Polskie Górnictwo Naftowe i Gazownictwo SA

CONSOLIDATED FINANCIAL STATEMENTS

FOR 6-MONTH PERIODS ENDED 30 JUNE 2006 AND 30 JUNE 2005

DRAWN IN LINE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Members of the Management Board

Chairman of the Board	Mieczysław Puławski	
Vice Chairman of the Board	Jan Anysz	
Vice Chairman of the Board	Zenon Kuchciak	
Vice Chairman of the Board	Stanisław Niedbalec	

Warsaw, 1 September 2006

SELECTED FINANCIAL DATA
for the period ended 30 June 2006

	PLN		EUR	
	30 June 2006	30 June 2005	30 June 2006	30 June 2005
I. Net revenues from sales of products, goods and materials	8 184 769	6 177 870	2 098 551	1 513 998
II. Profit (loss) on operating activities	952 138	916 472	244 125	224 598
III. Gross profit (loss)	953 896	780 899	244 576	191 373
IV. Net profit (loss)	732 434	526 246	187 794	128 966
V. Net cash flows from operating activities	1 677 300	2 198 737	430 055	538 840
VI. Net cash flows from investment activities	(536 037)	(349 302)	(137 438)	(85 603)
VII. Net cash flows from financial activities	(121 213)	(864 418)	(31 079)	(211 841)
VIII. Total net cash flows	1 020 050	985 017	261 538	241 396
IX. Total assets	30 745 732	28 329 747	7 603 931	7 012 140
X Liabilities and provisions for liabilities	10 200 094	10 556 179	2 522 653	2 612 851
XI. Long-term liabilities	6 692 202	4 507 402	1 655 093	1 115 666
XII. Short-term liabilities	3 507 892	6 048 777	867 560	1 497 185
XIII. Equity	20 545 638	17 773 568	5 081 278	4 399 289
XIV. Share capital	5 900 000	5 000 000	1 459 168	1 237 593
XV. Number of shares (average weighted in PLN '000)	5 900 000	5 000 000	5 900 000	5 000 000
XVI. Profit (loss) per ordinary share (in PLN/EUR)	0,12	0,11	0,03	0,03
XVII. Diluted profit (loss) per ordinary share (in PLN/EUR)	0,12	0,11	0,03	0,03
XVIII. Book value per share (in PLN/EUR)	3,48	3,55	0,86	0,88
XIX. Diluted book value per share (in PLN/EUR)	3,48	3,55	0,86	0,88
XX. Declared or paid dividend per share (in PLN/EUR)*	0,15	0,10	0,04	0,02

*The dividend for 2005 was translated into EUR using the exchange rate announced by the NBP on 30 June 2006.

The dividend day is 27 July, and the payment was effected at of 2 October 2006.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the period ended 30 June 2006

	Additional information	30 June 2006	30 June 2005
		(in PLN '000)	
Sales revenues	3	**8 184 769**	**6 177 870**
Change in inventory		176 171	91 033
Manufacturing cost of benefits for internal purposes		232 766	193 317
Consumption of raw materials and materials		(4 489 356)	(3 054 456)
Employee benefits	4	(811 376)	(813 124)
Amortization		(648 652)	(775 472)
External services		(1 330 465)	(480 054)
Other operating expenses (net)	4	(361 719)	(422 642)
Operating expenses in total	3	**(7 232 631)**	**(5 261 398)**
Profit on operating activities		**952 138**	**916 472**
Financial revenues	5	376 937	363 235
Financial expenses	5	(345 064)	(556 423)
Share in profits/(losses) of controlled entities measured using the equity method	6	(30 115)	57 615
Gross profit		**953 896**	**780 899**
Income tax	7	(221 462)	(164 808)
Net profit on business activities before obligatory profit sharing		**732 434**	**616 091**
Profit sharing		-	(89 845)
Net profit on business activities		**732 434**	**526 246**
Discontinued operations			
Profit for the financial year on abandoned activity	8	-	-
Net profit for the financial year		**732 434**	**526 246**
Assigned to:	9		
Shareholders of the holding company		731 396	526 220
Minority shareholders		1 038	26
		732 434	**526 246**
Profit per share assigned per ordinary shareholder of the holding company	9		
- basic from profit for the financial year		0,12	0,11
- diluted from profit for the financial year		0,12	0,11

CONSOLIDATED BALANCE SHEET
as of 30 June 2006

	Additional information	30 June 2006	31 December 2005	30 June 2005
ASSETS			(in PLN '000)	
Non-current assets (long-term)				
Tangible fixed assets	11	17 207 730	17 524 429	22 271 914
Investment property	12	10 300	10 553	11 013
Intangible assets	13	988 096	952 698	822 816
Investments in associated companies measured using the equity method	6	481 961	512 076	520 263
Financial assets available for sale	14	19 571	21 358	17 553
Other financial assets	15	3 983 585	4 107 585	1 473
Deferred tax asset	16	405 737	384 504	405 134
Other non-current assets	17	16 219	17 248	12 404
Total non-current assets (long-term)		**23 113 199**	**23 530 451**	**24 062 570**
Current assets (short-term)				
Inventory	18	894 141	815 345	666 962
Trade and other receivables	19	1 810 171	2 618 350	1 201 256
Receivables due to current tax	20	10 290	30 883	12 439
Accruals	21	224 670	17 501	113 750
Financial assets held for trading	22	240 573	30 391	63 193
Assets due to derivative financial instruments	30	232 211	120 273	317 682
Cash and cash equivalents	23	4 220 477	3 200 471	1 891 895
Total current assets (short-term)		**7 632 533**	**6 833 214**	**4 267 177**
Total assets		**30 745 732**	**30 363 665**	**28 329 747**
EQUITY AND LIABILITIES				
Equity				
Share capital	24	5 900 000	5 900 000	5 000 000
Exchange differences from translation		(8 827)	(14 086)	(11 381)
Surplus on sales of shares above face value		1 740 093	1 740 093	-
Other reserve capitals		2 829 178	2 624 841	2 625 612
Retained profits (losses)		10 076 885	10 509 489	10 153 061
Equity (assigned to the shareholders of the holding company)		**20 537 329**	**20 760 337**	**17 767 292**
Equity of minority shareholders		8 309	7 243	6 276
Total equity		**20 545 638**	**20 767 580**	**17 773 568**
Long-term liabilities				
Credits, loans and debt securities	25	2 475 518	2 369 082	192 373
Provisions	26	996 649	981 493	960 361
Deferred income	27	1 136 661	1 151 115	1 113 964
Provision for deferred tax	28	2 083 374	2 123 233	2 240 704
Total long-term liabilities		**6 692 202**	**6 624 923**	**4 507 402**
Short-term liabilities				
Trade and other liabilities	29	2 476 142	2 108 806	1 807 356
Loans and debt securities	25	97 168	89 218	3 573 894
Liabilities due to derivative financial instruments	30	75 534	173 177	123 748
Liabilities due to current tax	20	228 013	75 201	79 127
Provisions	26	540 727	426 315	377 190
Deferred income	27	90 308	98 445	87 462
Total short-term liabilities		**3 507 892**	**2 971 162**	**6 048 777**
Total liabilities		**10 200 094**	**9 596 085**	**10 556 179**
Total equity and liabilities		**30 745 732**	**30 363 665**	**28 329 747**

CONSOLIDATED CASH FLOW STATEMENT
for the period ended 30 June 2006

	30 June 2006	30 June 2005
	(in PLN '000)	
Cash flows from operating activities		
Net financial result	732 434	526 246
Adjusted by:		
Share in profits/(losses) of controlled entities measured using the equity method	30 115	(57 615)
Amortization	648 652	775 472
Net exchange gains (losses)	117 311	(65 485)
Net interest and dividends	(108 538)	130 831
Profit/loss on investment activities	81 276	129 063
Income tax for the current period	221 462	164 808
Paid income tax	(91 625)	(78 343)
Other net items	(186 668)	(131 075)
Net cash flows from operating activities before changes in working capital	**1 444 419**	**1 393 902**
Change in working capital:		
Change in net receivables	781 523	719 324
Change in inventory	(78 790)	(63 973)
Change in provisions	88 673	12 137
Change in short-term liabilities	(346 252)	248 844
Change in prepayments	(206 140)	(97 511)
Change in deferred income	(6 133)	(13 986)
Net cash flows from operating activities	**1 677 300**	**2 198 737**
Cash flows from investment activities		
Inflows from the purchase of tangible assets and tangible fixed assets	10 485	2 907
Inflows from the sale of shares in entities not included in consolidation	100	22
Inflows from the sale of short-term securities	-	193 786
Acquisition of intangible assets and tangible fixed assets	(673 868)	(587 476)
Acquisition of shares in entities not included in consolidation	-	-
Acquisition short-term securities	(156 397)	-
Received interest	155 362	10 511
Received dividends	720	679
Other net items	127 561	30 269
Net cash on investment activity	**(536 037)**	**(349 302)**
Cash flows from financial activities		
Net inflows from issuance of shares and other capital instruments and from capital contributions	-	2 435 046
Inflows from contracted credits and loans	13 330	(249 353)
Repayment of credits and loans	(17 139)	-
Inflows from issuance of debt securities	-	(2 799 327)
Redemption of debt securities	-	(6 476)
Repayment of liabilities due to financial lease	(7 535)	40 905
Inflows from forwards	7 390	(88 477)
Outflows from forwards	(90 069)	(142 436)
Paid dividends	-	(36 130)
Paid interest	(27 409)	(18 170)
Other net items	219	-
Net cash flows from financial activities	**(121 213)**	**(864 418)**
Change in the balance of net cash	**1 020 050**	**985 017**
Net exchange differences	(44)	279
Opening balance of cash and cash equivalents	**3 205 089**	**911 407**
Closing balance of cash and cash equivalents	**4 225 139**	**1 896 424**
Unrealised exchange differences disclosed in the balance sheet amount	(4 662)	(4 529)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
for the financial year ended 30 June 2006

	Equity (assigned to the shareholders of the holding company)						Minority equity	Total equity
	Share capital	Exchange differences from translation	Surplus on sales of shares above face value	Other reserve capitals	Retained profits (losses)	**Total**		
	(in PLN '000)							
1 January 2005	**5 000 000**	**(11 993)**	**-**	**2 393 165**	**10 359 289**	**17 740 461**	**6 312**	**17 746 773**
Exchange differences from translation of foreign branches	-	612	-	-	-	**612**	-	**612**
Share of minority shareholders in profit distribution	-	-	-	-	(1)	**(1)**	(62)	**(63)**
Dividend payment to the owner	-	-	-		(500 000)	**(500 000)**	-	**(500 000)**
Reclassifications		-	-	232 447	(232 447)	**-**	-	**-**
Net profit for the first half of 2005	-	-	-	-	526 220	**526 220**	26	**526 246**
30 June 2005	**5 000 000**	**(11 381)**	**-**	**2 625 612**	**10 153 061**	**17 767 292**	**6 276**	**17 773 568**
1 January 2005	**5 000 000**	**(11 993)**	**-**	**2 393 165**	**10 359 289**	**17 740 461**	**6 312**	**17 746 773**
Issuance of shares;	900 000	-	-	-	-	**900 000**	-	**900 000**
On sales of shares above face value	-	-	1 740 093	-	-	**1 740 093**	-	**1 740 093**
Exchange differences from translation of foreign branches	-	(2 093)	-	-	-	**(2 093)**	-	**(2 093)**
Share of minority shareholders in profit distribution	-	-	-	-	(1)	**(1)**	(63)	**(64)**
Decrease in share in subsidiary – share of minority shareholders	-	-	-	-	-	**-**	80	**80**
Increase in the share capital by minority shareholders in a subsidiary	-	-	-	(42)	83	**41**	-	**41**
Discontinued consolidation of a subsidiary	-	-	-	(332)	2 593	**2 261**	-	**2 261**
Dividend received from an associated company consolidated under the equity method	-	-	-	-	(174)	**(174)**	-	**(174)**
Dividend payment to the owner	-	-	-	-	(500 000)	**(500 000)**	-	**(500 000)**
Reclassifications		-	-	232 050	(232 050)	**-**	-	**-**
Net profit for 2005	-	-	-	-	879 749	**879 749**	914	**880 663**
31 December 2005	**5 900 000**	**(14 086)**	**1 740 093**	**2 624 841**	**10 509 489**	**20 760 337**	**7 243**	**20 767 580**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY – cont.
for the financial year ended 30 June 2006

	Equity (assigned to the shareholders of the holding company)						Minority equity	Total equity
	Share capital	Exchange differences from translation	Surplus on sales of shares above face value	Other reserve capitals	Retained profits (losses)	**Total**		
	(in PLN '000)							
1 January 2006	**5 900 000**	**(14 086)**	**1 740 093**	**2 624 841**	**10 509 489**	**20 760 337**	**7 243**	**20 767 580**
Exchange differences from translation of foreign branches	-	5 259	-	-	-	**5 259**	-	**5 259**
Making missing contributions to the share capital in a subsidiary by minority shareholders	-	-	-	42	-	**42**	28	**70**
Adjustment to remeasurement of fixed assets	-	-	-	-	(74 705)	**(74 705)**	-	**(74 705)**
Dividend payment to the owner	-	-	-	-	(885 000)	**(885 000)**	-	**(885 000)**
Reclassifications	-	-	-	204 295	(204 295)	**-**	-	**-**
Net profit for the 2nd quarter of 2006 in increasing order	-	-	-	-	731 396	**731 396**	1 038	**732 434**
30 June 2006	**5 900 000**	**(8 827)**	**1 740 093**	**2 829 178**	**10 076 885**	**20 537 329**	**8 309**	**20 545 638**

ADDITIONAL INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS as of 30 June 2006

1. GENERAL INFORMATION

Polskie Górnictwo Naftowe i Gazownictwo S.A. (hereinafter referred to as "PGNiG S.A.", "Company" or "holding company"), PGNiG Capital Group's holding company (hereinafter referred to as "PGNiG S.A. Capital Group" or the "Group") with registered office in Poland, 00-537 Warsaw, ul. Krucza 6/14. As of 23 September 2005, as a result of sales of new issue of shares in the Warsaw Stock Exchange, PGNiG S.A. was transformed from a company wholly owned by the State Treasury into a public company.

The holding company was created as result of the transformation of the state company Polskie Górnictwo Naftowe i Gazownictwo into a joint stock company wholly owned by the State Treasury. The transformation deed and the articles of association were signed in the form of a notarized deed of 21 October 1996.

While signing the above deed of transformation of the state enterprise, the Minister of Treasury followed the provisions of the Prime Minister's Ordinance of 30 September 1996 on transformation of the enterprise Polskie Górnictwo Naftowe i Gazownictwo with registered office in Warsaw into a joint-stock company wholly owned by the State Treasury (Dz. U. No. 116 of 1996, item 553).

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 Division of the National Court Register under number KRS 0000059492.
The Company was assigned the statistical (REGON) number 012216736.

The joint stock company is a legal successor of the state enterprise. Asset and liabilities of the state enterprise were transferred via contribution in kind to the joint stock company and disclosed in accounting records at the value from the closing balance of the state enterprise.

