PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

# CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE 12 MONTH PERIODS ENDED 31 DECEMBER 2007 AND 31 DECEMBER 2006

## PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

## TABLE OF CONTENTS

Members of the Management Board

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

Warsaw, 4 April 2008

## SELECTED FINANCIAL DATA
## for the period ended 31 December 2007

| | PLN | | EUR | |
|---|---|---|---|---|
| | 31 December 2007 | 31 December 2006 | 31 December 2007 | 31 December 2006 |
| I. Net revenue from sales of products, goods and materials | 16 652 134 | 15 197 653 | 4 409 059 | 3 897 734 |
| II. Profit on operating activities | 851 596 | 1 470 016 | 225 481 | 377 014 |
| III. Profit before tax | 1 002 728 | 1 572 048 | 265 497 | 403 182 |
| IV. Net profit | 916 065 | 1 327 905 | 242 551 | 340 567 |
| V. Net cash flows from operating activities | 3 028 691 | 1 535 163 | 801 920 | 393 722 |
| VI. Net cash flows from investing activities | (2 455 582) | (867 160) | (650 175) | (222 400) |
| VII. Net cash flows from financing activities | (2 547 455) | (294 974) | (674 501) | (75 652) |
| VIII. Total net cash flows | (1 974 346) | 373 029 | (522 756) | 95 671 |
| IX. Total assets | 28 401 901 | 30 676 707 | 7 929 062 | 8 007 076 |
| X. Liabilities and provisions for liabilities | 7 380 136 | 9 523 347 | 2 060 339 | 2 485 735 |
| XI. Non-current liabilities | 3 879 566 | 6 725 269 | 1 083 073 | 1 755 395 |
| XII. Current liabilities | 3 500 570 | 2 798 078 | 977 266 | 730 340 |
| XIII. Equity | 21 021 765 | 21 153 360 | 5 868 723 | 5 521 341 |
| XIV. Share capital | 5 900 000 | 5 900 000 | 1 647 125 | 1 539 987 |
| XV. Number of shares (weighted average in '000) | 5 900 000 | 5 900 000 | 5 900 000 | 5 900 000 |
| XVI. Basic earnings per share (in PLN/EUR) | 0,16 | 0,22 | 0,04 | 0,06 |
| XVII. Diluted earnings per share (in PLN/EUR) | 0,16 | 0,22 | 0,04 | 0,06 |
| XVIII. Book value per share (in PLN/EUR) | 3,56 | 3,59 | 0,99 | 0,94 |
| XIX. Diluted book value per share (in PLN/EUR) | 3,56 | 3,59 | 0,99 | 0,94 |
| XX. Dividend declared or paid per share (in PLN/EUR) | 0,17 | 0,15 | 0,05 | 0,04 |

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

## Average EUR/PLN exchange rates defined by the NBP

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

## CONSOLIDATED INCOME STATEMENT
## for the period ended 31 December 2007

| | Additional information | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| | | (in PLN '000) | |
| **Sales revenue** | **3** | **16 652 134** | **15 197 653** |
| Raw materials and consumables used | 4 | (8 331 611) | (8 611 516) |
| Employee benefits | 4 | (2 014 073) | (1 822 123) |
| Amortization | | (1 430 273) | (1 296 140) |
| External services | | (2 692 524) | (2 652 543) |
| Manufacturing cost of benefits for internal purposes | | 686 944 | 564 979 |
| Other operating expenses (net) | 4 | (2 019 001) | 89 706 |
| **Total operating expenses** | **3** | **(15 800 538)** | **(13 727 637)** |
| **Profit from operating activities** | | **851 596** | **1 470 016** |
| Financial revenue | 5 | 282 287 | 289 811 |
| Finance costs | 5 | (115 129) | (265 232) |
| Share of profits of associates measured using the equity method | 6 | (16 026) | 77 453 |
| **Profit before tax** | | **1 002 728** | **1 572 048** |
| Income tax expense | 7 | (86 663) | (244 141) |
| Profit distribution | | - | (2) |
| **Net profit for the financial year** | | **916 065** | **1 327 905** |
| Attributable to: | 9 | | |
| Equity holders of the parent | | 915 032 | 1 327 430 |
| Minority interest | | 1 033 | 475 |
| | | **916 065** | **1 327 905** |
| Earnings per share attributable to ordinary equity holders of the parent | 9 | | |
| - basic earnings per share | | 0,16 | 0,22 |
| - diluted earnings per share | | 0,16 | 0,22 |

## CONSOLIDATED BALANCE SHEET
## as at 31 December 2007

| | Additional information | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| **ASSETS** | | (in PLN '000) | |
| **Non-current assets (long-term)** | | | |
| Property, plant and equipment | 11 | 18 715 509 | 18 762 056 |
| Investment property | 12 | 10 578 | 6 765 |
| Intangible assets | 13 | 84 636 | 80 807 |
| Investments in associates measured using the equity method | 6 | 557 529 | 589 284 |
| Available-for-sale financial assets | 14 | 19 997 | 18 112 |
| Other financial assets | 15 | 2 292 154 | 3 275 379 |
| Deferred tax asset | 16 | 419 814 | 453 439 |
| Other non-current assets | 17 | 30 873 | 48 672 |
| **Total non-current assets (long-term)** | | **22 131 090** | **23 234 514** |
| **Current assets (short-term)** | | | |
| Inventories | 18 | 1 215 980 | 1 351 203 |
| Trade and other receivables | 19 | 3 331 046 | 2 473 411 |
| Current tax assets | 20 | 17 499 | 17 187 |
| Prepayments | 21 | 82 355 | 32 326 |
| Available-for-sale financial assets | 22 | 22 406 | 23 265 |
| Assets due to derivative financial instruments | 36 | 17 442 | 5 723 |
| Cash and bank balances | 23 | 1 583 635 | 3 539 078 |
| **Assets classified held for sale** | | **448** | **-** |
| **Total current assets (short-term)** | | **6 270 811** | **7 442 193** |
| **Total assets** | | **28 401 901** | **30 676 707** |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 26 | 5 900 000 | 5 900 000 |
| Exchange differences from translation of foreign operations | | (44 525) | (15 609) |
| Surplus from sale of shares above face value | | 1 740 093 | 1 740 093 |
| Other reserves | | 3 478 081 | 2 890 068 |
| Retained earnings | | 9 939 427 | 10 631 137 |
| **Equity (attributed to equity holders of the parent)** | | **21 013 076** | **21 145 689** |
| Minority interest | | 8 689 | 7 671 |
| **Total equity** | | **21 021 765** | **21 153 360** |
| **Non-current liabilities** | | | |
| Borrowings and debt securities | 27 | 31 377 | 2 343 846 |
| Provisions | 29 | 1 153 805 | 1 179 882 |
| Deferred income | 30 | 1 142 366 | 1 144 270 |
| Deferred tax liabilities | 31 | 1 530 359 | 2 056 074 |
| Other non-current liabilities | 32 | 21 659 | 1 197 |
| **Total non-current liabilities** | | **3 879 566** | **6 725 269** |
| **Current liabilities** | | | |
| Trade and other payables | 33 | 2 407 981 | 2 173 487 |
| Borrowings and debt securities | 27 | 106 724 | 113 621 |
| Liabilities due to derivative financial instruments | 36 | 36 185 | 55 067 |
| Current tax liabilities | 20 | 281 399 | 184 556 |
| Provisions | 29 | 181 220 | 173 765 |

(in PLN '000)

| | | | |
|---|---|---|---|
| Deferred income | 30 | 487 061 | 97 582 |
| **Total current liabilities** | | **3 500 570** | **2 798 078** |
| **Total liabilities** | | **7 380 136** | **9 523 347** |
| **Total equity and liabilities** | | **28 401 901** | **30 676 707** |

## CONSOLIDATED CASH FLOW STATEMENT
## for the period ended 31 December 2007

| | Additional information | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| | | (in PLN '000) | |
| **Cash flows from operating activities** | | | |
| Net profit | | 916 065 | 1 327 905 |
| Adjusted by: | | - | |
| Share of profits of entities measured using the equity method | | 16 026 | (77 453) |
| Amortization | | 1 430 273 | 1 296 140 |
| Net foreign exchange gain/loss | | 61 145 | 33 039 |
| Net interest and dividends | | (226 892) | (191 952) |
| Profit/loss on investing activities | | 1 407 233 | (145 979) |
| Income tax for the current period | | 86 663 | 244 141 |
| Income taxes paid | | (482 222) | (243 315) |
| Other net items | | 43 644 | (36 077) |
| **Net cash generated by operating activities before movements in working capital** | | **3 251 935** | **2 206 449** |
| Movements in working capital: | | | |
| Net change in receivables | 34 | (923 627) | (1 227) |
| Change in inventories | 34 | 136 734 | (535 802) |
| Change in provisions | 34 | 44 530 | (99 778) |
| Change in current liabilities | 34 | 180 350 | (10 612) |
| Change in cost prepayments | 34 | (48 806) | (12 566) |
| Change in deferred income | 34 | 387 575 | (11 301) |
| **Net cash generated by operating activities** | | **3 028 691** | **1 535 163** |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of property, plant and equipment as well as intangible assets | | 33 762 | 19 159 |
| Proceeds from disposal of shares in entities not included in consolidation | | - | 4 598 |
| Proceeds on sale of short-term securities | | 51 304 | 117 895 |
| Payments to acquire property, plant and equipment as well as intangible assets | | (2 979 987) | (1 582 072) |
| Payments to acquire shares in entities not included in consolidation | | (12) | - |
| Payments to acquire short-term securities | | - | - |
| Received interest | | 232 705 | 285 190 |
| Received dividends | | 24 759 | 1 415 |
| Proceeds from finance leases | | 179 330 | 243 248 |
| Other net items | | 2 557 | 43 407 |
| **Net cash (used in)/generated by investing activities** | | **(2 455 582)** | **(867 160)** |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of equity shares and other capital instruments as well as capital contributions | | - | - |
| Proceeds from borrowings | | 40 287 | 22 797 |
| Repayment of borrowings | | (2 335 664) | (15 072) |
| Proceeds from issue of debt securities | | - | - |
| Redemption of debt securities | | - | - |
| Repayment of liabilities due to finance leases | | (39 836) | (25 335) |
| Proceeds from forwards | | 301 | 230 350 |
| Payments for forwards | | (101) | (242 434) |
| Dividends paid | | (153 002) | (203 519) |
| Interest paid | | (43 337) | (77 996) |
| Other net items | | (16 103) | 16 235 |
| **Net cash (used in)/generated by financing activities** | | **(2 547 455)** | **(294 974)** |

(in PLN '000)

| | | |
|---|---|---|
| **Net changes in cash and bank balances** | **(1 974 346)** | **373 029** |
| Net foreign exchange differences | 18 903 | (15 518) |
| **Cash and bank balances at the beginning of the financial year** | **3 559 214** | **3 186 185** |
| **Cash and bank balances at the end of the financial year** | **1 584 868** | **3 559 214** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## for the period ended 31 December 2007

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

**NOTES**
**as at 31 December 2007**

## 1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

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

### Approval of the financial statements

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

**Structure of the Capital Group**

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

As at 31 December 2007 the Parent held shares in 57 commercial law companies, including:

- 27 companies, in which PGNiG S.A. held over 50% of shares or votes;
- 16 companies, in which PGNiG S.A. held 20% - 50% of shares or votes;
- 14 companies, in which PGNiG S.A. had less than 20% of shares or votes.

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

Companies were divided into the following categories in the Capital Group due to their area of operation and significance to the Group's operations:

- strategic companies;
- core companies;
- special purpose entities;
- other companies (material and immaterial).

Strategic companies

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

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

The following entities are treated as strategic companies:

- Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.;
- Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o.;
- Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o.;
- Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.;
- Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o.;
- Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.

Core companies

Core companies are entities of significant importance to PGNiG S.A., whose activities and actually fulfilled functions ensure the performance of the core tasks of PGNiG S.A. as well as which make diversifying the sources of acquiring gas and markets for selling gas easier. Most of the entities classified to this group were established from the branches of PGNiG S.A. These companies operate in the field of exploration for deposits, geophysical testing, servicing, gas transit services and design services.

Core companies include:

- Exploration companies (PNiG Kraków Sp. z o.o., PNiG Jasło Sp. z o.o., PNiG Piła Sp. z o.o.). These companies have a key influence on the achievement of strategic objectives and are an important link in the realization of tasks connected with increasing production and maintaining the resources renewability ratio.
- Service providing companies (PN Diament Sp. z o. o., Zakład Robót Górniczych Krosno Sp. z o. o.) The objective of this group of companies is to provide specialized services necessary for exploration and operation task as well as for borehole mining purposes.
- Geophysical companies (GEOFIZYKA Kraków Sp. z o.o., GEOFIZYKA Toruń Sp. z o.o.) Geophysical companies are important core entities in the field of deposit exploration which have a key influence on achieving strategic objectives connected with increasing production and maintaining the resources renewability ratio.

- SGT EUROPOL GAZ S.A which operates the Transit Gas Pipeline System and GAS-TRADING S. A. (which is also a shareholder of SGT EUROPOL GAZ S. A.) which trades propane-butane and whose activity was also supposed to be related to the operation of the transmission system.
  SGT EUROPOL GAZ S.A. provides access to transmission capacity in the first thread of the Polish section of the transit gas pipeline system and provides natural gas transmission services as part of reserved capacities from the boarder between the Belarusian Republic and the Republic of Poland to end receipt/delivery points.
  Both entities are an important link among core companies and have an effect on gas fuel delivery to the entire Capital Group.
- Designing company (BSiPG Gazoprojekt S.A.) Due to the advisory, designing and project implementation work executed by the company as well as its specialization in gas industry problems it has been classified as a core company due to way it supports the operation of the entire Capital Group.

Special purpose entities

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

This group includes the following entities:

- PGNiG Finance B.V. – company established to service PGNiG S.A. bond issues denominated in EUR. The Company is currently planned to be used for exploration-production activity in Libya.
- Górnictwo Naftowe Sp. z o. o. – incorporated on 22 December 2000 in order to realize the policy adopted by the Council of Ministers on 23 May 2000 – "Amendment of the organizational restructuring program of the state owned public utility - Polskie Górnictwo Naftowe i Gazownictwo". The Company's share capital is equal to PLN 50,000.00. The Company does not execute any operating activity.
- InterTransGas GmbH – the Company was established in order to build an interconnection between the Polish and European transmission system as well as in order to facilitate gas fuel transmission operations outside of Poland (the company is not currently executing its core activity).
- Dewon Z.S.A. – PGNiG S. A. became a shareholder in the company so as to obtained access to deposits located abroad, produce raw materials from such deposits and import them to Poland.
- INVESTGAS S.A. – the company was established to provide operation services to KPMG Mogilno.
- NYSAGAZ Sp. z o.o. – the company was established in order to upgrade (as to their consumption of natural gas) and operation of small heat-generating plants, as well as provide electricity delivery and production services. Currently, it is executing projects related to the use of natural gas for heat generation purposes.
- Polskie Elektrownie Gazowe Sp. z o.o. under liquidation – the company was established in order to execute investment projects related to the production of electricity and heat using natural gas, including the operation and servicing of cogeneration units. In June 2007 the shareholders passed a decision to wind up the company and initiate the liquidation process.
- Polskie LNG Sp. z o.o. – the company was established to build and then operate an LNG regasification terminal.
- PGNiG Norway AS – the company was established under Norwegian law in order to execute a project connected with the development and production of gas and oil from the Skarv, Snadd and Idun deposits in the Norwegian Sea.

Other material companies

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

This group includes the following entities:

BUD-GAZSp. z o. o. – provides real estate development and management services as well as offers training services.

(in PLN '000)

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

Other immaterial companies

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

**List of companies that comprise the Capital Group**

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

**The share of PGNiG S.A. in other companies**

| | Company | Share capital (PLN) | Share of PGNiG S.A. in the company's share capital (PLN) | Percentage of share capital held by PGNiG S.A. |
|---|---|---|---|---|
| | Strategic companies* | | | |
| 1. | Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o. | 1 310 749 000,00 | 1 310 749 000,00 | 100,00% |
| 2. | Górnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. | 1 197 314 000,00 | 1 197 314 000,00 | 100,00% |
| 3. | Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. | 930 819 000,00 | 930 819 000,00 | 100,00% |
| 4. | Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o. | 847 159 000,00 | 847 159 000,00 | 100,00% |
| 5. | Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. | 502 750 000,00 | 502 750 000,00 | 100,00% |
| 6. | Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o.o. | 546 448 000,00 | 546 448 000,00 | 100,00% |
| | Core companies | | | |
| 7. | PNiG Jasło Sp. z o.o. | 100 000 000,00 | 100 000 000,00 | 100,00% |
| 8. | PNiG Kraków Sp. z o.o. | 105 231 000,00 | 105 231 000,00 | 100,00% |
| 9. | PN Diament Sp. z o.o. | 62 000 000,00 | 62 000 000,00 | 100,00% |
| 10. | PNiG Piła Sp. z o.o. | 60 000 000,00 | 60 000 000,00 | 100,00% |
| 11. | GEOFIZYKA Kraków Sp. z o.o. | 34 400 000,00 | 34 400 000,00 | 100,00% |
| 12. | GEOFIZYKA Toruń Sp. z o.o. | 66 000 000,00 | 66 000 000,00 | 100,00% |
| 13. | Zakład Robót Górniczych Krosno Sp. z o.o. | 26 903 000,00 | 26 903 000,00 | 100,00% |
| 14. | BSiPG Gazoprojekt S.A. | 4 000 000,00 | 3 000 000,00 | 75,00% |
| 15. | SGT EUROPOL GAZ S.A. | 80 000 000,00 | 38 400 000,00 | 48,00% |
| 16. | GAS - TRADING S.A. | 2 975 000,00 | 1 291 350,00 | 43,41% |
| | Special purpose entities | | | |
| 17. | Górnictwo Naftowe Sp. z o.o. | 50 000,00 | 50 000,00 | 100,00% |
| 18. | PGNiG Finance B.V. ** | 20 000 EUR | 20 000 EUR | 100,00% |
| 19. | NYSAGAZ Sp. z o.o." | 3 700 000,00 | 1 887 000,00 | 51,00% |
| 20. | InterTransGas GmbH ** | 200 000 EUR | 100 000 EUR | 50,00% |
| 21. | INVESTGAS S.A. | 502 250,00 | 502 250,00 | 100,00% |
| 22. | Polskie Elektrownie Gazowe Sp. z o.o. under liquidation | 2 500 000,00 | 1 212 000,00 | 48,48% |
| 23. | Dewon ZSA ** | 11 146 800 UAH | 4 055 205,84 UAH | 36,38% |
| 24. | Polskie LNG Sp. z o.o. | 50 000 000,00 | 50 000 000,00 | 100,00% |
| 25. | PGNiG Norway AS ** | 497 327 000 NOK | 497 327 000 NOK | 100,00% |

(in PLN '000)

| | | | | |
|---|---|---|---|---|
| | Other material companies | | | |
| 26. | Geovita Sp. z o.o. | 86 139 000,00 | 86 139 000,00 | 100,00% |
| 27. | BUG Gazobudowa Sp. z o.o. | 39 220 000,00 | 39 220 000,00 | 100,00% |
| 28. | ZUN Naftomet Sp. z o.o. | 23 500 000,00 | 23 500 000,00 | 100,00% |
| 29. | ZRUG Sp. z o.o. (in Pogórska Wola) | 4 300 000,00 | 4 300 000,00 | 100,00% |
| 30. | BUD - GAZ Sp. z o.o. | 51 760,00 | 51 760,00 | 100,00% |
| | Other immaterial companies | | | |
| 31. | BN Naftomontaż Sp. z o.o. under liquidation (composition with creditors) | 44 751 000,00 | 39 751 000,00 | 88,83% |
| 32. | PI GAZOTECH Sp. z o.o.*** | 1 203 800,00 | 65 000,00 | 69,44% (46,30% of votes) |
| 33. | PPUiH "TURGAZ" Sp. z o.o. | 176 000,00 | 90 000,00 | 51,14% |
| 34. | Sahara Petroleum Technology Llc ** | 150 000 OMR | 73 500 OMR | 49,00% |
| 35. | PFK GASKON S.A. | 13 061 325,00 | 6 000 000,00 | 45,94% |
| 36. | GAZOMONTAŻ S.A. | 1 498 850,00 | 677 200,00 | 45,18% |
| 37. | ZRUG Sp. z o.o. (in Poznań) | 3 781 800,00 | 1 515 000,00 | 40,06% (41,71% of votes) |
| 38. | ZWUG "INTERGAZ" Sp. z o.o. | 4 700 000,00 | 1 800 000,00 | 38,30% |
| 39. | ZRUG TORUŃ S.A. | 4 150 000,00 | 1 300 000,00 | 31,33% |
| 40. | ZRUG Zabrze Sp. z o.o. | 2 750 000,00 | 600 000,00 | 21,82% |
| 41. | Polski Serwis Płynów Wiertniczych Sp. z o.o. | 250 000,00 | 35 000,00 | 14,00% |
| 42. | TeNET 7 Sp. z o.o. | 50 000,00 | 5 000,00 | 10,00% |
| 43. | Polskie Konsorcjum Energetyczne Sp. z o.o. | 100 000,00 | 9 500,00 | 9,50% |
| 44. | Walcownia Rur JEDNOŚĆ Sp. z o.o. | 220 590 000,00 | 18 310 000,00 | 8,30% |
| 45. | Agencja Rynku Energii S.A. | 1 376 000,00 | 100 000,00 | 7,27% (12,70% of votes) |
| 46. | ZRUG Warszawa S.A. under liquidation | 6 000 000,00 | 2 940 000,00 | 49,00% |
| 47. | TE-MA WOC Małaszewicze Terespol Sp. z o.o. under liquidation | 262 300,00 | 55 000,00 | 20,97% |
| 48. | HS Szczakowa S.A. in bankruptcy (liquidation of assets) | 16 334 989,44 | 5 439 494,72 | 33,30% |
| 49. | ZRUG Wrocław Sp. z o.o. in bankruptcy (liquidation of assets) | 1 700 000,00 | 270 000,00 | 15,88% |

* The value of capital and shares in strategic companies has been disclosed without taking into account increases in capital. Increases in capital, which amounted to PLN 872 475 831 in total, were not registered with the National Court Register as at 31 December 2007.

** Values provided in foreign currency. Where: EUR - euro , UAH - hrywna (Ukraine), OMR - rial (Oman), NOK – Norwegian krone.

*** on 23 April 2004, 854 shares with a value of PLN 1300 each and a total value of PLN 1,110,200 were redeemed without lowering the company's share capital and therefore the face value of existing shares is lower than the company's share capital.

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

1) six gas trading companies were entered in the National Court Register:
   - Mazowiecka Spółka Obrotu Gazem Sp. z o. o. (on 12 February 2007);
   - Karpacka Spółka Obrotu Gazem Sp. z o. o. (on 31 January 2007);
   - Wielkopolska Spółka Obrotu Gazem Sp. z o. o. (on 30 January 2007);
   - Górnośląska Spółka Obrotu Gazem Sp. z o. o. (on 27 February 2007);
   - Dolnośląska Spółka Obrotu Gazem Sp. z o. o. (on 21 February 2007);
   - Pomorska Spółka Obrotu Gazem Sp. z o. o. (on 8 February 2007);

   additionally the share capitals of gas trading companies were increased as a result of their assumption of trading branches spun-off from gas companies (these changes were registered by the Court on 29 June 2007);

2) decreases in the share capitals of gas companies and alterations of their names to distribution systems operators were registered in the National Court Register:
   - Karpacki Operator Systemu Dystrybucyjnego Sp. z o. o. (alteration registered on 26 June 2007);
   - Górnośląski Operator Systemu Dystrybucyjnego Sp. z o. o. (alteration registered on 19 June 2007);
   - Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o. o. (alteration registered on 27 June 2007);
   - Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o. o. (alteration registered on 27 June 2007);
   - Pomorski Operator Systemu Dystrybucyjnego Sp. z o. o. (alteration registered on 27 June 2007);
   - Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o. o. (alteration registered on 22 June 2007);
3) on 21 May 2007, the share capital of Polskie LNG Sp. z o.o. in the amount of PLN 28,000 thousand was registered in the National Court Register. All 28,000 shares with a face value of PLN 1,000 each were assumed by PGNiG S.A.;
4) on 9 June 2007, PGNiG Norway AS with its seat in Stavanger, Norway, was registered. All 10,000 shares with a face value of NOK 1,000 each were assumed by the sole shareholder - PGNiG S.A. The total capital commitment of PGNiG S.A. in this entity amounted to NOK 10,000 thousand;
5) Przedsiębiorstwo Wielobranżowe MED - FROZ S.A. under liquidation was removed from the National Court Register on 16 April 2007. PGNiG S.A. held a 23.07% stake in the company's share capital;
6) on 1 October 2007 the combination of PGNiG S.A. with the following companies was registered: Wielkopolska Spółka Obrotu Gazem Sp. z o. o., Mazowiecka Spółka Obrotu Gazem Sp. z o. o., Dolnośląska Spółka Obrotu Gazem Sp. z o.o., Górnośląska Spółka Obrotu Gazem Sp. z o.o., Karpacka Spółka Obrotu Gazem Sp. z o.o., Pomorska Spółka Obrotu Gazem Sp. z o.o., which was executed in the manner foreseen by Article 492 § 1 of the Code of Commercial Companies through the transfer of the entire property of Acquirees (Gas Trading Companies) to the Acquirer (PGNiG S.A.).The registration of the above-mentioned combination on 1 October 2007 simultaneously resulted in the removal of Gas Trading Companies from the Register of Entrepreneurs in the National Court Register.

