

POLSKIE GÓRNICCTWO NAFTOWE I GAZOWNICTWO S.A.



**FINANCIAL STATEMENTS FOR THE PERIOD ENDED
30 June 2006**

WARSAW, 1 September 2006

TABLE OF CONTENTS

SELECTED FINANCIAL DATA TRANSLATED INTO EURO	10
A. INTRODUCTION TO THE FINANCIAL STATEMENTS	11
1. GENERAL INFORMATION	11
2. DURATION OF THE COMPANY	13
3. PERIOD COVERED BY THE FINANCIAL STATEMENTS	13
4. INFORMATION ON THE COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD	13
5. CHANGES IN SHARE CAPITAL	17
6. FINANCIAL STATEMENTS CONTAIN AGGREGATED DATA	17
7. GOING CONCERN ASSUMPTION	17
8. BUSINESS COMBINATIONS	18
9. COMPARABILITY OF FINANCIAL DATA FOR THE PREVIOUS PERIOD WITH THE FINANCIAL STATEMENTS FOR THE CURRENT FINANCIAL PERIOD	18
10. INFORMATION ON ADJUSTMENTS ARISING FROM QUALIFICATIONS PRESENTED IN OPINIONS OF ENTITIES AUTHORISED TO AUDIT FINANCIAL STATEMENTS FOR THE YEARS FOR WHICH THE FINANCIAL STATEMENTS AND COMPARABLE INFORMATION ARE PRESENTED	18
11. ACCOUNTING PRINCIPLES (POLICY) APPLIED, INCLUDING THE METHOD OF MEASURING ASSETS AND LIABILITIES (TOGETHER WITH DEPRECIATION), DETERMINING THE FINANCIAL RESULT AND PREPARING THE FINANCIAL STATEMENTS	18
11.1. <i>Format and basis for preparing the financial statements</i>	18
11.2. <i>Intangible assets</i>	19
11.3. <i>Fixed assets</i>	19
11.4. <i>Fixed assets under construction</i>	20
11.5. <i>Outlays for exploration and appraisal projects</i>	20
11.6. <i>Long-term investments</i>	21
11.7. <i>Short-term investments</i>	21
11.8. <i>Leases</i>	22
11.9. <i>Inventory</i>	22
11.10. <i>Short- and long-term receivables</i>	23
11.11. <i>Foreign currency transactions</i>	23
11.12. <i>Cash and cash equivalents</i>	23
11.13. <i>Prepayments and accruals</i>	24
11.14. <i>Share capital</i>	24
11.15. <i>Provisions</i>	24
11.16. <i>Bank loans</i>	25
11.17. <i>Taxation</i>	25
11.18. <i>Financial instruments</i>	26
11.19. <i>Derivative financial instruments</i>	27
11.20. <i>Impairment of assets</i>	27
11.21. <i>Revenue recognition</i>	28
11.22. <i>Sales of goods and products</i>	28
11.23. <i>Services</i>	28
11.24. <i>Interest</i>	28

11.25. Dividends.....	28
11.26. Special funds.....	29
12. AVERAGE PLN/EUR EXCHANGE RATES IN PERIODS COVERED BY THE FINANCIAL STATEMENTS AND COMPARABLE FINANCIAL INFORMATION AS DETERMINED BY THE NATIONAL BANK OF POLAND.....	29
13. KEY DIFFERENCES BETWEEN POLISH ACCOUNTING STANDARDS (PAS) AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS).....	29
a) Revaluation of fixed assets as of 1 January 2004.....	30
b) Deferred tax on IFRS adjustments.....	30
c) Employee profit distribution payments.....	31
d) Other.....	31
BALANCE SHEET	32
PROFIT AND LOSS ACCOUNT (BY FUNCTION).....	35
STATEMENT OF CHANGES IN EQUITY	36
CASH FLOW STATEMENT (INDIRECT METHOD).....	38
B. EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS.....	40
NOTE 1. INTANGIBLE ASSETS.....	40
NOTE 1.1. CHANGES IN INTANGIBLE ASSETS (BY TYPE).....	40
NOTE 1.2. INTANGIBLE ASSETS (OWNERSHIP STRUCTURE).....	41
NOTE 2. TANGIBLE FIXED ASSETS.....	41
NOTE 2.1. CHANGES IN FIXED ASSETS (BY TYPE).....	45
NOTE 2.2. BALANCE SHEET FIXED ASSETS (OWNERSHIP STRUCTURE).....	47
NOTE 2.3. OFF-BALANCE SHEET FIXED ASSETS	47
NOTE 2.4. LAND IN PERPETUAL USUFRUCT.....	47
NOTE 2.5. VALUE OF FIXED ASSETS NOT SUBJECT TO DEPRECIATION OR ACCUMULATED DEPRECIATION.....	47
NOTE 3. LONG-TERM RECEIVABLES	48
NOTE 3.1. CHANGES IN LONG-TERM RECEIVABLES (BY TITLE)	48
NOTE 3.2. CHANGE IN REVALUATION WRITE-DOWNS ON LONG-TERM RECEIVABLES	48
NOTE 3.3. LONG-TERM RECEIVABLES (BY CURRENCY).....	48
NOTE 4. CHANGE IN REAL PROPERTY (BY TYPE).....	48
NOTE 4.1. CHANGE IN INTANGIBLE ASSETS (BY TYPE)	49
NOTE 4.2. LONG-TERM FINANCIAL ASSETS	49
NOTE 4.3. CHANGE IN GOODWILL – SUBSIDIARIES.....	52
NOTE 4.4. CHANGE IN GOODWILL –CO-SUBSIDIARIES	52

NOTE 4.5. CHANGE IN GOODWILL – ASSOCIATED ENTITIES	52
NOTE 4.6. CHANGE IN NEGATIVE GOODWILL – SUBSIDIARIES.....	52
NOTE 4.7. CHANGE IN NEGATIVE GOODWILL –CO-SUBSIDIARIES	52
NOTE 4.8. CHANGE IN NEGATIVE GOODWILL – ASSOCIATED ENTITIES	52
NOTE 4.9. CHANGE IN LONG-TERM FINANCIAL ASSETS (BY TYPE).....	53
NOTE 4.10 SHARES IN CONTROLLED ENTITIES	54
NOTE 4.11 SHARES IN OTHER ENTITIES.....	61
NOTE 4.12. SECURITIES, SHARES AND OTHER LONG-TERM FINANCIAL ASSETS (BY CURRENCY).....	62
NOTE 4.13. SECURITIES, SHARES AND OTHER LONG-TERM FINANCIAL ASSETS (BY MARKETABILITY).....	62
NOTE 4.14. ORIGINATED LONG-TERM LOANS (BY CURRENCY)	63
NOTE 4.15. OTHER LONG-TERM INVESTMENTS (BY TYPE)	63
NOTE 4.16. CHANGE IN OTHER LONG-TERM INVESTMENTS (BY TYPE).....	63
NOTE 4.17. OTHER LONG-TERM INVESTMENTS (BY CURRENCY)	63
NOTE 5. CHANGE IN THE BALANCE OF DEFERRED TAX ASSETS	64
NOTE 5.1. NEGATIVE TEMPORARY DIFFERENCES IN DEFERRED TAX	66
NOTE 5.2. OTHER LONG-TERM PREPAYMENTS.....	66
NOTE 6. INVENTORY.....	67
NOTE 6.1. CHANGE IN REVALUATION WRITE-DOWNS ON RECEIVABLES	67
NOTE 7. SHORT-TERM RECEIVABLES.....	67
NOTE 7.1. SHORT-TERM RECEIVABLES FROM RELATED PARTIES.....	68
NOTE 7.2. CHANGE IN REVALUATION WRITE-DOWNS OF SHORT-TERM RECEIVABLES	68
NOTE 7.3. GROSS SHORT-TERM RECEIVABLES (BY CURRENCY).....	68
NOTE 7.4. GROSS TRADE RECEIVABLES - BY MATURITY AS OF THE BALANCE SHEET DATE	69
NOTE 7.5. OVERDUE TRADE RECEIVABLES (GROSS) BY PERIOD OVERDUE	69
NOTE 8. DISPUTABLE AND OVERDUE RECEIVABLES.....	69
NOTE 9. SHORT-TERM FINANCIAL ASSETS	70
NOTE 9.1. SECURITIES, SHARES AND OTHER SHORT-TERM FINANCIAL ASSETS (BY CURRENCY).....	71
NOTE 9.2. SECURITIES, SHARES AND OTHER SHORT-TERM FINANCIAL ASSETS (BY MARKETABILITY)	72
NOTE 9.3. ORIGINATED SHORT-TERM LOANS (BY CURRENCY).....	73

NOTE 9.4. CHANGE IN REVALUATION WRITE-DOWNS ON SHORT-TERM LOANS	73
NOTE 9.5. CASH AND CASH EQUIVALENTS (BY CURRENCY)	73
NOTE 9.6. OTHER SHORT-TERM INVESTMENTS (BY TYPE).....	73
NOTE 9.7. OTHER SHORT-TERM INVESTMENTS (BY CURRENCY).....	73
NOTE 10. OTHER SHORT-TERM PREPAYMENTS	74
NOTE 11. REVALUATION WRITE-DOWNS	74
NOTE 12. SHARE CAPITAL (STRUCTURE)	76
NOTE 12.1. CHANGES IN SHARE CAPITAL.....	76
NOTE 12.2. SHARE CAPITAL (OWNERSHIP STRUCTURE).....	76
NOTE 13. OWN SHARES.....	77
NOTE 13.1. ISSUER'S SHARES HELD BY CONTROLLED ENTITIES	77
NOTE 14. SUPPLEMENTARY CAPITAL.....	77
NOTE 15. REVALUATION RESERVE.....	77
NOTE 16. OTHER RESERVE CAPITALS (BY PURPOSE).....	77
NOTE 17. WRITE-OFF ON NET PROFIT DURING THE FINANCIAL YEAR (BY TITLE)	77
NOTE 18. CHANGE IN THE BALANCE OF PROVISION FOR DEFERRED TAX.....	78
NOTE 18.1. POSITIVE TEMPORARY DIFFERENCES IN DEFERRED TAX.....	80
NOTE 18.2. CHANGE IN LONG-TERM PROVISION FOR RETIREMENT AND SIMILAR BENEFITS (BY TITLE).....	81
NOTE 18.3. CHANGE IN SHORT-TERM PROVISION FOR RETIREMENT AND SIMILAR BENEFITS (BY TITLE).....	82
NOTE 18.4. CHANGE IN OTHER LONG-TERM PROVISIONS (BY TITLE).....	83
NOTE 18.5. CHANGE IN OTHER SHORT-TERM PROVISIONS (BY TITLE).....	84
NOTE 19. LONG-TERM LIABILITIES	85
NOTE 19.1. LONG-TERM LIABILITIES BY MATURITY AS OF THE BALANCE SHEET DATE	85
NOTE 19.2. LONG-TERM LIABILITIES (BY CURRENCY)	85
NOTE 19.3. LONG-TERM LOAN LIABILITIES	86
NOTE 19.4. LONG-TERM LIABILITIES DUE TO ISSUED FINANCIAL DEBT INSTRUMENTS.....	86
NOTE 19.5. STATEMENT OF LONG-TERM LIABILITIES SECURED ON ASSETS.....	86
NOTE 20. SHORT-TERM LIABILITIES	87
NOTE 20.1. SHORT-TERM LIABILITIES – EXCLUDING SPECIAL FUNDS (BY CURRENCY)	88
NOTE 20.2. SHORT-TERM LOAN LIABILITIES*	89

NOTE 20.3. SHORT-TERM LIABILITIES DUE TO ISSUED FINANCIAL DEBT INSTRUMENTS	89
NOTE 21. CHANGE IN NEGATIVE GOODWILL	89
NOTE 21.1. OTHER ACCRUALS.....	90
NOTE 22. BOOK VALUE PER SHARE	90
NOTE 23. CONTINGENT RECEIVABLES FROM RELATED PARTIES (BY TITLE).....	90
NOTE 23.1. CONTINGENT LIABILITIES TO RELATED PARTIES (BY TITLE)	90
NOTE 24. NET REVENUES FROM SALES OF PRODUCTS (BY TYPE).....	91
NOTE 24.1. NET REVENUES FROM SALES OF PRODUCTS (BY TERRITORY).....	91
NOTE 25. REVENUES FROM SALES OF GOODS AND MATERIALS (BY TYPE).....	92
NOTE 25.1. REVENUES FROM SALES OF GOODS AND MATERIALS (TERRITORIAL STRUCTURE) ..	92
NOTE 26. EXPENSES BY TYPE.....	92
NOTE 27. OTHER OPERATING REVENUES.....	93
NOTE 28. OTHER OPERATING EXPENSES	94
NOTE 29. FINANCIAL REVENUES – DIVIDEND AND PROFIT SHARING	95
NOTE 29.1. FINANCIAL REVENUES DUE TO INTEREST.....	95
NOTE 29.2. OTHER FINANCIAL REVENUES	95
NOTE 30. FINANCIAL EXPENSES DUE TO INTEREST	96
NOTE 30.1. OTHER FINANCIAL EXPENSES	96
NOTE 31. GAIN (LOSS) ON SALE OF ALL OR A PART OF SHARES IN CONTROLLED ENTITIES	96
NOTE 32. EXTRAORDINARY GAINS	97
NOTE 33. EXTRAORDINARY LOSSES.....	97
NOTE 34. CURRENT INCOME TAX.....	98
NOTE 34.1. DEFERRED INCOME TAX DISCLOSED IN THE PROFIT AND LOSS ACCOUNT	99
NOTE 34.2. TOTAL AMOUNT OF DEFERRED INCOME TAX RECOGNIZED UNDER GOODWILL OR NEGATIVE GOODWILL	99
NOTE 34.3. DEFERRED INCOME TAX DISCLOSED IN THE PROFIT AND LOSS ACCOUNT RELATES TO:.....	99
NOTE 35.1. OTHER STATUTORY REDUCTIONS IN PROFIT (INCREASES IN LOSS) DUE TO:	100
NOTE 36. SHARE IN NET PROFITS (LOSSES) OF CONTROLLED ENTITIES MEASURED USING THE EQUITY METHOD.....	100
NOTE 37. PROFIT DISTRIBUTION	100
NOTE 38. EARNINGS PER SHARE	101

NOTE 39. STRUCTURE OF CASH AND CASH EQUIVALENTS	101
NOTE 39.1. REASONS FOR DIFFERENCES BETWEEN BALANCE SHEET CHANGES IN CERTAIN ITEMS AND CHANGES ARISING FROM THE CASH FLOW STATEMENT	102
NOTE 39.2 STATEMENT OF MATERIAL ADJUSTMENTS, INFLOWS AND OUTFLOWS CONCERNING THE ITEM 'OTHER'	103
C. ADDITIONAL EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS	104
1. INFORMATION ON FINANCIAL INSTRUMENTS	104
2. INFORMATION ON OFF-BALANCE SHEET LIABILITIES, INCLUDING GUARANTEES AND SURETIES GRANTED BY THE COMPANY (ALSO BILL OF EXCHANGE LIABILITIES)	115
3. LIABILITIES TO CENTRAL OR LOCAL GOVERNMENT AUTHORITIES ARISING FROM OBTAINED TITLES TO BUILDINGS AND STRUCTURES	117
4. INFORMATION ON OPERATIONS DISCONTINUED OR PLANNED TO BE DISCONTINUED	117
5. MANUFACTURING COST	117
6. INCURRED AND PLANNED INVESTMENT OUTLAYS	117
7. INFORMATION ABOUT RELATED PARTY TRANSACTIONS	118
8. JOINT VENTURES	120
9. INFORMATION ON AVERAGE EMPLOYMENT	123
10. INFORMATION ON REMUNERATION PAID TO THE MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES.	124
11. INFORMATION ON LOANS AND SIMILAR BENEFITS GRANTED TO MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES	124
12. INFORMATION ON SIGNIFICANT EVENTS PERTAINING TO PREVIOUS YEARS AND DISCLOSED IN THE FINANCIAL STATEMENTS FOR THE 2006 FINANCIAL YEAR AND FOR THE FIRST HALF OF 2006	125
13. INFORMATION ON SIGNIFICANT POST-BALANCE SHEET EVENTS NOT INCLUDED IN THE FINANCIAL STATEMENTS	125
14. INFORMATION ON THE RELATIONSHIP BETWEEN THE PREDECESSOR IN TITLE AND THE ISSUER AS WELL AS THE METHOD AND RANGE OF ACQUISITION OF ASSETS AND LIABILITIES	125
15. FINANCIAL STATEMENTS ADJUSTED BY THE INFLATION RATIO	125
16. STATEMENT AND EXPLANATION OF DIFFERENCES BETWEEN DATA DISCLOSED IN THE FINANCIAL STATEMENTS AND COMPARABLE FINANCIAL DATA AS WELL AS THE PREVIOUSLY PREPARED AND PUBLISHED FINANCIAL STATEMENTS	125
17. CHANGES IN ACCOUNTING PRINCIPLES (POLICY) IN THE FIRST HALF OF 2006	126

18. CHANGES IN ACCOUNTING PRINCIPLES (POLICY) AND THE METHOD OF PREPARING THE FINANCIAL STATEMENTS, INTRODUCED AS COMPARED TO THE PREVIOUS FINANCIAL YEAR AND THEIR IMPACT ON THE FINANCIAL AND ECONOMIC POSITION	126
19. INFORMATION ON UNCERTAINTY OF CONTINUING ACTIVITY, DESCRIPTION OF THESE UNCERTAINTIES AND INFORMATION WHETHER THE FINANCIAL STATEMENTS INCLUDE RELEVANT ADJUSTMENTS.....	126
20. INFORMATION ABOUT BUSINESS COMBINATIONS	126
21. PRESENTATION OF THE EFFECTS OF MEASURING SHARES IN CONTROLLED ENTITIES USING THE EQUITY METHOD IN THE COMPANY'S INDIVIDUAL FINANCIAL STATEMENTS	126
22. INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS	127
23. OTHER RELEVANT INFORMATION - THE PROCESS OF RESTRUCTURING THE COMPANY.....	127
24. OTHER RELEVANT INFORMATION - FOREIGN OPERATIONS.....	131
25. OTHER RELEVANT INFORMATION – LONG-TERM CONTRACTS FOR GAS DELIVERIES	135
26. OTHER RELEVANT INFORMATION – GAS PURCHASE CONTRACTS.....	135
27. OTHER RELEVANT INFORMATION - MANAGEMENT BOARD'S PLANS REGARDING THE FINANCING OF OPERATIONS.....	136

SELECTED FINANCIAL DATA TRANSLATED INTO EURO

	in PLN '000		in EUR '000	
	30.06.2006	30.06.2005	30.06.2006	30.06.2005
I. Net revenues from sales of products, goods and materials	6 565 417	4 823 987	1 683 354	1 182 205
II. Profit (loss) on operating activities	639 297	993 345	163 914	243 437
III. Gross profit (loss)	845 305	703 760	216 734	172 469
IV. Net profit (loss)	667 701	470 349	171 197	115 268
V. Net cash flows from operating activities	919 146	1 412 400	235 666	346 134
VI. Net cash flows from investment activities	(138 059)	(13 752)	(35 398)	(3 370)
VII. Net cash flows from financial activities	(118 420)	(841 364)	(30 362)	(206 191)
VIII. Total net cash flows	662 667	557 284	169 906	136 572
IX. Total assets	19 632 755	14 476 208	4 855 506	3 583 131
X Liabilities and provisions for liabilities	8 525 884	6 411 134	2 108 593	1 586 875
XI. Long-term liabilities	2 426 082	171 380	600 010	42 419
XII. Short-term liabilities	2 382 541	5 156 793	589 242	1 276 403
XIII. Equity	11 106 871	8 065 074	2 746 914	1 996 256
XIV. Share capital	5 900 000	5 000 000	1 459 168	1 237 593
XV. Number of shares (weighted average in '000)	5 900 000	5 000 000	5 900 000	5 000 000
XVI. Profit (loss) per ordinary share (in PLN/EUR)	0.11	0.09	0.03	0.02
XVII. Diluted profit (loss) per ordinary share (in PLN/EUR)	0.11	0.09	0.03	0.02
XVIII. Book value per share (in PLN/EUR)	1.88	1.61	0.47	0.40
XIX. Diluted book value per share (in PLN/EUR)	1.88	1.61	0.47	0.40
XX. Declared or paid dividend per share (in PLN/EUR)*	0.15	0.10	0.04	0.02

* The dividend for 2005 was translated in EUR using the exchange rate announced by the NBP on 30 June 2006. The dividend date was set as 27 July and the dividend payment date as 2 October 2006.

A. INTRODUCTION TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna ("PGNiG S.A.") with registered office in Warsaw, ul. Krucza 6/14, was created from the transformation of the state enterprise PGNiG into a joint stock company wholly owned by the State Treasury, pursuant to Article 6 of the Commercialization and Privatization Act of 30 August 1996 (i.e. Dz. U. of 2002, no. 171, item 1397 with subsequent amendments) and the Ordinance of the President of the Council of Ministers on the transformation of the state-owned utilities company "Polskie Górnictwo Naftowe i Gazownictwo z siedzibą w Warszawie" into a joint stock company wholly owned by the State Treasury of 30 September 1996 (Dz. U. No. 116, item 553). The Transformation Act was compiled on 21 October 1996 based on the above ordinance.

The Company was registered in the commercial register kept by the District Court for the city of 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 the city of Warsaw, XIX Business Registry Divisions of the National Court Register under number KRS 0000059492.

The Company was assigned the statistical (REGON) number - 012216736.

Based on the decision of the Warsaw Stock Exchange of 16 September 2005 A and B series shares as well as rights to B series shares issued by PGNiG S.A. were admitted to public trading on the primary market. B series ordinary bearer shares were for the first time listed on the stock exchange on 23 September 2005. On 18 October 2005 the Warsaw Stock Exchange made the decision to admit A and B series issued by PGNiG S.A. to public trading on the primary market. The above shares were quoted for the first time on 20 October 2005.

In accordance with its By-laws, the Company realizes the following tasks in order to ensure national energy security:

- 1) continuous natural gas deliveries to customers and maintenance of necessary reserves;
- 2) safe operation of gas networks;
- 3) balancing of gas fuels and controlling the operation and capacity of power units connected to the common gas network;
- 4) gas production activities.

In accordance with the By-laws, the Company conducts production, service and trade activities within the following scope:

- 1) production of crude oil;
- 2) production of natural gas;
- 3) services related to the exploration of crude oil and natural gas fields;
- 4) mining of sulfur-bearing materials;
- 5) other mining, not classified elsewhere;
- 6) crude oil and refined products,
- 7) reprocessing crude oil and refined products;
- 8) services related to installation, repair and maintenance of machines for mining and building industry;
- 9) production of electricity;
- 10) transmission of electricity;
- 11) distribution of electricity;
- 12) production of gas fuels;
- 13) distribution of gas fuels through the network;
- 14) production of heat (steam and hot water);
- 15) distribution of heat (steam and hot water);
- 16) geological and engineering excavations and drilling;
- 17) general construction work in respect to line structures: pipelines, power lines, electrical traction and telecommunication– transmission lines,
- 18) central heating and ventilation installations;
- 19) gas installations;
- 20) service and repair of motor vehicles;
- 21) retail fuel sales;
- 22) wholesale of solid, liquid and gas fuels and derivative products,
- 23) wholesale of semi-finished products;
- 24) other specialized wholesale trade;
- 25) hotels and motels with restaurants;
- 26) hotels and motels without restaurants;
- 27) freight road transport by specialized vehicles;
- 28) freight transport by road by general-purpose vehicles;
- 29) pipeline transport;
- 30) cargo storage and warehousing in other storage yards;
- 31) travel agencies;
- 32) fixed line telephony and telegraphy;
- 33) mobile telephony;
- 34) data transmission; information and communication technology;
- 35) radio communications;

- 36) research and development work in technical sciences;
- 37) geological and exploration activity;
- 38) surveying and map making;
- 39) rental of real property on own account;
- 40) management of residential real property;
- 41) management of non-residential real property;
- 42) purchase and sales of real property on own account;
- 43) non-public libraries;
- 44) archives;
- 45) museums;
- 46) technical tests and analyses;
- 47) leasing of the Company's assets used for the transmission of energy and gas.

2. DURATION OF THE COMPANY

Duration of the Company: unlimited

3. PERIOD COVERED BY THE FINANCIAL STATEMENTS

The financial statements were drawn up for the period from 1 January 2006 to 30 June 2006, whereas comparative data refers the period from 1 January 2005 to 30 June 2005 and from 1 January 2005 to 31 December 2005.

4. INFORMATION ON THE COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Pursuant to the Company's By-laws, the Management Board of PGNiG S.A. consists of two seven persons. 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.

The Management Board of PGNiG S.A.

As of 30 June 2006, the Management Board of PGNiG S.A. consisted of five persons:

- Mieczysław Puławski – Chairman of the Board;
- Jan Anysz – Vice Chairman of the Board;

- Zenon Kuchciak – Vice Chairman of the Board;
- Stanisław Niedbalec – Vice Chairman of the Board;
- Bartłomiej Pawlak – Vice Chairman of the Board.

The following changes in the composition of the Management Board of PGNiG S.A. took place during the first half of 2006:

On 17 February 2006 the Supervisory Board of PGNiG appointed the following persons to the Management Board of PGNiG:

- Mr. Stanisław Niedbalec, to the position of Vice Chairman of the Board in charge of Technical and Investment Affairs;
- Mr. Bogusław Marc, to the position of Vice Chairman of the Board in charge of Economic and Financial Affairs.

On 3 March 2006 the Supervisory Board of PGNiG dismissed Mr. Franciszek Krok, Vice Chairman of the Board in charge of Trade and Marketing, from the Management Board. The position of the Chairman of the Board was entrusted to Mr. Bogusławow Marcow, Vice Chairman of the Board in charge of Finance.

The Supervisory Board of PGNiG S.A.:

- appointed Mr. Bartłomiej Pawlak as Vice Chairman of the Management Board of PGNiG S.A. in charge of Strategic Projects on 6 April 2006;
- appointed Mr. Zenon Kuchciak as Vice Chairman of the Management Board of PGNiG S.A. in charge of Trade and Marketing on 7 April 2006;
- appointed Mr. Bogusław Marzec as Chairman of the Management Bard of PGNiG S.A. on 25 April 2006.

On 21 June 2006 Mr Bogusław Marzec resigned as Chairman of the Management Board of PGNiG S.A., whereas on 23 June 2006 the Management Board of PGNiG S.A. decided to appoint Mr. Bogusław Marzec as the Company's Proxy on 24 June 2006. Mr. Bogusław Marzec was granted a joint power of attorney, i.e. in order for documents to be effective from a legal point of view they must be signed by two proxies or a proxy and a Member of the Management Board of PGNiG S.A.

On 23 June 2006 the Supervisory Board of PGNiG S.A. decided to appoint Prof. Mieczysław Puławski, an independent Member of the Management Board of PGNiG S.A., as the temporary Chairman of the Management Board of PGNiG S.A. from 24 June 2006 to 12 September 2006. Mr. Mieczysław Puławski was obliged to present a report on undertaken

activities by 26 September 2006 to the Supervisory Board of PGNiG S.A. In addition, the Supervisory Board decided to instigate qualification proceedings for the position of the Chairman of the Management Board of PGNiG S.A.

The following changes in the composition of the Management Board of PGNiG S.A. took place after 30 June 2006 but by the preparation of these financial statements:

Mr. Bartłomiej Pawlak resigned from the position of Vice Chairman of the Management Board of PGNiG S.A. on 21 July 2006. From 29 November 2005 Mr. Bartłomiej Pawlak acted as the Company's proxy, whereas from 6 April 2006 he held the position of Vice Chairman of the Management Board of PGNiG S.A. in charge of Strategic Projects.

On 24 July 2006 the Management Board of PGNiG S.A. appointed Mr. Tadeusz Zwierzyński as the Company's proxy. Mr. Tadeusz Zwierzyński was granted a joint power of attorney, i.e. in order for documents to be effective from a legal point of view they must be signed by two proxies or a proxy and a Member of the Management Board of PGNiG S.A.

On 27 July 2006 the Supervisory Board of PGNiG S.A. decided to instigate qualification proceedings for the position of Vice Chairman of the Management Board of PGNiG S.A. in charge of Strategic Projects.

The Supervisory Board of PGNiG S.A.

Pursuant to the Company's Articles of Association, the Supervisory Board of PGNiG S.A. consists of five to nine members, who are appointed by the General Shareholders Meeting for a joint term of three years. As long as the State Treasury remains the Company's shareholder, the State Treasury, represented by the Minister in charge of State Treasury affairs, in acting in cooperation with the minister in charge of economic affairs, is entitled 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. has to be elected in line with the procedure referred to in § 36 clause 3 of the Articles of Association of PGNiG S.A.;
2. cannot be the Company's Related Party or a subsidiary of the Company;
3. cannot be a Related Party to the holding company or other subsidiary to the holding company, or;
4. cannot be a person in any relationship with the Company or any of the entities listed in point 2) and 3), which could significantly affect the ability of such a person, as a member of the Supervisory Board, to pass unbiased decisions.

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

Pursuant to § 36 clause 3 of the By-Laws of PGNiG S.A. Supervisory Board Members who are to fulfill the conditions stated above are selected in a separate vote. The right to submit nominations of candidates to the Supervisory Board who must meet the above conditions to the Chairman of the General Shareholders Meeting is reserved for shareholders who are present at the General Shareholders Meeting, whose objective is to select such a Member. If candidates are not nominated by shareholders, candidates for Supervisory Board Members that must meet the above conditions are nominated by the Supervisory Board.

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

As of 30 June 2006, the Supervisory Board consisted of nine members and its composition was as follows:

- Krzysztof Głogowski - 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;
- Andrzej Rościszowski - Member of the Supervisory Board;
- Mirosław Szkałuba - Member of the Supervisory Board;
- Piotr Szwarc - Member of the Supervisory Board.

The following changes took place in the Supervisory Board of PGNiG S.A. in the first half of 2006:

Ms. Magdalena Bąkowska resigned as Member of the Supervisory Board as of 19 June 2006.

On 19 June 2006 the Extraordinary Shareholders Meeting of PGNiG S.A. issued resolution no. 3 pursuant to which Marcin Moryń was appointed to the Supervisory Board.

Pursuant to resolution no. 86/IV/06 of 24 June 2006 Mr. Mieczysław Puławski was temporarily appointed as Chairman of the Management Board of PGNiG S.A.

No changes in the composition of the Supervisory Board of PGNiG S.A. occurred during the period from 30 June 2006 until the preparation of these financial statements.

5. CHANGES IN SHARE CAPITAL

As of 30 June 2006 the Company's share capital was equal to 5,900,000,000 (PLN five billion nine hundred million) and consisted of:

- 4,250,000,000 "A" series bearer shares numbered from 00 000 000 001 to 04 250 000 000 with a face value of PLN 1 each and a total face value of PLN 4,250,000,000;
- 750,000,000 "A1" series bearer shares numbered from 0 000 000 001 to 0 750 000 000 with a face value of PLN 1 each and a total face value of PLN 750,000,000;
- 900,000,000 "B" series bearer shares numbered from 0 000 000 001 to 0 900 000 000 with a face value of PLN 1 each and a total face value of PLN 900,000,000;

No changes in the share capital took place during the first half of 2006.

6. FINANCIAL STATEMENTS CONTAIN AGGREGATED DATA

PGNiG S.A. draws up aggregated financial statements. As of 30 June 2006 PGNiG S.A. consisted of: the Company's Head Office, 4 domestic branches and a foreign branch in Pakistan. The formal liquidation of six Regional Transmission Branches was conducted during the first half of 2006.

The presented aggregated financial statements of PGNiG S.A. were prepared based on financial data from the joint accounting records of particular domestic branches and based on the financial statements of the foreign branch in Pakistan.

PGNiG S.A., as a holding company, also prepares consolidated financial statements, which contain the data of 19 direct subsidiaries, 1 co-subsidiary, 2 associated entities and 1 indirect subsidiary.

7. GOING CONCERN ASSUMPTION

The Company's financial statements were prepared assuming that the Company would continue business activities for 12 months after the balance sheet date, i.e. until 30 June 2007.

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

8. BUSINESS COMBINATIONS

No business combinations took place during the financial year.

9. COMPARABILITY OF FINANCIAL DATA FOR THE PREVIOUS PERIOD WITH THE FINANCIAL STATEMENTS FOR THE CURRENT FINANCIAL PERIOD

The financial statements for the period ended 30 June 2005 included the data of 12 domestic branches and a foreign branch in Pakistan. Until the end of the first half of 2005 there was one additional branch - ZRG Krosno, which on 1 July 2005 was contributed in kind into the subsidiary - ZRG Krosno Sp. z o.o. There were also six Regional Transmission Branches during the first half of 2005. Pursuant to Resolution no. 567/2006 passed by the Management Board of PGNiG S.A. on 8 August 2006 the liquidation process of six Regional Transmission Branches was completed and the decision was made to remove them from the National Court Register.

The aggregated financial statements of PGNiG S.A. for the current reporting period were prepared based on financial data from the joint accounting records of particular domestic branches and the financial statements of the foreign branch in Pakistan.

10. INFORMATION ON ADJUSTMENTS ARISING FROM QUALIFICATIONS PRESENTED IN OPINIONS OF ENTITIES AUTHORISED TO AUDIT FINANCIAL STATEMENTS FOR THE YEARS FOR WHICH THE FINANCIAL STATEMENTS AND COMPARABLE INFORMATION ARE PRESENTED

The financial statements for the first half of 2005 were subject to a review, whereas the financial statements for 2005 were audited by Deloitte Audyt Sp. z o.o. The opinion and report issued by the auditors did not contain any qualifications. Due to the above, there are no respective adjustments in the financial statements for the first half of 2006 and in comparable financial data for the first half of 2005 and for 2005.

11. ACCOUNTING PRINCIPLES (POLICY) APPLIED, INCLUDING THE METHOD OF MEASURING ASSETS AND LIABILITIES (TOGETHER WITH DEPRECIATION), DETERMINING THE FINANCIAL RESULT AND PREPARING THE FINANCIAL STATEMENTS

11.1. Format and basis for preparing the financial statements

The financial statements were prepared in accordance with Polish Accounting Standards (PAS) defined in:

- Accounting Act of 29 September 1994 (consolidated text - Dz.U. from 2002, No. 76 item 694),
- Act of 29 July 2005 on Public Offerings and Conditions of Introducing Financial Instruments into an Organized Trading System and on Public Companies (Dz. U. No. 184, item 1539);

- The Minister of Finance's Ordinance of 18 October 2005 on the scope of information disclosed in financial statements and consolidated financial statements, required in prospectuses for issuers with registered offices in Poland and who apply Polish Accounting Standards(Dz. U. No. 209, item 1743);
- Minister of Finance's Ordinance of 19 October 2005 on current and periodic information provided by issuers (Dz. U. No. 209, item 1744).

The financial statements were drawn up in accordance with the historical cost principle, with the exception of the measurement of derivatives, as described in point 11.18 in the introduction to the financial statements.

11.2. Intangible assets

Intangible assets are recognized when they are likely to cause an inflow of economic benefits closely related to those assets. Intangible assets are measured at acquisition price or manufacturing cost less accumulated amortization and permanent impairment write-downs. Intangible assets are amortized using the straight line method, in line with the Accounting Act of 29 September 1994, by regular and scheduled spreading of their value over the expected useful life.

If their gross value is equal or lower than PLN 3,500, the assets are amortized on a one-off basis in the month of commissioning.

The following amortization rates are applied to intangible assets:

Other intangible assets	10.0 – 50.0%
-------------------------	--------------

11.3. Fixed assets

Tangible fixed assets are measured at acquisition price or manufacturing cost after revaluation, less accumulated depreciation. The costs incurred after the date of commissioning, such as maintenance and repair, are charged to the profit and loss account on the date on which they are incurred. Whenever, as a result of incurred expenses, the useful value of the tangible fixed asset after improvement exceeds its useful value upon commissioning, the expenses are capitalized in the asset's value. Financial expenses in the period of delivery are added to the value of tangible fixed assets.

In line with valid regulations, tangible fixed assets are subject to revaluation using indexes defined by the President of the Central Statistical Office (GUS). The last revaluation of fixed assets was performed on 1 January 1995. The amount arising from revaluation, in connection with the transformation of the enterprise into a joint-stock company, was allocated to share capital and the revaluation reserve.

The Company applies various depreciation methods depending on the intensity with which assets are used, but it assumes that the straight line method is the fundamental depreciation

method. If the gross value of fixed assets is equal to or lower than PLN 3.500, they are depreciated on a one-off basis in the month of commissioning.

The following depreciation rates are applied to fixed assets:

Perpetual usufruct of land	5.0 – 20.0%
Buildings and structures	2.5 – 10.0%
Technical equipment and machinery	4.5 – 30.0%
Vehicles	14.0 – 20.0%
Other fixed assets	10.0 – 25.0%

Depreciation rates applied for tax purposes are consistent with Attachment no. 1 to the Corporate Income Tax Act of 15 February 1992.

Perpetual usufruct of land acquired free of charge before 1 January 2002, was measured at the amount defined in the decision issued before 1 January 2002 by the authority granting the usufruct. Perpetual usufruct of land acquired after 1 January 2002 is recognized at the amount arising from the decision of the granting authority, determined in the amount of the last annual fee for perpetual usufruct.

The equivalent of the value of perpetual usufruct is simultaneously recorded in accounting records under deferred income. For presentation purposes, the value of recognized perpetual usufruct of land is reduced by respective deferred income.

When creating depreciation charges on the perpetual usufruct, the Company simultaneously recognizes the equivalent amount of deferred income in the profit and loss account.

Buffer gas and gas used for the first filling of the gas pipeline are also classified by the Company as fixed assets.

Tangible fixed assets with expected useful life not exceeding one year are depreciated on a one-off basis and charged to expenses upon commissioning.