The Company's core business includes seeking and exploration of crude oil and gas, gas import, transfer and distribution.

2. INFORMATION ABOUT ACCOUNTING PRINCIPLES APPLIED

Basis of preparation of the consolidated financial statements

The consolidated financial statements have been drawn in line with the International Financial Reporting Standards (IFRS), in the wording approved by the European Union (EU) as at 30 June 2006.

As of 1 January 2005 the amendment to the Accounting Act, due to the fact that the Company applied for public trade permission and permission of the Securities and Exchange Commission of 24 May 2005 to allow trading of PGNiG S.A. shares, obliged the Group to draw consolidated financial statements in line with IFRS.
With respect to statutory individual financial statements the Company applies measurement principles defined in the Accounting Act of 29 September 1994 (Dz. U. No. 76, item 694 of 17 June 2002) ["Accounting Act"].
Pursuant to IAS 1 "Presentation of financial statements" IFRS consist of International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC").
International Accounting Standards Board issued International Financial Reporting Standard 1 ("IFRS 1") "First time adoption of International Financial Reporting Standards", which is applicable in preparation of financial statements for periods starting on 1 January 2004 or later. Apart from entities, which prepare financial statements in line with IFRS for the first time, IFRS 1 also covers entities such as PGNiG S.A. Capital Group, which used to apply IFRS, but their financial statements presented information that the financial statements are inconsistent with the above standards. Therefore, in particularly IFRS 1 requires that in their financial statements drawn in line with IFRS entities

disclosed all assets and liabilities as required in line with the IFRS. Pursuant to IFRS 1 an entity can measure them at fair value of tangible fixed assets as of the day IFRS are applied and recognise the fair value as a cost of tangible fixed assets on that date.
The scope of information disclosed in the consolidated financial statements is in line with provisions of the IFRS and the Council's of Ministers Ordinance of 19 October 2005 on current and periodical information submitted by issuers of securities (Dz. U. No. 209, item 1744).

Key accounting principles applied by the Capital Group are presented below.
The consolidated financial statements are presented in PLN, and all figures, unless otherwise stated, are stated in PLN thousands.

Representation on compliance

The consolidated financial statements have been drawn in line with the International Financial Reporting Standards (IFRS), in line with competent IFRS adopted by the EU. IFRS consist of standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretation Committee ("IFRIC").

Changes in accounting principles applied

Until the end of 2004, the Company drawn consolidated financial statements in line with IFRS. However, these financial statements did not include a clear and unconditional statement about compliance with the IFRS. Therefore, according to instructions provided for in IFRS 1 the Company assumed that the financial statements for 2005 are the first financial statements of the Company drawn in line with IFRS, i.e. providing a clear and unconditional statement about compliance with the IFRS.
These financial statements are the next financial statements drawn in line with the IFRS. The statement about compliance of these financial statements with the IFRS is presented in the prior subparagraph "Statement on compliance".

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

The consolidated financial statements have been drawn in line with the International Financial Reporting Standards (IFRS), in the wording approved by the European Union (EU).

The IFRS in the wording approved by the EU do not differ much from the current regulations adopted by the International Accounting Standards Board ("IASB"), except for the following standards, which as at 30 June 2006 were still not adopted for use:
1. Interpretation IFRIC 8 "Scope of IFRS 2";
2. Interpretation IFRIC 9 "Reassessment of Embedded Derivatives";
3. Interpretation IFRIC 10 "Interim reporting and Impairment".

According to the Company's estimates the above interpretations to standards would not have material impact on the financial statements, if they were adopted by the Company as at the balance sheet date.

The regulations adopted by the EU arte supplemented with hedge accounting applicable to portfolio of financial assets and liabilities, the principles of which have not been approved for use by the EU.
According to the Company's estimates applying the hedge accounting to portfolio of financial assets and liabilities in line with the IAS 39 "Financial Instruments: Recognition and Measurement" would not have material impact on the financial statements, if they were adopted by the Company as at the balance sheet date.

Consolidation principles

The consolidated financial statements include financial statements of the holding company and financial statements of entities controlled by the holding company (or subsidiaries to the holding company) prepared as of 30 June of each reporting period. An entity is considered as controlled whenever the holding company has the ability to influence the financial and operational policy of the entity to achieve benefits on its operations.
As at the date of acquisition, assets and liabilities of the surviving company are measured at their value. The surplus of the purchase price over fair value of identifiable net assets of the company is

recognised under goodwill. In case the purchase price is lower than fair value of identifiable net assets to be taken over from the entity, the difference is recognised as profit in the profit and loss account in the period when the purchase was effected. Share of minor shareholders is disclosed in adequate proportion of fair value of assets and capitals. In following periods losses of individual minor shareholders above the value of their shares are charged to capitals of the holding company.
Whenever necessary in the financial statements of subsidiaries or associated companies adjustments are introduced to unify accounting principles applied by the company with the accounting principles applied by the holding company.
All transactions, balances, revenues and expenses between related parties included in consolidation are subject to consolidation eliminations.
Financial results of companies acquired or sold during the year are recognised in the consolidation financial statements from/until the moment they are acquired or sold respectively.
In case a subsidiary is no longer under control the consolidated financial statements should disclose the result for the part of the year included in the financial statements when the holding company retained control.
Minority shares in the 1st half of 2006 include part of shares in BSiPG Gazoprojekt S.A., BN Naftomontaż Sp. z o. o. and Naft-Stal Sp. z o.o., which do not belong to the Capital Group. In the 1st half of 2005 the minority shares included part of shares in BSiPG Gazoprojekt S.A., Naft-Trans Sp. z o. o. and Naft-Stal Sp. z o.o., which did not belong to the Capital Group.

Investments in associated entities

An associated entity is the entity the holding company has a significant influence on, but does not exercise control by participating both in determination of the financial and operational policy of the associated company and these are not joint undertakings. Financial shares of the Capital Group in its associated companies are measured using the equity method, except the situation when an investment is classified as held for trading (see below). Investment in an associated company are measured at the purchase price plus changes in the share of the Capital Group in net assets, which took place from the balance sheet date, less impairment of individual investments. Losses of associated companies exceeding the value of the Group's share in these associated companies are not recognised.
As of the date of acquisition the surplus of the purchase price over fair value of identifiable net assets of the associated company is recognised under goodwill. In case the purchase price is lower than fair value of identifiable net assets of the associated company as of the date of acquisition, the difference is recognised as profit in the profit and loss account in the period when the acquisition was effected.
Profits and losses resulting from the transaction between the Capital Group and the associated company subject to consolidation eliminations in line with the share of the Capital Group in capitals of the associated company. Balance sheet dates of associated companies and the Capital Group are identical and both entities apply coherent accounting principles. Whenever necessary, in the financial statements of subsidiaries or associated companies adjustments are introduced to unify accounting principles applied by the company with the accounting principles applied by the holding company. Losses incurred by the associated company can certify for impairment of assets resulting in the need to create revaluation write-down at adequate level.

Shares in joint undertaking

Share of the Capital Group in the joint undertaking is recognised using proportional consolidation method, according to which the proportional share in assets, liabilities, revenues and costs of the joint undertaking is recognised, item by item, including similar items in the consolidated financial statements.

Translation of items denominated in foreign currency

Polish zloty (PLN) is the functional and measurement currency also used for presentation purposes by PGNiG S.A. and its subsidiaries, except for PGNIG Finace BV. Transactions denominated in currencies are preliminarily recognised at the exchange rate of the functional currency valid on the transaction date. Cash assets and liabilities denominated in foreign currency are translated at the exchange rate of the functional currency valid on the balance sheet date. All exchange differences are recognised in the consolidated cash flow statement, except for exchange differences occurring after translation of assets and liabilities of foreign entities. These differences are recognised directly under equity until the shares in these entities are sold. Non-cash items measured at historical cost in

foreign currency are translated at the exchange rate from the transaction opening date. Non-cash items measured at fair value in foreign currency are translated at the exchange rate from date the fair value was determined.
To hedge against risks resulting from exchange rate fluctuations the holding company in the Capital Group use forwards and options in foreign currencies (see below accounting principles applied by the Capital Group with respect to derivative financial instruments).

Pakistan currency and EUR respectively are the functional currencies of the foreign branch (Operator branch in Pakistan) and one subsidiary (PGNiG Finance BV). As of the balance sheet date assets and liabilities of these foreign companies are translated to the presentation currency of PGNiG S.A. at the exchange rate valid on the balance sheet date, and their profit and loss accounts are translated at the average-weighted exchange rate for the given financial year. Exchange differences resulting from such translation are recognised directly in equity as a separate item. As the moment of sales of the foreign entity, accumulated deferred exchange differences recognised under equity and relating to the foreign entity are recognised in the profit and loss account.

Tangible fixed assets

In order to meet the requirements pursuant to IFRS 1 the entity measured tangible fixed assets at fair value as of the day IFRS are applied for the first time ever and recognised that value as the assumed cost on that date. Change in the value resulting from revaluation of tangible fixed assets has been recognised under "retained profit/loss".

Tangible fixed assets are recognised in the balance sheet at value after remeasurement, reduced in the following periods by depreciation charges and impairment. Measurement is done whenever there are any indications that permanent impairment of tangible fixed assets occurred.
Decrease in value due to the revaluation of tangible fixed assets is recognized as costs in the period in the amount exceeding the earlier measurement of this asset recognized in the revaluation reserve.

Depreciation of remeasured tangible fixed assets is recognised in the profit and loss account.
Fixed assets under construction created for production purposes, rental or administration purposes as well as other undefined purposes are presented in the balance sheet at the manufacturing cost less impairment. Depreciation of these fixed assets starts at the moment they are commissioned, pursuant to the principles relating to own fixed assets.
Depreciation is calculated for all fixed assets, except for land and fixed assets under construction, for the estimated economic useful life of these assets, using the straight-line method and the following annual depreciation rates:

Buildings and structures	- 2.5-20%
Machines and equipment, vehicles and other	- 3.33-50%

Assets used based on financial leasing agreement are depreciated for the period of economic useful life, respectively as own assets, no longer however that for the period of lease.
Gains and losses on sales/disposal or discontinuation of use of fixed assets are determined as the difference between sales revenues and net value of these fixed assets and are recognised in the profit and loss account.

Costs of external financing

External financing costs are recognised under expenses at the moment they are incurred in line with the master approach compliant with IAS 23.

Investment property

Investment real property include real estates that are considered as source of revenues from rentals or / and for capital appreciation.
Initially investment property is recognised at the purchase price less transaction costs. All real estates are measured in line with the requirements of IAS 16 defined for that model i.e. at the price of purchase or manufacturing cost less accumulated depreciation and accumulated impairment writer-downs. Investment property is derecognised from the balance sheet in case it is sold or permanently

withdrawn of the investment property from use as no future benefits are expected from its sales. All gains or losses resulting from withdrawal of the investment property from the balance sheet are recognised in the profit and loss account in the period when such derecognition was effected.

Goodwill

Goodwill created during consolidation results from the occurrence, upon acquisition, of a surplus of costs connected with acquiring an entity over the fair value of identifiable items in assets and liabilities and equity of a subsidiary, associated entity or joint undertaking upon acquisition.
Goodwill is disclosed as an item in assets and is at least once a year subject to an analysis as to impairment.
Potential impairment is immediately recognized in the profit and loss account and is not subject to reversal in subsequent periods.
During the sale of a subsidiary, associated entity or joint undertaking, an unamortized potion of goodwill is taken into account when calculating the profit or loss on the sale.

Intangible assets

Intangible assets are recognised when they are likely to cause an inflow of economic benefits in the future, which may be closely related to those assets.

Separately acquired or manufactured by the entity

Intangible assets acquired as part of a separate transaction are activated at purchase price.
After the initial recognition at the purchase price intangible assets are recognised in the balance sheet at value after remeasurement, reduced in the following periods by depreciation charges and impairment. Measurement is done whenever there are any indications that permanent impairment occurred.
Decreases in value due to the revaluation of intangibles are recognized as costs in the period in the amount exceeding the earlier measurement of this asset recognized in the revaluation reserve.
The amortization of remeasured intangible assets is recorded in the profit and loss account Intangible assets are amortised based on the straight-line method over the period of their expected economic useful life. The correctness of applied periods and amortization rates is periodically verified, at least once a year at the end of the financial year, and potential adjustments to amortization charges are applied in the following period.
The typically applied economic useful lives for the amortization of intangible assets:

Acquired concessions, licenses, patents and similar items	2 - 10 years
Acquired computer software	2 - 5 years

Perpetual usufruct right to land acquired free of charge and for compensation are recognized in books. Perpetual usufruct right to land acquired for compensation are presented as intangible assets and amortized during their useful life. However, perpetual usufruct right to land acquired free of charge, i.e. pursuant to administrative decisions, are treated as operational leasing and are not recognized in intangible assets. It is only presented at fair value as an off-balance sheet item.

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

Other intangibles are examined for impairment when circumstances occur which suggest that the carrying value of these assets may be impossible to recover.
If evidence exists that points to possible impairment and the carrying value exceeds the estimated recoverable value, then the value of such assets or cash generating units, to which these assets belong, is lowered to the level of the recoverable value. The recovered value of assets corresponds to the higher of the two following values: net realisable price or value at use

R&D expenses

R & D expenses are not subject to activation and are presented in the profit and loss account as costs in the period, in which they were incurred.

R&D expenses are capitalized only when:

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

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

Outlays for exploration and appraisal projects

The costs of exploration and appraisal of oil and gas in pre-production phase are recognised based on geological success principle. The cost of exploration and appraisal work is booked under intangible assets at the moment industrial usefulness of borehole is declared.

If, following further research, the given area proves unsuitable for industrial use, the outlays for exploration and appraisal 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 of times as portion of the cost of building of well and are subject to depreciation. The usefulness life of wells is determined by the Company's Management Board as at each balance sheet date.

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.

The costs related to geophysical and geoseismic research are recorded in the profit and loss account in the period incurred.

Leasing

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

The Group as a Lessor

Assets under financial leasing are recognised in the balance sheet under receivables in the amount of net leasing 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 net leasing investment.

Revenues from financial leasing are recognized in appropriately periods taking into account the fixed rate of return on the net value of the Company's investment on leasing.
Revenues from operating lease are recognized in the profit and loss account using the linear method during the period resulting from the leasing agreement.

The Group as a Lessee

Assets used based on financial leasing agreements are treated as the Group's assets and are measured at fair value upon their acquisition, no higher however than the current value of minimal leasing fees. The resulting liabilities toward the Lessor are presented in the balance sheet under financial leasing 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 operational leasing agreement are recorded in the profit and loss account using the linear method during the period resulting from the leasing agreement.

Investments

If market practice foresees the delivery of financial assets after a precisely specified period after the transaction date, investments in financial assets are recognized in books and derecognized from books upon the conclusion of the purchase or sale transaction.