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

1) the share capital of PNiG Kraków Sp. z o.o. was increased by PLN 6,381 thousand to PLN 105,231 thousand. The increase of the aforementioned company's share capital was registered in the National Court Register on 15 June 2007;
2) the share capital of GEOFIZYKA Toruń Sp. z o.o. was increased by PLN 33,000 thousand to PLN 66,000 thousand. The increase of the aforementioned company's share capital was registered in the National Court Register on 18 April 2007.
3) the share capital of Zakład Robót Górniczych Krosno Sp. z o.o. was increased by PLN 101 thousand to PLN 26,903 thousand. The increase of the aforementioned company's share capital was registered in the National Court Register on 27 July 2007;
4) the share capital of Polskie LNG Sp. z o.o. was increased by PLN 11,000 thousand to PLN 39,000 thousand. The increase of the aforementioned company's share capital was registered in the National Court Register on 8 October 2007. A subsequent increase in the company's share capital to PLN 50,000 thousand, i.e. by PLN 11,000 thousand was registered on 7 January 2008;
5) the share capital of PGNiG Norway AS was increased by NOK 487,327,000. As at the end of 2007 the capital commitment of PGNiG S.A. in the aforementioned company was equal to NOK 497,327,000.

(in PLN '000)

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

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

### The entities of the Capital Group included in consolidation

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

| Name of the Company: | Country | Percentage share in the share capital | |
|---|---|---|---|
| | | 31 December 2007 | 31 December 2006 |
| **Subsidiaries** | | | |
| Geofizyka Kraków Sp. z o. o. | Poland | 100,00% | 100,00% |
| Geofizyka Toruń Sp. z o. o. | Poland | 100,00% | 100,00% |
| PNiG Jasło Sp. z o. o. | Poland | 100,00% | 100,00% |
| PNiG Kraków Sp. z o. o. | Poland | 100,00% | 100,00% |
| PNiG Piła Sp. z o. o. | Poland | 100,00% | 100,00% |
| Zakład Robót Górniczych Krosno Sp. z o.o. | Poland | 100,00% | 100,00% |
| PN Diament Sp. z o.o. | Poland | 100,00% | 100,00% |
| PGNiG Norway AS*** | Norway | 100,00% | - |
| Dolnośląski Operator Systemu Dystrybucyjnego Sp. z o. o. | Poland | 100,00% | 100,00% |
| Górnośląski Operator Systemu Dystrybucyjnego Sp. z o. o. | Poland | 100,00% | 100,00% |
| Karpacki Operator Systemu Dystrybucyjnego Sp. z o. o. | Poland | 100,00% | 100,00% |
| Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o. o. | Poland | 100,00% | 100,00% |
| Pomorski Operator Systemu Dystrybucyjnego Sp. z o. o. | Poland | 100,00% | 100,00% |
| Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o. o. | Poland | 100,00% | 100,00% |
| BUG Gazobudowa Zabrze Sp. z o. o. | Poland | 100,00% | 100,00% |
| BN Naftomontaż Krosno Sp. z o. o. | Poland | 88,83% | 88,83% |
| ZUN Naftomet Krosno Sp. z o. o. | Poland | 100,00% | 100,00% |
| BSiPG Gazoprojekt S.A. | Poland | 75,00% | 75,00% |
| PGNiG Finance B.V. | Netherlands | 100,00% | 100,00% |
| Geovita Sp. z o.o. Warszawa | Poland | 100,00% | 100,00% |
| INVESTGAS S.A | Poland | 100,00% | 49,00% |
| Polskie LNG Sp. z o.o.** | Poland | 100,00% | - |
| **Subsidiaries of BN Naftomontaż Krosno Sp. z o.o. – a subsidiary** | | | |
| Naft-Stal Krosno Sp. z o. o. | Poland | 59.88% | 59.88% |
| **Co-subsidiaries and associates** | | | |
| STG EUROPOL GAZ S.A.* | Poland | 49.74% | 49.74% |
| GAS - TRADING S.A. | Poland | 43.41% | 43.41% |

* incl. 48% -direct interest, and 1,74% - interest held indirectly by GAS - TRADING S.A.

** The company was registered in the National Court Register and as of 21 May 2007 is included in the group of subsidiaries consolidated using the full method.

*** PGNiG Norway AS with its registered office in Stavanger, Norway, was registered on 9 June 2007 and included in the group of subsidiaries consolidated using the full method.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Proxies of PGNiG S.A.**

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

- Ewa Bernacik;
- Bogusław Marzec.

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

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

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

As at the date of these financial statements, PGNiG S.A. was represented by the following proxies:

- Ewa Bernacik;
- Bogusław Marzec;
- Marek Dobryniewski;
- Waldemar Wójcik.

**Composition of the Supervisory Board of PGNiG S.A.**

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

One member of the Supervisory Board appointed by the Shareholders Meeting should meet the following conditions:

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

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

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

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

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

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

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

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

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

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

- Mr. Stanisław Rychlicki;
- Mr. Grzegorz Banaszek.

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

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

## 2. INFORMATION ABOUT APPLIED ACCOUNTING PRINCIPLES

### Basis of preparation of the consolidated financial statements

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

Due to the fact that the Company applied for the admission of its shares into public trading and the decision of the Securities and Exchange Commission dated 24 May 2005 to allow the public trading of PGNiG S.A. shares, the amended Accounting Act obligated the Group to prepare consolidated financial statements in accordance with IFRS as of 1 January 2005.
Pursuant to IAS 1 "Presentation of financial statements" IFRS consist of International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").
The scope of information disclosed in the consolidated financial statements is in line with the provisions of IFRS and the Ordinance on current and periodic information submitted by issuers of securities (Dz. U. No. 209, item 1744) issued by the Council of Ministers on 19 October 2005.

The key accounting principles applied by the Capital Group are presented below.
The consolidated financial statements are presented in PLN, and all figures, unless stated otherwise, are presented in PLN thousands.
The Group's financial statements were prepared based on the assumption of the Parent Company's and its subsidiaries' operating as a going concern for 12 months after the balance sheet date, i.e. until 31 December 2008.
According to the Parent Company's Management Board, on the date of signing the financial statements no facts or circumstances indicated the risk to the Company's operating as a going concern during 12 months after the balance sheet date due to intended or forced discontinuation or material limitation of its activities.

### Statement of compliance

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

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

Group’s accounting principles that effected the figures disclosed in financial statements for previous years and the current year.

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

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

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

  Amendments to the standard are effective for annual periods beginning on or after 1 January 2009
- Amendments to IAS 1 ‘Presentation Of Financial Statements: A Revised Presentation’

  Amendments to the standard are effective for annual periods beginning on or after 1 January 2009

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

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

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

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

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

- IFRS 8 „Operating Segments"
  IFRS 8 was issued on 30th Nov 2006 and replaced IAS 14 „*Reporting Financial Information by Segment*". IFRS 8 shall be effective first time for annual accounting periods beginning after 1st Jan 2009. The IFRS 8 specifies how the enterprise should report the information of operating segments and requires disclosure of information on the basis of internally used reports. The standard implements requirement to disclose information concerning products, services, geographic areas and key customers.

- IFRIC 11 "Group and Treasury Share Transactions"
  IFRIC 11 is effective for annual periods beginning on or after 1 January 2009. IFRIC 11 provides guidance on the application of IFRS 2 "Share-based Payment" to arrangements concerning share-based payment involving an entity's own equity instruments or the equity instruments of another entity from the same capital group (e.g. the parent's equity instruments). No guidance was available thus far as regards the method of recognizing share-based payment arrangements in an entity's financial statements as part of which the entity receives goods or services as consideration for the parent's capital instruments.

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

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

**Consolidation principles**

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

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

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

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

The profit or loss of entities acquired or sold during the year is recognized in the consolidated financial statements from/until the moment they are acquired or sold, respectively.

In case a subsidiary is no longer under control, the consolidated financial statements should disclose the profit or loss for the part of the year covered by the financial statements when the Parent exercised such control.

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

**Investments in associates**

An associate is an entity which the Parent can influence significantly, but with respect to which it does not exercise control by participating both in the determination of the financial and operational policy of such an associate, and which is not a joint venture. The financial interest of the Capital Group in its associates is measured using the equity method, except for instances when an investment is classified as held for trading (see below). Investments in associates are measured at acquisition

price after adjustment for changes in the Group's share in net assets that took place until the balance sheet date, less the impairment of individual investments. Losses of associates exceeding the value of the Group's share in such associates are not recognized.
The surplus of the acquisition price over the fair value of identifiable net assets of an associate as at the acquisition date is recognized under goodwill. When the acquisition price is lower than the fair value of identifiable net assets of an associate as at the acquisition date, the difference is recognized as profit in the income statement for the period when the acquisition was effected.

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

**Interests in joint ventures**

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

**Translation of items denominated in foreign currency**

The Polish zloty (PLN) is the functional and measurement currency also used for presentation purposes by PGNiG S.A. and its subsidiaries, except for PGNIG Fiancé BV and PGNiG Norway AS. Transactions denominated in foreign currencies are initially recognized at the exchange rate of the functional currency applicable on the transaction date. Cash assets and liabilities denominated in foreign currency are translated at the exchange rate of the functional currency applicable on the balance sheet date. All exchange differences are recognized in the consolidated cash flow statement, except for exchange differences arising from the translation of assets and liabilities plus equity of foreign entities. These differences are recognized directly in equity until the disposal of interests in these entities. Non-cash items measured at historical cost in foreign currency are translated at the exchange rate from the transaction opening date. Non-cash items measured at fair value in foreign currency are translated at the exchange rate from date fair value was determined.
The Parent uses foreign currency forwards and options to hedge against risks resulting from exchange rate fluctuations (accounting principles applied by the Capital Group with respect to derivative financial instruments are provided below).

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

**Property, plant and equipment**

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

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

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

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

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

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

| | |
|---|---|
| Buildings and structures | 2 - 40 years |
| Plant and equipment, vehicles and other | 2 - 35 years |

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

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

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

*Exploration and prospecting expenditure*

Natural gas and oil exploration and prospecting expenditure includes geological work aimed at finding and documenting the deposit and are settled using the geological success method.
The Group recognizes expenditure incurred on initial land analysis (seismic work, development and drawing up of geological maps) directly as cost in the income statement for the period in which such expenditure was incurred.
The Group recognizes bore hole expenditure incurred during exploration and prospecting in assets, as fixed assets under construction.
Previously activated expenditure for bore holes deemed as negative are charged by the Group to the income statement for the period in which such bore holes were deemed negative.

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

**Borrowing costs**

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

**Investment property**

Investment property is the property (land, building or part of a building, or both) treated by the Company as a source of rental income or held for capital appreciation or both. Investment property is initially recognized at acquisition price plus transaction costs.
The Group has decided to measure its investment property based on the cost model and after initial recognition measures all its investment property in line with the requirements of IAS 16 defined for such a model i.e. at acquisition price or manufacturing cost less accumulated depreciation and impairment loss.
Investment property is derecognized upon its disposal or decommissioning, if no benefits are expected in the future from its sale. All gains and losses arising from the derecognition of investment property are charged to profit or loss for the period in which such property is derecognized.

The Group depreciates investment property based on the straight-line method over the following useful life periods:

| | |
|---|---|
| Buildings and structures | 2 – 40 years |

**Intangible assets**

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

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

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

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

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

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

The perpetual usufruct right acquired free of charge pursuant to administrative decision issued based on the Law of 20 September 1990 amending the Law on land management and property expropriation is recognized by the Group off the balance sheet only.
Perpetual usufruct rights to land acquired in exchange for consideration are presented as intangible assets and amortized during their useful life. The useful life of the surplus of the first payment over the annual perpetual usufruct fee is equal to the perpetual usufruct period determined in the perpetual usufruct right agreement.
The period of perpetual usufruct acquired for a fee from an entity other than the State Treasury or local government unit is equal to the period from the usufruct acquisition date to the last day of the perpetual usufruct period determined in the perpetual usufruct agreement.

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

*R&D expenses*

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

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

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

**Leases**

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

*The Group as a Lessor*

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

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

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

*The Group as a Lessee*

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

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

**Financial assets**

If market practice foresees the delivery of financial assets after a precisely specified period after the transaction date, investments in financial assets are recognized in books and derecognized from books upon the conclusion of the purchase or sale transaction.
All investments are measured initially at purchase price adjusted by transaction costs. Investments are classified as "held for trading" or "available for sale" and, on the balance sheet date, are measured at fair value. Gains and losses resulting from changes in fair value are recognized in the income statement for a given period.
Financial assets with fixed or determinable payments and fixed maturity are classified as investments "held to maturity", under the condition that the Group definitively intends and is capable of holding them until this date.
Long-term investments held to maturity are measured at adjusted acquisition price determined using the effective interest rate. Discounts or bonuses obtained upon the acquisition of the investment and settled over the period during which it was held to maturity are taken into account when determining the adjusted acquisition price. Gains or losses from investments measured at adjusted acquisition price are recognized in revenues during their settlement in the period and upon their derecognition from the balance sheet or upon the occurrence of impairment.
Derivatives, which are not considered hedging instruments are measured and recognized at their respective fair values through financial result. Changes in fair values are reported in income statement. Positive value of derivatives is stated in separate items of short-term assets.

**Assets classified as held for sale**

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

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

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

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

**Inventories**

The value of inventories in the warehouse is determined at acquisition price or manufacturing cost or at net realizable value, whichever lower, less impairment resulting from decreases is economic usefulness. The acquisition price of manufacturing cost include all costs of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition.
Net realizable value is the difference between the estimated selling price in the ordinary course of business and the estimated costs of completion and the estimated costs necessary to make the sale.

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

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

**Trade and other receivables**

Trade receivables are initially recognized at fair value. Upon initial recognition, receivables are measured at amortized cost using the effective interest rate method. Measurement differences are charged to profit or loss. The Group does not discount receivables maturing in less than 12 months from the balance sheet date and in cases, when the discounting effect would be immaterial. Receivables are revalued based on the probability of their payment, if there is objective evidence that the receivables will not be fully recovered.

Revaluation write-downs of receivables for gas deliveries to small customers (low consumption of gas), settled in line with tariff groups 1-4, are calculated on a statistical basis. Write-downs are created based on an analysis of historical data regarding settlement of receivables during the year. Repayment ratios are calculated based on such analyses. These ratios are used for determining write-downs for respective groups in the ageing analysis of receivables.

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

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

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

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

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

Receivables derecognized or written-off due to expiry or irrecoverability which were not written down or were partially written down are classified as other operating expenses or financial expenses, as appropriate.

**Cash and bank balances**

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

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

**Impairment**

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

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

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

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

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

**Equity**

Equity is recorded in accounting records by type and in accordance with principles specified in legal regulations and in the Parent's By-laws.
Share capital is disclosed at face value in amounts complying with the Parent's By-laws and the entry in the commercial register.
Declared but not transferred capital contributions are recognized as called up share capital. Own shares and called-up share capital decreased the value of the Parent's equity.
The share premium is created from the surplus of the issue price of share over their face value less issue costs.
Share issue costs incurred upon incorporation of a joint stock company or increase in share capital are charged to the share premium up to the share premium amount, while the remaining amount is charged to other reserves.
The effects of measurement resulting from the first time adoption of IFRS and all changes in revalued property, plant and equipment as well as intangibles assets are charged to retained earnings/loss.
In accordance with IFRS, net previous year profit can be allocated only to capital or dividends for shareholders. The option foreseen by the Polish legal system under which profit can be allocated to the Company's Social Benefits Fund, Restructuring Fund, employee profit-sharing schemes or other purposes is not reflected in IFRS. Due to the above, the Group recognizes the aforementioned profit reductions as the cost of the period, in which the binding obligation to release the funds have occurred. Distribution of profit among employees is recognized in payroll cost, while funds released to the Company's Social Benefits Fund are recognized under employee benefits costs.

**Borrowings**

Interest bearing bank loans are recorded at the value of obtained inflows less the direct cost of obtaining these funds. Following initial recognition interest-bearing credit facilities and loans are recognized at adjusted acquisition price using the effective interest rate. The adjusted acquisition price includes borrowing costs as well as discounts and premiums received upon the settlement of the liability.
The difference between net inflows and redemption value is disclosed in financial revenues or expenses over the loan period.

**Provisions**

Provisions are created when a potential liability (legal or customary) of a reliably estimated value, which will most likely result in the outflow of economic benefit generating assets from the Company, is generated as a result of future events. The value of created provisions is verified at the balance sheet date in order to adjust its value to the current forecast.
The Group measures its provisions by discounting them, if the effect of changes in the time value of money is material; using a pre-tax discount rate that reflects current market estimates of the time value of money as well as risks related to a given liability that are not reflected in the most appropriate cost estimate. If a provision is discounted, increases in its value over time are recognized as borrowing costs. The discount rate should not bear the risk by which future estimated cash flows have been adjusted.
When provisions pertain to the cost of liquidating production related assets, the initial value of the provision increases the value of the respective fixed asset. Subsequent adjustments of the provision resulting from changes in estimates are also treated as an adjustment of a fixed asset's value.
A detailed description of the bases of the Group's provisions is provided in point 29.

**Prepayments and accruals**

The Capital Group's constituent entities create prepayments for expenses that pertain to future reporting periods. They are presented in the balance sheet under assets as a separate item.
Accruals are liabilities payable for goods or services that have been obtained/received, but not yet paid, billed or formally agreed with the supplier, together with amounts payable to employees

(e.g. amounts related to accrued remuneration for paid vacations). These settlements are recognized in the balance sheet under equity and liabilities jointly with trade and other liabilities.
The Capital Group's constituent entities recognize deferred income in order to allocate revenues to future reporting periods upon realization.
Parent Company recognizes revenues of future periods related to forecast gas sales and additional charges for ordered and not collected gas made available under „take or pay contracts" as deferred income.
The Parent and DSO Companies recognized classify gas infrastructure received free of charge (by 1998) and connection fees as deferred income. Respective revenues are realized together with created depreciation charges on the aforesaid service lines. These settlements are disclosed in the balance sheet under liabilities and equity as a separate item.

**Trade and other liabilities**

Trade liabilities are liabilities payable for goods or services, which have been obtained/received and have been billed or formally agreed with the supplier.
Other liabilities include mainly liabilities resulting from the current activity of the Group's companies, i.e. from employee remuneration and other current employee benefits as well as accruals and public–legal liabilities.

**Financial liabilities**

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

**Sales revenues**

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

*Sale of goods and products*

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

*Services*

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

*Interest*

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

*Dividends*

Dividend revenues are recognized when the cum dividend is established.

*Rental income*

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

**Construction contracts**

Revenues from contracts are measured at the fair value of received or due payments.
If the outcome of a construction contract can be reliably measured, revenues and expenses are recognized in relation to the stage of completion of the contract as at the balance sheet date.

The stage of completion is measured as the proportion of incurred costs to the total estimated contract costs except for cases when such a methodology would not reflect the actual stage of completion. Any changes in the scope of work, claims and bonuses are recognized at levels agreed with the client.
If a contract's value cannot be reliably estimated, contract revenues are recognized in accordance with the probable level of contract costs that will be covered. Contract related costs are recognized as expenses of the period in which they were incurred.
If there is probability that contract costs will exceed revenues, the expected loss on the contract is immediately recognized as an expense.

**Government grants**

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

**Income tax**

Obligatory tax charges include: Corporate Income Tax and deferred tax.
The current tax liability is calculated based on the tax base for a given financial year. Tax profit (loss) differs from net book profit (loss) due to the exclusion of taxable revenues and expenses classified as tax-deductible in following years and items of expenses and revenues, which will never be subject to taxation. Tax appropriations are calculated based on tax rates applicable in a given financial year.
Deferred tax is calculated based on the balance-sheet method as tax payable or refundable in the future based on the difference between the carrying amount of assets and liabilities and their corresponding tax values used for the calculation of the tax base.
A provision for deferred tax is created on all temporary positive differences subject to taxation, whereas deferred tax assets are recognized up to the amount of probable negative temporary differences that may decrease future taxable income. Tax assets or liabilities do not occur if the temporary difference results from goodwill or the initial recognition of another asset or liability in a transaction that does not effect either tax profit/loss or accounting profit/loss. The deferred tax provision is recognized from temporary tax differences created as a result of investments in subsidiaries and associates as well as joint ventures, unless the Group is capable of controlling the reversal of temporary differences and it is likely that in the foreseeable future the temporary difference will not be reversed.
The value of the deferred tax asset is subject to analysis as at every balance sheet date and if the expected future tax income is insufficient to realize the asset or its part, a relevant write-down is created.
Deferred tax is calculated based on tax rates applicable when the given asset is realized or the liability becomes due. Deferred income tax is charged to the income statement, except for cases when it concerns items directly recognized in equity. In the latter case, deferred tax is also charged directly to equity.

## 3. SEGMENT REPORTING

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

a) *Exploration and output*. This segment relates to the delivery of gas fuel, crude oil, geophysical and exploration services. It covers the entire gas and crude oil production process from pre-exploration geophysical testing up to production and preparation of products for sale.

b) *Trading and storage*. This segment deals with the purchase, sale and storage of gas fuel.

c) *Distribution* This segment deals with the delivery of gas fuel to end customers, mainly individual customers.

In Q3 of 2007 gas fuel trading (purchase and sale) was assigned to gas trading companies that were spun off on 29 June 2007(currently OSD companies). As of 1 October 2007 gas trading companies were merged with PGNiG S.A. and therefore gas fuel trading was assigned to PGNiG S.A. in Q4 of 2007. Therefore, the results of gas trading companies were taken into account in the trading and storage segment.

d) *Other activities*. This segment covers design services and the manufacture of machines for gas and crude oil mining equipment and facilities.

(in PLN '000)

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

Segment liabilities include any operating liabilities, mainly trade, payroll and tax liabilities, both due and accrued as well as any provisions for liabilities that can be allocated to a given segment.
Both segment assets and segment liabilities are net of deferred tax.
Intra-segment transactions were eliminated.
All transactions between segments are concluded based on internally agreed prices.

### 3. a. Business segments

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

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

| | | | | | | |
|---|---|---|---|---|---|---|
| **Other segment information** | - | - | - | - | - | - |
| Expenditure for property, plant and equipment and intangibles | (1 686 170) | (460 896) | (822 178) | (10 743) | - | **(2 979 987)** |
| Revaluation of assets | (2 661 341) | (2 617 292) | (10 531 312) | (5 488) | - | **(15 815 433)** |
| Revaluation of unallocated assets | - | - | - | - | - | **(55 628)** |

(in PLN '000)

| Period ended 31 December 2006 | Exploration and output | Trading and storage | Distribution | Other | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| Sales to external customers | 1,822,481 | 4,167,322 | 9,110,156 | 97,694 | - | 15,197,653 |
| Sales between segments | 1,145,820 | 6,798,679 | 8,821 | 199,398 | (8,152,718) | - |
| Total segment revenues | 2,968,301 | 10,966,001 | 9,118,977 | 297,092 | (8,152,718) | 15,197,653 |
| Amortization/depreciation | (486,477) | (132,662) | (666,434) | (10,567) | - | (1,296,140) |
| Other expenses | (1,494,106) | (10,574,781) | (8,221,246) | (285,415) | 8,144,051 | (12,431,497) |
| Total segment expenses | (1,980,583) | (10,707,443) | (8,887,680) | (295,982) | 8,144,051 | (13,727,637) |
| **Segment performance** | **987,718** | **258,558** | **231,297** | **1,110** | **(8,667)** | **1,470,016** |
| Net financial expenses | - | - | - | - | - | 24,579 |
| Share in profits/(losses) of controlled entities measured using the equity method | - | 77,453 | - | - | - | 77,453 |
| **Profit before tax** | - | - | - | - | - | **1,572,048** |
| Income tax | - | - | - | - | - | (244,141) |
| Profit distribution | - | - | - | - | - | (2) |
| **Net profit** | | | | | | **1,327,905** |
| **Balance sheet** | | | | | | |
| Segment assets | 7,785,708 | 10,899,897 | 11,557,456 | 278,379 | (915,238) | 29,606,202 |
| Investments in entities measured using the equity method | - | 589,284 | - | - | - | 589,284 |
| Unallocated assets | - | - | - | - | - | 27,705 |
| Deferred tax assets | - | - | - | - | - | 453,439 |
| **Total assets** | - | - | - | - | - | **30,676,630** |
| Total equity | - | - | - | - | - | 21,153,360 |
| Segment liabilities | 1,303,902 | 1,643,053 | 2,649,773 | 92,836 | (915,238) | 4,774,326 |
| Unallocated liabilities | - | - | - | - | - | 2,692,870 |
| Deferred tax provision | - | - | - | - | - | 2,056,074 |
| **Total liabilities and equity** | | | | | | **30,676,630** |
| **Other segment information** | | | | | | |
| Expenditure for property, plant and equipment and intangibles | (388,142) | (433,623) | (753,399) | (6,908) | - | **(1,582,072)** |
| Revaluation of assets | (2,597,973) | (2,152,999) | (9,368,214) | (3,305) | | **(14,122,491)** |
| Revaluation of unallocated assets | - | - | - | - | - | **(56,134)** |

(in PLN '000)

### 3. b. Geographical segments

The Group operates mostly in Poland. Revenues from the export sales of products, goods and materials in 2007 represent 6,99% (6.68% in 2006) of total net revenues from the sales of products, goods and materials.