11.4. Fixed assets under construction

Fixed assets under construction are measured at the amount of total expenses directly connected with their acquisition or manufacture, including financial expenses, less permanent impairment write-downs. Buffer gas and gas used for the first filling of the gas pipeline are also classified by the Issuer as fixed assets under construction.

Fixed assets under construction are not depreciated before completion of construction and commissioning.

11.5. Outlays for exploration and appraisal projects

The costs of exploration and appraisal of oil and gas in the pre-production phase are recognized based on geological success principle. The cost of exploration and appraisal

work is booked under fixed assets under construction upon the determination of a borehole's usefulness for industrial purposes.

If, following further research, the given area proves unsuitable for industrial use, the exploration and appraisal outlays are charged to the profit and loss account for the given period. As a result of commissioning of fixed assets these expenses are recorded most often as a portion of the cost of building a well and are subject to depreciation.

The costs of exploration and appraisal work are verified for impairment, provided that the asset has not been commissioned yet, or the Company has noticed circumstances under which the balance sheet value could not be recovered.

Costs related to geophysical and geoseismic research are recorded in the profit and loss account in the period, when they are incurred.

If, following further research, the given area proves unsuitable for industrial use, the exploration and appraisal outlays are charged to the profit and loss account for the given period. The usefulness of explored areas is verified by the Company as at each balance sheet date.

11.6. Long-term investments

11.17.1. Real property investments

The Company does not conduct investment activities aimed at gaining economic benefits from trade or rental of real property.

11.17.2. Investments in controlled entities

Investments in subsidiaries and in associated entities excluded from consolidation are measured at acquisition price less permanent impairment write-downs.

11.17.3. Investments in other entities

Investments in other entities are measured at acquisition price less permanent impairment write-downs.

11.7. Short-term investments

Short-term investments disclosed in the balance sheet include short-term installments on the loan granted to related parties, measurement of financial instruments and cash. The recording principles are presented in principles applicable to respective items.

11.8. 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.

11.17.4. The Company 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 leasing payments for the given financial period calculated to reflect 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 profit and loss account using the linear method during the period resulting from the leasing agreement.

11.17.5. The Company as a Lessee

Assets used based on finance lease agreements are treated as the Company's assets and are measured at fair value upon their acquisition, however not higher than the current value of minimal leasing fees. 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 recorded in the profit and loss account. Revenues from operating lease are recognized in the profit and loss account using the linear method during the period resulting from the leasing agreement.

Benefits obtained or due as incentives for concluding the operating lease agreement are recorded in the profit and loss account using the linear method during the period resulting from the leasing agreement.

11.9. Inventory

Inventory is measured at acquisition price or manufacturing cost, however at amounts not exceeding their net realizable value. The net realizable value represents the realizable sales price excluding VAT and excise duty, less price reductions, discounts and the cost of making the asset suitable for sale and of executing the transaction.

The balance sheet inventory of materials includes gas in stock and other materials in stock. Gas in stock in domestic storage facilities is measured at the weighted average acquisition price of imported gas, actual technical manufacturing cost from domestic sources and denitration costs.

The valuation of imported gas is performed using the exchange rate applied in the Single Administrative Document.

The Company creates revaluation write-downs on obsolete, surplus and slow-moving stock.

11.10. Short- and long-term receivables

Receivables are stated at the amount due reduced by write-downs. Receivables are written down based on the probability of their payment. The Company creates revaluation write-downs on receivables overdue by over 90 days from all customers. At the same time, in case of receivables from industrial customers which use significant daily volumes of gas, the financial position of which is poor (steelworks, nitration plants), the Company calculates revaluation write-downs individually for each customer.

Write-downs on receivables are charged to other operating expenses or financial expenses, according to the type of receivables.

Write-off or redemption of receivables due to expiry or irrecoverability results in the reduction of previously created write-downs.

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

11.11. Foreign currency transactions

Transactions denominated in foreign currencies are translated into PLN using the exchange rate from the transaction date; in case of gas purchases, transactions are measured at the exchange rate indicated in Single Administrative Document from the customs clearance date. On the balance sheet date, assets and liabilities denominated in foreign currencies are translated into PLN using the average NBP exchange rate as at that date. Exchange differences arising from translation are recorded in financial revenues or financial expenses, as appropriate.

The following average exchange rates determined by the National Bank of Poland and announced on 30 June 2006 in Table No. 126/A/NBP/2006 were applied for the purpose of measurement as of 30 June 2006:

EUR 1 = PLN 4.0434

USD 1 = PLN 3.1816

GBP 1 = PLN 5.8308

11.12. Cash and cash equivalents

Cash in bank and at hand and short-term deposits held to maturity are measured at nominal value.

Cash and cash equivalents disclosed in the cash flow statement include cash in hand, cash at banks and bank deposits maturing in up to 3 months, not classified as investments.

11.13. Prepayments and accruals

The Company recognizes prepayments, if they are related to future reporting periods.

Accruals are created in the amount of probable liabilities that pertain to the current reporting period.

The Company recognizes deferred income in order to allocate revenues to future reporting periods upon realization.

The Company classifies the surplus of the value of leased assets over their book value to deferred income. The resulting revenues are realized along with the repayment of receivables resulting from the above mentioned lease.

11.14. Share capital

At present the Company's share capital is equal PLN 5,900,000,000 (five billion nine hundred million) and is divided into:

- 4,250,000,000 "A" series bearer shares numbered from 00 000 000 001 to 04 250 000 000 with a face value of PLN 1 each and a total face value of PLN 4,250,000,000;
- 750,000,000 "AI" series bearer shares numbered from 0 000 000 001 to 0 750 000 000 with a face value of PLN 1 each and a total face value of PLN 750,000,000;
- 900,000,000 "B" series bearer shares numbered from 0 000 000 001 to 0 900 000 000 with a face value of PLN 1 each and a total face value of PLN 900,000,000.

11.15. Provisions

Provisions are recognized, if the Company is subject to (legal or customary) liability resulting from past events and it is certain or highly probable that the fulfillment of this liability would result in an outflow of resources generating economic benefits and the value of such liability can be reliably estimated.

The Company has established a jubilee bonuses and retirement benefits scheme. Respective payments are charged to the profit and loss account so as to enable the spreading of jubilee bonuses and retirement benefits costs over the entire period of employment in the Company. The costs due to the aforesaid benefits are determined by measuring forecasted individual entitlements using the actuarial method.

PGNiG S.A. pays allowances for gas to its employees who retired by the end of 1995. This system will be in force until 2010; thereafter the Company will cease to pay the allowance. The valuation method applied to gas allowance liabilities is consistent with the actuarial valuation principles used for estimating the provision for jubilee bonuses and retirement benefits.

The Company's employees are entitled to vacations in line with the terms and conditions defined in the Labor Code. The Company recognizes the cost of employee vacations on an accrual basis. The liability for paid vacations is determined based on the estimated cost of paid vacations that have not been used by the end of the financial year.

The Company creates a provision for severance benefits paid to employees laid off in connection with the employment restructuring program, described in detail in points 1 and 11 of the additional information and explanations. This provision is calculated based on planned reduction in employment and the amounts of one-off severance benefits and the amounts of severance payments defined in the Act of 13 March 2003 on the special terms and conditions of terminating employment contracts due to reasons not related to employees (Dz.U. of 22 May 2003 with subsequent amendments).

The Company creates a provision for the cost of well reclamation. The provision is calculated based on the average cost of well reclamation in individual mines over the last three years, adjusted by forecasted CPI and changes in the value of money over time. The three year time horizon is used due to the different number of reclaimed wells and the reclamation cost in particular years.

During the financial year, the outlays connected with created write-downs are recorded in the profit and loss account (under operating expenses or in case of allowances for retired employees under other operating expenses). As at the balance sheet date the companies from the Capital Group analyze balances of all provisions to verify their value. Calculated changes in provisions are recognized in correspondence with other operating expenses or other operating revenues.

11.16. Bank loans

At the moment of initial recognition, bank credits and loans are recognized at cost equal to the value of received cash and including costs of obtaining the credit/loan. All bank loans are then measured at adjusted acquisition price (amortized cost), using the effective interest rate. Liabilities held for trading are measured at fair value. Gains or losses on remeasurement to fair value are recorded in the profit and loss account for the current period.

11.17. Taxation

11.17.1. Income tax

The current CIT liability is calculated in line with valid tax regulations.

11.17.2. Deferred income tax

The Company measures the deferred tax asset and liability by recognizing both the balance of deferred tax asset and the provision for deferred tax in the financial statements. Deferred

tax is calculated based on all positive and negative items differentiating the financial result and the result for tax purposes.

The deferred tax asset is recognized with regard to all negative temporary differences and unused tax losses carried forward to subsequent years in the amount corresponding to the probability of generating taxable income that will enable the aforesaid differences and losses to be realized.

The carrying value of deferred tax asset is verified at each reporting date and reduced as appropriate to reflect the reduction in probability of generating taxable income sufficient to partly or wholly realize the deferred tax asset.

The deferred tax asset and provision are measured using tax rates expected to be applied in the period in which the tax asset will be realized or provision released.

The deferred tax asset and provision are presented separately in appropriate items of the balance sheet.

11.17.3. Payments from profit

October 2005 was the last month in which PGNiG S.A., as a company wholly owned by the State Treasury, accrued payments due to profit distribution in line with binding regulations (such payments are recognized as charges to the result) in the amount of 15% of the gross result less CIT. As of November 2005 the Company is not obliged to make payments to the State Treasury due to profit distribution.

11.18. Financial instruments

The Company classifies balance sheet items as various categories of financial instruments taking into account their nature and the purpose of acquisition:

- financial assets held for trading – assets acquired to achieve economic benefits arising from short-term price fluctuations and changes in other market factors, or from the short duration of the purchased instrument, as well as other financial assets irrespective of the intention followed in concluding the contract if they belong to a portfolio of similar assets showing high probability of achieving expected economic benefits in the short term. This category also includes all derivatives in respect to which the Company does not apply hedge accounting criteria. Financial instruments of this category are measured at fair value.
- liabilities held for trading – all derivatives with a negative fair value, in respect to which the Company does not apply hedge accounting criteria. Financial instruments of this category are measured at fair value.
- originated loans and own receivables – financial assets, irrespective of maturity (due date) arising from direct issue to the other party of cash, goods and services, are recognized by companies on condition that they are not intended to be resold in the short term.

Originated loans and own receivables also include bonds, notes and other debt instruments acquired in exchange for issuing cash directly to the other party, i.e. purchased on the primary market. Financial instruments of this category are measured at amortized cost using effective interest rate.

- financial assets held to maturity – financial assets not classified as originated loans and own receivables, for which the contracts define the due date of face value repayment and specify the right to obtain economic benefits such as interest, in fixed or determinable amount, at predefined dates, on condition that the company intends and is able to hold those assets to maturity. Financial instruments of this category are measured at amortized cost using the effective interest rate.
- assets available for sale – all assets meeting the definition of financial instruments, not classified to any of the above categories. Shares in non-controlled entities as understood under the Accounting Act are also classified into this category. Financial instruments from this category are measured at acquisition price less permanent impairment write-downs.
- other financial liabilities – all liabilities meeting the definition of financial instruments, except for liabilities held for trading. In particular, this category includes obtained loans, issuance of debt securities and trade liabilities. Financial instruments of this category are measured at amortized cost using the effective interest rate.

11.19. Derivative financial instruments

The Company enters transactions in interest and exchange rate derivatives to hedge the risk of changes in exchange and interest rates affecting certain assets, liabilities and foreign currency transactions.

The company does not apply hedge accounting. Financial instruments are measured at fair value. Changes in the fair value of derivatives are charged to the profit and loss account.

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

11.20. Impairment of assets

On every balance sheet date, the Company evaluates whether there is any objective evidence indicating impairment of an asset or a group of assets. If such evidence exists, the Company defines the estimated recoverable value of the asset and recognizes an impairment write-down in the amount equal to the difference between the recoverable value and carrying value. Impairment losses are recorded in the profit and loss account for the current period. For assets previously subject to revaluation, the impairment loss reduces the revaluation reserve and is then charged to the profit and loss account for the current period.

In respect to the capitalized cost of exploration and appraisal projects and assets related to crude oil mining, the profit centre is defined as a group of fixed assets that make up one production area.

The realizable value of production areas, both operational and under construction, is compared with estimated future discounted net revenues possible to be obtained from the remaining estimated resources of the Company. Future net revenues are estimated based on the average crude oil prices over the past five years, costs and exchange rates as at the balance sheet date. Profit center impairment write-downs are created if the economic value of the profit center is lower than its carrying value.

As at each balance sheet date, the Company verifies, whether there are circumstances due to which previously recognized impairment of assets no longer exists or the recognized write-down should be lower. If this is the case, the Company adjusts the write-down as appropriate.

11.21. Revenue recognition

Revenues are recognized in the amount of probable economic benefits obtained by the Company that can be reliably measured.

11.22. Sales of goods and products

Sales value is determined based on the invoiced sales classified to the reporting period less VAT. In case of gas sales, the sales value is determined based on meter readouts invoiced for periods not exceeding one month.

11.23. Services

Revenues from rendered services are recognized proportionally to progress in the service's delivery, under the condition that it can be reliably estimated. If the effects of the service transaction cannot be reliably determined, revenues from provided services are recognized up to the amount of respective expenses.

11.24. Interest

Interest income is recognized when accrued. All interest accrued on overdue receivables is covered by a write-down.

11.25. Dividends

Due dividends are recorded under financial revenues at the date of the resolution on profit distribution passed by the appropriate authority of the Company, unless a different date for dividend entitlement is set in the resolution.

11.26. Special funds

Special funds include the Company Social Benefits Fund (ZFŚS) and the Mine Liquidation Fund.

The Company Social Benefits Fund is created from obligatory charges and voluntary write-offs from net profit. Obligatory charges are created by the employer in accordance with the applicable regulations, based on the number of employees and minimum monthly wages. Charges to the Company Social Benefits Fund are recognized under expenses. The Social Benefits Fund can be used only for employee benefits.

The Mine Liquidation Fund is created based on the Act of 27 July 2001 on the amendment of the Mining and Geological Law (Dz. U. of 2001 no. 110, item 1190). Write-offs are created in correspondence with other operating expenses.

12. AVERAGE PLN/EUR EXCHANGE RATES IN PERIODS COVERED BY THE FINANCIAL STATEMENTS AND COMPARABLE FINANCIAL INFORMATION AS DETERMINED BY THE NATIONAL BANK OF POLAND

Note "Selected financial data after translation into EUR" at the beginning of these financial statements presents the main items of the balance sheet, profit and loss account and cash flow statement from the financial statements for the first half of 2006 and comparable financial information for the first half of 2005 after translation into EUR.

Balance sheet items were translated from PLN into EUR using the average EUR exchange rate determined by the NBP for the last day of each period, i.e. PLN/EUR exchange rate of 4.0434 as of 30 June 2006 and PLN/EUR exchange rate of 4,0401 as of 30 June 2005.

Items in the profit and loss account as well as the cash flow statements were translated using the average EUR exchange rate in each presented period, calculated as the arithmetic average of exchange rates valid on the last day of each month in the given period, i.e. PLN/EUR exchange rate of 3.9002 for the current reporting period and PLN/EUR exchange rate of 4.0805 applied for translating comparable information for the period from 1 January to 30 June 2005.

13. KEY DIFFERENCES BETWEEN POLISH ACCOUNTING STANDARDS (PAS) AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

PGNiG S.A. maintains its accounting records in line with the provisions of the Accounting Act of 29 September 1994 (Dz. U. of 2002, No. 76, item 694).

As PGNiG S.A. became a publicly traded company in September 2005, it is obliged to present differences between financial statements prepared in line with Polish Accounting Standards (PAS) and financial statements that would have been prepared in line with International Financial Reporting Standards (IFRS). For the purpose of these financial

statements the Company calculated the adjustments that would be necessary to restate the financial statements prepared in line with PAS into financial statements prepared in line with IFRS. The calculated adjustments together with their influence on equity and the net financial result for the current period as well as for the comparable period are presented below:

	Explanatory notes	30 June 2006	30 June 2005
Equity according to PAS		11 106 871	8 065 074
Revaluation of fixed assets on 1 January 2004	a)	6 060 016	6 578 470
Deferred tax on IFRS adjustments	b)	(1 143 100)	(1 241 897)
Employee profit distribution payments	c)	-	-
Other	d)	(43 694)	(42 170)
Equity according to IFRS		15 980 093	13 359 477

	Explanatory notes	30 June 2006	30 June 2005
Net profit in accordance with PAS		667 701	470 349
Revaluation of fixed assets on 1 January 2004	a)	(122 550)	(172 125)
Deferred tax on IFRS adjustments	b)	22 457	32 370
Employee profit distribution payments	c)	(42 900)	(27 255)
Other	d)	4 357	1 759
Net profit in accordance with IFRS		529 065	305 098

a) Revaluation of fixed assets as of 1 January 2004

The adjustment covered all changes arising from the application of: IAS 38 "Intangible assets", IAS 16 "Property, Plant and Equipment", IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" and IAS 36 "Impairment of Assets".

The adjustment mainly covers the asset revaluation applied by the Company based on the balance as at 1 January 2004.

In accordance with IFRS 1, the Company would be a first-time adopter. Due to the above as permitted by IFRS 1 the value of the Company's non-current assets was measured on a one-off basis by an independent expert at fair value as at the IFRS adoption date. The value was recognized as the depreciation base in subsequent periods.

b) Deferred tax on IFRS adjustments

PAS and IFRS foresee the same method of calculating deferred tax. The need to adjust deferred tax arises from other adjustments that harmonize PAS with IFRS, as a result of which there is a change in temporary differences, which constitute the deferred tax base.

c) Employee profit distribution payments

According to the accounting principles supplied thus far the Company discloses amounts paid in accordance with the profit distribution resolution to the Company Social Benefits Fund and to the bonus fund as a distribution of the net financial result.

In accordance with IAS, the amounts paid to the Company Social Benefits Fund and bonus fund do not constitute a distribution of the net profit, but are considered as expenses. Due to the above, all amounts paid to the Company Social Benefits Fund and the bonus fund are recognized as expenses upon the origination of the liability, i.e. upon the adoption of the resolution distributing the net profit. As a result of the above adjustment, the cost of employee benefits would increase, which, in turn, would lead to a decrease of the given period's financial result.

d) Other

Due to the restructuring of the Company in 2003, the largest component of this item accounts for an adjustment related to actuarial gains and losses that influenced the volume of the provision for jubilee bonuses and retirement severance pay. The Company recognizes the provision for jubilee bonuses and retirement severance pay in its books in the value calculated by an actuary with taking into account any actuarial gains and losses. In accordance with IAS, the entity should recognize all costs arising from such provisions in the profit and loss account. Therefore, actuarial gains would have been recognized in the financial statements as an increase of the period's costs.

BALANCE SHEET

ASSETS	Notes	30 June 2006	31 December 2005	30 June 2005
I. Non-current assets		13 806 420	13 884 658	11 717 083
1. Intangible assets, including:	1	8 093	12 375	16 989
- goodwill		-	-	-
2. Tangible fixed assets	2	4 498 097	4 465 479	6 388 889
3. Long-term receivables	3; 8	3 982 921	4 106 269	83
3.1. From related parties		-	-	-
3.2. From other entities		3 982 921	4 106 269	83
4. Long-term investments	4	5 001 176	5 006 261	4 983 181
4.1. Real property		-	-	-
4.2. Intangible assets		-	-	-
4.3. Long-term financial assets		5 001 170	5 006 255	4 983 175
a) in related parties		4 999 525	5 004 609	4 981 532
b) in other entities		1 645	1 646	1 643
4.4. Other long-term investments		6	6	6
5. Long-term prepayments	5	316 133	294 274	327 941
5.1. Deferred tax assets		311 861	288 355	326 727
5.2. Other prepayments		4 272	5 919	1 214
II. Current assets		5 826 335	5 319 230	2 759 125
1. Inventory	6	787 141	722 118	616 336
2. Short-term receivables	7; 8	1 018 604	1 678 056	633 564
2.1. From related parties		221 417	569 140	165 468
2.2. From other entities		797 187	1 108 916	468 096
3. Short-term investments		3 899 011	2 916 468	1 496 522
3.1. Short-term financial assets	9	3 899 011	2 916 468	1 496 522
a) in related parties		37 117	49 811	51 594
b) in other entities		452 820	120 273	367 759
c) cash and other pecuniary assets		3 409 074	2 746 384	1 077 169
3.2. Other short-term assets		-	-	-
4. Short-term prepayments and deferred income	10	121 579	2 588	12 703
Total assets		19 632 755	19 203 888	14 476 208

BALANCE SHEET

EQUITY AND LIABILITIES	Notes	30 June 2006	31 December 2005	30 June 2005
I. Equity		11 106 871	11 367 043	8 065 074
1. Share capital	12	5 900 000	5 900 000	5 000 000
2. Called up share capital (negative value)		-	-	-
3. Own shares (negative value)	13	-	-	-
4. Supplementary capital	14	4 537 640	4 333 312	2 593 219
5. Revaluation reserve	15	1 530	1 503	1 506
6. Other reserve capitals	16	-	-	-
7. Previous year profit (loss)		-	-	-
8. Net profit (loss)		667 701	1 132 228	470 349
9. Write-offs on net profit during the financial year (negative value)	17	-	-	-
II. Liabilities and provisions for liabilities		8 525 884	7 836 845	6 411 134
1. Provisions for liabilities	18	1 172 408	1 045 221	1 031 005
1.1. Provision for deferred income tax		77 102	48 676	121 489
1.2. Provision for retirement and similar benefits		178 753	187 473	201 575
a) long-term		140 111	148 393	164 303
b) short-term		38 642	39 080	37 272
1.3. Other provisions		916 553	809 072	707 941
a) long-term		602 693	583 867	585 678
b) short-term		313 860	225 205	122 263
2. Long-term liabilities	19	2 426 082	2 317 096	171 380
2.1. To related parties		-	-	-
2.2. To other entities		2 426 082	2 317 096	171 380
3. Short-term liabilities	20	2 382 541	1 852 702	5 156 793
3.1. To related parties		239 346	228 654	152 505
3.2. To other entities		2 043 061	1 561 654	4 944 517
3.3. Special funds		100 134	62 394	59 771
4. Accruals	21	2 544 853	2 621 826	51 956
4.1. Negative goodwill		-	-	-
4.2. Other accruals		2 544 853	2 621 826	51 956
a) long-term		2 398 310	2 452 985	34 479
b) short-term		146 543	168 841	17 477
Total liabilities and equity		19 632 755	19 203 888	14 476 208
Book value		11 106 871	11 367 043	8 065 074
Number of shares (items)		5 900 000 000	5 900 000 000	5 000 000 000
Book value per share (in PLN)	22	1,88	1,93	1,61
Number of diluted shares (items)		5 900 000 000	5 900 000 000	5 000 000 000
Diluted book value per share (in PLN)	22	1,88	1,93	1,61

OFF-BALANCE SHEET ITEMS

	Notes	30 June 2006	31 December 2005	30 June 2005
1. Contingent receivables	23	36 574	39 397	48 912
1.1. From related parties (due to)		3 012	8 012	8 012
- guarantees and sureties received		-	-	-
- bills of exchange received		3 012	8 012	8 012
1.2. From other entities (due to)		33 562	31 385	40 900
- guarantees and sureties received		31 418	21 826	31 341
- bills of exchange received		2 144	9 559	9 559
2. Contingent liabilities	23	982 752	979 924	830 297
2.1. To related parties (due to)		385 198	62 592	136 788
- guarantees and sureties granted		-	-	-
- bills of exchange issued		-	-	-
- agreements, investment contracts signed		385 198	62 592	136 788
- operating lease liabilities		-	-	-
2.2. To other entities (due to)		597 554	917 332	693 509
- guarantees and sureties granted		544 180	870 423	389 685
- bills of exchange issued		9 252	9 252	251 593
- agreements, investment contracts signed		44 122	37 657	51 997
- operating lease liabilities		-	-	234
3. Other		1 018	2 314	19 694
- off-balance sheet fixed assets		949	1 140	17 436
- fixed assets assigned for liquidation		69	1 174	2 258

PROFIT AND LOSS ACCOUNT (by function)

	Notes	For the period from 1 January to 30 June 2006	For the period from 1 January to 30 June 2005
I. Net revenues from sales of products, goods and materials, including:		6 565 417	4 823 987
- from related parties		3 948 227	2 767 016
1. Net revenues from sales of products	24	6 564 580	4 822 122
2. Net revenues from sales of goods and materials	25	837	1 865
II. Cost of products, goods and materials sold, including:		5 822 441	3 724 467
- from related parties		169 785	225 353
1. Manufacturing cost of products sold	26	5 821 906	3 707 230
2. Value of goods and materials sold		535	17 237
III. Gross profit (loss) on sales (I-II)		742 976	1 099 520
IV. Selling costs	26	18 048	12 876
V. General and administrative costs	29	54 334	144 504
VI. Profit (loss) on sales (III-IV-V)		670 594	942 140
VII. Other operating revenues		133 309	105 702
1. Gain on disposal of non-financial non-current assets		-	-
2. Subsidies		-	-
3. Other operating revenues	27	133 309	105 702
VIII. Other operating expenses		164 606	54 497
1. Loss on disposal of non-financial non-current assets		1 185	9 558
2. Revaluation of non-financial assets		52 225	17 537
3. Other operating expenses	28	111 196	27 402
IX. Operating profit (loss)		639 297	993 345
X Financial revenues	29	521 969	314 521
1. Dividend and profit sharing, including:		626	1 039
- from related parties		592	1 031
2. Interest, including:		193 250	73 699
- from related parties		10 695	14 831
3. Gain on disposal of investments	31	54 116	-
4. Revaluation of investments		49 800	32 256
5. Other		224 177	207 527
XI. Financial expenses	30	315 961	603 771
1. Interest, including:		34 164	275 481
- to related parties		-	221 349
2. Loss on disposal of investment	31	-	35 551
3. Revaluation of investments		30 314	74 856
4. Other		251 483	217 883
XII. Profit (loss) on business activities		845 305	704 095
XIII. Result on extraordinary events		-	(335)
1. Extraordinary gains	32	-	-
2. Extraordinary losses	33	-	335
XIV. Gross profit (loss)		845 305	703 760
XV. Income tax	34	177 604	143 576
a) current portion		172 684	104 842
b) deferred portion		4 920	38 734
XVI. Other statutory reductions in profit (increases in loss)	35	-	89 835
XVII. Share in net profits (losses) of controlled entities measured using the equity method	36	-	-
XVIII. Net profit (loss)		667 701	470 349

Net profit (loss) (annualized)		1 329 580	803 567
Weighted average number of ordinary shares (items)		5 900 000 000	5 000 000 000
Profit (loss) per ordinary share (in PLN)	38	0,23	0,16
Weighted average number of diluted ordinary shares (items)		5 900 000 000	5 000 000 000
Diluted profit (loss) per ordinary share (in PLN)	38	0,23	0,16

STATEMENT OF CHANGES IN EQUITY

	30 June 2006	31 December 2005	30 June 2005
I. Opening balance of equity	11 367 043	8 122 230	8 122 230
a) changes in accounting principles applied	-	-	-
b) adjustments of fundamental errors	-	-	-
I.a. Opening balance of equity, after reconciliation with comparable data	11 367 043	8 122 230	8 122 230
1. Opening balance of share capital	5 900 000	5 000 000	5 000 000
1.1. Changes in share capital	-	900 000	-
a) increases (due to)	-	900 000	-
- <i>issuance of shares</i>	-	900 000	-
b) decreases (due to)	-	-	-
1.2. Closing balance of share capital	5 900 000	5 900 000	5 000 000
2. Opening balance of called up share capital	-	-	-
2.1. Changes in called up share capital	-	-	-
a) increases (due to)	-	-	-
b) decreases (due to)	-	-	-
2.2. Closing balance of called up share capital	-	-	-
3. Opening balance of own shares	-	-	-
3.1. Changes in own shares	-	-	-
a) increases (due to)	-	-	-
b) decreases (due to)	-	-	-
3.2. Closing balance of own shares	-	-	-
4. Opening balance of supplementary capital	4 333 312	2 373 761	2 373 761
4.1. Changes in supplementary capital	204 328	1 959 551	219 458
a) increases (due to)	204 328	1 959 551	219 458
- <i>distribution of previous year profit</i>	-	-	-
- <i>profit distribution</i>	204 328	219 458	219 458
- <i>from sales of shares over face value</i>	-	1 740 093	-
b) decrease (due to)	-	-	-
- <i>loss coverage</i>	-	-	-
4.2. Closing balance of supplementary capital	4 537 640	4 333 312	2 593 219
5. Opening balance of revaluation reserve	1 503	1 756	1 756
5.1. Changes in revaluation reserve	27	(253)	(250)
a) increases (due to)	361	-	-
- <i>exchange differences on measurement of a foreign branch</i>	361	-	-
b) decreases (due to)	(334)	(253)	(250)
- <i>exchange differences on measurement of a foreign branch</i>	(334)	(253)	(250)
5.2. Closing balance of revaluation reserve	1 530	1 503	1 506
6. Opening balance of other reserve capitals	-	-	-
6.1. Changes in other reserve capitals	-	-	-
a) increases (due to)	-	-	-
b) decreases (due to)	-	-	-
6.2. Closing balance of other reserve capitals	-	-	-

STATEMENT OF CHANGES IN EQUITY – CONT.

	30 June 2006	31 December 2005	30 June 2005
7. Opening balance of previous year profit (loss)	-	-	-
7.1. Opening balance of previous year profit	-	-	-
a) changes in accounting principles applied	-	-	-
b) adjustments of fundamental errors	-	-	-
7.2. Opening balance of previous year profit, after reconciliation to comparable data	-	-	-
a) increases (due to)	1 132 228	746 713	746 713
- <i>distribution of previous year profit</i>	1 132 228	746 713	746 713
b) decreases (due to)	(1 132 228)	(746 713)	(746 713)
- <i>reclassification to supplementary capital</i>	(204 328)	(219 458)	(219 458)
- <i>write off to bonus fund</i>	(27 600)	(20 000)	(20 000)
- <i>write off to the Company Social Benefits Fund</i>	(7 300)	(7 255)	(7 255)
- <i>write off to the Central Restructuring Fund</i>	(8 000)	-	-
- <i>dividend for the owner</i>	(885 000)	(500 000)	(500 000)
7.3. Closing balance of previous year profit	-	-	-
7.4. Opening balance of previous year loss	-	-	-
a) changes in accounting principles applied	-	-	-
b) adjustments of fundamental errors	-	-	-
7.5. Opening balance of previous year loss, after reconciliation to comparable data	-	-	-
a) increases (due to)	-	-	-
b) decreases (due to)	-	-	-
7.6. Closing balance of previous year loss	-	-	-
7.7. Closing balance of previous year profit (loss)	-	-	-
8. Net result	667 701	1 132 228	470 349
a) net profit	667 701	1 132 228	470 349
b) net loss	-	-	-
c) write-offs on profit	-	-	-
II. Closing balance of equity	11 106 871	11 367 043	8 065 074
III. Equity including proposed profit distribution (loss coverage)	11 106 871	11 367 043	8 065 074

CASH FLOW STATEMENT (indirect method)

	For the period from 1 January to 30 June 2006	For the period from 1 January to 30 June 2005
A. Cash flows from operating activities		
I. Net profit (loss)	667 701	470 349
II. Adjusted by:	251 445	942 051
1. Amortization/depreciation	188 734	291 743
2. Exchange gains (losses)	116 675	(61 630)
3. Interest and profit sharing (dividend)	(123 718)	127 117
4. Profit (loss) on investment activities	(20 397)	57 467
5. Change in provisions	101 486	(63 367)
6. Change in inventory	(65 016)	(60 793)
7. Change in receivables	627 588	458 297
8. Change in short-term liabilities excluding loans	(267 930)	238 045
9. Change in prepayments and accruals	(146 925)	69 688
10. Other adjustments	(159 052)	(114 516)
III. Net cash flows from operating activities	919 146	1 412 400
B. Cash flows from investment activities		
I. Inflows	325 705	280 326
1. Disposal of intangible and tangible fixed assets	14 149	747
2. Disposal of investments in real property and intangible assets	-	-
3. From financial assets, including:	188 048	268 515
a) in related parties	41 856	84 219
- disposal of financial assets	-	-
- dividend and profit sharing	592	1 031
- repayment of granted long-term loans	31 152	73 126
- interest	10 112	10 062
- other inflows from financial assets	-	-
b) in other entities	146 192	184 296
- disposal of financial assets	-	183 933
- dividend and profit sharing	34	8
- repayment of granted long-term loans	-	-
- interest	146 158	355
- other inflows from financial assets	-	-
4. Other inflows from investment activities	123 508	11 064
II. Outflows	463 764	294 078
1. Purchase of intangible assets and tangible fixed assets	286 599	274 123
2. Investments in real property and intangible assets	-	-
3. For financial liabilities, including:	166 493	19 044
a) in related parties	-	19 044
- purchase of financial assets	-	25
- originated long-term loans	-	19 019
b) in other entities	166 493	-
- purchase of financial assets	166 493	-
- originated long-term loans	-	-
4. Other outflows from investment activities	10 672	911
III. Net cash flows from investment activities (I-II)	(138 059)	(13 752)

CASH FLOW STATEMENT (indirect method) CONT.

	For the period from 1 January to 30 June 2006	For the period from 1 January to 30 June 2005
C. Cash flows from financial activities		
I. Inflows	7 382	2 470 791
1. Net inflows from issuance of shares and other capital instruments and from capital contributions	-	-
2. Loans	-	2 430 080
3. Issuance of debt securities	-	-
4. Other inflows from financial activities	7 382	40 711
II. Outflows	125 802	3 312 155
1. Purchase of own shares	-	-
2. Dividend and other payments to shareholders	-	104 135
3. Profit distribution expenses other than payments to shareholders	-	20 000
4. Repayment of loans	8 356	3 033 078
5. Redemption of debt securities	-	-
6. Payment of other financial liabilities	-	-
7. Payment of liabilities arising from financial leases	340	1 683
8. Interest	23 074	32 013
9. Other outflows from financial activities	94 032	121 246
III. Net cash flows from financial activities (I-II)	(118 420)	(841 364)
D. Total net cash flows (A. III+/-B. III+/-C. III)	662 667	557 284
E. Balance sheet change in cash, including:	662 690	557 306
-change in cash due to exchange differences	23	22
F. Opening balance of cash	2 750 379	523 866
G. Closing balance of cash (F+/-D), including:	3 413 046	1 081 150
-of limited disposability	5 171	5 764

B. EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. INTANGIBLE ASSETS

	30 June 2006	31 December 2005	30 June 2005
a) R&D expenses	-	-	-
b) goodwill	-	-	-
c) concessions, patents, licenses and similar items, including:	8 082	12 375	16 882
- computer software	6 929	10 800	16 641
d) other intangible assets	11	-	107
e) advances for intangible assets	-	-	-
Total intangible assets	8 093	12 375	16 989

NOTE 1.1. CHANGES IN INTANGIBLE ASSETS (BY TYPE)

	a	b	c		d	e	Total intangible assets
	R&D costs	goodwill	acquired concessions, patents, licenses and similar items	including: computer software	other intangible assets	advances for intangible assets	
a) opening balance of gross value of intangible assets	-	-	55 616	50 149	3 370	-	58 986
b) increases due to:	-	-	655	329	11	-	666
- purchases – low-value	-	-	-	-	-	-	-
- reclassification from fixed assets under construction	-	-	363	38	5	-	368
- reclassification from other groups	-	-	292	291	-	-	292
- other increases	-	-	-	-	6	-	6
c) decreases, due to:	-	-	300	8	-	-	300
- sales	-	-	-	-	-	-	-
- liquidation	-	-	-	-	-	-	-
- reclassifications to other groups	-	-	292	-	-	-	292
- other decreases	-	-	8	8	-	-	8
- contribution in kind	-	-	-	-	-	-	-
- transferred under leasing	-	-	-	-	-	-	-
d) closing balance of gross value of intangible assets	-	-	55 971	50 470	3 381	-	59 352
e) accumulated amortization opening balance	-	-	43 241	39 349	3 370	-	46 611
f) increases :	-	-	4 656	4 200	-	-	4 656
- amortization for the period	-	-	4 656	4 200	-	-	4 656
- increases applicable to reclassifications from other groups	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
g) decreases:	-	-	8	8	-	-	8
- regarding sold intangible assets	-	-	-	-	-	-	-
- regarding liquidated intangible assets	-	-	-	-	-	-	-
- related to reclassifications to other groups	-	-	-	-	-	-	-
- other	-	-	8	8	-	-	8
- contribution in kind	-	-	-	-	-	-	-
- transferred under leasing	-	-	-	-	-	-	-
h) accumulated amortization closing balance	-	-	47 889	43 541	3 370	-	51 259
i) opening balance of impairment write-downs	-	-	-	-	-	-	-
- increase	-	-	-	-	-	-	-
- decrease	-	-	-	-	-	-	-
- regarding contribution in kind	-	-	-	-	-	-	-
j) closing balance of impairment write-downs	-	-	-	-	-	-	-
k) closing balance of net value of intangible assets	-	-	8 082	6 929	11	-	8 093

NOTE 1.2. INTANGIBLE ASSETS (OWNERSHIP STRUCTURE)

	30 June 2006	31 December 2005	30 June 2005
a) own	8 093	12 375	16 989
b) assets used based on lease, rental or similar agreement, including leasing	-	-	-
Total balance sheet intangible assets	8 093	12 375	16 989

NOTE 2. TANGIBLE FIXED ASSETS

	30 June 2006	31 December 2005	30 June 2005
a) fixed assets, including:	3 138 960	3 252 014	5 277 653
- land (including right to perpetual usufruct)	15 105	15 370	25 711
- buildings, premises, civil and water engineering structures	2 597 338	2 657 421	4 309 536
- technical equipment and machinery	510 504	562 831	914 409
- vehicles	6 630	6 229	13 373
- other fixed assets	9 383	10 163	14 624
b) fixed assets under construction	1 359 137	1 210 753	1 110 368
c) advances for fixed assets under construction	-	2 712	868
Total tangible fixed assets	4 498 097	4 465 479	6 388 889

All expenditure incurred as regards exploration and appraisal of gas reserves from work commencement to recognition of wells in fixed assets or finding it negative are capitalized in assets under construction with the exception of expenses related to geological or surface geophysical research, which are not capitalized but charged to expenses at the moment of incurrence. The value of capitalized expenditure on exploration and appraisal work without a negative effect represents the actual historical cost. In case of each activated well, its net economic value is determined every 6 months, calculated as the sum of products of hydrocarbon quantities producible from a given well and their sales price decreased by planned expenditure on well adaptation, production and sales costs over subsequent years, discounted by a fixed percent rate reflecting the value of money over time and the risk rate related to the exploration activity – calculated as a weighted average of capital cost. The carrying value of individual wells is limited and cannot exceed the discounted cash streams. If actual historical costs exceed the net economic value of an individual well, write-downs of appropriate assets under construction are charged to other operating expenses. If there is insufficient information to determine the economic value of the well as at the date of the financial statements (wells under appraisal tests), expenditure on wells are disclosed in the balance sheet at historical costs.