All investments are measured initially at purchase price adjusted by transaction costs. Investments are classified as "held for trading" or "available for sale" and, on the balance sheet date, are measured at fair value. Gains and losses resulting from the change of the fair value are recognised in the profit and loss account for the given period.
Financial assets with fixed or determinable payments and fixed maturity are classified as investments "held to maturity", under the condition that the Group definitively intends and is capable of holding them until this date.
Long-term investments held to maturity are measured at adjusted purchase price determined using the effective interest rate. Discounts or bonuses obtained upon the acquisition of the investment and settled over the period during which it was held to maturity are taken into account when determining the adjusted purchase price. Profits or losses from investments measured at adjusted purchase price are recognized in revenues during their settlement (amortization) in the period and upon their derecognition from the balance sheet or upon the occurrence of impairment.

Fixed assets held for sale

Fixed assets (and groups of net assets held for sale) classified as held for sale, are measured at the lower of the following two values: carrying value or fair value less sale related costs.
Fixed assets and groups of net assets are classified as held for sale, if their carrying value will be recovered as a result of sales transactions rather as a result of their further continuous use. This condition is considered as fulfilled only when the occurrence of a sales transaction is highly likely, and an asset (or groups of net assets held for sale) is currently available for immediate sale.
When an asset is classified as held for sale, it is assumed that the company's management intends to finalized the sales transaction within a year from the reclassification.

Inventory

Inventory is measured at purchase price or manufacturing cost not exceeding net sales price. Manufacturing costs consist of the cost of direct materials and, in specified cases, direct payroll costs and a justified portion of indirect costs. The balance sheet inventory of materials includes gas in stock and other materials in stock. Gas in stock is measured at the weighted average purchase price of imported gas, actual manufacturing cost from domestic sources and the cost of denitration. The valuation of imported gas is performed using the exchange rate applied in the Single Administrative Document.
The net sales price corresponds to the estimated price of sales conducted during the course of normal economic activity, less all costs necessary to complete production and costs of leading to the sale of inventory or finding an acquirer (i.e. sales and marketing costs, etc.).

Trade and other receivables

Trade receivables are recognized and disclosed at initially invoiced amounts less revaluation write-downs. Receivables are written down based on the probability of their payment.
Write-downs of receivables connected with gas deliveries to small customers (low consumption of gas), settled in line with tariff groups 1-4, are calculated on a statistical basis. Write-downs are created based on analysis of historical data regarding settlement of receivables during the year. Using the results of the analysis, repayment ratios are calculated, and on this basis, the ageing analysis of receivables is prepared. A 100% write-down is created for receivables overdue by over 365 days and all interest accrued.
The Company creates write-downs for gas delivery receivables from customers from tariff groups 5-7 overdue by more than 90 days. The write-downs are calculated on a case-by-case basis taking into account the financial condition of the debtor.
Write-downs on receivables are charged to other operating expenses or financial expenses, according to the type of receivables.
Irrecoverable receivables are charged to losses upon the assessment of their irrecoverability.
The 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.

Cash and cash equivalents

Cash and cash equivalents disclosed in the balance sheet cover cash at bank and in hand as well as short-term investments with high liquidity and an initial maturity of nor more than months, easily exchangeable for specific cash amounts and subject to small impairment risk.
The balance of cash and cash equivalents disclosed in the consolidated cash flow statement consists of the above-specified cash and cash equivalents, less unpaid loans on the current account.

Impairment

On every balance sheet date, the Group evaluates whether there is any evidence indicating permanent impairment of assets. If such evidence exists, the recoverable value of a particular asset is estimated in order to determine the resulting potential write-down. When assets do not generate cash flows that are to a significant degree independent from flows generated by other assets, an analysis is conducted for the group of cash flow generating assets to which these particular assets belong.
In case of intangible assets with an unspecified useful life, a test for impairment is conducted annually, as well as, when evidence pointing to the occurrence of impairment is uncovered.
The recoverable value is determined as the higher of the two following values: fair value less sales costs or useful value. The latter corresponds to the current value of estimated future discounted cash flows using a discount rate that takes into account the current market value of money over time and risk specific for a particular asset.
If the recoverable value is lower than the net book value of an asset (or group of assets), the book value is decreased to the recoverable value. Impairment is recognized as costs in the period, in which it occurred, except for cases when an asset was recognized at remeasured value (then impairment is treated as a decrease of the earlier remeasurement).
Upon the reversal of impairment, the net value of an asset (group of assets) is increased to the newly estimated recoverable value, however no higher than the net value of this asset that would be determined, if impairment was not recognized in previous years. Reversal of impairment is charged to revenues.

Equity

Equity is recorded in the accounting records broken down by type and according to principles specified in legal regulations and in the holding company's by-laws.
Share capital is disclosed at face value in amounts complying with the by-laws of the holding company and the entry in the commercial register.
Capital contributions declared but not transferred are recognized as called up share capital. Own shares or called-up share capital is decreased by the value of the holding company's equity.
Capital from the issuance of shares above face value is created from the surplus of the issue price of shares over their face value less the cost of their issuance.
The costs of issuing shares incurred during the establishment of a joint stock company or an increase in share capital decrease the capital from the issuance of shares above face value to the surplus of their issue price above the face value of shares. The remaining portion is classified to other reserve capital.
The effects of revaluation using the IFRS for the first time and all changes in the remeasured tangibles fixed assets and intangibles assets are recorded in the retained earnings/losses.
Amounts created from profit distribution, are recognised under revaluation reserve, and the undistributed profit/loss from previous years as well as the current year are recognised in the financial statements as retained earnings.

Bank loans

Interest bearing bank loans are recorded at the value of obtained inflows less the direct cost of obtaining these resources. All interest bearing loans are then recognized at adjusted acquisition price using the effective interest rate method. Costs connected with obtaining loans as well as discounts or bonuses obtained when settling liabilities are taken into account when determining the adjusted acquisition price.
Gains and losses are recognized in the profit and loss account upon their derecognition from the balance sheet or when impairment is assessed and as a result of amortization.

Provisions

Provisions are created when as a result of future events a potential liability of a reliably estimated value, which in the future may result in the outflow of assets that generate economic benefits from the Company, is generated. The value of created provisions is verified at the balance sheet date in order to adjust its value to the current forecast. When the change of the value of cash over time is significant, the amount of the provision is determined as the level of the current value of expected future expenses necessary to settle the liability, whereas the estimated rate of return on risk free deposits is applied as the discount rate. If discounting is applied, the increase in the provision over time is recognized as the cost of external financing.

When the provisions concern the cost of liquidating assets connected with production, the initial value of the provision increases the value of the appropriate tangible fixed asset. Subsequent adjustments of the provisions resulting from changes in estimates are also treated as an adjustment of the value of the fixed asset.

Detailed description of basis of provisions within the PGNiG S.A. Capital Group is provided in point 26.

Accruals

The Capital Group’s constituent entities create prepayments for expenses pertaining to future reporting periods. They are presented in the balance sheet as a separate item in assets.

Accruals are due liabilities for goods and services, which have been received/rendered, but have not yet been paid, invoices or formally agreed upon with the supplier, together with amounts payable to employees (e.g. amounts for accrued vacation pay). These settlements in the balance sheet are disclosed in liabilities and equity together with trade liabilities as well as other liabilities.

The Capital Group’s constituent entities recognise deferred income in order to allocate revenues to future reporting periods upon realisation.

The holding company and the Gas Companies classify gas infrastructure received free of charge (by 1998) and connection fees as deferred income. Respective revenues are realised together with created depreciation charges on the aforesaid service lines. The settlements are disclosed in the balance sheet as a separate item under liabilities and equity.

Trade and other liabilities

Trade liabilities are liabilities that are due for goods and services, which have been delivered/performed as well as invoiced or formally agreed upon with the supplier.

Other liabilities include mainly liabilities resulting from the current activity of the Group’s companies, i.e. from employee remuneration and other current benefits, as well as accrued costs and public–legal liabilities.

Sales revenues

Revenues are recognised in the amount of potential reliably estimated economic benefits that will be obtained by the Group from a particular transaction. The following criteria also apply when recognizing revenues:

Sales of goods and products

Sales revenues are recognized at the fair value of received or due payments and represent receivables for products, goods and services delivered as part of normal economic activity, less discounts, VAT and other sale connected taxes (excise duty). The sale of goods and products is recognized upon the delivery of goods and services together with transferred ownership rights.

Services

Revenues for services are recognized based on the degree to which they are realized upon the balance sheet date. If a service consists of an undeterminable number of activities performed over a specified period of time, then revenues are recognized using the linear method (evenly) over the course of that period. If a certain activity is more important than the other activities, the recognition of revenues is put off until such an activity is performed. When the result of a transaction related to the rendering of such a service cannot be reliably estimated, revenues form such a transaction are recognized only in the amount of incurred expenses, that an entity expects to recover.

Interest

Interest revenues are recognized increasingly, in reference to the principal receivable, in accordance with the effective interest rate method.

Dividends

Revenues from dividends are recognized upon the establishment of the rights of shareholders to receive payments.

Revenues from rental

Revenues from the rent of investment real property are recognized in accordance with conditions resulting from concluded rental agreements.

Construction contracts

When the result of a construction contract can be reliably estimated, revenues and expenses are recognized in reference to the delivery status of such a contract upon the balance sheet date. The delivery status is usually measured as a proportion of incurred costs to all estimates costs connected with the contract, except for situations, when such an approach would not reflect the actual delivery status. All changes to the scope of work, claim or bonuses are recognized in the degree, to which they have been agreed upon with the client.
When the value of a contract cannot be reliably estimated, revenues from such a contract are recognized in the degree, to which it is likely that that costs resulting from the contract will be covered by these revenues.
Costs connected with a contract are recognized as costs in the period to which they refer. When it is probable that the cost of a contract will exceed revenues, the expected loss on the contract is immediately recognized and disclosed as a cost.

State subsidies

State subsides granted for the purpose of retraining employees are recognized as revenues in particular periods, in order to ensure that they reflect respective costs.
State subsidies to fixed assets are presented in the balance sheet as prepayments and next are gradually, by way of annual write-offs, written off from the profit and loss account during the expected useful life of these assets.

Income tax

The obligatory charges consist of: current tax (CIT) and deferred tax.
The current tax liability is measured based on the taxable result (tax base) of a particular financial year. The tax profit (loss) differs from the net profit (loss) disclosed in books due to the exclusion of taxable revenues and future tax deductible expenses and items in expenses and revenues that will never be taxable. Tax liabilities are calculated based on tax rates that are binding in a particular year.
Deferred tax is calculated using the balance-sheet method as payable tax or tax to be returned in the future on differences between the carrying value of assets and liabilities and their corresponding tax values used for the calculation of the taxable base.
The provision for deferred tax is created on all temporary positive differences subject to taxation, whereas deferred tax assets are recognised up to the amount, to which its is probable that future taxable profits will be decreased by the recognised temporary negative differences. The item tax assets or tax liabilities is not created, if temporary differences are created due to goodwill or to the initial recognition of another transaction asset or liability, which does not influence the tax result or the book result. The deferred tax provision is recognized from temporary tax differences created as a result of investments in subsidies and associates as well as joint undertakings, unless the Group is capable of controlling the reversal of temporary differences and it is likely that in the foreseeable future the temporary difference will not be reversed.
The value of the deferred tax asset is subject to an analysis as at every balance sheet date, and when the expected future taxable profits are insufficient to realise the asset or its part a relevant write-down in created.
Deferred tax is calculated using of tax rates that will be valid at the moment when the given asset is realised or the liability is due. Deferred tax is charged to the profit and loss account, except when it is related to the items directly recognised under equity. In the last case, deferred tax is charged directly to equity as well.

Derivatives and hedge accounting

In connection with the conducted activity the Group is exposed to financial risks connected with changes in exchange rates and interest rates. In order to hedge against such risks, the Group concludes transaction related to derivatives such as *swap*s, currency *forward*s and options, strategic currency options and *cross currency interest rate swap*s, so as to hedge against risks resulting from exchange rate fluctuations and changes in interest rates, which influence certain assets, liabilities and transactions in foreign currencies.
Such derivative financial instruments are measured at fair value.
Changes in the fair value of derivative financial instruments assigned to hedge cash flows are classified to financial revenues or expenses of the reporting period.
If cash flow hedges (related to future liabilities or planned transactions) are connected with the recognition of an asset or liability in books, then upon the initial recognition of such an assets or liability, profits or losses relating to the financial instruments recognized previously in capital adjust the initial value of the asset or liability. If a cash flow hedging transaction is not connected with the creation of an assets or liability, the deferred value in capital is recognized in the profit and loss account in the period, in which the settlement of the hedged item is recognized in the profit and loss account.
In case of an effective fair value hedge, the value of the hedged item is adjusted by changes in fair value due to the hedged risk that are charged to the profit and loss account. Profits and losses resulting from the remeasurement of derivatives or revaluation of the currency portion of balance sheet items not constituting derivates are recognized in the profit and loss account.
The hedges applied by the Company do not fulfil criteria for the application of special accounting principles related to hedges, Therefore, profits and losses due to changes in the fair value of hedges are recognized in the profit and loss account for the financial year.
Changes in the fair value of derivatives not constituting hedging instruments are recognized in the profit and loss account of the reporting period, in which the revaluation took place.
The fair value of currency forward transactions is calculated based on forecasted balance sheet date exchange rates for forward transactions with a similar maturity profile.
The fair value of interest rate swaps is determined based on discounted cash flows until expiry.
Derivatives embedded in other financial instruments or agreements not constituting financial instruments are treated as separate derivatives, if the nature of the embedded instrument and the connected risk are not closely connected with the nature of the principal agreement or resulting risks and if principal agreements are not measured according to fair value, whose changes are recognized in the profit and loss account.

3. INFORMATION ON SEGMENTS OF ACTIVITY

It was assumed that the main classification of lines of business is based on sector segmentation. The Capital Group operates in the following four segments:

Mining and production segment – this segment covers the entire gas and crude oil production process, starting from geophysical testing which is undertaken before prospecting for production purposes is commenced and preparation of output for sale.

Trade and storage segment – this segment deals with purchase of gas, its storage and sales.

Distribution segment – this segment deals with purchase, sale and supply of gas to end customers, primarily individual clients.

Other services segment – this segment delivers services related to design and manufacture of machines for gas and crude oil equipment and facilities.

A segment's assets include all operational assets used by the segment, including mainly cash, receivables, inventory, tangible fixed assets less revaluation write-downs. While a majority of assets can be directly assigned to specific segments, the value of assets used by two or more segments is allocated to particular segments based on the level, in which they are use by particular segments.
Liabilities of segments include all operational liabilities, mainly trade, payroll and tax liabilities, due as well as accrued, as well as provisions for liabilities that can be assigned a particular segment.
Neither assets nor liabilities of segment include deferred tax.

(In PLN '000)

Internal transactions within segments have been eliminated.
All transactions between segments are concluded based on internally agreed prices.

3.a. Sector segments

The table below presents data concerning the revenues and profits as well as certain assets and liabilities of the Group's particular sector segments for the periods ended 30 June 2006 and 30 June 2005.