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Domestic sales | 15 488 495 | 14 182 478 |
| High-methane gas | 13 099 245 | 12 164 217 |
| Nitrated gas | 1 255 456 | 1 109 329 |
| Crude oil | 335 142 | 325 626 |
| Helium | 12 270 | 11 957 |
| Propane-butane gas | 43 712 | 46 503 |
| Gasoline | 1 650 | 6 286 |
| Decompressed gas | 18 513 | 12 992 |
| Geophysical and geological services | 36 702 | 28 930 |
| Exploration services | 75 018 | 59 648 |
| Construction-assembly services | 25 095 | 20 234 |
| Design services | 10 971 | 13 722 |
| Hotel services | 33 043 | 29 889 |
| Other services | 261 659 | 327 733 |
| Other products | 256 050 | 10 728 |
| Goods and materials | 23 969 | 14 684 |
| Export sales | 1 163 639 | 1 015 175 |
| High-methane gas | 27 877 | 24 023 |
| Nitrated gas | - | - |
| Crude oil | 442 731 | 413 511 |
| Helium | 18 228 | 20 773 |
| Propane-butane gas | - | - |
| Gasoline | - | - |
| Decompressed gas | - | 533 |
| Geophysical and geological services | 334 911 | 295 621 |
| Exploration services | 302 632 | 230 240 |
| Construction-assembly services | 14 098 | 4 811 |
| Design services | 875 | 990 |
| Hotel services | - | - |
| Other services | 6 197 | 8 547 |
| Other products | 14 114 | 11 240 |
| Goods and materials | 1 976 | 4 886 |
| **Total** | **16 652 134** | **15 197 653** |

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

The majority of the Group's assets are located in Poland. As at 31 December 2007, the value of assets located abroad represented 4,68 % (0,57 % as at 31 December 2006) of the total amount of assets.

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Assets located in Poland | 27 072 496 | 30 501 054 |
| Assets located abroad* | 1 329 405 | 175 653 |
| **Total** | **28 401 901** | **30 676 707** |

* Of the amount stated as at 31 December 2007, PLN 1.075.353 thousand was located in Norway (assets owned by the subsidiary - PGNiG Norway AS).

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

(in PLN '000)

## 4. EMPLOYEE BENEFITS AND OTHER NET OPERATING EXPENSES

### Raw materials and consumables used

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Gas | (7 727 120) | (8 068 330) |
| Other materials and consumables | (604 491) | (543 186) |
| **Total** | **(8 331 611)** | **(8 611 516)** |

### Employee benefits

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Payroll | (1,489,251) | (1,332,15) |
| Social security and other benefits | (523,706) | (490,008) |
| **Total** | **(2,012,957)** | **(1,822 ,23)** |

### Other operating expenses (net)

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

*incl. revaluation of DCF write-off on assets of OSD companies (1.317.341) thousand PLN.

## 5. FINANCIAL REVENUES AND EXPENSES

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

(in PLN '000)

## 6. MEASUREMENT OF ASSOCIATES USING THE EQUITY METHOD

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

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

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

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

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

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

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

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

(in PLN '000)

Due to reasons out of the Company's control, the assumptions adopted in the measurement of the value of shares include a significant uncertainty related to material fluctuations in exchange rates and tariff policy changes.
Taking the above facts into account, the Parent Company decided to increase the existing impairment on the investment in SGT EUROPOL GAZ S.A. to the amount of PLN (1,022,522) thousand (at the end of 2006, the write-down amounted to PLN (780,537) thousand).

## 7. INCOME TAX

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

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

### 7. a. Current income tax

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

(in PLN '000)

## 7. b. Deferred income tax

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

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

The current reporting period covers the tax period from 1 January 2007 to 31 December 2007.
A 19% CIT rate was applicable in 2007. The tax rate applicable in the comparative period, i.e. in 2006, was also 19%.
Regulations on VAT, CIT and social security contributions are subject to frequent changes, and there is often no reference to established regulations or legal precedents. Additionally, valid regulations include ambiguities that give rise to differences in the interpretation of tax regulations between the authorities and companies. Tax and other settlements (e.g. customs or foreign currency settlements) can be subject to inspection by authorities entitled to impose high fines. Liabilities assessed as a result of inspections have to be settled together with high interest. As a result, tax risk in Poland is higher than in countries where the tax system is more mature. There are not formal procedures in Poland that enable taxpayers to determine the final value of their tax liability. Tax settlements may be subject to inspection for a period of five years. Consequently, the amounts presented in the financial statements can change at a later date, after they have been finally assessed by tax authorities.
The balance of deferred tax presented in the financial statements is reduced by the adjustment arising from temporary differences whose realization for tax purposes is not 100% certain.

## 8. DISCONTINUED OPERATIONS

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

## 9. EARNINGS PER SHARE

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

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Net profit attributable to equity holders of the Parent | 915 032 | 1 327 430 |
| Net profit attributable to equity holders of the Parent used for calculating diluted earnings per share | 915 032 | 1 327 430 |
| Weighted average number of issued ordinary shares used for calculating basic earnings per share | 5 900 000 | 5 900 000 |
| Weighted average number of issued ordinary shares used for calculating basic earnings per share ('000) | 5 900 000 | 5 900 000 |
| Basic earnings for the financial year per share attributable to ordinary equity holders of the Parent | 0,16 | 0,22 |
| Diluted earnings for the financial year per share attributable to ordinary equity holders of the Parent | 0,16 | 0,22 |

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

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

## 10. DIVIDENDS PAID AND PROPOSED

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

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

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

(in PLN '000)

## 11. PROPERTY, PLANT AND EQUIPMENT

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

## FIXED ASSETS

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

(in PLN '000)

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

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

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

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

(in PLN '000)

## 11. b. Impairment of property, plant and equipment

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

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

Revaluation write-downs were increased during the current year by PLN 190, 311 thousand (of which PLN 188,618 thousand was related to assets used directly in production) and decreased by PLN 255,118 thousand (of which PLN 233,752 thousand was related to assets used directly in production).
The increase of write-downs on distribution assets was connected mainly with the revaluation of the DCF write-down (Note 11.c.), whereas decreases on mining assets were connected with the verification of assumptions or discontinuation of indications of the need for write-downs or liquidation of assets.

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

As at the end of 2007 expenditures on wells included in total value of write-offs for fixed assets under construction amounted to 347 402 thousand PLN (at the end of 2006 this write-off was equal to 225.416 thousand PLN).

(in PLN ‘000)

### 11. c. Impairment loss in distribution companies

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

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

DSO companies believe that the recoverable amounts of fixed assets decreased mainly due to the following factors:

- too low revenues generated on the distribution tariff approved by the Energy Regulatory Office;
- higher than planned increase of operating expenses in previous years;
- higher than planned increase of capital expenditure for the recovery of distribution assets in previous years.

The validity of tariffs was extended in the past due to the lack of new regulations to the amended Energy Law that would incorporate amendments resulting from the implementation of EU regulations. These delays resulted in limitations as to the Company’s ability to regularly (every 12 months) introduce new tariffs, which would account for changes in the Company’s operating environment, including for increased operating expenses and return on capital employed.
The analyses conducted on 31 December 2007 were based on the assumption that tariffs will be changed once every year and the conservative assumption that increases in distribution rates will be equal planned inflation.

DSO companies tested their non-current assets for impairment based on assumptions that took into account the following risks:

- the core business conducted by DSO companies related to gas fuel distribution is regulated;
- the level of revenues that can be generated is dependent upon administrative decisions issued by the President of the Energy Regulatory Office, including decisions that limit the rate of return on capital employed;
- it is highly unlikely that revenues will changed abruptly through tariff amendments due to limitations resulting from the fact that tariff fees are regulated.

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

**Consolidated income statement**

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

(in PLN '000)

**CONSOLIDATED BALANCE SHEET**

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

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

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

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

## 12. INVESTMENT PROPERTY

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

The Group's investment property includes social and office buildings partially designated for renting as well as industrial buildings and structures. The carrying amount of social and office buildings recognized as investment property at the end of current period amounted to PLN 4.285 thousand (PLN 2.031 thousand in 2006), whereas the carrying amount of industrial buildings and structures at the end of current period amounted to PLN 4.392 thousand (PLN (4.734 thousand in 2006).

The Group's rental income in the current year amounted to PLN . 2.813 thousand (PLN 2.714 thousand in 2006).

Operating expenses related to investment property and associated with rental income amounted to PLN 1.959 thousand in the current year (PLN 1.311 thousand in 2006).

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

(in PLN '000)

## 13. INTANGIBLE ASSETS

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

(in PLN '000)

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

## 13. a. Impairment loss on intangible assets

| **R&D expenses** | R&D expenses | Goodwill | Other intangible assets | **Total** |
|---|---|---|---|---|
| **As at 1 January 2007** | - | - | 270 | **270** |
| Increase | - | - | 7 762 | **7 762** |
| Decrease | - | - | - | **-** |
| **As at 31 December 2007** | **-** | **-** | **8 032** | **8 032** |
| | | | | |
| **As at 1 January 2006** | - | - | - | **-** |
| Increase | - | - | 270 | **270** |
| Decrease | - | - | - | **-** |
| **As at 31 December 2006** | **-** | **-** | **270** | **270** |

(in PLN '000)

## 14. FINANCIAL ASSETS AVAILABLE FOR SALE

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Unlisted shares (gross value) | 72 817 | 71 438 |
| Listed shares (gross value) | - | - |
| **Total gross value** | **72 817** | **71 438** |
| | | |
| Unlisted shared (net value)* | 19 997 | 18 112 |
| Listed shares (net value)* | - | - |
| **Total net** | **19 997** | **18 112** |

*Less revaluation write-downs

## 15. OTHER FINANCIAL ASSETS

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

### 15. a. Finance leases

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

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

Inflows from the lease of the transmission system:

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Interest installment | 219,991 | 268,617 |
| Principal installment | 188,879 | 225,327 |
| **Total** | **408,870** | **493,944** |

The table below presents finance lease receivables by maturity:

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

(in PLN '000)

## 16. DEFERRED TAX ASSET

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

## 17. OTHER NON-CURRENT ASSETS

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

## 18. INVENTORIES

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

(in PLN '000)

## 19. TRADE AND OTHER RECEIVABLES

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

Trade receivables arise mainly from the sale of gas fuel and distribution services.
Standard terms of payment for receivables related to regular sales in the Capital Group are equal to 14-30 days.

### 19. a. Revaluation write-downs of receivables

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

## 20. CURRENT TAX SETTLEMENTS

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

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

(in PLN '000)

## 21. PREPAYMENTS

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

## 22. FINANCIAL ASSETS AVAILABLE FOR SALE

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

*Less revaluation write-downs

## 23. CASH AND BANK BALANCES

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

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

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

(in PLN '000)

## 24. ASSETS CLASSIFIED AS HELD FOR SALE

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

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

(in PLN '000)

# 25. CONTINGENT ASSETS

## 25. a. Contingent receivables from received sureties and guarantees

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

(in PLN '000)

| | | | | | | |
|---|---|---|---|---|---|---|
| **Conditional receivables received by DSO companies** | | | | | | |
| Other (each with a value of less than PLN 500 thousand) | 2 979 | PLN | 2 979 | 2007 to 2010 | Various entities | bank guarantees, performance bonds etc. |
| **Conditional receivables received by other companies of CG PGNiG** | | | | | | |
| Other (each with a value of less than PLN 500 thousand) | 2 502 | PLN | 2 502 | 2007 to 2010 | Various entities | bank guarantees, performance bonds etc. |
| **Total** | | | **67 890** | | | |

* Declaration of voluntary submission to enforcement pursuant to Article 777 § 1 item 5 of the Civil Procedure Code.

## 25. b. Contingent receivables due to received bills-of-exchange

| Entity, which received the bill-of-exchange | Value of the bill-of-exchange granted in foreign currency | Currency of the bill of exchange | Value of the granted bill-of-exchange in PLN | Bill of exchange expiry date |
|---|---|---|---|---|
| **Bills of exchange received by PGNiG S.A.** | | | | |
| K.D.P. Sp. z o. o. | 8 361 | PLN | 8 361 | 30 April 2008 |
| Huta Szkła Wymiarki S.A. | 4 535 | PLN | 4 535 | 30 June 2008 |
| Porcelana Śląska Sp. z o.o. | 3 333 | PLN | 3 333 | no time limit |
| Kopalnie i Zakłady Chemiczne Siarki SIARKOPOL S.A. | 2 703 | PLN | 2 703 | 30 June 2008 |
| ZP Jopex Franciszek Jopek | 2 570 | PLN | 2 570 | no time limit |
| Huta Szkła Deco-Glass Krosno | 2 000 | PLN | 2 000 | no time limit |
| Minex Centrala Exportowo - Importowa S.A. | 1 035 | PLN | 1 035 | 15 December 2008 |
| Kuźnia Glinik Sp. z o.o. Gorlice | 1 000 | PLN | 1 000 | no time limit |
| Huta Szkła MAKORA s.j. Krosno | 1 000 | PLN | 1 000 | no time limit |
| HUTA SZKŁA LUCYNA Zakład NYSA | 900 | PLN | 900 | no time limit |
| Przedsiębiorstwo Energetyki Cieplnej Sp. z o. o. | 698 | PLN | 698 | 30 June 2008 |
| Pozostałe otrzymane weksle (każdy poniżej 500 tys. zł) | 3 494 | PLN | 3 494 | since 2007 to 2011 |
| **Bills of exchange received by Distribution Companies** | | | | |
| ZRUG Spółka z o.o. Poznań | 2 266 | PLN | 2 266 | 2007-2010 |
| GAZOBUDOWA Sp. z o.o. Poznań | 706 | PLN | 706 | 2005-2010 |
| PHARMGAS Sp.z o.o. | 2 135 | PLN | 2 135 | 2007-2010 |
| PBG S.A. | 1 231 | PLN | 1 231 | 2008-2011 |
| PHARMGAS Sp.z o.o. | 723 | PLN | 723 | 28 December 2009 |
| TESGAS Sp.z o.o. | 647 | PLN | 647 | 2007 -2010 |
| PUH INTER-TECH Komorniki | 600 | PLN | 600 | 2007-2010 |
| PHARMGAS Sp.z o.o. | 524 | PLN | 524 | 30 January 2012 |
| Pozostałe otrzymane weksle (każdy poniżej 500 tys. zł) | 3 958 | PLN | 3 958 | 2007-2011, duration of the contract |
| **Bills of exchange received by other companies from PGNiG S.A. Capital Group** | | | | |
| IZOSTAL S.A. | 1 500 | PLN | 1 500 | 6 September 2012 |
| EKO OPEN Sp. z o. o. Płock | 644 | PLN | 644 | 16 November 2008 |
| Other received bills of exchange (each with a value of less than PLN 500 thousand) | 3 070 | PLN | 3 070 | 2007-2011, duration of the contract |
| **Total** | | | **49 633** | |

## 26. SHARE CAPITAL

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Total number of shares in '000 | 5 900 000 | 5 900 000 |
| Face value per share in PLN | 1 | 1 |
| Total share capital | 5 900 000 | 5 900 000 |

(in PLN '000)

## 27. BORROWINGS AND DEBT SECURITIES

| | Currency | 31 December 2007 | 31 December 2006 | Effective interest rate | Repayment/redemption date | 31 December 2007 | 31 December 2006 | Security |
|---|---|---|---|---|---|---|---|---|
| **Long-term** | | Value in foreign currency | | | | Value in PLN | | |
| Lease liabilities | PLN | 10 733 | 16 643 | 6 - 9% | 2008-2010 | 10 733 | 16 643 | - |
| Lease liabilities | CHF | 5 998 | 10 048 | Average 8% | 11 July 2010 | 12 963 | 23 957 | - |
| Lease liabilities | USD | 3 154 | 1 555 | Libor 1M | 20 September 2012 | 7 681 | 4 526 | - |
| Sindicated loan | EUR | - | 600 000 | Euribor 3M+0,25 | 27 July 2010 | - | 2 298 720 | Distribution companies' securities |
| **Total long-term** | | | | | | **31 377** | **2 343 846** | |

| | Currency | 31 December 2007 | 31 December 2006 | Effective interest rate | Repayment/redemption date | 31 December 2007 | 31 December 2006 | Security |
|---|---|---|---|---|---|---|---|---|
| **Short-term** | | Value in foreign currency | | | | Value in PLN | | |
| Current part of lease liabilities | PLN | 21 803 | 30 737 | 6 - 9% | 2008 | 21 803 | 30 737 | - |
| Current part of lease liabilities | CHF | 4 469 | 4 868 | Average 8% | 2008 | 9 659 | 11 605 | - |
| Current part of lease liabilities | USD | 759 | 413 | Libor 1M | 2008 | 1 848 | 1 201 | - |
| Current part of consortium credit* | EUR | - | 1 283 | Euribor 3M+0,25 | 2007 | - | 4 917 | Distribution companies' securities |
| Short-term loan taken from Pekao S.A. | PLN | 20 890 | 13 264 | Wibor 1M+0,4 | 28 September 2008 | 20 890 | 13 264 | real estate mortgage, transfer of receivables from current and future contracts as collateral |
| Credit facility in Societe Generale S.A. | PLN | 2 768 | - | Wibor 1M+0,8 | 31 October 2008 | 2 768 | - | Transfer of receivables as collateral, blank bill |
| Overdraft facility in Millennium S.A. | PLN | 9 304 | 5 680 | Wibor 1M+0,25 | 23 December 2008 | 9 304 | 5 680 | Blank bill |
| Overdraft facility Raiffeisen Bank S.A. | PLN | - | 2 278 | Wibor 1W+0,40 | 30 May 2007 | - | 2 278 | Blank bill |
| Operating loan taken from BRE S.A. | PLN | - | 4 700 | Wibor 1M+0,45 | 25 August 2007 | - | 4 700 | Blank bill |
| Overdraft facility Raiffeisen Bank S.A. | PLN | - | 2 959 | Wibor 1M+0,40 | 31 May 2007 | - | 2 959 | Blank bill |
| Operating loan taken from BRE S.A. | PLN | 192 | 1 500 | Wibor 1M+0,40 | 31 May 2008 | 192 | 1 500 | Blank bill |
| Short-term credit in BPH S.A. | PLN | - | 1 002 | Wibor 1M+1,5 | 28 September 2007 | - | 1 002 | bill of exchange, inventories |
| Overdraft facility in Pekao S.A. | PLN | 3 946 | - | Wibor 1M+0,7 | 31 December 2008 | 3 946 | - | bill of exchange, registered pledge |
| Overdraft facility Raiffeisen Bank S.A. | PLN | 4 000 | - | Wibor 1M+0,7 | 28 December 2008 | 4 000 | - | bill of exchange, registered pledge |
| Operating loan taken from BRE S.A. | PLN | - | 13 923 | Wibor 1M+0,3 | 30 September 2007 | - | 13 923 | real estate mortgage i |
| Overdraft facility in BPH S.A. | PLN | 19 462 | - | Libor 1M+0,3 | 30 September 2008 | 19 462 | - | Transfer of receivables as collateral |
| Overdraft facility in Societe Generale S.A. | PLN | - | 1 668 | Libor 1M+0,8 | 30 September 2007 | - | 3 978 | Transfer of receivables as collateral |
| Overdraft facility in Societe Generale S.A. | USD | 1 484 | - | Libor 1M+0,4 | 31 August 2008 | 3 615 | - | Transfer of receivables as collateral |
| Overdraft facility in BPH S.A bank | PLN | - | 5 899 | Wibor 1M+0,3 | 30 September 2007 | - | 5 899 | seizure |
| Overdraft facility in BGK S.A. bank | PLN | - | 8 283 | Wibor 3M+0,5 | 25 April 2007 | - | 8 283 | seizure |
| Credit facility in ING Bank Śląski S.A. | PLN | 4 801 | 293 | Wibor 1M+1,2 | 27 November 2008 | 4 801 | 293 | Blank bill, Transfer of receivables as collateral |
| Overdraft facility in BRE S.A. | PLN | 1 236 | - | Wibor 1M+1,2 | 13 November 2008 | 1 236 | - | cash deposits, mortgage, bill of |

(in PLN '000)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | exchange, registered pledge |
| Overdraft facility Raiffeisen Bank S.A. | PLN | 3 000 | - | Wibor 1M+1,2 | 30 April 2008 | 3 000 | - | cash deposits, mortgage, transfer of title to benefits from insurance policy |
| Operating loan taken from BRE S.A. | PLN | 200 | - | Wibor 1M+0,5 | 30 June 2008 | 200 | - | |
| Short-term credit in Komercni Banka a.s. Czechy | CZK | - | 5 000 | Pribor 1M+1,5 | 30 June 2007 | - | 697 | Transfer of receivables as collateral |
| Overdraft facility in Komercni Banka a.s. Czechy | CZK | - | 4 198 | Pribor 1M+1,5 | 31 May 2007 | - | 585 | Transfer of receivables as collateral |
| Short-term credit in Volkswagen Bank Polska S.A. | PLN | - | 68 | 0% trade credit | 17 March 2007 | - | 68 | seizure |
| Loan taken from natural person (at subsidiary) | PLN | - | 52 | Wibor 1M+0,5 | 31 December 2007 | - | 52 | - |
| **Short-term total** | | | | | | **106 724** | **113 621** | |

* Syndicated loan agreement of 27 July 2005 concluded between PGNiG and Bank Handlowy w Warszawie S.A., Bank Polska Kasa Opieki S.A., Caylon S.A., Fortis Bank N.V., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale S.A. Branch in Poland

(in PLN '000)

.

On 8 May 2007, the Management Board of PGNiG S.A. passed resolution No. 297/2007 which reduced the Parent Company's debt through the repayment of EUR 600,000 thousand of a term loan from the Parent Company's own funds other than funds generated by the issuance of B series shares, after having previously taken up a revolving credit in the same amount.

The reduction of the Parent Company's debt with the Parent Company's own funds other than funds generated by the issuance of B series shares will not adversely affect the realization of scheduled investment projects. The solution adopted by the Parent Company's will significantly reduce debt servicing costs by eliminating situations where the Parent Company's uses the loan to invest on the financial market, thereby incurring the costs of a market margin.
In addition, the Parent Company's Management Board emphasized that investment projects referred to in the B series share prospectus are still being realized using funds generated by the share issue.

In addition, the Group had credit lines, as listed in the note below.

## 27. a. Amount of granted and unused credit lines

| Bank | 31 December 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | Amount of granted credit lines | Amount of unused credit lines | Amount of granted credit lines | Amount of unused credit lines |
| Komercni Banka a.s. Ostrava Czechy | 1 348 | 1 348 | 1 393 | 112 |
| Societe Generale S.A. | 3 000 | 232 | 3 000 | 3 000 |
| BPH S.A. | - | - | 18 000 | 4 736 |
| BRE Bank SA | 5 000 | 5 000 | 5 000 | 300 |
| RAIFFEISEN BANK S.A. | 6 000 | 6 000 | 6 000 | 3 722 |
| PEKAO S.A | 4 500 | 4 308 | 4 500 | 41 |
| Societe Generale S.A. | 5 000 | 5 000 | - | - |
| Millennium S.A. | 10 000 | 696 | 6 000 | 319 |
| PEKAO S.A | 8 000 | 54 | 5 000 | 5 000 |
| BPH S.A. | - | - | 2 000 | 998 |
| BPH S.A. | 20 000 | 538 | 20 000 | 6 077 |
| Societe Generale S.A. | 3 653 | 38 | 4 366 | 579 |
| BGK S.A. | 10 000 | 10 000 | 10 000 | 1 717 |
| BPH S.A. | 6 000 | 6 000 | 6 000 | 101 |
| BPH S.A. | - | - | 3 787 | 3 598 |
| HSBC S.A. | - | - | 2 911 | 2 037 |
| BRE Bank SA | 2 000 | 764 | 2 000 | 2 000 |
| ING Bank | 5 000 | 199 | 3 000 | 2 707 |
| BZ WBK S.A. | 2 000 | 2 000 | - | - |
| Millennium S.A. | - | - | 1 400 | 1 400 |
| PEKAO S.A | 40 000 | 40 000 | 40 000 | 40 000 |
| PKOBP S.A. | 40 000 | 40 000 | 40 000 | 40 000 |
| PEKAO S.A (dawne BPH S.A.) | 40 000 | 40 000 | 40 000 | 40 000 |
| Bank Handlowy SA | 40 000 | 40 000 | 40 000 | 40 000 |
| Societe Generale S.A. | 40 000 | 40 000 | 40 000 | 40 000 |
| Millennium S.A. | 40 000 | 40 000 | 40 000 | 40 000 |

(in PLN '000)

| | | | | |
|---|---|---|---|---|
| BRE Bank SA | 40 000 | 40 000 | - | - |
| **Total** | **371 501** | **322 177** | **344 357** | **278 444** |

Although not used in full, credit lines increase the Group's security as regards the payment of current liabilities.

