital market are of special interest to all the market participants. Public companies listed on the stock market are expected to ensure fair, equal and reliable treatment for all their shareholders and exercise their best efforts to build sound relations between the investors and the company's authorities.

Corporate bodies of PGNiG

The General Meeting of PGNiG is the supreme corporate body, which exercises the shareholders' rights by guiding the business activity of the company. The General Meeting considers and approves the Management reports on the company's activity and its financial statements, decides on the distribution of profit and the dividend payout date. This body has also, among other things, the power to acknowledge the fulfilment of duties by members of the corporate authorities, appoint the Supervisory Board members, as well as make decisions concerning the company's assets.

The Supervisory Board maintains control over all the areas of PGNiG's activity. It is composed of five to nine members, appointed by the General Shareholders Meeting for a joint term of three years. The State Treasury, represented by the minister competent for matters pertaining to the State Treasury, acting in consultation with the minister competent for economic affairs, has the right to appoint and remove one member of the Supervisory Board.

The Management Board manages the company's business and represents the company in matters in and outside the court. It is a competent body to deal with all the matters pertaining to PGNiG's activity, which are not reserved by the provisions of the law or the articles of association for the competence of other company's authorities. The Management Boards acts in accordance with the provisions of the law, and especially the provisions of the Commercial Companies Code and the provisions of the Articles of Association and Management Regulations. The Management Regulations are passed by the Management Board and approved by the Supervisory Board.

Best Practices

The Management of the company attaches particular attention to the transparency of broadly understood corporate supervision. Upon its debut on the Warsaw Stock Exchange the company's Management adopted the document titled The Code of Best Practises in Public Companies in 2005, recommended by the WSE.

PGNiG's Value Growth

It is the company's goal to effectively fulfil its objectives and ensure good management of the company's value. The Management is accountable for its actions both to the Supervisory Board and the shareholders. All possible efforts are made in order to contribute to the growth of the company's value through application of best practices and effective management approaches.

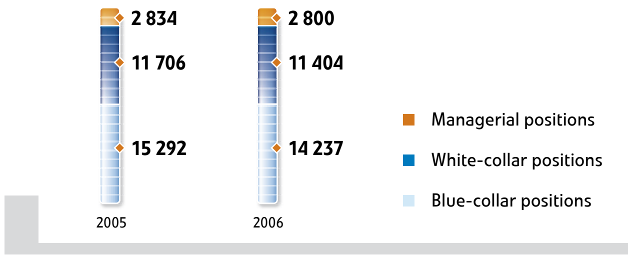
Dialog Culture

PGNiG is open to dialog with the shareholders and the market environment. The company fulfils its information obligations towards the shareholders and other stakeholders in the capital market through publication of current reports, financial reports and by holding press conferences to discuss its key projects and strategic goals.

Social responsibility of business

The social responsibility of business is a concept, which assumes that which companies voluntarily include community and environmental interests in their strategies and activities. As opposed to mere fulfilment of formal and legal requirements, their focus is also on investing in human resources, environmental protection and maintaining good relations with their stakeholders.

Employment structure in the PGNiG Group. Breakdown by type of position [persons]



* Does not include employment in companies consolidated under the ownership rights method.

The matters concerning the impact of the business activity carried out by the PGNiG Group on the natural environment, science, culture and education of future generations fall within the supervision of the President of PGNiG. The pursuit to maintain the highest standards in these areas shows the company's commitment in that respect. Not only does this approach serve the society and environment, but it is also the source of the employees' pride in their company.

The activities of PGNiG in respect of social responsibility in 2006 covered the following areas:

- business and employees
- business for the society
- business for the environment

Business and Employees

Employment in the PGNiG Group

In 2006, the average employment in the PGNiG Group was 28,734 employees. In comparison to 2005, this figure dropped by 4.8%.

In 2006, PGNiG continued the implementation of the second phase of the Programme of employment restructuring and protective measures for employees of PGNiG branches and subsidiaries. In the period running from 1 January until 31 December 2006, 4,296 employees were effectively covered by the restructuring measures.

The employees, whose job positions have been covered by employment restructuring measures, receive severance pay guaranteed by general provisions of the labour law and internal regulations, including collective labour agreements for PGNiG and its subsidiaries, as well as the internal work and remuneration regulations binding in the PGNiG Group. Within the framework of the second phase of the programme, each employee with at least 5 years' tenure in the PGNiG Group and covered by the programme after 1 January 2005, is eligible for additional, individual protective benefits, in accordance with the applicable programme criteria.

As a result of the programme implementation, cost savings related to payroll and employee benefits amounted to PLN 296 million in the years 2004-2006.

Our Concern for Occupational Safety

Being a responsible employer, PGNiG is committed to improving the workplace conditions and occupational safety for the benefit of its employees.

Similarly to previous years, the company put new modern equipment into operation in 2006. New, safer technologies were also implemented in the production processes. As a result, workplace conditions improved, leading to significant reduction in accident risk rates.

Major Employer

Being one of the largest employers in Poland, the PGNiG Group exercises greatest care in order to fulfil its duties towards its employees and their families. The tasks in this respect cover, among others, welfare activity aimed at providing the eligible persons with:

- organisation and co-financing holiday rest for the employees and their children,
- financial and material support for families being in difficult financial situation,
- repayable financial support for housing purposes,
- organisation and co-financing of various forms of leisure activities (sports and recreation).
- health recuperation in the form of organised prophylactic holidays in industry-owned sanatoria.

In 2006, on the initiative of PGNiG, the subsidiary companies signed a document that regulates the principles of joint social activity to be conducted based on a joint benefit fund. The parties agreed to comply with uniform principles for providing support to employees and other eligible persons.

Recruiting Best Talent

In line with the accepted rules and in accordance with the provisions of the programme of employment restructuring in PGNiG, the head office gives preference to internal recruitment. This is a means of exploring in full the potential of the current employees of the company while motivating them to more efficient work and talent development.

PGNiG is involved in organisation of student internships program, which is accessible to the participants of the annual "Grasz o staż" competition – the most popular and prestigious initiative of this kind addressed to Polish students and graduates. The competition has been organised jointly by PricewaterhouseCoopers and "Gazeta Wyborcza" since 1996, and the company sponsors one paid internship in the summer holiday period. In addition, PGNiG offers unpaid internships to students from the Faculty of Gas Engineering at the Warsaw University of Technology, as well as temporary internships to students from other universities in Poland.

We Are a Team

Efficiency of an organisation depends to a large extent on the degree of integration and effective cooperation of the team of people it employs. Being aware of the above, the PGNiG Group initiates various activities for its employees aimed at team integration. With the focus on promoting active behaviour, which contributes to improved teamwork, these activities not only have brought about increased efficiency but also improved relations among the employees.

In 2006, the company launched implementation of activities with a view to integrating all the professional groups in the company. Thanks to regular meetings, the co-worker relations have improved, which in turn led to higher quality and

Employment at the end of 1997

47.5
'000

Employment at the end of 2006

28.7
'000

efficiency of work. PGNiG also launched a program aimed at enhancing internal communication within the Group. A corporate communication strategy was accepted by the Management including key communication principles which also cover communication with employees.

The human resources management function is the key counterpart in all internal communication improvements. All the initiatives are in line with the corporate HR policy which supports pro-activity, job satisfaction and identification of the employees with the company.

Human Resources Management through Development

Employee development in the PGNiG Group is a precondition to ensuring continued existence and growth of the company. Investments in human resources are conducive to the fulfilment of the company's plans and, at the same time, help the employees realize their individual aspirations.

Due to a wide range of operations carried out by the company's subsidiaries, PGNiG adopted a concept whereby the companies of the PGNiG Group enjoy considerable discretion in the selection of the scope and type of training programmes.

A key role in building the ties between the company and its employees is fulfilled by a training management system implemented in the company headquarters. The system regulates all the activities aimed at raising the employee's professional qualifications and provides for various forms of professional training including post-graduate studies, courses, domestic conferences, seminars, symposiums, placements, self-education (e.g. e-learning).

The training programmes carried out in 2006 focused on a wide range of topics related to the operations of a contemporary business, such as: project management, legal environment analysis, risk management in business, customer service techniques, internal communication and teamwork. A large part of them was co-financed by EU funding, including the European Social Fund.

Business for the Society

Sponsorship Strategy

In 2006, PGNiG adopted a sponsorship strategy including, among other things, the following areas of activity:

- sports,
- culture,
- social programmes, carried out primarily by the Ignacy Łukasiewicz Foundation, due to their significance for the internal and external environment of the company,
- industry-specific sponsorship.

In the first area, PGNiG sponsored the PTPS Nafta-Gaz Piła women's volleyball team, which came second in the Polish championship. The cooperation between PGNiG and PTPS Nafta-Gaz Piła is a time-honoured tradition. In 2005, the team supported by PGNiG became the second vice-champion of Poland.

In September 2006, the company obtained the title of the Advertising Partner of "Forum Ekonomiczne Młodych Liderów" (Young Leaders' Business Forum). The meeting was held as a partnership programme accompanying the 16th Business Forum in Krynica and served as an opportunity for exchange of experience among young social, business an political leaders from EU, Eastern Europe and the Caucasus.

In October 2006, PGNiG sponsored the "Jesienna Giełda Humoru" a Warsaw-based charity concert for the benefit of the "Gotowi-Start" Foundation whose goal is to support disadvantaged provincial children and youth. PGNiG's support of the event shows the company's commitment to helping the youngest and most needy members of the society.

PGNiG is also a patron of the Oil Industry Museum in Bóbrka near Sanok, which is run by the company-initiated Ignacy Łukasiewicz Oil Industry Museum Foundation in Bóbrka. It is a special place, not only for the Podkarpacie region and Poland, but also for the history of the oil industry worldwide. It was here that the oil extraction technology was developed, and Ignacy Łukasiewicz was the first to take advantage of the knowledge of oil processing and application. Such projects as the oil industry museum show that PGNiG is not only committed to the on-going development and access to new technologies, but also to saving important elements of the Polish heritage from falling into oblivion.

As a socially responsible entity, the PGNiG Group also supports local communities in the places of its operations abroad. One of such initiatives consisted in providing aid to 600 earthquake victims in Pakistan, in September 2006. PGNiG's support came during the most difficult time for the victims.

In 2006, PGNiG's Management made a decision to make a donation of PLN 460 thousand for the miners who died in the Halemba Coal Mine accident and their families.

Support for families of miners from 'Halemba' coal mine

460
PLN '000

Prizes in 'Goldern Lanterns' contest

300
PLN '000

External relations

Ignacy Łukasiewicz Foundation

The Ignacy Łukasiewicz Foundation, established by PGNiG, is focused mainly on the local communities tying to enhance PGNiG's image as a socially responsible company among its employees and millions of customers.
The Foundation indicated three principal directions of its activity: welfare and charity activity, scientific and educational activity and pro-environmental activity, all aimed at supporting education of children by financing both learning opportunities and participation in extracurricular activities.
The Foundation co-operates with experienced partners, who have been involved in such activity for many years, as well as with voluntary workers and the PGNiG Group employees.

Science

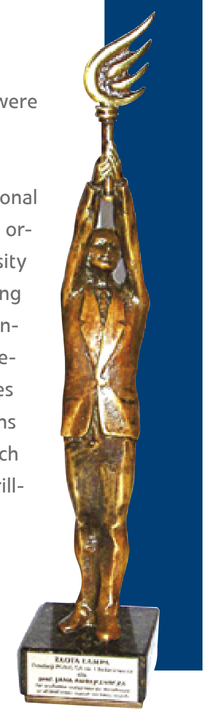
Support for Polish science is especially important for the company, which is why a contest called "Złote Lampy" (Golden Lanterns) was announced with a view to selecting the most interesting and ingenuous scientific achievements in the fields of science and engineering. Prizes were awarded to Polish scientists whose discoveries contributed to the development of Polish science. The leading Polish scientific institutions such as Scientific Committees of the Polish Academy of Sciences, universities represented at Konferencja Rektorów Akademickich Szkół Polskich (Conference of Rectors of Academic Schools in Poland), Rada Główna Jednostek Badawczo-Rozwojowych (Chief Council for Research and Development Institutes) and Naczelna Organizacja Techniczna (Polish Federation Of Engineering Associations - NOT) were invited to submit proposals for awards.

The "Golden Lanterns" Contest prize-winners were:

- In the field of science; Maciej Konacki, PhD, nominated by the Astronomy Committee of the Polish Academy of Sciences, for the discovery of an extrasolar planet in a triple star system, using a proprietary method of planet detection.
- In the field of engineering: Professor Jan Awrejcewicz, nominated by the Mechanics Committee of the Polish Academy of Sciences, for original achievements in nonlinear mechanics in the field of continuous systems dynamics and nonclassical thermoelastic problems, bifurcation and chaos in engineering structures, as well as in the field of asymptotical methods.

Monetary prizes of PLN 150 thousand were awarded to both winners.

In 2006, PGNiG sponsored an international science and engineering conference co organized by Stanisław Staszic AGH University of Science and Technology. The meeting served as an opportunity to present scientific and technological research achievements of Polish and foreign companies and institutes, as well as exchange opinions and experience in the area of new research trends in the gas industry, oil geology, drilling and many others.



Business for the Environment

Responsible Investor

PGNiG carries out investments projects and produces oil and natural gas in an environmentally friendly way. Prior to launching investment projects, consultations are conducted with a wide group of experts and stakeholders. A good example of this approach is PGNiG's participation in the Community Consultation Board for Development of the LNG Terminal in Świnoujście, set up by the West Pomeranian Voivode. As one of the biggest investment projects in the area, it plays a vital role in ensuring secure gas supply to all the customers in Poland. The Management of the company attaches particular attention to on-going consultations with all the parties concerned by this project, so as to ensure that the LNG Terminal in Świnoujście is built with due respect for the interests of all stakeholders and without harm to the tourist and natural qualities of Świnoujście and its vicinities.

Environmental Management

Implementation and certification of environmental management systems is one of the priorities of the PGNiG Group and a key factor in the policy of sustained development. The company is consistent in its pursuit for oil and gas exploration and production without adverse effects on the environment.

Some of the PGNiG Group companies implemented an environmental management system based on the PN-EN ISO 14001 standard, thanks to which they conformed with their legal obligations in respect of the environment, improved the efficiency of resources and energy use and reduced harmful emissions into the environment. All activities of the Group's are carried out in conformity with the strictest environmental protection standards.