Period ended 30 June 2006	Production and output	Trade and storage	Distribution	Other	Elimination	Total
Profit and loss account						
Sales to external customers	872 800	2 083 618	5 180 712	47 639	-	8 184 769
Sales between segments	475 710	3 928 636	4 928	75 892	(4 485 166)	-
Total segment revenues	1 348 510	6 012 254	5 185 640	123 531	(4 485 166)	8 184 769
Amortization	(232 572)	(78 229)	(332 651)	(5 200)	-	(648 652)
Other costs	(790 990)	(5 557 271)	(4 605 324)	(114 894)	4 484 500	(6 583 979)
Total segment costs	(1 023 562)	(5 635 500)	(4 937 975)	(120 094)	4 484 500	(7 232 631)
Result on the segment's operating activity	**324 948**	**376 754**	**247 665**	**3 437**	**(666)**	**952 138**
Net financial expenses						31 873
Share in profits/(losses) of controlled entities measured using the equity method		(30 115)				(30 115)
Gross result						**953 896**
Income tax						(221 462)
Result for the financial year on discontinued operations						-
Profit sharing						-
Net profit						**732 434**
Balance sheet						
Segment assets	7 276 175	11 202 848	10 993 783	245 002	(356 008)	29 361 800
Investments in entities measured using the equity method		481 961				481 961
Unassigned assets						496 234
Deferred tax asset						405 737
Total assets						**30 745 732**
Total equity						20 545 638
Segment liabilities	1 025 648	2 524 886	1 965 386	81 141	(355 715)	5 241 346
Unassigned liabilities						2 875 374
Provision for deferred tax						2 083 374
Total liabilities and equity						**30 745 732**
Other segment information						
Capital expenditure for tangible fixed assets	(141 568)	(187 816)	(340 702)	(3 782)		**(673 868)**
Revaluation write-downs on assets	(331 763)	(1 902 753)	(471 315)	(25 249)		**(2 731 080)**
Revaluation write-downs on unassigned assets						**(53 537)**

(In PLN '000)

Period ended 30 June 2005	Production and output	Trade, storage and transmission	Distribution	Other	Elimination	Total
Profit and loss account						
Sales to external customers	691 397	1 565 385	3 884 058	37 030	-	6 177 870
Sales between segments	402 576	2 755 423	13 039	66 272	(3 237 310)	-
Total segment revenues	1 093 973	4 320 808	3 897 097	103 302	(3 237 310)	6 177 870
Amortization	(221 074)	(221 779)	(326 821)	(5 798)	-	(775 472)
Other costs	(659 218)	(3 552 987)	(3 403 355)	(102 401)	3 232 035	(4 485 926)
Total segment costs	(880 292)	(3 774 766)	(3 730 176)	(108 199)	3 232 035	(5 261 398)
Result on the segment's operating activity	**213 681**	**546 042**	**166 921**	**(4 897)**	**(5 275)**	**916 472**
Net interest and other financial expenses						(193 188)
Share in profits/(losses) of controlled entities measured using the equity method		57 615				57 615
Gross result						**780 899**
Income tax						(164 808)
Result for the financial year on discontinued operations						-
Profit sharing						(89 845)
Net profit						**526 246**
Balance sheet						
Segment assets	7 218 631	9 600 885	10 798 332	240 449	(791 258)	27 067 039
Investments in entities measured using the equity method		520 263				520 263
Unassigned assets						337 311
Deferred tax asset						405 134
Total assets						**28 329 747**
Total equity						17 773 568
Segment liabilities	1 186 002	1 921 733	1 924 698	100 366	(792 084)	4 340 715
Unassigned liabilities						3 974 760
Provision for deferred tax						2 240 704
Total liabilities and equity						**28 329 747**
Other segment information						
Capital expenditure for tangible fixed assets	(214 888)	(135 365)	(234 928)	(2 295)		**(587 476)**
Revaluation write-downs on assets	(320 606)	(2 187 066)	(474 200)	(3 369)		**(2 985 241)**
Revaluation write-downs on unassigned assets						**(58 285)**

(In PLN '000)

3.b. Geographical areas

The Group operates mainly within the country. Revenues from the export of products as well as goods and materials account for 5.7% of total net revenues from sales of products, goods and materials.

	30 June 2006	30 June 2005
Domestic sales	7 720 578	5 870 355
High-methane gas	6 627 997	5 056 222
Nitrated gas	620 856	474 458
Crude oil	181 067	206 863
Helium	4 606	4 390
Propane-butane gas	18 837	13 913
Gasoline	3 831	5 257
Decompressed gas	7 357	637
Geophysical and geological services	15 454	6 756
Exploitation services	11 657	11 703
Goods and materials	9 419	11 898
Other sales of products and services	219 497	78 258
Export sales	464 191	307 515
High-methane gas	14 978	6 555
Nitrated gas	-	-
Crude oil	164 256	121 679
Helium	10 516	13 024
Propane-butane gas	-	-
Gasoline	-	-
Decompressed gas	-	-
Geophysical and geological services	149 265	62 499
Exploitation services	110 501	96 114
Goods and materials	3 996	13
Other sales of products and services	10 679	7 631
Total	**8 184 769**	**6 177 870**

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

4. EMPLOYEE BENEFITS AND OTHER NET OPERATING EXPENSES

Employee benefits

	30 June 2006	30 June 2005
Payroll	(595 265)	(600 777)
Social security and other benefits	(216 111)	(212 347)
Total	**(811 376)**	**(813 124)**

Other operating expenses (net)

	30 June 2006	30 June 2005
Change in provisions (net)	(83 597)	5 923
Change in write-downs (net)	(49 592)	(55 356)
Taxes and charges	(377 449)	(288 826)
Interest on non-financial items (net)	176 972	43 339
Exchange differences on non-financial items (net)	25 613	(57 901)
Value of goods and materials sold	(17 361)	(28 407)
Other revenues from earlier recognized deferred income	40 126	47 729
Loss on disposal of non-financial non-current assets	(35 394)	(37 010)
Other expenses (net)	(41 037)	(52 133)
Total	**(361 719)**	**(422 642)**

(In PLN '000)

5. FINANCIAL REVENUES AND EXPENSES

	30 June 2006	30 June 2005
Financial revenues	**376 937**	**363 235**
Revenues from the valuation of forwards and swaps	216 502	200 326
Interest revenues	39 401	57 561
Exchange gains	-	71 258
Revaluation of investments	49 309	31 297
Gain on disposal of investments	54 359	-
Other financial revenues	17 366	2 793
Financial expenses	**(345 064)**	**(556 423)**
Costs of forwards and swaps	(150 067)	(173 702)
Interest expense	(38 653)	(280 033)
Exchange losses	(115 391)	-
Discount of provision for reclamation of wells	(7 464)	(6 713)
Revaluation of investments	(30 357)	(55 547)
Loss on disposal of investment	-	(17 173)
Commission on credits	(1 369)	(6 405)
Other financial expenses	(1 763)	(16 850)
Total financial expenses (net)	**31 873**	**(193 188)**

6. MEASUREMENT OF ASSOCIATED ENTITIES USING THE EQUITY METHOD

	30 June 2006	31 December 2005	30 June 2005
SGT EUROPOL GAZ S.A.			
The share of PGNiG S.A. in the Company's share capital*	49.74%	49.74%	49.74%
Core activity	Gas transmission	Gas transmission	Gas transmission
Measurement of shares using the equity method	1 139 885	1 106 603	1 204 837
Acquisition price	38 400	38 400	38 400
Share in changes in capital	1 178 285	1 145 003	1 243 237
Permanent impairment write-downs	(715 085)	(651 203)	(740 837)
Carrying value of investments	**463 200**	**493 800**	**502 400**
GAS TRADING S.A.			
The share of PGNiG S.A. in the Company's capital	43.41%	43.41%	43.41%
Core activity	Trade	Trade	Trade
Measurement of shares using the equity method	17 470	16 985	16 572
Acquisition price	1 291	1 291	1 291
Share in changes in capital	18 761	18 276	17 863
Permanent impairment write-downs	-	-	-
Carrying value of investments	**18 761**	**18 276**	**17 863**
INVESTGAS S.A.			
The share of PGNiG S.A. in the Company's capital	49.00%	49.00%	49.00%
Core activity	Work connected with investments in underground gas storage facilities	Work connected with investments in underground gas storage facilities	Work connected with investments in underground gas storage facilities
Measurement of shares using the equity method	-	-	-
Acquisition price	245	245	245
Share in changes in capital	245	245	245
Permanent impairment write-downs	(245)	(245)	(245)
Carrying value of investments	**-**	**-**	**-**
Total carrying value of investments	**481 961**	**512 076**	**520 263**

* Including a 48% direct share and 1,74% indirect share through Gas-Trading S.A.

(In PLN ‘000)

The Holding Company estimated its share in the equity of SGT EuRoPol Gaz S.A. based on the value of such capital resulting from the financial statements of SGT EuRoPol Gaz S.A. as of 30 June 2006 drawn in line with the Polish Accounting Standards, adjusted by differences in the accounting policies applied in the Group as well as the result on intragroup transactions. The differences in accounting principles concerned the recognition of interest expenses in net tangible fixed assets. The Group applies the model approach of recognizing financial expenses (IAS 32), which states that the gross value of tangible fixed assets does not included financing costs. Next the Management Board tested the measured shares of SGT EuRoPol Gaz S.A for impairment using the discounted cash flows method, based on the data included in the financial plan of SGT EuRoPol Gaz S.A. for the years 2006-2019. The discounted cash flows include all cash flows generated by SGT EuRoPol GAZ S.A., also flows related to the servicing of external sources of funding subject to interest (interest expense and repayment of loan or credit principal). As of 30 June 2006 the holding company applied the equity method to calculate its share in the co-subsidiary’s equity which amounted to PLN 1,139,885 thousand.

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

Due to reasons out of the Company’s control, the assumptions adopted in measurement of value of shares consist of a significant uncertainty related to material fluctuations in exchange rates and changes in tariff policy.
Considering the above factors the Management Board of the holding company decided to write down the investment in SGT EuRoPol GAZ S.A. in the amount of PLN (715,085) thousand.

7. INCOME TAX

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

	30 June 2006	30 June 2005
Gross profit	953 896	780 899
Binding tax rate	19%	19%
Tax according to the binding tax rate	(181 240)	(148 371)
Permanent differences between the gross profit / loss and income tax base	(40 222)	(16 437)
Current income tax	(265 030)	(172 593)
Effective tax rate	23%	21%
Deferred income tax	43 568	7 785
Tax rate applied for calculating deferred tax	19%	19%
Tax liability disclosed in the consolidated profit and loss account	**(221 462)**	**(164 808)**

(In PLN '000)

7.a. Current income tax

	30 June 2006	30 June 2005
Gross profit (loss) (consolidated)	953 896	780 899
Consolidation adjustments	213 748	133 459
Differences between the gross profit (loss) and income tax base	170 111	19 814
Revenues not included in the taxable income, including:	1 453 555	850 223
Write-downs released	155 716	190 588
Release of provisions	63 829	71 690
Release of future revenues	81 900	7 780
Exchange gains	20 013	45 028
Foreign revenues	141 116	55 106
Revenues from gas sales (estimated with tax obligation in the following month)	570 115	283 793
Revenues from hedging transactions	358 349	159 421
Other	62 517	36 817
Costs not classified as tax-deductible expenses, including:	(1 503 597)	(1 095 623)
Accrued unpaid interest on loans and liabilities	(11 650)	(95 836)
Provisions created	(152 740)	(75 579)
Write-downs created	(225 518)	(180 485)
Costs of hedging transactions	(209 235)	(84 741)
Exchange losses	(125 333)	(61 647)
Non-taxable amortisation	(31 159)	(23 271)
Foreign costs	(123 321)	(50 877)
Costs related to sales with tax liability in the next month	(514 539)	(367 112)
Value at the shares purchase cost	-	(37 920)
Unpaid remuneration with unpaid Social Security premiums	(63 013)	(73 260)
Other	(47 089)	(44 895)
Taxable income not classified to accounting revenues, including:	1 449 979	955 267
Connection fee	28 111	24 743
Realised exchange gains	4 056	44 857
Revenues due to rental, lease, sales of gas, utilities with tax liability in the next month	1 295 249	875 765
Received interest on leasing	118 825	-
Other	3 738	9 902
Tax-deductible expenses, not classified to accounting expenses, including:	(1 307 617)	(1 172 202)
Paid interest	(8 362)	(6 467)
Realised exchange losses from previous years	(69)	(290 612)
Provision for the measurement of hedging transactions	-	(64 941)
Tax depreciation	(24 478)	(26 191)
Lease related expenses	(96 739)	(6 069)
Remuneration paid for the previous month with social security premiums	(69 626)	(4 852)
Expenses due to rental, lease, sales of gas, utilities with tax liability in the next month	(1 096 930)	(743 603)
Other	(11 413)	(29 467)
Deductions from income, including:	(22 293)	(8 651)
Donations	(603)	(1 485)
Foreign income	(12 060)	(195)
Loss from previous years	(9 630)	(6 971)
Income tax base	1 337 755	934 172
Tax rate for the given period	19%	19%
Income tax	(254 173)	(177 493)
Increases, releases, exemptions, deductions and reductions of taxes	(10 857)	4 900
Current income tax disclosed in tax return for the period	(265 030)	(172 593)
Current income tax recognised in the consolidated profit and loss account	**(265 030)**	**(172 593)**

(In PLN '000)

7.b. Deferred income tax

	30 June 2006	30 June 2005
Occurrence and reversal of temporary differences due to negative temporary differences	6 040	(56 280)
Provisions due to payment of pension allowances	(1 964)	(855)
Provisions due to payment of retirement severance and jubilee bonuses	(19)	(4 554)
Provision for payment of termination benefits	236	112
Provision for unused vacation	(2 455)	(3 344)
Provision for reclamation of wells	(14 029)	13 105
Revaluation write-downs on fixed assets	9 612	(1 915)
Revaluation write-downs on shares	115	575
Revaluation write-downs on interest on loans	-	849
Revaluation write-downs on receivables	(162)	(7 802)
Measurement of forward transactions	(17 536)	(21 720)
Expenses related to transactions hedging against FX and interest rate risk	11 400	11 329
Exchange losses from valuation of loans from previous years and revaluation of foreign currency cash	20 009	(54 675)
Accrued interest on loans and liabilities	451	2 666
Connection fee	2 985	2 967
Tax loss	(774)	(1 135)
Unpaid payroll	(2 227)	-
Discontinued consolidation in connection with the disposal of a subsidiary	-	616
Other	398	7 501
Occurrence and reversal of temporary differences due to positive temporary differences	37 528	64 065
Exchange gains	1 173	11 247
Interest accrued	119	6 935
Measurement of financial instruments	(22 196)	(16 187)
Revenues from tax obligation in the following month	44 932	31 432
Provisoin for interest accrued on obtained loan	-	8 937
Revaluation of fixed assets	32 616	40 990
Financial lease revenues	(7 510)	-
Other	(11 606)	(19 289)
Deferred income tax disclosed in the consolidated profit and loss account	**43 568**	**7 785**

The current reporting period covered the tax period from 1 January 2006 to 30 June 2006.
The CIT rate in force in during the first half of 2006 was 19%. In the comparable period i.e. in the 1st half of 2005 the same rate was 19% as well.
The regulations on VAT, CIT, PIT and social security contributions are subject to frequent changes, and there is often no reference to established regulations or legal precedents. Additionally, valid regulations include ambiguities giving rise to differences in the interpretation of tax regulations between particular authorities as well as authorities and companies. Tax and other settlements (e.g. customs or currency settlements) can be subject to inspection by authorities entitled to impose high penalties. Liabilities assessed as a result of inspections have to be settled together with high interest. As a result, tax risk in Poland is higher than in countries where the tax system is more mature. In Poland, there are no formal procedures for the reconciliation of the final level of tax settlement. Tax settlements can be subject to control during the course of five years. Consequently, the amounts presented in the financial statements can change at a later date, after they have been finally assessed by tax authorities.
The balance of deferred tax presented in the financial statements is reduced by the adjustment arising from temporary differences whose realisation for tax purposes is not 100% certain.