(in PLN '000)

## 28. FINANCE LEASE LIABILITIES (DISCLOSED IN LIABILITIES)

| | 31 December 2007 | | |
|---|---|---|---|
| Maturing: | Value of payments (discounted) disclosed in the balance sheet) | Interest | Value of actual installments to be paid |
| up to 1 year | 33 310 | 2 184 | 35 494 |
| from 1 to 5 years | 31 371 | 1 361 | 32 732 |
| over 5 years | 6 | - | 6 |
| **Total** | **64 687** | **3 545** | **68 232** |

| | 31 December 2006 | | |
|---|---|---|---|
| Maturing: | Value of payments (discounted) disclosed in the balance sheet) | Interest | Value of actual installments to be paid |
| up to 1 year | 43 543 | 3 397 | 46 940 |
| from 1 to 5 years | 45 126 | 2 292 | 47 418 |
| over 5 years | - | - | - |
| **Total** | **88 669** | **5 689** | **94 358** |

(in PLN '000)

## 29. PROVISIONS

| | Jubilee bonuses and retirement severance pay | Provision for gas allowances | Provision for termination benefits | Provision for well reclamation costs | Provision for fines imposed by the Office for Competition and Consumer Protection | Provisions for environmental protection | Provision for contingent liabilities due to gas transmission services | Central Restructuring Fund | Other | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2007 | 337 499 | 82 198 | 14 760 | 740 645 | 4 068 | 85 153 | - | 9 740 | 79 584 | **1 353 647** |
| Created during the financial year | 107 075 | 3 039 | 2 006 | 70 315 | - | 742 | 22 500 | - | 73 730 | **279 407** |
| Reclassifications | - | - | 4 869 | - | - | (481) | - | - | (9 253) | **(4 865)** |
| Applied | (85 702) | (24 038) | (5 635) | (104 127) | (2 068) | (879) | - | (2 200) | (68 515) | **(293 164)** |
| | | | | | - | 0 | 0 | 0 | 0 | **-** |
| **As at 31 December 2007** | **358 872** | **61 199** | **16 000** | **706 833** | **2 000** | **84 535** | **22 500** | **7 540** | **75 546** | **1 335 025** |
| | | | | | | | | | | |
| Long-term 31 December 2007 | 304 020 | 38 802 | 11 467 | 684 552 | - | 81 276 | - | - | 33 688 | **1 153 805** |
| Short-term 31 December 2007 | 54 852 | 22 397 | 4 533 | 22 281 | 2 000 | 3 259 | 22 500 | 7 540 | 41 858 | **181 220** |
| | **358 872** | **61 199** | **16 000** | **706 833** | **2 000** | **84 535** | **22 500** | **7 540** | **75 546** | **1 335 025** |
| | | | | | | | | | | |
| Long-term 31 December 2006 | 281 837 | 58 826 | 9 017 | 713 381 | - | 84 411 | - | - | 32 410 | **1 179 882** |
| Short-term 31 December 2006 | 55 662 | 23 372 | 5 743 | 27 264 | 4 068 | 742 | - | 9 740 | 47 174 | **173 765** |
| | **337 499** | **82 198** | **14 760** | **740 645** | **4 068** | **85 153** | **-** | **9 740** | **79 584** | **1 353 647** |

(in PLN '000)

**Provisions for jubilee bonuses and retirement severance**

Group entities implemented a jubilee bonuses and retirement severance scheme. Respective payments are charged to profit and loss in such a way as to spread the cost of jubilee bonuses and retirement severance over the entire period of employment in respective companies. Costs resulting from the aforesaid benefits are determined using the projected unit credit method.

| **Adopted in the calculation of the interest rate** | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Monthly average compensation increase rate | 3.0% | 3.0% |
| Actual annual discount rate | 3.8% | 3.8% |
| Total interest rate applied to interest calculation | **6.8%** | **6.8%** |

The provision for jubilee bonuses is disclosed in the current value of liabilities resulting from actuarial calculations. The balance of provisions for retirement severance is recognized in the balance sheet in the net amount of the liability, i.e. after adjustment by unrecognized actuarial gains and losses and costs of past employment – non-eligible benefits.

Unrecognized actuarial gains and losses as well as past employment costs are charged to current profit and loss for 15 years.

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **Jubilee bonuses** | | |
| Opening balance of liability disclosed in the balance sheet | 240 476 | 198 343 |
| Interest expense | 9 138 | 3 769 |
| Current employment cost | 16 247 | 14 519 |
| Paid benefits | (38 633) | (34 216) |
| Actuarial gains/losses | 42 885 | 58 061 |
| Gains/losses due to restrictions and settlements | (7 017) | - |
| Closing balance of liability disclosed in the balance sheet | **263 096** | **240 476** |
| **Retirement severance** | | |
| Opening balance of liability disclosed in the balance sheet | 97 024 | 99 348 |
| Current employment cost | 5 750 | 5 081 |
| Interest expense | 4 015 | 1 717 |
| Net actuarial profit/loss recognized during the year | 75 | (832) |
| Paid benefits | (8 286) | (5 816) |
| Past employment cost | 909 | 909 |
| Gains/losses due to restrictions and settlements | (3 711) | - |
| Other | - | (3 384) |
| Closing balance of liability disclosed in the balance sheet | **95 776** | **97 023** |
| **Total closing balance of liability disclosed in the balance sheet** | **358 872** | **337 499** |

**Provision for gas allowances to former employees**

The Company pays gas allowances to its employees retired by the end of 1995. This system will be in force until 2010; thereafter the Company will cease to pay the allowance. The value of the provision for gas allowances is determined in accordance with actuarial valuation principles applied in the estimation of the provision for jubilee bonuses and retirement severance.

**Provision for payment of termination benefits**

Capital Group constituent entities create a provision for termination benefits paid to employees laid off in connection with the employment restructuring program. The provision is estimated based on planned employment reduction and amount of one-off severance payments.

The provision for restructuring costs is recognized only when the Group has presented a detailed and formal restructuring plan to all interested parties.

**Other provisions for retirement and similar benefits**

The Company also creates provisions for retirement benefits and similar, e.g. for group layoff severance pay.

**Provision for well reclamation costs**

The Company creates a provision for future costs of well liquidation and for contributions to the Mine Liquidation Fund.

The provision for well reclamation costs is calculated based on the average cost of well reclamation in particular mining facilities over the last three years, adjusted by forecasted CPI and changes in the time value of money. A three year time horizon was adopted in these calculations due to the varied number of reclaimed wells and their reclamation costs in individual years.

The gross value of the provision is charged to the relevant fixed asset. Subsequent adjustments of the provision resulting from changes of estimates are also treated as a fixed asset value adjustment.

The Mine Liquidation Fund is creased based on the Act of 27 July 2001 amending the Mining and Geological Law. Write-offs to the Mine Liquidation Fund are created at 3% to 10% of the value of the tax depreciation of mining assets applied in correspondence with other operating expenses.

The value of the provision for well reclamation cost is adjusted by unused write-offs to the Mine Liquidation Fund.

**Provision for fines from the Office for Competition and Consumer Protection**

The provision for fines from the Office for Competition and Consumer Protection is the highest item in this group of provisions. The Office for Competition and Consumer Protection claims that PGNiG S.A. has abused its power as a parent by delaying its technical approval for the connection of an existing boiler facility owned by the Municipality in Wysoka Mazowiecka to the existing measuring station.

As the decision of the Court of Appeals that amended the decision of the President of the Office for Competition and Consumer Protection has come into force thereby reducing the fine's amount, the Company released the related provision in 2006 and then, in February 2007, paid the reduced fine, simultaneously using the remaining amount.

Due to the above, the remaining balance as at 31 December 2007 applies solely to the fine of the President of the Office for Competition and Consumer Protection, who concluded that the actions of PGNiG S.A. constitute unfair competition, due to the Company's abuse of its dominant position on the domestic natural gas transmission market by refusing to provide natural gas transmission services to PHZ Bartimpex S.A. as regards gas produced outside of Poland.

**Provisions for environmental protection**

Capital Group companies create provisions for future liabilities due to the reclamation of contaminated soil or elimination of hazardous substances if there is a legal or customary obligation to do so. The created provision reflects potential costs foreseen to be incurred, estimated and verified periodically according to current prices.

**Central Restructuring Fund**

The Central Restructuring Fund was created in order to provide termination benefits for employees covered by the Restructuring Program. Detailed principles of the fund's operation as well as the catalogue of increases and expenses are specified in the Company's internal resolutions.

**Provision for contingent liabilities due to gas transmission services**

Subsequent to the objection raised by SGT EUROPOL GAZ S.A. against the decision made by President of the Energy Regulatory Office on gas transmission tariff in 2007, PGNiG S.A. calculated additional costs to be borne by the Company in case the tariff for 2007 has been rejected. Pursuant to the tariff effective in 2nd half 2005, estimated surcharge for gas transmission services to be paid in 2007 may amount to 22.500 thousand PLN. For this reason, PGNiG S.A. made in 2007 a provision in equal amount to cover these liabilities.

**Other provisions**

Capital Group constituent entities create other provisions for future, probable expenses related to commercial activity.

(in PLN '000)

## 30. DEFERRED INCOME

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **Long-term** | | |
| Undepreciated value of gas service lines financed by customers | 707 721 | 775 465 |
| Connection fee | 427 203 | 365 566 |
| Other | 7 442 | 3 239 |
| **Total long-term** | **1 142 366** | **1 144 270** |
| | | |
| **Short-term** | | |
| Undepreciated value of gas service lines financed by customers | 60 888 | 55 620 |
| Connection fee | 15 720 | 15 021 |
| Gas sales forecast | 396 612 | - |
| Other | 13 841 | 26 941 |
| **Total short-term** | **487 061** | **97 582** |

## 31. DEFERRED TAX PROVISION

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Exchange gains | 2 619 | 3 109 |
| Accrued interest | 1 605 | 1 427 |
| Measurement of financial instruments | 3 112 | 1 087 |
| Revenue due to tax obligation falling due in the next month | 13 338 | 69 209 |
| Difference between the value of non-current assets for tax and accounting purposes | 1 502 548 | 1 975 225 |
| Other | 7 137 | 6 017 |
| **Total** | **1 530 359** | **2 056 074** |

## 32. OTHER NON-CURRENT LIABILITIES

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Liabilities due to concessions, rights to geological information and mining usufruct | 20 577 | 388 |
| Other non-current liabilities | 1 082 | 809 |
| **Total** | **21 659** | **1 197** |

## 33. TRADE AND OTHER LIABILITIES

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Trade liabilities | 885 061 | 977 506 |
| Trade liabilities to related parties | 9 894 | 17 455 |
| Liabilities due to VAT | 800 840 | 612 060 |
| Tax, customs duty and social security liabilities | 124 204 | 113 429 |
| Payroll liabilities | 40 421 | 34 062 |
| Liabilities due to unused paid vacations | 32 164 | 20 619 |
| Liabilities due to purchase of non- financial fixed assets | 271 484 | 208 211 |
| Liabilities due to purchase of non- financial fixed assets from affiliated entities | 34 092 | 44 255 |
| Liabilities due to resolved supplementary contribution to the equity capital * | 82 472 | 82 472 |
| Liabilities to associates measured using the equity method | 27 794 | 9 316 |
| Other liabilities to related parties | 910 | 1 069 |
| Accruals and advances for deliveries | 66 734 | 24 772 |
| Other | 31 911 | 28 261 |
| **Total** | **2 407 981** | **2 173 487** |
| W tym jednostki powiązane (nota 39.a.) | 155 162 | 154 567 |

* Dispute contribution to the capital of Gazotech Sp. z o.o., issue described in note 40.

(in PLN '000)

## 34. REASONS FOR DIFFERENCES BETWEEN BALANCE SHEET CHANGES IN CERTAIN ITEMS AND CHANGES ARISING FROM THE CASH FLOW STATEMENT

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| 1) Cash opening balance | 3 539 078 | 3 181 567 |
| a) Opening balance of net exchange differences on cash* | (20 136) | (4 618) |
| **Opening balance of cash and bank balances in the cash flow statement (1-a)** | **3 559 214** | **3 186 185** |
| 2) Cash closing balance | 1 583 635 | 3 539 078 |
| b) Closing balance of net exchange differences on cash | (1 233) | (20 136) |
| **Closing balance of cash and bank balances in the cash flow statement (2-b)** | **1 584 868** | **3 559 214** |
| **I. Change in the balance of cash in the balance sheet (2-1)** | (1 955 443) | 357 511 |
| II. Change in net exchange differences on cash (b-a) | 18 903 | (15 518) |
| **Change in the balance of cash in cash flow statement (I. – II.)** | **(1 974 346)** | **373 029** |

* Negative amounts denote that cash exchange losses prevailed and are charged to the balance of cash in the balance sheet. These differences are eliminated in the cash flow statement.

| | **31 December 2007** | **31 December 2006** |
|---|---|---|
| **Balance sheet change in other financial assets** | **983 225** | **832 206** |
| **Balance-sheet change in net receivables** | **(857 635)** | **88 314** |
| change in lease receivables in financial assets – adjustment to investing activity | (983 280) | (834 081) |
| Change in lease receivables – adjustment of investing activities | (55 151) | (43 276) |
| Change in receivables due to dividends (15%) to the State Treasury – adjustment of financing activities | - | (47 890) |
| Change in receivables due to inclusion of Investgas S.A. in consolidation | - | 5 239 |
| Change in investment receivables due to sale of intangible assets and property, plant and equipment | (6 857) | (3 427) |
| Other | (3 929) | 1 688 |
| **Change in net receivables disclosed in the cash flow statement** | **(923 627)** | **(1 227)** |

| | **31 December 2007** | **31 December 2006** |
|---|---|---|
| **Balance-sheet change in inventory** | **135 223** | **(535 858)** |
| Fixed assets under construction reclassified to inventories – adjustments to investing activities | 1 511 | 56 |
| **Change in inventories disclosed in the cash flow statement** | **136 734** | **(535 802)** |

| | **31 December 2007** | **31 December 2006** |
|---|---|---|
| **Balance-sheet change in provisions** | **(18 622)** | **22 603** |
| Change in the provision for reclamation of wells that adjusted property, plant and equipment – adjustment of investing activities | 63 152 | (114 412) |
| Change in the provisions for inclusion of Investgas SA in consolidation | - | (7 969) |
| **Change in provisions in the cash flow statement** | **44 530** | **(99 778)** |

| | **31 December 2007** | **31 December 2006** |
|---|---|---|
| **Balance sheet change of current liabilities** | **234 494** | **66 147** |
| Change in investment liabilities due to acquisition of intangible assets and property, plant and equipment | (53 110) | (99 200) |
| Change in liabilities due to dividend (15%) to the State Treasury – adjustment of financing activities | - | 28 800 |
| Change in liabilities due to inclusion of Investgas SA in consolidation | - | (3 195) |
| Other | (1 034) | (3 164) |
| **Change in liabilities disclosed in the cash flow statement** | **180 350** | **(10 612)** |

(in PLN '000)

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **Balance sheet change in other assets** | **17 799** | **(31 424)** |
| **Balance sheet change in prepayments** | **(50 029)** | **(16 330)** |
| Prepayments for fixed assets under lease – re-classification in operating activity | (16 576) | 35 062 |
| Change in prepayments due to consolidation of Investgas S.A. | - | 126 |
| **Change in prepayments in the cash flow statement** | **(48 806)** | **(12 566)** |

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **Balance sheet change in deferred income** | **387 575** | **(80 708)** |
| Deferred income for fixed assets under lease – re-classification in operating activity | - | 69 818 |
| Subventions for fixed assets | - | (411) |
| **Change in deferred income** | **387 575** | **(11 301)** |

## 35. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### 35. a. Financial instruments – by category (carrying amount)

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Financial assets measured at fair value through profit or loss | - | - |
| Available-for-sale financial assets (unlisted shares) | 23 867 | 21 982 |
| Financial investments held to maturity | - | - |
| Loans and receivables | 6 713 237 | 8 826 802 |
| Positive value of derivatives (hedge instruments, not applied in hedge accounting) | 17 442 | 5 723 |
| Cash assets (cash at cash desk and on bank accounts; cheques and cash on way | 222 833 | 205 464 |
| Financial liabilities measured at amortized cost | 1 570 112 | 3 851 981 |
| Negative value of derivatives | 36 185 | 55 067 |

Values of recognized financial instruments do not differ at all or are only slightly different from their fair values, and, therefore, the values shown in foregoing table may be considered as the financial instruments' fair values.

### 35. b. Net gains and losses on financial assets and liabilities

| | 31 December 2007 | 31 December 2007 |
|---|---|---|
| Financial assets measured at fair value through profit or loss | - | - |
| Financial assets available for sale | 471 | (2 552) |
| Impairment recognized in profit or loss for the period | 471 | (2 552) |
| Financial investments held to maturity | - | - |
| Loans and receivables | 416 996 | 403 375 |
| Interest accrued on deposits, BSB, REPO | 76 730 | 58 113 |
| Interest on receivables* | 308 998 | 319 141 |
| Interest on loans granted | 14 070 | 17 257 |
| Revaluation write-downs on receivables | (16 992) | (26 536) |
| Revaluation write-downs on loans | 63 735 | 60 805 |
| Measurement of originated foreign currency loans | (29 545) | (25 405) |
| Positive value of derivatives | 17 442 | 5 723 |
| Financial liabilities measured at amortized cost | (45 300) | (67 336) |
| Negative value of derivatives | (36 185) | (55 067) |
| **Total impact on result** | **353 424** | **284 143** |

*incl. Interest on receivables due to finance lease in amount of 19.085 thousand PLN in 2007 (vs. 268.617 thousand PLN in 2006).

### 35. c. Objectives and principles of financial risk management

The business operations of the Parent are associate with financial risks, including in particular:

(in PLN '000)

- credit risk
- market risk, including:
  - interest rate risk;
  - currency risk;
  - commodity risk;
- liquidity risk.

***Credit risk***

Credit risk is defined as the probability of late settlement or failure to settle liabilities by a counterparty. Credit risk resulting from third parties being unable to meet their obligations under contracts related to the Group's financial instruments is in principle limited to the potential surplus of third parties' liabilities over those of the Group. The Capital Group follows the principle of entering into transactions in financial instruments with multiple companies of high creditworthiness. When selecting financial partners who will be entrusted with a portion of held assets, the Group firstly takes into account their financial standing verified by rating agencies and their market share and reputation.
The Group has the following credit risk exposure:

- originated loans;
- trade receivables;
- deposits;
- derivatives;
- granted financial guarantees.

The Group's maximum exposures to credit risk with respect to individual classes of financial instrument is presented below:

**Maximum credit risk exposure**

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Originated loans | - | - |
| Deposits in other entities (bank deposits, BSB, REPO) | 1 379 549 | 3 353 146 |
| Trade receivables | 5 333 688 | 5 473 656 |
| Positive value of derivatives | 17 442 | 5 723 |
| Granted financial guarantees | 7 902 149 | 5 837 852 |
| **Total** | **14 632 828** | **14 670 377** |

Exposure to credit risk due to originated loans results only from loans granted by the Parent to subsidiaries from the Capital Group. Loans are granted to these companies in line with the internal procedure - "Principles of granting loans by Polskie Górnictwo Naftowe I Gazownictwo S.A. to companies from the Capital Group and with capital participation of PGNiG S.A." which defines in detail the process of concluding and monitoring loan agreements which minimizes the Parent's exposure to the resulting credit risk. Loans are granted only after the applying companies have met specified terms and provided collateral. In addition, subsidiaries support the shared interest of the Group, which significantly reduces the related credit risk.

The highest credit risk exposure is associated with receivables. Receivables from gas fuel sales effected by PGNiG S.A. are the largest item among receivables.

In order to minimize the risk of the irrecoverability of receivables from sold gas fuel, standardized gas fuel sales contracts are being introduced to secure trade receivables.

Large potential clients are verified and their financial position analyzed based on generally available financial information (in the Register of Debtors) in order to determine a client's financial reliability. PGNiG S.A. requests special collateral, if a client has been entered in the Register of Debtors.

Clients are analyzed on an ongoing basis as to the fulfillment of contractual obligations related to financial settlements. Each client is obligated to make payments for natural gas deliveries in accordance with the contractual provisions. Clients are billed on a monthly basis. The majority of concluded contracts require that clients make advance payments within deadlines provided for in contracts. At the beginning of each month, an invoice that specifies payment dates is issued for planned payments. Clients have to pay for actually used gas fuel at the end of each month within deadlines foreseen in the contract. The standard payment period is 14 days, but there are also other terms of payment.

PGNiG S.A. accepts the following instruments as security:

- Mortgages (ordinary, capped amount);
- Bank guarantees;
- Deposits;
- Ordinary and registered pledges;
- Insurance guarantees;
- Blank bills of exchange;
- Declarations of voluntary submission to enforcement pursuant to Article 777 of the Civil Proceedings Code;
- Assignment of receivables arising from long-term contracts;
- Cash deposits on accounts indicated by the Commercial Branch of PGNiG S.A.;
- Ratings;
- Sureties.

In the case of new contracts, the form of security is agreed between PGNiG S.A. and the Client. It is expected that due to the process of harmonizing contracts with Energy Law requirements, negotiations will be undertaken with certain clients in order to establish or increase security.

The balance of receivables from clients is monitored on a regularly based on internal regulations . Appropriate debt collection procedures are undertaken if payment is delayed.

Statutory interest is accrued on each delayed payment.

The Group identifies, measures and minimizes its own credit risk exposure to individual banks in which it has deposits. Credit exposure was reduced by diversifying the portfolio of counterparties (in particular with regard to banks) with whom deposit transactions are concluded. The Group additionally signed Framework Agreements with all banks in which its funds are deposited that define the terms of concluding and settling all types of financial transactions. In 2007 the Group invested significant long-term surpluses of liquid cash in credit-risk-free instruments with high liquidity, in particular in treasury bills and bonds issued by the State Treasury.
The Group measures the related credit risk through the continuous verification of the financial standing of banks, reflected in fluctuations of financial ratings granted by the following rating agencies: Fitch, Standards&Poor's and Moody.

Credit risk (resulting from granted guarantees) to which the Capital Group is exposed is in principle limited to the risk that banks in which the Group purchased the guarantees in question will default. However, the Group purchases guarantees in renowned banks with high ratings and therefore the probability of default and the related risk are insignificant.

The abovementioned risk is measured through the ongoing verification of the financial standing of banks which sell guarantees, similarly as with the risk related to deposit transactions.

Credit risk exposure resulting from concluded derivatives is equal to the carrying amount of their positive balance sheet measurement at fair value. Similarly as with deposit transactions, derivative transactions are concluded with renowned banks that have a good financial standing. In addition, Framework Agreements or ISDA master agreements, which regulate the principles of cooperation and define threshold values, have been concluded with all cooperating banks.

As a result of all these activities the Group does not anticipate any significant credit risk related losses.

***Market risk***

Market risk is defined as the probability of the unfavorable effect of changes on financial and commodity markets on the economic value or profit/loss of a business.
The core task in the market risk management process involves the identification, measurement, monitoring and mitigation of basic risk sources including:

- currency risk;

- interest rate risk;
- commodity (gas, crude oil) risk.

*Currency risk*

Currency risk is defined as the probability of the unfavorable effect of FX fluctuations on a company's profit/loss.
In 2007, the long-term portion of the Group's financial liabilities included a EUR denominated loan in the amount of EUR 600 million. The above loan was repaid and transformed into a credit facility on 14 May 2007. Trade liabilities due to long-term gas fuel purchase contracts are denominated in USD and EUR.
The Group's exposure to currency risk is significant and is presented in the "Sensitivity analysis".
The key objective of the Parent's currency risk hedging activities is to protect it against exchange rate fluctuations inherent to foreign currency payments for gas fuel. The Company hedges its liabilities primarily using forwards and option-based strategies.

*Interest rate risk*

Interest rate risk is defined as the probability of the unfavorable effect of interest rate fluctuations on a company's profit/loss.
Interest rate risk resulting from originated loans and received credit facilities was insignificant and the Capital Group did not hedge this risk.
The Parent measures market (currency and interest rate) risk by monitoring VAR on a daily basis. VAR (Value At Risk) denotes the maximum loss, with a certain probability (e.g. 99%), resulting from changes in market (fair) value that may be incurred over a period of n work days. VAR is estimated based on the variance – covariance method using the Mondrian scheme.

*Commodity risk*

Commodity risk is defined as the probability of the unfavorable effect of commodity price fluctuations on a company's profit/loss.
The Group's exposure to commodity risk associated mainly with gas fuel delivery contracts is substantial. Fluctuations in the prices of crude oil products on fuel markets are the main risk factor. In certain contracts the formula for calculating the purchase price of gas fuel limits the volatility of prices by using weighted average prices from previous months. Additionally, the energy law enables entities to apply for the amendment of the tariff, if the gas purchase cost increases by more than 5% during one quarter.
In 2007, the Parent did not identify in detail and hedge this risk.
As at 31 December 2007 the Group had financial instruments which were carried at fair value or amortized costs and were exposed to commodity risk.

*Liquidity risk*

The key objective of the liquidity risk management process is the ongoing control and planning of liquidity. The liquidity level is controlled through the preparation of cash flows projections that cover a period of at least 12 months and are regularly updated every month. The realization of planned cash flows is verified on a regular basis and includes among others an analysis of unrealized cash flows, their causes and effects. Liquidity risk related threats should not be associated only with the loss of the Company's liquidity. Structural excessive liquidity, which negatively impacts the profitability of a company, is another significant threat.
The Capital Group controls and plans its financial liquidity level on an ongoing basis. As at 31 December 2007, the Group had agreements for credit facilities for a total of PLN 371.501 thousand (PLN 344.357 thousand in 2006) in order to hedge liquidity risk. Relevant details have been presented in note 27.a.
In 2007, Capital Group constituent entities used credit facilities only to a small extent.