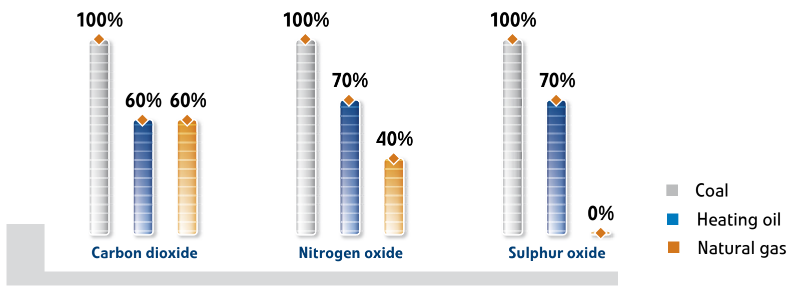
Emission Trading

Since 2005, PGNiG has participated in the carbon dioxide emission allowance trading scheme. In the first settlement period covering the years 2005–2007, the company was granted an allowance for the combustion unit in the Odolanów Branch of up to 13,400 $MgCO_2$/year, and for the Debno production facility, Zielona Góra Branch – 35,900 $MgCO_2$/year.

In 2006, as part of the implementation of the carbon dioxide emission allowance management system, PGNiG developed monitoring and reporting instructions for greenhouse gases, revised annual emission reports and balanced the CO_2 emissions with the allowance held.

External relations

Comparison of pollutant emissions from combustion of natural gas, heating oil, coal (emissions for coal – 100%)



Source: International Energy Agency.

Natural Gas as Environmentally Friendly Fuel

Natural gas is an ideal solution for companies willing to operate in an environmentally friendly way.

The sustainable development concept assumes that development of civilisation, technology and economy must proceed in a manner which makes it possible to reconcile the requirements of environmental protection with sensible use of natural resources. The current environmental law lays environmental protection obligations on all business entities while also providing for a system of incentives to use environmentally friendly technologies and resources.

Gas-fired units are commonly used by the energy sector, industry and municipal utilities. The gas combustion processes take place at a relatively low level of emissions in comparison with other fuels. Use of natural gas as an input material and fuel in process furnaces ensures higher energy efficiency of a range of industry processes. Thanks to application of modern technologies in greenfield or upgraded production facilities, companies are able to increase their production output while reducing the emission levels.

The advantages of natural gas also make it a suitable fuel for vehicles. The use of compressed natural gas (CNG) is justified both from environmental and economic point of view. Currently there are about 4.3 million of CNG-fuelled vehicles in the world, and the segment is growing rapidly. In certain countries various mechanisms were established to support the use of natural gas as a motor fuel. At the end of 2006 in Poland, there were around 1,000 vehicles fuelled with CNG and 23 PGNiG-owned stations offered CNG for vehicle use. The current investment plan includes a budget for construction of additional, new stations.

The guidelines set out in the Business Directions for the PGNiG Group until 2011 adopted by the Management Board and the Supervisory Board will drive optimum use of the Group's assets and further growth of the company.

PGNiG Group

PGNiG Group

STRATEGIC COMPANIES

- Mazowiecka Spółka Gazownictwa Sp. z o.o. 100%
- Dolnośląska Spółka Gazownictwa Sp. z o.o. 100%
- Karpacka Spółka Gazownictwa Sp. z o.o. 100%
- Pomorska Spółka Gazownictwa Sp. z o.o. 100%
- Wielkopolska Spółka Gazownictwa Sp. z o.o. 100%
- Górnośląska Spółka Gazownictwa 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 S.A. 48%
- GAS-TRADING S.A. 43.41%
- BSiPG Gazoprojekt S.A. 75%

SPECIAL PURPOSE COMPANIES

- PGNiG Finance B.V. 100%
- Górnictwo Naftowe Sp. z o.o. 100%
- InterGasTrade GmbH 50%
- InterTransGas GmbH 50%
- Dewon S.A. 36.38%
- INVESTGAS S.A. 100%
- NYSAGAZ Sp. z o.o. 51%
- Polskie Elektrownie Gazowe Sp. z o.o. 48.48%
- Górnośląska Spółka Obrotu Gazem Sp. z o.o. in organization 100%
- Dolnośląska Spółka Obrotu Gazem Sp. z o.o. in organization 100%
- Karpacka Spółka Obrotu Gazem Sp. z o.o. in organization 100%
- Pomorska Spółka Obrotu Gazem Sp. z o.o. in organization 100%
- Mazowiecka Spółka Obrotu Gazem Sp. z o.o. in organization 100%
- Wielkopolska Spółka Obrotu Gazem Sp. z o.o. in organization 100%

OTHER COMPANIES

MATERIAL

- BUD-GAZ Sp. z o.o. 100%
- BUD 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

- BN Naftomontaż Sp. z o.o. in insolvency 88.83%
- PP-UiH TURGAZ Sp. z o.o. 51.14%
- ZRUG Warszawa S.A. in liquidation 49%
- GAZOMONTAŻ S.A. 45.18%
- ZWUG INTERGAZ Sp. z o.o. 38.30%
- ZRUG TORUŃ Sp. z o.o. 31.33%
- ZRUG Zabrze Sp. z o.o. 21.82%
- ZRUG Wrocław Sp. z o.o. in insolvency 15.88%
- TENET 7 Sp. z o.o. 10%
- Walcownia Rur „JEDNOŚĆ" Sp. z o.o. 8.30%
- IZOSTAL S.A. 6.055%
- Zakłady Metalowe Dezamet SA 2.49%
- Huta Stalowa Wola S.A. 1.23%
- Agencja Rozwoju Pomorza SA 0.77%
- PI GAZOTECH Sp. z o.o. 69.44%
- Sahara Petroleum Technology Llc 49%
- PF-K GASKON S.A. 45.94%
- ZRUG Sp. z o.o. w Poznaniu 40.06%
- HS Szczakowa S.A. in insolvency 33.30%
- MED-FROZ S.A. in liquidation 23.07%
- WOC „TE-MA" Sp. z o.o. in liquidation 20.97%
- Polski Serwis Płynów Wiertniczych Sp. z o.o. 14%
- Polskie Konsorcjum Energetyczne Sp. z o.o. 9.50%
- Agencja Rynku Energii S.A. 7.27%
- JARLAN SA in insolvency 4.24%
- Agencja Rozwoju Regionalnego „Karpaty" SA 1.96%
- HSW – Zakład Kuźnia Matrycowa Sp. z o.o. 1.49%
- AUTOSAN SA 0.06%

Organizational Structure of the PGNiG Group

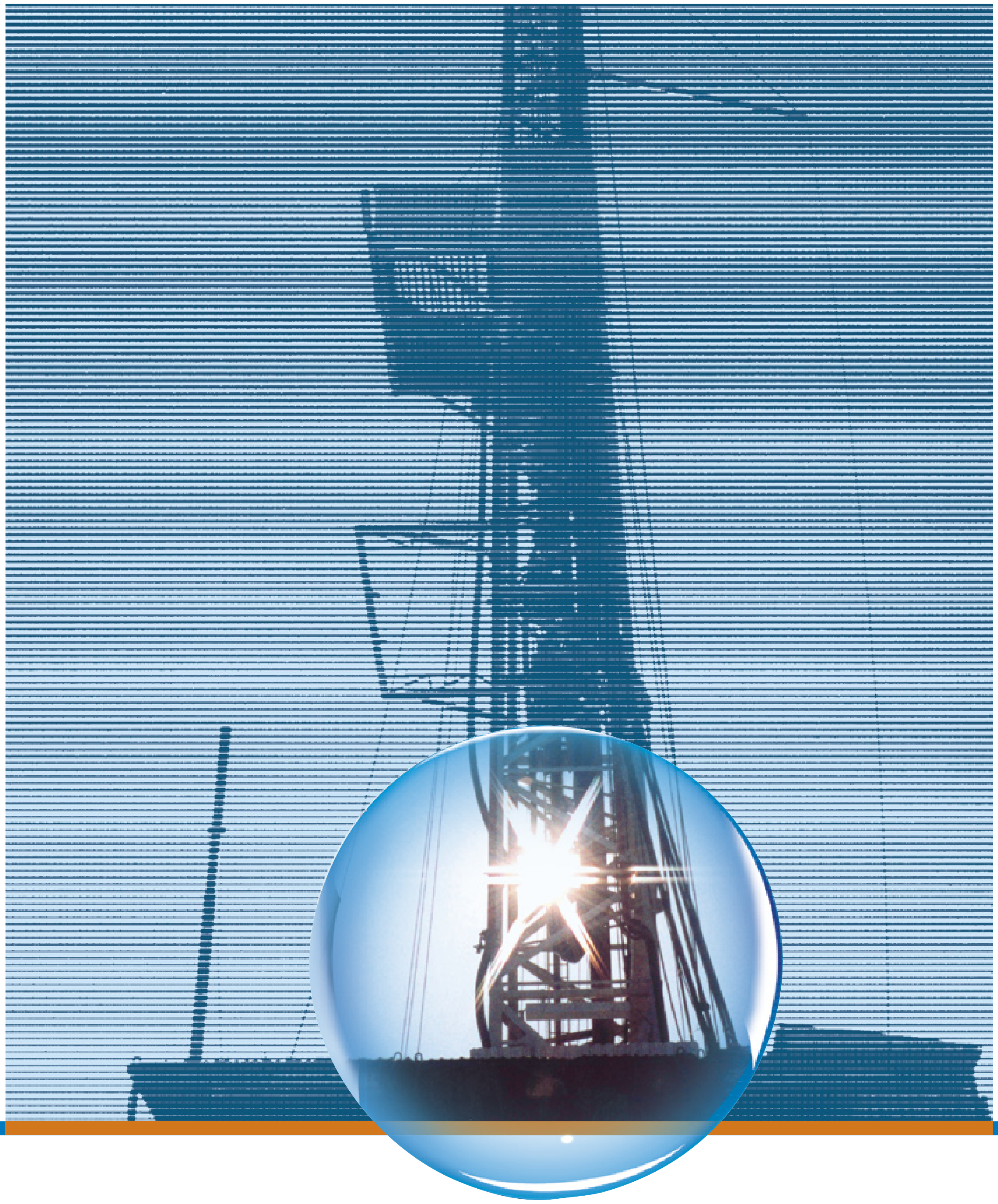
The PGNiG Group comprises commercial law companies of production, trading and services profiles. As at 31 December 2005, PGNiG held shares in 56 commercial-law companies, including:

- 25 companies in which PGNiG held over 50% of shares or votes,
- 17 companies in which PGNiG held between 20 and 50% of shares or votes,
- 14 companies with the company's shareholding below 20% of shares or votes.

The total nominal value of PGNiG's equity interests in commercial law companies was around PLN 6.6 billion as at 31 December 2006.

PGNiG Group

Segment Exploration and Production



GEOFIZYKA Kraków Sp. z o.o.

GEOFIZYKA Kraków is the core company in the field exploration segment. It is mainly involved in programming, designing, carrying out and documenting geophysical surveys, processing and interpretation of seismic data, performing blasting and drilling works, technology engineering and performance of special works and treatments on drilling wells.

In 2006, apart from the work in Poland, the company operated in Libya (new direction of activity), the Czech Republic, Austria, Turkey, Pakistan, Hungary and Slovakia. The company has branches in Pakistan and Libya (in Tripoli) and organizational units in the Czech Republic and Slovakia.

Financials as at 31 December 2006	
Revenue from sales [PLN '000]	196,741
Net profit [PLN '000]	6,281
Equity [PLN '000]	36,721
Share Capital [PLN '000]	34,400
Employment [persons]	1,046

PGNiG is the only shareholder in GEOFIZYKA Kraków.

GEOFIZYKA Toruń Sp. z o.o.

GEOFIZYKA Toruń is seen as the core company in the field exploration segment. It is involved mainly in geological and exploration activity, trenching and geological and engineering drilling work, research and development work in the field of geological, biological, environmental and technology science.

Geofizyka Toruń has a reputation of a specialist company in the application of 2D and 3D seismics with 40 years of experience. The company employs modern seismic equipment to carry out even the largest 2D/3D (3C) surveys in various terrain conditions, such as deserts, mountains, jungle, transition zones and urban areas.

The company also renders comprehensive services in processing and interpretation of 2D/3D (3C) and PPS seismic data through a network of centres abroad. It is an internationally recognized subcontractor whose extensive experience, well-trained staff and modern geophysical methods ensure meeting the ever-growing challenges of data processing and interpretation.

Geofizyka Toruń also offers professional tests of cased and uncased wells and production wells using digital technology. The company is also involved in monitoring drilling/gas parameters and is an expert in well data processing and interpretation, in particular in the area of lithological deposit analysis, analogue data interpretation and geological analysis.

In 2006, outside of Poland, the company carried out works in India, Iran and Ukraine. The company has a branch in Dubai, United Arab Emirates, representative offices in India and holds 95% of shares in Geofizyka Kish Ltd in Iran. The remaining 5% of the company's shares is held by Geofizyka Kraków Sp. z o.o.

Financials as at 31 December 2006	
Revenue from sales [PLN '000]	301,758
Net profit [PLN '000]	5,181
Equity [PLN '000]	34,747
Share Capital [PLN '000]	33,000
Employment [persons]	1,128

PGNiG is the only shareholder in GEOFIZYKA Toruń.

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

PN „Diament" renders specialist services pertaining to exploration and production operations.

The company is mainly involved in drilling works, petroleum development, development, reclamation and exploitation of workings.

Financials as at 31 December 2006	
Revenue from sales [PLN '000]	121,238
Net profit [PLN '000]	9,103
Equity [PLN '000]	72,398
Share Capital [PLN '000]	62,000
Employment [persons]	549

PGNiG is the only shareholder in PN „Diament".

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

PNiG Jasło is one of the companies which significantly contribute to the achievement of strategic goals by the PGNiG Group in respect of the growth of domestic natural gas and oil production volumes and maintaining the reserves replacement ratio at a desired level.
The company is involved mainly in geological and exploration activity covering, among others, oil and gas well drilling, design, drilling and logging of test, exploration, appraisal and production wells, and also well workover, well drilling for the purpose of underground hydrocarbon storage facilities, special purpose wells, emergency wells and waste dumping wells, as well as reclamation of abandoned workings and wells.
PNiG Jasło is the oldest Polish drilling company. For the last 50 years, the company has been involved in a continuous exploration activity in south-eastern Poland – the region with 150 years' tradition in exploration and production of oil and natural gas. The company, including its "NAFTGAZ" branch in Wołomin (incorporated in 2001), has performed thousands of wells and discovered over 70 oil and gas fields in the Carpathians and the Carpathian Foredeep. It has also contributed to the discovery of other minerals, such as salt or sulphur. It also drills special construction wells (emergency, injection) for the mining industry and has drilled the deepest test wells of 7.5 and 7.2 thousand meters in complex geological structures of the Carpathians. A wide range of modern drilling equipment and specialist equipment for well treatment and auxiliary activities, use of state-of-the-art technologies, strict compliance with the applicable standards, including environmental standards, makes the company a reliable contractor and ensures professional execution of the works.
In 2006, outside of Poland, the company operated in Libya and Ukraine.

Financials as at 31 December 2006

Revenue from sales [PLN '000]	200,266
Net profit [PLN '000]	1,259
Equity [PLN '000]	102,830
Share Capital [PLN '000]	100,000
Employment [persons]	776

PGNiG is the only shareholder in PNiG Jasło.