8. DISCONTINUED OPERATIONS

In the 1st half of 2006 the Group did not abandon any activity. The Group is not planning to abandon any activity.

9. EARNINGS PER SHARE

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

	30 June 2006	30 June 2005
Net profit attributable to shareholders of the holding company	731 396	526 220
Net profit attributable to shareholders of the holding company applied to computation of diluted earnings per share	731 396	526 220
Weighted average number of ordinary shares applied to computation of basic earnings per share (thousand items)	5 900 000	5 000 000
Weighted average number of ordinary shares applied to computation of diluted earnings per share (thousand items)	5 900 000	5 000 000
Basic profit per share for a financial year attributable to ordinary shareholders of the holding company	0.12	0.11
Diluted profit per share for a financial year attributable to ordinary shareholders of the holding company	0.12	0.11

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				
2006-01-01	2006-06-30	5 900 000	181	5 900 000
Total				**5 900 000**
30 June 2005				
2005-01-01	2005-06-30	5 000 000	181	5 000 000
Total				**5 000 000**

10. PAID AND PROPOSED DIVIDENDS

	30 June 2006	30 June 2005
Dividend paid in the period		
Declared dividend per ordinary share (in PLN)	0.15	0.10
Number of shares (PLN '000)**	5 900 000	5 000 000
Value of declared dividend in thousand PLN	885 000	500 000

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

**The dividend date is 27 July 2006, and the dividend payment date is 2 October 2006

(In PLN '000)

11. TANGIBLE FIXED ASSETS

	30 June 2006	31 December 2005	30 June 2005
Land	102 062	102 852	144 965
Buildings and structures	13 408 110	13 769 416	18 125 181
Technical equipment and machinery	2 097 346	2 182 381	2 507 022
Vehicles and others	865 694	894 141	954 120
Fixed assets under construction	734 518	575 639	540 626
Total	**17 207 730**	**17 524 429**	**22 271 914**

30 June 2006	Land	Buildings and structures	Technical equipment and machinery	Vehicles and others	**Total**
As of 1 January 2006, including accumulated depreciation	102 852	13 769 416	2 182 381	894 141	**16 948 790**
Increase	59	21 452	20 103	22 305	**63 919**
Decrease	(884)	(111 890)	(9 242)	(23 923)	**(145 939)**
Reclassification from fixed assets under construction and between groups	532	148 942	49 602	38 139	**237 215**
Permanent impairment revaluation write-down	-	1 818	403	3 343	**5 564**
Depreciation for the financial year	(497)	(421 628)	(145 901)	(68 311)	**(636 337)**
As of 30 June 2006, including accumulated depreciation	**102 062**	**13 408 110**	**2 097 346**	**865 694**	**16 473 212**
As of 1 January 2006					
Gross value	104 988	16 187 424	2 742 612	1 162 705	**20 197 729**
Accumulated depreciation and permanent impairment revaluation write-down	(2 136)	(2 418 008)	(560 231)	(268 564)	**(3 248 939)**
Net carrying value	**102 852**	**13 769 416**	**2 182 381**	**894 141**	**16 948 790**
As of 30 June 2006					
Gross value	104 695	16 225 083	2 786 845	1 188 825	**20 305 448**
Accumulated depreciation and permanent impairment revaluation write-down	(2 633)	(2 816 973)	(689 499)	(323 131)	**(3 832 236)**
Net carrying value	**102 062**	**13 408 110**	**2 097 346**	**865 694**	**16 473 212**

(In PLN '000)

31 December 2005	Land	Buildings and structures	Technical equipment and machinery	Vehicles and others	**Total**
As of 1 January 2005, including accumulated depreciation	144 654	18 373 341	2 555 181	999 714	**22 072 890**
Increase	23 670	240 904	83 074	45 597	**393 245**
Decrease	(65 824)	(4 807 249)	(437 845)	(96 665)	**(5 407 583)**
Reclassification from fixed assets under construction and between groups	1 447	798 961	255 986	78 795	**1 135 189**
Permanent impairment revaluation write-down	10	110 142	18 803	1 278	**130 233**
Amortisation for the financial year*	(1 105)	(946 683)	(292 818)	(134 578)	**(1 375 184)**
As of 31 December 2005, including accumulated depreciation	**102 852**	**13 769 416**	**2 182 381**	**894 141**	**16 948 790**
As of 1 January 2005					
Gross value	145 641	20 276 875	2 887 051	1 152 921	**24 462 488**
Accumulated depreciation and permanent impairment revaluation write-down	(987)	(1 903 534)	(331 870)	(153 207)	**(2 389 598)**
Net carrying value	**144 654**	**18 373 341**	**2 555 181**	**999 714**	**22 072 890**
As of 31 December 2005					
Gross value	104 988	16 187 424	2 742 612	1 162 705	**20 197 729**
Accumulated depreciation and permanent impairment revaluation write-down	(2 136)	(2 418 008)	(560 231)	(268 564)	**(3 248 939)**
Net carrying value	**102 852**	**13 769 416**	**2 182 381**	**894 141**	**16 948 790**

* Amortization in the table does not include amortization of Gaz System Sp. z o.o. for four months That amortization is disclosed in the profit and loss account for the current period.

(In PLN '000)

30 June 2005	Land	Buildings and structures	Technical equipment and machinery	Vehicles and others	**Total**
As of 1 January 2005, including accumulated depreciation	144 654	18 373 341	2 555 181	999 714	**22 072 890**
Increase	10 945	96 635	32 901	17 089	**157 570**
Decrease	(11 046)	(75 126)	(20 580)	(18 281)	**(125 033)**
Reclassification from fixed assets under construction and between groups	905	250 135	89 518	24 120	**364 678**
Permanent impairment revaluation write-down	-	24 088	2 448	70	**26 606**
Depreciation for the financial year	(493)	(543 892)	(152 446)	(68 592)	**(765 423)**
As of 30 June 2005, including accumulated depreciation	**144 965**	**18 125 181**	**2 507 022**	**954 120**	**21 731 288**
As of 1 January 2005					
Gross value	145 641	20 276 875	2 887 051	1 152 922	**24 462 489**
Accumulated depreciation and permanent impairment revaluation write-down	(987)	(1 903 534)	(331 870)	(153 208)	**(2 389 599)**
Net carrying value	**144 654**	**18 373 341**	**2 555 181**	**999 714**	**22 072 890**
As of 30 June 2005					
Gross value	146 444	20 536 444	2 984 740	1 171 524	**24 839 152**
Accumulated depreciation and permanent impairment revaluation write-down	(1 479)	(2 411 263)	(477 718)	(217 404)	**(3 107 864)**
Net carrying value	**144 965**	**18 125 181**	**2 507 022**	**954 120**	**21 731 288**

(In PLN '000)

12. INVESTMENT PROPERTY

	30 June 2006	31 December 2005	30 June 2005
Opening balance, including accumulated depreciation	10 553	11 279	11 279
Increase	-	-	-
Decrease	(3)	(459)	-
Reclassifications from tangible fixed assets	20	21	-
Permanent impairment revaluation write-down	-	261	-
Depreciation for the financial year	(270)	(549)	(266)
Closing balance, including accumulated depreciation	**10 300**	**10 553**	**11 013**

Opening balance			
Gross value	11 650	12 080	12 080
Accumulated depreciation and permanent impairment revaluation write-down	(1 097)	(801)	(801)
Net carrying value	**10 553**	**11 279**	**11 279**

Closing balance			
Gross value	11 670	11 650	12 080
Accumulated depreciation and permanent impairment revaluation write-down	(1 370)	(1 097)	(1 067)
Net carrying value	**10 300**	**10 553**	**11 013**

(In PLN '000)

13. INTANGIBLE ASSETS

30 June 2006	R&D costs	Goodwill	Prospecting expenditure	Other intangible assets	**Total**
As of 1 January 2006, including accumulated depreciation	844	-	876 146	75 708	**952 698**
Increase	-	-	156 528	(631)	**155 897**
Decrease	-	-	(32 195)	(549)	**(32 744)**
Reclassification from fixed assets under construction and between groups	-	-	(39 328)	7 302	**(32 026)**
Permanent impairment revaluation write-down	-	-	(43 684)	-	**(43 684)**
Depreciation for the financial year	(155)	-	-	(11 890)	**(12 045)**
As of 30 June 2006, including accumulated depreciation	**689**	**-**	**917 467**	**69 940**	**988 096**
As of 1 January 2006					
Gross value	1 262	-	1 066 882	111 561	**1 179 705**
Accumulated depreciation and permanent impairment revaluation write-down	(418)	-	(190 736)	(35 853)	**(227 007)**
Net carrying value	**844**	**-**	**876 146**	**75 708**	**952 698**
As of 30 June 2006					
Gross value	1 261	-	1 151 887	117 429	**1 270 577**
Accumulated depreciation and permanent impairment revaluation write-down	(572)	-	(234 420)	(47 489)	**(282 481)**
Net carrying value	**689**	**-**	**917 467**	**69 940**	**988 096**

(In PLN '000)

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

(In PLN '000)

30 June 2005	R&D costs	Goodwill	Prospecting expenditure	Other intangible assets	**Total**
As of 1 January 2005, including accumulated depreciation	285	-	764 959	66 393	**831 637**
Increase	300	-	91 863	265	**92 428**
Decrease	-	-	-	(175)	**(175)**
Reclassification from fixed assets under construction and between groups	533	-	(96 567)	8 026	**(88 008)**
Permanent impairment revaluation write-down	-	-	(3 283)	-	**(3 283)**
Depreciation for the financial year	(99)	-	-	(9 684)	**(9 783)**
As of 30 June 2005, including accumulated depreciation	**1 019**	**-**	**756 972**	**64 825**	**822 816**

As of 1 January 2005					
Gross value	428	-	932 143	81 386	**1 013 957**
Accumulated depreciation and permanent impairment revaluation write-down	(143)	-	(167 184)	(14 993)	**(182 320)**
Net carrying value	**285**	**-**	**764 959**	**66 393**	**831 637**

As of 30 June 2005					
Gross value	1 261	-	927 439	89 487	**1 018 187**
Accumulated depreciation and permanent impairment revaluation write-down	(242)	-	(170 467)	(24 662)	**(195 371)**
Net carrying value	**1 019**	**-**	**756 972**	**64 825**	**822 816**

(In PLN '000)

14. FINANCIAL ASSETS AVAILABLE FOR SALE

	30 June 2006	31 December 2005	30 June 2005
Unlisted shares (gross value)	73 095	69 802	65 671
Listed shares (gross value)	-	-	536
Gross total	**73 095**	**69 802**	**66 207**
Unlisted shares (net value)*	19 571	21 358	17 017
Listed shares (net value)*	-	-	536
Total net	**19 571**	**21 358**	**17 553**

* less revaluation write-down

15. OTHER FINANCIAL ASSETS

	30 June 2006	31 December 2005	30 June 2005
Receivables due to financial lease	3 982 882	4 106 207	-
Originated loans	9 968	12 990	-
Receivables from sales of fixed assets	231	308	278
Receivables from guarantees and hedging	16	509	746
Long-term bank deposits	210	177	162
Other	267	434	348
Gross total	**3 993 574**	**4 120 625**	**1 534**
Permanent impairment revaluation write-down	(9 989)	(13 040)	(61)
Total net	**3 983 585**	**4 107 585**	**1 473**

16. DEFERRED TAX ASSET

	30 June 2006	31 December 2005	30 June 2005
Provisions due to payment of pension allowances	17 546	19 510	20 505
Provisions due to payment of retirement severance and jubilee bonuses	52 224	52 242	51 466
Provision for payment of termination benefits	4 498	4 262	2 863
Provision for unused vacation	1 491	3 945	989
Provision for reclamation of wells	91 147	105 177	115 445
Provision for renegotiation of import prices	25 682	9 543	0
Revaluation write-downs on fixed assets	68 999	59 036	55 898
Revaluation write-downs on shares	10 813	10 698	13 401
Revaluation write-downs on interest on loans	-	-	6 638
Revaluation write-downs on receivables	571	730	19 938
Measurement of forward transactions	15 368	32 904	23 537
Expenses related to transactions hedging against FX and interest rate risk	15 323	3 924	22 110
Exchange losses	24 862	4 854	3 181
Accrued interest on loans and liabilities	2 049	1 617	4 008
Connection fee	31 195	28 210	12 239
Unpaid remuneration with Social Security premiums	11 759	13 977	0
Tax loss	8 076	8 842	4 394
Other	24 134	25 033	48 522
Total	**405 737**	**384 504**	**405 134**

(In PLN '000)

17. OTHER NON-CURRENT ASSETS

	30 June 2006	31 December 2005	30 June 2005
Recyclable materials	9 690	11 322	11 184
Financial costs settled over time	4 230	4 728	0
Mining usufruct establishment fees	42	1 192	1 212
Other prepayments	2 257	6	8
Total	**16 219**	**17 248**	**12 404**

18. INVENTORY

	30 June 2006	31 December 2005	30 June 2005
Materials			
Value at purchase cost	881 030	809 753	630 787
Net realisable value	855 103	783 827	626 095
Semi-finished products and work in progress			
Value at cost	29 149	24 908	35 856
Net realisable value	29 120	24 800	35 835
Finished products			
Value at cost	8 888	5 440	4 013
Net realisable value	8 805	5 357	3 959
Goods			
Value at purchase cost	1 406	1 619	1 325
Net realisable value	1 113	1 361	1 073
Total inventory, at the lower of two values: at cost or net realisable value	**894 141**	**815 345**	**666 962**

19. TRADE AND OTHER RECEIVABLES

	30 June 2006	31 December 2005	30 June 2005
Trade receivables	1 945 038	2 537 965	1 885 153
Trade receivables from related entities	48 273	44 705	48 212
Receivables from tax, subsidy, customs, social security	122 870	327 150	44 004
Receivables from surplus of obligatory profit contribution for the owner	19 090	47 890	49 661
Due portion of originated loans	232 803	254 057	291 446
Receivables from associated entities measured by equity method	4 340	3 950	3 424
Receivables due to financial lease	262 016	262 200	-
Other receivables from related parties	83 629	86 538	11 504
Other receivables	194 181	187 105	152 203
Total gross receivables	**2 912 240**	**3 751 560**	**2 485 607**
Revaluation write-down on doubtful receivables (table 19a)	**(1 102 069)**	**(1 133 210)**	**(1 284 351)**
Total net receivables	**1 810 171**	**2 618 350**	**1 201 256**
including:			
Trade receivables	1 291 033	1 870 083	985 987
Trade receivables from related entities	3 231	1 868	5 879
Receivables from tax, subsidy, customs, social security	121 997	326 277	43 531
Receivables from surplus of obligatory profit contribution for the owner	19 090	47 890	49 661
Due portion of originated loans	-	-	-
Receivables from associated entities measured by equity method	4 320	3 931	3 424
Receivables due to financial lease	262 016	262 200	-
Other receivables from related parties	23	2 933	11 292
Other receivables	108 461	103 168	101 482