When a well is commissioned, its book value is reclassified from assets under construction to tangible fixed assets.

The Company depreciates production wells based on depreciation rates consistent with applicable tax regulations. The current rate of 4% - 6.3% are justified also for balance sheet purposes, as the average useful life of wells is equal to 20 - 25 years.

The above mentioned wells are depreciated by the Company for tax and accounting purposes as fixed assets used for sales activities by the production plants, at depreciation rates defined in the applicable corporate income tax regulations as also justified for balance sheet purposes.

At the balance sheet date, fixed assets related to production activities are tested for impairment. The tests are performed for each mine separately by comparing the mine's book and economic value defined as the sum of discounted future net cash flows attainable over the assets' useful life. Calculations are performed based on the average weighted cost of capital. If the carrying value exceeds the economic value, a write-down is created by reducing the asset's value to its economic value or to zero when the economic value is negative. The above write-down is recognized in the accounting records in correspondence with other operating expenses. When an impairment event no longer exists, the value previously written-off is restored in correspondence with other operating revenues.

In previous years, installation of gas service lines was usually financed by users. Upon commissioning, service lines were transferred to PGNiG S.A. and recognized at actual cost incurred by users or based on valuations performed by PGNiG S.A. The value of service lines was added to fixed assets and deferred income.

Starting from 1 January 1999, expenditure on installation of service lines was and is covered by PGNiG S.A. with own funds, in exchange for a connection fee charged to the service line user. The value of service lines is added to fixed assets, whereas the connection fee is recognized as deferred income.

While recording depreciation charges on gas service lines (both received free of charge and installed with in-house resources), the holding company simultaneously recognizes in the profit and loss account the equivalent amount of deferred income.

PGNiG S.A. has seven underground natural gas storage facilities. At present, six underground gas storage facilities are used, including 5 located in depleted natural gas deposits and a cavern storage (PMG Mogilno). In the case of PMG Mogilno, the 1st stage of construction was completed in October 2005 and 2 caverns were commissioned. At present, 10 caverns are used in total.

In PMG Mogilno, due to cavern convergence (salt condensing), the volume of actively used caverns has decreased by 11.74 million cubic meters. Salt condensing will continue to reduce the actively used cavern volume (based on observations, an annual cavern capacity loss of 0-5.5% can be expected, depending on cavern location depth and cavern working pressure).

Gas in underground storage is divided into buffer and working gas.

A portion of buffer gas comes from the natural reservoir (in quantities determined in the approved geological documentation), and its remaining portion has been pumped in order to obtain proper technical-geological parameters, required for the proper functioning of the storage facility. This applies to gas storage facilities located in depleted hydrocarbon deposits. In case of a storage facility located on a salt diapir (PMG Mogilno), buffer gas has been compressed and remains in the storage chamber during the first cycle of brine compression and ejection, upon completion of the leaching process.

Native buffer gas in all storage facilities and additional buffer gas pumped in PMG Husów, PMG Brzeźnica, PMG Strachocina, PMG Swarzów and PMG Jaśniny has not been recognized in the asset register (except for 27,969.2 thousand m³ recognized under fixed assets in PMG Husów). In PMG Wierzchowice, additionally pumped buffer gas in the amount of 782,192.0 thousand m³ is recognized as fixed asset, whereas 223,455.0 thousand m³ – as fixed assets under construction. In PMG Mogilno, additionally pumped buffer gas in the amount of 171,120.0 thousand m³ is recognized under fixed assets.

As of 30 June 2006, total active volume of all PMG's was 1,631,730 thousand cubic meters.

As of 30 June 2006, the balance of inventory in all storage facilities was as follows:

- working gas (only owned by PGNiG S.A.) – 846,933.3 thousand cubic meters with a value of PLN 688,406.4 thousand;
- total buffer volume in storage facilities – 7,652,782.0 thousand cubic meters (including 4,588,120.0 thousand cubic meters of nitrated gas)
including:
 - native non-producible gas – 852,170.0 thousand cubic meters (including 500,000.0 thousand cubic meters of nitrated gas) with no defined value
 - native producible gas – 4,747,626.0 thousand cubic meters (including 4,088,120.0 thousand cubic meters of nitrated gas) with no defined value
 - pumped in buffer gas – 2,052,986.0 thousand cubic meters with a value of PLN 407,957.6 thousand.

As of 30 June 2006, the following quantities of gas are located in 4 so called local PMG's which cooperate with the transmission system (Swarzów, Strachocina, Brzeźnica, Jaśniny):

- working gas – 165,227.3 thousand cubic meters with a value of PLN 113,779.8 thousand;
- total buffer volume in storage facilities – 1,100,613.9 thousand cubic meters with no defined value, including:
 - pumped in buffer gas – 523,818.0 thousand cubic meters with no defined value.

The target volume of buffer gas required for all storage facilities to operate properly constitutes a fixed-volume reserve throughout the storage facility's operation period. In exceptional cases, it is possible to produce buffer gas during PMG exploitation in volumes not affecting the operations of the storage facility. As storage facilities are development, the volume of buffer gas will be increased.

Buffer gas in PMG can be utilized upon the completion of a storage facility's exploitation. Nevertheless, at this stage it is impossible to determine whether the mine liquidation plan will foresee the depletion of gas, the degree and moment of such depletion, after the concession expires. In the case of PMG Mogilno, the costs of filling the caverns with another filling agent will be significant.

At present, the Company does not plan to liquidate storage facilities and discontinue gas production.

During the exploitation period of buffer gas in PMG Wierzchowice, after the storage facility will no longer be used, gas with variable methane content, i.e. 94-68%, will be produced.

Due to the above, operating the deposit for the purpose of the high-methane gas system will be difficult - it will be necessary to build a denitration plant, whose parameters will significantly different from those of KRIO-Odolanów.

In case of all PMG's, decreasing gas pressure, which will result in the necessity to build a deposit pumping station, will be the factor that will limit the exploitation of buffer gas.

Polskie Górnictwo Naftowe i Gazownictwo S.A.
Financial statements for the period ended 30 June 2006
Explanatory notes
(in PLN '000)

NOTE 2.1. CHANGES IN FIXED ASSETS (BY TYPE)

	a	b	c	d	e	f	g	Total tangible fixed assets
	land (including right to perpetual usufruct)	buildings, premises, civil and water engineering structures	technical equipment and machinery	vehicles	other fixed assets	fixed assets under construction	advances for fixed assets under construction	
a) opening balance of gross value of tangible fixed assets	95 855	5 152 527	1 522 958	44 487	68 735	1 420 642	2 712	8 307 916
b) increases due to:	518	70 495	17 932	2 160	1 085	293 481	10 596	396 267
- purchase of fixed assets under construction (including low-value assets)	-	-	-	-	-	293 169	-	293 169
- reclassification from fixed assets under construction	229	49 897	17 847	2 160	1 085	-	-	71 218
- reclassification from other groups	-	-	85	-	-	-	-	85
- fixed assets received free of charge	-	-	-	-	-	-	-	-
- other increases	289	20 598	-	-	-	312	10 596	31 795
c) decreases, due to:	1 461	25 272	3 646	1 293	318	101 412	13 308	146 710
- sales	1 457	18 839	69	360	24	-	-	20 749
- liquidation	-	1 937	3 559	82	204	-	-	5 782
- reclassification to fixed assets	-	-	-	-	-	71 586	-	71 586
- reclassifications to other groups	-	-	-	-	85	-	-	85
- transferred free of charge	-	-	-	-	-	-	-	-
- other decreases	4	4 496	18	851	5	29 826	13 308	48 508
- contribution in kind	-	-	-	-	-	-	-	-
- transferred under leasing	-	-	-	-	-	-	-	-
- transferred by dividend	-	-	-	-	-	-	-	-
d) closing balance of gross value of tangible fixed assets	94 912	5 197 750	1 537 244	45 354	69 502	1 612 711	-	8 557 473

Polskie Górnictwo Naftowe i Gazownictwo S.A.
Financial statements for the period ended 30 June 2006
Explanatory notes
(in PLN '000)

NOTE 2.1. CHANGES IN FIXED ASSETS (BY TYPE) CONT.

CHANGES IN TANGIBLE FIXED ASSETS (BY TYPE)	a	b	c	d	e	f	g	Total tangible fixed assets
	land (including right to perpetual usufruct)	buildings, premises, civil and water engineering structures	technical equipment and machinery	vehicles	other fixed assets	fixed assets under construction	advances for fixed assets under construction	
<i>a) accumulated depreciation opening balance</i>	15 940	2 409 785	947 122	38 173	57 786	-	-	3 468 806
f) increases:	2 041	110 573	67 909	1 604	2 047	-	-	184 174
- depreciation for the period	2 041	110 573	67 824	1 593	2 047	-	-	184 078
- related to reclassifications from other groups	-	-	85	-	-	-	-	85
- other	-	-	-	11	-	-	-	11
	-	-	-	-	-	-	-	-
g) decreases:	502	13 047	3 010	1 056	318	-	-	17 933
- regarding sold fixed assets	307	7 156	68	354	24	-	-	7 909
- regarding liquidated fixed assets	-	1 736	2 925	14	204	-	-	4 879
- related to reclassifications to other groups	-	-	-	-	85	-	-	85
- other	195	4 155	17	688	5	-	-	5 060
- contribution in kind	-	-	-	-	-	-	-	-
- transferred under leasing	-	-	-	-	-	-	-	-
- transferred by dividend	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
h) accumulated depreciation closing balance	17 479	2 507 311	1 012 021	38 721	59 515	-	-	3 635 047
i) opening balance of impairment write- downs	64 545	85 321	13 005	85	786	209 889	-	373 631
- increase	1 033	42 992	4 734	1	71	57 919	-	106 750
- decrease	3 250	35 212	3 020	83	253	14 234	-	56 052
- contribution in kind	-	-	-	-	-	-	-	-
j) closing balance of impairment write- downs	62 328	93 101	14 719	3	604	253 574	-	424 329
k) closing balance of net value of tangible fixed assets	15 105	2 597 338	510 504	6 630	9 383	1 359 137	-	4 498 097

NOTE 2.2. BALANCE SHEET FIXED ASSETS (OWNERSHIP STRUCTURE)

	30 June 2006	31 December 2005	30 June 2005
a) own	3 132 757	3 244 522	5 228 818
b) used based on lease, rental or similar agreement, including:	6 203	7 492	48 835
- leasing agreements	5 890	6 292	45 879
Total balance sheet fixed assets	3 138 960	3 252 014	5 277 653

NOTE 2.3. OFF-BALANCE SHEET FIXED ASSETS

	30 June 2006	31 December 2005	30 June 2005
value of items (contractual) used based on operating lease agreements	-	82	654
assets used based on lease, rental or similar agreement	949	1 058	16 782
Total off-balance sheet fixed assets	949	1 140	17 436

NOTE 2.4. LAND IN PERPETUAL USUFRUCT

	30 June 2006	31 December 2005	30 June 2005
surface (sq. m.)	5 735 718	7 658 438	7 809 735
value*	79 659	81 804	98 515

*Gross value of perpetual usufruct right entered into records as of 1 January 2002 and perpetual usufruct right reclassified from intangible asset value.

NOTE 2.5. VALUE OF FIXED ASSETS NOT SUBJECT TO DEPRECIATION OR ACCUMULATED DEPRECIATION

	30 June 2006	31 December 2005	30 June 2005
Used based on lease, rental and other similar agreements	949	1 058	16 782
a) land	-	23	23
b) buildings, premises, civil and water engineering structures	188	188	188
c) technical equipment and machines	13	13	13
d) vehicles	748	834	3 570
e) other fixed assets	-	-	12 988
Used based on operating lease agreements	-	82	654
a) land	-	-	-
b) buildings, premises, civil and water engineering structures	-	-	-
c) technical equipment and machines	-	82	195
d) vehicles	-	-	359
e) other fixed assets	-	-	100
Total value of fixed assets not depreciated by the entity	949	1 140	17 436

NOTE 3. LONG-TERM RECEIVABLES

	30 June 2006	31 December 2005	30 June 2005
a) receivables from related parties, including:	-	-	-
- from subsidiaries (basis)	-	-	-
- sales of fixed assets under construction (different items)	-	-	-
b) from other entities (due to)	3 982 921	4 106 269	83
- various titles	39	-	83
- financial leases	3 982 882	4 106 269	-
Net long-term receivables	3 982 921	4 106 269	83
c) write-downs on receivables	-	-	-
Gross long-term receivables	3 982 921	4 106 269	83

NOTE 3.1. CHANGES IN LONG-TERM RECEIVABLES (BY TITLE)

	30 June 2006	31 December 2005	30 June 2005
a) Opening balance (gross)	4 106 269	106	106
- due to sale of fixed assets	61	-	-
- finance lease agreements	4 106 207	-	-
- various titles	2	106	-
b) increases (due to)	1	4 500 015	-
- increases in receivables due to sale of fixed assets	-	-	-
- finance leases	-	4 500 013	-
- other titles	1	2	-
c) decreases, due to:	123 349	393 852	23
- reclassification to short-term receivables	123 349	267 967	23
- contribution in kind to gas companies	-	-	-
- repayment	-	125 886	-
d) Closing balance (gross)	3 982 921	4 106 269	83

NOTE 3.2. CHANGE IN REVALUATION WRITE-DOWNS ON LONG-TERM RECEIVABLES

	30 June 2006	31 December 2005	30 June 2005
Opening balance	-	-	-
a) increases (due to)	-	-	-
b) decreases (due to)	-	-	-
- released revaluation write-downs	-	-	-
- contribution in kind to gas companies	-	-	-
Closing balance of revaluation write-downs on long-term receivables	-	-	-

NOTE 3.3. LONG-TERM RECEIVABLES (BY CURRENCY)

	30 June 2006	31 December 2005	30 June 2005
a) in PLN	3 982 921	4 106 269	83
b) in foreign currencies (by currency and after translation into PLN)	-	-	-
- b1) currency - EUR translated into PLN	-	-	-
- b2) currency - USD translated into PLN	-	-	-
- b3) currency - CHF translated into PLN	-	-	-
c) other currencies translated into PLN	-	-	-
Total gross long-term receivables	3 982 921	4 106 269	83
Revaluation write-downs	-	-	-
Total long-term net receivables	3 982 921	4 106 269	83

NOTE 4. CHANGE IN REAL PROPERTY (BY TYPE)

Did not occur.

NOTE 4.1. CHANGE IN INTANGIBLE ASSETS (BY TYPE)

Did not occur.

NOTE 4.2. LONG-TERM FINANCIAL ASSETS

	30 June 2006	31 December 2005	30 June 2005
a) in subsidiaries	4 954 589	4 952 134	4 863 462
- shares	4 954 589	4 952 134	4 863 462
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other long-term financial assets (by type)	-	-	-
b) in co-subsidiaries	38 400	38 400	38 400
- shares	38 400	38 400	38 400
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other long-term financial assets (by type)	-	-	-
c) in associated entities	6 536	14 076	79 670
- shares	6 536	14 076	79 670
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other long-term financial assets (by type)	-	-	-
d) in a major investor	-	-	-
- shares	-	-	-
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other long-term financial assets (by type)	-	-	-
e) in the holding company	-	-	-
- shares	-	-	-
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other long-term financial assets (by type)	-	-	-
f) in other entities	1 645	1 646	1 643
- shares	1 645	1 646	1 643
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other long-term financial assets (by type)	-	-	-
Total long-term financial assets	5 001 170	5 006 255	4 983 175

As at 30 June 2006, agreement no. DF/33/95 of 25 September 1995, and five of its subsequent annexes, between PGNiG and EuRoPol Gaz S.A. was still in force. This agreement concerned a loan and guarantee regarding the funding of the construction of the transit gas pipeline system through Poland. As of 30 June 2006 the loan principal amounted to PLN 202,165.0 thousand (USD 63,541.9 thousand, of which USD 63,541.9 thousand was overdue), and interest to PLN 26,582.2 thousand (USD 8,355.0 thousand). As of the balance sheet date the value of the created revaluation write-down amounted to PLN 228,747.1 thousand. In the financial statements, the Company presented the loan under 'Short-term investments' at the net value of PLN 0.0 thousand.

In 2003, PGNiG S.A. and SGT EuRoPol Gaz S.A. held negotiations on the restructuring of the debt of SGT EuRoPol Gaz S.A. These negotiations concerned not only the debt restructuring method, but also the method of accruing interest on the principal and interest for default. Each interested party interprets the provisions of the loan agreement of 25 September 1995 differently.

Due to the above, on 27 February 2004, PGNiG S.A. lodged a claim to the Regional Court in Warsaw to recover from SGT EuRoPol Gaz S.A. the PLN equivalent of USD 8,317.7 thousand in interest for default accrued as of 27 February 2004, together with statutory interest for the period from the lodging date to the payment date.

At the meeting on 8 March 2004, the Management Board of PGNiG S.A. approved the draft of Annex 5 to Loan Agreement DF/33/95 on the restructuring of the debt of SGT EuRoPol Gaz S.A. Annex no. 5 was signed on 16 March 2004. Pursuant to the above Annex, the debt is restructured in the amount not exceeding USD 80 million. The final amount of debt will be determined after the court decides about the method of charging penalty interest and interest on the principal, and the loan will be split into 96 equal monthly installments due on the last business day of each month starting from 31 January 2005. Additionally, until the issuance of the court's verdict, interest on the principal will be paid in advance at the end of the month in an amount corresponding to the PLN equivalent of USD 580 thousand.

Pursuant to Annex no. 5, SGT EuRoPol Gaz S.A. paid 6 capital installments, USD 835.0 thousand each, and 6 interest payments, USD 580.0 thousand each, during the first half of 2006. These payments are recognized in the above-listed balances.

Due to the redemption of a portion of shares by the Extraordinary Shareholders Meeting of PI Gazotech Sp. z o.o., PGNiG S.A. became the majority shareholder in Gazotech on 23 April 2004. As a result of the resolutions adopted at the above Meeting, the Company was called up to an additional contribution to the share capital of PI Gazotech in the amount of PLN 52,000 thousand. The amounts and dates of individual tranche payments as well as the additional fine of $\frac{1}{4}$ of the called up share capital, in case of delay, as well as default interest charged on individual payments have been defined in resolution no. 8 of 23 April 2004 issued by the Extraordinary Shareholders Meeting.

Resolution no. 1, which suspended contribution payments defined in resolution no. 8 of 23 April 2004, was passed at the Extraordinary Shareholders Meeting of Gazotech Sp. z o.o. on 29 June 2004.

PGNiG S.A. has not made any tranche payments to date.

As PGNiG S.A. did not participate in the Extraordinary Shareholders Meeting held on 23 April 2004, the Company appealed the resolutions passed at the above meeting. The proceedings instigated in the court of first instance by PGNiG S.A. against PI Gazotech Sp. z o.o. were begun in August 2004. In its decision of 2 August 2004 the District Court

dismissed the claim of PGNiG S.A. On 28 October 2004 based on the launched appeal the Court of Appeals changed the issued verdict by deciding to secure the claim through the full suspension of the resolution on the payment of additional contributions.

An Extraordinary Meeting of the Shareholders of PI Gazotech Sp. z o.o. was held on 19 January 2005. The Meeting amongst others passed a subsequent resolution on additional contributions for a total amount of PLN 37,440.0 thousand. In accordance with the current shareholder structure, the amount payable by PGNiG S.A. is equal to PLN 26,000 thousand. On 18 February 2005, PGNiG S.A. lodged a claim to the District Court in Warsaw to revoke the resolution on additional contributions and to secure the claim by ordering a temporary suspension of the resolution.

On 6 April 2005, PGNiG S.A. lodged a claim to the District Court in Warsaw to rule out a legal relation (rule out resolution no. 1 of 23 April 2004 on share redemption issued by the Shareholders Meeting of PI Gazotech Sp. z o.o.).

The following strong legal arguments spoke in favor of PGNiG S.A. and the revocation or suspension of the resolutions in questions:

1. Violation of Article 238 of the Code of Commercial Companies – the issued resolution was not mentioned in the invitation to the Shareholders Meeting and not all of the company's share capital was represented at the Meeting. This argument was sustained by the Court of Appeals in the justification to the aforementioned decision of 28 October 2004;
2. Violation of Article 9c item 4 of the Articles of Association of Gazotech Sp. - PGNiG S.A. was denied the right to request the buy back of shares by other shareholders before the resolution on additional contributions had been adopted;
3. Violation of Article 20 of the Code of Commercial Companies – resolutions on additional contributions violate the principle of equal shareholder treatment, since the imposed obligations are not commensurate to the number of votes present at the Shareholders Meeting. The provisions of the Articles of Association of Gazotech Sp. z o.o. regarding the preference of votes of FK ABIT-INVEST S.A. also violate the above legal regulation.
4. The resolutions violate good practices and were adopted to the detriment of PGNiG S.A.

On 7 March 2006, the District Court in Warsaw, XX Business Division, dismissed the Company's claim for the revocation of these resolutions, thus confirming the right, and claim, of PI Gazotech Sp. z o.o. to request the payment of additional contributions from PGNiG S.A. On 10 April 2006 the Company appealed the above verdict.

Therefore the financial statements for the first half of 2006 recognize both a liability to and receivables from PI Gazotech Sp. z o.o. in the amount of PLN 84,552.0 thousand and the Company created a write-off for potential expenses in the amount of PLN 84,552.0 thousand as well as a provision for potential expenses in the amount of PLN 924.0 thousand.

NOTE 4.3. CHANGE IN GOODWILL – SUBSIDIARIES

Does not apply to individual financial statements.

NOTE 4.4. CHANGE IN GOODWILL –CO-SUBSIDIARIES

Does not apply to individual financial statements.

NOTE 4.5. CHANGE IN GOODWILL – ASSOCIATED ENTITIES

Does not apply to individual financial statements.

NOTE 4.6. CHANGE IN NEGATIVE GOODWILL – SUBSIDIARIES

Does not apply to individual financial statements.

NOTE 4.7. CHANGE IN NEGATIVE GOODWILL –CO-SUBSIDIARIES

Does not apply to individual financial statements.

NOTE 4.8. CHANGE IN NEGATIVE GOODWILL – ASSOCIATED ENTITIES

Does not apply to individual financial statements.

NOTE 4.9. CHANGE IN LONG-TERM FINANCIAL ASSETS (BY TYPE)

	30 June 2006	31 December 2005	30 June 2005
Opening balance of long-term investments (I+II+III+IV)	5 006 261	5 002 791	5 002 791
I. Shares in related parties			
a) opening balance	5 004 609	5 000 639	5 000 639
b) increases (due to)	286	51 910	298
- purchase of shares	-	37 190	25
- decrease in revaluation write-down	286	14 003	-
- reclassification from other companies to related parties	-	-	-
- reclassification of shares from short-term to long-term item	-	-	-
- revaluation of shares	-	717	273
- revaluation	-	-	-
c) decreases, due to:	5 370	47 940	19 405
- disposal of shares	-	38 980	17 966
- increase in revaluation write-down	5 366	6 915	-
- reclassification from related parties to other companies	-	1 360	-
- reclassification of shares from long-term to short-term item	-	-	-
- revaluation of shares	5	685	-
- revaluation	-	-	1 439
d) closing balance	4 999 525	5 004 609	4 981 532
II. Shares in other entities			
a) opening balance	1 646	2 147	2 147
b) increases (due to)	-	1 360	-
- purchase of shares	-	-	-
- decrease in revaluation write-down	-	-	-
- reclassification from related parties to other companies	-	1 360	-
- reclassification of shares from short-term to long-term item	-	-	-
- revaluation of shares	-	-	-
- revaluation	-	-	-
c) decreases, due to:	1	1 861	504
- disposal of shares	1	-	-
- increase in revaluation write-down	-	1 861	-
- reclassification from other companies to related parties	-	-	-
- reclassification of shares from long-term to short-term item	-	-	-
- revaluation of shares	-	-	-
- revaluation	-	-	504
d) closing balance	1 645	1 646	1 643
III. Loans granted to related parties			
a) opening balance	-	-	-
b) increases (due to)	4 264	30 751	17 542
- granting a loan	-	17 542	17 542
- decrease in revaluation write-down	4 264	-	-
- reclassification from short-term to long-term item	-	12 990	-
- revaluation	-	220	-
- revaluation of loan	-	-	-
c) decreases, due to:	4 264	30 751	17 542
- revaluation	120	220	-
- increase in revaluation write-down	750	30 531	-
- revaluation of loan	-	-	17 542
- reclassification of due portion of the loan to short-term investments	2 902	-	-
- repayment	492	-	-
d) closing balance	-	-	-
IV. Other long-term investments	6	6	6
Closing balance of long-term investments (I+II+III+IV)	5 001 176	5 006 261	4 983 181

NOTE 4.10 SHARES IN CONTROLLED ENTITIES

a	b	c	d	e	f	g	h	i	j	k	l
Name and legal form of the entity	Registered office	core business	type of relationship (subsidiary, co-subsidiary, associated company, including description of direct and indirect relations)	applied consolidation method/equity method valuation, or information that the entity was not consolidated/measured based on the equity method	date of taking over control/joint control/obtaining significant influence	value of shares at acquisition price	revaluation adjustments (total)	carrying value of shares	percentage of the share capital held	share in the total number of votes at the general meeting	basis of control/joint-control/significant influence other than indicate in item j) or k)
Karpacka Spółka Gazownictwa Sp. z o.o.	Tarnów	Operation of low and medium pressure gas networks and transmission networks, non-container storage of gas under the ground, domestic and foreign trade within the Company's core business, designing, manufacturing, building and repairing machines, devices and installations for producing, transferring and distributing gas, import and export of gases, crude oil, other products, as well as other goods and services, producing electric energy and gas-powered heat, as well as trade and, transfer and distribution of media, providing services to natural persons and economic entities in terms of gas industry, carrying out research and studies within the Company's core business, providing services in the area of building industry, handling geodesic works within the Company's core business.	subsidiary	consolidated	2000-12-22	1 570 832	297 829	1 273 003	100.00%	100.00%	-
Gómośląska Spółka Gazownictwa Sp. z o.o.	Zabrze	as above	subsidiary	consolidated	2000-12-22	1 288 403	180 308	1 108 095	100.00%	100.00%	-
Mazowiecka Spółka Gazownictwa Sp. z o.o.	Warsaw	as above	subsidiary	consolidated	2000-12-22	999 634	311 226	688 408	100.00%	100.00%	-
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poznań	as above	subsidiary	consolidated	2000-12-22	864 071	289 056	575 015	100.00%	100.00%	-
Pomorska Spółka Gazownictwa Sp. z o.o.	Gdańsk	as above	subsidiary	consolidated	2002-12-11	563 031	150 512	412 519	100.00%	100.00%	-
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Wrocław	as above	subsidiary	consolidated	2002-12-11	552 762	100 256	452 506	100.00%	100.00%	-
PNiG Jasło Sp. z o.o.	Jasło	Exploration and drilling for minerals, mostly crude oil and natural gas, bore-holes: for exploitation, research, appraisal, exploration as well as geological, hydro geological, geothermal, freezing , bore-holes for the purpose of underground hydrocarbon and polluting waste storage, reconstruction and liquidation of bore-holes, services related to environmental protection and land reclamation after excavation and drilling works	subsidiary	consolidated	1998-04-06	100 000	4 683	95 317	100.00%	100.00%	-

Polskie Górnictwo Naftowe i Gazownictwo S.A.
Financial statements for the period ended 30 June 2006

Explanatory notes
(in PLN '000)

PNiG Kraków Sp. z o.o.	Krakow	Geological drillings, for exploration and exploitation purposes aimed at confirmation of natural gas, crude oil and other natural deposits as well as other useful minerals, as well as reconstruction of bore-holes, services related to drillings, their sampling and exploitation, hydrological, geothermal drilling, as well as specialized drilling for mining industry, rescue and other.	subsidiary	consolidated	1998-04-06	98 850	9 664	89 186	100.00%	100.00%	-
PN Diament Sp. z o.o.	Zielona Góra	Handling drilling works, exploring and managing minerals, management, land reclamation and exploitation of excavation areas, work related to drilling of wells, building and installation services.	subsidiary	consolidated	1998-04-06	62 000	6 393	55 607	100.00%	100.00%	-
PNiG Piła Sp. z o.o.	Piła	Exploration for crude oil and natural gas deposits, particularly programming, designing, making and documenting drillings for research, recognition, exploration and exploitation upon request of domestic and foreign investors, drillings for exploration and exploitation of other minerals, providing specialized services in terms of drillings, programming, designing, making and documenting hydrological, geothermal and well drillings.	subsidiary	consolidated	1998-04-06	60 000	6 178	53 822	100.00%	100.00%	-
BUG Gazobudowa Sp. z o.o.	Zabrze	Designing, building and repairing pipelines, oil mining and gas devices and equipment, installation and commissioning of oil mining and gas devices and equipment, installation and commissioning of installations for measuring and tests as well as telemetry.	subsidiary	consolidated	1998-03-16	39 220	26 438	12 782	100.00%	100.00%	-
Geofizyka Kraków Sp. z o.o.	Krakow	Programming, design, conducting and documenting research related to geophysics, preparation and interpretation of data from geophysical measurements, execution blast and drilling work, technical design and treatment as well as specialized work in bore-holes, export of the above services, import of technologies, equipment, machinery and materials necessary to perform the above services.	subsidiary	consolidated	1998-04-06	34 400	5 427	28 973	100.00%	100.00%	-
Geofizyka Toruń Sp. z o.o.	Toruń	Design and execution of field work, processing and interpretation of surface and drilling geophysics for deposit and water exploration, public gas and mining services, design, execution and interpretation of shallow geophysical research for hydro geological, geophysical, engineering, geotechnical, environmental, archaeological and other purposes, execution of cathodic protection with design and build, geological-drilling work.	subsidiary	consolidated	1998-04-06	33 000	7 255	25 745	100.00%	100.00%	-
BN NAFTOMONTAŻ Sp. z o.o.	Krosno	General construction and civil engineering, specialized construction work, rental of building and branch plant and equipment and operator service.	subsidiary	consolidated	1998-03-16	39 751	39 751	-	88.83%	88.83%	-
ZUN Naftomet Sp. z o.o.	Krosno	Manufacture of mining and building plant and equipment, production of taps and valves, bearings and gear wheels, gear transmission and driving elements and mechanical tools	subsidiary	consolidated	1998-03-16	23 500	10 812	12 688	100.00%	100.00%	-
ZRUG Pogórska Wola Sp. z o.o.	Pogórska Wola	Repair, renovation and construction of gas infrastructure, construction of new gas infrastructure, engineering work for gas sector.	subsidiary	unconsolidated	1998-08-14	4 300	3 129	1 171	100.00%	100.00%	-
PGNiG Finance B.V.	Amsterdam (Netherlands)	Financial activity (brokerage).	subsidiary	consolidated	2001-09-14	81	-	81	100.00%	100.00%	-
Górnictwo Naftowe Sp. z o.o.	Warsaw	Searching, managing and exploitation of crude oil and natural gas deposits, geology, surface and drilling geophysics, searching for minerals and	subsidiary	unconsolidated	2000-12-22	50	-	50	100.00%	100.00%	-

Polskie Górnictwo Naftowe i Gazownictwo S.A.
 Financial statements for the period ended 30 June 2006
 Explanatory notes
 (in PLN '000)

		water and handling their exploitation, intensification, exploration, deposit tests as well as liquidation of bore-holes, storage of waste, environmental protection, designing, manufacturing, building of machines, devices and installations for producing, transferring and distributing, export of gases, crude oil, their processing, as well as other products and services, producing electric energy and gas heating, as well as trade, transfer and distribution of that media, mining rescuing, tests and studies related the Company's core business, bore-holes: for research, exploration, recognition and exploitation, as well as for geological, hydrological, geothermal, freezing purposes, bore-holes for the purpose of underground storage of carbon and storage of environment pollutant waste. research, exploration, recognition and exploitation, as well as for geological, hydrological, geothermal, freezing purposes, bore-holes for the purpose of underground storage of carbon and storage of environment pollutant waste.									
Geovita Sp. z o.o.	Warsaw	Hotels, restaurants, sale of alcohol products, pharmaceuticals, tobacco products, travel offices, advertising, primary education, hospitals, paramedical activity	subsidiary	consolidated	2003-04-09	86 139	19 001	67 138	100.00%	100.00%	-
BUD – GAZ Sp. z o.o.	Warsaw	Construction and exploitation of gas networks and installations, construction of plastic pipelines, chemical analyses, including analysis of gas, liquid and solid fuels and their products	subsidiary	unconsolidated	1989-03-21	28	-	28	100.00%	100.00%	-
ZRG Krosno Sp. z o.o. in Krosno	Krosno	Services related to exploration of crude oil and natural gas fields; founding, drilling, reconstruction of wells, construction work, rental of construction equipment, storage, R&D	subsidiary	consolidated	2005-06-30	26 802	3 727	23 075	100.00%	100.00%	-
BSiPG Gazoprojekt S.A.	Wroclaw	Architectural, engineering design, technical consultations, design of installations for production, storage, transmission and distribution of gas and distribution stations, design of gasification of new areas	subsidiary	consolidated	1995-06-16	3 649	-	3 649	75.00%	75.00%	-
PP-UiH TURGAZ Sp. z o.o.	Krosno	Installation of liquid gas car engine power units, trade of propane-butane gas and other crude oil products.	subsidiary	unconsolidated	1995-09-08	90	-	90	51.14%	51.14%	-
Nysagaz Sp. z o.o.	Zgorzelec	Modernization and exploitation of Zgorzelec, Bolesławiec and Wroclaw thermal-electric power plants, power supply and production services and trade of power products, in particular electric energy, heat energy, gas and liquid gas.	subsidiary	unconsolidated	2000-10-25	1 887	412	1 475	51.00%	51.00%	-
InterTransGas GmbH	Potsdam	Design, build, operation and sale of gas transmission infrastructure capacity to third parties. Purchase of gas transmission infrastructure for internal purposes. Gas transmission in third-party networks	subsidiary	unconsolidated	2005-07-01	404	-	404	50.00%	50.00%	-
InterGasTrade GmbH	Potsdam	Trade of natural gas in Europe, in particular purchase, sales, transmission and storage of natural gas, also possible trade of liquid gas, electricity and other energy media	subsidiary	unconsolidated	2005-07-02	404	-	404	50.00%	50.00%	-
ZRUG Warszawa S.A.	Warsaw	Gas infrastructure renovation, refurbishment and construction projects, inspection programs for gas infrastructure, construction of new gas infrastructure objects.	associated entity	unconsolidated	1999-04-20	2 940	2 940	-	49.00%	49.00%	-
Sahara Petroleum	Muscat	Exploratory bore holes and crude oil and gas	associated entity	unconsolidated	2000-10-01	621	621	-	49.00%	49.00%	-

Polskie Górnictwo Naftowe i Gazownictwo S.A.
Financial statements for the period ended 30 June 2006
Explanatory notes
(in PLN '000)

Technology Llc (Sp. z o.o.)	(Oman)	production, bore hole maintenance, spare parts, import-export, commercial and agency services.									
INVESTGAS S.A.	Warsaw	Organization and execution of investment work in relation to underground gas storage	associated entity	equity method	1993-09-03	245	-	245	49.00%	49.00%	-
SGT EUROPOL GAZ S.A.	Warsaw	Construction and operation of gas pipeline systems, in particular gas pipeline transport, investment process organization, design and build of gas pipeline systems, building of infrastructure for gas pipeline system exploitation, supply of plant, equipment and materials, including import, required for construction and exploitation of gas pipelines and related technological and infrastructure objects, management and exploitation of gas pipeline systems, related technological and infrastructure objects, technical services, including consultations, marketing, advertising and other services related to design, build and exploitation of gas pipelines, technical objects and infrastructure.	associated entity	equity method	1993-09-23	38 400	-	38 400	48.00%	48.00%	-
Polskie Elektrownie Gazowe Sp. z o.o.	Warsaw	Production of electric energy and heat energy, mostly of high-methane and nitrated gas; identification, design and execution of investments related to gas usage in gas electric power plants.	associated entity	unconsolidated	2000-11-14	1 212	-	1 212	48.48%	48.48%	-
PI GAZOTECH Sp. z o.o.	Warsaw	Production, trade and services, including consulting, organizational, design, construction and installation services related to gas distribution and heating equipment	associated entity	unconsolidated	2004-04-23	68	68	-	69.44%	46.30%	-
PFK "Gaskon" S.A.	Warsaw	Organization and execution of capital investments, brokerage or financing of machine, plant, raw materials and services purchase.	associated entity	unconsolidated	1992-11-10	8 000	8 000	-	45.94%	45.94%	-
Gazomontaż S.A.	Wołomin	Construction and repair of pipelines in respect to diameters and pressure, steelwork.	associated entity	unconsolidated	1995-08-24	468	-	468	45.18%	45.18%	-
Gas Trading S.A.	Warsaw	Consumer goods trade, import-export brokerage, construction, renovation and modernization of power stations and thermal-electric power stations, in particular powered by natural gas, participation in inter-stock exchange transactions, investment processes, design of industrial objects, construction and exploitation of other power objects, including gas pipelines	associated entity	equity method	1992-12-04	1 291	-	1 291	43.41%	43.41%	-
ZRUG Poznań Sp. z o.o.	Poznań	Manufacturing, services and trade, repair and construction works in the gas industry.	associated entity	unconsolidated	1993-12-21	1 515	-	1 515	40.08%	41.74%	-
ZWUG Intergaz Sp. z o.o.	Tarnowskie Góry	Production of gas meters, gas equipment and instrumentation	associated entity	unconsolidated	1990-12-19	1 800	-	1 800	38.30%	38.30%	-
Dewon S.A.	Kiev (Ukraine)	Implementation of projects and other types of activity in which shareholders actively participate; production of crude oil, natural gas and condensate in the Ukraine; participation in other types of activities related to the oil-gas industry, including transport, reprocessing, preparation and supply of crude oil and natural gas, as well as reprocessed products, participation in all types of commercial operations related to the above activities, export and import of goods and services, their delivery to the territory of other countries, including sales for convertible currencies.	associated entity	unconsolidated	1999-11-17	2 571	2 571	-	36.38%	36.38%	-
HS Szczakowa S.A.	Jaworzno	Manufacture and glass panel forming and working, production of blown glass and glass fiber, production and processing of other glass types (including technical glass), trade and commercial activity related to the above.	associated entity	unconsolidated	1994-06-30	14 137	14 137	-	33.30%	33.30%	-