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

PNiG NAFTA is one of the companies which significantly contribute to the achievement of strategic goals by the PGNiG Capital Group in respect of increased natural gas and oil production volumes and maintaining the reserves replacement ratio at a desired level. The company was established in 1956.
PNiG NAFTA's core business is the exploration of natural gas and oil deposits as well as deposits of other minerals, drilling wells for the purpose of underground hydrocarbon storage and waste dumping, well workover, abandonment of wells in depleted fields and land surveying. The company also carries out well drilling and workover works using its own equipment capable of drilling down to 6,000 meters.
PNiG NAFTA has extensive experience in drilling in extremely complex geological conditions, drilling vertical, horizontal and directional wells, under extremely high pressures and increased hydrogen sulphide content conditions. Another speciality of the company is drilling geothermal wells.
Since 1996 the company has been a member of the International Association of Drilling Contractors IADC.
In 2006, outside of Poland, the company carried out works in India, Egypt, Morocco (new area) and Hungary. It has a registered branch in Egypt.

Financials as at 31 December 2006

Revenue from sales [PLN '000]	188,380
Net profit [PLN '000]	11,083
Equity [PLN '000]	69,903
Share Capital [PLN '000]	60,000
Employment [persons]	679

PGNiG is the only shareholder in PNiG NAFTA

PGNiG Group

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

PNiG Kraków is one of the companies which significantly contribute to the achievement of strategic goals by the PGNiG Group in respect of increased natural gas and oil production volumes and maintaining the reserves replacement ratio at a desired level.
The company is involved mainly in carrying out various kinds of drilling operations including: geological, exploration and production well drilling, drilling related to hydrocarbons and other minerals, hydrological, geothermal and special drilling works for the underground mining industry. The company has modern drilling equipment and other specialist equipment for drilling vertical, directional and even horizontal wells.
For over 50 years now, PNiG Kraków has undergone constant development while drawing upon its experience gained both domestically and aboard. New technologies and technical solutions have continuously been adopted, which, combined with organisational transformation, has given the company a dynamic edge. Apart from being able to gain invaluable experience, this period has also been used to built an internationally recognized reputation and enhance the organizational culture of the company. PNiG Kraków is a member of the International Association of Drilling Contractors and International Well Control Forum. In the last 20 years, the company has worked for the biggest operators worldwide, such as: Amoco, Texaco, Lasmo, Apache, Occidental Petroleum, Eurogas, Geoenpro, Premier/Shell, OMV, British Gas, BP, Chevron, Cairn Energy, Fusion Oil & Gas, Lasmo, KKM, Hurricane, Kazgermunai, Orient Petroleum, JKX/PPC Poltawa, ONGC, ANK Shelf, UAB Minijos Nafta, Tethys OIL AB, Sasol Petroleum.
In 2006, outside of Poland, the company carried out works in Kazakhstan, Pakistan, Denmark, India, Lithuania and Ukraine. PNiG Kraków has branches in Pakistan and Kazakhstan and representative offices in Russia and Lithuania. It also holds 100% of shares in Oil Tech International – F.Z.E in United Arab Emirates.

Financials as at 31 December 2006

Revenues from sales [PLN '000]	52,691
Net profit [PLN '000]	9,867
Equity [PLN '000]	97,927
Share Capital [PLN '000]	98,850
Employment [persons]	719

PGNiG is the only shareholder in PNiG Kraków.

Zakład Robót Górniczych Krosno Sp. z o.o.

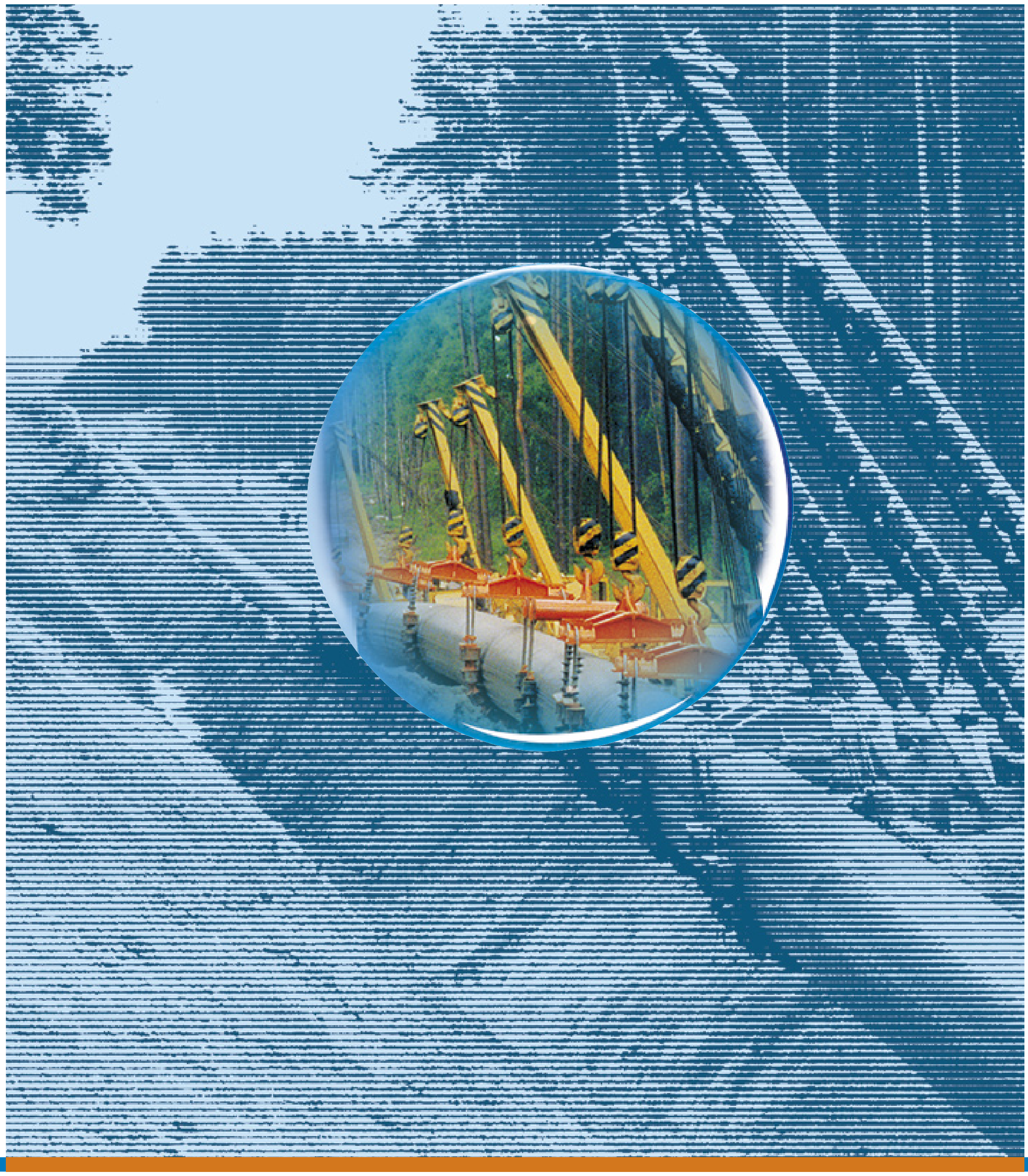
ZRG Krosno renders special services pertaining to exploration and production operations.
The company's core business consists in services related to production of crude oil and natural gas, geothermal and mineral waters, including reconstruction and servicing of wells, design and execution of stimulation operations in wells, performance of works with use of coiled tubing equipment and linear technology, as well as performance and interpretation of hydrodynamic testing, and installation of ground and subsurface well equipment.
The company's history dates back to the end of 19th century, i.e. to the beginnings of the oil industry in Poland and in the World when first companies started performing treatments on oil wells. In its day-to-day activity, the company employs the latest methods and technologies, as it has specialist equipment and highly qualified and experienced staff. The company conducts its activity both in Poland and the neighbouring countries.
In 2006, outside of Poland, the company carried out works in Belarus.

Financials as at 31 December 2006

Revenue from sales [PLN '000]	60,104
Net profit [PLN '000]	427
Equity [PLN '000]	31,909
Share Capital [PLN '000]	26,802
Employment [persons]	411

PGNiG is the only shareholder in ZRG Krosno.

Segment
Trade and Storage



PGNiG Group

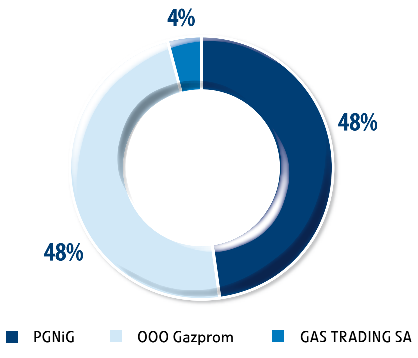
System Gazociągów Transportowych EuRoPol GAZ SA

SGT EuRoPol GAZ was established based on the Agreement between the Government of the Republic of Poland and the Government of the Russian Federation on the construction of a pipeline system for Transit of Russian Gas through the territory of Poland and Russian Gas Supplies to Poland. The co-founders of the company were PGNiG, Gazprom and Gas Trading.

The company offers transmission capacity it controls, i.e. within the Polish section of the transit gas pipeline system. It also provides gas transmission service within the available capacity from the Polish-Belarusian border to the gas delivery and offtake points in Włocławek and Lwówek, as well as from the Polish-German border to the same points.

SGT EuRoPol GAZ is also involved in gas trade (import and export) and the construction and operation of gas pipelines. It holds licence from the Energy Regulatory Office for domestic and international gas trade, and for gas transmission and distribution.

Shareholders structure as at 31 December 2006



Financials as at 31 December 2006

Revenue from sales [PLN '000]	1,326,148
Net profit [PLN '000]	275,702
Equity [PLN '000]	3,261,039
Share Capital [PLN '000]	80,000
Employment [persons]	285

Segment Distribution

Dolnośląska Spółka Gazownictwa Sp. z o.o.

DSG was established on 1 January 2003 as one of the six distribution companies in Poland, formed as a result of a merger of gas plants in Wałbrzych, Wrocław and Zgorzelec.
The company's scope of activity includes retail sales and distribution of natural gas, commercial support, as well as operation, maintenance and expansion of the distribution system.
DSG operates in south-western Poland and covers the area of 12.9 sq. km, which corresponds to around 4% of the territory of Poland, with the population of 2.9 million inhabitants in Lower Silesian voivodeship. Out of 199 communes in the region, more than a half (60.3%) have access to natural gas supplied the company's network.
In 2006, domestic consumers were the main customer group and accounted for 97.6% of the all customers and 46.6% of the total gas sales volume. Business customers represented 2.5% of the customer base and purchased 47.2% of the total gas volume sold by the company. The company also supplied 2 strategic customers who purchased 6.2% of the total gas sales volume in 2006.

Financials as at 31 December 2006

Revenue from sales [PLN '000]	967,817
Net profit [PLN '000]	33,583
Equity [PLN '000]	596,907
Share Capital [PLN '000]	552,762
Employment [persons]	1,705
Network length excluding service lines [km]	6,562

PGNiG is the only shareholder in Dolnośląska Spółka Gazownictwa.

Górnośląska Spółka Gazownictwa Sp. z o.o.

GSG was established on 1st January 2003 as a result of a merger of gas plants in Zabrze and Opole.
The company's scope of activity includes retail sales and distribution of natural gas, commercial support, as well as operation, maintenance and expansion of the distribution system.
The company operates in central and southern Poland, covering the area of 25.2 thousand square kilometres, which corresponds to about 8.1% of the territory of Poland.
In 2006, domestic consumers constituted the main customer group and accounted for 97.9% of all consumers served by the company and 51.2% of the total sales volume. Business customers represented 2.1% of the customer base and purchased 29.1% of the total gas volume sold by the company. The company also supplied 6 strategic customers who purchased 9% of the total gas sales volume in 2006.

Financials as at 31 December 2006

Revenue from sales [PLN '000]	1,543,177
Net profit [PLN '000]	20,660
Equity [PLN '000]	1,309,698
Share Capital [PLN '000]	1,292,551
Employment [persons]	3,100
Network length excluding service lines [km]	19,555

PGNiG is the only shareholder in Górnośląska Spółka Gazownictwa.

Pomorska Spółka Gazownictwa Sp. z o.o.

PSG is a successor of the rich heritage of the Polish gas industry. It is composed of three branches in Gdańsk, Bydgoszcz and Olsztyn.

The company's scope of activity includes retail sales and distribution of natural gas and commercial support, as well as operation, maintenance and expansion of the distribution system.

PSG operates in north-eastern part of the country and covers the area of 53 thousand sq. km, i.e. about 17% of the territory of Poland. This area is characterized by low population density due to specific landscape features (forests, lakes and hilly areas) and agriculture as the main sector of the economy. The region has also the highest unemployment rate in Poland.

In 2006, domestic consumers were the largest segment accounting for 97.6% of all customers of the company and 44.2% of the total gas sales volume. Business customers represented 2.4% of the customer base and purchased 28% of the total gas volume sold by the company. The company also supplied three strategic customers who purchased 3.6% of the total gas sales volume in 2006.

Financials as at 31 December 2006

Revenue from sales [PLN '000]	971,128
Net profit [PLN '000]	32,325
Equity [PLN '000]	607,919
Share Capital [PLN '000]	563,031
Employment [persons]	2,184
Network length excluding service lines [km]	7,626

PGNiG is the only shareholder in Pomorska Spółka Gazownictwa.

Wielkopolska Spółka Gazownictwa Sp. z o.o.

WSG is composed of six branches including four gas plants located in Poznań, Szczecin, Koszalin and Kalisz.

The company's scope of activity includes retail sales and distribution of natural gas and commercial support, as well as operation, maintenance and expansion of the distribution system.

WSG operates in north-western part of Poland, covering the area of 59 thousand sq. km, i.e. about 18.8% of the territory of Poland. With two international airports, two sea harbours and 20 border crossings, this region belongs to the most economically active areas of Poland. WSG is located near to indigenous gas fields, mostly containing nitrogenised gas.

In 2006, domestic consumers constituted the main customer segment and accounted for 97% of all customers of the company and 44.7% of the total gas sales volume. Business customers represented 3% of the customer based and purchased 27.4% of the aggregate gas volume sold by the company. The company also supplied gas to 42 key customers who purchased 11.9% of the total gas sales volume and 8 strategic consumers who purchased 16% of the total sales volume in 2006.

Financials as at 31 December 2006

Revenue from sales [PLN '000]	1,500,811
Net profit [PLN '000]	18,428
Equity [PLN '000]	912,003
Share Capital [PLN '000]	893,019
Employment [persons]	2,186
Network length excluding service lines [km]	12,420

PGNiG is the only shareholder in Wielkopolska Spółka Gazownictwa.