In order to avoid excessive liquidity, the Capital Group invests cash surpluses mostly in profitable securities issued by the State Treasury and deposits in renowned banks.
Liquidity risk was significantly mitigated by the Management Board's approval of the "Liquidity Management Procedure for PGNiG S.A." on 4 July 2007. The procedure was implemented in all organizational units and regulated activities that ensure proper liquidity management through:

(in PLN '000)

payments, cash flow projections, optimized free cash management, obtaining and restructuring funds for current business activities and investments, hedging the risk of temporary liquidity loss due to unexpected disruptions and servicing of concluded loan agreements.

Liquidity risk is measured based on ongoing cash flow control which takes into account probable cash flow dates and the planned net cash position.

Analysis of maturity of financial liabilities recognized at amortized cost

| **31 December 2007** | Liabilities due to credits and loans taken | Liabilities due to finance lease | Trade liabilities | **Total expenditures** |
|---|---|---|---|---|
| up to 1 year | 73 414 | 35 494 | 2 407 980 | **2 516 888** |
| 1 to 5 years | - | 32 733 | 17 654 | **50 387** |
| over 5 years | - | 6 | 4 005 | **4 011** |
| **Total** | **73 414** | **68 233** | **2 429 639** | **2 571 286** |

| **31 December 2006** | Liabilities due to credits and loans taken | Liabilities due to finance lease | Trade liabilities | **Total expenditures** |
|---|---|---|---|---|
| up to 1 year | 65 161 | 46 940 | 1 393 317 | 1 505 418 |
| 1 to 5 years | 2 298 720 | 47 418 | 1 170 | 2 347 308 |
| over 5 years | - | - | 27 | 27 |
| **Total** | **2 363 881** | **94 358** | **1 394 514** | **3 852 753** |

In the current period as well as in the past period taken for comparison, the Group has paid all liabilities due to credits and loans taken on time. No case of violation of any agreement which might result in premature liability maturity has occurred.

Analysis of derivatives maturity

| | **Value as per balance sheet on 31 st Dec 2007*** | **Contracted cash flowe, incl.:** | **Upto 1 year** | **From 1 year to 5 years** | **3-5 years** | **Above 5 years** |
|---|---|---|---|---|---|---|
| *-interest swaps for hedging purpose* | 12 733 | **62 850** | 61 278 | 1 572 | - | - |
| - in-coming cash flows | - | **1 042 967** | 61 278 | 981 689 | | - |
| - out-going cash flows | - | **(980 117)** | - | (980 117) | | - |
| *- foreign currency options*** | (32 537) | **-** | - | - | - | - |
| - in-coming cash flows | - | **-** | - | - | - | - |
| - out-going cash flows | - | **-** | - | - | - | - |
| *- premium paid on otionsi* | 1 061 | **-** | - | - | - | - |
| **Total** | **(18 743)** | **62 850** | **61 278** | **1 572** | **-** | **-** |

(in PLN '000)

| | Value as per balance sheet on 31 st Dec 2006* | Contracted cash flowe, incl.: | Upto 1 year | From 1 year to 5 years | 3-5 years | Above 5 years |
|---|---|---|---|---|---|---|
| *- foreign currency forwards* | (16 083) | **(13 792)** | (13 792) | - | - | - |
| - in-coming cash flows | - | **1 047 780** | 1 047 780 | - | - | - |
| - out-going cash flows | - | **(1 061 572)** | (1 061 572) | - | - | - |
| *- foreign currency options*** | (33 261) | **-** | - | - | - | - |
| - in-coming cash flows | - | **-** | - | - | - | - |
| - out-going cash flows | - | **-** | - | - | - | - |
| **Total** | **(49 344)** | **(13 792)** | **(13 792)** | **-** | **-** | **-** |

* balance sheet value (i.e. difference between positive and negative value results, both based on assets) represents fair value, i.e. discounted payments effected under swap contracts. Cash flows are given without discount.
** In case of foreign currency options, due to their contingent nature (i.e. actual cash flow is subject to foreign currency rate of exchange level at the moment of option realization on the market) no related cash-flows are recognized.

No other material risks were identified in the daily business operations of the Capital Group.

***Risk Management Policy***

In order to effectively manage financial risk, the Parent's Management Board approved the "Financial Risk Management Policy for PGNiG S.A.", which defines the competencies and tasks allocated to individual organizational units in the process of financial risk management and control, on 17 February 2003.
The Parent Company is responsible for financial risk management in the Company and compliance with the adopted policy, whereas risk management related duties are assigned to individual organizational units.

The following units are responsible for compliance with the "Financial Risk Management Policy for PGNiG S.A." and its regular update:

1. the Risk Committee, which presents proposed principles, carries out an ongoing assessment of the adequacy of the risk policy and implements necessary modifications;
2. the Management Board, which formally approves the policy.

***Sensitivity analysis***

Sensivity analysis of instruments for hedging of future off-balance sheet liabilities due to gas supplies shows that increase (decrease) of currency rates of exchange would cause respective increase (decrease) in value of such liabilities and increase (decrease) of positive value of instruments hedging such liabilities. Total value of hedges in the period they refer to is lower than value of off-balance sheet liabilities due to gas supplies.

Results of ForEx sensivity analysis as on 31st Dec 2007 show that net profit would be lower by 46.85 m PLN if exchange rates of EUR, USD, NOK, and other currencies to PLN were higher by 10% providing all other variables remained at the same level (profit would be lower by 69.70 m PLN owing to NOK appreciation and higher by 20.65, 2.14 and 0.05 m PLN owing to appreciation of USD, EUR, and other currencies vs. PLN, respectively). The highest impact on sensivity analysis had positive and negative value of derivatives (of CCIRS type), which hedge the loan granted to PGNiG Norway AS; this loan, however, is not recognized in consolidad financial statements

In case the loan were recognized in balance sheet (in the same way as in separate financial statements) the flows arising from that loan and hedging transactions would counteract and set-off reciprocally, and, therefore, changes in positive (negative) valuation of the loan would be set-off by negative (positive) changes in valuation of CCIRS transaction. Therefore, in total effect, those items would not be sensitive for ForEx and interest rate fluctuations.

Lower profit would be mainly caused by increase in negative portion of fair value of financial derivatives (negative fair value of swap transactions).
Negative impact on result of financial instruments denominated in NOK would be mitigated to some extent by increase in positive portion of fair value of financial derivatives denominated in USD and EUR and evaluation of assets in these currencies. Increase in currency rates of exchange to PLN by 10% would cause reduction of negative portion of fair value of financial derivatives denominated in USD and EUR and increase in negative ForEx differences on trade liabilities denominated in these currencies.

Net profit as on 31st Dec 2007 would be higher by 15.00 m PLN if exchange rates of EUR, USD, NOK, and other currencies to PLN were lower by 10% providing all other variables remained at the same level (profit would be higher by 69.70 m PLN owing to depreciation of NOK and lower by 51.33, 3.31 and 0.05 m PLN owing to depreciation of USD, EUR, and other currencies vs. PLN, respectively). Positive result would be mainly caused by increase in positive portion of fair values of financial derivatives (positive value of swap deals denominated in NOK). Positive result would be considerably reduced by increase in negative portion of fair values of USD-based financial derivatives hedging liabilities and expenses arising from purchases of gas fuel.

Results of ForEx sensivity analysis as on 31st Dec 2006 show that net profit would be higher by 76.66 m PLN if exchange rates of EUR, USD, and other currencies to PLN grew by 10% providing that all other variables remained at the same level (profit would increase by 117.52 m PLN resulting from USD appreciation and be lower by 39.11 m PLN resulting from EUR appreciation, 3.20 m PLN owing to CHF depreciation and by 1.45 m PLN due to appreciation of other currencies). It would mainly pertain to considerable advantage of positive ForEx differences from revaluation of cash assets and increase in positive value of derivatives over increase in negative ForEx differences from revaluation of liability due to loan denominated in EUR. Increase in negative ForEx differences on other liabilities would be set-off by reduction of negative value of derivatives.

In case of depreciation of USD, EUR, and other currencies vs. PLN by 10% and providing that all other variables remained at the same level, net profit as on 31st Dec 2006 would be lower by 118.89 m PLN (profit would be lower by 155.41 m PLN due to USD depreciation and higher by 34.77 and 3.2 m PLN due to appreciation of EUR and CHF, respectively, then lower by 1.45 m PLN owing to depreciation of other currencies). It would mainly pertain to higher increase in negative ForEx differences arising from revaluation of cash and cash equivalents. These negative ForEx differences would exceed positive ForEX differences arising from liability revaluation made at lower exchange rate, which would be to the major extent set-off by increase in negative value of derivatives.

On next pages detailed results of sensivity analysis of financial derivatives denominated in foreign currencies in the Group on ForEx fluctuations for 2007 and 2006 are given.

## Analysis of foreign currence-based financial instrument sensivity on change of exchange rates

| | Balance sheet value as on 31 st Dec 2007 (in thousand PLN) | For Ex risk | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *change in rate of exchange:* | *10%* | | | | *-10%* | | | |
| | | *for EUR* | *for USD* | *for NOK* | *for other currencies* | *for EUR* | *for USD* | *for NOK* | *for other currencies* |
| **Financial assets** | | | | | | | | | |
| Financial assets held for sale | 9 029 | 36 | 867 | - | - | (36) | (867) | - | - |
| Other financial assets | - | - | - | - | - | - | - | - | - |
| Trade and other receivables | 165 545 | 1 958 | 8 498 | 243 | 5 855 | (1 958) | (8 498) | (243) | (5 855) |
| Financial assets for trading | - | - | - | - | - | - | - | - | - |
| Assets from derivatives | 17 442 | 7 989 | 13 776 | (16 093) | - | (59) | (226) | 83 797 | - |
| Cash and cash equivalents | 91 671 | 1 193 | 4 611 | 2 839 | 525 | (1 193) | (4 611) | (2 839) | (525) |
| **Effect on financiakl assets before taxation** | | **11 176** | **27 752** | **(13 011)** | **6 380** | **(3 246)** | **(14 202)** | **80 715** | **(6 380)** |
| Tax (19%) | | (2 123) | (5 273) | 2 472 | (1 212) | 617 | 2 698 | (15 336) | 1 212 |
| **Effect on financial assets after taxation** | | **9 053** | **22 479** | **(10 539)** | **5 168** | **(2 629)** | **(11 504)** | **65 379** | **(5 168)** |
| *Total foreign currencies* | | *26 161* | | | | *46 078* | | | |
| **Financial liabilities** | | | | | | | | | |
| Credits, loans and debentures (incl. finance lease ) | 35 765 | - | 1 314 | - | 2 262 | - | (1 314) | - | (2 262) |
| Trade and other liabilities | 484 279 | 9 609 | 32 126 | 2 632 | 4 061 | (9 609) | (32 126) | (2 632) | (4 061) |
| Liabilities arising from financial instruments | 36 185 | (1 086) | (31 188) | 70 406 | - | 10 449 | 82 616 | (2 701) | - |
| **Effect on financial liabilities before taxation** | | **8 523** | **2 252** | **73 038** | **6 323** | **840** | **49 176** | **(5 333)** | **(6 323)** |
| Tax -19% | - | (1 619) | (428) | (13 877) | (1 201) | (160) | (9 343) | 1 013 | 1 201 |
| **Effect on financial liabilities after taxation** | | **6 904** | **1 824** | **59 161** | **5 122** | **680** | **39 833** | **(4 320)** | **(5 122)** |
| *Total foreign currencies* | | *73 011* | | | | *31 071* | | | |
| ***Total increase/ decrease*** | | 2 149 | 20 655 | (69 700) | 46 | (3 309) | (51 337) | 69 699 | (46) |
| ***Total foreign currencies*** | | **(46 850)** | | | | **15 007** | | | |
| ***Rates of exchange at the balance sheet day and their changes:*** | | | | | | | | | |
| EUR/PLN | 3,5820 | 3,9402 | 3,5820 | 3,5820 | 3,5820 | 3,2238 | 3,5820 | 3,5820 | 3,5820 |
| USD/PLN | 2,4350 | 2,4350 | 2,6785 | 2,4350 | 2,4350 | 2,4350 | 2,1915 | 2,4350 | 2,4350 |
| NOK/PLN | 0,4497 | 0,4497 | 0,4497 | 0,4947 | 0,4497 | 0,4497 | 0,4497 | 1,9453 | 0,4497 |

| | Balance sheet value as on 31 st Dec 2006 (in thousand PLN) | For Ex risk | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *change in rate of exchange:* | *10%* | | | | *-10%* | | | |
| | | *for EUR* | *for USD* | *for CHF* | *for other currencies* | *for EUR* | *for USD* | *for CHF* | *for other currencies* |
| **Financial assets** | | | | | | | | | |
| financial assets held for sale | 6 760 | - | 676 | - | - | - | (676) | - | - |
| other financial assets | 594 | 59 | - | - | - | (59) | - | - | - |
| trade and other receivables | 157 283 | 2 222 | 11 846 | - | 1 661 | (2 222) | (11 846) | - | (1 661) |
| financial assets for trading | - | - | - | - | - | - | - | - | - |
| Assets from financial derivatives | 5 723 | 11 006 | 127 610 | - | - | (139) | (5 584) | - | - |
| cash and cash equivalents | 1 860 666 | 176 754 | 7 853 | 2 | 1 457 | (176 754) | (7 853) | (2) | (1 457) |
| **effect on financial assets before taxation** | | **190 041** | **147 985** | **2** | **3 118** | **(179 174)** | **(25 959)** | **(2)** | **(3 118)** |
| Tax (19%) | | (36 108) | (28 117) | - | (592) | 34 043 | 4 932 | - | 592 |
| **effect on financial assets after taxation** | | **153 933** | **119 868** | **2** | **2 526** | **(145 131)** | **(21 027)** | **(2)** | **(2 526)** |
| *total foreign currencies* | | *276 329* | | | | *(168 686)* | | | |
| **Financial liabilities** | | | | | | | | | |
| credits, loans and debentures (incl. finance lease ) | 2 351 246 | 230 364 | 679 | 3 954 | 128 | (230 364) | (679) | (3 954) | (128) |
| trade and other liabilities | 664 500 | 10 135 | 55 113 | - | 1 202 | (10 135) | (55 113) | - | (1 202) |
| liabilities arising from financial derivatives | 55 067 | (2 179) | (52 889) | - | - | 18 401 | 221 697 | - | - |
| **effect on financial liabilities before taxation** | | **238 320** | **2 903** | **3 954** | **1 330** | **(222 098)** | **165 905** | **(3 954)** | **(1 330)** |
| tax -19% | | (45 281) | (552) | (751) | (253) | 42 199 | (31 522) | 751 | 253 |
| **effect on financial liabilities after taxation** | | **193 039** | **2 351** | **3 203** | **1 077** | **(179 899)** | **134 383** | **(3 203)** | **(1 077)** |
| *total foreign currencies* | | *199 670* | | | | *(49 796)* | | | |
| ***total increase/ decrease*** | | (39 106) | 117 517 | (3 201) | 1 449 | 34 768 | (155 410) | 3 201 | (1 449) |
| ***total foreign currencies*** | | ***76 659*** | | | | ***(118 890)*** | | | |
| ***rates of exchange at the balance sheet day and their changes:*** | | | | | | | | | |
| EUR/PLN | 3,8312 | 4,2143 | 3,8312 | 3,8312 | 3,8312 | 3,4481 | 3,8312 | 3,8312 | 3,8312 |
| USD/PLN | 2,9105 | 2,9105 | 3,2016 | 2,9105 | 2,9105 | 2,9105 | 2,6195 | 2,9105 | 2,9105 |
| CHF/PLN | 2,3842 | 2,3842 | 2,3842 | 2,6226 | 2,3842 | 2,3842 | 2,3842 | 2,1458 | 2,3842 |

(in PLN '000)

The Company measured sensivity of financial instruments arising from loans granted and taken and lease liabilities of variable interest rate on change of interest rate by +/-100 bp.
As on 31st Dec 2007 sensivity of liabilities due to loans and lease based on variable interest rate on change of interest rate by +/-100 bp. was of +/- 1,38 m PLN.

As on 31st Dec 2006 sensivity of liabilities due to loans and lease based on variable interest rate on change of interest rate by +/-100 bp was of +/- 24.58 m PLN.

**Analysis of financial instrument sensivity on change of interest rate**

| | *balance sheet value* | *change by:* | |
|---|---|---|---|
| | *State as on 31.12.2007* | **+100 bp** | **-100 bp** |
| **loans granted*** | 64 687 | 647 | (6) |
| **lease liabilities**** | 73 414 | 734 | (7) |
| Total | **138 101** | **1 381** | **(13)** |

| | *balance sheet value* | *change by:* | |
|---|---|---|---|
| | *State as on 31.12.2006* | **+100 bp** | **-100 bp** |
| **loans granted*** | 2 368 798 | 23 688 | (237) |
| **loans taken** | 88 669 | 887 | (9) |
| **lease liabilities**** | **2 457 467** | **24 575** | **(246)** |

Due to inaccurate identification of the risk related to change of prices on goods, sensivity analyzis for this type of risk has not been carried out.

(in PLN '000)

## 36. HEDGING DERIVATIVES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

### Derivative valuation methods

In accordance with International Financial Reporting Standards the Parent discloses all derivatives in the financial statements at fair value.

As at 31 December 2007, the Parent held 2 types of derivatives: FX forwards and risk reversal strategies (foreign currency call (purchase) and put (sell) options). Measurement at fair value was carried out using the Risk Hedging application. The fair value of currency forwards is estimated by discounting the difference between the purchased non-base currency (USD or EUR) translated at the spot rate and the sold base currency (PLN) through profitability curves assigned to both currencies. The profitability curve is created using deposit rates up to one year and swap rates over one year. Market data as at 31 December 2007.

The measurement of Call and Put options at fair value was carried out in line with the Garman-Kohlhagen model based on the following market data: interest rates, FX rates and volatility as at 31 December 2007.

### Hedge accounting

In 2007 the Capital Group did not apply hedge accounting principles. Therefore changes in the fair vale of hedged financial instruments and hedging instruments were presented in the income statement for the reporting period.

### Derivatives

| Face value in respective currency | Maturity day | Price of price range by which the instrument may be realized | Valuation vs. instrument's fair value | |
|---|---|---|---|---|
| | | | 31 December 2007 | 31 December 2007 |
| | Collar | | | |
| | | | | - |
| 10 mln USD | 10 January 2008 | 2,8600-2,6195 | (1 840) | - |
| 10 mln USD | 10 January 2008 | 2,8600-2,6185 | (1 830) | - |
| 10 mln USD | 10 January 2008 | 3,0000-2,6750 | (2 394) | - |
| 10 mln USD | 18 January 2008 | 2,9900-2,6550 | (2 187) | - |
| 10 mln USD | 8 February 2008 | 2,9900-2,6550 | (2 171) | - |
| 10 mln USD | 10 March 2008 | 2,9900-2,6490 | (2 105) | - |
| 10 mln USD | 18 January 2008 | 2,9900-2,6000 | (1 639) | - |
| 10 mln USD | 8 February 2008 | 2,9900-2,5945 | (1 581) | - |
| 10 mln USD | 10 March 2008 | 2,9900-2,5890 | (1 542) | - |
| 10 mln USD | 8 February 2008 | 2,9500-2,5815 | (1 456) | - |
| 10 mln USD | 8 February 2008 | 2,9500-2,5680 | (1 329) | - |
| 10 mln USD | 18 January 2008 | 2,9500-2,5690 | (1 332) | - |
| 10 mln USD | 10 March 2008 | 2,9000-2,5680 | (1 352) | - |
| 10 mln USD | 10 March 2008 | 2,8700-2,5690 | (1 360) | - |
| 10 mln USD | 18 January 2008 | 2,8700-2,5665 | (1 307) | - |
| 10 mln USD | 10 January 2008 | 2,8000-2,5599 | (1 245) | - |
| 10 mln USD | 20 February 2008 | 2,8000-2,5500 | (1 175) | - |
| 5 mln EUR | 8 February 2008 | 3,8700-3,7070 | (621) | - |
| 10 mln USD | 20 March 2008 | 2,8300-2,5300 | (1 035) | - |
| 10 mln USD | 20 March 2008 | 2,8300-2,5300 | (1 035) | - |
| 10 mln USD | 10 January 2008 | 2,7000-2,4755 | (433) | - |
| 10 mln USD | 20 February 2008 | 2,7500-2,4350 | (312) | - |
| 10 mln USD | 10 April 2008 | 2,7500-2,3705 | (171) | - |
| 10 mln USD | 20 February 2008 | 2,7500-2,3760 | (105) | - |
| 10 mln USD | 10 April 2008 | 2,7500-2,3380 | (102) | - |
| 10 mln USD | 20 February 2008 | 2,7500-2,2700 | (6) | - |
| 10 mln USD | 20 March 2008 | 2,7500-2,2765 | (21) | - |
| 10 mln USD | 10 April 2008 | 2,7500-2,3350 | (97) | - |
| 10 mln USD | 10 April 2008 | 2,7500-2,3400 | (106) | - |
| 10 mln USD | 9 May 2008 | 2,7700-2,3100 | (82) | - |
| 10 mln USD | 20 May 2008 | 2,7400-2,3100 | (79) | - |
| 5 mln EUR | 25 January 2008 | 3,7800-3,5630 | (69) | - |
| 5 mln EUR | 10 April 2008 | 3,7600-3,5830 | (167) | - |

(in PLN '000)

| | | | | |
|---|---|---|---|---|
| 10 mln USD | 18 January 2008 | 2,6500-2,3510 | (9) | - |
| 5 mln EUR | 22 February 2008 | 3,7400-3,5700 | (110) | - |
| 10 mln USD | 20 February 2008 | 3,7400-2,2850 | (10) | - |
| 10 mln USD | 20 March 2008 | 3,7400-2,2750 | (19) | - |
| 5 mln EUR | 25 March 2008 | 3,7500-3,5470 | (84) | - |
| 10 mln USD | 18 April 2008 | 3,7400-2,2730 | (27) | - |
| 10 mln USD | 9 May 2008 | 2,7300-2,2740 | (30) | - |
| 5 mln EUR | 9 May 2008 | 3,7500-3,5090 | (36) | - |
| 10 mln USD | 18 January 2008 | 2,6300-2,3100 | (1) | - |
| 10 mln USD | 20 February 2008 | 2,6600-2,3075 | (15) | - |
| 10 mln USD | 20 February 2008 | 2,6600-2,2860 | (5) | - |
| 10 mln USD | 18 January 2008 | 2,6400-2,3275 | (3) | - |
| 10 mln USD | 8 February 2008 | 2,6300-2,3050 | (5) | - |
| 10 mln USD | 18 April 2008 | 2,6500-2,3000 | (18) | - |
| 5 mln EUR | 18 April 2008 | 3,7600-3,4600 | (1) | - |
| 10 mln USD | 20 February 2008 | 2,6400-2,2930 | (4) | - |
| 10 mln USD | 20 May 2008 | 2,6600-2,2940 | (17) | - |
| 10 mln USD | 20 May 2008 | 2,6600-2,2980 | (22) | - |
| 10 mln USD | 9 May 2008 | 2,6600-2,2980 | (22) | - |
| 10 mln USD | 18 January 2008 | 2,6400-2,2990 | - | - |
| 10 mln USD | 10 April 2008 | 2,7000-2,2910 | (30) | - |
| 10 mln USD | 10 March 2008 | 2,7200-2,2980 | (26) | - |
| 300 mln NOK | 9 May 2008 | 2,7100-2,2960 | (46) | - |
| 10 mln USD | 10 January 2007 | 3,2900-2,9980 | - | (890) |
| 10 mln USD | 10 January 2007 | 3,2600-2,9965 | - | (876) |
| 5 mln EUR | 19 January 2007 | 4,0600-3,8985 | - | (362) |
| 10 mln USD | 10 January 2007 | 3,1200-2,9080 | - | (145) |
| 5 mln EUR | 19 January 2007 | 4,0200-3,8000 | - | (48) |
| 10 mln USD | 18 January 2007 | 3,1100-2,9070 | - | (208) |
| 5 mln EUR | 18 January 2007 | 3,1200-2,9250 | - | (313) |
| 10 mln USD | 21 February 2007 | 3,2850-2,9985 | - | (1 050) |
| 10 mln USD | 20 March 2007 | 3,2900-2,9980 | - | (1 134) |
| 10 mln USD | 9 February 2007 | 3,2950-3,0185 | - | (1 193) |
| 10 mln USD | 9 February 2007 | 3,2850-3,0200 | - | (1 206) |
| 10 mln USD | 9 March 2007 | 3,2800-3,0060 | - | (1 171) |
| 10 mln USD | 9 March 2007 | 3,2800-2,9900 | - | (1 040) |
| 10 mln USD | 20 February 2007 | 3,2500-2,9970 | - | (1 033) |
| 10 mln USD | 9 March 2007 | 3,2500-2,9970 | - | (1 094) |
| 10 mln USD | 9 February 2007 | 3,2300-2,9940 | - | (978) |
| 10 mln USD | 18 January 2007 | 3,2600-3,0000 | - | (937) |
| 10 mln USD | 20 March 2007 | 3,2500-2,9980 | - | (1 130) |
| 5 mln EUR | 20 February 2007 | 4,1100-3,8935 | - | (391) |
| 5 mln EUR | 20 March 2007 | 4,1100-3,8870 | - | (397) |
| 10 mln USD | 20 February 2007 | 3,2200-3,0025 | - | (1 078) |
| 5 mln EUR | 20 February 2007 | 4,0900-3,8740 | - | (316) |
| 5 mln EUR | 20 March 2007 | 4,0900-3,8800 | - | (368) |
| 10 mln USD | 9 February 2007 | 3,1900-3,0275 | - | (1 270) |
| 10 mln USD | 20 March 2007 | 3,1900-2,9995 | - | (1 129) |
| 10 mln USD | 18 January 2007 | 3,2500-3,0015 | - | (951) |
| 5 mln EUR | 10 April 2007 | 4,0000-3,8600 | - | (278) |
| 10 mln USD | 18 January 2007 | 3,2100-3,0110 | - | (1 041) |
| 10 mln USD | 9 February 2007 | 3,2200-3,0035 | - | (1 060) |
| 10 mln USD | 9 March 2007 | 3,2100-3,0075 | - | (1 175) |
| 10 mln USD | 10 April 2007 | 3,1400-2,9975 | - | (1 134) |
| 10 mln USD | 10 April 2007 | 3,0900-2,9900 | - | (1 034) |
| 10 mln USD | 10 January 2007 | 3,1500-2,9920 | - | (832) |
| 10 mln USD | 10 April 2007 | 3,1000-2,9640 | - | (851) |
| 10 mln USD | 10 May 2007 | 3,1000-2,9250 | - | (651) |
| 10 mln USD | 20 March 2007 | 3,1000-2,9370 | - | (622) |
| 10 mln USD | 10 May 2007 | 3,0900-2,9160 | - | (586) |
| 10 mln USD | 10 May 2007 | 3,0900-2,9115 | - | (561) |
| 10 mln USD | 20 April 2007 | 3,0800-2,9160 | - | (543) |
| 10 mln USD | 18 May 2007 | 3,0800-2,9100 | - | (551) |
| 10 mln USD | 20 April 2007 | 3,0700-2,8990 | - | (437) |