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

(In PLN '000)

19.a. Write-downs on receivables

	30 June 2006	31 December 2005	30 June 2005
Revaluation write-down, opening balance	(1 133 210)	(1 280 988)	(1 280 988)
Created revaluation write-down	(57 894)	(167 365)	(184 557)
Released write-down	71 995	210 319	133 510
Used write-down	19 803	91 635	47 684
Transfers between the short- and long-term portion	(2 763)	13 189	-
Closing balance of revaluation write-downs	**(1 102 069)**	**(1 133 210)**	**(1 284 351)**

20. SETTLEMENTS DUE TO CURRENT TAX

	30 June 2006	31 December 2005	30 June 2005
Liabilities due to current tax, opening balance	75 201	4 214	4 214
Change in balance of current tax receivables*	(20 593)	(892)	(19 336)
Current tax receivables, opening balance	30 883	31 775	31 775
Current tax receivables, closing balance	10 290	30 883	12 439
Income tax (period cost)	265 030	311 566	172 593
Income tax paid in the period	(91 625)	(239 687)	(78 343)
Current tax liabilities, closing balance	**228 013**	**75 201**	**79 127**

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

21. ACCRUALS

	30 June 2006	31 December 2005	30 June 2005
Property insurance	2 587	3 094	5 240
Write-off to the Company Social Benefits Fund	18 985	-	17 812
Real estate tax	153 578	-	76 422
Repairs settled over time	2 827	2 997	-
Financial costs settled over time	1 868	2 393	-
Mining usufruct establishment fees	1 722	143	2 543
Materials settled over time	513	599	1 078
Subscriptions	508	524	322
Measurement of long-term contracts	1 585	3 216	2 137
Other expenses settled over time	40 497	4 535	8 196
Total	**224 670**	**17 501**	**113 750**

22. FINANCIAL ASSETS HELD FOR TRADING

	30 June 2006	31 December 2005	30 June 2005
Unlisted shares (gross value)	6 678	11 201	11 706
Listed shares (gross value)	-	-	-
Short-term deposit (gross value)	14	-	-
Participation units in investment funds (gross value)	16 054	16 000	-
Treasury bills (gross value)	223 209	12 802	61 116
Gross total	**245 955**	**40 003**	**72 822**
Unlisted shares (net value)*	1 540	1 589	2 077
Listed shares (net value)*	-	-	-
Short-term deposit (net value)	14	-	-
Participation units in investment funds (net value)	15 810	16 000	-
Treasury bills (net value)	223 209	12 802	61 116
Total net	**240 573**	**30 391**	**63 193**

* Less revaluation write-down

23. CASH

	30 June 2006	31 December 2005	30 June 2005
Cash in hand and at bank	213 102	197 357	183 971
Bank deposits	926 135	996 921	562 519
Short-term high liquidity securities*	3 074 554	1 998 290	1 137 651
Other cash**	6 686	7 903	7 754
Total	**4 220 477**	**3 200 471**	**1 891 895**

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

PGNiG S.A. Group entities depost cash in first class Polish and international banks; consequently the deposit risk is limited.

Funds gained from increase in the capital in 2005 in line with the prospectus were invested most of all in bills and bonds issued by the State Treasury and bonds issued by the National Bank, which are safe with respect to credit risk. The remaining part (several percent) was invested in renowned banks.

24. SHARE CAPITAL

	30 June 2006	31 December 2005	30 June 2005
Total number of shares in '000	5 900 000	5 900 000	5 000 000
Face value of one share in PLN	1	1	1
Total share capital	5 900 000	5 900 000	5 000 000

(In PLN '000)

25. LOANS AND DEBT SECURITIES

	Currency	Effective interest rate %	Repayment/redemption date	30 June 2006	31 December 2005	30 June 2005	Hedging
Long-term							
Liabilities due to leasing	PLN	9.12%	2006-2010	49 428	53 202	50 589	-
Syndicate loan***	EUR	Euribor 3M+0.25	27.07.2010	2 426 040	2 315 880	-	Guarantees of distribution companies
Bank credit at BPH PBK S.A. Warsaw	PLN	Wibor 1M+0.8	25.10.2007**	-	-	9 328	Mortgage, transfer of the ownership rights
Bank credit at Citibank Handlowy Bank Handlowy, Warsaw	USD	Libor 3M+0.75	quarterly by 30 December 2007**	-	-	86 885	Assignment of receivables, pledge on tangible fixed assets, assignment of debts, transfer of the ownership right to the property of Dębno mine, blank bills of exchange, assignment of rights from the insurance of Dębno
Bank Credit at Credit Suisse First Boston, London	USD	Libor 3M +0.95	22.09.2003-06.09.2006**	-	-	27 884	Guarantees of distribution companies
Bank credit at EBI Bank, Luxembourg	USD	7,31%	20.10.1995-20.04.2007**	-	-	17 687	Guarantee of the State Treasury
Loan from a natural person (in subsidiary)	PLN	Wibor 1M+0.5	31.12.2007	50	-	-	-
Total long-term				**2 475 518**	**2 369 082**	**192 373**	

	Currency	Effective interest rate %	Repayment/redemption date	30 June 2006	31 December 2005	30 June 2005	Hedging
Short-term							
Current portion of leasing liabilities	PLN	9.12%	2006	33 131	31 788	33 406	-
Bonds held for redemption	EUR	6.75%	30.09.2006*	-	-	-	Guarantees of distribution companies
Current portion of bank credit in Sumitomo Mitsui Banking Corporation, London	EUR	Euribor 3M+0.6	12.02.2006	-	-	2 439 956	
Current portion of syndicate loan***	EUR	Euribor 3M+0.25	27.07.2010	10 529	8 356	-	Guarantees of distribution companies
Current portion of bank credit at BPH PBK S.A. Warsaw	EUR	Euribor 3M+1.05	25.10.2005	-	-	552	Mortgage, transfer of the ownership rights
Current portion of bank credit at BPH PBK S.A. Warsaw	PLN	Wibor 1M+0.8	25.10.2007**	-	-	15 065	Mortgage, transfer of the ownership rights
Current portion of bank credit at Pekao S.A. I O/Sanok	PLN	Wibor 1M+0.9	25.12.2005	-	-	3 770	bill-of-exchange
Current portion of bank credit at Pekao S.A. I O/Sanok	PLN	Wibor 1M+0.9	25.04.2005	-	-	-	bill-of-exchange
Current portion of bank credit at Citibank Handlowy Bank Handlowy, Warsaw	USD	Libor 3M+0.75	quarterly by 30 December 2007**	-	-	57 940	Assignment of receivables, pledge on tangible fixed assets, assignment of debts, transfer of the ownership right to the property of Dębno mine, blank bills of exchange, assignment of rights from the insurance of Dębno
Current portion of bank credit at ABN Amro Bank, Warsaw	EUR	Euribor 3M+0.6	14.08.2003-14.08.2005	-	-	145 939	Guarantees of distribution companies
Current portion of bank Credit at Credit Suisse First Boston, London	USD	Libor 3M+0.95	22.09.2003-06.09.2006**	-	-	223 562	Guarantees of distribution companies
Current portion of bank credit at EBI, Luxembourg	USD	7.31%	20.10.1995-20.04.2007**	-	-	18 184	Guarantee of the State Treasury
Current portion of loan from Voivodship Fund for Environmental Protection and Water Management, Jelenia Góra	PLN	8%	15.01.2003-15.01.2005	-	-	-	Guarantees of distribution companies
Current portion of bank credit at Citibank Handlowy Bank Handlowy, Warsaw	PLN	Wibor 3M+0.6	15.08.2005	-	-	574 035	Guarantee of the State Treasury
Current portion of bank credit at BGŻ S.A.O/Krosno	PLN	Wibor 3M+4	quarterly by 31 December 2005	-	-	114	Registered pledge on fixed assets
Short-term loan at Millennium Bank S.A., Warsaw	PLN	Wibor 3M+0.65	27.04.2006	4 607	5 616	4 716	Blank bill of exchange
Credit line at Raiffeisen Bank S.A. Warsaw	PLN	Wibor 1M+0.5	31.05.2006	1 684	4 886	4 153	Blank bill of exchange

(In PLN '000)

Short-term loan at PeKaO S.A. O/Jasło	PLN	Wibor 1M+1	30.11.2006	3 000	-	3 000	Registered pledge, bill of exchange
Overdraft on current account at PeKaO S.A. O/Jasło	PLN	Wibor 1M+1.3	30.11.2005	-	-	2 043	Bill-of-exchange
Working capital loan at Societe Generale S.A., Warsaw	USD	Libor 1M+0.8	13.01.2006	-	4 312	4 424	Real estate mortgage
Overdraft on current account at BPHPBK S.A. I O/Kraków	PLN	Wibor 1M+0.4	29.09.2006	14 056	12 992	15 566	Real estate mortgage, assignment of receivables from current and future contracts
Overdraft on current account at BGK S.A. O/Piła	PLN	Wibor 3M+1.7	26.04.2005	-	-	64	Transfer of the ownership right
Credit line at Societe Generale Kraków	PLN	Wibor 1M+0.8	31.10.2006	-	2 197	473	Assignment of receivables
Credit line at Bank Przemysłowo Handlowy Kraków	PLN	Wibor 1M+0.4	30.09.2006	10 035	10 200	11 150	Mortgage, transfer of the ownership rights
Komercni Banka A.S. (Czech Republic)	CZK	Pribor 3M+0.15	03.07.2006	-	371	-	Inflows from sales
Short-term loan at PeKaO S.A., Toruń	PLN	Wibor 1M+0.7	31.05.2007	4 103	4 500	3 500	Blank bill of exchange
Overdraft on current account at Societe Generale Warsaw	PLN	Wibor 1M+0.8	29.12.2006	15	-	3 260	Assignment of receivables
Short-term loan at BPH PBK S.A. Jasło	PLN	Wibor 1M+1.5	29.09.2006	500	-	1 000	Inventory
Working capital loan at BGK O/Piła	PLN	Wibor 3M+1.35	25.04.2007	5 123	-	4 000	Transfer of the ownership right
Short-term loan at ING Bank Śląski Bytom	PLN	Wibor 1M+1.2	29.09.2006	2 480	-	-	Assignment of receivables and bill of exchange
Short-term loan at BRE Bank S.A., Bydgoszcz	PLN	Wibor 1M+0.7	25.08.2006	2 480	4 000	3 480	Blank bill of exchange
Overdraft on current account at Bank Societe Generale Warsaw	CHF	Libor 1M+0.8	02.10.2006	4 305	-	-	Blank bill of exchange, first mortgage and second mortgage
Short-term loan at Millennium Bank S.A. in Warsaw	PLN	6.54%	12.03.2007	1 120	-	-	Declaration of will to surrender to enforcement proceedings
Short-term loan from the Guaranteed Employee Benefits Fund	PLN	-	-	-	-	523	-
Debit facility at Societe Generale S.A., Warsaw	USD	-	-	-	-	19	-
Total short-term				**97 168**	**89 218**	**3 573 894**	

** On 6 April 2005 – redemption of Eurobond before maturity
** Loans entirely paid off in 2005 before maturity with funds from the syndicate loan
The agreement of 27 July 2005 concluded between PGNiG and Bank Handlowy w Warszawie S.A., Bank Polska Kasa Opieki S.A., Caylon S.A., Fortis Bank N.V., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale S.A. branch in Poland.

As of 30 June 2006 the holding company used one syndicate loan, which was covered with an agreement signed on 27 July 2005. The loan consists of tranche A, non-revolving credit of EUR 600 million, and tranche B, revolving credit of EUR 300 million. In the 1st half of 2006 the revolving portion of the credit was still unused.
On 11 July 2006 the Company's Management Board adopted a resolution on temporary use of free cash, including cash from increase in the capital, for early repayment of the loan of EUR 600 million. In order to be given permission for early repayment of the loan the party has to have funds available in at least the same amount in the form of a credit line. Successful completion of the operation (after negotiations with banks and being given permission from the Supervisory Board) will protect the Company from against paying spread of cash market on the amount of the credit released.

(In PLN '000)

26. PROVISIONS

	Jubilee bonuses and retirement severance pay	Provision for pension allowances	Company Social Benefits Fund	Provision for termination benefits	Provision for well reclamation costs	Mine liquidation fund	Provision for penalties imposed by the Office for Competition and Consumer Protection	Provision for environmental protection purposes	Provision for return of assets from leasing	Provision for renegotiation of import prices	Other	**Total**
As of 31 December 2005	297 691	102 683	76 637	25 721	572 278	25 764	60 098	35 569	81 285	50 224	79 858	**1 407 808**
Created during the financial year	12 787	1 194	50 221	-	31 814	4 385	-	6 112	4 300	84 946	13 478	**209 237**
Used	(11 825)	(11 529)	(26 488)	(2 045)	(5 312)	-	(5 449)	-	-	-	(17 021)	**(79 669)**
												-
As of 30 June 2006	**298 653**	**92 348**	**100 370**	**23 676**	**598 780**	**30 149**	**54 649**	**41 681**	**85 585**	**135 170**	**76 315**	**1 537 376**
Long-term, 30 June 2006	246 713	68 498	-	18 513	564 548	30 149	-	40 526	-	-	27 702	**996 649**
Short-term, 30 June 2006	51 940	23 850	100 370	5 163	34 232	-	54 649	1 155	85 585	135 170	48 613	**540 727**
	298 653	**92 348**	**100 370**	**23 676**	**598 780**	**30 149**	**54 649**	**41 681**	**85 585**	**135 170**	**76 315**	**1 537 376**
Long-term, 31 December 2005	249 381	78 354	-	15 219	537 530	25 764	-	34 414	-	-	40 831	**981 493**
Short-term, 31 December 2005	48 310	24 329	76 637	10 502	34 748	-	60 098	1 155	81 285	50 224	39 027	**426 315**
	297 691	**102 683**	**76 637**	**25 721**	**572 278**	**25 764**	**60 098**	**35 569**	**81 285**	**50 224**	**79 858**	**1 407 808**
As of 31 December 2004	309 335	112 424	85 449	14 466	538 632	17 005	52 656	28 900	28 246	-	72 583	**1 259 696**
Created during the financial year	16 803	7 567	48 077	795	73 758	319	2 000	-	-	-	18 631	**167 950**
Used	(11 879)	(12 068)	(20 390)	(205)	(4 787)	-	-	(28 900)	-	-	(11 866)	**(90 095)**
												-
As of 30 June 2005	**314 259**	**107 923**	**113 136**	**15 056**	**607 603**	**17 324**	**54 656**	**-**	**28 246**	**-**	**79 348**	**1 337 551**
Long-term, 30 June 2005	269 039	84 040	-	3 339	540 977	-	-	-	27 912	-	35 054	**960 361**
Short-term, 30 June 2005	45 220	23 883	113 136	11 717	66 626	17 324	54 656	-	334	-	44 294	**377 190**
	314 259	**107 923**	**113 136**	**15 056**	**607 603**	**17 324**	**54 656**	**-**	**28 246**	**-**	**79 348**	**1 337 551**

(In PLN '000)

Provisions for jubilee awards and retirement benefits

The Capital Group's entities implement a jubilee awards and retirement benefits scheme. Respective payments are charged to the profit and loss account in such a way as to spread the cost of jubilee awards and retirement benefits over the entire period of employment in respective companies. The costs due to the aforesaid benefits are determined by measuring forecasted individual entitlements using the actuarial method.