Karpacka Spółka Gazownictwa Sp. z o.o.

The company's scope of activity includes retail sales and distribution of natural gas, commercial support, as well as operation, maintenance and expansion of the distribution system.

KSG operates in the most developed gas markets in Poland (gas penetration of 65.7% against the national average of 41%). The gas penetration is measured as the number of communes with access to gas (at least 1 consumer) to the total number of communes existing in the area covered by the operations of the company. The area controlled by the company covers 60.6 thousand sq. km, which corresponds to 19% of the territory of Poland, and extends onto four voivodeships in south-eastern Poland.

One of the main gas transmission pipelines runs through the company's area of operation, feed by gas supplies from foreign and domestic sources. The area has extensive infrastructure of gas facilities, including transmission and distribution pipelines, compression stations and storage facilities, as well as pressure reduction and measurement stations of the first and second degree. KSG also has a base of administration facilities and modern technical equipment. The company's business and people potential and favourable location with respect to the transmission system supply sources ensure efficient operation of the company and offer good prospects for further growth.

In 2006, domestic consumers were the primary customer segment and accounted for 96% of all consumers served by the company and 44% of the total gas sales volume. Business customers represented 4% of the customer base and purchased 28% of the total gas volume sold by the company. The company also supplied key customers (62 companies) and strategic customers (4 companies) whose respective share in the total gas sales volume in 2006 was 16.5% and 11.5%.

Financials as at 31 December 2006

Revenue from sales [PLN '000]	2,188,047
Net profit [PLN '000]	117,796
Equity [PLN '000]	1,700,099
Share Capital [PLN '000]	1,570,832
Employment [persons]	4,003
Network length excluding service lines [km]	42,190

PGNiG is the only shareholder in Karpacka Spółka Gazownictwa.

Mazowiecka Spółka Gazownictwa Sp. z o.o.

The company's scope of activity includes retail gas trading and commercial support, as well as operation, maintenance and expansion of the distribution system

MSG operates in the north-eastern part of Poland and covers the area of 87 thousand square kilometres, which corresponds to 27.7% of the territory of Poland. There are 761 localities in this area, including 120 towns, with the agglomerations of Warsaw and Łódź among them.

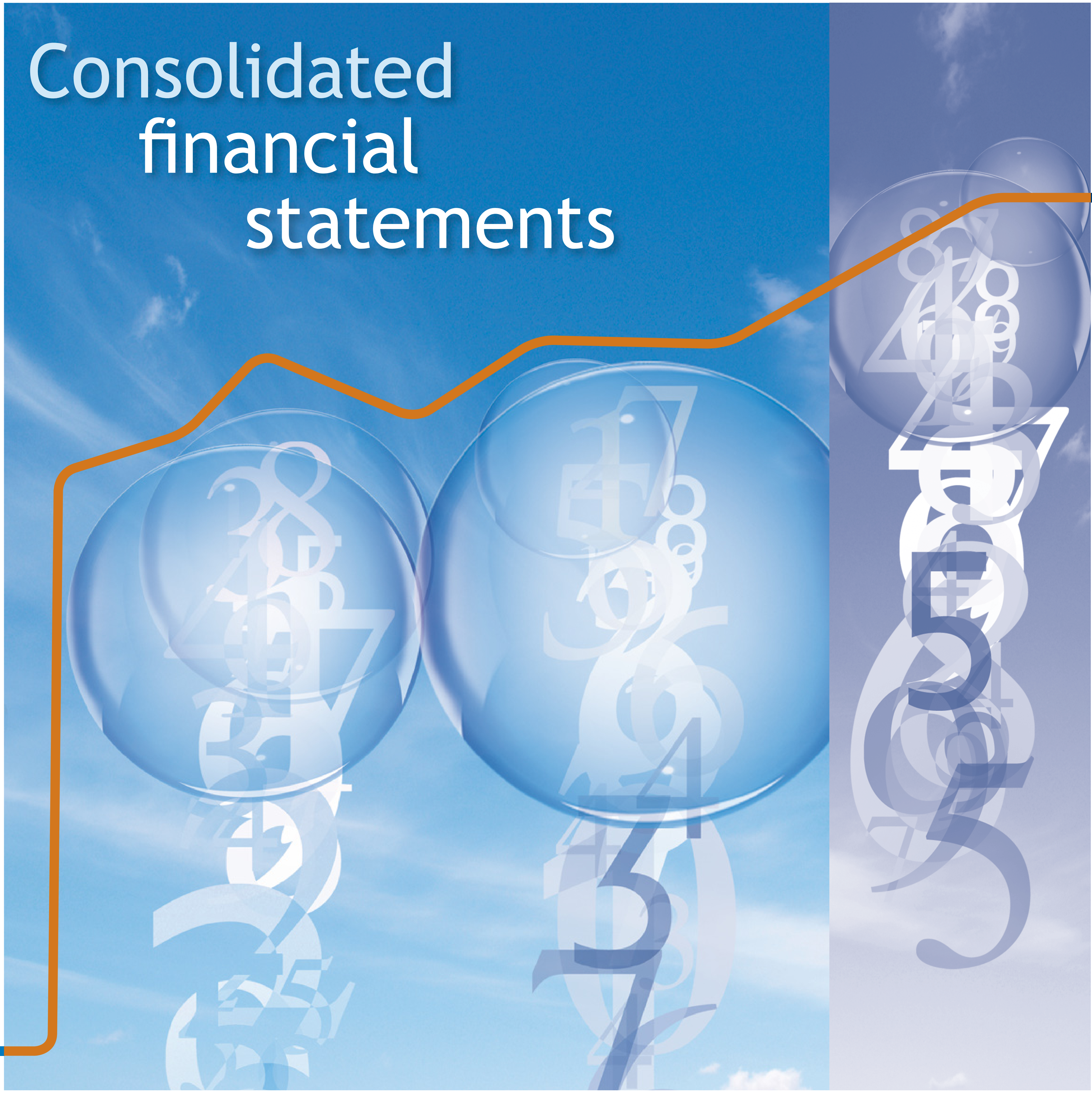
In 2006, domestic consumers were the main customer group and accounted for 99% of all consumers of the company and 49.5% of the total gas sales volume. Business customers constituted 1% of the customer base and purchased 50.5% of the total gas volume sold by the company. In addition, the company supplied 145 key customers who purchased 22% of the total gas sales volume in 2006. MSG sold about 71% of the total gas volume to consumers in Warsaw and vicinities, 22% - in Łódź and the surrounding area, and the remaining 7% - in Białystok and the region.

Financials as at 31 December 2006

Revenue from sales [PLN '000]	1,964,766
Net profit [PLN '000]	73,976
Equity [PLN '000]	1,105,402
Share Capital [PLN '000]	999,634
Employment [persons]	3,527
Network length excluding service lines [km]	15,960

PGNiG is the only shareholder in Mazowiecka Spółka Gazownictwa.

Consolidated financial statements



AUDITOR'S OPINION

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, Krucza 6/14 Street being its holding company, including:

- consolidated balance sheet prepared as of 31 December 2006, with total assets and liabilities plus equity of PLN 30,739,647 thousand;
- consolidated income statement for the period from 1 January 2006 to 31 December 2006, disclosing a net profit of PLN 1,323,525 thousand;
- statement of changes in consolidated equity for the period from 1 January 2006 to 31 December 2006, disclosing an increase in equity of PLN 440,531 thousand;
- consolidated cash flow statement for the period from 1 January 2006 to 31 December 2006, showing a net cash inflow of PLN 372,875 thousand;
- additional information and explanations.

Preparation of these consolidated financial statements is the responsibility of the Management Board of the Holding Company. 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 holding company, 21 subsidiaries and the equity method as regards 1 associated company and 1 co-subsidiary. The financial statements of 15 subsidiaries, associated company and co-subsidiary were subject to audit by other entities authorized to audit financial statements. We received the financial statements of 15 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 4,4 % and 7,2 % 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 2006 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 2006 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 holding company explained the reasons for impairment loss recognized for shares in the co-subsidiary SGT EuRoPol Gaz S.A..

The Report on the Capital Group's activities in the 2006 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.

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

Maria Rzepnikowska
represented by
Certified Auditor
No. 3499/1028

Warsaw, 3 April 2007

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

Consolidated profit and loss account

for the period ended 31 December 2006

	Additional information	31 December 2006	31 December 2005
		in '000 PLN	
Sales revenues	**1**	**15 197 653**	**12 559 988**
Consumption of raw materials and materials		(8 611 516)	(6 438 991)
Employee benefits	2	(1 822 123)	(1 646 186)
Depreciation		(1 296 140)	(1 401 855)
External services		(2 652 543)	(1 779 138)
Manufacturing cost of benefits for internal purposes		564 979	499 100
Other operating expenses (net)	2	84 299	(395 198)
Operating expenses in total		**(13 733 044)**	**(11 162 268)**
Profit on operating activities		**1 464 609**	**1 397 720**
Financial revenues	3	520 161	645 011
Financial expenses	3	(495 582)	(837 980)
Share in financial result of entities measured using the equity method	4	77 453	49 604
Gross profit		**1 566 641**	**1 254 355**
Income tax	5	(243 114)	(206 839)
Profit sharing		(2)	(166 853)
Net profit for the financial year		**1 323 525**	**880 663**
Assigned to:	6		
Shareholders of the holding company		1 323 050	879 749
Minority shareholders		475	914
		1 323 525	**880 663**
Profit per share assigned per ordinary shareholder of the holding company	6		
– basic from profit for the financial year		0.22	0.17
– diluted from profit for the financial year		0.22	0.17

Consolidated balance sheet

as of 31 December 2006

ASSETS	Additional information	31 December 2006	31 December 2005
		in '000 PLN	
Non-current assets (long-term)			
Tangible fixed assets	8	17 756 155	17 524 429
Investment property	9	6 765	10 553
Intangible assets	10	1 086 708	952 698
Investments in associated companies measured using the equity method	4	589 284	512 076
Financial assets available for sale	11	18 112	21 358
Other financial assets	12	3 275 379	4 107 585
Deferred tax asset	13	440 596	384 504
Other non-current assets	14	48 672	17 248
Total non-current assets (long-term)		**23 221 671**	**23 530 451**
Current assets (short-term)			
Inventory	15	1 351 203	815 345
Trade and other receivables	16	2 529 594	2 618 350
Receivables due to current tax	17	17 187	30 883
Prepayments	18	33 176	17 501
Financial assets held for trading	19	23 265	30 391
Assets due to derivative financial instruments		5 723	120 273
Cash and cash equivalents	20	3 557 828	3 200 471
Total current assets (short-term)		**7 517 976**	**6 833 214**
Total assets		**30 739 647**	**30 363 665**

as of 31 December 2006

EQUITY	Additional information	31 December 2006	31 December 2005
		in '000 PLN	
Equity and liabilities			
Share capital	21	5 900 000	5 900 000
Exchange differences from translation of foreign branches		(15 609)	(14 086)
Surplus on sales of shares above face value		1 740 093	1 740 093
Other reserve capitals		2 890 068	2 624 841
Retained profits (losses)		10 685 888	10 509 489
Equity (assigned to the shareholders of the holding company)		**21 200 440**	**20 760 337**
Equity of minority shareholders		7 671	7 243
Total equity		**21 208 111**	**20 767 580**
Long-term liabilities			
Credits, loans and debt securities	22	2 343 846	2 369 082
Provisions	23	1 179 882	981 493
Deferred income	24	1 082 084	1 151 115
Provision for deferred tax	25	2 056 074	2 123 233
Total long-term liabilities		**6 661 886**	**6 624 923**
Short-term liabilities			
Trade and other liabilities	26	2 173 702	2 108 806
Credits, loans and debt securities	22	113 621	89 218
Liabilities due to derivative financial instruments		55 067	173 177
Liabilities due to current tax	17	184 556	75 201
Provisions	23	250 529	426 315
Deferred income	24	92 175	98 445
Total short-term liabilities		**2 869 650**	**2 971 162**
Total liabilities		**9 531 536**	**9 596 085**
Total equity and liabilities		**30 739 647**	**30 363 665**

Consolidated cash flow statement

for the period ended 31 December 2006

	31 December 2006	31 December 2005
	in '000 PLN	
Cash flows from operating activities		
Net financial result	1 323 525	880 663
Adjusted by:		
Share in financial result of entities measured using the equity method	(77 453)	(49 604)
Depreciation	1 296 140	1 401 855
Net exchange gains (losses)	33 039	(283 991)
Net interest and dividends	(191 952)	87 349
Profit/loss on investment activities	(145 201)	283 959
Income tax for the current period	243 114	206 839
Paid income tax	(243 315)	(239 687)
Other net items	37 229	(198 440)
Net cash from operating activities before changes in working capital	**2 275 126**	**2 088 943**
Change in working capital:		
Change in net receivables	(5 711)	(537 231)
Change in inventory	(535 802)	(217 014)
Change in provisions	(115 882)	132 259
Change in short-term liabilities	4 285	917 875
Change in prepayments	(47 100)	(147 882)
Change in deferred income	(39 907)	162 101
Net cash from operating activities	**1 535 009**	**2 399 051**
Cash flows from investment activities		
Inflows from sale of tangible fixed assets and intangible assets	19 159	19 376
Inflows from the sale of shares in entities not included in consolidation	4 598	2 570
Inflows from the sale of short-term securities	117 895	231 638
Acquisition of intangible assets and tangible fixed assets	(1 582 072)	(1 320 664)
Acquisition of shares in entities not included in consolidation	-	(1 698)
Acquisition of short-term securities	-	-
Received interest	285 190	165 122
Received dividends	1 415	1 506

cont. p. 81

cont. from. p. 80

for the period ended 31 December 2006

	31 December 2006	31 December 2005
	in '000 PLN	
Inflows from financial lease	243 248	125 886
Other net items	43 407	44 011
Net cash on investment activity	**(867 160)**	**(732 253)**
Cash flows from financial activities		
Net inflows from issuance of shares and other capital instruments and from capital contributions	-	2 640 093
Inflows from contracted credits and loans	22 797	2 305 445
Repayment of credits and loans	(15 072)	(1 164 818)
Inflows from issuance of debt securities	-	-
Redemption of debt securities	-	(2 799 327)
Repayment of liabilities due to financial lease	(25 335)	(50 757)
Inflows from forwards	230 350	277 504
Outflows from forwards	(242 434)	(281 289)
Paid dividends	(203 519)	(150 572)
Paid interest	(77 996)	(104 578)
Other net items	16 235	(44 817)
Net cash from financial activities	**(294 974)**	**626 884**
Change in the balance of net cash	**372 875**	**2 293 682**
Net exchange differences	(15 518)	191
Opening balance of cash and cash equivalents	**3 205 089**	**911 407**
Closing balance of cash and cash equivalents	**3 577 964**	**3 205 089**