(in PLN '000)

| | | | | |
|---|---|---|---|---|
| 10 mln USD | 18 May 2007 | 3,0600-3,8730 | - | (334) |
| 10 mln USD | 20 February 2007 | 3,0450-2,9240 | - | (423) |
| 10 mln EUR | 20 April 2007 | 3,0450-2,8815 | - | (316) |
| 10 mln USD | 18 May 2007 | 3,0400-2,8565 | - | (231) |
| 5 mln EUR | 10 May 2007 | 3,9500-3,7570 | - | (8) |
| 5 mln EUR | 10 April 2007 | 3,9500-3,7580 | - | (11) |
| 10 mln USD | 18 January 2007 | 2,9700-2,8890 | - | (77) |
| 10 mln USD | 20 March 2007 | 2,9900-2,8600 | - | (91) |
| 10 mln USD | 20 April 2007 | 2,9700-2,8635 | - | (86) |
| 10 mln USD | 18 May 2007 | 2,9700-2,8560 | - | (74) |
| 10 mln USD | 20 April 2007 | 2,9800-2,8505 | - | (60) |
| 10 mln USD | 10 May 2007 | 2,9500-2,8460 | - | 31 |
| 10 mln USD | 18 May 2007 | 2,9600-2,8230 | - | 76 |
| 10 mln USD | 18 May 2007 | 2,9600-2,8175 | - | 94 |
| 10 mln USD | 8 June 2007 | 2,9600-2,7875 | - | 174 |
| 5 mln EUR | 20 June 2007 | 3,9200-3,7447 | - | 51 |
| 5 mln EUR | 18 May 2007 | 3,9000-3,7335 | - | 88 |
| | | | **(32 826)** | **(33 261)** |
| | **Option „Call** | | | |
| 5 mln EUR | 10 January 2008 | 3,8400 | 200 | - |
| 5 mln EUR | 10 March 2008 | 3,6800 | 317 | - |
| 10 mln USD | 18 April 2008 | 2,5800 | 419 | - |
| 10 mln USD | 18 April 2008 | 2,5700 | 413 | - |
| | | | **1 349** | **-** |
| | **Forward** | | | |
| 1,54 mln USD | 5 May 2008 | 2,7495 | (484) | - |
| 0,56 mln USD | 1 April 2008 | 2,7450 | (174) | - |
| 10 mln USD | 10 January 2007 | 3,0853 | | (1 759) |
| 10 mln USD | 10 January 2007 | 3,0545 | | (1 451) |
| 10 mln USD | 10 April 2007 | 3,0797 | | (1 776) |
| 10 mln USD | 9 March 2007 | 3,0581 | | (1 538) |
| 10 mln USD | 20 February 2007 | 3,0595 | | (1 537) |
| 10 mln USD | 18 January 2007 | 3,0603 | | (1 516) |
| 10 mln USD | 18 January 2007 | 3,0434 | | (1 347) |
| 10 mln USD | 20 February 2007 | 3,0395 | | (1 338) |
| 10 mln USD | 10 April 2007 | 3,0336 | | (1 321) |
| 10 mln USD | 20 April 2007 | 2,9929 | | (925) |
| 10 mln USD | 20 March 2007 | 2,9964 | | (936) |
| 10 mln USD | 18 January 2007 | 2,9928 | | (843) |
| 10 mln USD | 10 May 2007 | 2,9857 | | (868) |
| 10 mln USD | 20 February 2007 | 2,9940 | | (886) |
| 10 mln USD | 20 February 2007 | 2,9862 | | (808) |
| 10 mln USD | 20 February 2007 | 2,9742 | | (689) |
| 10 mln USD | 20 March 2007 | 2,9719 | | (693) |
| 10 mln USD | 20 March 2007 | 2,9540 | | (515) |
| 10 mln USD | 20 February 2007 | 2,9599 | | (547) |
| 10 mln USD | 18 January 2007 | 2,8900 | | 183 |
| 10 mln USD | 8 June 2007 | 2,8561 | | 384 |
| 10 mln USD | 8 June 2007 | 2,8500 | | 444 |
| 10 mln USD | 10 January 2007 | 2,8595 | | 496 |
| 10 mln USD | 20 June 2007 | 2,8477 | | 456 |
| 10 mln USD | 8 June 2007 | 2,8490 | | 453 |
| 10 mln USD | 10 January 2007 | 2,8775 | | 317 |
| 10 mln USD | 9 February 2007 | 2,8760 | | 299 |
| 10 mln USD | 9 March 2007 | 2,8720 | | 309 |
| 10 mln USD | 9 February 2007 | 2,8733 | | 326 |
| 10 mln USD | 9 March 2007 | 2,8698 | | 331 |
| 10 mln USD | 10 January 2007 | 2,8771 | | 321 |
| 10 mln USD | 20 March 2007 | 2,8792 | | 226 |

(in PLN '000)

| | | | | |
|---|---|---|---|---|
| 10 mln USD | 9 February 2007 | 2,8842 | | 217 |
| 10 mln USD | 18 January 2007 | 2,8874 | | 209 |
| 10 mln USD | 18 January 2007 | 2,8874 | | 209 |
| 10 mln USD | 20 March 2007 | 2,8991 | | 29 |
| | | | **(658)** | **(16 084)** |
| | **Swap** | | | |
| 300 mln NOK | 17 January 2011 | 0,4686 | 4 605 | - |
| 300 mln NOK | 17 January 2011 | 0,4627 | 4 833 | - |
| 300 mln NOK | 17 January 2011 | 0,4596 | 2 522 | - |
| 300 mln NOK | 17 January 2011 | 0,4534 | 1 868 | - |
| 300 mln NOK | 17 January 2011 | 0,4588 | 2 265 | - |
| 300 mln NOK | 17 January 2011 | 0,4461 | (2 701) | - |
| | | | **13 392** | **-** |
| **Total** | | | **(18 743)** | **(49 344)** |
| ou of which: | positive value | **assets** | **17 442** | **5 723** |
| | negative value | **liabilities** | **(36 185)** | **(55 067)** |

(in PLN ‘000)

## 37. CONTINGENT LIABILITIES

### 37. a. Contingent liabilities arising from granted sureties and guarantees

| Borrower | Amount of the contingent liability in currency | Currency of the contingent liability | Amount of the contingent liability in PLN | Expiry date of the contingent liability | Bank or other institution issuing guarantee | Type of the contingent liability |
|---|---|---|---|---|---|---|
| **Contingent liability granted by PGNiG S.A.** | | | | | | |
| Państwo Norweskie | 627 556 | EUR | 2 247 904 | 1 January 2050 | PGNiG Norway AS | guarantee of performance by a subsidiary of liabilities towards the State of Norway |
| EUROPOL GAZ S.A. | 56 000 | PLN | 56 000 | 30 September 2012 | Bank Milenium S.A. | loan suraty |
| The President Islamic Republic of Pakistan | 2 316 | USD | 5 639 | 31 December 2008 | Societe Generale Oddział w Polsce | bank guarantee |
| Egyptian General Petroleum Corporation | 500 | USD | 1 218 | 28 February 2012 | National Societe Generale Bank S.A.E. | bank guarantee |
| Gazprom-Export Ltd. | 90 000 | USD | 219 150 | 8 February 2008 | Societe Generale Oddział w Polsce | bank guarantee |
| Gazprom-Export Ltd. | 90 000 | USD | 219 150 | 8 February 2008 | Bank PEKAO S.A. Centrala | bank guarantee |
| National Oil Corporation Libia | 10 800 | USD | 26 298 | 15 May 2008 | Societe Generale Oddział w Polsce | bank guarantee |
| Gazprom-Export Ltd. | 210 000 | USD | 511 350 | 8 February 2009 | BNP Paribas Oddział w Polsce | bank guarantee |
| Gazprom-Export Ltd. | 42 000 | USD | 102 270 | 8 February 2009 | PKO Bank Polski | bank guarantee |
| **Contingent liability granted by Gas Trading Companies**** | | | | | | |
| Contingent liability granted by Gas Trading Companies** | 1 250 000 | EUR | 4 477 500 | 27 January 2012 | Konsorcjum banków - agent Bank Handlowy S.A. w Warszwie | re-payment guarantee |
| **Contingent liability granted by Geofizyka Kraków Sp. z o.o.** | | | | | | |
| Urząd Celny w Pakistanie | 330 | USD | 804 | 31 December 2009 | Urząd Celny w Pakistanie | customs bond |
| Oil India Comany LTD | 2 363 | USD | 5 753 | 31 August 2008 | Oil India Comany LTD | performance bond |
| OGDCPakistan | 100 | USD | 5 753 | 27 June 2008 | OGDCPakistan | performance bond |
| NCL-Pakistan | 200 | USD | 487 | 17 June 2008 | NCL-Pakistan | bid bond |
| Oil India Limited Libya | 182 | USD | 443 | 8 August 2008 | Oil India Limited Libya | performance bond |
| Oil Gas Development Company Pakista | 1 470 | USD | 3 579 | 20 December 2008 | Oil Gas Development Company Pakista | performance bond |
| Dong VE A/S | 28 | EUR | 69 | 1 April 2008 | Dong VE A/S | performance bond |
| **Contingent liability granted by Geofizyka Toruń Sp. z o.o.** | | | | | | |
| INSTYTUT GEOLOGICZNY | 23 | PLN | 23 | 30 January 2009 | RAIFFEISEN BANK | performance bond |
| RELIANCE INDIE | 499 | USD | 1 215 | 29 February 2008 | BRE BANK | performance bond |
| OIL INDIA | 558 | USD | 1 358 | 15 November 2010 | RAIFFEISEN BANK | performance bond |
| RELIANCE INDIE | 1350 | USD | 3 287 | 13 October 2008 | RAIFFEISEN BANK | performance bond |
| CAIRN INDIE | 500 | USD | 1 218 | 16 January 2008 | RAIFFEISEN BANK | performance bond |
| OIL INDIA | 763 | USD | 1 857 | 14 April 2008 | RAIFFEISEN BANK | performance bond |
| OIL INDIA | 232 | USD | 565 | 20 May 2008 | RAIFFEISEN BANK | bid bond |
| GSPC | 25 | USD | 61 | 5 February 2008 | BRE BANK | bid bond |

(in PLN '000)

| | | | | | | |
|---|---|---|---|---|---|---|
| GSPC | 25 | USD | 61 | 21 March 2008 | BRE BANK | bid bond |
| RELIANCE INDIE | 50 | USD | 122 | 8 December 2008 | RAIFFEISEN BANK | performance bond |
| RELIANCE INDIE | 235 | USD | 572 | 30 September 2008 | RAIFFEISEN BANK | performance bond |
| RELIANCE INDIE | 10 | USD | 24 | 30 December 2008 | RAIFFEISEN BANK | performance bond |
| OIL INDIA | 408 | USD | 993 | 17 November 2008 | RAIFFEISEN BANK | performance bond |
| OIL INDIA | 408 | USD | 993 | 25 June 2009 | RAIFFEISEN BANK | performance bond |
| OIL INDIA | 60 | USD | 146 | 2 April 2008 | RAIFFEISEN BANK | bid bond |
| **Contingent liability granted by PNiG Jasło Sp. z o.o.** | | | | | | |
| PeBeKa S.A. | 987 | PLN | 987 | 4 December 2009 | Bank PeKaO S.A. | performance bond |
| **Contingent liability granted by PNiG Kraków Sp. z o.o.** | | | | | | |
| OGDC Company Pakistan | 84 | USD | 204 | 18 October 2009 | OGDC Company Pakistan | offer guaranteee |
| **Contingent liability granted by Gazobudowa Zabrze Sp. z o.o.** | | | | | | |
| BRE Bank S.A. | 180 | EUR | 646 | 30 May 2008 | IMP Promont Montaza Lubljana | performance bond |
| ERGO Hestia | 450 | PLN | 450 | 28 February 2008 | ABB Zamech Gazpetro | performance bond |
| ERGO Hestia | 239 | PLN | 239 | 25 October 2008 | ZRUG Sp. z o.o.w Pogórskiej Woli | performance bond |
| **Contingent liability granted by Naftomontaż Krosno Sp. z o.o.** | | | | | | |
| MICROTECH LTD Sp.z o.o. Wrocław | 112 | PLN | 112 | 18 December 2009 | TUiR CIGNA STU SA W-wa | aval |
| **Contingent liability granted by Diament Sp. z o.o.** | | | | | | |
| POZ-BRUK Sp. z o.o. | 740 | PLN | 740 | 31 January 2008 | POZ-BRUK Sp. z o.o. | guarantee of building material supply |
| NCC Roads Sp. z o.o. | 202 | PLN | 202 | 1 July 2009 | NCC Roads Sp. z o.o. | performance bond |
| WUPRINŻ Sp. z o.o. | 27 | PLN | 27 | 10 November 2009 | WUPRINŻ Sp. z o.o. | performance bond |
| MITEX S.A | 77 | PLN | 77 | 30 June 2009 | MITEX S.A | performance bond |
| Lasy Państwowe | 9 | PLN | 9 | 22 May 2009 | Lasy Państwowe | performance bond |
| Gmina Kozienice | 15 | PLN | 15 | 12 June 2009 | Gmina Kozienice | performance bond |
| ABM Sp. z o.o. | 375 | PLN | 375 | 24 August 2009 | ABM Sp. z o.o. | performance bond |
| EKOMEL Sp. z o.o. | 16 | PLN | 16 | 29 November 2010 | EKOMEL Sp. z o.o. | performance bond |
| Zw.Międzygm.Obra | 202 | PLN | 202 | 14 July 2008 | Zw.Międzygm.Obra | performance bond |
| Zakł Zagosp.Odpadów | 294 | PLN | 294 | 28 September 2008 | Zakł Zagosp.Odpadów | performance bond |
| GS Engineering&Construkt. | 535 | PLN | 535 | 14 February 2010 | GS Engineering&Construkt. | performance bond |
| Lafarge Cement S.A. | 155 | PLN | 155 | 21 January 2008 | Lafarge Cement S.A. | payment guarantee |
| ZWKiUK Sp. z o.o. | 200 | PLN | 200 | 7 January 2008 | ZWKiUK Sp. z o.o. | bid bond |
| **Contingent liability granted by Investgas S.A.** | | | | | | |
| PKN ORLEN S.A | 802 | PLN | 802 | 31 December 2010 | Deutche Bank PLC W-wa | performance bond |
| **Total** | | | **7 902 149** | | | |

*Contingent liabilities in foreign currency are translated at the NBP exchange rate as at 31 December 2007.

** Six distribution companies, (previously trading companies) (100% subsidiaries of PGNiG S.A.) jointly and severally granted a surety on the repayment of a syndicated loan contracted by PGNiG S.A. The syndicated loan agreement of 27 July 2005 was concluded between PGNiG S.A. and Bank Handlowy w Warszawie S.A., Bank Polska Kasa Opieki S.A., Caylon S.A., Fortis Bank N.V., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale S.A. Branch in Poland.Under general succession, Distribution System Operators are the Company's Guarantors.

As at 31 December 2007 the agreement concluded by PGNiG S.A and Gas Trading Companies (currently Distribution System Operators) on 22 September 2005, which concerned a guarantee in connection with the Loan Agreement concluded between PGNiG S.A. and a consortium of banks on 27 July 2005, was binding. The aforementioned agreement concerned a joint and several, irrevocable and unconditional guarantee granted by the Companies to Bank Handlowy w Warszawie S.A. (the Loan Agent) of the timely repayment of a loan of no more than EUR 1,250,000 thousand within 18 months after the termination date of the agreement for Loan Tranche A, i.e. by 27 January 2012. The Company repaid EUR 600,000 thousand of the term loan and simultaneously secured access to the same amount as part of a revolving loan. Now, the guarantees granted by the Distribution System Operators constitute the bank's security.

(in PLN '000)

## 37. b. Contingent bill of exchange liabilities

| Bill of exchange issuer and beneficiary | Amount of the bill of exchange in foreign currency | Bill of exchange currency | Amount of the bill of exchange in PLN | Bill of exchange expiry date |
|---|---|---|---|---|
| **Bills of exchange issued by PGNiG S.A.** | | | | |
| Towarzystwo Finansowo-Leasingowe S.A. | 6 852 | PLN | 6 852 | 31 December 2009 |
| **Bills of exchange issued by Geofizyke Kraków Sp. z o.o.** | | | | |
| ECS,BPH Leasing,Sogelege | 2 546 | PLN | 2 546 | 30 September 2011 |
| **Bills of exchange issued by Geofizyka Toruń Sp. z o.o.** | | | | |
| RAIFFEISEN BANK POLSKA S.A. | 6 000 | PLN | 6 000 | 30 May 2008 |
| BANK ROZWOJU EKSPORTU S.A. | 5 000 | PLN | 5 000 | 25 August 2008 |
| BANK PEKAO S.A.O/TORUŃ | 1 500 | PLN | 1 500 | 31 May 2008 |
| BANK PEKAO S.A.O/TORUŃ | 3 000 | PLN | 3 000 | 31 May 2008 |
| **Bills of exchange issued by PNiG Jasło Sp. z o.o.** | | | | |
| Bank PeKaO S.A. | 4 000 | PLN | 4 000 | 31 December 2008 |
| Bank PeKaO S.A. | 4 000 | PLN | 4 000 | 31 December 2008 |
| Bank PeKaO S.A. | 987 | PLN | 987 | 4 December 2009 |
| **Bills of exchange issued by Diament Sp. z o.o.** | | | | |
| BRE BANK S.A. | 4 000 | PLN | 4 000 | 30 January 2014 |
| **Bills of exchange issued by Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o.** | | | | |
| Krajowa Izba Gospodarcza | 1 691 | PLN | 1 691 | 30 April 2008 |
| **Bills of exchange issued by Wielkopolski Operator Systemu Dystrybucyjnego Sp. z o.o.** | | | | |
| Europejski Fundusz Leasingowy | 190 | PLN | 190 | 15 February 2009 |
| **Bills of exchange issued by Gazobudowa Zabrze Sp. z o.o.** | | | | |
| FORTIS Bank Polska S.A. | 50 | PLN | 50 | 31 July 2007 |
| PKN Orlen S.A. | 20 | PLN | 20 | no time limit |
| BRE Bank S.A. | 8 000 | PLN | 8 000 | 14 November 2008 |
| TU ALLIANZ Polska S.A. W-wa | 3 000 | PLN | 3 000 | 14 March 2007 |
| ERGO HESTIA Katowice | 1 000 | PLN | 1 000 | no time limit |
| UNIQUA TU S.A. | 1 391 | PLN | 1 391 | 18 October 2008 |
| PKN Orlen S.A. | 10 | PLN | 10 | no time limit |
| BRE Leasing W-wa | 509 | PLN | 509 | 20 July 2007 |
| BRE Leasing W-wa | 423 | PLN | 423 | 22 September 2008 |
| TUiR CIGNA STU S.A. | 549 | PLN | 549 | 31 October 2008 |
| **Bills of exchange issued by Naftomontaż Krosno Sp. z o.o.** | | | | |
| Control Process Sp.z o.o. Tarnów | 75 | PLN | 75 | 25 November 2009 |
| Control Process Sp.z o.o. Tarnów | 29 | PLN | 29 | 25 November 2009 |
| Control Process Sp.z o.o. Tarnów | 105 | PLN | 105 | 25 November 2009 |
| CIGNA STU O/Kielce | 44 | PLN | 44 | 28 March 2008 |
| CIGNA STU O/Kielce | 69 | PLN | 69 | 30 October 2010 |
| CIGNA STU O/Kielce | 14 | PLN | 14 | 14 November 2010 |
| CIGNA STU O/Kielce | 3 | PLN | 3 | 29 April 2009 |
| CIGNA STU O/Kielce | 135 | PLN | 135 | 2 August 2008 |
| **Total** | | | **55 192** | |

(in PLN '000)

## 37. c. Other contingent liabilities

### Real estate tax

The resolution of the Supreme Administrative Court in Warsaw issued on 2 July 2001, which was passed by a panel of 7 judges, decided that underground mining headings are not subject to real estate tax. Since in the case of oil and gas production wells are mining headings, local authorities from the Zielona Góra Branch's area of operation withdrew from the enforcement of real estate tax; however some authorities have decided that well supporting infrastructure is subject to taxation.
Pipeline tax was introduced in 2001. The Zielona Góra Branch in previous years created provisions for the claims of local authorities regarding real estate tax in the amount of PLN 821.3 thousand. Due to favorable adjudication of claims lodged by PGNiG S.A., the Company, after re-assessment of the risk of any possible future claims arising therefrom, came to the conclusion such risk is rather low and, therefore, discharged in 2007the provision established for this purpose. Whereas the Podkarpacie municipal authorities have not forwarded any such claims. Therefore the mining facilities located in the Podkarpacie region neither declared nor accrued real estate tax on excavations for the period of 2001-2005. The potential tax liability, not disclosed in the financial statements, together with interest is equal to PLN 60.642,2 thousand as at 31 December 2007 (PLN 59.290,3 thousand in 2006).

### Real estate claims

Additionally, claims related to the following have been lodged against PGNiG S.A. by land owners:
- land via which pipelines are planned to run;
- land where gas pipelines and other facilities have been installed.

Potential liabilities arising from claims concerning real property cannot be quantified due to the fact that such claims are often groundless (which is confirmed by expert opinions).

## 38. OFF-BALANCE SHEET LIABILITIES

## 38. a. Operating lease liabilities

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Up to one year | 1 952 | 3 067 |
| From 1 to 5 years | 1 082 | 4 824 |
| Over 5 years | - | - |
| **Total** | **3 034** | **7 891** |

## 38. b. Investment liabilities

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Liabilities arising from signed contracts | 625 761 | 423 281 |
| Stage of completion of contracts as at the balance sheet date | 320 755 | 151 492 |
| **Contractual liabilities after the balance sheet date** | **305 006** | **271 789** |

(in PLN '000)

# 39. INFORMATION ON RELATED PARTIES

## 39. a. Related party transactions

| Related party | | Sales to related parties | Purchase from related parties | Gross receivables from related parties | Net receivables from related parties | Gross loans granted to related parties | Net loans granted to related parties | Liabilities to related parties |
|---|---|---|---|---|---|---|---|---|
| Associates were consolidated using equity method | 31 December 2007 | 50 302 | 96 113 | 2 378 | 2 378 | 131 083 | - | 27 794 |
| | 31 December 2006 | 35 243 | 86 231 | 3 952 | 3 932 | 192 361 | - | 9 316 |
| Subsidiaries and associates not included in consolidation | 31 December 2007 | 21 458 | 215 834 | 134 261 | 5 882 | 12 523 | - | 127 368 |
| | 31 December 2006 | 7 143 | 168 916 | 131 954 | 3 212 | 13 880 | - | 145 251 |
| **Total related parties** | **31 December 2007** | **71 760** | **311 947** | **136 639** | **8 260** | **143 606** | **-** | **155 162** |
| | **31 December 2006** | **42 386** | **255 147** | **135 906** | **7 144** | **206 241** | **-** | **154 567** |

The most important transactions with shareholders in 2007 and 2006 were dividend payments specified with details in Note 0.