Polskie Górnictwo Naftowe i Gazownictwo S.A.
 Financial statements for the period ended 30 June 2006
 Explanatory notes
 (in PLN '000)

ZRUG Toruń S.A.	Toruń	Construction, modernization and repair of gas infrastructure and engineering facilities as well as trade and tangible and intangible services.	associated entity	unconsolidated	1998-04-22	1 300	1 300	-	31.33%	31.33%	-
MED-FROZ S.A.	Wrocław	Multibranch services, production, trade and construction as well as design services, in particular: medical services, wholesale and retail sale of pharmaceutical products and health care and protection products, production, cooperation and trade as well as medical equipment, instruments and environmental protection technical services.	associated entity	unconsolidated	1991-06-19	35	35	-	23.07%	23.07%	-
ZRUG Zabrze Sp. z o.o.	Zabrze	Realization of repair programs, renovation and construction of gas infrastructure, gas infrastructure inspection programs, construction of new gas infrastructure facilities and auxiliary production of necessary elements of gas equipment.	associated entity	unconsolidated	1998-08-14	600	231	369	21.82%	21.82%	-
WOC TE-MA Sp. z o.o.	Terespol	Sales, service and repair of motor vehicles, retail sale of engine fuels.	associated entity	unconsolidated	1989-07-21	55	55	-	20.97%	20.97%	-
TENET 7 Sp. z o.o. (formerly Grespol 7 Sp. z o.o.)	Warsaw	Fixed telephony, mobile telephony, data transmission and IT, other telecommunication services, general construction works of line objects: pipelines, power lines and local-telecommunication lines, production of insulated wire and cables, technical research and analyses	related party	unconsolidated	1998-03-16	5	-	5	10.00%	10.00%	half of members of the supervisory board
Total						6 528 551	1 502 016	5 026 536			

Polskie Górnictwo Naftowe i Gazownictwo S.A.
Financial statements for the period ended 30 June 2006
Explanatory notes
(in PLN '000)

NOTE 4.10 SHARES IN CONTROLLED ENTITIES CONT.

a Name and legal form of the entity	m Equity of the entity, including:						n Liabilities and provisions for liabilities of the entity, including:		
	Total	Share capital	Supplementary capital	Other equity, including:			Total	Long-term liabilities	Short-term liabilities
				Total	Previous year profit (loss)	Net profit (loss)			
Karpacka Spółka Gazownictwa Sp. z o.o.	1 705 397	1 570 832	3 437	131 128	65 605	65 523	254 270	-	163 527
Górnośląska Spółka Gazownictwa Sp. z o.o.	1 300 276	1 288 403	-	11 873	5 104	6 769	173 992	-	112 868
Mazowiecka Spółka Gazownictwa Sp. z o.o.	1 126 788	999 634	5 793	121 361	56 374	64 987	271 879	-	117 484
Wielkopolska Spółka Gazownictwa Sp. z o.o.	902 743	864 071	-	38 672	7 579	31 093	189 439	1 125	106 768
Pomorska Spółka Gazownictwa Sp. z o.o.	607 010	563 031	-	43 979	19 327	24 652	139 552	-	81 266
Dolnośląska Spółka Gazownictwa Sp. z o.o.	591 804	552 762	5 985	33 057	9 510	23 547	124 879	123	80 787
PNiG Jasło Sp. z o.o.	95 564	100 000	1 454	(5 890)	98	(5 977)	41 613	-	30 622
PNiG Kraków Sp. z o.o.	98 426	98 850	-	(424)	2 133	6 406	106 443	6 524	84 366
PN Diament Sp. z o.o.	67 935	62 000	318	5 617	2 443	3 174	22 727	-	11 845
PNiG Piła Sp. z o.o.	65 469	60 000	-	5 469	(1 716)	6 648	49 396	48	29 888
BUG Gazobudowa Sp. z o.o.	14 519	39 220	-	(24 701)	(25 325)	628	30 122	-	22 147
Geofizyka Kraków Sp. z o.o.	38 546	34 400	-	4 146	(3 468)	7 721	86 186	19 294	50 005
Geofizyka Toruń Sp. z o.o.	31 630	33 000	-	(1 370)	(3 434)	2 064	94 397	22 752	62 163
BN NAFTOMONTAŻ Sp. z o.o.	8 755	44 751	-	(35 996)	(44 850)	(286)	30 940	17 125	8 752
ZUN Naftomet Sp. z o.o.	12 627	23 500	-	(10 873)	(10 812)	(61)	9 635	-	4 040
ZRUG Pogórska Wola Sp. z o.o.	8 029	4 300	1 134	2 595	-	1 295	8 783	261	7 173
PGNiG Finance B.V.	4 646	76	-	4 570	4 900	(142)	31	-	31
Górnictwo Naftowe Sp. z o.o.	52	50	1	1	-	1	-	-	-
Geovita Sp. z o.o.	82 879	86 139	-	(3 260)	(1 767)	(1 493)	5 881	-	3 557
BUD - GAZ Sp. z o.o.	236	52	17	167	28	88	1 802	-	1 390
ZRG Krosno Sp. z o.o. in Krosno	28 112	26 802	-	1 310	4 680	(3 370)	10 595	-	4 696
BSiPG Gazoprojekt S.A.	25 444	4 000	4 170	17 274	-	4 232	9 795	-	4 487
PP-UiH TURGAZ Sp. z o.o.	811	176	88	547	-	7	-	-	97
Nysagaz Sp. z o.o.	N/A	N/A	N/A	N/A	N/A	(80)	82	6	44
InterTransGas GmbH	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
InterGasTrade GmbH	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ZRUG Warszawa S.A.	6 000	6 000	-	-	-	-	6 628	-	6 628
Sahara Petroleum Technology Llc (Sp. z o.o.)	N/A	150 000 RO	N/A	N/A	N/A	N/A	N/A	N/A	N/A
INVESTGAS S.A.	8 413	500	7 689	224	-	224	9 358	29	2 749
SGT EUROPOL GAZ S.A.	2 938 671	80 000	259 917	2 598 754	159 305	69 724	3 735 102	3 178 374	312 623
Polskie Elekrownie Gazowe Sp. z o.o.	2 172	2 500	300	(628)	(760)	132	36	-	36
PI GAZOTECH Sp. z o.o.	19 456	1 204	-	18 252	(542)	18 794	1 541	-	725
PFK "Gaskon" S.A.	13 432	13 061	355	16	46	(296)	1 841	-	1 473
Gazomontaż S.A.	N/A	N/A	N/A	1 033	N/A	1 033	23 499	3 956	15 207
Gas Trading S.A.	45 360	2 975	39 572	2 813	1 695	1 117	4 622	-	4 152
ZRUG Poznań Sp. z o.o.	11 473	3 782	4 593	3 098	(159)	(396)	6 565	90	5 935
ZWUG Intergaz Sp. z o.o.	19 389 206	4 700 000	10 436 765	N/A	-	1 429	2 843	-	2 843
Dewon S.A.	(833)	7 410	41	(8 284)	(9 717)	1 433	22 699	8 808	13 891
HS Szczakowa S.A.	N/A	N/A	N/A	-	N/A	N/A	N/A	N/A	N/A
ZRUG Toruń S.A.	N/A	N/A	N/A	N/A	N/A	1 819	6 255	483	3 010
MED-FROZ S.A.	N/A	N/A	N/A	N/A	N/A	604	18 082	4 245	13 599
ZRUG Zabrze Sp. z o.o.	N/A	N/A	N/A	N/A	N/A	1 819	4 289	483	3 010
WOC "TE-MA" Sp. z o.o.	(531)	1 852	-	(2 383)	(2 209)	(174)	2 151	-	2 151
TENET 7 Sp. z o.o. (formerly Grespol 7 Sp. z o.o.)	1 382	50	933	399	-	399	122	-	122

Polskie Górnictwo Naftowe i Gazownictwo S.A.
 Financial statements for the period ended 30 June 2006
 Explanatory notes
 (in PLN '000)

NOTE 4.10 SHARES IN CONTROLLED ENTITIES CONT.

a	o			p	r	s	t
	Receivables of the entity						
Name and legal form of the entity	Total	long-term	short-term	Total assets of the entity	Sales revenues	Value of shares in the entity not covered by the issuer	Dividends received or due from the entity for the last financial year
Karpacka Spółka Gazownictwa Sp. z o. o.	148 301	139	148 162	1 959 668	1 232 072	-	-
Górnośląska Spółka Gazownictwa Sp. z o.o.	168 463	-	168 463	1 474 268	861 033	-	-
Mazowiecka Spółka Gazownictwa Sp. z o. o.	226 307	-	226 307	1 398 667	1 168 272	-	-
Wielkopolska Spółka Gazownictwa Sp. z o.o.	134 513	193	134 320	1 092 183	882 300	-	-
Pomorska Spółka Gazownictwa Sp. z o.o.	86 529	-	86 529	746 562	576 344	-	-
Dolnośląska Spółka Gazownictwa Sp. z o.o.	70 770	-	70 770	716 683	571 983	-	-
PNiG Jasło Sp. z o.o.	26 871	103	26 768	137 177	81 584	-	-
PNiG Kraków Sp. z o.o.	61 249	-	61 249	204 870	118 576	-	-
PN Diament Sp. z o.o.	27 718	-	27 718	90 662	56 582	-	-
PNiG Piła Sp. z o.o.	33 760	-	33 760	114 865	91 685	-	-
BUG Gazobudowa Sp. z o.o.	18 548	-	18 548	44 641	45 906	-	-
Geofizyka Kraków Sp. z o.o.	34 891	-	34 891	124 732	88 782	-	-
Geofizyka Toruń Sp. z o.o.	61 756	-	61 756	136 817	163 708	-	-
BN NAFTOMONTAŻ Sp. z o.o.	14 885	30	14 855	39 695	29 141	-	-
ZUN Naftomet Sp. z o.o.	3 498	21	3 477	22 262	16 891	-	-
ZRUG Pogórska Wola Sp. z o.o.	7 610	N/A	7 610	17 043	23 200	-	-
PGNiG Finance B.V.	3 047	-	3 047	4 678	-	-	-
Górnictwo Naftowe Sp. z o. o.	-	-	-	51	-	-	-
Geovita Sp. z o.o.	2 645	-	2 645	88 760	13 019	-	-
BUD - GAZ Sp. z o.o.	1 037	-	1 037	1 873	N/A	-	-
ZRG Krosno Sp. z o. o. in Krosno	8 326	-	8 326	38 707	16 667	-	-
BSiPG Gazoprojekt S.A.	3 488	-	3 488	35 239	14 583	-	-
PP-UiH TURGAZ Sp. z o.o.	86	-	86	1 492	2 780	N/A	-
Nysagaz Sp. z o.o.	101	-	101	2 790	486	-	-
InterTransGas GmbH	N/A	N/A	N/A	N/A	N/A	N/A	-
InterGasTrade GmbH	N/A	N/A	N/A	N/A	N/A	N/A	-
ZRUG Warszawa S.A.	-	-	-	-	-	N/A	-
Sahara Petroleum Technology Llc (Sp. z o.o.)	N/A	N/A	N/A	N/A	N/A	N/A	-
INVESTGAS S.A.	6 940	-	6 940	17 771	9 409	-	592
SGT EUROPOL GAZ S.A.	193 824	-	193 824	6 673 773	9 409	-	-
Polskie Elektrownie Gazowe Sp. z o.o.	64	-	64	2 208	567	-	-
PI GAZOTECH Sp. z o.o.	20 893	-	20 893	20 998	112	N/A	-
PFK "Gaskon" S.A.	579	-	579	16 439	77	N/A	-
Gazomontaż S.A.	8 730	-	8 730	39 778	47 834	N/A	-
Gas Trading S.A.	6 645	-	6 645	48 882	32 806	-	-
ZRUG Poznań Sp. z o.o.	6 938	N/A	6 938	18 699	9 213	-	-
ZWUG Intergaz Sp. z o.o.	2 466	-	2 466	22 329	15 253	N/A	-
Dewon S.A.	N/A	N/A	N/A	37 054	N/A	N/A	-
HS Szczakowa S.A.	N/A	N/A	N/A	N/A	N/A	N/A	-
ZRUG Toruń S.A.	3 605	-	3 605	8 254	4 150	N/A	-
MED-FROZ S.A.	11 741	-	11 741	28 261	25 245	N/A	-
ZRUG Zabrze Sp. z o.o.	5 136	60	5 076	8 746	4 626	N/A	-
WOC "TE-MA" Sp. z o.o.	-	-	-	1 619	-	-	-
TENET 7 Sp. z o.o. (formerly Grespol 7 Sp. z o.o.)	271	-	271	1 585	1 155	N/A	-
Total							592

Polskie Górnictwo Naftowe i Gazownictwo S.A.
Financial statements for the period ended 30 June 2006
Explanatory notes
(in PLN '000)

NOTE 4.11 SHARES IN OTHER ENTITIES

a Name and legal form of the entity	b Registered office	c Core business	d Carrying value of shares	e Equity of the entity		f Percentage of the share capital held	g Share in the total number of votes at the general meeting	h Value of shares in the entity not covered by the issuer	i Dividends received or due from the entity for the last financial year (for 2004 paid in 2005)
				total*	including share capital				
Zakład Remontowy Urządzeń Gaz. Wrocław sp. z o.o.*	Wrocław	N/A	0	-2 448	1 700	15.88%	15.88%	0	0
Polski Serwis Płynów Wiertniczych sp z o.o.****	Krosno	N/A	35	5 366	250	14.00%	14.00%	0	34
Polskie Konsorcjum Energetyczne sp. z o.o.**	Gdańsk	N/A	0	164	100	9.50%	9.50%	0	0
Agencja Rynku Energii S.A.****	Warsaw	N/A	28	3 677	1 376	7.27%	11.60%	0	0
Izostal S.A.****	Zawadzkie	N/A	0	12 573	22 488	6.05%	6.05%	0	0
Zakłady Metalowe DEZAMET S.A.***	Nowa Dęba	N/A	0	34 695	N/A	2.67%	2.67%	0	0
Agencja Rozwoju Regionalnego "Karpaty" S.A.***	Tarnów	N/A	0	556	512	1.96%	1.96%	0	0
Huta Stalowa Wola S.A.***	Stalowa Wola	N/A	1 010	142 774	267 126	1.63%	1.63%	0	0
HSW - Zakład Kuźnia Matrycowa Sp. z o.o.****	Stalowa Wola	N/A	570	35 856	38 198	1.49%	1.49%	0	0
Agencja Rozwoju Pomorza S.A.*	Gdańsk	N/A	0	22 524	13 060	0.77%	0.80%	0	0
AUTOSAN S.A.****	Sanok	N/A	0	38 705	38 842	0.06%	0.06%	0	0
Jarlan S.A. in bankruptcy		N/A	0	N/A	N/A	4.24%	4.24%	0	0
Walcownia Rur Huty Jedność Sp. z o.o.****	Siemianowice Śląskie	N/A	0	-40 244	220 590	8.30%	8.30%	0	0
Spółdzielnia Mieszkaniowa TWÓJ DOM		N/A	0	N/A	N/A	-	-	0	0
Spółdzielnia "Naftowa"		N/A	0	N/A	N/A	-	-	0	0
Spółdzielnia Mieszkaniowa ENERGETYKA		N/A	0	N/A	N/A	-	-	0	0
Housing cooperatives	Zielona Góra	N/A	2	N/A	N/A	-	-	0	0
Total			1 645						34

*Equity as of 30 June 2005

** Equity as of 31 March 2006

*** Equity F-01 fourth quarter 2005

**** Equity as of 31 December 2005

**NOTE 4.12. SECURITIES, SHARES AND OTHER LONG-TERM FINANCIAL ASSETS
 (BY CURRENCY)**

	30 June 2006	31 December 2005	30 June 2005
a) in PLN	6 442 126	6 442 127	6 405 868
b) in foreign currencies (by currency and after translation into PLN)	4 081	4 086	3 519
- b1) currency - EUR	220	220	20
translated into PLN	890	849	76
- b2) currency – UAH*	4 055	4 055	4 055
translated into PLN	2 571	2 622	2 564
- b3) currency – OMR*	74	74	74
translated into PLN	620	615	879
c) other currencies translated into PLN	-	-	-
Total gross in PLN	6 446 207	6 446 213	6 409 388
Revaluation write-down	1 445 037	1 439 958	1 426 213
Total net in PLN	5 001 170	5 006 255	4 983 175

*UAH - hrywna (Ukraine), OMR - rial (Oman)

**NOTE 4.13. SECURITIES, SHARES AND OTHER LONG-TERM FINANCIAL ASSETS
 (BY MARKETABILITY)**

	30 June 2006	31 December 2005	30 June 2005
A. With unlimited marketability, listed (carrying value)	-	-	536
a) shares (carrying value):	-	-	536
- revaluation adjustments (for the period)	-	(536)	-
- opening balance	-	536	536
- value at acquisition price	-	-	536
b) bonds (carrying value):	-	-	-
c) other - by type (carrying value):	-	-	-
B. With unlimited marketability, listed on OTC market (carrying value)	-	-	-
C. With unlimited marketability, not listed on a regulated market (carrying value)	5 001 168	5 006 252	4 982 636
a) shares (carrying value):	5 001 170	5 006 252	4 982 636
- revaluation adjustments (for the period)	5 080	(4 006)	(18 971)
- opening balance	5 006 252	5 002 246	5 002 247
- value at acquisition price	6 446 205	6 446 206	6 408 848
b) bonds (carrying value):	-	-	-
c) other - by type (carrying value):	-	-	-
D. With limited marketability (carrying value)	2	3	3
Total value at acquisition price	6 446 205	6 446 206	6 409 384
Total opening balance	5 006 252	5 002 782	5 002 783
Total revaluation adjustments (for the period)	5 080	(4 542)	(18 971)
Total carrying value	5 001 170	5 006 255	4 983 175

NOTE 4.14. ORIGINATED LONG-TERM LOANS (BY CURRENCY)

	30 June 2006	31 December 2005	30 June 2005
a) in PLN	17 050	17 542	17 542
b) in foreign currencies (by currency and after translation into PLN)	9 968	12 989	-
- b1) currency - EUR	-	-	-
- translated into PLN	-	-	-
- b2) currency - USD	3 133	3 983	-
- translated into PLN	9 967	12 989	-
- b3) currency - CHF	-	-	-
- translated into PLN	-	-	-
c) other currencies translated into PLN	-	-	-
Total originated gross long-term loans	27 018	30 531	17 542
Revaluation write-down	27 018	30 531	17 542
Total originated net long-term loans granted	-	-	-

NOTE 4.15. OTHER LONG-TERM INVESTMENTS (BY TYPE)

	30 June 2006	31 December 2005	30 June 2005
- With limited marketability	6	6	6
Other long-term investments in total	6	6	6

NOTE 4.16. CHANGE IN OTHER LONG-TERM INVESTMENTS (BY TYPE)

	30 June 2006	31 December 2005	30 June 2005
a) opening balance	6	5	5
b) increases (due to)	-	1	1
- revaluation	-	1	1
- reclassification from inventory	-	-	-
c) decreases, due to:	-	-	-
- revaluation	-	-	-
d) closing balance	6	6	6

NOTE 4.17. OTHER LONG-TERM INVESTMENTS (BY CURRENCY)

	30 June 2006	31 December 2005	30 June 2005
a) in PLN	6	6	6
b) in foreign currencies (by currency and after translation into PLN)	-	-	-
- b1) currency - EUR	-	-	-
- translated into PLN	-	-	-
- b2) currency - USD	-	-	-
- translated into PLN	-	-	-
- b3) currency - CHF	-	-	-
- translated into PLN	-	-	-
c) other currencies translated into PLN	-	-	-
Total other gross long-term investments	6	6	6
Revaluation write-down	-	-	-
Other long-term net investments in total	6	6	6

Polskie Górnictwo Naftowe i Gazownictwo S.A.
 Financial statements for the period ended 30 June 2006
 Explanatory notes
 (in PLN '000)

NOTE 5. CHANGE IN THE BALANCE OF DEFERRED TAX ASSETS

	30 June 2006	31 December 2005	30 June 2005
1. Opening balance of deferred tax assets, including:	288 355	394 279	394 279
<i>a) charged to the financial result</i>	288 355	394 279	394 279
Provisions due to payment of pension allowances	19 509	21 360	21 360
Provisions due to payment of retirement severance and jubilee bonuses	11 588	17 327	17 327
Provision for the valuation of forward transactions	32 903	45 257	45 257
Provision for payment of termination benefits	1 088	-	-
Provision for reclamation of wells	105 177	102 340	102 340
Provision for gas pitch	722	-	-
Revaluation write-downs on fixed assets	57 239	56 024	56 024
Revaluation write-down on shares	27 161	26 354	26 354
Revaluation write-downs on interest on loans	-	7 193	7 193
Exchange losses from valuation of loans from previous years	3 570	57 333	57 333
Provision for unused paid vacation	484	950	950
Accrued interest on loans and liabilities	1 587	1 315	1 315
Expenses related to transactions hedging against FX and interest rate risk	3 923	10 781	10 781
Revaluation write-downs on receivables	-	26 924	26 924
Exchange losses from revaluation of cash in foreign currencies	1	476	476
Other	23 403	20 645	20 645
2. Increases	61 277	6 001	33 259
<i>a) charged to the financial result of the period due to increase in negative temporary differences (basis)</i>	61 277	6 001	33 259
Provisions due to payment of pension allowances	-	-	-
Provisions due to payment of retirement severance and jubilee bonuses	592	-	221
Provision for the valuation of forward transactions	-	-	-
Provision for payment of termination benefits	625	1 088	-
Provision for reclamation of wells	-	2 837	13 105
Provision for gas pitch	1 161	722	-
Revaluation write-downs on fixed assets	9 749	-	398
Revaluation write-down on shares	115	807	574
Revaluation write-downs on interest on loans	-	(7 193)	578
Exchange losses from valuation of loans from previous years	20 974	-	-
Provision for unused paid vacation	-	-	-
Accrued interest on loans and liabilities	413	272	2 689
Expenses related to transactions hedging against FX and interest rate risk	11 400	-	11 328
Revaluation write-downs on receivables	13	-	-
Exchange losses from revaluation of cash in foreign currencies	1	-	-
Selling costs (tax-deductible costs in the following month)	556	-	-
Other provisions	15 548	-	-
Other	130	7 468	4 366
<i>b) charged to the financial result of the current period due to a change in the rate (basis)</i>	-	-	-
<i>c) charged to the financial result of the period – deferred tax not recognized in the previous period (basis)</i>	-	-	-
Other	-	-	-
3. Decreases	37 771	110 586	100 811
<i>a) charged to the financial result of the period due to decrease in negative temporary differences (basis)</i>	37 771	110 586	100 811
Provisions due to payment of pension allowances	1 964	1 851	855
Provisions due to payment of retirement severance and jubilee bonuses	-	4 628	5 363
Provision for the valuation of forward transactions	17 536	12 354	21 720
Provision for payment of termination benefits	-	-	-
Provision for reclamation of wells	14 029	-	-
Provision for gas pitch	-	-	-
Revaluation write-downs on fixed assets	-	(1 215)	2 258
Revaluation write-down on shares	-	-	-
Revaluation write-downs on interest on loans	-	-	-
Exchange losses from valuation of loans from previous years	-	53 763	54 158
Provision for unused paid vacation	285	461	704
Accrued interest on loans and liabilities	-	-	-
Expenses related to transactions hedging against FX and interest rate risk	-	6 858	-
Revaluation write-downs on receivables	-	26 924	7 574
Exchange losses from revaluation of cash in foreign currencies	-	472	473
Revaluation write-downs on doubtful receivables	-	-	-
Other	3 957	4 490	7 706

NOTE 5. CHANGE IN THE BALANCE OF DEFERRED TAX ASSETS CONT.

<i>b) charged to financial result of the current period due to a change in the rate (basis)</i>	-	-	-
Provisions due to payment of pension allowances	-	-	-
Provisions due to payment of retirement severance and jubilee bonuses	-	-	-
Provision for the valuation of forward transactions	-	-	-
Provision for payment of termination benefits	-	-	-
Provision for reclamation of wells	-	-	-
Provision for gas pitch	-	-	-
Revaluation write-downs on fixed assets	-	-	-
Revaluation write-down on shares	-	-	-
Revaluation write-downs on interest on loans	-	-	-
Exchange losses from valuation of loans from previous years	-	-	-
Provision for unused paid vacation	-	-	-
Accrued interest on loans and liabilities	-	-	-
Expenses related to transactions hedging against FX and interest rate risk	-	-	-
Revaluation write-downs on receivables	-	-	-
Exchange losses from revaluation of cash in foreign currencies	-	-	-
Other	-	-	-
4. Decreases, due to contribution in kind	-	1 339	-
Provisions due to payment of pension allowances	-	-	-
Provisions due to payment of retirement severance and jubilee bonuses	-	1 111	-
Provision for the valuation of forward transactions	-	-	-
Provision for payment of termination benefits	-	-	-
Provision for reclamation of wells	-	-	-
Provision for gas pitch	-	-	-
Revaluation write-downs on fixed assets	-	-	-
Revaluation write-down on shares	-	-	-
Revaluation write-downs on interest on loans	-	-	-
Exchange losses from valuation of loans from previous years	-	-	-
Provision for unused paid vacation	-	5	-
Accrued interest on loans and liabilities	-	-	-
Expenses related to transactions hedging against FX and interest rate risk	-	-	-
Revaluation write-downs on receivables	-	-	-
Exchange losses from revaluation of cash in foreign currencies	-	3	-
Other	-	220	-
5. Decreases due to release of assets arising from their unrealizability	-	-	-
Provisions due to payment of retirement severance and jubilee bonuses	-	-	-
6. Closing balance of total deferred tax assets, including:	311 861	288 355	326 727
<i>a) charged to the financial result</i>	311 861	288 355	326 727
Provisions due to payment of pension allowances	17 545	19 509	20 505
Provisions due to payment of retirement severance and jubilee bonuses	12 180	11 588	12 185
Provision for the valuation of forward transactions	15 367	32 903	23 537
Provision for payment of termination benefits	1 713	1 088	-
Provision for reclamation of wells	91 148	105 177	115 445
Provision for gas pitch	1 883	722	-
Revaluation write-downs on fixed assets	66 988	57 239	54 164
Revaluation write-down on shares	27 276	27 161	26 928
Revaluation write-downs on interest on loans	-	-	7 771
Exchange losses from valuation of loans from previous years	24 544	3 570	3 175
Provision for unused paid vacation	199	484	246
Accrued interest on loans and liabilities	2 000	1 587	4 004
Expenses related to transactions hedging against FX and interest rate risk	15 323	3 923	22 109
Revaluation write-downs on receivables	13	-	19 350
Exchange losses from revaluation of cash in foreign currencies	2	1	3
Costs related to sales with tax liability in the next month	556	-	-
Other provisions	15 548	-	-
Other	19 576	23 403	17 305

NOTE 5.1. NEGATIVE TEMPORARY DIFFERENCES IN DEFERRED TAX

	30 June 2006	31 December 2005	30 June 2005
1. Realizable temporary negative differences	1 641 373	1 517 656	1 719 614
Provisions due to payment of pension allowances	92 348	102 683	107 923
Provisions due to payment of retirement severance and jubilee bonuses	64 105	60 990	64 128
Provision for the valuation of forward transactions	80 883	173 177	123 879
Provision for payment of termination benefits	9 017	5 727	-
Provision for reclamation of wells	479 723	553 561	607 603
Revaluation write-downs on fixed assets	352 600	301 252	285 069
Revaluation write-down on shares	143 556	142 950	141 727
Revaluation write-downs on interest on loans	-	-	40 901
Exchange losses from valuation of loans from previous years	129 178	18 789	16 707
Provision for unused paid vacation	1 045	2 546	1 295
Accrued interest on loans and liabilities	10 530	8 356	21 075
Expenses related to transactions hedging against FX and interest rate risk	80 650	20 651	123 863
Revaluation write-downs on receivables	1 065	-	101 841
Exchange losses from revaluation of cash in foreign currencies	9	4	19
Selling costs (tax-deductible costs in the following month)	2 926	-	-
Other provisions	150 418	-	-
Other	43 320	126 970	83 584
2. Negative temporary differences unlikely to be realized	690 760	725 408	706 986
Provision for unused paid vacation	-	-	-
Provision for real estate tax	-	821	4 619
Revaluation write-downs on doubtful receivables	688 645	720 140	700 676
Revaluation write-downs on fixed assets	2 115	122	-
Other	-	4 325	1 691
Total temporary differences	2 332 133	2 243 064	2 426 600

NOTE 5.2. OTHER LONG-TERM PREPAYMENTS

	30 June 2006	31 December 2005	30 June 2005
a) prepayments, including:	4 272	5 919	1 214
- fees for establishing mining usufruct	42	1 191	1 213
- financial costs settled over time	4 230	4 728	-
- other	-	-	1
Other long-term prepayments	4 272	5 919	1 214

NOTE 6. INVENTORY

	30 June 2006	31 December 2005	30 June 2005
a) materials	778 672	717 259	607 926
b) semi-finished products and work in progress	4	-	4 804
c) finished products	8 177	4 676	3 389
d) goods	97	82	50
e) advances for deliveries	191	101	167
Total inventories	787 141	722 118	616 336

NOTE 6.1. CHANGE IN REVALUATION WRITE-DOWNS ON RECEIVABLES

	30 June 2006	31 December 2005	30 June 2005
Opening balance	21 556	4 057	4 057
a) increases (due to)	243	20 253	2 109
- write-downs created	243	20 253	2 109
b) decreases (due to)	-	2 754	805
- write-downs released	-	2 111	805
- contribution in kind	-	643	-
Closing balance of revaluation write-downs on inventory	21 799	21 556	5 361

NOTE 7. SHORT-TERM RECEIVABLES

	30 June 2006	31 December 2005	30 June 2005
a) from related parties	221 417	569 140	165 468
- trade liabilities, maturing:	221 402	566 315	153 894
- up to 12 months	221 402	566 315	153 894
- above 12 months	-	-	-
- other	15	2 825	11 574
b) from other entities	797 187	1 108 916	468 096
- trade liabilities, maturing:	393 366	549 289	367 611
- up to 12 months	393 366	549 289	367 611
- above 12 months	-	-	-
- receivables from tax, subsidy, customs, social security, health and other benefits	105 292	271 221	66 788
- other	298 493	288 375	33 697
- claimed at court	36	31	-
Total net short-term receivables	1 018 604	1 678 056	633 564
c) revaluation write-downs on short-term receivables	689 713	721 563	837 843
Total gross short-term receivables	1 708 317	2 399 619	1 471 407

NOTE 7.1. SHORT-TERM RECEIVABLES FROM RELATED PARTIES

	30 June 2006	31 December 2005	30 June 2005
a) trade receivables, including:	221 402	566 315	153 894
- from subsidiaries	217 103	562 919	149 632
- from associated companies	4 299	3 396	4 262
b) other, including:	15	2 825	11 574
- from subsidiaries	15	2 799	300
- from associated companies	-	26	11 274
c) claimed at court, including:	-	-	-
- from subsidiaries	-	-	-
- from associated companies	-	-	-
Total net short-term receivables from related parties	221 417	569 140	165 468
d) revaluation write-downs on receivables from related parties	130 484	130 475	61 351
Total gross short-term receivables from related parties	351 901	699 615	226 819

NOTE 7.2. CHANGE IN REVALUATION WRITE-DOWNS OF SHORT-TERM RECEIVABLES

	30 June 2006	31 December 2005	30 June 2005
Opening balance	721 563	866 116	866 115
a) increases (due to)	2 519	154 637	104 231
- created write-downs on unpaid receivables	2 519	154 433	104 104
- creation of write-downs in correspondence with receivables	-	204	127
b) decreases (due to)	34 369	299 190	132 503
- write-downs on receivables released	15 338	212 260	89 957
- write-downs applied	19 031	86 506	42 546
- contribution in kind	-	424	-
Closing balance of revaluation write-downs on short-term receivables	689 713	721 563	837 843

NOTE 7.3. GROSS SHORT-TERM RECEIVABLES (BY CURRENCY)

	30 June 2006	31 December 2005	30 June 2005
a) in PLN	1 675 865	2 365 053	1 444 023
b) in foreign currencies (by currency and after translation into PLN)	32 452	34 566	27 384
- b1) currency - EUR	200	796	113
- translated into PLN	810	3 073	458
- b2) currency - USD	9 945	9 657	8 047
- translated into PLN	31 642	31 493	26 926
- b3) currency - CHF	-	-	-
- translated into PLN	-	-	-
c) other currencies translated into PLN	-	-	-
Total gross short-term receivables	1 708 317	2 399 619	1 471 407
Revaluation write-downs on short-term receivables	689 713	721 563	837 843
Total net short-term receivables	1 018 604	1 678 056	633 564

NOTE 7.4. GROSS TRADE RECEIVABLES - BY MATURITY AS OF THE BALANCE SHEET DATE

	30 June 2006	31 December 2005	30 June 2005
a) up to 1 month	603 155	1 110 869	459 506
b) over 1 month and up to 3 months	5 627	7 192	7 015
c) over 3 months and up to 6 months	634	242	1 046
d) over 6 months and up to 1 year	135	115	1 121
e) over 1 year	1 148	1 515	532
f) overdue receivables	562 038	584 825	857 429
Total (gross) trade receivables	1 172 737	1 704 758	1 326 649
g) revaluation write-downs on trade receivables	557 968	589 154	805 144
Total net trade receivables	614 769	1 115 604	521 505

NOTE 7.5. OVERDUE TRADE RECEIVABLES (GROSS) BY PERIOD OVERDUE

	30 June 2006	31 December 2005	30 June 2005
a) up to 1 month	75	1 675	1 296
b) over 1 month and up to 3 months	8 781	16 806	105 302
c) over 3 months and up to 6 months	18 861	8 488	92 517
d) over 6 months and up to 1 year	41 604	18 775	36 485
e) over 1 year	492 717	539 081	621 829
Total gross overdue trade receivables	562 038	584 825	857 429
f) revaluation write-downs on overdue trade receivables	560 961	580 328	787 727
Total net overdue trade receivables	1 077	4 497	69 702

NOTE 8. DISPUTABLE AND OVERDUE RECEIVABLES

	30 June 2006	31 December 2005	30 June 2005
1. Overdue	693 618	716 382	890 017
a) long-term (due to)	-	-	-
b) short-term (due to)	693 618	716 382	890 017
- trade receivables	562 038	584 824	857 429
- other receivables	131 580	131 558	32 588
2. Disputable receivables	101	48	232
a) long-term (due to)	-	-	-
b) short-term (due to)	101	48	232
- trade receivables not disclosed under receivables claimed at court	-	-	6
- other receivables not disclosed under receivables claimed at court	-	-	-
- receivables claimed at court	101	48	226
Total gross overdue and disputable receivables	693 719	716 430	890 249
including:			
a) overdue receivables not covered by write-downs	1 099	4 583	68 986
a) disputable receivables not covered by write-downs	36	-	-

NOTE 9. SHORT-TERM FINANCIAL ASSETS

	30 June 2006	31 December 2005	30 June 2005
a) in subsidiaries	36 747	49 442	50 054
- shares	26 641	26 642	26 922
- receivables from dividend and other profit sharing	-	-	-
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	10 106	22 800	23 132
- other short-term financial assets (by type)	-	-	-
b) in co-subsidiaries	-	-	-
- shares	-	-	-
- receivables from dividend and other profit sharing	-	-	-
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other short-term financial assets (by type)	-	-	-
c) in associated companies	369	369	1 540
- shares	369	369	1 540
- receivables from dividend and other profit sharing	-	-	-
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other short-term financial assets (by type)	-	-	-
d) in major investor	-	-	-
- shares	-	-	-
- receivables from dividend and other profit sharing	-	-	-
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other short-term financial assets (by type)	-	-	-
e) in the holding company	-	-	-
- shares	-	-	-
- receivables from dividend and other profit sharing	-	-	-
- debt securities	-	-	-
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other short-term financial assets (by type)	-	-	-
f) in other entities	452 820	120 273	367 759
- shares	-	-	536
- receivables from dividend and other profit sharing	-	-	-
- debt securities	220 609	-	49 541
- other securities (by type)	-	-	-
- originated loans	-	-	-
- other short-term financial assets (by type)	232 211	120 273	317 682
- positive measurement of derivatives	232 211	120 273	317 682
g) cash and other pecuniary assets	3 409 074	2 746 384	1 077 169
- cash in hand and at bank	53 393	93 539	77 283
- other cash	3 355 680	2 652 845	997 601
- cash equivalents	1	-	2 285
Total short-term financial assets	3 899 010	2 916 468	1 496 522

NOTE 9.1. SECURITIES, SHARES AND OTHER SHORT-TERM FINANCIAL ASSETS (BY CURRENCY)

	30 June 2006	31 December 2005	30 June 2005
a) in PLN	561 970	233 896	467 400
b) in foreign currencies (by currency and after translation into PLN)	-	-	-
- b1) currency - EUR	-	-	-
- translated into PLN	-	-	-
- b2) currency - USD	-	-	-
- translated into PLN	-	-	-
- b3) currency - CHF	-	-	-
- translated into PLN	-	-	-
c) other currencies translated into PLN	-	-	-
Total (gross) securities, shares and other short-term financial assets	561 970	233 896	467 400
Revaluation write-down	82 139	86 612	71 179
Total (net) securities, shares and other short-term financial assets	479 831	147 284	396 221

NOTE 9.2. SECURITIES, SHARES AND OTHER SHORT-TERM FINANCIAL ASSETS (BY MARKETABILITY)

	30 June 2006	31 December 2005	30 June 2005
A. With unlimited marketability, listed (carrying value)	-	-	-
B. With unlimited marketability, listed on OTC market (carrying value)	-	-	49 541
a) other securities (carrying value)	-	-	49 541
a1) treasury bills (carrying value):	-	-	49 541
- revaluation adjustments (for the period)	-	-	-
- opening balance	-	51 328	51 328
- value at acquisition price	-	51 328	51 328
a2) term deposits (carrying value):	-	-	-
- revaluation adjustments (for the period)	-	-	597
- opening balance	-	11 064	11 064
- value at acquisition price	-	9 000	9 000
C. With unlimited marketability, not listed on a regulated market (carrying value)	247 620	27 011	28 998
a) shares (carrying value):	27 011	27 011	28 998
- revaluation adjustments (for the period)	(4 473)	3 474	(11 959)
- opening balance	27 011	29 961	29 962
- value at acquisition price	109 149	-	100 177
b) bonds (carrying value):	220 609	-	-
- revaluation adjustments (for the period)	4 938	-	-
- opening balance	-	182 123	-
- value at acquisition price	215 672	-	-
c) other - by type (carrying value):	-	-	-
c1) treasury bills (carrying value):	-	-	-
- revaluation adjustments (for the period)	-	-	-
- opening balance	-	-	182 123
- value at acquisition price	-	-	-
c2) other (carrying value):	-	-	-
- revaluation adjustments (for the period)	-	-	-
- opening balance	-	-	-
- value at acquisition price	-	-	-
D. With limited marketability (carrying value)	232 211	120 273	317 682
a) shares (carrying value):	-	-	-
b) bonds (carrying value):	-	-	-
c) other - by type (carrying value):	232 211	120 273	317 682
c1) forward transactions (carrying value):	232 211	120 273	317 682
- revaluation adjustments (for the period)	-	(112 347)	-
- opening balance	120 273	232 620	232 620
- value at acquisition price	-	-	-
Total value at acquisition price	324 821	60 328	160 505
Total opening balance	147 284	507 097	507 097
Total revaluation adjustments (for the period)	464	(108 873)	(11 362)
Total carrying value	479 831	147 284	396 221

NOTE 9.3. ORIGINATED SHORT-TERM LOANS (BY CURRENCY)

	30 June 2006	31 December 2005	30 June 2005
a) in PLN	25 587	38 080	39 670
b) in foreign currencies (by currency and after translation into PLN)	232 803	254 056	291 446
- b1) currency - EUR	-	-	-
- translated into PLN	-	-	-
- b2) currency - USD	73 172	77 900	87 100
- translated into PLN	232 803	254 056	291 446
- b3) currency - CHF	-	-	-
- translated into PLN	-	-	-
c) other currencies translated into PLN	-	-	-
Total originated (gross) short-term loans	258 390	292 136	331 116
Revaluation write-down	248 284	269 336	307 984
Total originated (net) short-term loans	10 106	22 800	23 132

NOTE 9.4. CHANGE IN REVALUATION WRITE-DOWNS ON SHORT-TERM LOANS

	30 June 2006	31 December 2005	30 June 2005
Opening balance	269 336	285 746	285 746
a) increases (due to)	26 931	57 066	54 310
- write-downs created	24 198	57 066	54 310
- reclassification of long-term portion	2 733	-	-
b) decreases (due to)	47 983	60 266	32 072
- write-downs released	47 983	60 266	32 072
c) reclassification	-	13 209	-
- from long-term portion	-	13 209	-
Closing balance of revaluation write-downs on short-term receivables	248 284	269 336	307 984

NOTE 9.5. CASH AND CASH EQUIVALENTS (BY CURRENCY)

	30 June 2006	31 December 2005	30 June 2005
a) in PLN	3 395 479	2 706 313	1 074 112
b) in foreign currencies (by currency and after translation into PLN)	13 595	40 071	3 057
- b1) currency - EUR	402	4 101	210
- translated into PLN	1 624	15 829	849
- b2) currency - USD	3 685	7 433	660
- translated into PLN	11 724	24 241	2 208
- b3) currency - CHF	-	-	-
- translated into PLN	-	-	-
c) other currencies translated into PLN	247	-	-
Total cash and cash equivalents	3 409 074	2 746 384	1 077 169

NOTE 9.6. OTHER SHORT-TERM INVESTMENTS (BY TYPE)

Did not occur.