Statement of changes in consolidated equity

for the financial year ended 31 December 2006

	Equity (assigned to the shareholders of the holding company)						Minority equity	Total equity
	Share capital	Exchange differences from translation of foreign branches	Surplus on sales of shares above face value	Other reserve capitals	Retained profits (losses)	**Total**		
	in '000 PLN							
1 January 2005	**5 000 000**	**(11 993)**	**-**	**2 393 165**	**10 359 289**	**17 740 461**	**6 312**	**17 746 773**
Issuance of shares	900 000	-	-	-	-	**900 000**	-	**900 000**
On sales of shares above face value	-	-	1 740 093	-	-	**1 740 093**	-	**1 740 093**
Exchange differences from translation of foreign branches	-	(2 093)	-	-	-	**(2 093)**	-	**(2 093)**
Other changes	-	-	-	(42)	(92)	**(134)**	17	**(117)**
Discontinued consolidation of a subsidiary	-	-	-	(332)	2 593	**2 261**	-	**2 261**
Dividend payment to the owner	-	-	-	-	(500 000)	**(500 000)**	-	**(500 000)**
Reclassifications		-	-	232 050	(232 050)	**-**	-	**-**
Net profit for 2005	-	-	-	-	879 749	**879 749**	914	**880 663**
31 December 2005	**5 900 000**	**(14 086)**	**1 740 093**	**2 624 841**	**10 509 489**	**20 760 337**	**7 243**	**20 767 580**
1 January 2006	**5 900 000**	**(14 086)**	**1 740 093**	**2 624 841**	**10 509 489**	**20 760 337**	**7 243**	**20 767 580**
Exchange differences from translation of foreign branches	-	(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)**
Dividend payment to owners of the holding company	-	-	-	-	(885 000)	**(885 000)**	-	**(885 000)**
Reclassifications	-	-	-	262 241	(262 241)	**-**	-	**-**
Net profit for 2006	-	-	-	-	1 323 050	**1 323 050**	475	**1 323 525**
31 December 2006	**5 900 000**	**(15 609)**	**1 740 093**	**2 890 068**	**10 685 888**	**21 200 440**	**7 671**	**21 208 111**

Additional information to the consolidated financial statements

1. INFORMATION ON SEGMENTS OF ACTIVITY

1.a. Sector segments

The table below presents data concerning the revenues and profits as well as certain assets and liabilities of the Group's particular sector segments for the periods ended on 31 December 2006 and 31 December 2005.

Period ended on 31 December 2006

	Production and output	Trade and storage	Distribution	Other	Elimination	Total
Profit and loss account						
	in '000 PLN					
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
Depreciation	(486 477)	(132 662)	(666 434)	(10 567)	-	(1 296 140)
Other costs	(1 494 106)	(10 574 781)	(8 226 653)	(285 415)	8 144 051	(12 436 904)
Total segment costs	(1 980 583)	(10 707 443)	(8 893 087)	(295 982)	8 144 051	(13 733 044)
Result on the segment's operating activity	**987 718**	**258 558**	**225 890**	**1 110**	**(8 667)**	**1 464 609**
Net financial expenses						24 579
Share in financial result of entities measured using the equity method		77 453				77 453
Gross result						**1 566 641**
Income tax						(243 114)
Result for the financial year on discontinued operations						-
Profit sharing						(2)
Net profit						**1 323 525**
Balance sheet						
Segment assets	7 822 420	10 901 993	11 591 636	281 251	(915 238)	29 682 062
Investments in entities measured using the equity method		589 284				589 284

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cont. from. p. 84

	Production and output	Trade and storage	Distribution	Other	Elimination	Total
	in '000 PLN					
Unassigned assets						27 705
Deferred tax asset						440 596
Total assets						**30 739 647**
Total equity						21 208 111
Segment liabilities	1 340 614	1 645 149	2 616 359	95 708	(915 238)	4 782 592
Unassigned liabilities						2 692 870
Provision for deferred tax						2 056 074
Total liabilities and equity						**30 739 647**
Other segment information						
Capital expenditure for tangible fixed assets	(388 142)	(433 623)	(753 399)	(6 908)		**(1 582 072)**
Revaluation write-downs on assets	(2 596 445)	(2 152 999)	(9 368 214)	(3 305)		**(14 120 963)**
Revaluation write-downs on unassigned assets						**(48 433)**

1.a. Sector segments

Period ended on 31 December 2005

	Production and output	Trade, storage and transmission	Distribution	Other	Elimination	**Total**
Profit and loss account						
	in '000 PLN					
Sales to external customers	1 630 297	3 405 000	7 432 826	91 865	-	12 559 988
Sales between segments	952 363	5 316 520	22 311	173 084	(6 464 278)	-
Total segment revenues	2 582 660	8 721 520	7 455 137	264 949	(6 464 278)	12 559 988
Depreciation	(450 616)	(290 610)	(649 276)	(11 353)	-	(1 401 855)
Other costs	(1 376 171)	(7 899 807)	(6 672 670)	(258 633)	6 446 868	(9 760 413)
Total segment costs	(1 826 787)	(8 190 417)	(7 321 946)	(269 986)	6 446 868	(11 162 268)
Result on the segment's operating activity	**755 873**	**531 103**	**133 191**	**(5 037)**	**(17 410)**	**1 397 720**
Net interest and other financial expenses						(192 969)
Share in financial result of entities measured using the equity method		49 604				49 604
Gross result						**1 254 355**
Income tax						(206 839)
Result for the financial year on discontinued operations						-
Profit sharing						(166 853)
Net profit						**880 663**
Balance sheet						
Segment assets	7 584 199	11 650 318	11 241 439	247 919	(1 400 088)	29 323 787
Investments in entities measured using the equity method		512 076				512 076
Unassigned assets						143 298
Deferred tax asset						384 504
Total assets						**30 363 665**

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cont. from. p. 86

	Production and output	Trade, storage and transmission	Distribution	Other	Elimination	**Total**
	in '000 PLN					
Total equity						20 767 580
Segment liabilities	1 308 303	2 254 774	2 454 086	97 210	(1 343 901)	4 770 472
Unassigned liabilities						2 702 380
Provision for deferred tax						2 123 233
Total liabilities and equity						**30 363 665**
Other segment information						
Capital expenditure for tangible fixed assets	(220 246)	(513 296)	(580 453)	(6 669)		**(1 320 664)**
Revaluation write-downs on assets*	(2 568 086)	(1 896 164)	(9 610 676)	(3 371)		**(14 078 297)**
Revaluation write-downs on unassigned assets						(58 056)

** The DCF write off was made for adjustment to comparability with data for 2006.*

1.b. Geographical segments

The Group operates mainly within the country. Revenues from the export of products as well as goods and materials account for 6.68% (5.8% in 2005) of total net revenues from sales of products, goods and materials.

	31 December 2006	31 December 2005
	in '000 PLN	
Domestic sales	**14 182 478**	**11 832 002**
High-methane gas	12 164 217	9 921 167
Nitrated gas	1 109 329	921 399
Crude oil	325 626	510 954
Helium	11 957	8 328
Propane-butane gas	46 503	36 885
Gasoline	6 286	13 881
Decompressed gas	12 992	9 771
Geophysical and geological services	28 930	35 290
Exploration services	59 648	2 170
Construction & assembly production	20 234	22 168
Design services	13 722	16 580
Hotel services	29 889	31 203
Other services	327 733	273 089
Other products	10 728	9 195
Goods and materials	14 684	19 922
Export sales	**1 015 175**	**727 986**
High-methane gas	24 023	12 414
Nitrated gas	-	-
Crude oil	413 511	272 668
Helium	20 773	26 115
Propane-butane gas	-	-
Gasoline	-	-
Decompressed gas	533	-
Geophysical and geological services	295 621	187 894
Exploration services	230 240	210 892
Construction & assembly production	4 811	4 296
Design services	990	-
Hotel services	-	-
Other services	8 547	7 427
Other products	11 240	5 679
Goods and materials	4 886	601
Total	**15 197 653**	**12 559 988**

Activities of companies from the Group on the territory of Poland are not materially different in various regions with respect to risks and level of return on capital expenditure. Therefore, the Group presents only data that is broken down into sector segments.

2. EMPLOYEE BENEFITS AND OTHER NET OPERATING EXPENSES

Employee benefits

	31 December 2006	31 December 2005
	in '000 PLN	
Payroll	(1 332 115)	(1 245 006)
Social security and other benefits	(490 008)	(401 180)
Total	**(1 822 123)**	**(1 646 186)**

Other operating expenses, net

	31 December 2006	31 December 2005
	in '000 PLN	
Change in provisions (net)	104 513	(88 934)
Change in write-downs (net)	(111 295)	17 811
Taxes and charges	(433 952)	(407 178)
Interest on non-financial items (net)	318 079	248 980
Exchange differences on non-financial items (net)	62 622	(34 818)
Value of goods and materials sold	(44 337)	(26 129)
Other revenues from earlier recognized deferred income	77 454	91 753
Loss on disposal of non-financial fixed assets	(19 724)	(125 423)
Difference on valuation of property transferred as dividend	175 379	48 759
Other expenses (net)	(44 440)	(120 019)
Total	**84 299**	**(395 198)**

3. FINANCIAL REVENUES AND EXPENSES

	31 December 2006	31 December 2005
	in '000 PLN	
Financial revenues	**520 161**	**645 011**
Revenues from the valuation of forwards and swaps	230 350	277 504
Interest revenues	75 370	125 824
Exchange gains	-	158 890
Discount of provision for reclamation of wells	-	3 602
Revaluation of investments	86 089	60 715
Gain on disposal of investments	108 301	-
Other financial expenses	20 051	18 476
Financial expenses	**(495 582)**	**(837 980)**
Costs of forwards and swaps	(340 017)	(396 237)
Interest expense	(84 098)	(336 596)
Exchange losses	(30 837)	-
Discount of provision for reclamation of wells	(5 362)	-
Revaluation of investments	(27 696)	(60 357)
Loss on disposal of investments	-	(13 756)
Commission on credits	(3 216)	(20 189)
Other financial expenses	(4 356)	(10 845)
Total financial expenses (net)	**24 579**	**(192 969)**

4. MEASUREMENT OF ASSOCIATED ENTITIES USING THE EQUITY METHOD

	31 December 2006	31 December 2005
	in '000 PLN	
SGT EUROPOL GAZ S.A.		
The share of PGNiG S.A. Group in the Company's capital*	49.74%	49.74%
Core activity	Gas transmission	Gas transmission
Measurement of shares using the equity method	1 298 137	1 106 603
Acquisition price	38 400	38 400
Share in changes in capital	1 336 537	1 145 003
Impairment write-down	(780 537)	(651 203)
Carrying value of investments	**556 000**	**493 800**

Additional information to the consolidated financial statements

	31 December 2006	31 December 2005
	in '000 PLN	
GAS-TRADING S.A.		
The share of PGNiG S.A. Group in the Company's capital	43.41%	43.41%
Core activity	Trade	Trade
Measurement of shares using the equity method	31 993	16 985
Acquisition price	1 291	1 291
Share in changes in capital	33 284	18 276
Impairment write-down	-	-
Carrying value of investments	**33 284**	**18 276**

	31 December 2006	31 December 2005
	in '000 PLN	
INVESTGAS S.A.		
The share of PGNiG S.A. Group in the Company's capital	Not applicable**	49.00%
Core activity	-	Work connected with investments in underground gas storage facilities
Measurement of shares using the equity method	-	-
Acquisition price	-	245
Share in changes in capital	-	245
Impairment write-down	-	(245)
Carrying value of investments	-	-
Total carrying value of investments	**589 284**	**512 076**

** Including a 48% of direct share and 1.74% of indirect share through Gas-Trading S.A.*
*** In 2006, considering the increase of PGNiG S.A. share to 100%, the company was covered by the full consolidation method.*

4a. Reconciliation of the value of shares in associated companies measured using the equity method.

	31 December 2006	31 December 2005
	in '000 PLN	
Opening balance of investments	**512 076**	**462 645**
Dividend paid by Gas-Trading S.A.	-	(174)
Discontinued valuation of Investgas S.A. using the equity method *	(245)	-
Valuation recorded in the financial result, including:	**77 453**	**49 604**
Valuation of **SGT EUROPOL GAZ S.A.**	62 200	49 000
Valuation of **GAS-TRADING S.A.**	15 008	604
Reversal of the revaluation write down on shares in **INVESTGAS S.A.***	245	-
Closing balance of investments	**589 284**	**512 076**

** In 2006, considering the increase of PGNiG S.A. share to 100%, the company was covered by the full consolidation method.*

As of the preparation date of these consolidated financial statements, the financial statements of SGT EuRoPol Gaz S.A. for 2006 was not yet audited.

The Holding Company 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 of 31 December 2006 drawn in line with the Polish Accounting Standards, adjusted by differences in the accounting policies applied in the Group as well as the result on intragroup transactions. The differences in accounting principles referred to recognition of interest expenses in net tangible fixed assets. The Group applies the model approach of recognizing financial expenses (IAS 23), which states that the gross value of tangible fixed assets does not include financing costs. Next, the Management Board analyzed the measured shares of SGT EuRoPol Gaz S.A for impairment using the discounted cash flows method, and based its calculations on the data included in the financial plan of SGT EuRoPol Gaz S.A. for the years 2006-2019. The discounted cash flows include all cash flows generated by SGT EuRoPol GAZ S.A., inclusive of flows related to the handling of interest-bearing external funding sources (interest expense and repayment of loan or credit principal). As of 31 December 2006 the holding company applied the equity method to calculate its share in the co-subsidiary's equity which amounted to PLN 1,336,537 thousand.

The results of impairment testing show significant differences depending on the applied assumptions.

Due to reasons out of the Company's control, the assumptions adopted in measurement of the value of shares contain significant uncertainties related to material fluctuations in exchange rates and changes in tariff policy. Considering the above factors, the Management Board of the holding company decided to write down the investment in SGT EuRoPol Gaz S.A. in the amount of PLN (780,537) thousand.

5. INCOME TAX

According to Polish tax regulations PGNiG S.A. Capital Group does not constitute a taxable capital group. Each of the entities that comprise the Group is a separate taxpayer.