(in PLN '000)

### 39. b. Remuneration paid to Members of the Management and Supervisory Boards of companies from the Capital Group

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **Remuneration of Members of the Management Board** | **21 854** | **14 340** |
| Parent | 1 780 | 1 308 |
| Subsidiaries | 11 364 | 11 320 |
| Co-subsidiary | 8 130 | 1 160 |
| Associates | 580 | 552 |
| **Remuneration of Members of the Supervisory Board** | **9 235** | **6 151** |
| Parent | 305 | 286 |
| Subsidiaries | 3 287 | 3 196 |
| Co subsidiary | 5 153 | 2 119 |
| Associates | 490 | 550 |
| **Total** | **31 089** | **20 491** |

### 39. c. Loans granted to Members of the Management and Supervisory Boards of companies from the Capital Group

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| **Members of the Management Board** | | |
| Interest rate (%) | 1%-5% | 1%-6% |
| Repayment terms (period) | 1,5-10 years | 3-12 years |
| Value of loans remaining to be paid | 110 | 190 |
| **Remuneration of Members of the Supervisory Board** | | |
| Interest rate (%) | 0%-5% | 0%-6% |
| Repayment terms (period) | 1,25-5 years | 1-3 years |
| Value of loans remaining to be paid | 17 | 9 |
| **Total value of loans remaining to be paid** | **127** | **199** |

### 39. d. Remuneration paid to Members of the Parent's Management and Supervisory Board

| | 31 December 2007 | | |
|---|---|---|---|
| Full name | Total compensation, additional benefits and bonuses paid in 2007 | Total remuneration due to duties performed in subsidiaries paid in 2007 | **Total remuneration paid in 2007** |
| **Management Board in total, including:** | **1,779.89** | **2,816.67** | **4,596.56** |
| Głogowski Krzysztof - prezes zarządu | 222.74 | 840.75 | 1,063.49 |
| Anysz Jan- członek zarządu | 270.31 | 178.21 | 448.52 |
| Kuchciak Zenon – członek zarządu | 242.26 | 779.49 | 1,021.75 |
| Niedbalec Stanisław - członek zarządu | 251.72 | 377.95 | 629.67 |
| Zwierzyński Tadeusz - członek zarządu | 226.04 | 130.28 | 356.32 |
| Marzec Bogusław - prokurent | 315.06 | 470.38 | 785.44 |
| Bernacik Ewa - prokurent | 251.76 | 39.61 | 291.37 |
| **Supervisory Board in total, including:** | **304.74** | **94.61** | **399.35** |
| Rościszewski Andrzej | 33.86 | - | 33.86 |
| Szwarc Piotr | 33.86 | 56.66 | 90.52 |
| Chrobak Kazimierz | 33.86 | 6.00 | 39.86 |
| Arkuszewski Wojciech | 33.86 | - | 33.86 |
| Kawecki Mieczysław | 33.86 | 31.95 | 65.81 |
| Moryń Marcin | 33.86 | - | 33.86 |
| Puławski Mieczysław | 33.86 | - | 33.86 |
| Szkałuba Mirosław | 33.86 | 33.86 | 67.72 |
| Wojtowicz Jarosław | 33.86 | - | 33.86 |
| **Total** | **2,084.63** | **2,945.14** | **5,029.77** |

(in PLN '000)

| | 31 December 2006 | | |
|---|---|---|---|
| Full name | Total compensation, additional benefits and bonuses paid in 2006 | Total remuneration due to duties performed in subsidiaries paid in 2006 | **Total remuneration paid in 2006** |
| **Management Board in total, including:** | **1 307.90** | **620.88** | **1 928.78** |
| Management as at 31 December 2006 | | | |
| Krzysztof Głogowski – Chairman of the Management Board** | 48.05 | 100.58 | 148.63 |
| Jan Anysz – Member of the Management Board | 196.59 | 9.80 | 206.39 |
| Zenon Kuchciak – Member of the Management Board* | 186.18 | 149.30 | 335.48 |
| Stanisław Niedbalec – Member of the Management Board | 172.24 | 29.97 | 202.21 |
| Tadeusz Zwierzyński – Member of the Management Board* | 80.69 | 9.28 | 89.97 |
| Bogusław Marzec – Proxy* | 241.84 | 11.29 | 253.13 |
| Ewa Bernacik – Proxy** | 53.89 | 32.03 | 85.92 |
| Management members in 2006 not performing duties as at 31 December 2006 | - | - | |
| Franciszek Krok – Member of the Management Board | 32.99 | 95.21 | 128.20 |
| Bartłomiej Pawlak – Member of the Management Board* | 52.21 | 149.30 | 201.51 |
| Mieczysław Puławski - Chairman of the Management Board | 48.05 | - | 48.05 |
| Maria Teresa Mikosz – Proxy*** | 195.17 | 34.12 | 229.29 |
| **Total Supervisory Board, including:** | **285.89** | **52.10** | **337.99** |
| Supervisory Board as at 31 December 2006 | | | |
| Andrzej Rościszewski | 32.03 | - | 32.03 |
| Piotr Szwarc | 32.03 | 52.10 | 84.13 |
| Kazimierz Chrobak | 32.03 | - | 32.03 |
| Wojcich Arkuszewski | 32.03 | - | 32.03 |
| Mieczysław Kawecki | 32.03 | - | 32.03 |
| Marcin Moryń | 17.29 | - | 17.29 |
| Mieczysław Puławski | 24.02 | - | 24.02 |
| Mirosław Szakułuba | 32.03 | - | 32.03 |
| Jarosław Wojtowicz | 5.87 | - | 5.87 |
| Management members in 2006 not performing duties as at 31 December 2006 | - | - | |
| Magdalena Bąkowska | 14.87 | - | 14.87 |
| Krzysztof Głogowski | 24.02 | - | 24.02 |
| Zbigniew Kamieński | 7.64 | - | 7.64 |
| **Total** | **1 593.79** | **672.98** | **2 266.77** |

* total, for all functions performed in the Management Board and as the proxy

** since the day of appointment

*** until the day of dismissal

### 39. e. Joint ventures not included in consolidation

In 2007, PGNiG S.A. cooperated with the following foreign companies in Poland: CalEnergy Gas (Polska) Sp. z o. o., EuroGas Polska Sp. z o. o., Energia Bieszczady Sp. z o.o. and FX Energy Poland Sp. z o.o.

**CalEnergy Gas (Polska) Sp. z o. o.**, registered office: Warsaw 02-765, Al. Wilanowska 206 m. 19

As a result of the "Operating Agreement between Mining Users for the Płotki – PTZ area" (the so called expanded Zaniemyśl area) signed on 26 October 2005 between PGNiG S.A., CalEnergy Gas (Polska) Sp. z o. o. and FX Energy Poland Sp. z o. o., the parties assumed the following shares in the joint venture: PGNiG S.A.– 51%, CalEnergy Gas (Polska) Sp. z o. o.– 24.5% and FX Energy Poland Sp. z o. o.– 24.5%. In 2007, PGNiG S.A., as the operator, continued production from the "Zaniemyśl" natural gas deposit which was commenced in 2006.

**EuroGas Polska Sp. z o.o.,** registered office: Pszczyna 43-200, ul. Górnośląska 3
**Energia Bieszczady Sp. z o.o**., registered office: Warsaw 00-060, ul. Królewska 27

On 1 January 2007, PGNiG S.A., Eurogas Polska Sp. z o.o. and Energia Bieszczady Sp. z o.o. signed an "Agreement on Joint Operations in the Bieszczady region". Shares in the "Bieszczady" venture are distributed as follows: PGNiG S.A. - 51%, EuroGas Polska Sp. z o. o. - 24%, Energia Bieszczady Sp. z o. o. - 25%. The area covered by the "Bieszczady" agreement covers concession blocks 416, 417, 436, 437, 438, 456, 457. Concessions as well as mining usufruct for crude oil and natural gas exploration and prospecting within these blocks are held by PGNiG S.A. According to the "Bieszczady" agreement, PGNiG S.A. is the operator authorized to conduct all joint ventures.

**FX Energy Poland sp. z o. o.**, with register office in: Warsaw 00-613, ul. Chałubińskiego 8

In 2007 PGNiG S.A. continued joint output works along with FX Energy Poland Sp. z o.o. in the following fields:

- „Płotki" (Agreement on Joint Operations of 12th May 2000 as amended);
- „Płotki" – „PTZ" – in cooperation with CalEnergy Resources Poland Sp. z o.o. (co called „Expanded ZANIEMYŚL Area", Operating Agreement of Mine Users of 26th October 2005);
- „Poznań" (Agreement on Joint Operations of 1st June 2005);
- Block 255 (Agreement on Joint Operations of 29th October 1999).

In continuation of joint operations in „Płotki" field, *"Agreement On Transfer Of Mining Usufruct Of „KLĘKA" Natural Gas Deposit"* and *„Agreement On Settlement Of Natural Gas Extracted From KLĘKA-11 Well"* were concluded with FX Energy Poland Sp. z o.o. on 9th Jan 2007. In this area 3-D seismic tests were already completed and an exploration borehole was made. Currently, capacity measurements and deposit mining trials are being carried-out.

In 2007, mining of „Zaniemyśl" natural gas deposit located in „Płotki"-„PTZ" field was continued. Mining of Winna Góra-1 deposit in „Poznań" field already started. 3D seismic tests and analyses for preparation of new boreholes were completed.

In 2007 PGNiG S.A. concluded „Agreement on Transfer of Mining Usufruct of Block 255" with FX Energy Poland Sp. z o.o. Pursuant to this Agreement, FX Energy Poland Sp. z o.o. transferred to PGNiG S.A. 18,8% shares in mining usufruct. In 2007 natural gas output from Wilga well (Blok 255) was continued.

None the above-mentioned joint ventures were included in consolidation in 2007 and 2006, as all the related assets, liabilities, revenues and expenses have been recognized in the income statement and balance sheet of PGNiG S.A. proportionally to its share in respective joint ventures.

### 39. f. Foreign operations

<u>PGNiG S.A.'s shares in foreign companies</u>

**Ukraine**

**"Dewon" Z.S.A**. is an unlisted joint stock company. It was incorporated on 17 November 1999. The main objective and goal of the Company is to provide crude oil and natural gas production as well as well reconstruction services, develop and operate deposits in the Ukraine.

The share capital of the Company amounts to UAH 11,146.8 thousand, i.e. PLN 5,366.1 thousand (based on the NBP's exchange rate of 31 December 2007) and is divided into 120,0 thousand shares with a face value of UAH 92.89 each. Capital commitment in the company amounts to UAH 4,055.2 thousand, i.e. PLN 1,952.2 thousand (based on the NBP's exchange rate of 31 December 2007).

The shareholder structure is as follows:

- PGNiG S.A. 36.38%
- Prawniczyj Alians Sp. z o.o. 25.99%

(in PLN '000)

| | |
|---|---|
| • Ferrous Trading Ltd. | 25.08% |
| • NAK Neftiegaz Ukrainy | 12.13% |
| • Oszkader Walentyna Georgijewna | 0.41% |
| • SZJu Ltawa Sp. z o.o. | 0.01% |

Natural gas production was launched by the Company in November 2003. Gas is produced from the Sakhalin gas condensate deposit in the Krasnokuck Region of the Kharkov Province (East Ukraine). The Company produces hydrocarbons, natural gas and condensate and sells these products on the Ukrainian market.

The Sakhalin deposit is operate based on a joint venture agreement with PoltavaNaftoGasGeologia. PoltavaNaftoGasGeologia is a subsidiary of the State-owned enterprise "Nadra Ukrainy" and holds a concession for gas exploration and production from the Sakhalin deposit.

**Oman**

The share capital of Sahara Petroleum Technology Llc amounts to RO 150.0 thousand (Omani rial), i.e. PLN 978.4 thousand (based on the NBP's exchange rate of 24 December 2007) and is divided into 150.0 thousand shares with a face value of RO 1 each. The capital commitment of PGNiG S.A. in the company amounts to RO 73.5 thousand, i.e. PLN 479.4 thousand (based on the NBP's exchange rate of 24 December 2007). The shareholder structure is as follows:

| | |
|---|---|
| • PGNiG S.A. | 49% |
| • Petroleum and Gas Technology llc<br>P.O. Box 3641, Ruwi, Oman | 51% |

The Company was founded by Zakład Robót Górniczych in Krosno (PGNiG S.A. branch until 30 June 2005, presently fully owned by PGNiG S.A.) in 2000. The company's main objective is to provide technical services related to reconditioning and reconstruction of wells, linear technique operations, maintenance of heads of exploration machines as well as light and medium drilling jobs using the technical potential of PGNiG S.A.
PGNiG S.A. is planning to withdraw its interest from the company.

**Germany**

On 1 July 2005, in Potsdam PGNiG S.A. and VNG-Verbundez Gas AG signed two incorporation agreements pursuant to German law:

- InterTransGas GmbH (ITG)
- InterGasTrade GmbH (IGT)

Both partners acquired 50% of shares in each of the companies. The share capital of the each incorporated company amounts to EUR 200 thousand (i.e. PLN 358.2 thousand based on the NBP's average exchange rate of 31 December 2007). Their registered offices are located in Potsdam.
InterGasTrade GmbH has not been entered into the commercial register.
On 9 August 2005, InterTransGas GmbH was entered into the commercial register in Potsdam.
The scope of the company's activities includes the construction, operation and sale of transmission capacity.
InterTransGas GmbH was incorporated to build an interconnector between the Polish and European gas transmission system, which would constitute one of the elements of the diversification of gas supplies to Poland. At present, based on the Partners' decision, InterTransGas GmbH operates at minimum cost. When circumstances will enable the construction of a pipeline connecting the Polish and German transmission system, the company will be able to start its core activity defined in its Articles of Association.
In 2007, pursuant to the resolution of the Shareholders Meeting, the registered office of InterTransGas GmbH was moved from Potsdam to Lipsk.

**Norway**

On 24 May 2007, PGNiG S.A. formed a subsidiary in Norway – PGNiG Norway AS with registered office in Stavanger, Norway, a limited liability company acting as a special purpose entity for the operations of PGNiG in Norwegian Continental Shelf (NCS). The Company was registered on 9 June 2007.

All 10,000 shares with a face value of NOK 1,000 each were assumed by the sole shareholder - PGNiG S.A. On 18 October 2007, the share capital of PGNiG Norway AS was increased by NOK

487,327 thousand. At the end of 2007, the capital commitment of PGNiG S.A. in the company amounted to NOK 497,327 thousand, i.e. PLN 223,648 thousand (based on the NBP's exchange rate of 31 December 2007).
PGNiG Norway enables the Capital Group to achieve the following goals:

- Gas supply diversification;
- Increased gas supply safety;
- International expansion in the oil and gas exploration and production sector;
- Development of international gas fuel trading operations.

PGNiG Norway AS was incorporated in particular to execute an agreement signed on 28 February 2007 between PGNiG S.A., Mobil Development Norway AS and ExxonMobil Produktion Norway Inc. regarding the Company's purchase of shares in concession regulated deposits on Norwegian Continental Shelf, i.e. the Skarv, Snadd and Idun deposits (licenses PL 212, PL 212B, PL 262). According to the joint venture agreement, PGNiG Norway AS holds the right to 11.9175% (after the unitization of the Skarv, Snadd and Idun deposit , on 14 September 2007) of production from the Skarv/Snadd/Idun deposit.

Polskie Górnictwo Naftowe i Gazownictwo S.A. with registered office in Warsaw is the sole shareholder of PGNiG Norway AS. The scope of PGNiG Norway's business operations includes in particular crude oil and natural gas production as well as other similar and related operations. PGNiG Norway AS can also take part in infrastructural projects such as the construction and operation of pipelines.

A loan agreement was signed between PGNiG S.A. (Creditor) and PGNiG Norway AS (Borrower) on 16 October 2007. According to the Agreement the Creditor granted a loan of NOK 3,800,000 thousand, i.e. PLN 1,846,420 thousand (based on the NBP's exchange rate of 16 October 2007), to the Borrower. The loan was granted for the period until 20 December 2022. Funds obtained from the loan were used to finance the purchase of shares in licenses PL212, PL212B and PL262 on the Norwegian Continental Shelf and to cover costs related to their development. The value of the disbursed loan of NOK 1,800,000 thousand, i.e. PLN 809,460 thousand (based on the NBP's exchange rate of 31 December 2007) and the accrued interest of NOK 29,082 thousand, i.e. PLN 13,078.18 thousand (based on the NBP's exchange rate of 31 December 2007) are disclosed in the Company's balance sheet as at 31 December 2007. As at 31 December 2007, the total receivables of PGNiG S.A. due to the originated loan amounted to PLN 1,829,082 thousand, i.e. PLN 822,538.18 thousand (based on the NBP's exchange rate of 31 December 2007).

As at 31 December 2007, the total commitment of PGNiG S.A. in PGNiG Norway AS amounted to NOK 2,326,409 thousand (capital share in the amount of NOK 497,327 thousand and the loan plus interest in the amount of NOK 1,829,082 thousand), i.e. PLN 1,046,186.13 thousand (capital share - PLN 223,647.95, loan - 822,538.18).

On 19 October 2007, PGNiG S.A. and PGNiG Norway AS signed an agreement assigning all rights and obligations resulting from the agreement on the purchase of shares in licenses PL212, PL212B, PL262 on the Norwegian Continental Shelf, signed on 28 February 2007 between PGNiG S.A. (as the Buyer), Mobil Development Norway A/S and ExxonMobil Production Norway Inc. (as the Seller). The agreement came in force on 30 October 2007, i.e. on the closing day of the transaction involving the purchase of shares in licenses PL212, PL212B and PL262 on the Norwegian Continental Shelf.

On 19 October 2007 a guarantee agreement was signed between PGNiG S.A. and PGNiG Norway AS. According to the Agreement, PGNiG S.A. issued a guarantee to PGNiG Norway for EUR 627,555.65 thousand, i.e. PLN 2,308,903 thousand (based on the NBP's exchange rate of 19 October 2007). The guarantee expires on 1 January 2050.
The agreement was signed to secure the potential liabilities of PGNiG Norway AS resulting from concessions or from binding laws toward Norway and specific Norwegian entities. The guarantee is required by § 10-7 of the Norwegian Law on oil related operations of 1996. Such a guarantee is a standard document required with respect to mining operations in Norway. The guarantee is secured by a bill of exchange with recourse issued by PGNiG Norway AS. PGNiG S.A. will receive remuneration from PGNiG Norway AS for the issuance of the guarantee in the form of a mutual performance involving the pre-emptive right to a portion of produced crude oil and natural gas.
The value of the above-mentioned guarantee as at 31 December 2007 was equal to PLN 2,247,904.33 thousand (after translation using the NBP's exchange rate applicable on 31 December 2007).

On 30 October 2007, PGNiG Norway AS purchased share in licenses PL 212, PL212B and PL 262 on the Norwegian Continental Shelf, with the rights and obligations resulting from agreements regarding deposits, from Mobil Development Norway AS and ExxonMobil Production Norway Inc. (ExxonMobil). The Licenses was acquired under the agreement of 28 February 2007 between PGNiG S.A. and ExxonMobil. The resulting rights and obligations were assumed by PGNiG Norway AS pursuant to the agreement of 19 October 2007. PGNiG Norway AS paid a fee of USD 360 million, i.e. PLN 908.6 million (based on the NBP's exchange rate of 30 October 2007), for the license. PGNiG Norway AS additionally paid approx. USD 3.5 million, i.e. PLN 8.8 million (based on the NBP's exchange rate of 30 October 2007) and NOK 170 million, i.e. PLN 79.9 million (based on the NBP's exchange rate of 30 October 2007), due to settlements and cost reimbursements foreseen by the Agreement that were incurred by ExxonMobil from 1 January 2007 to 30 October 2007 due to ExxonMobil's share in the Licenses. The price for the license was financed by PGNiG Norway AS using a loan from the Company and capital contributions made by the Company, which were financed from the Company's own funds.

<u>The Group's shares in exploration concessions:</u>

*Norwegian Continental Shelf project*

The Capital Group's commitment to the works being performed in the Norwegian Continental Shelf (NCS) is an element of PGNiG S.A.'s strategy aimed at increasing the Company's crude oil and gas resources outside Poland. The acquisition of shares in three exploration-production concessions in Norway is a long-term investment aimed at diversifying gas supply sources, which will increase the safety of gas supplies to Poland.

As a result of PGNiG Norway AS acquiring, on 30 October 2007, shares in concession regulated deposits on the NCS, i.e. Skarv, Snadd and Idun deposits (licenses PL 212, PL 212B, PL 262), in accordance with joint-venture agreement, the Group holds 11.9175% of rights, as at 31 December 2007, in production from the Skarv/Snadd/Idun deposit (after the unitization of the Skarv, Snadd and Idun deposits on 14 September 2007).

According to the information confirmed by the Norwegian Petroleum Directorate (NPD), total volume of all deposits, in which PGNiG S.A. is going to acquire shares from ExxonMobil, is estimated as follows:

- 37.9 billion of natural gas;
- 16.8 million m$^3$ of crude oil and condensate (approx. 15 million tons);
- 5.3 million tons of NGL (Natural Gas Liquids).

The Oil fields are located in the Norwegian Sea, approx. 200 km west of Sandnessjoen, at a depth of 350 to 450 m. At present, the production project is in the deposit development phase. The deposit's development involves the construction of an off-shore mining, storage and loading platform on the Skarv field which contains oil and gas/condensate. Undersea connection will be built for the Snadd and Idun fields. Gas will be transported through the Gassled network, whereas oil will be transported by tankers. This is one of the largest projects currently underway in Norway.

British Petroleum is the direct operator of the aforementioned deposits; the other partners include Shell, Statoil, Norsk Hydro and E.ON AG (after the completion of the purchase of 28% of shares in the Skarv-Idun deposits from Shell in February 2007).

Gas and oil production is planned to commence in the second half of 2011. According to estimates, capital expenditure related to deposit development will amount to approx. USD 5 billion, of which approx. USD 600 million will be incurred by the Group. Capital expenditure incurred by the Group (through a subsidiary of PGNiG S.A.) and disclosed in the Group's balance sheet as at 31 December 2007 amounted to NOK 2.220.691 thousand, i.e. PLN 998.645 thousand (according to the NBP's exchange rate applicable on 31 December 2007), where the related direct costs recognized in the income statement amounted to NOK 14.268 thousand, i.e. PLN 6.734 thousand (translated at the average NOK exchange rate constituting the arithmetic mean of average exchange rates defined by the NBP for the last day of each month in the financial year).

*Other foreign exploration*

PGNiG S.A. is conducting exploratory work in Pakistan based on the Agreement concluded between PGNiG S.A. and the Pakistan Government on 18 May 2005 as regards hydrocarbon exploration within the Kirthar concession regulated region., the scope of obligatory work defined in the concession agreement as well as results of the geological analysis of the block performed based on existing geological and geophysical data.

(in PLN '000)

Exploration work within the Kirthar block is conducted together with Pakistan Petroleum Ltd. (PPL), in accordance with the following distribution of shares and expenses: PGNiG S.A. 70% and PPL – 30%.

In 2007, seismic testing was completed and field data processing was begun. At present, structural seismic maps are being developed. The results of geological and geophysical testing as well as an economic analysis of the planned venture justified the decision to drill an exploratory bore-hole in the southern part of the Kirthar concession area.

On 18th June 2007, a Memorandum of Understanding on the assignment to PGNiG S.A of 40% of shares in concession 1/05 covering the mainland of Denmark was signed with Willumsen Exploration Consultants Aps (WeXco), a Denmark-based company. Assignment agreement was concluded on 6th Dec 2007. Current concession holders are PGNiG S.A, WeXco- Willumsen Exploration Consultants Aps and Odin Energi AIS, a Norwegian state enterprise holding interests of 40%, 40% and 20%, respectively. At the beginning of 2008 review of historical seismic records aiming at preparation of 3-D seismic work project started. Seismic works are scheduled for completion in 2009.

In 2007, PGNiG S.A. conducted work aimed at obtaining concessions in such countries as Libya, India and Egypt.

The Group's foreign branches:

The Group has branches, which conduct operating activity or support the development of the Group's operations abroad.

**PGNiG S.A. – Parent:**
Operator Branch in Pakistan - Islamabad

**Geofizyka Kraków Sp. z o.o.**
Operator Branch in Pakistan - Islamabad;
Slovak Plant in Bratislava;
Czech Plant in Ostrava;
Libya Branch - Tripoli.