	30 June 2006	31 December 2005	30 June 2005
Adopted in calculation of interest rate			
Monthly remuneration average increase rate	3.0%	3.0%	3.0%
Real annual discount rate	3.8%	3.8%	3.8%
Total interest rate adopted to calculation of interest	6.8%	6.8%	6.8%

Provision for gas allowances to former employees

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

Special funds

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

Provision for payment of termination benefits

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

Provision for well reclamation costs

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

Mine liquidation fund

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

Provision for penalty to the Office for Competition and Consumer Protection

The provision for penalty to the Office for Competition and Consumer Protection is the highest item in this group of provisions. The Office for Competition and Consumer Protection claims that PGNiG S.A. abused its power as a holding company by delaying release of technical conditions for connection of the existing boiler facility of the City Commune in Wysoka Mazowiecka to the existing testing facility. The Company filed a complaint to the decision of the President of the Office for Competition and Consumer Protection at the District Court in Warsaw – Court for Competition and Consumer

(In PLN '000)

Protection, by claiming that the decision violated the regulations of the materiality and procedural code, and claiming that the evidence was wrongly assessed – the Company demanded that the decision is revoked or changed.

Provision for environmental protection purposes

The Capital Group's companies create provisions for future liabilities for the cost of reclaiming contaminated land or eliminating hazardous substances, if such a step is customary or if they are legally obliged to do so. The created provision reflects potential costs foreseen to be incurred, estimated and verified periodically according to current prices.

Provision for return of assets from leasing

The Company created a provision for assets returned from lease. There is a significant risk that the assets returned to PGNiG S.A. will not meet the definition of assets in the consolidated financial statements.

Provision for renegotiation of import prices

Provision for renegotiation of import prices has been created due to the fact that one of gas supplier has demanded renegotiation of the price. Following the prudence principle, the Company created the above provision.

Other provisions

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

27. DEFERRED INCOME

	30 June 2006	31 December 2005	30 June 2005
Long-term			
Value of gas service line financed be users (before depreciation)	725 638	754 612	801 581
Connection fee	342 675	325 487	308 922
Deferred income from fixed assets in lease	63 727	65 565	-
Other	4 621	5 451	3 461
Total long-term	**1 136 661**	**1 151 115**	**1 113 964**
Short-term			
Value of gas service line financed be users (before depreciation)	57 046	59 462	62 434
Connection fee	13 457	15 002	22 283
Deferred income from fixed assets in lease	4 253	4 253	-
Other	15 552	19 728	2 745
Total short-term	**90 308**	**98 445**	**87 462**

28. PROVISION FOR DEFERRED TAX

	30 June 2006	31 December 2005	30 June 2005
Exchange gains	7 704	8 880	28 447
Interest accrued	668	803	26 613
Measurement of financial instruments	45 048	22 852	60 384
Revenues from tax obligation in the following month	42 350	72 397	34 691
Tax amortisation higher than balance sheet amortisation	25 296	20 723	-
Revenues from financial lease	15 785	8 275	-
Revaluation of fixed assets	1 935 710	1 985 850	2 057 263
Other	10 813	3 453	33 306
Total	**2 083 374**	**2 123 233**	**2 240 704**

(In PLN '000)

29. TRADE AND OTHER LIABILITIES

	30 June 2006	31 December 2005	30 June 2005
Trade liabilities	666 934	807 088	652 617
Trade liabilities to related parties	8 812	11 779	19 316
Tax, customs, social insurance liabilities	598 364	810 454	430 267
Liabilities due to an obligatory profit contribution for the owner	28 800	28 800	-
Liabilities due to dividend for the owner	885 000	-	500 000
Payroll liabilities	23 733	28 511	45 685
Liabilities due to unused vacation	3 553	16 473	2 995
Liabilities to associated companies measured using the equity method	50 985	54 680	54 713
Other liabilities to related parties	94 211	104 885	8 139
Accruals and advances for deliveries	11 251	4 571	30 244
Other	104 499	241 565	63 380
Total	**2 476 142**	**2 108 806**	**1 807 356**

30. DERIVATIVE HEDGING INSTRUMENTS

Face value in foreign currency	Due date	Instrument realisation price or price range	Valuation of instrument to fair value		
			30 June 2005	31 December 2005	30 June 2005
	Collar				
USD 10 million	10 January 2006	3.4600-3.2015	-	(25)	-
USD 10 million	20 January 2006	3.4600-3.1900	-	(78)	-
USD 10 million	10 January 2006	3.4600-3.1870	-	(13)	-
USD 10 million	10 February 2006	3.3000-3.0490	-	331	-
USD 10 million	21 February 2006	3.3500-3.0610	-	214	-
USD 10 million	10 February 2006	3.3500-3.0910	-	168	-
USD 10 million	21 February 2006	3.3300-3.0709	-	256	-
USD 10 million	10 March 2006	3.4000-3.1365	-	38	-
USD 10 million	10 March 2006	3.4300-3.1330	-	(1)	-
USD 10 million	10 January 2006	3.3200-3.2095	-	8	-
USD 10 million	10 April 2006	3.4000-3.2340	-	(309)	-
USD 10 million	10 March 2006	3.4000-3.2370	-	(295)	-
USD 10 million	20 March 2006	3.3800-3.2345	-	(253)	-
USD 10 million	20 January 2006	3.5500-3.3360	-	(857)	-
USD 10 million	20 January 2006	3.5500-3.3285	-	(796)	-
USD 10 million	10 January 2006	3.5500-3.3530	-	(930)	-
USD 10 million	10 January 2006	3.5500-3.3370	-	(781)	-
USD 10 million	10 January 2006	3.5500-3.3275	-	(695)	-
USD 10 million	20 April 2006	3.5500-3.3365	-	(1 133)	-
USD 10 million	10 April 2006	3.5500-3.3333	-	(1 090)	-
USD 10 million	20 April 2006	3.5300-3.3460	-	(1 178)	-
USD 10 million	10 February 2006	3.5300-3.3326	-	(936)	-
USD 10 million	21 February 2006	3.6000-3.2595	-	(530)	-
USD 10 million	20 March 2006	3.6000-3.2630	-	(642)	-
USD 10 million	10 February 2006	3.5500-3.3075	-	(764)	-
USD 10 million	10 February 2006	3.5500-3.3080	-	(768)	-
USD 10 million	20 March 2006	3.5500-3.3075	-	(875)	-
USD 10 million	20 April 2006	3.4800-3.2595	-	(584)	-
USD 10 million	10 April 2006	3.4800-3.2570	-	(553)	-
USD 10 million	10 March 2006	3.4800-3.2565	-	(499)	-
USD 10 million	21 February 2006	3.5000-3.2430	-	(402)	-
USD 10 million	10 May 2006	3.5000-3.2220	-	(452)	-
USD 10 million	10 May 2006	3.4800-3.2328	-	(474)	-
USD 10 million	10 February 2006	3.4800-3.2300	-	(301)	-
USD 10 million	20 March 2006	3.4300-3.2050	-	(217)	-
USD 10 million	19 May 2006	3.4500-3.2000	-	(287)	-
USD 10 million	21 February 2006	3.4500-3.2010	-	(190)	-
USD 10 million	20 March 2006	3.3500-3.1800	-	30	-
USD 10 million	19 May 2006	3.3500-3.1750	-	43	-
USD 10 million	10 April 2006	3.3500-3.1730	-	54	-

(In PLN '000)

USD 10 million	10 May 2006	3.3000-3.1500	-	295	-
USD 10 million	20 January 2006	3.2500-3.2070	-	267	-
EUR 5 million	20 January 2006	4.0300-3.9075	-	(281)	-
EUR 10 million	20 February 2006	4.0200-3.8760	-	(389)	-
EUR 5 million	20 April 2006	4.0300-3.9165	-	(312)	-
EUR 5 million	20 April 2006	4.0000-3.8830	-	(186)	-
EUR 5 million	19 May 2006	3.9900-3.8350	-	(47)	-
USD 10 million	20 January 2006	3.1505	-	1 107	-
USD 10 million	20 January 2006	3.2013	-	600	-
USD 10 million	21 February 2006	3.1920	-	689	-
USD 10 million	20 January 2006	3.2173	-	440	-
USD 10 million	10 March 2006	3.2551	-	60	-
USD 10 million	10 March 2006	3.1828	-	776	-
USD 10 million	10 February 2006	3.2296	-	316	-
EUR 5 million	20 January 2006	3.9084	-	(219)	-
EUR 5 million	20 March 2006	3.8972	-	(101)	-
EUR 5 million	20 March 2006	3.9185	-	(206)	-
USD 10 million	22 August 2005	3.3100	-	-	768
USD 10 million	20 September 2005	3.4300	-	-	239
USD 10 million	11 July 2005	3.3300	-	-	309
USD 10 million	12 September 2005	3.3700	-	-	534
USD 10 million	20 October 2005	3.5000	-	-	(89)
USD 10 million	20 September 2005	3.3200	-	-	832
USD 10 million	22 August 2005	3.3450	-	-	55
USD 10 million	20 July 2005	3.4100	-	-	126
USD 10 million	20 September 2005	3.3800	-	-	517
USD 10 million	12 September 2005	3.3700	-	-	322
USD 10 million	20 July 2005	3.3357	-	-	439
USD 10 million	22 August 2005	3.4200	-	-	216
USD 10 million	10 August 2005	3.3600	-	-	308
USD 10 million	21 November 2005	3.5000	-	-	(42)
USD 10 million	22 August 2005	3.3418	-	-	596
USD 10 million	20 July 2005	3.3000	-	-	632
USD 10 million	20 July 2005	3.3357	-	-	67
USD 10 million	10 August 2005	3.3100	-	-	692
USD 5 million	11 July 2005	3.3500	-	-	195
USD 5 million	20 December 2005	3.5000	-	-	12
USD 10 million	10 July 2006	3.2500-3.0485	49	-	-
USD 10 million	10 July 2006	3.2500-3.0185	50	-	-
USD 10 million	20 July 2006	3.2500-3.0690	104	-	-
USD 10 million	20 July 2006	3.2500-3.1253	(1)	-	-
USD 10 million	10 August 2006	3.3200-3.0808	(17)	-	-
EUR 5 million	20 July 2006	3.8700-3.7508	881	-	-
USD 10 million	10 August 2006	3.3200-3.0500	42	-	-
USD 10 million	10 August 2006	3.2850-3.0380	113	-	-
EUR 5 million	18 August 2006	3.8700-3.7289	921	-	-
USD 10 million	10 July 2006	3.3000-3.0500	11	-	-
USD 10 million	18 August 2006	3.2700-3.0490	132	-	-
USD 10 million	18 August 2006	3.2900-3.0590	74	-	-
USD 10 million	18 August 2006	3.3700-3.0590	(36)	-	-
USD 10 million	10 July 2006	3.3700-3.0545	(1)	-	-
EUR 5 million	20 September 2006	3.9600-3.8263	588	-	-
EUR 5 million	18 August 2006	3.9400-3.8010	621	-	-
USD 10 million	8 September 2006	3.2500-3.0490	192	-	-
EUR 5 million	20 September 2006	3.9500-3.8000	634	-	-
USD 10 million	20 September 2006	3.5200-3.0630	(217)	-	-
USD 10 million	20 September 2006	3.5000-3.0605	(198)	-	-
USD 10 million	20 September 2006	3.5080-3.0700	(229)	-	-
USD 10 million	8 September 2006	3.4620-3.0555	(138)	-	-
EUR 5 million	20 October 2006	4.0500-3.8840	328	-	-

(In PLN '000)

USD 10 million	8 September 2006	3.4500-3.0500	(116)	-	-
USD 10 million	18 August 2006	3.5000-3.0700	(145)	-	-
USD 10 million	10 October 2006	3.3000-3.0149	148	-	-
USD 10 million	10 October 2006	3.2500-3.0060	292	-	-
USD 10 million	10 October 2006	3.3000-2.9995	179	-	-
USD 10 million	20 September 2006	3.2000-3.0280	408	-	-
USD 10 million	20 July 2006	3.2000-3.0360	269	-	-
USD 10 million	10 October 2006	3.2000-3.0163	438	-	-
USD 10 million	18 August 2006	3.2000-3.0000	406	-	-
USD 10 million	20 October 2006	3.1800-2.8890	714	-	-
USD 10 million	10 November 2006.	3.1200-2.8820	1 036	-	-
USD 10 million	10 November 2006.	3.1500-2.8930	872	-	-
USD 10 million	20 September 2006	3.2000-2.8775	584	-	-
USD 10 million	10 August 2006	3.1000-2.9320	968	-	-
USD 10 million	10 November 2006.	3.4600-3.0600	(238)	-	-
USD 10 million	8 December 2006	3.4500-3.0760	(322)	-	-
USD 10 million	8 December 2006	3.4500-3.0600	(264)	-	-
EUR 5 million	20 November 2006.	4.2500-3.9830	(93)	-	-
EUR 5 million	20 July 2006	3.8300	1 546	-	-
USD 10 million	10 July 2006	3.1149	655	-	-
USD 10 million	20 July 2006	3.0573	1 217	-	-
USD 10 million	20 July 2006	3.0645	1 145	-	-
USD 10 million	10 July 2006	3.0067	1 736	-	-
USD 10 million	10 August 2006	3.0042	1 717	-	-
USD 10 million	20 October 2006	3.0012	1 647	-	-
USD 10 million	10 November 2006.	2.9976	1 656	-	-
USD 10 million	8 September 2006	3.0010	1 707	-	-
USD 10 million	10 October 2006	2.9977	1 694	-	-
USD 10 million	10 August 2006	2.9877	1 882	-	-
USD 10 million	20 October 2006	2.9829	1 827	-	-
USD 10 million	10 July 2006	3.0347	1 456	-	-
			28 924	**(12 957)**	**6 728**
	Cross Currency Interest Rate Swap				
EUR 90 million	22 August 2005	3.9900	-	-	(2 196)
EUR 120 million	30 October 2006	3.8750	198 391	107 893	303 164
			198 391	**107 893**	**300 968**
	Cross Currency Rate Swap				
EUR 18 million	22 August 2005	3.8950	-	-	2 484
USD 100 million	22 June 2006	4.0150	-	(13 091)	(23 599)
USD 100 million	6 September 2006	4.2820	(9 397)	(26 599)	(41 006)
EUR 25 million	26 October 2006	3.9750	1 728	(2 362)	2 346
EUR 25 million	26 October 2006	3.9970	1 154	(2 956)	2 960
EUR 25 million	26 October 2006	4.3870	(8 819)	(13 083)	(7 951)
EUR 25 million	26 October 2006	4.2499	(5 561)	(10 012)	(5 058)
EUR 25 million	26 October 2006	4.3475	(7 830)	(12 100)	(6 971)
EUR 25 million	26 October 2006	4.3000	(6 777)	(11 184)	(6 190)
EUR 25 million	26 October 2006	4.1175	(2 325)	(6 868)	(1 998)
EUR 25 million	26 October 2006	4.2890	(6 232)	(10 378)	(5 126)
EUR 25 million	26 October 2006	4.4450	(10 259)	(14 503)	(10 097)
EUR 25 million	26 October 2006	4.4750	(11 009)	(15 248)	(9 355)
EUR 25 million	26 October 2006	4.2525	(5 311)	(9 456)	(4 201)
			(70 638)	**(147 840)**	**(113 762)**
Total			**156 677**	**(52 904)**	**193 934**