NOTE 9.7. OTHER SHORT-TERM INVESTMENTS (BY CURRENCY)

Did not occur.

NOTE 10. OTHER SHORT-TERM PREPAYMENTS

	30 June 2006	31 December 2005	30 June 2005
a) prepayments, including:	85 620	2 200	9 342
- property insurance	-	21	2 229
- deferred advertising and marketing expenses	-	2	60
- fees for perpetual usufruct right	83	-	88
- write-off to the Company's Social Benefits Fund	3 966	-	3 690
- real estate tax	79 786	-	3 256
- financial costs settled over time	1 781	2 177	-
- other	4	-	19
b) other prepayments	35 959	388	3 361
- fees for establishing mining usufruct	1 094	143	2 543
- adjustment of previous year liabilities	33 202	-	-
- other	1 663	245	818
Total short-term prepayments	121 579	2 588	12 703

NOTE 11. REVALUATION WRITE-DOWNS

As described in item 11.3, of the introduction to the additional information, as of 1 January 2002 the Company recorded perpetual usufruct of land acquired free of charge. The equivalent of recorded usufruct rights in the amount of PLN 224,126.2 thousand was recorded in correspondence with deferred income. For presentation purposes, deferred income is treated as a write-down of perpetual usufruct. During the period from 1 January to 30 June 2006, the revaluation write-down on perpetual usufruct was reduced by PLN 2,643.1 thousand and as of the balance sheet date was equal to PLN 61,255.4 thousand.

On the balance sheet date, i.e. 30 June 2006, the Company tested its non-current assets (mine property and wells classified as fixed assets under construction) for impairment. The tests involved a comparison of their carrying and economic (useful) value calculated using the discounted cash flow method. During the first half of 2006, the tests indicated that revaluation write-downs of assets for a total of PLN 57,520.3 thousand were necessary in case of 24 mines, which translates into a decrease of PLN 24,741.3 thousand as compared to 2005.

Additionally, as at 30 June 2006, a revaluation write-down was created for 32 activated wells and expenditure on the test operation of 8 wells classified as fixed assets under construction. During the period of 1 January and 30 June 2006, the revaluation write-down for activated wells increased by PLN 43,684.4 thousand to PLN 234,420.1 thousand.

The change and breakdown of revaluation write-downs on receivables are presented in note 7.2 'Write-downs on receivables'.

As at the balance sheet date, the Company analyses all revaluation write-downs to verify their value and justifiability. Changes in revaluation write-downs are classified to other operating expenses and revenues, respectively, or to financial expenses and revenues.

The balance of individual write-down groups as at the end of individual periods is presented below.

Polskie Górnictwo Naftowe i Gazownictwo S.A.
 Financial statements for the period ended 30 June 2006
 Explanatory notes
 (in PLN '000)

	30 June 2006	31 December 2005	30 June 2005
Intangible assets	-	-	-
Fixed assets	424 329	373 631	401 504
- tangible fixed assets	170 755	163 742	201 436
- fixed assets under construction	253 574	209 889	200 068
Receivables	689 713	721 563	837 843
- long-term receivables	-	-	-
- short-term receivables	689 713	721 563	837 843
Investments	1 802 478	1 826 437	1 822 918
- long-term investments	1 472 055	1 470 489	1 443 755
- short-term investments	330 423	355 948	379 163
Inventory	21 799	21 557	5 361
Total impairment revaluation write-downs	2 938 319	2 943 188	3 067 626

NOTE 12. SHARE CAPITAL (STRUCTURE)

Series / issue	Type of share	Type of preference	Type of limitations on rights to shares	Number of shares (items)	Face value of series/issue	Capital coverage method	Date of registration	Cum dividend (as of)
A	bearer shares	-	-	4 250 000 000	4 250 000 000	reclassification from start-up fund and company's fund	29.10.1996	date of the Annual Meeting.
A1	bearer shares	-	-	750 000 000	750 000 000	reclassification from start-up fund and company's fund	29.10.1996	date of the Annual Meeting.
B	bearer shares	-	-	900 000 000	900 000 000	sales of shares	06.10.2005	date of the Annual Meeting.
Total number of shares								
Total share capital					5 900 000 000			
Face value per share (PLN)		PLN 1						

NOTE 12.1. CHANGES IN SHARE CAPITAL

No changes in share capital took place during the first half of 2006 and no such changes are planned.

NOTE 12.2. SHARE CAPITAL (OWNERSHIP STRUCTURE)

Shareholder	Number of votes (%) at the Shareholders Meeting as at submission of annual report for previous year	number of shares as at submission of annual report for previous year	Percentage change in the period 01.01.2006 - 30.06.2006	Number of votes (%) at the Shareholders Meeting as at report submission	Number of shares as at report submission
State Treasury	84,75%	5 000 000 000	0	84,75%	5 000 000 000
Other*	15,25%	900 000 000	0	15,25%	900 000 000
Total:	100,00%	5 900 000 000		100,00%	5 900 000 000

* The Company has not received any information that another shareholder holds at least a 5% stake in share capital.

NOTE 13. OWN SHARES

Did not occur.

NOTE 13.1. ISSUER'S SHARES HELD BY CONTROLLED ENTITIES

Did not occur.

NOTE 14. SUPPLEMENTARY CAPITAL

	30 June 2006	31 December 2005	30 June 2005
a) from sales of shares above face value	1 740 093	1 740 094	-
b) obligatory	1 966 667	1 966 667	1 666 667
c) created in accordance with By-Laws / Articles of Association above the statutory (minimum) value	830 880	626 551	926 552
d) from shareholders contributions	-	-	-
e) other (by type)	-	-	-
- result on transfer of fixed assets as dividend to the Owner	-	-	-
Total supplementary capital	4 537 640	4 333 312	2 593 219

NOTE 15. REVALUATION RESERVE

	30 June 2006	31 December 2005	30 June 2005
a) due to revaluation of fixed assets	1 086	1 086	1 086
b) due to gains/losses on the valuation of financial instruments, including:	-	-	-
- from the valuation of hedging instruments	-	-	-
c) due to deferred tax	-	-	-
d) exchange differences from translation of foreign branches	444	416	420
e) other (by type)	-	-	-
Total revaluation reserve	1 530	1 503	1 506

NOTE 16. OTHER RESERVE CAPITALS (BY PURPOSE)

Did not occur.

NOTE 17. WRITE-OFF ON NET PROFIT DURING THE FINANCIAL YEAR (BY TITLE)

Did not occur.

NOTE 18. CHANGE IN THE BALANCE OF PROVISION FOR DEFERRED TAX

	30 June 2006	31 December 2005	30 June 2005
1. Opening balance of the provision for deferred tax, including:	48 676	150 308	150 308
<i>a) charged to financial result</i>	48 676	150 308	150 308
Exchange gains on loans	8 152	39 693	39 693
Exchange gains on deposits	51	-	-
Interest accrued on loans	-	7 227	7 227
Accrued interest on receivables	-	26 925	26 925
Deferred income due to valuation of property of branches transformed into companies	-	-	-
Measurement of financial instruments	22 852	44 198	44 198
Financial leasing	8 275	-	-
Revenues from tax obligation in the following month	7 549	22 170	22 170
Provision for interest on BV Finance loan	-	8 937	8 937
Expenses paid and related to commission on loan	1 312	-	-
Other	485	1 158	1 158
2. Increases	38 681	9 831	17 136
<i>a) charged to financial result of the period due to increase in positive temporary differences (basis)</i>	38 681	9 831	17 136
Exchange gains on loans	-	-	-
Exchange gains on deposits	-	51	50
Interest accrued on loans	20	-	591
Accrued interest on receivables	1	-	-
Deferred income due to valuation of property of branches transformed into companies	-	-	-
Measurement of financial instruments	22 195	-	16 187
Finance lease	7 510	8 275	-
Revenues from tax obligation in the following month	-	-	-
Provision for interest on BV Finance loan	-	-	-
Expenses paid and related to commission on loan	-	1 312	-
Other	8 955	193	308
<i>b) charged to financial result of the current period due to a change in the rate (basis)</i>	-	-	-
Exchange gains on loans	-	-	-
Exchange gains on deposits	-	-	-
Interest accrued on loans	-	-	-
Accrued interest on receivables	-	-	-
Deferred income due to valuation of property of branches transformed into companies	-	-	-
Measurement of financial instruments	-	-	-
Finance lease	-	-	-
Revenues from tax obligation in the following month	-	-	-
Expenses paid and related to commission on loan	-	-	-
Other	-	-	-

NOTE 18. CHANGE IN THE BALANCE OF PROVISION FOR DEFERRED TAX CONT.

3. Decreases	10 255	111 453	45 955
<i>a) charged to financial result of the period due to reduction of positive temporary differences (basis)</i>	10 255	111 453	45 955
Exchange gains on loans	2 491	31 541	11 297
Exchange gains on deposits	41	-	-
Interest accrued on loans	-	7 227	-
Accrued interest on receivables	-	26 924	7 557
Deferred income due to valuation of property of branches transformed into companies	-	-	-
Measurement of financial instruments	-	21 346	-
Finance lease	-	-	-
Revenues from tax obligation in the following month	7 549	14 621	17 195
Provision for interest on BV Finance loan	-	8 937	8 937
Expenses paid and related to commission on loan	170	-	-
Other	4	857	969
<i>b) charged to financial result of the current period due to a change in the rate (basis)</i>	-	-	-
Exchange gains on loans	-	-	-
Exchange gains on deposits	-	-	-
Interest accrued on loans	-	-	-
Accrued interest on receivables	-	-	-
Deferred income due to valuation of property of branches transformed into companies	-	-	-
Measurement of financial instruments	-	-	-
Finance lease	-	-	-
Revenues from tax obligation in the following month	-	-	-
Expenses paid and related to commission on loan	-	-	-
Other	-	-	-
4. Total contribution in kind	-	10	-
Other	-	10	-
5. Closing balance of total provisions for deferred tax	77 102	48 676	121 489
<i>a) charged to financial result</i>	77 102	48 676	121 489
Exchange gains on loans	5 661	8 152	28 396
Exchange gains on deposits	10	51	50
Interest accrued on loans	20	-	7 818
Accrued interest on receivables	1	(9)	19 368
Deferred income due to valuation of property of branches transformed into companies	-	-	-
Measurement of financial instruments	45 047	22 852	60 385
Finance lease	15 785	8 275	-
Revenues from tax obligation in the following month	-	7 549	4 975
Provision for interest on BV Finance loan	-	-	-
Expenses paid and related to commission on loan	1 142	1 312	-
Other	9 436	494	497

NOTE 18.1. POSITIVE TEMPORARY DIFFERENCES IN DEFERRED TAX

	30 June 2006	31 December 2005	30 June 2005
1. Realizable positive temporary differences	405 803	256 189	639 418
Exchange gains on loans	29 794	42 905	149 454
Exchange gains on deposits	52	269	265
Interest accrued on loans	106	-	41 145
Accrued interest on receivables	4	-	101 935
Measurement of financial instruments	237 092	120 273	317 813
Finance lease	83 079	43 553	-
Revenues from tax obligation in the following month	-	39 778	26 186
Expenses paid and related to commission on loan	6 011	6 904	-
Other	49 665	2 507	2 620
2. Positive temporary differences unlikely to be realized	-	-	1 369 665
Deferred income due to valuation of property of branches transformed into gas companies	-	-	1 369 665
Other	-	-	-
Total temporary differences	405 803	256 189	2 009 083

NOTE 18.2. CHANGE IN LONG-TERM PROVISION FOR RETIREMENT AND SIMILAR BENEFITS (BY TITLE)

	30 June 2006	31 December 2005	30 June 2005
a) opening balance	148 393	167 448	167 448
- provision for jubilee bonuses	38 804	55 440	55 440
- provision for retirement severance	17 348	23 641	23 641
- provision for termination benefits	9 017	-	-
- provision for pension allowances	78 355	88 367	88 367
- provision for restructuring	4 869	-	-
b) increases (due to)	2 186	56 322	7 063
- provision for jubilee bonuses	1 019	18 233	1 536
- provision for retirement severance	1 167	8 947	1 763
- provision for termination benefits	-	9 017	-
- provision for pension allowances	-	15 256	3 764
- provision for restructuring	-	4 869	-
c) released, due to:	9 856	75 670	2 113
- provision for jubilee bonuses	-	34 998	1 680
- provision for retirement severance	-	15 404	433
- provision for termination benefits	-	-	-
- provision for pension allowances	9 856	25 268	-
- provision for restructuring	-	-	-
d) applied	-	-	-
- provision for jubilee bonuses	-	-	-
- provision for retirement severance	-	-	-
- provision for termination benefits	-	-	-
- provision for pension allowances	-	-	-
- provision for restructuring	-	-	-
e) reclassification to short-term	612	-	8 117
- provision for jubilee bonuses	612	-	-
- provision for retirement severance	-	-	27
- provision for termination benefits	-	-	-
- provision for pension allowances	-	-	8 090
- provision for restructuring	-	-	-
f) contribution in kind	-	-	-
- provision for jubilee bonuses	-	-	-
- provision for retirement severance	-	-	-
- provision for termination benefits	-	-	-
- provision for pension allowances	-	-	-
- provision for restructuring	-	-	-
c) reclassification from short-term portion	-	293	22
- provision for jubilee bonuses	-	129	22
- provision for retirement severance	-	164	-
h) closing balance	140 111	148 393	164 303
- provision for jubilee bonuses	39 211	38 804	55 318
- provision for retirement severance	18 516	17 348	24 944
- provision for termination benefits	9 017	9 017	-
- provision for pension allowances	68 498	78 355	84 041
- provision for restructuring	4 869	4 869	-

NOTE 18.3. CHANGE IN SHORT-TERM PROVISION FOR RETIREMENT AND SIMILAR BENEFITS (BY TITLE)

	30 June 2006	31 December 2005	30 June 2005
a) opening balance	39 080	41 170	41 170
- provision for jubilee bonuses	7 940	8 053	8 053
- provision for retirement severance	4 265	4 059	4 059
- provision for termination benefits	-	-	-
- provision for pension allowances	24 329	24 058	24 058
- provision for unused paid vacation	2 546	5 000	5 000
b) increases (due to)	11 980	34 067	4 807
- provision for jubilee bonuses	404	3 632	302
- provision for retirement severance	525	2 429	633
- provision for termination benefits	-	-	-
- provision for pension allowances	11 051	25 561	3 803
- provision for unused paid vacation	-	2 445	69
c) reclassification from long-term item	612	-	8 117
- provision for jubilee bonuses	612	-	-
- provision for retirement severance	-	-	27
- provision for termination benefits	-	-	-
- provision for pension allowances	-	-	8 090
- provision for unused paid vacation	-	-	-
d) applied (by title)	11 528	2 712	12 068
- provision for jubilee bonuses	-	-	-
- provision for retirement severance	-	-	-
- provision for termination benefits	-	-	-
- provision for pension allowances	11 528	2 712	12 068
- provision for unused paid vacation	-	-	-
e) released (by title)	1 502	33 152	4 732
- provision for jubilee bonuses	-	3 616	433
- provision for retirement severance	-	2 059	525
- provision for termination benefits	-	-	-
- provision for pension allowances	1	22 578	-
- provision for unused paid vacation	1 501	4 899	3 774
f) contribution in kind	-	-	-
- provision for jubilee bonuses	-	-	-
- provision for retirement severance	-	-	-
- provision for termination benefits	-	-	-
- provision for pension allowances	-	-	-
- provision for unused paid vacation	-	-	-
g) reclassification to long-term item	-	293	22
- provision for retirement severance	-	164	-
- provision for jubilee bonuses	-	129	22
g) closing balance	38 642	39 080	37 272
- provision for jubilee bonuses	8 956	7 940	7 900
- provision for retirement severance	4 790	4 265	4 194
- provision for termination benefits	-	-	-
- provision for pension allowances	23 851	24 329	23 883
- provision for unused paid vacation	1 045	2 546	1 295

NOTE 18.4. CHANGE IN OTHER LONG-TERM PROVISIONS (BY TITLE)

	30 June 2006	31 December 2005	30 June 2005
a) opening balance	583 867	560 199	560 199
- provision for reclamation of wells	537 530	493 037	493 037
- provision for liquidation of gas infrastructure	10 026	13 057	13 057
- provision for joint and several liabilities to subcontractors of the subsidiary	-	28 900	28 900
- provision for gas pitch	15 202	11 402	11 402
- provision for EuropolGaz interest liabilities	7 656	-	-
- other provisions	13 453	13 803	13 803
b) increases (due to)	29 666	118 656	44 715
- provision for reclamation of wells	23 554	113 858	43 891
- provision for liquidation of gas infrastructure	-	109	-
- provision for joint and several liabilities to subcontractors of the subsidiary	-	-	-
- provision for gas pitch	6 112	3 800	-
- provision for EuropolGaz interest liabilities	-	-	-
- other provisions	-	889	824
c) reclassification from short-term item (by title)	8 601	28 879	11 706
- provision for reclamation of wells	8 601	21 223	4 050
- provision for liquidation of gas infrastructure	-	-	-
- provision for joint and several liabilities to subcontractors of the subsidiary	-	-	-
- provision for gas pitch	-	-	-
- provision for EuropolGaz interest liabilities	-	7 656	7 656
- other provisions	-	-	-
d) applied (by title)	-	5 601	200
- provision for reclamation of wells	-	5 601	-
- provision for liquidation of gas infrastructure	-	-	-
- provision for joint and several liabilities to subcontractors of the subsidiary	-	-	-
- provision for gas pitch	-	-	-
- provision for EuropolGaz interest liabilities	-	-	-
- other provisions	-	-	200
e) reclassification to short-term item (by title)	5 031	9 427	736
- provision for reclamation of wells	5 031	9 427	-
- provision for liquidation of gas infrastructure	-	-	-
- provision for joint and several liabilities to subcontractors of the subsidiary	-	-	-
- provision for gas pitch	-	-	-
- provision for EuropolGaz interest liabilities	-	-	-
- other provisions	-	-	736
f) released (by title)	14 410	108 839	30 006
- provision for reclamation of wells	106	75 560	-
- provision for liquidation of gas infrastructure	6 553	3 140	1 106
- provision for joint and several liabilities to subcontractors of the subsidiary	-	28 900	28 900
- provision for gas pitch	-	-	-
- provision for EuropolGaz interest liabilities	7 656	-	-
- other provisions	95	1 239	-
g) contribution in kind (due to)	-	-	-
- provision for reclamation of wells	-	-	-
- provision for liquidation of gas infrastructure	-	-	-
- provision for joint and several liabilities to subcontractors of the subsidiary	-	-	-
- provision for gas pitch	-	-	-
- provision for EuropolGaz interest liabilities	-	-	-
- other provisions	-	-	-
h) closing balance	602 693	583 867	585 678
- provision for reclamation of wells	564 548	537 530	540 978
- provision for liquidation of gas infrastructure	3 473	10 026	11 951
- provision for joint and several liabilities to subcontractors of the subsidiary	-	-	-
- provision for gas pitch	21 314	15 202	11 402
- provision for EuropolGaz interest liabilities	-	7 656	7 656
- other provisions	13 358	13 453	13 691

Polskie Górnictwo Naftowe i Gazownictwo S.A.
 Financial statements for the period ended 30 June 2006
 Explanatory notes
 (in PLN '000)

NOTE 18.5. CHANGE IN OTHER SHORT-TERM PROVISIONS (BY TITLE)

	30 June 2006	31 December 2005	30 June 2005
a) opening balance	225 205	109 906	109 906
- provision for liquidation of wells, diggings and excavation pits	34 748	45 595	45 595
- provision for penalties imposed by the Office for Competition and Consumer Protection*	48 812	41 362	41 362
- provision for EuropolGaz interest liabilities	-	11 371	11 371
- provision for return of leased asset	81 285	-	-
- provision for renegotiation of import prices	50 224	-	-
- other provisions	10 136	11 578	11 578
b) increases (due to)	103 082	145 336	33 373
- provision for liquidation of wells, diggings and excavation pits	8 260	949	29 867
- provision for penalties imposed by the Office for Competition and Consumer Protection*	-	7 450	2 000
- provision for EuropolGaz interest liabilities	-	-	-
- provision for return of leased asset	4 300	81 285	-
- provision for renegotiation of import prices	84 946	50 224	-
- other provisions	5 576	5 428	1 506
c) reclassification from long-term item (by title)	5 031	-	736
- provision for liquidation of wells, diggings and excavation pits	5 031	-	-
- provision for penalties imposed by the Office for Competition and Consumer Protection*	-	-	-
- provision for EuropolGaz interest liabilities	-	-	-
- provision for return of leased asset	-	-	-
- provision for renegotiation of import prices	-	-	-
- other provisions	-	-	736
d) applied (by title)	16	4 909	-
- provision for liquidation of wells, diggings and excavation pits	-	-	-
- provision for penalties imposed by the Office for Competition and Consumer Protection*	-	-	-
- provision for EuropolGaz interest liabilities	-	-	-
- provision for return of leased asset	-	-	-
- provision for renegotiation of import prices	-	-	-
- other provisions	16	4 909	-
e) released (by title)	10 841	5 676	10 046
- provision for liquidation of wells, diggings and excavation pits	5 206	-	4 786
- provision for penalties imposed by the Office for Competition and Consumer Protection*	5 450	-	-
- provision for EuropolGaz interest liabilities	-	3 715	3 715
- provision for return of leased asset	-	-	-
- provision for renegotiation of import prices	-	-	-
- other provisions	185	1 961	1 545
c) reclassification to long-term portion (by title)	8 601	19 452	11 706
- provision for liquidation of wells, diggings and excavation pits	8 601	11 796	4 050
- provision for penalties imposed by the Office for Competition and Consumer Protection*	-	-	-
- provision for EuropolGaz interest liabilities	-	7 656	7 656
- provision for return of leased asset	-	-	-
- provision for renegotiation of import prices	-	-	-
- other provisions	-	-	-
f) contribution in kind (due to)	-	-	-
- provision for liquidation of wells, diggings and excavation pits	-	-	-
- provision for penalties imposed by the Office for Competition and Consumer Protection*	-	-	-
- provision for EuropolGaz interest liabilities	-	-	-
- provision for return of leased asset	-	-	-
- provision for renegotiation of import prices	-	-	-
- other provisions	-	-	-
g) closing balance	313 860	225 205	122 263
- provision for liquidation of wells, diggings and excavation pits	34 232	34 748	66 626
- provision for penalties imposed by the Office for Competition and Consumer Protection*	43 362	48 812	43 362
- provision for EuropolGaz interest liabilities	-	-	-
- provision for return of leased asset	85 585	81 285	-
- provision for renegotiation of import prices	135 170	50 224	-
- other provisions	15 511	10 136	12 275

NOTE 19. LONG-TERM LIABILITIES

	30 June 2006	31 December 2005	30 June 2005
a) to subsidiaries	-	-	-
- loans	-	-	-
- due to issuance of debt securities	-	-	-
- other financial liabilities, including:	-	-	-
f) to other entities:	2 426 082	2 317 096	171 380
- loans	2 426 040	2 315 880	141 784
- due to issuance of debt securities	-	-	-
- other financial liabilities, including:	-	-	27 425
- finance lease agreements	-	-	27 425
- other (by type)	42	1 216	2 171
- liabilities due to take over of gas network	-	-	-
- other	42	1 216	2 171
Total long-term liabilities	2 426 082	2 317 096	171 380

NOTE 19.1. LONG-TERM LIABILITIES BY MATURITY AS OF THE BALANCE SHEET DATE

	30 June 2006	31 December 2005	30 June 2005
a) over 1 year and up to 3 years	42	1 216	170 777
b) over 3 years and up to 5 years	2 426 040	2 315 880	409
c) over 5 years	-	-	194
Total long-term liabilities	2 426 082	2 317 096	171 380

NOTE 19.2. LONG-TERM LIABILITIES (BY CURRENCY)

	30 June 2006	31 December 2005	30 June 2005
a) in PLN	-	1 176	37 724
b) in foreign currencies (by currency and after translation into PLN)	2 426 082	2 315 920	133 656
- b1) currency - EUR	600 010	600 010	297
- translated into PLN	2 426 082	2 315 920	1 201
- b2) currency - USD	-	-	39 585
- translated into PLN	-	-	132 455
- b3) currency - CHF	-	-	-
- translated into PLN	-	-	-
c) other currencies translated into PLN	-	-	-
Total long-term liabilities	2 426 082	2 317 096	171 380

NOTE 19.3. LONG-TERM LOAN LIABILITIES

Name and legal form of the entity	Registered office	Amount of the loan arising from the agreement (applied)			Outstanding amount of the loan*			Interest rate	Repayment date	Collateral
		in PLN '000	currency	currency	in PLN '000**	currency	currency			
Bank Handlowy - Agent	Warsaw	2 299 860	600 000	EUR	2 436 570	602 604	EUR	EURIBOR 3M + 0.25	27.07.2010	guarantees of distribution companies
Liabilities in PLN '000					2 436 570					

* Including short-term portion and accrued interest due

** Translated at the NBP exchange rate as of 30 June 2006 (EUR/PLN 4.0434)

NOTE 19.4. LONG-TERM LIABILITIES DUE TO ISSUED FINANCIAL DEBT INSTRUMENTS

Did not occur.

NOTE 19.5. STATEMENT OF LONG-TERM LIABILITIES SECURED ON ASSETS

Did not occur.

NOTE 20. SHORT-TERM LIABILITIES

	30 June 2006	31 December 2005	30 June 2005
a) to subsidiaries	187 676	169 658	85 793
- loans, including:	2 073	1 979	-
- short-term portion of long-term items	-	-	-
- due to issuance of debt securities	-	-	-
- due to dividends	-	-	-
- other financial liabilities	-	-	-
- trade liabilities, maturing:	34 044	36 037	67 875
- up to 12 months	34 044	36 037	67 875
- above 12 months	-	-	-
- received advances for deliveries	-	-	-
- bill of exchange liabilities	-	-	-
- other (by type)	151 559	131 642	17 918
- due to purchase of non-financial non-current assets	67 551	48 588	15 894
- due to purchase of contributions to capital	82 472	82 460	-
- other	1 536	594	2 024
b) to associated companies	51 670	58 996	66 712
- loans, including:	-	-	-
- short-term portion of long-term items	-	-	-
- due to issuance of debt securities	-	-	-
- due to dividends	-	-	-
- other financial liabilities	-	-	-
- trade liabilities, maturing:	50 939	55 152	63 731
- up to 12 months	50 939	55 152	63 731
- above 12 months	-	-	-
- received advances for deliveries	-	-	-
- bill of exchange liabilities	-	-	-
- other (by type)	731	3 844	2 981
- due to purchase of non-financial non-current assets	723	3 836	2 981
- other	8	8	-
c) to other entities	2 043 061	1 561 654	4 944 517
- loans, including:	10 530	8 356	3 479 023
- short-term portion of long-term items	10 530	8 356	3 479 003
- due to issuance of debt securities	-	-	-
- other financial liabilities, including:	75 545	173 362	131 765
- finance lease agreements	11	185	8 017
- valuation of forward transactions	75 534	173 177	123 748
- trade liabilities, maturing:	528 791	634 509	547 617
- up to 12 months	528 791	634 509	547 617
- above 12 months	-	-	-
- received advances for deliveries	11	-	-
- bill of exchange liabilities	-	-	-
- tax, customs duties, insurance and other liabilities	521 924	695 083	264 142
- payroll liabilities	242	426	3 550
- other (by type)	906 018	49 918	518 420
- to shareholders due to dividends	885 000	-	500 000
- due to purchase of non-financial non-current assets	16 832	35 136	-
- tender bonds, deposits and guarantees	2 378	1 665	-
- other	1 808	13 117	18 420
d) special funds (by title)	100 134	62 394	59 771
- Company's Social Benefits Fund	32 601	24 588	42 375
- mine liquidation fund	30 149	25 764	17 324
- Company's bonus fund	27 643	43	42
- other funds	9 742	12 000	30
Total short-term liabilities	2 382 541	1 852 702	5 156 793

NOTE 20.1. SHORT-TERM LIABILITIES – EXCLUDING SPECIAL FUNDS (BY CURRENCY)

	30 June 2006	31 December 2005	30 June 2005
a) in PLN	1 942 108	1 465 182	1 905 973
b) in foreign currencies (by currency and after translation into PLN)	340 299	325 126	3 191 049
- b1) currency - EUR	17 460	21 772	654 532
- translated into PLN	70 596	84 035	2 644 375
- b2) currency - USD	84 762	73 861	163 373
- translated into PLN	269 679	240 883	546 663
- b3) currency - GBP	4	37	1
- translated into PLN	24	208	8
- b4) currency - CHF	-	-	1
- translated into PLN	-	-	3
c) other currencies translated into PLN	-	-	-
Total short-term liabilities	2 282 407	1 790 308	5 097 022

NOTE 20.2. SHORT-TERM LOAN LIABILITIES*

Name and legal form of the entity	Registered office	Amount of the loan arising from the agreement (applied)			Outstanding amount of the loan*			Interest rate	Repayment date	Collateral	Other
		in PLN '000	currency	currency	in PLN '000**	currency	currency				
City Bank	Warsaw	-	-	PLN	1	1	PLN	-	-	-	overdraft
Liabilities in PLN '000					1						

* The Company does not possess any short-term loans. Short-term liabilities due to loans presented in the balance sheet in note 20 represent the due amount of long-term loans, referred to in note 19.3.

NOTE 20.3. SHORT-TERM LIABILITIES DUE TO ISSUED FINANCIAL DEBT INSTRUMENTS

Did not occur.

NOTE 21. CHANGE IN NEGATIVE GOODWILL

Did not occur.

NOTE 21.1. OTHER ACCRUALS

	30 June 2006	31 December 2005	30 June 2005
a) accruals	3 614	2 395	16 254
- long-term (by title)	-	-	-
- short-term (by title)	3 614	2 395	16 254
- operating fee	-	-	10 397
- other	3 614	2 395	5 857
b) deferred income	2 541 239	2 619 431	35 702
- long-term (by title)	2 398 310	2 452 985	34 479
- net value of gas connections taken over free of charge	6	23	18 553
- connection fee	1 647	1 433	12 758
- deferred revenues due to uncollected gas	1 654	1 857	3 089
- contractual fines	28	28	28
- deferred income relating to fixed assets under leasing	2 394 924	2 449 593	-
- other	51	51	51
- short-term (by title)	142 929	166 446	1 223
- net value of gas connections taken over free of charge	-	-	-
- connection fee	-	-	-
- accrued fines	1 109	1 213	1 212
- Deferred income relating to fixed assets under leasing	141 805	158 038	-
- other	15	7 195	11
Other accruals in total	2 544 853	2 621 826	51 956

NOTE 22. BOOK VALUE PER SHARE

All information on the calculation of book value per share has been presented in the table directly under the balance sheet.