**Geofizyka Toruń Sp. z o.o.**
Geofizyka Toruń Branch Office Jebel Ali, Dubai, United Arab Emirates

**PNiG Jasło Sp. z o.o.**
Libya Branch

**PNiG Kraków Sp. z o.o.**
Pakistan Branch
Kazachstan Branch;

**PNiG Piła Sp. z o.o.**
India Branch;
Egypt Branch.

**Gazobudowa Zabrze Sp. z o.o.**
Representative office in Germany.

## 40. EMPLOYMENT (NO. OF EMPLOYEES)

| **Employment at the end of period, by segments** | 31 December 2007 | 31 December 2006 |
|---|---|---|
| PGNiG S.A. Head Office* | 604 | 811 |
| Exploration and output | 10 151 | 9 919 |
| Trade and storage | 4 104 | 467 |
| including companies consolidated using the equity method | 294 | 293 |
| Distribution | 13 538 | 16 705 |
| Other | 1 928 | 1 895 |
| **Total** | **30 325** | **29 797** |

* The Head Office of PGNiG S.A. provides services to all other segments and is therefore not allocated to any of these segments

(in PLN '000)

## 41. COMPANY SOCIAL BENEFITS FUND

Pursuant to the Act of 4 March 1994 on Company Social Benefits Funds (Dz. U. of 1996 No. 70, item 335 as amended) the Company's Social Benefits Fund is created by employers have more than 20 full time employees. The Capital Group creates write offs to Company Social Benefits Fund. The fund provides financing for the Company's social initiatives, employee loans and other social expenses.
The Capital Group offset the fund's assets with its liabilities to the fund, as these assets are not the Capital Group's separate assets. Due to the above, the balance sheet as at 31 December 2007 disclosed a net balance (social fund receivables/liabilities) of PLN 658 thousand; while as at 31 December 2006 the balance (social fund receivables/liabilities) was equal to PLN (7.905) thousand.

The below table presents the fund's assets, liabilities and costs.

| **Company Social Benefits Fund - assets and liabilities** | 31 December 2007 | 31 December 2006 |
|---|---|---|
| Granted employee loans and other receivables | 65 557 | 56 183 |
| Cash | 29 858 | 18 750 |
| Short-term prepayments | - | - |
| Other current liabilities | (8 895) | (6 074) |
| Liabilities due to Company Social Benefits Fund | (85 862) | (76 764) |
| **Balance** | **658** | **(7 905)** |
| | | |
| **Write-offs to the Company Social Benefits Fund (cost of the period)** | **(62 622)** | **(55 946)** |

The balance is settled in future periods upon refunding.

## 42. INFORMATION ON THE CAPITAL GROUP'S RESTRUCTURING PROCESS

In 2007, the Company implemented the Capital Group restructuring process regarding:
- Separation of trading activity and technical distribution of gas fuel;
- Asset restructuring;
- Employment restructuring.

### Separation of trading activity and technical distribution of gas fuel

In implementing the requirements of Directive No. 2003/55/EC of the European Parliament and the Council, the Energy Law imposed the obligation to separate gas fuel trading and technical distribution operations by 1 July 2007. The obligation also applied to six regional Gaz Companies operating within PGNiG Capital Group (Dolnośląska, Górnośląska, Karpacka, Mazowiecka, Pomorska and Wielkopolska). Based on an in-depth legal and tax analysis it was determined that the least expensive solution would be to divide Gaz Companies (by spinning off local trading units) and then to merge the spun-off temporary Companies (Trading Companies) with PGNiG S.A. The above-mentioned procedure of fulfilling imposed obligations will help the Company minimize tax liabilities and ensure the general succession of concessions and all gas fuel delivery contracts (approx. 6.3 million). As a result, Trading Divisions were created in the six Gas Companies as of 31 December 2006, as confirmed by an entry in the National Court Register. The Management Boards of these Gas Companies provided them with the required assets and human resources. The Articles of Incorporation of 6 Gas Trading Companies with registered offices in Warsaw (Dolnośląska Spółka Obrotu Gazem, Górnośląska Spółka Obrotu Gazem, Karpacka Spółka Obrotu Gazem, Mazowiecka Spółka Obrotu Gazem, Pomorska Spółka Obrotu Gazem, Wielkopolska Spółka Obrotu Gazem) were simultaneously signed on 27 December 2006. All shares (with a value of PLN 50 thousand each) in the share capitals of these Companies were assumed by PGNiG S.A., as their sole partner.

In 2007, the division of Gas Companies was registered along with the reduction in their capital and changes in their Articles of Association which restricted their operations and changed their names. A uniform name was agreed: (Dolnośląski, Górnośląski, etc.) Operator Systemu Dystrybucyjnego (Distribution System Operator). On 30 June 2007, the President of the Energy Regulatory Office issued a decision that approved the new role of DSO companies as distribution system operators for one year. On 29 June 2007, the increase in the capital of six Gas Trading Companies was registered, which in accordance with the Code of Commercial Companies meant that the most important stage of the legal separation of trading activities and technical distribution had been completed and DSO companies spun off. The total share capital contributed to the Trading Companies amounted to approx. PLN 538 million. On 3 July 2007, an Extraordinary Shareholders Meeting of PGNiG S.A.

passed a resolution that approved the combination of Gas Trading Companies and PGNiG S.A. At the end of July and beginning of August 2007, Gas Trading Companies organized General Shareholders Meetings in connection with the combination with PGNiG S.A. On 20 September 2007, an Extraordinary Shareholders Meeting of PGNiG S.A. approved the Management Board's motion to amend the By-laws of PGNiG S.A. as regards the scope of its operations by adding the operations taken over from GAS Trading Companies as well as operations to be conducted by Gas works within the structure of the Commercial Division. As of 1 July 2007, the Commercial Division commenced its operation as a separate organizational unit of PGNiG S.A. It was decided that the Division's registered office will be located in Warsaw, at ul. Kasprzaka, where all the organizational units of the Commercial Division's Headquarters will be located. 3 145 employees were transferred from the Gas Companies to Gas Trading Companies (pursuant to Article 23 of the Labor Code). They will become the employees of the Commercial Division (Gas works) upon the integration of trading operations in PGNiG S.A. Gas Trading Companies were integrated with PGNiG S.A. as of 1 October 2007. Appropriate agreements were concluded in order to regulate mutual economic relations between PGNiG S.A. and individual DSO's. The following constituted the key agreements: agreements on distribution services, IT services, operations of CNG stations, meter reading services, cooperation between DSO's and Gas Trading Companies, leases. During all implementation stages of the Project negotiations were conducted with all trade unions in the Capital Group and the PGNiG S.A. Employee Council based on the "Agreement between the Head Offices of Oil and Gas Mining Sector Trade Unions and PGNiG S.A. on the protection of employee rights in PGNiG Capital Group during the implementation of the government restructuring and privatization program and harmonization of the organizational structure to the Energy Law provisions, in particular with respect to the integration of Trading operations and transformation of Gas Companies into Distribution System Operators" concluded on 7 December 2006.

**Restructuring of the Parent's assets**

The asset restructuring process includes actions aimed at the utilization of assets that are obsolete and technologically useless to the Parent's ongoing business operations. This mainly applies to property, including land, perpetual usufruct right, buildings and structures, as well as separately owned premises, co-operative ownership rights to residential and commercial premises. Efforts to sell or lease out the above-mentioned non-current assets have been intensified. These efforts are aided by the current favorable situation on the real estate market. With the help of its proxies the Parent is also continuing actions aimed at regulating the legal status of property, where buildings whose construction was funded by the Parent are located. These activities include the instigation of administrative ownership regulating procedures, conclusion of contracts for the use or exchange of real property, sale of titles to expenditure. Total net value of the Parent's property that was sold in 2007 and excluded from its operations amounts to approx. PLN 7 million.

**Employment restructuring program**

Since 2000, an „*Employment Restructuring And Social Assistance Program For Employees Of PGNiG SA's Regional Branches And Subsidiary Companies*" has been in course in PGNiG S.A. Program duration was extended by end of 2008. In 2007, 587 employees were covered by this Program.

## 43. MAIN REASONS OF UNCERTAINTY OF ESTIMATE DATA

During the Group's application of the accounting policy referred to in clause 2 of these financial statements, the Company made the following assumptions regarding uncertainty and estimates that had the most significant impact on values presented in the financial statements. Due to the above, there is a risk of material changes in the future periods regarding the following areas:

**Supplementary contribution to shareholders' equity of PI GAZOTECH Sp. z o.o.**

In 2007 two suits initiated by PGNiG S.A. regarding acknowledgement of resolutions passed by the Extraordinary Shareholders Meeting of PI GAZOTECH Sp. z o.o. on supplementary contribution to the shareholders' equity of this company as invalid were pending and none of them was finally adjudicated by 31st Dec 2007.

On 4th Feb 2008 the Court of Appeal dismissed the appeal submitted by PGNiG S.A in the case regarding acknowledgment of resolutions passed by the Extraordinary Shareholders Meeting of PI GAZOTECH Sp. z o.o on 23rd Apr 2004, including the resolution obliging PGNiG S.A. to pay supplementary contribution in cash amounting to 52.000 thousand PLN to the shareholders' equity of this company as invalid. The sentence is legally binding. On 6th Feb 2008 PGNiG S.A. submitted the motion for written substantiation of the sentence.

(in PLN '000)

On 5th Feb 2008 the Court of Appeal in Warsaw dismissed the appeal submitted by PGNiG S.A. in the case regarding consideration of the resolution on redemption of the shares passed by the Shareholders' Meeting of PI GAZOTECH Sp. z o.o. on 23rd Apr 2004 as non-existent. The sentence is legally binding. Written substantiation of the sentence was delivered to the Company by the Court of Appeal in Warsaw. PGNiG S.A. is considering submission of a cassation complaint on legally binding sentence.

At the time, when these Statements were made, two actions brought by PGNiG S.A. against PI GAZOTECH Sp. z o.o. were pending. First suit refers to acknowledgement of the resolution passed by the Extraordinary Shareholders Meeting of PI GAZOTECH Sp. z o.o. on 19th Jan 2005 obliging PGNiG S.A. to pay supplementary contribution in cash to the shareholders' equity of PI GAZOTECH Sp. z o.o. in amount of 25.999 thousand PLN as invalid, whereas the second one refers to acknowledgement of the resolution passed by the Shareholders Meeting of PI GAZOTECH Sp. z o.o. on 6th Oct 2005 obliging PGNiG S.A. to pay supplementary contribution in cash to the shareholders' equity of PI GAZOTECH Sp. z o.o. in amount of 6 552 thousand PLN as invalid.

The Parent Company estimated likelihood of incurring additional costs with respect to both cases in accordance to prudence principle.

With respect to the foregoing, the Parent Company recognized liabilities towards and receivables from PI Gazotech Sp. z o.o. due to supplementary contributions to the shareholders' equity of the said company in amount of 82.472 thousand PLN, write-off of the same amount created for these receivables and provision for possible costs amounting to 924 thousand PLN
in the Financial Statements for 2007 and in the accounting records

**Impairment of non-current assets**

The Group's basic operating assets include mine assets, transmission infrastructure and gas storage facilities. These assets were tested for impairment. The Group calculated and recognized impairment losses in the accounting records based on the assessment of their useful life, planned liquidation or disposal. Assumptions regarding the use, liquidation and disposal of certain assets may change. Appropriate information regarding the value of impairment loss has been provided in Note 11b.

**Useful life of fixed assets**

Depreciation rates applied to main groups of fixed assets were presented in point 2 of the financial statements. The useful lives of fixed assets were defined based on assessments of technical services responsible for their operation. These estimates are connected with uncertainty regarding the future operating environment, technological changes and market competition, which may result in a modified assessment of the economic useful life of assets and their remaining useful life, which may significantly impact the value of these assets and future depreciation costs.

**Provisions for environmental protection**

The provision for well reclamation costs and other provisions for environmental protection presented in note 29 constitute the main items of provisions in the financial statements. The above provision is based on estimated future liquidation and reclamation costs, which are significantly affected by the adopted discount rate and the estimated cash flow generating period.

**Impairment of shares in SGT EUROPOL GAZ S.A.**

The Management Board tested shares in SGT EUROPOL GAZ S.A. for impairment using the DCF method and in doing so based its calculations on data included in the financial plan of SGT EUROPOL GAZ S. A. for 2006 – 2019, as described in more detail in note 6. Impairment tests disclosed significantly different results depending on the assumption adopted with respect to future cash flows, discount rates and the estimated cash flow generating period, which may significantly affect the value of shares in the future.

## 44. STATEMENT AND EXPLANATION OF DIFFERENCES BETWEEN DATA DISCLOSED IN THE FINANCIAL STATEMENTS AND COMPARATIVE FINANCIAL DATA AS WELL AS THE PREVIOUSLY PREPARED AND PUBLISHED FINANCIAL STATEMENTS

As compared to data presented in the financial statements for the 4th quarter of 2007 published on 28 February 2008, the following changes have been introduced in these financial statements:

**Changes in profit on operating activities**

| | |
|---|---|
| **Profit on operating activities from the financial statements for Q4 of 2007** | **1 301 886** |

(in PLN '000)

| | |
|---|---|
| a) change in provisions | 20 034 |
| b) provision for costs of withdrawal of fixed assets from lease | (229 975) |
| c) change in re-valuation write-offs for assets | (232 417) |
| d) others | (7 932) |
| **Profit on operating activities from the financial statements for 2007** | **851 596** |

**Changes in net profit for the financial period**

| | |
|---|---|
| **Net profit for the reporting period from the financial statements for Q4 of 2007** | **1 252 060** |
| a) change in provisions | 20 034 |
| b) provision for costs of withdrawal of fixed assets from lease | (229 975) |
| c) change in re-valuation write-offs for assets | (232 417) |
| d) others | (13 327) |
| e) income tax related to adjustments made | (34) |
| f) adjustment to deferred income tax | 119 724 |
| **Net profit for the reporting period from the financial statements for 2007** | **916 065** |

The Company also made two changes in the income statement for 2006 in order to ensure the comparability of data for the comparative and current period.
The first alteration consists in the reclassification of revenue from forwards, in the amount of PLN 230,350 thousand, from financial revenue to financial expenses. Therefore, these revenues and expenses are netted off and presented under financial expenses. This alteration was made within data on financing activity and did not effect profit or loss.
The second alteration consists in the reclassification of additional revenues from the settlement of deferred income, i.e. PLN 5,407 thousand, and deferred tax on this amount, i.e. PLN (1.027) thousand, from "Other net operating expenses" to "Income tax". The recognition of these amounts resulted in an increase of the operating profit/loss by PLN 5,407 thousand and the net profit/loss by PLN 4,380 thousand. The above alteration results from the introduction of a hyperinflationary adjustment to deferred income related to infrastructure received free of charge during the period of 1995-1996.

The value of equity has changed due to the above adjustment. The reconciliation of equity for comparative periods is presented in the below table.

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| **Equity before the adjustment** | **21 208 111** | **20 767 580** |
| Hyperinflationary adjustment to deferred income related to infrastructure received free of charge during the period of 1995-1996. | (54 751) | (59 131) |
| **Equity after the adjustment** | **21 153 360** | **20 708 449** |

The introduction of the restatement adjustment to deferred income resulted in an increase in assets and liabilities plus equity. Additionally, items related to the Company's Social Benefits Fund have been netted off in the balance sheets for comparative periods. The effects of these changes on assets and liabilities plus equity are presented in the below table.

| | 31 December 2006 |
|---|---|
| **Total Assets/Liabilities plus equity before adjustments** | **30 739 647** |
| Hyperinflationary adjustment to deferred income related to infrastructure received free of charge during the period of 1995-1996. | 12 843 |
| Net off of items related to the Company's Social Benefits Fund | (75 783) |
| **Total Assets/Liabilities plus equity after adjustments** | **30 676 707** |

In a balance sheet for 2006 re-classification of expenditures for exploration was made and amount of 1.005.901 thousand PLN was transferred from intangible to tangible fixed assets (to the item of „Fixed assets under construction). This change had effect on presentation only and did not cause any change to any other balance sheet items.
Moreover, few corrections of erroneous presentation in operating activity segment of income statement for 2006 were made. The most important correction referred to error in presentation of changes in finance lease. This error consisted in improper presentation of adjustment to „prepayments and accruals" section with respect to finance lease, which was presented in „other items, net" instead of in the items of „changes in prepayments/accruals". For this reason, amount of 70 124 thousand PLN was transferred from „other items, net" to the items of „changes in prepayments/accruals". Equal amounts of 35 062 thousand PLN each were transferred to „changes in costs prepaid" and „changes

(in PLN '000)

in deferred income" items. Changes in cash flow statement were made within the operating activity segment and they had no effect on other items of cash flow statement.
The re-classifications made had no material effect on any basic figure of financial statement, nevertheless they provide better presentation of financial and material conditions of the Capital Group and assure comparability of data coming from previous and current accounting periods.

## 45. CAPITAL MANAGEMENT

Primary objective of the Group's capital management is assurance of ability to operate as a going concern with consideration of completing scheduled capital projects and increasing the Group goodwill to the favor of shareholders.
The Group monitors capital conditions using the leverage factor, which is counted as a ratio of net debt to a sum of total capital and net debt. The Group principle is to keep this factor at the value of no more than 35%. The Group includes in net debt all credits and loans, finance lease liabilities and trade and other liabilities minus cash and cash equivalents. Total capital comprises equity capital assigned to the shareholders of the Parent Company.

| | 31 December 2007 | 31 December 2006 |
|---|---|---|
| credits, loans and finance lease liabilities | 138 101 | 2 457 467 |
| trade and other liabilities | 2 711 039 | 2 359 240 |
| cash and cash equivalents (-) | (1 583 635) | (3 539 078) |
| **net debt** | **1 265 505** | **1 277 629** |
| **equity capital (assigned to the** shareholders of the Parent Company) | **21 013 076** | **21 145 689** |
| **capital and net debt** | **22 278 581** | **22 423 318** |
| **leverage factor** | **5,68%** | **5,70%** |

## 46. POST-BALANCE SHEET EVENTS

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

b. On 7 January 2008, the District Court in Szczecin, XVII Business Division of the National Court Registered, registered the increase in the share capital of Polskie LNG Sp. z o. o. ("PLNG") with registered office in Świnoujście. The company's share capital was increased by PLN 39,000 thousand to PLN 50,000 thousand, i.e. by PLN 11,000 thousand. Shares in the increased share capital were covered by PGNiG S.A., the sole shareholder, through a cash contribution. After the registration of the increase in share capital, the total number of votes is equal to 50,000. PGNiG S.A. holds 100% of shares in PLNG, which represents 100% of votes at the shareholders meeting.

c. On 29 January 2008, Geofizyka Kraków Sp. z o.o., a 100% subsidiary of PGNiG S.A., established a joint venture in the form of a joint stock company that operates under the provision of Libyan law under the name ""Geofizyka Kraków Libia Spółka Akcyjna" with registered office in Janzur –Al - Jifara District ("Geofizyka Kraków Libia Spółka Akcyjna"). Shares in the share capital of Geofizyka Kraków Libia Spółka Akcyjna were divided among two shareholders:

- Geofizyka Kraków Sp. z o.o. with registered office in Krakow – 6,000 shares with a face value of LYD 100 each, which represents 60% of its share capital, i.e. LYD 600 thousand, and 60% of votes at the general shareholders meeting;
- "BARARI Co" with registered office in Tripoli, Libya, – 4,000 shares with a face value of LYD 100 each, which represents 40% of its share capital, i.e. LYD 400 thousand, and 40% of votes at the general shareholders meeting.

The company's share capital is equal to LYD 1,000 thousand (which constitutes the equivalent of PLN 2,040 thousand in accordance with exchange rate table no. 4/B/NBP/2008 of 23 January 2008) and is divided into 10,000 shares with a face value of LYD 100 each.

In accordance with the above-mentioned percentage share in share capital and Libyan law, the subscribers paid the amount of LYD 300 thousand, which constituted 30% of the value of the company's share capital, upon the company's incorporation. The remaining amount of cash to be paid for shares shall be paid within five years as of the registration of the Company's registration.

All shares assumed by Geofizyka Kraków Sp. z o.o. were covered by a cash contribution.

The scope of the company's business activities includes in particular:

- Geological testing for the purpose of identifying oil and gas deposits using various geological, geophysical and geochemical resources.
- Designing and performance of geophysical tests.
- Interpretation and analysis of seismic data as well as submission of geological studies.
- Data processing and interpretation as well as services with respect to IT data.
- Drilling work for seismic testing purposes.
- Development of technical designing operations as well as exploratory drilling work.
- Preparation of test and studies on soil layers.
- Crude oil engineering services.

The Issuer would like to inform that apart from the above-mentioned shareholdership in Geofizyka Kraków Libia Spółka Akcyjna, Geofizyka Kraków Sp. z o.o. is related to Geofizyka Kraków Libia Spółka Akcyjna also through the membership of its employees in the management of the later mentioned company.

d. On 31 January 2008 the Extraordinary Shareholders Meeting of PGNiG S.A. passed resolutions regarding the allocation of reserve capital - "Central Restructuring Fund for 2005-2007", to a one-off payment (termination benefit) for former employees of ZUN Naftomet Sp. z o.o. in Krosno, approval of PGNiG S.A.'s purchase of a 11 159 m2 plot located in Warsaw, at ul. Kasprzaka 25A, and approval for the assumption of new shares in Geofizyka Kraków Sp. z o.o.

e. The District Court for Warsaw, XII Business Division of the National Court Register, issued a decision on 24 January 2008 regarding the increase in the share capital of Mazowiecki Operator Systemu Dystrybucyjnego Sp. z o.o. ("MOSD"). The share capital of the above-mentioned entity was increased from PLN 930,819 thousand to PLN 1,217,350 thousand, i.e. by PLN 286,531 thousand, through the issuance of 286,531 new, equal and indivisible shares with a face value of PLN 1,000 each. The newly created shares were assumed by the sole shareholder - PGNiG S.A., and covered by a non-cash contribution in the form of non-current assets that constituted elements of the transmission or distribution network. The book value of contributed-in-kind assets recorded in the accounting records of PGNiG S.A. amounts to PLN 286,531 thousand. After the registration of the increase in MOSD's share capital, the total number of votes is equal to 1,217,350. PGNiG S.A. holds 100% of shares in MOSD, which represents 100% of votes at the shareholders meeting. The scope of MOSD's operations includes, in particular, gas fuel transport through distribution networks.

f. Mr. Mirosław Szkałuba resigned as the Member of the Supervisory Board of PGNiG S.A. as of 7 February 2008. Mr. Mirosław Szkałuba tendered his resignation due to the fact that he is the employee-backed candidate for Member of the Management Board of PGNiG S.A.

g. District Court in Kraków, XII Business Division of the National Court Register issued a decision on 12th Feb 2008 on increase in the shareholders' equity of Karpacki Operator Systemu Dystrybucyjnego Sp. z o.o. („KOSD"). The share capital of the above-mentioned entity was increased from 1.310.749 thousand PLN to 1.476.112 thousand PLN i .e. by 165.363 thousand PLN by issue of 165.363 new, equal and non-divisible shares of a face value of 1.000 PLN each. New shares were assumed by the sole shareholder PGNiG and covered by non-cash contribution in the form of non-current assets that constituted elements of transmission and distribution network. Book value of the assets contributed in kind recorded in accounting records of PGNiG SA amounts to 165.363,67 thousand PLN. After registration of increase in the shareholders' equity of KOSD, total number of votes in this company is equal to 1.476.112. PGNiG is a holder of 100% interest in KOSD, which represents 100% votes at shareholders' meeting. The scope of KOSD's operations includes, in particular, gas fuel transport through distribution networks.

h. The District Court for Gdańsk-Północ, VII Business Division of the National Court Register, issued a decision on 29 February 2008 regarding the increase of the share capital of Pomorski Operator Systemu Dystrybucyjnego Sp. z o.o. (POSD). The share capital of the above-mentioned entity was increased from PLN 502,750 thousand to PLN 596,141 thousand, i.e. by PLN 93,391 thousand, through the issuance of 93,391 new, equal and indivisible shares with a face value of PLN 1,000 each. The newly created shares were assumed by the sole shareholder –PGNiG S.A., and covered by a non-cash contribution in the form of non-current assets that constituted elements of the transmission or distribution network. The book value of contributed-in-kind assets recorded in the accounting records of PGNiG S.A. amounts to PLN 93,391.88 thousand.

   After the registration of the increase in POSD's share capital, the total number of votes is equal to 596,141. PGNiG holds 100% of shares in POSD, which represents 100% of votes at the shareholders meeting. The scope of POSD's operations includes, in particular, gas fuel transport through distribution networks.

i. The Extraordinary Shareholders Meeting of PGNiG S.A. dismissed the following persons from the Supervisory Board on 15 February 2008:
   - Mr. Piotr Szwarc;
   - Mr. Jarosław Wojtowicz;
   - Mr. Andrzej Rościszowski;
   - Mr. Wojciech Arkuszewski.

   The Extraordinary Shareholders Meeting of PGNiG S.A. also appointed the following persons to the Supervisory Board on 15 February 2008:
   - Mr. Stanisław Rychlicki;
   - Mr. Grzegorz Banaszek.

j. The Supervisory Board of PGNiG S.A. dismissed the following persons from the Management Board on 12 March 2008:
   - Mr. Krzysztof Głogowski;
   - Mr. Zenon Kuchciak;
   - Mr. Stanisław Niedbalec;
   - Mr. Tadeusz Zwierzyński.

   The Supervisory Board of PGNiG S.A. also appointed the following persons to the Management Board on 12 March 2008:
   - Mr. Michał Szubski as the Chairman of the Management Board;
   - Mr. Mirosław Dobrut as Vice Chairman of the Management Board responsible for technical and investment matters;
   - Mr. Radosław Dudziński as Vice Chairman of the Management Board responsible for strategic projects;
   - Mr. Sławomir Hinc as Vice Chairman of the Management Board responsible for business and financial matters.

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

The Supervisory Board of PGNiG S.A. also appointed the following persons to the Management Board on 12 March 2008:

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

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