	31 December 2006	31 December 2005
	in '000 PLN	
Gross profit	1 566 641	1 254 355
Binding tax rate	19%	19%
Tax according to the binding tax rate	(297 662)	(238 327)
Permanent differences between the gross result and income tax base	54 548	31 488
Tax liability disclosed in the consolidated profit and loss account	**(243 114)**	**(206 839)**
Effective tax rate	16%	16%
Current income tax	**(366 366)**	**(311 566)**
Deferred income tax	**123 252**	**104 727**
Tax rate applied for calculation of deferred tax	19%	19%

5a. Current income tax

	31 December 2006	31 December 2005
	in '000 PLN	
Gross profit (loss) (consolidated)	1 566 641	1 254 355
Consolidation adjustments	713 221	568 447
Differences between the gross profit (loss) and income tax base	(432 254)	(246 698)
Revenues not included in the taxable income, including:	3 425 636	2 994 274
Write-downs released	353 929	435 005
Release of provisions	412 518	208 188
Interest accrued	20 776	51 402
Release of accrued income	508 424	107 993
Exchange gains	23 276	21 046
Foreign revenues	287 804	184 317
Revenues from gas sales with tax obligation in the following month	1 154 482	1 301 283
Revenues from hedging transactions	563 236	376 065
Difference on valuation of property transferred as dividend	-	192 002
Received dividends	59 337	101 108

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cont. from. p. 93

	31 December 2006	31 December 2005
	in '000 PLN	
Other	41 854	15 865
Costs not classified as tax-deductible expenses, including:	(3 019 360)	(2 823 646)
Accrued unpaid interest on credits and liabilities	(7 544)	(10 533)
Provisions created	(313 041)	(302 229)
Write-downs created	(485 972)	(429 041)
Costs of hedging transactions	(660 819)	(491 014)
Exchange losses	(62 787)	(83 190)
Depreciation settled against accrued income	56 466	(56 736)
Foreign costs	(267 478)	(176 648)
Costs related to sales with tax obligation in the following month	(1 087 577)	(1 058 225)
Value at the acquisition price of shares sold	-	(37 920)
Unpaid remuneration with unpaid Social Security premiums	(85 067)	(84 422)
Other	(105 541)	(93 688)
Taxable income not classified to accounting revenues, including:	1 571 801	1 219 491
Connection fees	67 503	71 414
Realized exchange gains	5 323	132 749
Revenues due to rental, lease, sales of gas, utilities with liability in the next month	1 229 681	881 238
Financial leasing - capital installment	225 327	118 843
Other	43 967	15 247
Tax-deductible expenses, not classified to accounting expenses, including:	(1 572 627)	(1 258 110)
Paid interest	(8 437)	(7 069)
Realized exchange losses from previous years	(75)	(303 007)
Costs of hedging transactions	(20 651)	(105 308)
Tax depreciation	(355 630)	(121 606)
Leasing installments	(16 501)	(15 056)
Expenses due to rental, lease, sales of gas, utilities payable in the next month	(1 046 929)	(653 019)
Paid remuneration and ZUS premiums from previous month	(51 281)	(300)
Other	(73 123)	(52 745)
Deductions from income, including:	(25 152)	(37 451)
Donations and subsidies	(2 098)	(1 675)
Foreign income	(8 427)	(4 039)

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Additional information to the consolidated financial statements

cont. from. p. 94

	31 December 2006	31 December 2005
	in '000 PLN	
Loss from previous years	(14 627)	(31 737)
Income tax base	1 847 608	1 576 104
Tax rate for the given period	19%	19%
Income tax	(351 046)	(299 460)
Increases, releases, exemptions, deductions and reductions of taxes	(15 320)	(12 106)
Current income tax disclosed in tax return for the period	(366 366)	(311 566)
Current income tax recognized in the consolidated profit and loss account	**(366 366)**	**(311 566)**

The current reporting period covered the tax period from 1 January 2006 to 31 December 2006.

The CIT rate in force in the year 2006 was 19%. In a comparable period i.e. in 2005 this rate also amounted to 19%.

The regulations on VAT, CIT, PIT and social security contributions are subject to frequent changes as a result of which there is often no reference to established regulations or legal precedents. Additionally, valid regulations also include ambiguities which give rise to differences in opinions as to the legal interpretation of tax regulations both between national authorities as well as national authorities and companies. Tax and other settlements (e.g. customs or currency settlements) can be subject to inspection by authorities entitled to impose high penalties. The additional 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. In Poland, there are no formal procedures for the reconciliation of the final level of tax settlement. Tax settlements can be subject to control during the course 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 valuation adjustment arising from temporary differences whose realization for tax purposes is not 100% certain.

6. EARNINGS PER SHARE

Basic earning per share is calculated as follows: net profit for the financial year allocated to ordinary shareholders of the Holding Company is divided by weighted average number of ordinary shares issued in a given financial year.

Diluted earning per share is calculated as follows: net profit for the financial year allocated to ordinary shareholders (reduced by interest on redeemable preference shares convertible to ordinary shares) is divided by weighted average number of ordinary shares issued in a given financial year (adjusted by impact of dilutive options and dilutive redeemable preference shares convertible to ordinary shares).

	31 December 2006	31 December 2005
	in '000 PLN	
Net profit attributable to shareholders of the holding company	1 323 050	879 749
Net profit attributable to shareholders of the holding company applied to calculation of diluted earnings per share	1 323 050	879 749
Weighted average number of ordinary shares applied to calculation of basic earnings per share (in '000)	5 900 000	5 258 904
Weighted average number of ordinary shares applied to calculation of diluted earnings per share (in '000)	5 900 000	5 258 904
Basic profit per share for a financial year attributable to ordinary shareholders of the holding company	0.22	0.17
Diluted profit per share for a financial year attributable to ordinary shareholders of the holding company	0.22	0.17

In 2006 there was no change in the number of shares. Therefore the weighted average number of shares for 2006 is equal to the number of shares at period end. Whereas the weighted average number of shares for 2005 was calculated as follows:

Start date	End date	Number of ordinary shares on the market	Number of days	Weighted average number of shares
31 December 2006				
2005-12-31	2006-12-31	5 900 000	365	5 900 000
Total			**365**	**5 900 000**
31 December 2005				
2004-12-31	2005-09-17	5 000 000	260	3 561 644
2005-09-17	2005-12-31	5 900 000	105	1 697 260
Total			**365**	**5 258 904**

7. PAID AND PROPOSED DIVIDENDS

Dividends paid in the period	2006	2005
Dividend paid per ordinary share (in PLN)	0.15	0.10
Number of shares (in '000)*	5 900 000	5 000 000
Value of dividend paid in thousand PLN, inclusive of:	885 000	500 000
- material dividend to the State Treasury	681 481	500 000
- cash dividend to the State Treasury	68 519	-
- cash dividend to other shareholders	135 000	-

** Number of shares giving the right to dividend for 2005 and 2004 payable or paid in 2006 and 2005 respectively.*

The impact on the periods' result due to surplus in the value of property transferred by material dividend over the net book value in the balance sheet as of the day on which the dividend was transferred was presented in note 4.

8. TANGIBLE FIXED ASSETS

	31 December 2006	31 December 2005
	in '000 PLN	
Land	88 469	102 852
Buildings and structures	13 899 904	13 769 416
Technical equipment and machinery	2 119 767	2 182 381
Vehicles and others	879 491	894 141
Fixed assets under construction	768 524	575 639
Total	**17 756 155**	**17 524 429**

31 December 2006	Land	Buildings and structures	Technical equipment and machinery	Vehicles and other	**Total**
			in '000 PLN		
As of 1 January 2006, including amortization	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 write-down	(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 of 31 December 2006, including accumulated depreciation	**88 469**	**13 899 904**	**2 119 767**	**879 491**	**16 987 631**
As of 1 January 2006					
Gross value	104 989	26 787 280	3 295 431	1 446 158	**31 633 858**
Accumulated depreciation and impairment write-down	(2 137)	(13 017 864)	(1 113 050)	(552 017)	**(14 685 068)**
Net carrying value	**102 852**	**13 769 416**	**2 182 381**	**894 141**	**16 948 790**
As of 31 December 2006					
Gross value	94 947	27 651 578	3 520 586	1 493 880	**32 760 991**
Accumulated depreciation and impairment write-down	(6 478)	(13 751 674)	(1 400 819)	(614 389)	**(15 773 360)**
Net carrying value	**88 469**	**13 899 904**	**2 119 767**	**879 491**	**16 987 631**

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31 December 2005	Land	Buildings and structures	Technical equipment and machinery	Vehicles and other	Total
			in '000 PLN		
As of 1 January 2005, including amortization	144 654	18 373 341	2 555 181	999 714	22 072 890
Increase	23 669	304 088	89 993	45 597	463 347
Decrease	(65 921)	(10 604 085)	(885 280)	(107 984)	(11 663 270)
Reclassification from fixed assets under construction and between groups	1 447	798 882	255 982	78 795	1 135 106
Impairment write-down	108	5 843 873	459 323	12 597	6 315 901
Depreciation for the financial year*	(1 105)	(946 683)	(292 818)	(134 578)	(1 375 184)
As of 31 December 2005, including accumulated depreciation	102 852	13 769 416	2 182 381	894 141	16 948 790
As of 1 January 2005					
Gross value	145 739	36 610 462	3 880 390	1 447 693	42 084 284
Accumulated depreciation and impairment write-down	(1 085)	(18 237 121)	(1 325 209)	(447 979)	(20 011 394)
Net carrying value	**144 654**	**18 373 341**	**2 555 181**	**999 714**	**22 072 890**
As of 31 December 2005					
Gross value	104 989	26 787 280	3 295 431	1 446 158	31 633 858
Accumulated depreciation and impairment write-down	(2 137)	(13 017 864)	(1 113 050)	(552 017)	(14 685 068)
Net carrying value	**102 852**	**13 769 416**	**2 182 381**	**894 141**	**16 948 790**

** Depreciation in the table does not include depreciation of Gaz System Sp. z o.o. for four months. This depreciation was recognized in the profit and loss account for the current period.*

8a. Impairment write downs on tangible fixed assets

	Land	Buildings and structures	Technical equipment and machinery	Vehicles and other	**Total**
			in '000 PLN		
As of 1 January 2005	**109**	**16 989 244**	**1 052 150**	**313 443**	**18 354 946**
Increase	-	68 998	6 922	4	**75 924**
Decrease	(108)	(5 912 871)	(466 245)	(12 601)	**(6 391 825)**
As of 31 December 2005	**1**	**11 145 371**	**592 827**	**300 846**	**12 039 045**
As of 1 January 2006	**1**	**11 145 371**	**592 827**	**300 846**	**12 039 045**
Increase	3 435	674 982	162 781	1 849	**843 047**
Decrease	-	(723 294)	(148 879)	(47 586)	**(919 759)**
As of 31 December 2006	**3 436**	**11 097 059**	**606 729**	**255 109**	**11 962 333**

Opening balance of impairment write downs on fixed assets amounted to PLN 12,039,045 thousand, in that:
- mining property of PLN 2,602,477 thousand
- distribution property of PLN 9,426,531 thousand
- other PLN 27 thousand

In the current period there was an increase of the write downs by the amount of PLN 843,047 thousand (in that the increase related to the mining property amounted to PLN 828,316 thousand) and a decrease by the amount of PLN 919,759 thousand (in that the decrease related to the mining property amounted to PLN 659,535 thousand). The decrease of write downs related to the distribution property was mainly related to the liquidation of property items, whereas the decreases related to the mining property were related both to the verification of assumptions or to the invalidity of these write downs (decrease by PLN 295,116 thousand) or liquidation of property items (the remaining amount).

Closing balance of impairment write downs on fixed assets amounted to PLN 11,962,333 thousand, in that:
- mining property of PLN 2,771,240 thousand
- distribution property of PLN 9,191,066 thousand
- other PLN 27 thousand.

The write down on fixed assets under construction in the current period amounted PLN 26,120 thousand. At the end of the previous period this write down amounted to PLN 24,442 thousand.

9. INVESTMENT PROPERTY

	31 December 2006	31 December 2005
	in '000 PLN	
Opening balance, including amortization	10 553	11 279
Increase	-	-
Decrease	(8)	(459)
Reclassifications from tangible fixed assets	(3 318)	32
Impairment write-down	-	250
Depreciation for the financial year	(462)	(549)
Closing balance, including accumulated depreciation	**6 765**	**10 553**
Opening balance		
Gross value	13 680	12 080
Accumulated depreciation and impairment write-down	(3 127)	(801)
Net carrying value	**10 553**	**11 279**
Closing balance		
Gross value	9 505	11 650
Accumulated depreciation and impairment write-down	(2 740)	(1 097)
Net carrying value	**6 765**	**10 553**

Due to the immaterial nature of the investment property items in the balance sheet, the Group does not perform any annual valuation of this property in order to establish its fair value.

Additional information to the consolidated financial statements

10. INTANGIBLE ASSETS

31 December 2006	R&D costs	Goodwill	Prospecting expenditure	Other intangible assets	**Total**
			in '000 PLN		
As of 1 January 2006, including amortization	844	-	876 146	75 708	**952 698**
Increase	-	-	345 915	31 293	**377 208**
Decrease	-	-	(82 326)	(34 801)	**(117 127)**
Reclassification from fixed assets under construction and between groups	-	-	(76 856)	34 897	**(41 959)**
Impairment write-down	-	-	(56 978)	(270)	**(57 248)**
Depreciation for the financial year	(252)	-	-	(26 612)	**(26 864)**
As of 31 December 2006, including accumulated depreciation	**592**	**-**	**1 005 901**	**80 215**	**1 086 708**
As of 1 January 2006					
Gross value	1 262	-	1 066 882	111 604	**1 179 748**
Accumulated depreciation and impairment write-down	(418)	-	(190 736)	(35 896)	**(227 050)**
Net carrying value	**844**	**-**	**876 146**	**75 708**	**952 698**
As of 31 December 2006					
Gross value	1 262	-	1 253 615	141 892	**1 396 769**
Accumulated depreciation and impairment write-down	(670)	-	(247 714)	(61 677)	**(310 061)**
Net carrying value	**592**	**-**	**1 005 901**	**80 215**	**1 086 708**

31 December 2005	R&D costs	Goodwill	Prospecting expenditure	Other intangible assets	Total
			in '000 PLN		
As of 1 January 2005, including amortization	285	-	764 959	66 393	**831 637**
Increase	834	-	306 976	6 664	**314 474**
Decrease	-	-	(54 726)	(4 196)	**(58 922)**
Reclassification from fixed assets under construction and between groups	-	-	(117 511)	30 355	**(87 156)**
Impairment write-down	-	-	(23 552)	27	**(23 525)**
Depreciation for the financial year	(275)	-	-	(23 535)	**(23 810)**
As of 31 December 2005, including accumulated depreciation	**844**	**-**	**876 146**	**75 708**	**952 698**
As of 1 January 2005					
Gross value	428	-	932 143	81 386	**1 013 957**
Accumulated depreciation and impairment write-down	(143)	-	(167 184)	(14 993)	**(182 320)**
Net carrying value	**285**	**-**	**764 959**	**66 393**	**831 637**
As of 31 December 2005					
Gross value	1 262	-	1 066 882	111 561	**1 179 705**
Accumulated depreciation and impairment write-down	(418)	-	(190 736)	(35 853)	**(227 007)**
Net carrying value	**844**	**-**	**876 146**	**75 708**	**952 698**

10a. Impairment write downs on intangible assets

	R&D costs	Goodwill	Prospecting expenditure	Other intangible assets	Total
			in '000 PLN		
As of 1 January 2006	**-**	**-**	**167 184**	**27**	**167 211**
Increase	-	-	114 952	-	**114 952**
Decrease	-	-	(91 400)	(27)	**(91 427)**
As of 1 January 2006	**-**	**-**	**190 736**	**-**	**190 736**
As of 1 January 2006	**-**	**-**	**190 736**	**-**	**190 736**
Increase	-	-	146 536	270	**146 806**
Decrease	-	-	(89 558)	-	**(89 558)**
As of 1 January 2006	**-**	**-**	**247 714**	**270**	**247 984**

11. FINANCIAL ASSETS AVAILABLE FOR SALE

	31 December 2006	31 December 2005
	in '000 PLN	
Unlisted shares (gross value)	71 438	69 802
Listed shares (gross value)	-	-
Gross total	**71 438**	**69 802**
Unlisted shares (net value)*	18 112	21 358
Listed shares (net value)*	-	-
Total net	**18 112**	**21 358**

** Less impairment write-down*

12. OTHER FINANCIAL ASSETS

	31 December 2006	31 December 2005
	in '000 PLN	
Receivables due to financial lease	3 272 125	4 106 207
Loans granted	7 421	12 990
Receivables from sales of fixed assets	163	308
Receivables from guarantees and hedging	1 208	509
Long-term bank deposits	138	177
Other	1 745	434
Gross total	**3 282 800**	**4 120 625**
Impairment write-down	(7 421)	(13 040)
Total net	**3 275 379**	**4 107 585**

12a. Financial lease

The lease agreement of 6 July 2005 concluded between PGNiG S.A. and OGP Gaz - System Sp. z o.o. (OGP Gaz - System S.A. at present) constitutes an element of the "Restructuring and privatization program of PGNiG S.A." which was adopted by the Council of Ministers on 5 October 2004. The separation of the transmission activity from the production & trading activity was performed through the hand-over of the transmission property to Gaz-System S.A. The subject-matter of the lease covers real property, movable objects and property rights. The agreement was concluded for 17 years.