NOTE 23. CONTINGENT RECEIVABLES FROM RELATED PARTIES (BY TITLE)

	30 June 2006	31 December 2005	30 June 2005
a) guarantees and sureties received, including:	-	-	-
- from subsidiaries	-	-	-
- from associated companies	-	-	-
b) received bills of exchange, including:	3 012	8 012	8 012
- from subsidiaries	3 012	8 012	8 012
- from associated companies	-	-	-
Total contingent receivables from related parties	3 012	8 012	8 012

NOTE 23.1. CONTINGENT LIABILITIES TO RELATED PARTIES (BY TITLE)

	30 June 2006	31 December 2005	30 June 2005
a) guarantees and sureties granted, including:	-	-	-
- to subsidiaries	-	-	-
- to associated companies	-	-	-
b) bills of exchange issued, including:	-	-	-
- to subsidiaries	-	-	-
- to associated companies	-	-	-
c) agreements, investment contracts signed, including:	385 198	62 592	136 788
- to subsidiaries	384 031	59 703	84 586
- to associated companies	1 167	2 889	52 202
d) liabilities due to operating leasing, including:	-	-	-
- to subsidiaries	-	-	-
- to associated companies	-	-	-
Total contingent liabilities to related parties	385 198	62 592	136 788

NOTE 24. NET REVENUES FROM SALES OF PRODUCTS (BY TYPE)

	30 June 2006	30 June 2005
High-methane gas	5 489 709	4 002 137
Nitrated gas	533 725	410 038
Crude oil	345 323	329 673
Helium	15 123	17 414
Propane-butane gas (LPG)	15 166	10 290
Gasoline	3 831	5 257
Liquefied natural gas (LNG)	6 664	3 230
Other sales	155 039	44 083
Total net revenues from sales of products	6 564 580	4 822 122
including: from related parties	3 948 081	2 766 508

NOTE 24.1. NET REVENUES FROM SALES OF PRODUCTS (BY TERRITORY)

	30 June 2006	30 June 2005
a) Sales revenues – domestic	6 374 535	4 679 494
including: from related parties	3 948 081	2 766 508
- High-methane gas	5 474 731	3 995 582
- Nitrated gas	533 725	410 038
- Crude oil	181 067	207 994
- Helium	4 607	4 390
- Propane-butane gas	15 166	10 290
- Gasoline	3 831	5 257
- Liquefied natural gas (LNG)	6 369	3 048
- Other sales	155 039	42 895
b) Sales revenues – export	190 045	142 628
including: from related parties	-	-
- Crude oil	164 256	121 679
Great Britain	164 256	121 679
- Helium	10 516	13 024
Great Britain	10 436	12 953
Germany	18	17
Ukraine	8	7
Lithuania	32	19
Romania	22	-
Latvia	-	28
- High-methane gas	14 978	6 555
Germany	14 978	6 555
- Services	-	1 188
Germany	-	68
Oman	-	342
Netherlands	-	628
Czech Republic	-	144
Ukraine	-	6
- Liquefied natural gas (LNG)	295	182
Sweden	295	182
Total net revenues from sales of products	6 564 580	4 822 122
including: from related parties	3 948 081	2 766 508

NOTE 25. REVENUES FROM SALES OF GOODS AND MATERIALS (BY TYPE)

	30 June 2006	30 June 2005
Sales due to:	837	1 865
- different goods and materials	837	1 865
Total net revenues from sales of goods and materials	837	1 865
including: from related parties	146	508

NOTE 25.1. REVENUES FROM SALES OF GOODS AND MATERIALS (TERRITORIAL STRUCTURE)

	30 June 2006	30 June 2005
a) Sales revenues – domestic	837	1 864
including: from related parties	146	508
b) Sales revenues – export	-	1
including: from related parties	-	-
- miscellaneous materials	-	1
Czech Republic	-	1
Total net revenues from sales of goods and materials	837	1 865
including: from related parties	146	508

NOTE 26. EXPENSES BY TYPE

	30 June 2006	30 June 2005
a) amortization/depreciation	188 734	291 743
b) consumption of materials and energy	4 292 097	2 909 345
c) external services	1 155 300	350 002
d) taxes and charges	193 758	117 661
e) payroll	103 320	142 711
f) social security and other benefits	45 261	56 947
g) other expenses by type	7 970	12 345
Total expenses by type	5 986 440	3 880 754
Change in the balance of inventory, products and prepayments/accruals	(88 541)	6 944
Manufacturing cost of products for internal purposes (negative value)	(3 611)	(23 088)
Selling costs (negative value)	(18 048)	(12 876)
General and administrative costs (negative value)	(54 334)	(144 504)
Manufacturing cost of products sold	5 821 906	3 707 230

NOTE 27. OTHER OPERATING REVENUES

	30 June 2006	30 June 2005
a) provisions released	13 450	38 533
- for reclamation of wells	5 312	-
- for jubilee bonuses and retirement severance	-	275
- for liquidation of unused infrastructure	6 553	1 106
- for real estate tax	-	404
- for termination benefits	-	-
- for paid vacations	1 500	3 705
- for tax liabilities	-	-
- for potential disputable liabilities	81	-
- provision for future liabilities	3	33
- provision for liabilities to Europolgaz released	-	3 714
- provision for joint and several liabilities to subcontractors of the subsidiary	-	28 900
- for Mentor remuneration	-	149
- other	1	247
b) other	119 859	67 169
- revaluation write-down on receivables	13 171	-
- revaluation write-down on tangible fixed assets	-	38 279
- revaluation write-down on inventory	-	-
- adjustment of previous year liabilities	33 202	-
- received damages, penalties and fines	930	1 209
- Inflows related to operating revenues accrued previously as deferred income	71 258	22 209
- revenues from activated wells	-	-
- connection fee	161	7
- revenues from sales of social activities	62	1 217
- release of employment termination benefit fund	-	-
- other (different)	1 075	4 248
Other operating revenues in total	133 309	105 702

NOTE 28. OTHER OPERATING EXPENSES

	30 June 2006	30 June 2005
a) provisions created	101 738	22 701
– for unused paid vacations	-	-
- for pension allowances	1 194	7 567
- for retirement severance and jubilee bonuses	3 116	1 437
- for termination benefits	-	-
- for restructuring	-	-
- for reclamation of wells	2 070	10 795
- for real estate tax	-	-
- for fines imposed by the Office for Competition and Consumer Protection	-	2 000
- for Mentor remuneration	-	-
- provision for liabilities of branch in Pakistan	-	824
- for gas pitch	6 112	-
- provision for renegotiation of import prices	84 946	-
- provision for return of leased asset	-	-
- other	4 300	78
b) other	9 458	4 701
- expired, redeemed and irrecoverable receivables written-off	1	5
- excessive, obsolete, damaged, slow-moving inventory written off due to changes in their market prices	-	2
- penalties, damages and fines paid	813	851
- current assets and cash donated	518	1 435
- written-off costs of fixed assets under construction without economic impact	34	223
- cost of maintenance of social facilities	1 291	696
- depreciation of social facilities	-	522
- write-down to the mine liquidation fund	4 044	-
- cost of land reclamation	841	-
- other (membership premiums, fees, other various)	1 916	967
Other operating expenses in total	111 196	27 402

NOTE 29. FINANCIAL REVENUES – DIVIDEND AND PROFIT SHARING

	30 June 2006	30 June 2005
a) from related parties, including:	592	1 031
- from subsidiaries	-	368
- from associated companies	592	663
b) from other entities	34	8
Total financial revenues due to dividend and profit sharing	626	1 039

NOTE 29.1. FINANCIAL REVENUES DUE TO INTEREST

	30 June 2006	30 June 2005
a) on originated loans	10 538	14 616
- from related parties, including:	10 538	14 616
- from subsidiaries	1 355	3 100
- from associated companies	9 183	11 516
- from other entities	-	-
b) on commercial transactions	16 964	28 452
- from related parties, including:	157	214
- from subsidiaries	157	214
- from associated companies	-	-
- from other entities	16 807	28 238
c) on funds on bank accounts and deposits up to 3 months	14 652	27 950
d) on bank deposits and securities above 3 months	4 938	2 609
e) State Budget	-	72
f) on leases	146 158	-
Total financial revenues due to interest	193 250	73 699

NOTE 29.2. OTHER FINANCIAL REVENUES

	30 June 2006	30 June 2005
c) profit on exchange differences	-	5 897
- exchange gains	-	220 346
- <i>realized</i>	-	177 267
- <i>unrealized</i>	-	43 079
- exchange losses	-	214 449
- <i>realized</i>	-	155 302
- <i>unrealized</i>	-	59 147
b) other, including:	224 177	201 630
- revenues from the valuation of forwards and swaps	216 495	200 132
- <i>realized</i>	7 382	40 711
- <i>unrealized</i>	209 113	159 421
- revenues from discount of external bills of exchange	-	-
- released revaluation write-down on accrued interest	15	7
- finance lease	-	1 306
- released provision for interest on liabilities	7 656	-
- other	11	185
Total other financial revenues	224 177	207 527

NOTE 30. FINANCIAL EXPENSES DUE TO INTEREST

	30 June 2006	30 June 2005
a) on loans	33 599	271 528
- to related parties, including:	-	221 331
- to subsidiaries	-	221 331
- to associated companies	-	-
- to other entities	33 599	50 197
b) on commercial transactions	117	61
- to related parties, including:	-	18
- to subsidiaries	-	-
- to associated companies	-	18
- to other entities	117	43
c) to State Budget	444	797
d) interest on financial leasing	4	3 095
e) other interest	-	-
Total financial expenses due to interest	34 164	275 481

NOTE 30.1. OTHER FINANCIAL EXPENSES

	30 June 2006	30 June 2005
a) loss on exchange differences:	86 597	-
- exchange gains	135 399	-
- <i>realized</i>	115 766	-
- <i>unrealized</i>	19 633	-
- exchange losses	221 996	-
- <i>realized</i>	96 941	-
- <i>unrealized</i>	125 055	-
b) other, including:	164 886	217 883
- costs of forwards and swaps	150 010	173 136
- <i>realized</i>	90 011	88 395
- <i>unrealized</i>	59 999	84 741
- revaluation write-down on accrued interest	2 516	3 551
- commission on loans and other	1 280	6 374
- fee paid for issued guarantees	3 189	14 825
- provision for interest on liabilities	31	-
- premium on Eurobonds	-	11 652
- costs of well reclamation	7 464	6 713
- other	396	1 632
Total other financial expenses	251 483	217 883

NOTE 31. GAIN (LOSS) ON SALE OF ALL OR A PART OF SHARES IN CONTROLLED ENTITIES

Not applicable, since the Company prepares consolidated financial statements.

NOTE 32. EXTRAORDINARY GAINS

	30 June 2006	30 June 2005
Casualty compensations	-	-
Other	-	-
Total extraordinary gains	-	-

NOTE 33. EXTRAORDINARY LOSSES

	30 June 2006	30 June 2005
Casualty costs	-	335
Other	-	-
Total extraordinary losses	-	335

Polskie Górnictwo Naftowe i Gazownictwo S.A.
 Financial statements for the period ended 30 June 2006
 Explanatory notes
 (in PLN '000)

NOTE 34. CURRENT INCOME TAX

	30 June 2006	30 June 2005
1. Gross profit (loss)	845 305	703 760
2. Differences between the gross profit (loss) and income tax base	63 550	(151 960)
- Revenues not included in the taxable income	1 083 916	728 789
- Write-downs on receivables released	70 979	84 339
- Release of other write-downs	52 933	42 373
- Release of provision for real estate tax	-	-
- Release of provisions for liabilities to employees	13 725	6 844
- Release of provisions for reclamation of wells	13 741	4 787
- Release of provision for inventory	1 411	-
- Provision for liabilities	7 656	-
- Provision for gas pitch	11 353	-
- Release of other provisions	84	35 265
- Exchange gains due to revaluation	19 632	43 079
- Accrued interest on receivables	10 816	10 596
- Revenues from prepayments regarding amortization of connection fee	161	229
- Revenues from prepayments in the amount equal to depreciation of fixed assets under leasing	70 902	-
- Revenues from prepayments regarding amortization of perpetual usufruct	-	2 416
- Revenues from prepayments regarding depreciation of fixed assets obtained free of charge	1 937	808
- Dividends received	626	671
- Export not confirmed by border Customs Office	-	-
- Revenues from hedging transactions	358 349	159 421
- VAT	-	-
- PFRON adjustment	-	1 707
- Revenues due to rental, lease, sales of gas, utilities with tax liability in the following month	409 527	305 448
- Liabilities written-off based on a court verdict	33 202	-
- Other	6 882	30 806
- Costs not classified as tax-deductible expenses	1 088 425	778 428
- Revaluation write-downs on receivables	22 829	88 762
- Write-downs on shares and loans	24 948	2 575
- Write-down on inventory	1 653	2 109
- Other revaluation write-downs	111 562	21 159
- Provision for employee liabilities	16 534	15 211
- Provision for reclamation of wells	4 691	15 582
- Other provisions	106 743	16 385
- Accrued payable interest	11 423	96 065
- Expenses due to acquisition of shares and securities	-	37 920
- Transaction hedging costs	209 235	84 741
- Depreciation of received infrastructure	-	758
- Amortization of land perpetual usufruct right	2 297	2 299
- Other amortization	15 100	11 889
- Exchange losses	125 055	60 297
- Additional write off to social fund	4 044	-
- PFRON	1 343	3 674
- VAT	12	16
- Own cost of crude oil export	-	-
- Subsidies	519	1 435
- Costs of discontinued investments	54	223
- Fixed asset losses	-	-
- Interest, compensation, penalties, fines, fees	568	666
- Adjustment of gas sales costs	409 255	279 260
- Other	20 560	37 402
- Taxable income not classified to accounting revenues	822 777	532 246
- Realized exchange gains	3 136	44 420
- Connection fee	375	302
- Received interest	118 839	4 775
- Revenues from forward transactions	-	-
- Revenues due to rental, lease, sales of gas, utilities with tax liability in the following month	700 427	482 152
- Finance lease – principal installment	-	-
- Other	-	597

NOTE 34. CURRENT INCOME TAX, CONT.

- Tax-deductible expenses, not classified to accounting expenses	763 217	732 410
- Realized exchange losses	6	288 178
- Interest paid	8 356	6 349
- Additional write off to social fund	-	65
- Mine liquidation fund	-	-
- Change in the classification of a revaluation write-down on receivables for tax purposes	-	-
- Provision for allowances, jubilee bonuses, bonuses, payroll	-	-
- Provision for the valuation of hedging transactions	-	64 941
- Revaluation of shares	-	-
- Securities at sales value	-	-
- Finance lease	88 764	1 683
- Expenses due to rental, lease, sales of gas, utilities payable in the following month	660 323	365 428
- Other	5 768	5 766
- Deductions from income	519	1 435
- Subsidies	519	1 435
3. Income tax base	908 855	551 800
- Tax rate for the given period	0	0
4. Income tax	172 682	104 842
5. Increases, releases, exemptions, deductions and reductions of taxes	2	-
6. Current income tax disclosed in tax return for the period, including:	172 684	104 842
- disclosed in the profit and loss account	172 684	104 842

NOTE 34.1. DEFERRED INCOME TAX DISCLOSED IN THE PROFIT AND LOSS ACCOUNT

	30 June 2006	30 June 2005
- decrease (increase) due to occurrence and reversal of temporary differences	(4 920)	(38 734)
- decrease (increase) due to change of tax rates	-	-
- decrease (increase) due to previously not recognized tax loss, tax relief or temporary difference of the previous period	-	-
- decrease (increase) due to write-off of deferred tax assets or lack of possibility to use the provisions of deferred tax	-	-
- other components of deferred tax assets	-	-
- unrecognized temporary differences from the previous period	-	-
Total deferred income tax	(4 920)	(38 734)

NOTE 34.2. TOTAL AMOUNT OF DEFERRED INCOME TAX RECOGNIZED UNDER GOODWILL OR NEGATIVE GOODWILL

The item "Total amount of deferred income tax recognized in goodwill or negative goodwill" applies to individual financial statements in case of merger. No business combinations of PGNiG S.A. and other entities took place in the financial period.

NOTE 34.3. DEFERRED INCOME TAX DISCLOSED IN THE PROFIT AND LOSS ACCOUNT RELATES TO:

	30 June 2006	30 June 2005
- discontinued operations	-	-
- result on extraordinary events	-	-

NOTE 35.1. OTHER STATUTORY REDUCTIONS IN PROFIT (INCREASES IN LOSS) DUE TO:

	30 June 2006	30 June 2005
15% dividend to the owner (State Treasury)	-	89 835
Total other statutory reductions in profit (increases in loss)	-	89 835

NOTE 36. SHARE IN NET PROFITS (LOSSES) OF CONTROLLED ENTITIES MEASURED USING THE EQUITY METHOD

Not applicable.

The Company prepares consolidated financial statements and applies the equity method to associated entities and co-subsidiaries.

NOTE 37. PROFIT DISTRIBUTION

The financial statements prepared as at 31 December 2005 were approved by the General Shareholders Meeting on 27 June 2006. The General Shareholders Meeting decided that the Company's profit in 2005 in the amount of PLN 1,132,227.9 thousand should be distributed as follows:

- PLN 885,000.0 thousand should be allocated to the payment of a dividend (which translates into a payment of PLN 0.15 per share), of which:
 - PLN 750,000.0 thousand as a cash and non-cash dividend to the State Treasury;
 - PLN 135,000.0 thousand as a cash dividend to other shareholders;
- PLN 7,300.0 should be allocated as a write-off to the Company's Social Benefits Fund;
- PLN 27,600.0 thousand be allocated for bonuses to employees;
- PLN 8,000.0 thousand should be allocated to the employment restructuring fund;
- PLN 204,327.9 thousand should be allocated as an increase in the Company's supplementary capital.

The dividend date was set as 27 July 2006, and the dividend payment date as 2 October 2006.

NOTE 38. EARNINGS PER SHARE

The weighted average number of shares was calculated as follows:

Start date	End date	Number of ordinary shares on the market	Number of days	Weighted average number of shares
30 June 2006				
2005-12-31	2006-06-30	5 900 000	181	5 900 000
Total			181	5 900 000
30 June 2005				
2004-12-31	2005-06-30	5 000 000	181	5 000 000
Total			181	5 000 000

The annualized profit was calculated as follows:

	30 June 2006		30 June 2005	
	Period	Value	Period	Value
Profit for the period	From 1 July to 31 December 2005	661 879	From 1 July to 31 December 2004	333 218
Profit for the period	From 1 January to 30 June 2006	660 421	From 1 January to 30 June 2005	470 349
Annualized profit	From 1 July 2005 to 30 June 2006	1 322 300	From 1 July 2004 to 30 June 2005	803 567

During the first half of 2006 and in 2005 there were no instruments that would result in the adjustment of the number of shares or net profit, which are the basis for calculating diluted earnings per share. Due to the above, diluted earnings per share and earnings per share are equal.

During the first half of 2006 and the first half of 2005 all shares entitled to an equal share in the net profit for a given period.

NOTE 39. STRUCTURE OF CASH AND CASH EQUIVALENTS

	30 June 2006	31 December 2005	30 June 2005
Cash in hand	153	173	417
Cash at bank	53 240	93 365	76 866
a) current accounts	53 240	93 365	76 866
b) letters of credit	-	-	-
Other cash	3 355 680	2 652 846	997 601
a) cheques and external bills of exchange under 3 months	-	-	-
b) cash in transit	41	3	1 027
c) bank deposits including related interest	281 094	701 598	395 219
d) bills (commercial, treasury, NBP, etc.), deposit certificates	3 074 545	1 951 245	601 355
e) other	-	-	-
Other cash equivalents	1	-	2 285
a) cheques and external bills of exchange over 3 months	-	-	-
b) dividend due	-	-	2 285
c) other	1	-	-
Total cash and cash equivalents	3 409 074	2 746 384	1 077 169

NOTE 39.1. REASONS FOR DIFFERENCES BETWEEN BALANCE SHEET CHANGES IN CERTAIN ITEMS AND CHANGES ARISING FROM THE CASH FLOW STATEMENT

	30 June 2006
Cash	
Balance sheet change in cash	662 690
Change in cash due to exchange differences	(23)
Change in cash disclosed in the cash flow statement	662 667
Provisions	
Balance-sheet change in provisions	127 188
Change in the provision for reclamation of wells adjusting fixed assets – related to investment activities	(25 702)
Contribution in kind to the subsidiary established based on the branch – adjustment of investment activity	-
Adjustment of presentation between provisions and prepayments and accruals	-
Change in provisions disclosed in the cash flow statement	101 486
Inventory	
Balance-sheet change in inventory	(65 022)
Dividend in kind to the owner (State Treasury) – adjustment of financial activity	-
Contribution in kind to the subsidiary established based on the branch – adjustment of investment activity	-
Fixed assets reclassified as inventory – adjustment of investment activity	6
Change in inventory disclosed in the cash flow statement	(65 016)
Receivables	
Balance-sheet change in net receivables	782 799
Receivables arising from commissioning of fixed assets based on leasing – adjustment of investment activity	-
Leasing liability repayment – adjustment of investment activity	(123 508)
Change in receivables due to sale of non-financial non-current assets – adjustment of investment activities	(2 904)
Exchange of receivables for shares in a subsidiary – adjustment of investment activity	-
Contribution in kind to the subsidiary established based on the branch – adjustment of investment activity	-
Change in receivables due to sale of shares – adjustment of investment activity	1
Balance of receivables and liabilities due to profit sharing (15%) with the State Treasury – adjustment of presentation in operating activity	(28 800)
Concession receivables reclassified from expenditure to fixed assets under construction – adjustment of investment activity	-
Change in receivables disclosed in the cash flow statement	627 588
Liabilities	
Balance-sheet change in short-term liabilities excluding loans	623 134
Change in liabilities due to purchase of non-financial non-current assets – adjustment of investment activities	6 862
Contribution in kind to the subsidiary established based on the branch – adjustment of investment activity	-
Change in liabilities due to a loan contracted from a subsidiary – adjustment of financial activities	-
Change in liabilities due to dividends to owners – adjustment of financial activity	(885 000)
Balance of liabilities and receivables due to profit sharing (15%) with the State Treasury – adjustment of presentation in operating activity	28 800
Elimination of special funds from profit write-off to the Company's Social Benefits Fund – adjustment of financial activities	(42 900)
Liabilities due to concession and mining usufruct	1 174
Change in liabilities in cash flow statements	(267 930)
Prepayments and accruals	
Balance-sheet change in prepayments and accruals	(217 824)
Deferred income from commissioning of fixed assets based on leasing – adjustment of investment activity	-
Deferred income from leased fixed assets – reclassification within operating activity	70 902
Contribution in kind to the subsidiary established based on the branch – adjustment of investment activity	-
Adjustment of presentation between prepayments and accruals and provisions	-
Deferred income from non-financial non-current assets – adjustment of investment activity	(3)
Change in prepayments and accruals disclosed in the cash flow statement	(146 925)

NOTE 39.2 STATEMENT OF MATERIAL ADJUSTMENTS, INFLOWS AND OUTFLOWS CONCERNING THE ITEM 'OTHER'

	30 June 2006
I. Other adjustments, due to:	(159 052)
Change in exchange differences from translation of a foreign branch	27
Depreciation of social facilities	-
Adjustment regarding change in intangible assets – investment activities	-
Adjustment of balance in tangible fixed assets – investment activity	4 882
Difference arising from measurement of assets contributed by dividend	-
Expenditure on non-financial non-current assets charged to costs – investment activity	29 706
Cash contribution to a subsidiary established based on a branch – adjustment of investment activity	-
Adjustments of contribution in kind to the entity established based on branch – adjustment of investment activity	-
Revaluation write-down on shares contributed free of charge – investment activity	-
Exchange differences from restatement of other investments in foreign branch	-
Deferred income from leased fixed assets – reclassification within operating activity	(70 902)
Cost of discount from the valuation of financial leasing – financial activities	166
Hedging transactions – financial activity	(126 952)
Commission on loan paid – financial activities	1 280
Expenses due to loan repayment guarantees received from distribution companies – financial activities	2 741
Premium paid for earlier redemption of Eurobonds – financial activity	-
II. Other inflows from investment activities due to:	123 508
Expiration of a 3 month deposit	123 508
Leasing liability repayment – adjustment of investment activity	-
III. Other outflows from investment activities due to:	10 672
Advances for fixed assets under construction	10 596
Expenses incurred due to sale and liquidation of non-financial non-current assets	76
IV. Other inflows from financial activities due to:	7 382
Revenues from realized hedging transactions	7 382
V. Other outflows from financial activities due to:	94 032
Commission paid on loans	1 280
Expenses due to loan repayment guarantees received from distribution companies	2 741
Expenses due to realized hedging transactions	90 011

C. ADDITIONAL EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. INFORMATION ON FINANCIAL INSTRUMENTS

CLASSIFICATION OF ASSETS BY FINANCIAL INSTRUMENTS GROUP

Type of financial instrument	30 June 2006	31 December 2005	30 June 2005
1. Assets held for trading	232 211	120 273	317 682
a) Derivatives	232 211	120 273	317 682
2. Originated loans and own receivables	10 106	22 800	23 132
a) Originated loans	10 106	22 800	23 132
3. Assets held to maturity	3 576 248	2 652 843	996 574
a) Short-term securities	3 295 155	1 951 245	601 355
b) Short-term currency deposits PLN	270 562	662 914	376 951
c) Short-term currency deposits (foreign currencies)	10 531	38 684	18 268
4. Assets available for sale	1 645	1 646	2 179
a) Shares in other entities	1 645	1 646	2 179
5. Hedging instruments with positive fair value	-	-	-
Total	3 820 210	2 797 562	1 339 567

VALUATION OF ASSETS CLASSIFIED AS FINANCIAL INSTRUMENTS

Type of financial instrument	measurement method as of 30 June 2006	value at acquisition price	value from balance sheet measurement	revaluation write-down as of 30 June 2006	change in write-downs during the period*	difference between fair value and value at acquisition price charged to revaluation reserve	amount charged in the current year to revaluation reserve
1. Assets held for trading		469	232 211	-	-	-	-
a) Derivatives	fair value	469	232 211	-	-	-	-
2. Originated loans and own receivables		285 408	10 106	275 302	(24 566)	-	-
a) Originated loans	fair value	285 408	10 106	275 302	(24 566)	-	-
3. Assets held to maturity		3 568 388	3 576 248	-	-	-	-
a) Short-term securities**	fair value	3 287 297	3 295 155	-	-	-	-
b) Short-term currency deposits PLN**	fair value	270 560	270 562	-	-	-	-
c) Short-term currency deposits (foreign currencies)**	fair value	10 531	10 531	-	-	-	-
4. Assets available for sale		26 805	1 645	25 160	(4 541)	-	-
a) Shares in other entities	fair value	26 805	1 645	25 160	(4 541)	-	-
5. Hedging instruments with positive fair value		-	-	-	-	-	-
Total		3 881 070	3 820 210	300 462	(29 107)	-	-

* increases (-); decreases (+).

** The carrying value includes accrued interest in the amount of 7 859.6 thousand.

Type of financial instrument	measurement method as of 31 December 2005	value at acquisition price	value from balance sheet measurement	revaluation write-down as of 31 December 2005	change in write-downs in 2005	difference between fair value and value at acquisition price charged to revaluation reserve	amount charged in the current year to revaluation reserve
1. Assets held for trading		-	120 273	-	-	-	-
a) Derivatives	fair value	-	120 273	-	-	-	-
2. Originated loans and own receivables		322 668	22 800	299 868	(14 121)	-	-
a) Originated loans	fair value	322 668	22 800	299 868	(14 121)	-	-
3. Assets held to maturity		2 651 880	2 652 843	-	-	-	-
a) Short-term securities**	fair value	1 950 419	1 951 245	-	-	-	-
b) Short-term currency deposits PLN**	fair value	662 781	662 914	-	-	-	-
c) Short-term currency deposits (foreign currencies)**	fair value	38 680	38 684	-	-	-	-
4. Assets available for sale		25 036	1 646	23 390	(501)	-	-
a) Shares in other entities	fair value	25 036	1 646	23 390	(501)	-	-
5. Hedging instruments with positive fair value		-	-	-	-	-	-
Total		2 999 584	2 797 562	323 258	(14 622)	-	-

* increases (-); decreases (+).

** The carrying value includes accrued interest in the amount of 963.5 thousand.

Polskie Górnictwo Naftowe i Gazownictwo S.A.
Financial statements for the period ended 30 June 2006
Additional explanatory notes

Type of financial instrument	measurement method as of 30 June 2005	value at acquisition price	value from balance sheet measurement	revaluation write-down as of 30 June 2005	change in write-downs during the period*	difference between fair value and value at acquisition price charged to revaluation reserve	amount charged in the current year to revaluation reserve
1. Assets held for trading		1 860	317 682	-	-	-	-
a) Derivatives	fair value	1 860	317 682	-	-	-	-
2. Originated loans and own receivables		348 658	23 132	325 526	(39 780)	-	-
a) Originated loans	adjusted acquisition price	348 658	23 132	325 526	(39 780)	-	-
3. Assets held to maturity		996 557	996 574	-	-	-	-
a) Short-term securities	fair value	601 355	601 355	-	-	-	-
b) Short-term currency deposits PLN**	fair value	376 934	376 951	-	-	-	-
c) Short-term currency deposits (foreign currencies)	fair value	18 268	18 268	-	-	-	-
4. Assets available for sale		43 396	2 179	41 217	(2 575)	-	-
a) Shares in other entities	fair value	43 396	2 179	41 217	(2 575)	-	-
5. Hedging instruments with positive fair value	-	-	-	-	-	-	-
Total		1 390 471	1 339 567	366 743	(42 355)	-	-

* increases (-); decreases (+).

** The carrying value includes accrued interest in the amount of 16.3 thousand

According to the Company the carrying value (after adjustment for revaluation write-downs) of originated loans reflects their fair value.

INTEREST ACCRUED ON ORIGINATED LOANS AND OWN RECEIVABLES

	30 June 2006	30 June 2005
Accrued and realized interest	24 617	34 843
Interest on receivables	14 505	24 781
Interest on originated loans	10 112	10 062
Accrued but unrealized interest	2 885	8 226
Interest on receivables	2 460	3 671
Interest on originated loans	425	4 555
Total	27 502	43 069

All unrealized interest has a maturity of less than 3 months.

CREATED REVALUATION WRITE-DOWNS ON ACCRUED BUT UNREALIZED INTEREST

	30 June 2006	30 June 2005
Revaluation write-down on receivables	2 430	3 543
Revaluation write-down on originated loans	425	4 555
Total	2 855	8 098

FINANCIAL LIABILITIES BY TITLE

Type of liability	30 June 2006	including the amount from measurement charged to revaluation reserve	including the amount from measurement charged to financial result
	amount		
1. Financial liabilities held for trading	75 534	-	59 215
a) Derivatives	75 534	-	59 215
2. Other financial liabilities	2 436 581	-	(120 690)
a) Loans	2 436 570	-	(120 690)
b) Liabilities due to finance lease	11	-	-
3. Hedging instruments with negative fair value	-	-	-
Total	2 512 115	-	(61 475)

*Increases (-) charged to expenses, decreases (+) charged to revenues

Type of liability	31 December 2005	including the amount from measurement charged to revaluation reserve	including the amount from measurement charged to financial result
	amount		
1. Financial liabilities held for trading	173 177	-	10 806
a) Derivatives	173 177	-	10 806
2. Other financial liabilities	2 326 400	-	(26 356)
a) Loans	2 326 215	-	(26 356)
b) Liabilities due to finance lease	185	-	-
3. Hedging instruments with negative fair value	-	-	-
Total	2 499 577	-	(15 550)

*Increases (-) charged to expenses, decreases (+) charged to revenues

Type of liability	30 June 2005	including the amount from measurement charged to revaluation reserve	including the amount from measurement charged to financial result
	amount		
1. Financial liabilities held for trading	123 748	-	114 445
a) Derivatives	123 748	-	114 445
2. Other financial liabilities	3 656 249	-	(68 210)
a) Loans	3 620 807	-	(69 516)
b) Liabilities due to finance lease	35 442	-	1 306
3. Hedging instruments with negative fair value	-	-	-
Total	3 779 997	0	46 235

* Increases (-) charged to expenses, decreases (+) charged to revenues.

EXPENSES DUE TO INTEREST ON FINANCIAL LIABILITIES

	30 June 2006	30 June 2005
Accrued and realized interest	23 073	250 184
Interest on bank loans	23 069	28 945
Interest on received loans	-	218 171
Interest on leasing	4	3 068
Accrued but unrealized interest	10 530	21 280
Interest on bank loans	10 530	21 253
Interest on received loans	-	-
Interest on leasing	-	27
Total	33 603	271 464

All unrealized interest has a maturity of less than 3 months.

DERIVATIVE FINANCIAL INSTRUMENTS

Objective and principles of financial risk management

Due to the type of business activity conduct by it, the Company is exposed to financial risks, including in particular:

- currency risk;
- interest rate risk;
- commodity risk;
- credit risk.

The Company manages exposure to various types of risk by aiming at their reduction to acceptable levels. To this end, the Company enters into hedging transactions involving derivatives.

Currency risk

The long-term portion of the Company's financial liabilities is denominated in EUR, whereas trade liabilities due to contracts for the purchase of gas are denominated in USD and EUR.

The key objective of the Company's activities connected with hedging currency risk is to protect it against exchange rate fluctuations, inherent to payments of the loan principal and interest as well as to payments for gas realized in foreign currencies. The Company primarily uses forwards, options and cross currency swaps with maturity of up to 5 years to hedge its liabilities.

Commodity risk

The price risk connected with contracts for gas deliveries is substantial. Fluctuations in the price of crude oil products on fuel markets are the main risk factor. In certain contracts the formula for calculating the purchase price of gas 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 costs of purchasing gas increase by more than 5% during one quarter.

Credit risk

Credit risk resulting from third parties being unable to meet their obligations under contracts related to the Company's financial instruments is basically limited to the surplus of third parties' liabilities over those of the Company. The Company follows the principle of entering into transactions in financial instruments with multiple companies of high creditworthiness. As a result, the Company does not anticipate significant losses due to credit risk.

Derivative financial instruments

In accordance with International Financial Reporting Standards and with regulations in force since 2002, i.e. the Accounting Act and the Minister of Finance's Ordinance on financial instruments the Company discloses all derivatives at fair value in its financial statements.

During the first half of 2006 the Company did not apply hedge accounting. Therefore changes in the fair value of hedged financial instruments and hedging instruments were presented in the profit and loss account for the reporting period.

Fair value and cash flow hedges

The Company applies fair value and cash flows hedges to a portion of its loan and trade liabilities that are denominated in USD and EUR. To this extent the Company concludes derivative transactions with renowned financial institutions: forward transactions related to the purchase of foreign currencies or rights to such purchases (options). As a result of the debt restructuring process executed in 2005 the conditions of some transactions that hedge loan liabilities will need to be amended in order to adapt them to the new structure of debt.

The below note presents the measurement of derivative financial instruments.

Polskie Górnictwo Naftowe i Gazownictwo S.A.
Financial statements for the period ended 30 June 2006
Additional explanatory notes

MEASUREMENT OF DERIVATIVES

Hedged instrument	Value of the hedged instrument	Currency of the hedged instrument	Hedge type	Hedge start date	Hedge repurchase date	Instrument realization price or price range	Hedge currency	Risk hedged	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)
									Balance as of 30 June 2006		Balance as of 31 December 2005		Balance as of 30 June 2005	
ABN – syndicated loan*	18 000	EUR	Currency Swap with Final Exchange Option	30.11.2000	22.08.2005	3.8950	EUR	FX risk	-	-	-	-	2 484	-
CSFB USD 100 million - first tranche*	100 000	USD	Currency Swap	20.06.2001	22.06.2006	4.0150	USD	FX risk	-	-	-	13 091	-	23 599
Hedged instrument was redeemed	100 000	USD	Currency Swap	04.09.2001	06.09.2006	4.2820	USD	FX risk	-	9 397	-	26 599	-	41 006
ABN – syndicated loan*	90 000	EUR	Cross Currency Swap	05.10.2000	2003-2006	3.9900	EUR	FX and interest rate risk	-	-	-	-	-	2 196
Hedged instrument was redeemed	120 000	EUR	Currency Swap	23.10.2001	30.10.2006	3.8750	EUR	FX and interest rate risk	198 391	-	107 893	-	303 164	-
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	13.12.2002	26.10.2006	3.9750	EUR	FX risk	1 728	-	-	2 362	2 346	-
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	19.12.2002	26.10.2006	3.9970	EUR	FX risk	1 154	-	-	2 956	2 960	-
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	07.09.2004	26.10.2006	4.3870	EUR	FX risk	-	8 819	-	13 083	-	7 951
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	18.11.2004	26.10.2006	4.2499	EUR	FX risk	-	5 561	-	10 012	-	5 058
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	16.09.2004	26.10.2006	4.3475	EUR	FX risk	-	7 830	-	12 100	-	6 971
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	13.10.2004	26.10.2006	4.3000	EUR	FX risk	-	6 777	-	11 184	-	6 190
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	20.12.2004	26.10.2006	4.1175	EUR	FX risk	-	2 325	-	6 867	-	1 998
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	09.04.2003	26.10.2006	4.2890	EUR	FX risk	-	6 232	-	10 378	-	5 126
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	14.07.2004	26.10.2006	4.4450	EUR	FX risk	-	10 259	-	14 503	-	10 097
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	14.07.2004	26.10.2006	4.4750	EUR	FX risk	-	11 009	-	15 248	-	9 355
BH loan 27/07/05-27/07/10 (EUR) tranche A in EUR **	25 000	EUR	Currency Swap	11.04.2003	26.10.2006	4.2525	EUR	FX risk	-	5 311	-	9 456	-	4 201
liabilities for gas	10 000	USD	Collar	13.04.2005	22.08.2005	3.3100	USD	FX risk	-	-	-	-	769	-
liabilities for gas	10 000	USD	Collar	04.05.2005	20.09.2005	3.4300	USD	FX risk	-	-	-	-	239	-
liabilities for gas	10 000	USD	Collar	05.05.2005	11.07.2005	3.3300	USD	FX risk	-	-	-	-	309	-
liabilities for gas	10 000	USD	Collar	09.05.2005	12.09.2005	3.3700	USD	FX risk	-	-	-	-	534	-
liabilities for gas	10 000	USD	Collar	23.05.2005	20.10.2005	3.5000	USD	FX risk	-	-	-	-	(89)	-
liabilities for gas	10 000	USD	Collar	13.04.2005	20.09.2005	3.3200	USD	FX risk	-	-	-	-	832	-
liabilities for gas	10 000	USD	Collar	28.04.2005	22.08.2005	3.3450	USD	FX risk	-	-	-	-	55	-
liabilities for gas	10 000	USD	Collar	04.05.2005	20.07.2005	3.4100	USD	FX risk	-	-	-	-	126	-
liabilities for gas	10 000	USD	Collar	05.05.2005	20.09.2005	3.3800	USD	FX risk	-	-	-	-	517	-
liabilities for gas	10 000	USD	Collar	19.05.2005	12.09.2005	3.3700	USD	FX risk	-	-	-	-	322	-
liabilities for gas	10 000	USD	Collar	28.04.2005	20.07.2005	3.3357	USD	FX risk	-	-	-	-	439	-
liabilities for gas	10 000	USD	Collar	04.05.2005	22.08.2005	3.4200	USD	FX risk	-	-	-	-	216	-
liabilities for gas	10 000	USD	Collar	19.05.2005	10.08.2005	3.3600	USD	FX risk	-	-	-	-	307	-

MEASUREMENT OF DERIVATIVES (CONT.)

Polskie Górnictwo Naftowe i Gazownictwo S.A.
 Financial statements for the period ended 30 June 2006
 Additional explanatory notes

Hedged instrument	Value of the hedged instrument	Currency of the hedged instrument	Hedge type	Hedge start date	Hedge repurchase date	Instrument realization price or price range	Hedge currency	Risk hedged	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)
									Balance as of 30 June 2006		Balance as of 31 December 2005		Balance as of 30 June 2005	
liabilities for gas	10 000	USD	Collar	23.05.2005	21.11.2005	3.5000	USD	FX risk	-	-	-	-	(42)	-
liabilities for gas	10 000	USD	Collar	28.04.2005	22.08.2005	3.3418	USD	FX risk	-	-	-	-	596	-
liabilities for gas	10 000	USD	Collar	13.04.2005	20.07.2005	3.3000	USD	FX risk	-	-	-	-	632	-
liabilities for gas	10 000	USD	Collar	28.04.2005	20.07.2005	3.3357	USD	FX risk	-	-	-	-	67	-
liabilities for gas	10 000	USD	Collar	05.05.2005	10.08.2005	3.3100	USD	FX risk	-	-	-	-	692	-
liabilities for gas	5 000	USD	Collar	19.05.2005	11.07.2005	3.3500	USD	FX risk	-	-	-	-	195	-
liabilities for gas	5 000	USD	Collar	24.05.2005	20.12.2005	3.5000	USD	FX risk	-	-	-	-	12	-
liabilities for gas	10 000	USD	Collar	24.08.2005	10.01.2006	3.4600-3.2015	USD	FX risk	-	-	-	25	-	-
liabilities for gas	10 000	USD	Collar	24.08.2005	20.01.2006	3.4600-3.1900	USD	FX risk	-	-	13	90	-	-
liabilities for gas	10 000	USD	Collar	24.08.2005	10.01.2006	3.4600-3.1870	USD	FX risk	-	-	-	13	-	-
liabilities for gas	10 000	USD	Collar	07.09.2005	10.02.2006	3.3000-3.0490	USD	FX risk	-	-	356	25	-	-
liabilities for gas	10 000	USD	Collar	09.09.2005	21.02.2006	3.3500-3.0610	USD	FX risk	-	-	260	46	-	-
liabilities for gas	10 000	USD	Collar	14.09.2005	10.02.2006	3.3500-3.0910	USD	FX risk	-	-	221	53	-	-
liabilities for gas	10 000	USD	Collar	16.09.2005	21.02.2006	3.3300-3.0709	USD	FX risk	-	-	309	53	-	-
liabilities for gas	10 000	USD	Collar	29.09.2005	10.03.2006	3.4000-3.1365	USD	FX risk	-	-	238	200	-	-
liabilities for gas	10 000	USD	Collar	30.09.2005	10.03.2006	3.4300-3.1330	USD	FX risk	-	-	191	193	-	-
liabilities for gas	10 000	USD	Collar	13.10.2005	10.01.2006	3.3200-3.2095	USD	FX risk	-	-	42	35	-	-
liabilities for gas	10 000	USD	Collar	02.11.2005	10.04.2006	3.4000-3.2340	USD	FX risk	-	-	337	647	-	-
liabilities for gas	10 000	USD	Collar	02.11.2005	10.03.2006	3.4000-3.2370	USD	FX risk	-	-	238	533	-	-
liabilities for gas	10 000	USD	Collar	03.11.2005	20.03.2006	3.3800-3.2345	USD	FX risk	-	-	305	558	-	-
liabilities for gas	10 000	USD	Collar	10.11.2005	20.01.2006	3.5500-3.3360	USD	FX risk	-	-	1	858	-	-
liabilities for gas	10 000	USD	Collar	10.11.2005	20.01.2006	3.5500-3.3285	USD	FX risk	-	-	1	797	-	-
liabilities for gas	10 000	USD	Collar	10.11.2005	10.01.2006	3.5500-3.3530	USD	FX risk	-	-	-	930	-	-
liabilities for gas	10 000	USD	Collar	10.11.2005	10.01.2006	3.5500-3.3370	USD	FX risk	-	-	-	781	-	-
liabilities for gas	10 000	USD	Collar	10.11.2005	10.01.2006	3.5500-3.3275	USD	FX risk	-	-	-	695	-	-
liabilities for gas	10 000	USD	Collar	14.11.2005	20.04.2006	3.5500-3.3365	USD	FX risk	-	-	159	1 291	-	-
liabilities for gas	10 000	USD	Collar	14.11.2005	10.04.2006	3.5500-3.3333	USD	FX risk	-	-	133	1 223	-	-
liabilities for gas	10 000	USD	Collar	15.11.2005	20.04.2006	3.5300-3.3460	USD	FX risk	-	-	179	1 357	-	-
liabilities for gas	10 000	USD	Collar	15.11.2005	10.02.2006	3.5300-3.3326	USD	FX risk	-	-	33	969	-	-
liabilities for gas	10 000	USD	Collar	16.11.2005	21.02.2006	3.6000-3.2595	USD	FX risk	-	-	23	553	-	-
liabilities for gas	10 000	USD	Collar	16.11.2005	20.03.2006	3.6000-3.2630	USD	FX risk	-	-	59	701	-	-
liabilities for gas	10 000	USD	Collar	18.11.2005	10.02.2006	3.5500-3.3075	USD	FX risk	-	-	26	790	-	-
liabilities for gas	10 000	USD	Collar	18.11.2005	10.02.2006	3.5500-3.3080	USD	FX risk	-	-	26	793	-	-

Polskie Górnictwo Naftowe i Gazownictwo S.A.
 Financial statements for the period ended 30 June 2006
 Additional explanatory notes

liabilities for gas	10 000	USD	Collar	18.11.2005	20.03.2006	3.5500-3.3075	USD	FX risk	-	-	89	964	-	-
liabilities for gas	10 000	USD	Collar	23.11.2005	20.04.2006	3.4800-3.2595	USD	FX risk	-	-	239	823	-	-
liabilities for gas	10 000	USD	Collar	23.11.2005	10.04.2006	3.4800-3.2570	USD	FX risk	-	-	208	761	-	-
liabilities for gas	10 000	USD	Collar	23.11.2005	10.03.2006	3.4800-3.2565	USD	FX risk	-	-	131	629	-	-
liabilities for gas	10 000	USD	Collar	23.11.2005	21.02.2006	3.5000-3.2430	USD	FX risk	-	-	68	471	-	-
liabilities for gas	10 000	USD	Collar	23.11.2005	10.05.2006	3.5000-3.2220	USD	FX risk	-	-	260	711	-	-
liabilities for gas	10 000	USD	Collar	24.11.2005	10.05.2006	3.4800-3.2328	USD	FX risk	-	-	288	762	-	-
liabilities for gas	10 000	USD	Collar	24.11.2005	10.02.2006	3.4800-3.2300	USD	FX risk	-	-	60	361	-	-
liabilities for gas	10 000	USD	Collar	29.11.2005	20.03.2006	3.4300-3.2050	USD	FX risk	-	-	216	433	-	-
liabilities for gas	10 000	USD	Collar	05.12.2005	19.05.2006	3.4500-3.2000	USD	FX risk	-	-	358	645	-	-
liabilities for gas	10 000	USD	Collar	05.12.2005	21.02.2006	3.4500-3.2010	USD	FX risk	-	-	111	301	-	-
liabilities for gas	10 000	USD	Collar	12.12.2005	20.03.2006	3.3500-3.1800	USD	FX risk	-	-	375	345	-	-
liabilities for gas	10 000	USD	Collar	12.12.2005	19.05.2006	3.3500-3.1750	USD	FX risk	-	-	590	547	-	-

Polskie Górnictwo Naftowe i Gazownictwo S.A.
Financial statements for the period ended 30 June 2006
Additional explanatory notes

MEASUREMENT OF DERIVATIVES (CONT.)

Hedged instrument	Value of the hedged instrument	Currency of the hedged instrument	Hedge type	Hedge start date	Hedge repurchase date	Instrument realization price or price range	Hedge currency	Risk hedged	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)
									Balance as of 30 June 2006	Balance as of 31 December 2005	Balance as of 30 June 2005			
liabilities for gas	10 000	USD	Collar	12.12.2005	10.04.2006	3.3500-3.1730	USD	FX risk	-	-	456	403	-	-
liabilities for gas	10 000	USD	Collar	20.12.2005	10.05.2006	3.3000-3.1500	USD	FX risk	-	-	730	434	-	-
liabilities for gas	10 000	USD	Collar	28.12.2005	20.01.2006	3.2500-3.2070	USD	FX risk	-	-	394	127	-	-
liabilities for gas	5 000	EUR	Collar	14.09.2005	20.01.2006	4.0300-3.9075	EUR	FX risk	-	-	7	288	-	-
liabilities for gas	10 000	EUR	Collar	15.09.2005	20.02.2006	4.0200-3.8760	EUR	FX risk	-	-	114	504	-	-
liabilities for gas	5 000	EUR	Collar	24.11.2005	20.04.2006	4.0300-3.9165	EUR	FX risk	-	-	145	457	-	-
liabilities for gas	5 000	EUR	Collar	29.11.2005	20.04.2006	4.0000-3.8830	EUR	FX risk	-	-	173	359	-	-
liabilities for gas	5 000	EUR	Collar	05.12.2005	19.05.2006	3.9900-3.8350	EUR	FX risk	-	-	231	278	-	-
liabilities for gas	10 000	USD	FX forward	05.09.2005	20.01.2006	3.1505	USD	FX risk	-	-	1 107	-	-	-
liabilities for gas	10 000	USD	FX forward	13.09.2005	20.01.2006	3.2013	USD	FX risk	-	-	600	-	-	-
liabilities for gas	10 000	USD	FX forward	14.09.2005	21.02.2006	3.1920	USD	FX risk	-	-	688	-	-	-
liabilities for gas	10 000	USD	FX forward	11.10.2005	20.01.2006	3.2173	USD	FX risk	-	-	440	-	-	-
liabilities for gas	10 000	USD	FX forward	06.12.2005	10.03.2006	3.2551	USD	FX risk	-	-	60	-	-	-
liabilities for gas	10 000	USD	FX forward	14.12.2005	10.03.2006	3.1828	USD	FX risk	-	-	776	-	-	-
liabilities for gas	10 000	USD	FX forward	28.12.2005	10.02.2006	3.2296	USD	FX risk	-	-	316	-	-	-
liabilities for gas	5 000	EUR	FX forward	20.09.2005	20.01.2006	3.9084	EUR	FX risk	-	-	-	219	-	-
liabilities for gas	5 000	EUR	FX forward	11.10.2005	20.03.2006	3.8972	EUR	FX risk	-	-	-	101	-	-
liabilities for gas	5 000	EUR	FX forward	29.11.2005	20.03.2006	3.9185	EUR	FX risk	-	-	-	206	-	-
liabilities for gas	10 000	USD	Collar	24.01.2006	10.07.2006	3.2500-3.0485	USD	FX risk	49	-	-	-	-	-
liabilities for gas	10 000	USD	collar	24.01.2006	10.07.2006	3.2500-3.0185	USD	FX risk	50	-	-	-	-	-
liabilities for gas	10 000	USD	collar	01.02.2006	20.07.2006	3.2500-3.0690	USD	FX risk	104	-	-	-	-	-
liabilities for gas	10 000	USD	collar	06.02.2006	20.07.2006	3.2500-3.1253	USD	FX risk	-	1	-	-	-	-
liabilities for gas	10 000	USD	collar	13.02.2006	10.08.2006	3.3200-3.0808	USD	FX risk	-	17	-	-	-	-
liabilities for gas	5 000	EUR	collar	15.02.2006	20.07.2006	3.8700-3.7508	EUR	FX risk	881	-	-	-	-	-
liabilities for gas	10 000	USD	collar	17.02.2006	10.08.2006	3.3200-3.0500	USD	FX risk	42	-	-	-	-	-
liabilities for gas	10 000	USD	collar	20.02.2006	10.08.2006	3.2850-3.0380	USD	FX risk	113	-	-	-	-	-
liabilities for gas	5 000	EUR	collar	20.02.2006	18.08.2006	3.8700-3.7289	EUR	FX risk	921	-	-	-	-	-
liabilities for gas	10 000	USD	collar	01.03.2006	10.07.2006	3.3000-3.0500	USD	FX risk	11	-	-	-	-	-
liabilities for gas	10 000	USD	collar	01.03.2006	18.08.2006	3.2700-3.0490	USD	FX risk	133	-	-	-	-	-
liabilities for gas	10 000	USD	collar	06.03.2006	18.08.2006	3.2900-3.0590	USD	FX risk	74	-	-	-	-	-
liabilities for gas	10 000	USD	collar	16.03.2006	18.08.2006	3.3700-3.0590	USD	FX risk	-	36	-	-	-	-
liabilities for gas	10 000	USD	collar	16.03.2006	10.07.2006	3.3700-3.0545	USD	FX risk	-	1	-	-	-	-
liabilities for gas	5 000	EUR	collar	16.03.2006	20.09.2006	3.9600-3.8263	EUR	FX risk	588	-	-	-	-	-
liabilities for gas	5 000	EUR	collar	17.03.2006	18.08.2006	3.9400-3.8010	EUR	FX risk	621	-	-	-	-	-
liabilities for gas	10 000	USD	collar	17.03.2006	08.09.2006	3.2500-3.0490	USD	FX risk	192	-	-	-	-	-
liabilities for gas	5 000	EUR	collar	17.03.2006	20.09.2006	3.9500-3.8000	EUR	FX risk	634	-	-	-	-	-
liabilities for gas	10 000	USD	collar	30.03.2006	20.09.2006	3.5200-3.0630	USD	FX risk	-	217	-	-	-	-
liabilities for gas	10 000	USD	collar	30.03.2006	20.09.2006	3.5000-3.0605	USD	FX risk	-	198	-	-	-	-
liabilities for gas	10 000	USD	collar	31.03.2006	20.09.2006	3.5080-3.0700	USD	FX risk	-	229	-	-	-	-
liabilities for gas	10 000	USD	collar	15.03.2006	08.09.2006	3.4620-3.0555	USD	FX risk	-	138	-	-	-	-
liabilities for gas	5 000	EUR	collar	12.04.2006	20.10.2006	4.0500-3.8840	EUR	FX risk	328	-	-	-	-	-
liabilities for gas	10 000	USD	collar	12.04.2006	08.09.2006	3.4500-3.0500	USD	FX risk	-	116	-	-	-	-
liabilities for gas	10 000	USD	collar	13.04.2006	18.08.2006	3.5000-3.0700	USD	FX risk	-	145	-	-	-	-
liabilities for gas	10 000	USD	collar	21.04.2006	10.10.2006	3.3000-3.0149	USD	FX risk	148	-	-	-	-	-
liabilities for gas	10 000	USD	collar	25.04.2006	10.10.2006	3.2500-3.0060	USD	FX risk	292	-	-	-	-	-

Polskie Górnictwo Naftowe i Gazownictwo S.A.
Financial statements for the period ended 30 June 2006
Additional explanatory notes

MEASUREMENT OF DERIVATIVES (CONT.)

Hedged instrument	Value of the hedged instrument	Currency of the hedged instrument	Hedge type	Hedge start date	Hedge repurchase date	Instrument realization price or price range	Hedge currency	Risk hedged	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)	Fair value measurement of the hedging instrument (positive)	Fair value measurement of the hedging instrument (negative)
									Balance as of 30 June 2006	Balance as of 31 December 2005	Balance as of 30 June 2005			
liabilities for gas	10 000	USD	collar	26.04.2006	10.10.2006	3.3000-2.9995	USD	FX risk	179	-	-	-	-	-
liabilities for gas	10 000	USD	collar	27.04.2006	20.09.2006	3.2000-3.0280	USD	FX risk	408	-	-	-	-	-
liabilities for gas	10 000	USD	collar	27.04.2006	20.07.2006	3.2000-3.0360	USD	FX risk	269	-	-	-	-	-
liabilities for gas	10 000	USD	collar	27.04.2006	10.10.2006	3.2000-3.0163	USD	FX risk	438	-	-	-	-	-
liabilities for gas	10 000	USD	collar	28.04.2006	18.08.2006	3.2000-3.0000	USD	FX risk	407	-	-	-	-	-
liabilities for gas	10 000	USD	collar	04.05.2006	20.10.2006	3.1800-2.8890	USD	FX risk	714	-	-	-	-	-
liabilities for gas	10 000	USD	collar	08.05.2006	10.11.2006	3.1200-2.8820	USD	FX risk	1 036	-	-	-	-	-
liabilities for gas	10 000	USD	collar	09.05.2006	10.11.2006	3.1500-2.8930	USD	FX risk	872	-	-	-	-	-
liabilities for gas	10 000	USD	collar	09.05.2006	20.09.2006	3.2000-2.8775	USD	FX risk	584	-	-	-	-	-
liabilities for gas	10 000	USD	collar	12.05.2006	10.08.2006	3.1000-2.9320	USD	FX risk	968	-	-	-	-	-
liabilities for gas	10 000	USD	collar	27.06.2006	10.11.2006	3.4600-3.0600	USD	FX risk	-	238	-	-	-	-
liabilities for gas	10 000	USD	collar	27.06.2006	08.12.2006	3.4500-3.0760	USD	FX risk	-	322	-	-	-	-
liabilities for gas	10 000	USD	collar	27.06.2006	08.12.2006	3.4500-3.0600	USD	FX risk	-	263	-	-	-	-
liabilities for gas	5 000	EUR	collar	27.06.2006	20.11.2006	4.2500-3.9830	EUR	FX risk	-	93	-	-	-	-
liabilities for gas	10 000	USD	collar	30.06.2006	10.11.2006	3.3300-3.0645	USD	FX risk	-	-	-	-	-	-
liabilities for gas	10 000	USD	collar	30.06.2006	08.12.2006	3.3200-3.0610	USD	FX risk	-	-	-	-	-	-
liabilities for gas + bonus	5 000	EUR	call option	06.02.2006	20.07.2006	3.83	EUR	FX risk	1 546	-	-	-	-	-
liabilities for gas	10 000	USD	forward	24.01.2006	10.07.2006	3.11	USD	FX risk	655	-	-	-	-	-
liabilities for gas	10 000	USD	forward	02.05.2006	20.07.2006	3.06	USD	FX risk	1 217	-	-	-	-	-
liabilities for gas	10 000	USD	forward	02.05.2006	20.07.2006	3.06	USD	FX risk	1 145	-	-	-	-	-
liabilities for gas	10 000	USD	forward	05.05.2006	10.07.2006	3.01	USD	FX risk	1 735	-	-	-	-	-
liabilities for gas	10 000	USD	forward	05.05.2006	10.08.2006	3.00	USD	FX risk	1 717	-	-	-	-	-
liabilities for gas	10 000	USD	forward	05.05.2006	20.10.2006	3.00	USD	FX risk	1 647	-	-	-	-	-
liabilities for gas	10 000	USD	forward	05.05.2006	10.11.2006	3.00	USD	FX risk	1 656	-	-	-	-	-
liabilities for gas	10 000	USD	forward	05.05.2006	08.09.2006	3.00	USD	FX risk	1 707	-	-	-	-	-
liabilities for gas	10 000	USD	forward	05.05.2006	10.10.2006	3.00	USD	FX risk	1 693	-	-	-	-	-
liabilities for gas	10 000	USD	forward	08.05.2006	10.08.2006	2.99	USD	FX risk	1 881	-	-	-	-	-
liabilities for gas	10 000	USD	forward	08.05.2006	20.10.2006	2.98	USD	FX risk	1 827	-	-	-	-	-
liabilities for gas	10 000	USD	forward	04.05.2006	10.07.2006	3.03	USD	FX risk	1 456	-	-	-	-	-
Total									232 211	75 534	120 273	173 177	317 682	123 748

* Hedged instruments were repaid in 2005.

** Transactions that hedge the repayment of bonds, cross currency swaps, were classified as transactions that hedge the repayment of loans activated in order to execute the pre-term redemption of bonds.

2. INFORMATION ON OFF-BALANCE SHEET LIABILITIES, INCLUDING GUARANTEES AND SURETIES GRANTED BY THE COMPANY (ALSO BILL OF EXCHANGE LIABILITIES)

As of 30 June 2006 the value of off-balance sheet liabilities amounted to PLN 982,751.8 thousand, of which issued guarantees and sureties for a total of PLN 544,179.9 thousand constituted the most significant item. Bill of exchange liabilities additionally amounted to PLN 9,251.9 thousand. As of 30 June 2006 contingent liabilities arising from granted guarantees and sureties amounted to PLN 544,179.8 thousand, which accounts for 2.8% of total assets. In 2005, total liabilities amounted to PLN 870,423.2 thousand, which accounted for 4.5% of assets, whereas as of 30 June 2005 total liabilities amounted to PLN 389,684.8 thousand, which accounted for 2.7% of assets.

Real estate tax

Pursuant to the decision of the Supreme Administrative Court in Warsaw of 2 July 2001 made by 7 judges underground headings are not subject to real estate tax. Since in case of crude oil and gas mining a well is considered a mining heading, the municipal offices proper for the area of activity of Zielonogórski Zakład Górnictwa Nafty i Gazu (ZZGNiG) waived the enforcement of real estate tax; whereas some of them decided that the well development system was taxable.

The tax obligation in respect to pipelines has been applicable since 2001. ZZGNiG created provisions for claims of municipal offices due to real property tax in the amount of PLN 852.7 thousand, whereas municipalities in the Podkarpacie region have not forwarded any claims yet. Mines located in the Podkarpacie region did not declare or accrue real estate tax on excavations for the period of 2001-2006. The potential tax liability not disclosed in the financial statements together with interest amounts to PLN 58,529.8 thousand as of 30 June 2006.

Real estate claims

Additionally, claims are being submitted against PGNiG S.A. by the owners of real property:

- where gas pipelines are being planned;
- where existing gas pipelines and gas equipment is located.

Potential liabilities arising from claims related to real property cannot be estimated, due to the fact that such claims are often groundless (which has been confirmed by expert opinions).

CONTINGENT LIABILITIES ARISING FROM GRANTED SURETIES AND GUARANTEES

Borrower	Currency of the contingent liability	Amount of the contingent liability granted in foreign currency	Amount of the granted contingent liability* in PLN '000	Date of the contingent liability	Expiration date of the liability	Contingent liability valid until	Bank or other institution to which the contingency liability was granted	Type of contingent liability granted
System Gazociągów Tranzytowych "EuRoPol Gaz" S.A.	PLN	56 000	56 000	2009-09-30	1996-10-08	2012-09-30	Bank Gdański S.A.	loan surety
PGNIG S.A. Branch in Pakistan	USD	2 316	7 369	2008-12-31	2000-11-20	2008-12-31	Societe Generale Branch in Poland	bank guarantee
Supreme Court in Pakistan	USD	1 122	3 571	2008-01-30	2004-07-08	2008-01-30	Societe Generale Branch in Poland	bank guarantee
Gazexport Ltd.	USD	100 000	318 160	2007-02-08	2005-12-14	2007-02-08	Societe Generale Branch in Poland	bank guarantee
Gazexport Ltd.	USD	50 000	159 080	2007-02-08	2005-12-14	2007-02-08	Bank PEKAO S.A. Head Office	bank guarantee
Total			544 180					

* Contingent liabilities in currencies translated at NBP exchange rates as of 30 June 2006 (EUR/PLN 4.0434; USD/PLN 3.1816)

CONTINGENT BILL OF EXCHANGE LIABILITIES

Entity to which the bill of exchange was issued	Currency of the bill of exchange	Amount of the bill of exchange	Amount of the bill of exchange in PLN	Bill of exchange expiry date
Towarzystwo Finansowo-Leasingowe S.A.	PLN	6 852	6 852	21.12.2006
Towarzystwo Finansowo-Leasingowe S.A.	PLN	2 400	2 400	15.12.2007
Total			9 252	

* Translated at the NBP exchange rate as of 30 June 2006 (EUR/PLN 4.0434)

3. LIABILITIES TO CENTRAL OR LOCAL GOVERNMENT AUTHORITIES ARISING FROM OBTAINED TITLES TO BUILDINGS AND STRUCTURES

As of 30 June 2006 and 30 June 2005 the Company did not have any liabilities to the State Budget or local self-government authorities due to obtaining ownership titles to buildings and structures.

4. INFORMATION ON OPERATIONS DISCONTINUED OR PLANNED TO BE DISCONTINUED

In the 1st half of 2006 PGNiG S.A. did not discontinue any operations. PGNiG SA does not plan to discontinue any activity conducted thus far.

5. MANUFACTURING COST

	30 June 2006	30 June 2005
Manufacturing cost of fixed assets under construction for internal purposes	1 512	21 293
Manufacturing cost of fixed assets for internal purposes	-	12
Manufacturing cost of other products for internal purposes	2 099	1 783
Total manufacturing cost of products for internal purposes	3 611	23 088

6. INCURRED AND PLANNED INVESTMENT OUTLAYS

	Outlays incurred in the current period	Outlays planned for 12 months from the balance sheet date
Total outlays, including:	358 208	1 416 823
Non-financial non-current assets:	288 167	1 260 173
- <i>Prospecting expenditure</i>	155 772	393 350
- <i>Own outlays of PGNiG S.A.</i>	89 862	637 097
- <i>Outlays for the transmission system</i>	42 533	229 726
Other:	70 041	156 650
- <i>Prospecting expenditure</i>	70 041	156 650
Environmental protection	-	-

7. INFORMATION ABOUT RELATED PARTY TRANSACTIONS

FIGURES ON RELATED PARTIES (FOR THE YEAR ENDED 30 JUNE 2006)

	Registered office	Net sales	Net purchases	Dividend and profit sharing	Other interest receivable	Other interest payable
Related parties in total		3 948 227	169 785	592	10 695	-
Companies under full consolidation		3 929 533	115 528	-	1 498	-
Geofizyka Kraków Sp.z o.o	Krakow	4	29 316	-	-	-
Geofizyka Toruń Sp. z o.o.	Toruń	-	29 541	-	-	-
PNiG Jasło Sp. z o.o.	Jasło	37	12 484	-	-	-
PNiG Kraków Sp. z o.o.	Krakow	145	3 462	-	201	-
PNiG NAFTA Sp. z o.o.	Piła	1	2 688	-	-	-
ZRG Krosno Sp. z o.o.	Krosno	90	12 266	-	-	-
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Wrocław	433 597	609	-	665	-
Górnośląska Spółka Gazownictwa Sp. z o.o.	Zabrze	637 976	507	-	-	-
Karpacka Spółka Gazownictwa Sp. z o.o.	Tarnów	910 724	780	-	-	-
Mazowiecka Spółka Gazownictwa Sp. z o.o.	Warsaw	851 633	468	-	-	-
Pomorska Spółka Gazownictwa Sp. z o.o.	Gdańsk	415 611	198	-	-	-
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poznań	679 453	341	-	-	-
	Zabrze	-	-	-	144	-
BN NAFTOMONTAŻ Krosno Sp. z o.o.	Krosno	9	2 229	-	489	-
	Krosno	-	1 860	-	-	-
PN DIAMENT Sp. z o.o.	Zielona Góra	216	18 028	-	-	-
Gazoprojekt S.A.	Wrocław	-	239	-	-	-
PGNiG Finance B.V. (Netherlands)	Amsterdam	-	-	-	-	-
Geovita Sp. z o.o. Warsaw	Warsaw	38	510	-	-	-
Companies under full consolidation (companies of Naftomontaż Krosno Sp. z o.o.)		-	-	-	-	-
Naft-Stal Sp. z o.o.	Krosno	-	-	-	-	-
Companies consolidated by the equity method		18 208	49 164	592	9 183	-
	Warsaw	18 208	44 238	-	9 183	-
Gas-Trading S.A.	Warsaw	-	-	-	-	-
INVESTGAS S.A.	Warsaw	-	4 925	592	-	-
Other related parties unconsolidated		486	5 093	-	14	-
Górnictwo Naftowe Sp. z o.o.	Warsaw	-	-	-	-	-
ZRUG Sp. z o.o. (in Pogórska Wola)	Pogórska Wola	-	-	-	14	-
BUD-GAZ Sp. z o.o.	Warsaw	376	3 804	-	-	-
PTG GAZOTECH Sp. z o.o. Warsaw	Warsaw	-	-	-	-	-
Turgaz Sp. z o.o.	Zielona Góra	93	-	-	-	-
NYSAGAZ Sp.z o.o.	Zgorzelec	-	-	-	-	-
ZRUG Sp. z o.o. w Warszawie S.A.	Warsaw	-	-	-	-	-
InterGasTrade GmbH Potsdam	Potsdam	-	-	-	-	-
InterTransGas GmbH Potsdam	Potsdam	-	-	-	-	-
ZRUG Sp. z o.o. in Poznań	Poznań	-	-	-	-	-
ZRUG w Toruniu S.A.	Toruń	-	-	-	-	-
ZRUG Sp. z o.o. in Zabrze	Zabrze	11	-	-	-	-
Sahara Petroleum Technology Llc (Sp.z o.o.) (Oman)	Muscat	-	-	-	-	-
Polskie Elektrownie Gazowe Sp. z o.o.	Warsaw	-	143	-	-	-
PFK Gaskon S.A.	Warsaw	-	-	-	-	-
BG GAZOMONTAŻ S.A.	Wołomin	5	-	-	-	-
ZWUG Intergaz Sp. z o.o.	Tarnowskie Góry	1	-	-	-	-
DEWON S.A. (Ukraine)	Kiev	-	-	-	-	-
Huta Szkła SZCZAKOWA S.A. in bankruptcy	Jaworzno	-	-	-	-	-
MED. - FROZ S.A.	Zielona Góra	-	-	-	-	-
WOC TE-MA Sp. z o.o. in liquidation	Terespól	-	-	-	-	-
GRESPOL - 7 Sp. z o.o.	Warsaw	-	1 146	-	-	-
Subsidiaries and associated entities of subsidiaries		-	-	-	-	-
PolGazTelekom S.A. Warsaw	Warsaw	-	-	-	-	-
Gas-Trading Podkarpacie Sp. z o.o. Dębica	Dębica	-	-	-	-	-
Gaz Sp. z o.o. Błonie	Błonie	-	-	-	-	-
Gaz Media Sp. z o.o. Wołomin	Wołomin	-	-	-	-	-
Zakład Gospodarki Mieszkaniowej Sp. z o.o. Piła	Piła	-	-	-	-	-
PBU Petromin Sp. z o.o. Wołomin	Wołomin	-	-	-	-	-
GEOTERMIA Sp. z o.o. Szczecin	Szczecin	-	-	-	-	-
Geofizyka Toruń Kish Ltd Iran	Iran	-	-	-	-	-
ALFA-CENTER Sp. z o.o. Warsaw	Warsaw	-	-	-	-	-
Gazobudowa Kraków Sp. z o.o. Krakow	Krakow	-	-	-	-	-
Gazobudowa Poznań Sp. z o.o. Poznań	Poznań	-	-	-	-	-
NAFTEK Sp. z o.o. Krosno	Krosno	-	-	-	-	-
Oil Tech International F.Z.E. Ajman	Ząbki	-	-	-	-	-
Mazowiecki Dom Inwestycyjny Sp. z o.o. Ząbki	Warsaw	-	-	-	-	-

FIGURES ON RELATED PARTIES (FOR THE YEAR ENDED 30 JUNE 2006) (CONT.)

	Registered office	Gross receivables	Net receivables	Liabilities	Gross loans granted	Net loans granted	Loans received
<i>11.17.4. Related parties in total</i>		351 901	221 418	239 346	285 408	10 106	2 073
Companies under full consolidation		221 876	216 757	101 084	42 637	10 106	2 073
Geofizyka Kraków Sp.z o.o.	Krakow	6	6	14 061	-	-	-
Geofizyka Toruń Sp. z o.o.	Toruń	-	-	2 758	-	-	-
PNiG Jasło Sp. z o.o.	Jasło	1	1	12 394	-	-	-
PNiG Kraków Sp. z o.o.	Krakow	82	82	10 473	15 480	-	-
PNiG NAFTA Sp. z o.o.	Piła	-	-	20 798	-	-	-
ZRG Krosno Sp. z o.o.	Krosno	2	2	6 587	-	-	-
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Wrocław	21 014	21 014	8	10 106	10 106	-
Górnośląska Spółka Gazownictwa Sp. z o.o.	Zabrze	44 713	44 713	142	-	-	-
Karpacka Spółka Gazownictwa Sp. z o.o.	Tarnów	52 758	52 758	79	-	-	-
Mazowiecka Spółka Gazownictwa Sp. z o.o.	Warsaw	39 825	39 825	274	-	-	-
Pomorska Spółka Gazownictwa Sp. z o.o.	Gdańsk	21 377	21 377	55	-	-	-
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poznań	36 901	36 901	181	-	-	-
	Zabrze	5 118	-	8 487	-	-	-
BN NAFTOMONTAŻ Krosno Sp. z o.o.	Krosno	-	-	11 875	17 050	-	-
ZUN NAFTOMET Sp. z o.o.	Krosno	-	-	1 584	-	-	-
PN DIAMENT Sp. z o.o.	Zielona Góra	-	-	8 126	-	-	-
Gazoprojekt S.A.	Wrocław	-	-	1 014	-	-	-
PGNiG Finance B.V. (Netherlands)	Amsterdam	-	-	2 073	-	-	2 073
Geovita Sp. z o.o. Warsaw	Warsaw	78	78	113	-	-	-
Companies under full consolidation (companies of Naftomontaż Krosno Sp. z o.o.)		-	-	-	-	-	-
Naft-Stal Sp. z o.o.	Krosno	-	-	-	-	-	-
Companies consolidated by the equity method		3 807	3 807	50 985	228 747	-	-
	Warsaw	3 807	3 807	49 546	228 747	-	-
Gas-Trading S.A.	Warsaw	-	-	-	-	-	-
INVESTGAS S.A.	Warsaw	-	-	1 439	-	-	-
Other unconsolidated related parties		126 218	853	87 277	14 024	-	-
Górnictwo Naftowe Sp. z o.o.	Warsaw	1 003	-	-	-	-	-
ZRUG Sp. z o.o. (in Pogórska Wola)	Pogórska Wola	570	-	1 107	-	-	-
BUD-GAZ Sp. z o.o.	Warsaw	344	344	531	-	-	-
PTG GAZOTECH Sp. z o.o. Warsaw	Warsaw	84 552	-	84 552	-	-	-
Turgaz Sp. z o.o.	Zielona Góra	5	5	-	-	-	-
NYSAGAZ Sp.z o.o.	Zgorzelec	-	-	-	-	-	-
ZRUG Sp. z o.o. w Warszawie S.A.	Warsaw	69	-	-	-	-	-
InterGasTrade GmbH Potsdam	Potsdam	12	12	403	-	-	-
InterTransGas GmbH Potsdam	Potsdam	-	-	-	-	-	-
ZRUG Sp. z o.o. in Poznań	Poznań	-	-	-	-	-	-
ZRUG w Toruniu S.A.	Toruń	-	-	-	-	-	-
ZRUG Sp. z o.o. in Zabrze	Zabrze	2	2	-	-	-	-
Sahara Petroleum Technology Llc (Sp.z o.o.) (Oman)	Muscat	-	-	-	-	-	-
Polskie Elekrownie Gazowe Sp. z o.o.	Warsaw	-	-	-	-	-	-
PFK Gaskon S.A.	Warsaw	485	485	8	-	-	-
BG GAZOMONTAŻ S.A.	Wołomin	6	6	418	-	-	-
ZWUG Intergaz Sp. z o.o.	Tarnowskie Góry	-	-	-	-	-	-
"DEWON" S.A. (Ukraine)	Kiev	126	-	-	14 024	-	-
Huta Szkła SZCZAKOWA S.A. in bankruptcy	Jaworzno	39 045	-	-	-	-	-
MED. - FROZ S.A.	Zielona Góra	-	-	-	-	-	-
WOC TE-MA Sp. z o.o. in liquidation	Terespól	-	-	-	-	-	-
TENET - 7 Sp. z o.o. (formerly GRESPOL 7 Sp. z o.o.)	Warsaw	-	-	259	-	-	-
Subsidiaries and associated entities of subsidiaries		-	-	-	-	-	-
PolGazTelekom S.A. Warsaw	Warsaw	-	-	-	-	-	-
Gas-Trading Podkarpacie Sp. z o.o. Dębica	Dębica	-	-	-	-	-	-
Gaz Sp. z o.o. Błonie	Błonie	-	-	-	-	-	-
Gaz Media Sp. z o.o. Wołomin	Wołomin	-	-	-	-	-	-
Zakład Gospodarki Mieszkaniowej Sp. z o.o. Piła	Piła	-	-	-	-	-	-
PBU Petromin Sp. z o.o. Wołomin	Wołomin	-	-	-	-	-	-
GEOTERMIA Sp. z o.o. Szczecin	Szczecin	-	-	-	-	-	-
Geofizyka Toruń Kish Ltd Iran	Iran	-	-	-	-	-	-
ALFA-CENTER Sp. z o.o. Warsaw	Warsaw	-	-	-	-	-	-
Gazobudowa Kraków Sp. z o.o. Krakow	Krakow	-	-	-	-	-	-
Gazobudowa Poznań Sp. z o.o. Poznań	Poznań	-	-	-	-	-	-
NAFTEK Sp. z o.o. Krosno	Krosno	-	-	-	-	-	-
Oil Tech International F.Z.E. Ajman	Ząbki	-	-	-	-	-	-
Mazowiecki Dom Inwestycyjny Sp. z o.o. Ząbki	Warsaw	-	-	-	-	-	-

PGNiG S.A. did not execute any transactions with other related parties during the period of 1 January 2006 to 30 June 2006.

8. JOINT VENTURES

In the first half of 2006, PGNiG S.A. cooperated with the following foreign entities in Poland: CalEnergy Gas (Polska) Sp. z o.o. and CalEnergy Resources Poland Sp. z o.o., EuroGas Polska Sp. z o.o., FX Energy Poland Sp. z o.o.