The sum of payments decreased by the discount, which was set on the conclusion date of the agreement and which is payable during the effective period of the agreement, exceeds 90% of the market value of the subject-matter of the agreement as of that date. Therefore, this lease is recognized as a financial lease pursuant to IAS 17. The lease payment is composed of the principal and the interest portion. The interest portion is established on the basis of WIBOR 3M rates in the month preceding the month to which the calculated lease installment refers to, and is increased by a margin.

Inflows related to the transmission system lease agreement:

	31 December 2006	31 December 2005
Interest installment	268 617	145 082
Principal installment	225 327	118 843
Total	**493 944**	**263 925**

The following table presents a division of long-term receivables due to financial lease as per repayment periods:

	31 December 2006	31 December 2005
- over 1 year and up to 3 years	598 074	598 074
- over 3 years and up to 5 years	398 716	398 716
- over 5 years	2 275 335	3 109 417
Total	**3 272 125**	**4 106 207**

13. DEFERRED TAX ASSET

	31 December 2006	31 December 2005
	in '000 PLN	
Provisions due to payment of pension allowances	15 617	19 510
Provisions due to payment of retirement severance pay and jubilee bonuses	59 088	52 242
Provision for payment of termination benefits	2 804	4 262
Provision for unused vacation	4 819	3 945
Provision for reclamation of wells	88 933	105 177
Impairment write-downs on fixed assets	86 413	59 036
Impairment write-downs on shares	10 333	10 698
Revaluation write-downs on receivables	662	730
Valuation of forwards	29 680	32 904
Expenses related to transactions hedging against FX and interest rate risk	-	3 924
Exchange losses	7 532	4 854
Accrued interest on credits and liabilities	1 133	1 617
Connection fee	35 878	28 210
Unpaid remuneration with Social Security premiums	16 324	13 977
Tax loss	7 781	8 842
Costs related to sales with tax obligation in the following month	23 512	-
Other	50 087	34 576
Total	**440 596**	**384 504**

14. OTHER NON-CURRENT ASSETS

	31 December 2006	31 December 2005
	in '000 PLN	
Recyclable materials	10 545	11 322
Financial costs settled over time	3 833	4 728
Mining usufruct establishment fees	21	1 192
Prepayments related to fixed assets put out to lease	32 491	-
Other prepayments	1 782	6
Total	**48 672**	**17 248**

15. INVENTORY

	31 December 2006	31 December 2005
	in '000 PLN	
Materials		
At acquisition prices, including:	1 348 773	809 753
- gas	1 145 864	650 710
Net realizable value, including:	1 313 369	783 827
- gas	1 145 864	650 710
Semi-finished products and work in progress		
Value at purchase price/ manufacturing cost	18 956	24 908
Net realizable value	18 718	24 800
Finished products		
Value at purchase price/ manufacturing cost	17 801	5 440
Net realizable value	17 720	5 357
Goods		
Value at purchase price	1 626	1 619
Net realizable value	1 396	1 361
Total inventory, at the lower of two values: at purchase price (manufacturing cost) or net realizable value	**1 351 203**	**815 345**

16. TRADE AND OTHER RECEIVABLES

	31 December 2006	31 December 2005
	in '000 PLN	
Trade receivables	2 549 206	2 537 965
Trade receivables from related entities	48 207	44 705
Receivables from tax, customs and social security	274 997	327 150
Receivables from surplus of obligatory profit contribution for the owner	-	47 890
Due portion of loans granted	198 820	254 057
Receivables from associated entities measured by equity method	3 952	3 950
Receivables due to financial lease	218 924	262 200
Other receivables from related parties	83 747	86 538
Other receivables	215 766	187 105
Total gross receivables	**3 593 619**	**3 751 560**
Revaluation write-down on doubtful receivables (table 16a)	**(1 064 025)**	**(1 133 210)**
Total net receivables	2 529 594	2 618 350
including:		
Trade receivables	1 901 721	1 870 083
Trade receivables from related entities	3 182	1 868
Receivables from tax, customs and social security	274 997	326 277
Receivables from surplus of obligatory profit contribution for the owner	-	47 890
Due portion of loans granted	-	-
Receivables from associated entities measured by equity method	3 932	3 931
Receivables due to financial lease	218 924	262 200
Other receivables from related parties	30	2 933
Other receivables	126 808	103 168

Trade receivables mainly arise from the sales of gas as well as transfer and distribution services.

16a. Write-downs on receivables

	31 December 2006	31 December 2005
	in '000 PLN	
Revaluation write-down, opening balance	(1 133 210)	(1 280 988)
Created revaluation write-down	(105 182)	(167 365)
Released write-down	180 295	210 319
Used write-down	6 704	91 635
Transfers between the short- and long-term portion	(12 632)	13 189
Closing balance of revaluation write-downs	**(1 064 025)**	**(1 133 210)**

Additional information to the consolidated financial statements

17. SETTLEMENTS DUE TO CURRENT TAX

	31 December 2006	31 December 2005
	in '000 PLN	
Liabilities due to current tax, opening balance	75 201	4 214
Change in balance of current tax receivables*	(13 696)	(892)
Current tax receivables, opening balance	30 883	31 775
Current tax receivables, closing balance	17 187	30 883
Income tax (period cost)	366 366	311 566
Income tax paid in the period	(243 315)	(239 687)
Current tax liabilities, closing balance	**184 556**	**75 201**

** The Capital Group is not a tax capital group, therefore current CIT liabilities and receivables are not compensated.*

18. PREPAYMENTS

	31 December 2006	31 December 2005
	in '000 PLN	
Property insurance	5 906	3 094
Repairs settled over time	1 509	2 997
Financial costs settled over time	1 523	2 393
Mining usufruct establishment fees	21	143
Materials settled over time	646	599
Subscriptions	371	524
Valuation of long-term contracts	8 137	3 216
Prepayments related to fixed assets put out to lease	2 571	-
Other expenses settled over time	12 492	4 535
Total	**33 176**	**17 501**

19. FINANCIAL ASSETS HELD FOR TRADING

	31 December 2006	31 December 2005
	in '000 PLN	
Unlisted shares (gross value)	6 678	11 201
Listed shares (gross value)	-	-
Short-term deposit (gross value)	146	-
Participation units in investment funds (gross value)	18 141	16 000
Treasury bills (gross value)	1 108	12 802
Gross total	**26 073**	**40 003**
Unlisted shares (net value)*	3 870	1 589
Listed shares (net value)*	-	-
Short-term deposit (net value)	146	-
Participation units in investment funds (net value)	18 141	16 000
Treasury bills (net value)	1 108	12 802
Total net	**23 265**	**30 391**

** Less revaluation write-down*

20. CASH

	31 December 2006	31 December 2005
	in '000 PLN	
Cash in hand and at bank	210 547	197 357
Bank deposits	2 828 888	996 921
Short-term high liquidity securities*	504 726	1 998 290
Other cash**	13 667	7 903
Total	**3 557 828**	**3 200 471**

** They include bills (commercial bills, treasury bills, NBP bills, etc.), deposit certificates with maturity under 3 months.*
*** They include cash in transit as well as cheques and third party bills of exchange with maturity under 3 months.*

PGNiG S.A. Group entities deposit cash in renowned Polish and international banks as a result of which the concentration of deposit risk is limited.
Funds gained from increase in the capital in 2005 in line with the prospectus were invested in 2006 most of all in bills and bonds issued by the State Treasury and bonds issued by the National Bank of Poland, which are safe with respect to credit risk. The remaining part (several percent) was invested in renowned banks.

21. SHARE CAPITAL

	31 December 2006	31 December 2005
Total number of shares in '000	5 900 000	5 900 000
Face value of one share in PLN	1	1
Total share capital	**5 900 000**	**5 900 000**

Additional information to the consolidated financial statements

22. CREDITS, LOANS AND DEBT SECURITIES

	Currency	31 December2006	31 December 2005	Effective interest rate %	Repayment/redemption date	31 December2006	31 December 2005	Hedging
Long-term		Value in currency				Value in PLN		
Liabilities due to leasing	PLN	45 126	53 202	6.42%	2006-2010	45 126	53 202	-
Syndicate loan*	EUR	600 000	600 000	Euribor 3M+0.25	27.07.2010	2 298 720	2 315 880	Guarantees of distribution companies
Total long-term						**2 343 846**	**2 369 082**	
Short-term		Value in currency				Value in PLN		
Current portion of leasing liabilities	PLN	43 543	31 788	6.42%	2007	43 543	31 788	-
Current portion of syndicate loan*	EUR	1 283	2 165	Euribor 3M+0.25	27.07.2010	4 917	8 356	Guarantees of distribution companies
Short-term loan at Millennium S.A., Warsaw	PLN	-	5 616	Wibor 3M+0.65	27.04.2006	-	5 616	Blank bill of exchange
Credit line at Raiffeisen Bank S.A., Warsaw	PLN	-	4 886	Wibor 1M+0.5	31.05.2006	-	4 886	Blank bill of exchange
Working capital loan at Societe Generale S.A., Warsaw	USD	-	1 322	Libor 1M+0.8	13.01.2006	-	4 312	Real estate mortgage
Overdraft on current account at BPH S.A. I O/Kraków	PLN	-	12 992	Wibor 1M+0.4	29.09.2006	-	12 992	Mortgage on real property, assignment of receivables from contracts
Credit line at Societe Generale, Kraków	PLN	-	2 197	Wibor 1M+0.8	31.10.2006	-	2 197	Assignment of receivables
Credit line at BPH S.A., Kraków	PLN	-	10 200	Wibor 1M+0.4	30.09.2006	-	10 200	Mortgage, transfer of the ownership rights
Credit line at Komercni Banka A.S. (Czech)	CZK		2 792	Pribor 3M+0.15	03.07.2006	-	371	Inflows from sales
Short-term loan at PeKaO S.A., Toruń	PLN	-	4 500	Wibor 1M+0.7	31.05.2006	-	4 500	Blank bill of exchange
Short-term loan at BRE Bank S.A., Bydgoszcz	PLN	-	4 000	Wibor 1M+0.7	25.08.2006	-	4 000	Blank bill of exchange
Credit line at BPH S.A. Branch in Kraków	PLN	13 264	-	Wibor 1M+0.4	28.09.2007	13 264	-	Capped mortgage
Short-term loan at Komercni Banka A.S. (Czech)	PLN	5 000	-	Pribor 1M+1.5	30.06.2007	697	-	Assignment of receivables
Current account loan at Komercni Banka A.S. (Czech)	PLN	4 198	-	Pribor 1M+1.5	31.05.2007	585	-	Assignment of receivables
Short-term loan at Volkswagen Bank Polska S.A.	PLN	68	-	0% merchant loan	17.03.2007	68	-	Ponveyance
Current account loan at Millennium S.A., Warsaw	PLN	5 680	-	Wibor 3M+0.65	26.04.2007	5 680	-	Blank bill of exchange
Overdraft on current account at Raiffeisen Bank S.A., Warsaw	PLN	2 278	-	Wibor 1W+0.50	31.05.2007	2 278	-	Blank bill of exchange
Revolving credit at BRE S.A.	PLN	4 700	-	Wibor 3M+0.60	24.08.2007	4 700	-	Blank bill of exchange
Revolving credit at PeKaO S.A. O/Toruń	PLN	2 959	-	Wibor 3M+0.60	31.05.2007	2 959	-	Blank bill of exchange
Overdraft on current account at PeKaO S.A. O/Toruń	PLN	1 500	-	Wibor 3M+0.60	31.05.2007	1 500	-	Blank bill of exchange
Short-term loan at BPH S.A. O/Jasło	PLN	1 002	-	Wibor 1M+1.5	28.09.2007	1 002	-	Blank bill of exchange, inventory
Overdraft on current account at BPH S.A. I O/Kraków	PLN	13 923	-	Wibor 1M+0.4	28.09.2007	13 923	-	Real estate mortgage
Overdraft on current account at Societe Generale, Warsaw	CHF	1 668	-	Libor 1M+0.8	31.07.2007	3 978	-	Assignment of receivables
Overdraft on current account at BPH S.A. O/Piła	PLN	5 899	-	Wibor 1M+0.6	30.09.2007	5 899	-	Conveyance
Overdraft on current account at BGK S.A. O/Piła	PLN	8 283	-	Wibor 3M+1.1	25.04.2007	8 283	-	Conveyance
Credit line at ING Bank Śląski S.A. O/Bytom	PLN	293	-	Wibor 1M+1.2	28.09.2007	293	-	Blank bill of exchange, assignment of receivables
Loan from a sole trader (in subsidiary)	PLN	52	-	Wibor 1M+0.5	31.12.2007	52	-	
Total short-term						**113 621**	**89 218**	

** The syndicate credit 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.*

As at 31 December 2006 the holding company used one syndicate loan whose agreement was signed on 27 July 2005. The credit consists of tranche A, a fixed-term credit for the amount of EUR 600 million, and of tranche B, a revolving credit for the amount of EUR 300 million. In 2006 the revolving portion of the credit was unused.