CalEnergy

The Company's registered office is located in Warsaw.

02-765 Warsaw, Al. Wilanowska 206 m.19

Based on the Operating Agreement of Mining Users of 3 August 2000 concluded between PGNiG S.A., Petrobaltic and CalEnergy Gas (Polska), which covered the so-called "Piła" Area, three exploration wells were drilled: Borki-1, Borki-1z and Golce-1, with a negative result. PGNiG S.A. has a 10% share. One more exploration well must be drilled in 2006 in order for the concession terms to be fulfilled.

Within the "Płotki" area, due to the assignment of half of FX Energy's shares to CalEnergy, joint exploratory work was undertaken in 2003 by PGNiG S.A. (51% share), FX Energy (24.5%) and CalEnergy Resources Poland (24.5 %). As a result well Zaniemyśl-3 was drilled in 2003/2004, in which a gas deposit with estimated geological resources of 1.4 billion cubic meters was found. Currently, construction work aimed at developing the deposit and initiating production in 2006 are underway. CalEnergy Resources Poland Sp. z o.o. notified about its intent to hand-over 24.5% of shares in the "Płotki" area to FX Energy Poland Sp. z o.o., except for the so called Expanded Zaniemyśl Area (EZA), which covers the gas deposit in Zaniemyśl and its immediate vicinity. An Operating Agreement of Mining Users covering the "Płotki-EZA" Area (the so-called Expanded Zaniemyśl Area) was concluded on 26 October 2005 by PGNiG S.A., CalEnergy Resources Poland Sp. z o.o. and FX Energy Poland Sp. z o.o., as part of which the parties to the agreement assumed the following percentage of shares: PGNiG S.A. – 51%, FX Energy – 24.5% and CalEnergy – 24.5%. A purchase-sale agreement related to the Zaniemyśl deposit is being negotiated.

The gas purchase-sale agreement related to the Zaniemyśl deposit will be signed.

Work aimed at exploiting the Zaniemyśl deposit are about to be completed.

EuroGas Polska

Registered office: 01-687 Warsaw, ul. Lektykarska 18;

as well as: 43-200 Pszczyna, ul. Górnośląska 3

Limited liability company.

Its holding company is a joint-stock company in Utah, USA.

Apart from exploration (and production) of oil and natural gas, the scope of the company's activities covers also the production of methane from coal seams.

On 21 November 2000 PGNiG S.A. and EuroGas entered into an Agreement on Joint Operations in the Polish Eastern Carpathian Mountains. PGNiG S.A. was designated as the operator. PGNiG S.A. has a 30% share. Preparations for seismic work have been initiated. Although the plan for seismic work has been approved; the work has not been executed due to the financial problems of . At EuroGas's request, the activity of the office for joint operations was suspended until the company's financial situation is cleared up. EuroGas extended its concessions for exploration work in the Carpathian Mountains until the end of 2004, but no work has been initiated thus far. A meeting of the Operating Committee was held in November 2005 at the request of EuroGas. The Committee approved the 2006 plan for operations related to the "Bieszczady Mountains" concession. Pursuant to the decision of 13 December 2005 the Minister of the Environment extended the concession for exploration and assessment work granted to EuroGas on 6 July 2000, for 8 years, which will enable the parties to undertake exploration work, under the condition that EuroGas shows sufficient financial capacity to continue cooperation.

During the first half of 2006, PGNiG S.A. started negotiations on the renewal of cooperation with Eurogas Polska Sp. z o.o.

FX Energy Poland

Registered office: 00-613 Warsaw, ul. Chałubińskiego 8.

In Poland the entity operates as FX Energy Poland Sp. z o.o.

Its holding company is FX Energy Inc., a joint-stock company in Utah, USA.

"Płotki" area

PGNiG S.A. entered into an agreement with FX Energy regarding the exploration of hydrocarbons in the Fore-Sudetic Monocline (11 April 2000 and 12 May 2000), and then, upon the discovery of the Klęka deposit, into an agreement on the sale of natural gas from the Klęka region on 19 December 2000. The share of PGNiG S.A. in these agreements is equal to 51%.

FX Energy undertook to commit USD 16 million to exploratory work as an equivalent of costs already incurred by PGNiG S.A. in this region. By the end of 2003, FX Energy had financed work for USD 10.7 million (wells: Klęka 11 and Mieszków 1; seismic photographs of Donatowo, Kaleje, Zaniemyśl). However, due to financial problems, in 2002 the company was unable to settle liabilities for work performed by PGNiG S.A. as part of the joint undertaking on an ongoing basis. As a result of the Composition related to the Płotki area of 8 January 2003 concluded by PGNiG S.A. and FX Energy, the latter company repaid the outstanding liability together with interest by the end of 2003 and undertook to drill two wells. In one of the wells – Zaniemyśl-3 (joint undertaking of PGNiG S.A. – 51% shares, FX Energy – 24.5% shares and CalEnergy – 24.5% shares), a natural gas deposit was

discovered at the beginning of 2004 with estimated geological resources of 1.4 billion m³. Currently, construction work aimed at developing the deposit and initiating production in 2006 is underway. The second well – Rusocin-1 – executed at the end of 2004/beginning of 2005 uncovered gas deposits which proved to be of no economic value. In the first half of 2004, as a result of the joint undertaking of PGNiG S.A. and FX Energy, field seismic work was carried out together with processing and interpretation in the Rusocin-Dolsk region for an amount of nearly PLN 1.6 million. In the first half of 2005, 2D seismic photos of the Mechlin area (50.3 km) were taken. The value of this work amounted to over PLN 1.3 million. Reprocessing and reinterpretation of the seismic data under the previous agreements with “Geofizyka” Toruń was also continued. The Ługi-1 exploration well drilled in the second half of 2005 did not show hydrocarbon deposits that would be of industrial value.

The gas purchase-sale agreement related to the Zaniemyśl deposit will be signed. Work aimed at exploiting the Zaniemyśl deposit are about to be completed.

The design of Roszków-1 exploration well (approx. 2970-meters deep) has been prepared. At this point tender proceedings are in progress to find the contractor.

“Poznań” area

Following the conclusion of the Agreement on Cooperation in the Poznań Area on 8 January 2003 (concession area in which PGNiG S.A. cooperated with Conoco and Ruhrgas until 2002), FX undertook to finance exploration work up to the amount of USD 4 million in exchange for 49% of shares in the joint undertaking. On 1 June 2004, an Agreement on Joint Operations within the “Poznań” area was signed, pursuant to which PGNiG S.A. acquired 51% shares, and FX Energy – 49%. Reprocessing and reinterpretation of approx. 2600 running kilometers of seismic profiles was conducted and the Środa Wielkopolska-4 exploration well was drilled as part of the agreement. This well uncovered a natural gas deposits (approx. 750 million m³ of minable resources) in a red clay formation. A subsequent well - Środa Wielkopolska-5, drilled in the neighboring geological structure uncovered a small gas deposit with no commercial value. Further seismic work, reprocessing and interpretation of seismic data was conducted in order to prepare new sites for drilling in 2006 and subsequent years.

The following field work has been completed: 2D seismic photos - Poznań-Śrem-Jarocin; 2D seismic photos - Grundy - II phase; 2D seismic photos - Łuszczanów - II phase.

The final phase of the project connected with the preparation of a 3D seismic photo of the Kórnik-Środa area is underway.

The design of Winna Góra-1 exploration well (approx. 3700-meter deep) has been prepared and approved. Tender proceedings aimed at selecting the contractor have been completed and preparations for drilling work are currently underway.

The area of block 255 (Wilga).

Cooperation based on the Agreement on Joint Operations of 29 September 1999: share held by FX Energy Poland Sp. z o.o. – 81.82%, PGNiG S.A. – 18.18%. During cooperation between Apache, FX Energy and PGNiG S.A., three wells were drilled: Wilga 2, Wilga 3 and Wilga 4, of which one (Wilga-2) discovered a gas condensate deposit with minable resource of 194 million m³. FX Energy is the operator of the block and the owner of the exploration concession. A gas purchase-sale agreement was concluded in 2005 with Mazowiecka Spółka Gazownictwa and work related to developing the deposit and initiating production was conducted in 2006.

Work aimed at exploiting the Wilga natural gas deposit and the construction of a pipeline are in progress.

9. INFORMATION ON AVERAGE EMPLOYMENT

AVERAGE EMPLOYMENT (NUMBER OF EMPLOYEES BY TYPE)

	30 June 2006	30 June 2005
Blue-collar employees	2 512	3 792
White-collar employees	1 640	2 476
Managerial staff	564	788
Total	4 716	7 056

10. INFORMATION ON REMUNERATION PAID TO THE MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES.

REMUNERATIONS AND BONUSES PAID TO MEMBERS OF MANAGEMENT BODIES

Full name	Total remuneration, benefits and bonuses paid in the first half of 2006
Managerial staff as of 30 June 2006:	489.4
Mieczysław Puławski – acting Chairman of the Board	-
Jan Anysz – Member of the Board	101.8
Zenon Kuchciak – Member of the Board	96.4
Stanisław Niedbalec – Member of the Board	69.3
Bartłomiej Pawlak – Member of the Board	42.9
Bogusław Marzec – proxy	78.2
Maria Teresa Mikosz - proxy	100.8
Managerial staff, dismissed in the 1st half of 2006:	33.0
Franciszek Krok – Member of the Management Board	33.0
Total	522.4

* Acts as Chairman of the Management Board since 24 June 2006.

REMUNERATIONS AND BONUSES PAID TO MEMBERS OF SUPERVISORY BODIES

Full name	Total remuneration, benefits and bonuses paid in the first half of 2006
Supervisory staff as of 30 June 2006:	132.5
Krzysztof Głogowski - Chairman of the Supervisory Board	16.0
Kazimierz Chrobak – Secretary of the Supervisory Board	16.0
Wojciech Arkuszewski – Member of the Supervisory Board	16.0
Mieczysław Kawecki – Member of the Supervisory Board	16.0
Marcin Moryń - Member of the Supervisory Board	1.3
Mieczysław Puławski - Member of the Supervisory Board*	19.2
Andrzej Rościszowski - Member of the Supervisory Board	16.0
Mirosław Szkałuba - Member of the Supervisory Board	16.0
Piotr Szwarz - Member of the Supervisory Board	16.0
Supervisory staff, dismissed in the 1st half of 2006:	14.9
Magdalena Bąkowska – Member of the Supervisory Board	14.9
Total	147.4

* Since 24 June 2006 temporarily seconded to act as the Chairman of the Management Board.

11. INFORMATION ON LOANS AND SIMILAR BENEFITS GRANTED TO MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES

Pursuant to the resolution of 3 March 2006 the Supervisory Board decided to grant additional benefits to Mr. Bogusław Marzec and Mr. Stanisław Niedbalec, both of whom are Vice Chairmen of the Management Board. These benefits consisted in the refund of a portion of costs connected with the use of rented apartments. The Company stopped subsidizing the apartment rented by Mr. Bogusław Marzec on 31 July 2006.

In the financial year, the Company did not conduct any material transactions with members of the Management Board and Supervisory Bodies, their spouses, direct line family members and relations up to the second degree or related by care, adoption or guardianship with a member of management or supervisory bodies in the Company or companies, of which

they are significant shareholders or partners. The Company did not grant any loans to these individuals.

12. INFORMATION ON SIGNIFICANT EVENTS PERTAINING TO PREVIOUS YEARS AND DISCLOSED IN THE FINANCIAL STATEMENTS FOR THE 2006 FINANCIAL YEAR AND FOR THE FIRST HALF OF 2006

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

13. INFORMATION ON SIGNIFICANT POST-BALANCE SHEET EVENTS NOT INCLUDED IN THE FINANCIAL STATEMENTS

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

14. INFORMATION ON THE RELATIONSHIP BETWEEN THE PREDECESSOR IN TITLE AND THE ISSUER AS WELL AS THE METHOD AND RANGE OF ACQUISITION OF ASSETS AND LIABILITIES

Polskie Górnictwo Naftowe i Gazownictwo with registered office in Warsaw was transformed in 1996 into a joint stock company wholly owned by the State Treasury. The commercialization of the state company resulted only in an amended of its legal form – the assets and liabilities of the predecessor were taken over by Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna.

The commercialization act was drawn up in the form of a notarized deed (Repertory A No. 18871/96) and recorded in the District Court for Warsaw, XVI Business and Registry Division under number RHB 48382.

15. FINANCIAL STATEMENTS ADJUSTED BY THE INFLATION RATIO

Because accumulated inflation for the last 3 years of the Company's operation did not exceed 100%, financial statements adjusted by the inflation ratio are not presented.

16. STATEMENT AND EXPLANATION OF DIFFERENCES BETWEEN DATA DISCLOSED IN THE FINANCIAL STATEMENTS AND COMPARABLE FINANCIAL DATA AS WELL AS THE PREVIOUSLY PREPARED AND PUBLISHED FINANCIAL STATEMENTS

Following the review of the financial statements for first half of 2006 and the disclosure of significant information with a material influence on the financial result after the preparation of the financial statements for the second quarter of 2006 the Company recognized the following adjustments in these financial statements, as suggested by the Company's auditor.

Result from the financial statements for the second quarter of 2006	660 421.7
change in revaluation write-downs	(3 336.5)
change in provisions for liabilities	9 359.7
write-off to the mine liquidation fund	(4 043.5)
adjustment of previous year liabilities	33 201.9
deferred tax on applied adjustments	(7 056.0)
adjustment of deferred tax – regarding the provision for the liquidation of fixed assets	(22 301.2)
Other	1 455.3
Result from the financial statements for the first half of 2006	667 701.4

17. CHANGES IN ACCOUNTING PRINCIPLES (POLICY) IN THE FIRST HALF OF 2006

No changes took place in accounting principles (policy) during the reporting period.

18. CHANGES IN ACCOUNTING PRINCIPLES (POLICY) AND THE METHOD OF PREPARING THE FINANCIAL STATEMENTS, INTRODUCED AS COMPARED TO THE PREVIOUS FINANCIAL YEAR AND THEIR IMPACT ON THE FINANCIAL AND ECONOMIC POSITION

No changes in accounting policies were introduced during the last reporting period.

19. INFORMATION ON UNCERTAINTY OF CONTINUING ACTIVITY, DESCRIPTION OF THESE UNCERTAINTIES AND INFORMATION WHETHER THE FINANCIAL STATEMENTS INCLUDE RELEVANT ADJUSTMENTS

The Company's financial statements for the first half of 2006 and 2005 were prepared under the going concern assumption. There are no circumstances indicating that business continuity may be threatened in the foreseeable future.

20. INFORMATION ABOUT BUSINESS COMBINATIONS

No business combinations took place during the current reporting period. The Company's financial statements do not include the data of companies subject to business combinations.

21. PRESENTATION OF THE EFFECTS OF MEASURING SHARES IN CONTROLLED ENTITIES USING THE EQUITY METHOD IN THE COMPANY'S INDIVIDUAL FINANCIAL STATEMENTS

Pursuant to the Accounting Act of 29 September 1994 the Company measures investments in controlled entities at the acquisition price less impairment write-downs.

For the purpose of these financial statements the Company measured shares in controlled entities, whose value calculated using the equity method differs from their value calculated based on the acquisition price less impairment write-downs.

The below table presents the effects of measuring shares in controlled entities on the Company's financial result:

	30 June 2006	30 June 2005
Net profit	667 701.4	470 349.2
Effects of measuring shares in controlled entities using the equity method	186 456.5	223 621.7
Net profit after taking into account the measurement of shares using the equity method	854 157.9	693 970.9

Applying the equity method to the measurement of shares in controlled entities would increase the value of shares in controlled entities by PLN 833,526.0 thousand in the first half of 2006 and PLN 637,269.3 thousand in the first half of 2005, respectively.

22. INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Company draws up the consolidated financial statements of PGNiG Capital Group in line with International Financial Reporting Standards.

23. OTHER RELEVANT INFORMATION - THE PROCESS OF RESTRUCTURING THE COMPANY

I. In the first half of 2006, PGNiG S.A. executed the restructuring process arising from the "PGNiG S.A. restructuring and privatization program" adopted by the Council of Ministers on 5 October 2004.

a. The Energy Law amended on 4 March 2005 and the "PGNiG S.A. restructuring and privatization program" adopted earlier by the Council of Ministers on 5 October 2004 – as the implementation of assumption defined in Directive No. 2003/55/EC of the European Parliament and of the Council – impose a legal obligation to separate the trade and distribution of gas and spin-off a Distribution System Operators (DSO) by 1 July 2007. This obligation also concerns the operation of six regional Gas Companies (Dolnośląska, Górnośląska, Karpacka, Mazowiecka, Pomorska and Wielkopolska) that operate within PGNiG Capital Group since 1 January 2003, due to the fact that most of them execute activities connected with the trade and distribution of gas, including customer service operations.

In the first half of 2006, PGNiG S.A. undertook steps aimed at fulfilling the above obligations. Many detailed analyses of over a dozen potential options of the process's execution were conducted. SWOT analyses regarding the realization of the objectives of stakeholders (clients, investors, State authorities – Ministry of Economy, Ministry of State Treasury, Energy Regulatory Authority, PGNiG SA, Gas Companies, Employees) were conducted. Ultimately, based on Resolution No. 256/2006 of 11 April 2006, the Management Board of PGNiG S.A. approved a model regarding the separation of gas trade and distribution activities, which foresees the concentration of retail and wholesale trade within the structures of PGNiG S.A. and the transformation of six Gas Companies into Gas System Operators.

The “Project of the separation of gas trade and distribution activity in PGNiG Capital Group”, which was consulted with various parties, including the Ministry of State Treasury, Ministry of Economy, Energy Regulatory Authority and trade unions operating in the Company, was approved by the Management Board on 12 May 2006, whereas the Supervisory Board issued a positive opinion on this project on 22 June.

The issue of how to equip the legally separated distribution system operators with networks assets was an important factor that was taken into account by the Company when selecting the most favorable option. The PGNiG SA restructuring and privatization program states that commercial law companies that will provide only gas distribution services will be equipped with all assets necessary for them to operate as distribution system operators.

The selected process implementation option is based on the following assumptions:

1. Retail sale of gas and nationwide customer service activity will be “moved” from Gas Companies to PGNiG S.A.
2. PGNiG S.A. will provide services to all clients – including clients to whom services were provided by Gas Companies.
3. Based on the existing network assets Gas Companies will provide gas distribution services and will act as Distribution System Operators in their region.
4. The approximate employment level in trading (including field units) will be 3.7 thousand people (i.e. people currently responsible for retail trade in Gas Companies and wholesale functions in the PGNiG SA head office). The ultimate employment level will be determined based on further analyses, which will take the transfer of necessary assets into account.
5. The new integrated trade organizational structure should be implemented parallelly with the change of the customer service model. In the new segment-based customer service model each customer segment will be served by a dedicated unit.

As regards the transformation of Gas Companies into DSOs, the scope of technical services rendered so far will be realized by the same company based on the currently owned network assets. Therefore, the scope of necessary changes in assets / transformations in Gas Companies will be slight (network equipment constitutes approx. 95-96% of assets of Gas Companies – the remaining few percent is used in trading activity – sale and customer service).

b. During the period of June 2005 – June 2006 a total of 20 agreements regulating commercial relations between PGNiG S.A. and OGP Gaz-System Sp. z o.o. were signed, including key agreements such as:

1. Operating lease agreement;
2. Agreement No. 1 on providing transmission services (high methane natural gas);

3. Agreement No. 2 on providing transmission services (nitrated natural gas);
4. Gas fuel sales agreement (for OGP's purposes);
5. Agreement on technical preparation and implementation of investments supporting the transmission system;
6. Agreement on providing gas fuel storage services;
7. Agreement on operational management of gas storage capacity;
8. Agreement on gas fuel compression (Odolanów Branch) for the transmission system;
9. Bilateral agreements on gas pipeline, station and junction operation services;
10. Agreement on management of gas flow in the Ls and Lw PGNiG S.A. system.

In majority of cases realization of these agreements raises no objections.

One agreement - "Agreement on acceptance and realization of employee benefits due to retirement severance pay and jubilee bonuses", is connected with a conflict of interest between PGNiG S.A. and OGP Gaz-System Sp. z o.o.

Due to the Energy Regulatory Authority's acceptance of OGP's tariff, the "Agreement on the settlement of tariff costs" expired on 31 March 2006.

In January 2006 two new agreements were signed:

- Agreement on operation services regarding gas pipelines administered by OGP with registered office in Warsaw, Poznań Branch (rendered by PGNiG S.A. in Odolanów for the benefit of OGP);
- Agreement on operation services regarding gas pipelines administered by OGP with registered office in Warsaw, Poznań Branch (rendered by PGNiG S.A. in Odolanów for the benefit of OGP);

In August 2006 two further agreements were signed:

- Agreement on high-methane gas transmission services with a specification of conditions regarding the supply of gas fuel to the transmission system and its collection from the transmission system.
- Agreement on nitrated gas transmission services with a specification of conditions regarding the supply of gas fuel to the transmission system and its collection from the transmission system.

II. As a part of the internal restructuring process of PGNiG S.A.

a. The formal liquidation of six Regional Transmission Branches was conducted during the first half of 2006, which ensured the following:

- assignment of several thousand agreements with PGNiG S.A. (RTBs) to OGP Gaz-System Sp. z o.o.;
- realization of reporting obligations and financial-accounting settlements;

- settlement of investments (outlays), modernization and repairs conducted thus far by RTBs;
- archiving and transfer of documents from PGNiG S.A. to OGP Gaz-System Sp. z o.o.;
- management of the assets of PGNiG S.A. and entrusting these assets to administrators that are supervised by OGP Gaz-System Sp. z o.o.;
- continuation of pending court and administrative proceedings;
- settlement and liquidation of the bank accounts of RTBs.

b. Realization of the Employment restructuring program

The second stage of the Employment restructuring program was initially planned for 2003 - 2006. However following consultations with the Head Offices of Trade Unions the Employment restructuring program (the second stage) was adapted to new domestic regulations and EU directives as well as to changes in the outside legal environment.

The main changes in the Program included: extension of its duration until the end of 2007, adjustments to the scope of functions that should remain a part of the PGNiG Capital Group as well as new, higher one-off severance payments. The amended Program will additionally enable the Company to finance severance payments from the Central Restructuring Fund created to support the restructuring of employment in those entities of the Capital Group whose difficult financial position will require such support. The amended Program assumes that a maximum of 4,142 individuals will be covered by the restructuring process during the period of 2004 – 2007, which in total with the number of individuals covered by the restructuring process in 2003 (1,406 individuals) gives a forecasted total of 5,548 people.

During the period from 1 January 2004 to 30 June 2006, 3,739 employees were covered by the Program in various forms, including:

- in the branches of PGNiG S.A. - 1,157 people;
- in gas companies - 1,652 people;
- in other subsidiaries - 823 people;
- in RTB's (up to 30 June 2005) - 107 people.

Savings in employee payroll and benefits during this period reached PLN 213 million, whereas the restructuring effect (after adjustments for restructuring costs and financial consequences resulting from necessary recruitment) was equal to PLN 91 million. Total employment in entities covered by the Program decreased by 5,613 people during the period of 1 January 2003 to 30 June 2006 (including the transfer of 2,181 employees in connection with the separation of OGP GAZ – SYSTEM Sp. z o.o. from PGNiG S.A. Capital Group).

In the first half of 2006 the restructuring process covered 479 people. Relevant restructuring costs incurred so far amounted to PLN 6,763 thousand.

c. The reappropriation of non-production assets, which are redundant in the Company's business activity, mainly through lease or sales (this applies mainly to real estate), will be continued as part of the internal assets restructuring process. The assets in question were left over after the liquidation of mining plants in 2003 and regional transmission branches in 2006. They also became redundant in the activity of mining plants. In this financial period the Company came across problems connected with the reappropriation of assets covered with the Leasing Agreement concluded in 2005 between PGNiG S.A. and OGP Sp. z o.o., which based on contractual provisions were excluded by OGP in the amount of approx. PLN 220 million. A portion of these assets is provided to and use by mining branches, whereas distribution companies are interested in using a substantial portion of network assets. Due to the significant legal obstacles encountered in light of the existing legal regulations and connected with the permissible manner in which PGNiG may sell the assets, the Company has ruled out the option of selling the assets without a tender and is currently developing a concept of how to make these assets available to the above companies.

Total net value of non-current assets sold in the first half of 2006, excluded from activity as a result of internal restructuring is equal to approx. PLN 11 million.

24. OTHER RELEVANT INFORMATION - FOREIGN OPERATIONS

The share of PGNiG S.A. in foreign companies

Ukraine

“**Dewon**” **S.A.** was established on 17 November 1999. Its share capital amounts to UHR 11,146.8 thousand. PGNiG S.A. holds a 36.38% stake in the share capital of “Dewon” S.A. (the capital commitment of PGNiG S.A. in “Dewon” S.A. equals UAH 4,055.2 thousand). The other main shareholders of “Dewon” S.A. include: “Prawniczj alians” Sp. z o. o.; Ferrous Trading Limited Liability; NAK “Nafogaz Ukrainy”.

Dewon S.A. was established with the purpose of developing natural gas resources outside Poland as well as creating a market for the services of Polish drilling, geophysical and construction & assembly companies.

Currently the company is implementing the project of operating the Sachalijskie fields based on the agreement on joint operations with Połtawanaftogazgeologia, the holder of the exploration and operation concession of the “Sachalińskie” field in the Kharkov District.

At the end of 2004, pursuant to the decision of the Ukrainian Natural Resources Commission, the license granted to „Połtawanaftogazgeologia” for the experimental-industrial exploitation of the “Sachalińskie” deposit was revoked and granted to “Ukrnaftoburenje”. As a result of an appeal launched against this decision, pursuant to the judgment of the Court of Appeals of 1 September 2005, the prior mentioned decision was revoked and the concession was once again granted to “Połtawanaftogazgeologia”.

Thus far, the company has completed phase I of work on the “Sachalińskie” field:

- the construction of three wells has been completed (no. 18, 21 and 113);
- three wells were opened and commissioned for the production of gas and condensate: No. 21 (daily output capacity of 90 thousand m³ of gas and 3.4 tones of condensate), No. 18 (daily output capacity – 130 thousand m³ of gas and 28 tones of condensate) and Nr 113 (daily output capacity – 150 thousand m³ of gas and 25 tones of condensate). All produced resources are sold. The plans to reconstruct well no. 7 have be abandoned as not viable from an economic perspective;
- during the first half of 2006 the Company’s sales revenues reached UAH 26,624 thousand (PLN 16.5 million, translated at the average rate 0.6204 PLN/1UAH).
- the construction of mine (UKPG) together with service pipelines has been completed;
- development of appropriate gas field infrastructure (roads, power lines, network of gas collective lines from wells and other facilities);
- the construction of the transmission pipeline connecting the field with the Ukrainian transmission system has been completed.

The above work was financed by the shareholders and a bank. The Company’s main creditors are: Miasto Bank and PGNiG S.A. (loan of USD 3.1 million).

At the beginning of 2006 the Company started repaying loans to Miasto Bank. In September 2006 the Company plans to start repaying the loan contracted from PGNiG SA. The Company plans also to drill a further three wells.

Oman

“**Sahara Petroleum Technology Llc**” registered on 23 November 2000, with a share capital of OMR 150.0 thousand, in which PGNiG S.A. acquired 49% of shares (the capital employed by PGNiG S.A. in Sahara Petroleum Technology Llc is equal to OMR 73,5 thousand). The interests of PGNiG S.A. in the company were represented by Zakład Robót Górniczych in Krosno, which reports to the Head Office of PGNiG S.A. (currently PGNiG S.A. holds 100% of shares in this company). Sahara Petroleum Technology was established following the initiation of cooperation between the Omani company - Petroleum and Gas Technology, and Zakład Robót Górniczych in Krosno, a branch of PGNiG S.A.

The company’s main objective is to provide technical services related to the reconditioning and reconstruction of wells, linear technique operations, maintenance of heads of exploration

machines as well as light and medium drilling work using the technical potential of PGNiG S.A. In principle, the company should provide services primarily to Petroleum Development Oman, the holder of the concession for the operation of the majority of gas fields in Oman.

Germany

Two agreements were concluded on 1 July 2005 in Potsdam between PGNiG S.A. and VNG-Verbundnetz Gas AG that established the following two companies which operate based on German law:

- **InterTransGas GmbH (ITG)**

- **InterGasTrade GmbH (IGT)**

Both partners acquired 50% of shares in each of the companies. The share capital of both established companies is equal EUR 200 thousand and their registered offices are located in Potsdam.

On 9 August 2005 InterTransGas GmbH was registered in the commercial register in Potsdam.

The scope of the Company's activities includes construction, operation and sale of transmission capacity.

InterTransGas GmbH was established to build an interconnection between the Company and the European transmission system, which constitutes one of the elements of the diversification of gas supplies to Poland.

The share of PGNiG S.A. in exploration licenses:

Pakistan

Exploration work in Pakistan is conducted by the Operating Branch of PGNiG S.A. in Pakistan.

In May 2005 PGNiG S.A. obtained an exploration concession from the Government of Pakistan, applicable to the Kirthar block in the Western part of the Sind province for a period of three years. Based on the concession, the Company can carry out exploration work and is able to continue overdue drilling obligations transferred from the Mekhtar block. During the period of May to September 2005 all archived data, including seismic and geological information and data on wells, pertaining to the area covered by the concession was acquired. These materials were analyzed and assumptions concerning the work schedule were adopted. The reprocessing of 283 running kilometers of old seismic profiles was commenced and they will be subsequently interpreted. Data from two wells previously drilled in this area was parallelly interpreted.

In accordance with the concession agreement related to the Kirthar block, PGNiG S.A. was obliged to resell 25% of shares to a Pakistani company. Of all the submitted offers that of

Pakistan Petroleum Ltd., which wanted to assume not 25% but 30% of shares, was found to be most credible. In December 2005, following negotiations and after the approval of the Management Board of PGNiG S.A., an assignment agreement was signed by both parties, pursuant to which PGNiG S.A. handed over 30% of shares to Pakistan Petroleum Ltd. The costs of exploration work will be covered by both parties, proportionally to their share in the undertaking.

The Company created a full provision, in the amount of USD 2,316 thousand, for the potential liability to the Government of Pakistan (covered by the bank guarantee) that will occur if the Company withdraws from drilling wells.

Since the beginning of operations in 1997 until the end of 2005 PGNIG S.A. has spent USD 17,880 thousand on its operations in Pakistan, whereas USD 1,122 thousand is the subject of court litigation with Tullow.

In the first half of 2006, archive seismic profiles were interpreted after reprocessing and based on comprehensive geological-geophysical data the "Seismic work project in the Kirthar block area" was developed. According to plans the project is supposed to be executed during the period from September to November 2006. The contractor for seismic field work will be selected through an unlimited tender. The work will commence after the preparation of the "Evaluation of the environmental impacts of seismic work" and approval by the competent state authorities in Pakistan. An economic analysis of the planned exploration work will be conducted, along with the reprocessing of new seismic profiles, after the completion of field exploration work. The obtained data will be interpreted after the above work is completed.

In addition to seismic research the Company plans to conduct surface cartographical work as well as a sedimentological study, which will have a beneficial affect on catering and field protection costs, and the comprehensive material will be used in later analyses.

Depending on the results of work the Company will consider whether to conduct supplementary work necessary to document the drilling trap (traps) with regard to drilling work that must be conducted in order to fulfill concession obligations.

Exploration work in the Kirthar block will be conducted in cooperation with Pakistan Petroleum Ltd. Shares in the undertaking are distributed as follows: PGNiG S.A. – 70%, PPL – 30%. Investment costs will be split in line with the stake held by each company.

As PGNiG S.A. holds 70% stake and assuming that USD 1 = PLN 3.2, the outlays of PGNiG S.A. amount to approx. PLN 6.5 million.

India

Exploration concession for blocks RJ-ON-90/4 and RJ-ON-90/5 in Radjastan (shareholders: Oil India Ltd., Essar Oil Ltd. and PGNiG S.A.). PGNiG S.A. holds a 25% share in the concession.

Upon the withdrawal of Essar from the exploration concession at the RJ-ON-90/5 block, cooperation and the agreement between PGNiG S.A. and Essar Oil Ltd. have expired. In 2005, PGNiG S.A. did not carry out any joint work in India.

In the first half of 2006 no exploration work was conducted in India.

25. OTHER RELEVANT INFORMATION – LONG-TERM CONTRACTS FOR GAS DELIVERIES

Agreements for the sale of gas fuel from the transmission system are concluded based on the Energy Law and in accordance with binding gas fuel trade tariffs. However agreements regarding the sale of gas directly from deposits are subject to Geological and Mining Law and are settled in accordance with prices negotiated based on economic profitability which takes into account development costs and costs of gas production and transmission.

No significant natural gas sales agreement was concluded in the first half of 2006.

Gas deliveries to Arctic Paper Kostrzyń S.A. as part of the direct (deposit) contract concluded in 2003 were begun in June. The target annual gas delivery volumes (from July 2007) foreseen in the contract will be equal to 125 million m³.

26. OTHER RELEVANT INFORMATION – GAS PURCHASE CONTRACTS

Polskie Górnictwo Naftowe i Gazownictwo S.A. imports gas as part of the below specified agreements and contracts, i.e. a long-term contract for the import of gas from Russia and three medium-term contracts for deliveries from Norway, Germany and countries in Central Asia:

- long-term Russian gas delivery contract of 25 September 1996 with OOO Gazexport, which is binding until 2022;
- German gas import agreement of 15 September 2004 with VNG-Verbundnetz GAS AG/ E.ON Ruhrgas AG, which is binding until 30 September 2008;
- Norwegian gas import agreement of 5 May 1999 with Statoil ASA, Norsk Hydro Produksjon AS and Total E&P Norge AS, which is binding until 30 September 2006;
- Central Asian gas import agreement of 10 August 2005 with RosUkrEnergo AG, which is binding until 31 December 2006.

A Framework Agreement between PGNiG S.A. and Statoil ASA was concluded on 6 June 2006. This agreement constitutes the basis for the conclusion of particular natural gas delivery transactions. The Framework Agreement defines the general principles, based on which gas deliveries will be executed, whereas the details of particular delivery parameters, e.g. quantity and price, will each time be defined in Gas Agreements concluded in the future. The agreement contains provisions which provide PGNiG S.A. with access to Norwegian gas

delivery locations in Europe, including to the TTF and BEB/VEP hubs. This will enable PGNiG S.A. to purchase gas during period of increased demand and resale potential surpluses. The Framework Agreement has been concluded for an indefinite period.

On 7 June 2006 annex no. 5 to the Gas Sales Agreement between PGNiG S.A. and DONG Naturgas A/S of 2 July 2001 was concluded. Pursuant to this annex all the validity dates of terms and conditions specified in Article 12.7 of this Agreement have been extended to 31 December 2006. However, at the request of any Party to the Gas Sales Agreement each party, subject to a one month notice period, will be relieved of all rights and obligations resulting from the above agreement and the agreement itself will be rendered void.

On 7 June 2006 annex no. 5 to the BalticPipe Consortium Agreement between PGNiG S.A. and DONG Naturgas A/S of 2 July 2001 was concluded. Pursuant to this annex all the validity dates of terms and conditions specified in Article 17 of this Agreement have been extended to 31 December 2006. However, at the request of any Party to the BalticPipe Consortium Agreement each party, subject to a one month notice period, will be relieved of all rights and obligations resulting from the above agreement and the agreement itself will be rendered void.

A Lasów gas sales agreement was concluded between PGNiG S.A. and the German gas supplier - VNG – Verbundnetz Gas AG, on 17 August 2006. Natural gas deliveries to the interconnection point in Lasów will begin on 1 October 2006. During the first two years deliveries will amount to 500 million m³ per annum, whereas gas deliveries during the period of 1 October 2008 to 1 October 2016 will be equal to 400 million m³ per annum. Thus this agreement will replace the thus far binding agreement with E.ON Ruhrgas AG and VNG starting from 1 October 2008. The price formula applied in the contract is based on the quotations of crude oil products as is the case in most gas sales agreements. The delivered natural gas will come for the company's delivery portfolio and will therefore be significantly safer than deliveries from one source.

27. OTHER RELEVANT INFORMATION - MANAGEMENT BOARD'S PLANS REGARDING THE FINANCING OF OPERATIONS

The Company has sufficient cash to ensure the on-hand and timely settlement of financial liabilities to commercial partners and the State Budget. Funds obtained from the increase in capital executed in 2005, in line with the prospectus, were invested primarily in bills and bonds issued by the State Treasury and bonds issued by the National Bank, which are safe from a perspective of credit risk. The remaining part (several percent) was invested in renowned banks.

As of 30 June 2006, the Company used one syndicated loan contracted on 27 July 2005. The loan consists of tranche A, a term loan of EUR 600 million, and tranche B, a revolving loan of EUR 300 million. In the 1st half of 2006 the revolving portion of the loan was still unused.

On 11 July 2006 the Company's Management Board adopted a resolution on the temporary use of free cash, including cash from the increase in capital, for the early repayment of the loan of EUR 600 million. In order to obtain permission for early repayment of a loan, available funds equal to at least the same amount must be obtained in the form of a credit limit. The successful completion of the operation (after negotiations with banks and after obtaining permission from the Supervisory Board) will protect the Company from paying the currency spread on the amount of the used loan.

The Company additionally has credit limits in the following banks:

- Societe Generale – PLN 40 million;
- Bank Handlowy – PLN 40 million;
- Bank BPH – PLN 40 million;
- Bank Pekao S.A. – PLN 40 million;
- PKO BP S.A. – PLN 40 million;
- Bank Millennium – PLN 40 million.

No credit limits were used in the first half of 2006.

As part of activities aimed at increasing the effectiveness of cash management the Capital Group plans to issue bonds. On 28 July 2006 the General Shareholders Meeting of PGNiG S.A. approved the non-public issuance of bonds to entities from PGNiG S.A. Capital Group.