Additional information to the consolidated financial statements

23. PROVISIONS

	Jubilee bonuses and retirement severance pay	Provision for gas allowances	Company Social Benefits Fund	Provision for termination benefits	Provision for well reclamation costs	Mine liquidation fund	Provision for penalties imposed by the Office for Competition and Consumer Protection	Provision for environmental protection purposes	Provision for return of assets from leasing	Provision for renegotiation of import prices	Other	**Total**
			in '000 PLN					in '000 PLN				
As of 31 December 2005	297 691	102 683	76 637	25 721	572 278	25 764	60 098	35 569	81 285	50 224	79 858	**1 407 808**
Created during the financial year	69 162	2 428	64 531	1 799	140 378	28 192	-	50 916	-	-	51 906	**409 312**
Reclassifications	-	-	-	-	-	-	(5 450)	-	-	-	5 450	
Used	(29 354)	(22 913)	(64 404)	(12 760)	(25 967)	-	(50 580)	(1 332)	(81 285)	(50 224)	(47 890)	**(386 709)**
As of 31 December 2006	**337 499**	**82 198**	**76 764**	**14 760**	**686 689**	**53 956**	**4 068**	**85 153**	**-**	**-**	**89 324**	**1 430 411**
Long-term, 31 December 2006	281 837	58 826	-	9 017	659 425	53 956	-	84 411	-	-	32 410	**1 179 882**
Short-term, 31 December 2006	55 662	23 372	76 764	5 743	27 264	-	4 068	742	-	-	56 914	**250 529**
	337 499	**82 198**	**76 764**	**14 760**	**686 689**	**53 956**	**4 068**	**85 153**	**-**	**-**	**89 324**	**1 430 411**
Long-term, 31 December 2005	249 381	78 354	-	15 219	537 530	25 764	-	34 414	-	-	40 831	**981 493**
Short-term, 31 December 2005	48 310	24 329	76 637	10 502	34 748	-	60 098	1 155	81 285	50 224	39 027	**426 315**
	297 691	**102 683**	**76 637**	**25 721**	**572 278**	**25 764**	**60 098**	**35 569**	**81 285**	**50 224**	**79 858**	**1 407 808**

Provisions for jubilee awards and retirement severance pay
The Capital Group's entities maintain a jubilee awards and retirement severance pay scheme. Respective payments are charged to the profit and loss account in such a way as to spread the cost of jubilee awards and retirement severance pay over the entire period of employment in respective companies. The costs due to the aforesaid benefits are determined by using projected unit credit method.

Interest rates adopted in calculations	31 December 2006	31 December 2005
Average monthly remuneration increase rate	3.0%	3.0%
Real annual discount rate	3.8%	3.8%
Total interest rate adopted to calculation of interest	6.8%	6.8%

The provision for jubilee awards is disclosed in the current value of liabilities resulting from the actuary's calculations. The balance of provisions for retirement severance pay is recognized in the balance sheet at the value of net liability, i.e. after adjustment by unrecognized actuarial profits and losses as well as costs of past employment - benefits to which entitlements were nor acquired.
The unrecognized actuarial profits and losses of past employment are recognized in the current profit and loss account over 15 years.

	31 December 2006	31 December 2005
	in '000 PLN	
Jubilee awards		
Opening balance of liability recognized in the balance sheet	198 343	216 513
Cost of interest	3 769	8 227
Cost of current employment	14 519	12 078
Benefits paid	(34 216)	(32 545)
Actuarial profit/loss	58 061	(1 659)
Profits/losses on limitations and settlements	-	(4 271)
Closing balance of liability recognized in the balance sheet	240 476	198 343
Retirement severance pay		
Opening balance of liability recognized in the balance sheet	99 348	92 822
Cost of current employment	5 081	4 349
Cost of interest	1 717	3 549

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	31 grudnia 2006	31 grudnia 2005
	in '000 PLN	
Net value of actuarial profit/loss recognized over the year	(832)	(480)
Benefits paid	(5 816)	(4 895)
Cost of past employment	909	909
Profits/losses on limitations and settlements	-	(1 500)
Other	(3 384)	4 594
Closing balance of liability recognized in the balance sheet	97 023	99 348
Total closing balance of liability recognized in the balance sheet	**337 499**	**297 691**

Provision for gas allowances to former employees
The Company makes payments of gas allowances to employees which retired until the end of 1995. The system of payments shall be in force until 2010 after which the Company shall cease the payment of these allowances. The value of the provision for gas allowances is determined according to the principles of actuarial valuation applied for estimation of the provision for jubilee awards and severance pays.

Special funds
The Social Benefits Fund is created from obligatory charges and voluntary write-offs from net profit. Obligatory charges are created by the employer in accordance with the template specified in law which considers the number of employees and minimum monthly wages in Poland. The Social Benefits Fund can be used only for employee benefits.

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

Provision for well reclamation costs
The Company creates a provision for future costs of well reclamation. The initial value of provision increases the relevant fixed asset's value. Subsequent adjustments of the provisions resulting from changes in estimates are also treated as an adjustment of the value of the fixed asset.
The provision for well reclamation costs is calculated based on the average cost of well reclamation in particular mining plants during the last three years, adjusted by forecast CPI and changes in time value of money. The application of a three year period in these calculations results from the varied number of reclaimed wells and their reclamation costs in particular years.

Mine liquidation fund
The Mine Liquidation Fund is created based on the Act of 27 July 2001 amending the Mining and Geological Law. Write-offs for the fund are created in correspondence with other operating expenses.

Provision for penalty to the Office for Competition and Consumer Protection
The provision for penalty to the Office for Competition and Consumer Protection was the highest item in this group of provisions. The Office for Competition and Consumer Protection claims that PGNiG S.A. abused its domination position by delaying release of technical conditions for connection of the existing boiler facility of the City Commune in Wysoka Mazowiecka to the existing testing facility.
Due to the enforcement of the verdict of the Court of Appeal, which changed the decision of the President of the Office for Competition and Consumer Protection in such a way that the amount of the penalty was decreased, the Company released the provision intended for that purpose.

Provision for environmental protection purposes
The Capital Group's companies create provisions for future liabilities for reclamation cost of contaminated land or elimination of hazardous substances, if these activities are subject to a legal or constructive obligation. The created provision reflects potential costs foreseen to be incurred, estimated and verified periodically according to current prices.

Provision for return of assets from leasing
Due to the return of a portion of property from the lease agreement and recognition of the effects of this return in these consolidated financial statements, the Company release the provision intended for that purpose.

Provision for renegotiation of import prices
Due to the conclusion of negotiations of gas prices, the Management Board of PGNiG S.A. stated that the changed prices have already been included in the financial statements and there is no reason for keeping the provision. Therefore, the Company released the provision intended for that purpose.

Other provisions
The Capital Group's companies also create other provisions for future probable expenses, related to the commercial activity.

24. DEFERRED INCOME

	31 December 2006	31 December 2005
	in '000 PLN	
Long-term		
Value of gas service line financed by users (before depreciation)	713 279	754 612
Connection fee	365 566	325 487
Deferred income from fixed assets put out to lease	-	65 565
Other	3 239	5 451
Total long-term	**1 082 084**	**1 151 115**
Short-term		
Value of gas service line financed by users (before depreciation)	50 213	59 462
Connection fee	15 021	15 002
Deferred income from fixed assets put out to lease	-	4 253
Other	26 941	19 728
Total short-term	**92 175**	**98 445**

25. PROVISION FOR DEFERRED TAX

	31 December 2006	31 December 2005
	in '000 PLN	
Exchange gains	3 109	8 880
Interest accrued	1 427	803
Valuation of financial instruments	1 087	22 852
Revenues from tax obligation in the following month	69 209	72 397
Tax depreciation higher than balance sheet depreciation	74 832	20 723
Revenues from financial lease	20 698	8 275
Revaluation of fixed assets	1 879 695	1 985 850
Other	6 017	3 453
Total	**2 056 074**	**2 123 233**

26. TRADE AND OTHER LIABILITIES

	31 December 2006	31 December 2005
	in '000 PLN	
Trade liabilities	977 506	807 088
Trade liabilities to related parties	17 455	11 779
Tax, customs, social insurance liabilities	696 689	810 454
Liabilities due to an obligatory profit contribution for the owner	28 800	28 800
Payroll liabilities	34 062	28 511
Liabilities due to unused vacation	20 619	16 473
Liabilities to associated companies measured using the equity method	9 316	54 680
Other liabilities to related parties	127 796	104 885
Accruals and advances for deliveries	2 560	4 571
Other	258 899	241 565
Total	**2 173 702**	**2 108 806**

27. CONTINGENT LIABILITIES

27.a. Operating lease liabilities

	31 December 2006	31 December 2005
	in '000 PLN	
Up to 1 year	3 067	3 268
From 1 to 5 years	4 824	6 517
Over 5 years	-	-
Total	**7 891**	**9 785**

27.b. Liabilities due to financial lease (presented in liabilities)

	31 December 2006		
Maturity date:	Discounted value	Interest	Future value
	in '000 PLN		
Up to 1 year	43 543	3 397	46 940
Up to 2 years	32 474	1 481	33 955
Up to 3 years	7 746	711	8 457
Up to 4 years	3 621	100	3 721
Up to 5 years	1 285	-	1 285
Over 5 years	-	-	-
Total	**88 669**	**5 689**	**94 358**

	31 December 2005		
Maturity date:	Discounted value	Interest	Future value
	in '000 PLN		
Up to 1 year	31 788	4 213	36 001
Up to 2 years	25 886	2 681	28 567
Up to 3 years	20 282	1 047	21 329
Up to 4 years	4 811	288	5 099
Up to 5 years	2 223	19	2 242
Over 5 years	-	-	-
Total	**84 990**	**8 248**	**93 238**

27.c. Investment liabilities

	31 December 2006	31 December 2005
	in '000 PLN	
Contractual liabilities	423 281	301 227
Contract execution progress as at the balance sheet date	271 789	191 737
Contractual liabilities after the balance sheet date	**151 492**	**109 490**

28. INFORMATION ON RELATED PARTIES

28.a. Specification of subsidiaries, co-subsidiaries and associated companies covered by consolidated financial statements

Name of the Company	Country	Percentage share in the share capital	
		31 December 2006	31 December 2005
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%
ZRG Krosno Sp. z o.o.	Poland	100.00%	100.00%
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Górnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Karpacka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Mazowiecka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Pomorska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Gazobudowa Zabrze Sp. z o.o.	Poland	100.00%	100.00%
Naftomontaż Krosno Sp. z o.o.	Poland	88.83%	88.83%
Naftomet Krosno Sp. z o.o.	Poland	100.00%	100.00%
Diament Sp. z o.o.	Poland	100.00%	100.00%
Gazoprojekt S.A.	Poland	75.00%	75.00%
PGNiG Finance B.V.	Netherlands	100.00%	100.00%
Geovita Sp. z o.o. Warsaw	Poland	100.00%	100.00%
INVESTGAS S.A.[1]	Poland	100.00%	49.00%
Subsidiaries of Naftomontaż Krosno Sp. z o.o. – a subsidiary			
Naft-Stal Krosno Sp. z o.o.[2]	Poland	59.88%	59.88%
Co-subsidiaries and Associated Entities			
EUROPOL GAZ S.A.[3]	Poland	49.74%	49.74%
GAS-TRADING S.A.	Poland	43.41%	43.41%

1) At the end of 2005 the company was valued using the equity method

2) Indirect share through the subsidiary Naftomontaż Krosno Sp. z o.o. (88.83% shares owned by PGNiG S.A.), which has 67.42% shares in Naft-Stal Krosno Sp. z o.o.

3) The value of the share consists of a direct share of 48% and of an indirect share of 1.74% through GAS-TRADING S.A.

Other subsidiaries and associated companies have not been consolidated, as they are immaterial for the Group's financial statements.

28.b. 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 '000 PLN						
Associated companies consolidated using equity method	31 December 2006	35 243	86 231	3 952	3 932	192 361	-	9 316
	31 December 2005	30 026	145 384	3 950	3 931	252 671	-	54 680
Subsidiaries and associated companies not included in consolidation	31 December 2006	7 143	168 916	131 954	3 212	13 880	-	145 251
	31 December 2005	26 234	142 554	131 243	4 801	14 376	-	116 664
Total related parties	**31 December 2006**	**42 386**	**255 147**	**135 906**	**7 144**	**206 241**	**-**	**154 567**
	31 December 2005	**56 260**	**287 938**	**135 193**	**8 732**	**267 047**	**-**	**171 344**

Boe – barrel of oil equivalent.

CNG – Compressed Natural Gas.

Distribution – transport of gas through distribution network to consumers.

EBITDA – Earnings before Interest, Taxes, Depreciation and Amortisation

E&P – Exploration and Production.

Direct Pipeline – a pipeline built for direct supply of gas to the user's gas system, bypassing the gas grid.

Yamal Pipeline – a transit gas pipeline which connects Russia and Western Europe crossing the territory of Poland.

Gasoline – a mixture of hydrocarbons of low molecular mass, obtained from wet natural gas or refining gases, used as a solvent or a petrol additive

GK PGNiG – Group of Polish Oil and Gas Company (PGNiG Group)

Cogeneration – production of electricity and heat in a combined cycle where about 40% of total gas consumption is used for heat production, and the remaining 60% - for electricity generation. Combined heat and power plants offer much better energy efficiency than conventional power and heat generation plants.

Yamal contract – contract for sale and purchase of Russian gas between PGNiG and Gazexport concluded on 25 September 1996 in Warsaw.

Countries of Central Asia – Kazakhstan, Uzbekistan, Turkmenistan.

LNG – Liquefied Natural Gas.

Transmission System Operator – energy company engaged in distribution of gas and responsible for management of network flows within a gas distribution system, as well as for day-to-day and long-term system safety, and the operation, maintenance and repairs of the distribution network, including the necessary expansion of the system and its connections with other gas systems

Distribution System Operator – energy company engaged in transmission of gas and responsible for management of network flows within a gas transmission system, as well as for day-to-day and long-term system safety, and the operation, maintenance and repairs of the transmission network, including the necessary expansion of the system and its connections with other gas systems.

Transmission – transportation of gas through transmission networks for delivery to distribution networks or the final consumers connected to a transmission network.

UGS – Underground Gas Storage facilities.

ROA – Return on assets

ROE – Return on equity

Transmission network – high-pressure gas network, excluding upstream gas pipelines and dedicated gas pipelines, operated by a transmission network operator

Distribution network – high-, medium- or low-pressure gas network, excluding upstream gas pipelines and dedicated gas pipelines, operated by a distribution network operator.

TPA – Third Party Access.
Tri-generation – upgraded cogeneration technology. Tri-generation means simultaneous production of electricity, heat and cooling in a combined cycle.

ERO – Energy Regulation Office.

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