(In PLN '000)

31. CONTINGENT LIABILITIES

31.a. Operating lease liabilities

	30 June 2006	31 December 2005	30 June 2005
During 1 year	2 799	3 268	1 538
From 1 to 5 years	7 047	6 517	666
Over 5 years	-	-	-
Total	**9 846**	**9 785**	**2 204**

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

	30 June 2006		
Maturity date:	Future value	Interest	Discounted value
Up to 1 year	33 131	4 359	28 772
Up to 2 years	24 471	2 196	22 274
Up to 3 years	17 402	1 291	16 112
Up to 4 years	4 793	185	4 608
Up to 5 years	1 469	1	1 468
Over 5 years	1 293	-	1 293
Total	**82 559**	**8 032**	**74 527**

	31 December 2005		
Maturity date:	Future value	Interest	Discounted value
Up to 1 year	31 788	4 213	27 576
Up to 2 years	25 886	2 681	23 205
Up to 3 years	20 282	1 047	19 235
Up to 4 years	4 811	288	4 523
Up to 5 years	2 223	19	2 204
Over 5 years	-	-	-
Total	**84 990**	**8 248**	**76 743**

	30 June 2005		
Maturity date:	Future value	Interest	Discounted value
Up to 1 year	60 576	13 278	47 298
Up to 2 years	11 218	85	11 134
Up to 3 years	8 614	278	8 336
Up to 4 years	3 587	21	3 566
Up to 5 years	-	-	-
Over 5 years	-	-	-
Total	**83 995**	**13 662**	**70 334**

31.c. Investment liabilities

	30 June 2006	31 December 2005	30 June 2005
Contractual liabilities	352 970	301 227	557 327
Contract execution progress as at the balance sheet date	166 641	191 737	393 752
Contractual liabilities after the balance sheet date	**186 329**	**109 490**	**163 575**

(In PLN '000)

31.d. Contingent liabilities arising from granted sureties and guarantees

Borrower	Contingent liability granted in foreign currency	Currency of the contingent liability	Contingent liability * granted in PLN	Contingent liability expiry date	Bank or other institution to which the contingency liability was granted	Type of contingent liability granted
Contingent liabilities granted by PGNiG S.A.						
SGT EuRoPolGaz S.A.	56 000	PLN	56 000	30 September 2012	Bank Gdański S.A.	credit surety
PGNiG S.A. Branch in Pakistan	2 316	USD	7 369	31 December 2008	Societe Generale Branch in Poland	bank guarantee
Supreme Court in Pakistan	1 122	USD	3 571	30 January 2008	Societe Generale S.A. Branch in Poland	bank guarantee
Gazexport Ltd.	100 000	USD	318 160	8 February 2006	Societe Generale Branch in Poland	bank guarantee
Gazexport Ltd.	50 000	USD	159 080	8 February 2006	Bank PEKAO S.A. Head Office	bank guarantee
Contingent liabilities granted by Gas Companies**						
PGNiG S.A.	1 250 000	EUR	5 054 250	27 January 2012	Syndicate of banks	repayment guarantee
Contingent liabilities granted by Geofizyka Kraków Sp. z o.o.						
Tax Office in Pakistan	30	USD	95	31 December 2006	Tax Office in Pakistan	customs guarantee
Customs Office in Pakistan	2 910	USD	9 258	31 December 2006	Customs Office in Pakistan	customs guarantee
Contingent liabilities granted by PNiG Kraków Sp. z o.o.						
PNiG Kraków Sp. z o.o.	80	USD	261	30 June 2006	Oil India Limited	performance bond
PNiG Kraków Sp. z o.o.	387	USD	1 263	31 December 2006	Oil and Gas Development Pakistan	performance bond
PNiG Kraków Sp. z o.o.	239	USD	781	15 April 2006	GeoEnpro India	performance bond
PNiG Kraków Sp. z o.o.	113	USD	367	1 December 2006	Oil and Gas Development Pakistan	performance bond
Contingent liabilities granted by Gazobudowa Zabrze Sp. z o.o.						
UNIQA Towarzystwo Ubezpiecz. Łódź	2 467	PLN	2 467	6 November 2007	PKN ORLEN	performance bond
BRE Bank S.A.	335	PLN	335	31 August 2006	GAZ-SYSTEM Sp. z o.o.	tender quarantees
Contingent liabilities granted by Diament Sp. z o.o.						
PN Diament Sp. z o.o.	14	PLN	14	30 June 2006	Strabag Sp. z o.o.	bank guarantee – Kredyt Bank S.A.
PN Diament Sp. z o.o.	10	PLN	10	30 June 2006	Strabag Sp. z o.o.	bank guarantee – Kredyt Bank S.A.
PN Diament Sp. z o.o.	24	PLN	24	30 June 2006	P.K. Sanikom Bełchatów	bank guarantee – Kredyt Bank S.A.
PN Diament Sp. z o.o.	59	EUR	239	15 November 2007	Strabag S.A.	bank guarantee – BRE Bank S.A.
PN Diament Sp. z o.o.	647	PLN	647	30 June 2006	Strabag Sp. z o.o.	bank guarantee – BRE Bank S.A.
PN Diament Sp. z o.o.	84	PLN	84	30 August 2009	WUPRINŻ Sp. z o.o. Poznan	bank guarantee – BRE Bank S.A.
PN Diament Sp. z o.o.	155	PLN	155	30 June 2009	MITEX S.A. Warsaw	bank guarantee – BRE Bank S.A.
PN Diament Sp. z o.o.	109	PLN	109	30 August 2006	AWAS Systemy Sp. z o.o.	bank guarantee – BRE Bank S.A.
PN Diament Sp. z o.o.	50	PLN	50	25 July 2006	Kolbuszowe Commune	bank guarantee – BRE Bank S.A.
PN Diament Sp. z o.o.	9	PLN	9	22 May 2009	State Forestry, Z.G. Wilkanowo	bank guarantee – BRE Bank S.A.
PN Diament Sp. z o.o.	209	PLN	209	30 April 2009	NCC Roads Sp. z o.o.	bank guarantee – BRE Bank S.A.
Total			**5 614 807**			

* Contingent liabilities in currencies translated at NBP exchange rates as of 30 June 2006.
** Six new gas companies (100% subsidiaries of PGNiG S.A.) jointly and severally guaranteed repayment of the syndicate loan taken by PGNiG S.A. The agreement of 27 July 2005 concluded between PGNiG and Bank Handlowy w Warszawie S.A., Bank Polska Kasa Opieki S.A., Caylon S.A., Fortis Bank N.V., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale S.A. branch in Poland.

(In PLN '000)

As at 30 June 2006, the agreement concluded by PGNiG S.A. on 22 September 2005 with gas companies, regarding guarantee due to the loan agreement concluded by PGNiG S.A. with syndicate of banks of 27 July 2005 was still binding. This agreement regards a joint and several, irrevocable and unconditional loan repayment guarantee granted by the Companies to Bank Handlowy in Warsaw S.A> (Loan broker) up to the amount of EUR 1,250,000 until the date falling 18 months after the termination of agreement regarding Tranche A, i.e. 27 January 2012.

31.e. Contingent bill of exchange liabilities

Entity to which the bill of exchange was issued	Amount of the bill of exchange	Currency of the bill of exchange	Amount of the bill of exchange in PLN	Bill of exchange expiry date
Bills of exchange issued by PGNiG S.A.				
Towarzystwo Finansowo-Leasingowe S.A.	6 852	PLN	6 852	21 December 2006
Towarzystwo Finansowo-Leasingowe S.A.	2 400	PLN	2 400	15 December 2007
Bills of exchange issued by PNiG Jasło Sp. z o.o.				
Bank BPH S.A.	2 000	PLN	2 000	29 September 2006
Bank PEKAO S.A.	3 000	PLN	3 000	30 November 2006
Bank PEKAO S.A.	4 000	PLN	4 000	29 September 2006
Bills of exchange issued by Wielkopolska Spółka Gazownictwa Sp. z o.o.				
Europejski Fundusz Leasingowy S.A.	190	PLN	190	15 February 2009
Bills of exchange issued by Gazobudowa Zabrze Sp. z o.o.				
PZU S.A. Warsaw	120	PLN	120	31 August 2007
FORTIS Bank Polska S.A.	110	PLN	110	31 August 2007
FORTIS Bank Polska S.A.	50	PLN	50	31 July 2007
UNIQUA TU S.A.	2 467	PLN	2 467	6 November 2007
PKN Orlen S.A.	20	PLN	20	30 September 2006
BRE BANK S.A.	5 500	PLN	5 500	29 December 2006
TU ALLIANZ Polska S.A. Warsaw	3 000	PLN	3 000	14 March 2007
ERGO HESTIA Katowice	2 000	PLN	2 000	
UNIQUA TU S.A.	1 391	PLN	1 391	18 October 2008
PLN ORLEN	10	PLN	10	
Bills of exchange issued by Naftomontaż Krosno Sp. z o.o.				
Control-Process Sp.z o.o. Tarnów	75	PLN	75	30 April 2009
Control-Process Sp.z o.o. Tarnów	29	PLN	29	30 May 2009
Control-Process Sp.z o.o. Tarnów	105	PLN	105	31 July 2009
Bills of exchange issued by Diament Sp. z o.o.				
Bank BRE S.A.	2 000	PLN	2 000	30 June 2006
Bank BRE S.A.	209	PLN	209	30 April 2009
Total			**35 528**	

31.f. Other contingent liabilities

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 the Company's Branch I Zielona Góra 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 office 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 Podkarpacie region did not declare or accrue real estate tax on excavations for years 2001-2006. Potential tax liability not disclosed in the financial statements together with interest amounted 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:

(In PLN '000)

- 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).

Office for Competition and Consumer Protection

As a result of differences in decisions issued by the Office for Competition and Consumer Protection for Distribution Companies within the PGNiG Capital Group in respect to templates for gas sales agreements concluded with the consumers, Gas Companies recognized a contingent liability in the amount of PLN 13,726.9 thousand due to potential costs of informing clients about changes in currently applicable tariffs.

32. INFORMATION ON RELATED PARTIES

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

Name of the Company	Country	Percentage share in the share capital	
		30 June 2006	30 June 2005
Subsidiaries			
Geofizyka Kraków Sp. z o. o.	Poland	100.00%	100.00%
Geofizyka Toruń Sp. z o. o.	Poland	100.00%	100.00%
PNiG Jasło Sp. z o. o.	Poland	100.00%	100.00%
PNiG Kraków Sp. z o. o.	Poland	100.00%	100.00%
PNiG Piła Sp. z o. o.	Poland	100.00%	100.00%
ZRG Krosno Sp. z o.o.[1)]	Poland	100.00%	-
Dolnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Górnośląska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Karpacka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Mazowiecka Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Pomorska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Wielkopolska Spółka Gazownictwa Sp. z o.o.	Poland	100.00%	100.00%
Gazobudowa Zabrze Sp. z o.o.	Poland	100.00%	100.00%
Naftomontaż Krosno Sp. z o.o.	Poland	88.83%	100.00%
Naftomet Krosno Sp. z o.o.	Poland	100.00%	100.00%
Diament Sp. z o.o.	Poland	100.00%	100.00%
Gazoprojekt S.A.	Poland	75.00%	75.00%
PGNiG Finance B.V.	Netherlands	100.00%	100.00%
Geovita Sp. z o.o. Warsaw	Poland	100.00%	100.00%
Subsidiaries of Naftomontaż Krosno Sp. z o.o. – a subsidiary			
Naft-Trans Krosno Sp. z o. o. in liquidation[2)]	Poland	-	99.70%
Naft-Stal Krosno Sp. z o. o.[3)]	Poland	59.88%	98.50%
Subsidiaries and Associated Entities			
EUROPOL GAZ S.A.[4)]	Poland	49.74%	49.74%
GAS TRADING S.A.	Poland	43.41%	43.41%
INVESTGAS S.A.	Poland	49.00%	49.00%

[1)] The Company was established as a result of transformation of PGNiG S.A. branch (OZRG Krosno) operates since 1 July 2005.
[2)] The Company was sold on 31 August 2005.
[3)] Indirect share as at the end of 2005 with intermediation of subsidiary Naftomontaż Krosno Sp. z o.o. (88.83% shares held by PGNiG S.A.), which owns 59.88% hares in Naft-Stal Krosno Sp. z o.o.
[4)] Share value consists of direct share of 48% and indirect share of 1.74% with intermediation of GAS-TRADING S.A.

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

(In PLN '000)

32.b. Related party transactions

Related party		Sales to related parties	Purchase from related parties	Gross receivables from related parties	Net receivables from related parties	Gross loans granted to related parties	Net loans granted to related parties	Liabilities to related parties
Associated companies consolidated using equity method.	30 June 2006	19 765	52 705	4 340	4 320	228 747	-	50 985
	30 June 2005	14 213	77 315	3 424	3 424	277 139	-	54 713
Subsidiaries and associated companies not included in consolidation	30 June 2006	4 040	46 076	131 902	3 254	14 024	-	103 023
	30 June 2005	9 901	81 389	59 716	17 171	14 307	-	27 455
Total related parties	30 June 2006	**23 805**	**98 781**	**136 242**	**7 574**	**242 771**	**-**	**154 008**
	30 June 2005	**24 114**	**158 704**	**63 140**	**20 595**	**291 446**	**-**	**82 168**

(In PLN '000)

32.c. Remuneration paid to the Management Board and Supervisory Board of the Holding Company

	30 June 2006	30 June 2005
Full name	Total remuneration, benefits and bonuses paid in the first half of 2006	Total value of remunerations, benefits and bonuses paid in 2005
Total Management Board, including:	**522.49**	**294.26**
Managerial staff as of 30 June 2006		
Mieczysław Puławski* – acting chairman of the board	-	-
Anysz Jan	101.83	162.31
Zenon Kuchciak	96.45	-
Bogusław Marzec	78.15	-
Stanisław Niedbalec	69.31	-
Bartłomiej Pawlak**	42.95	-
Maria Teresa Mikosz	100.81	-
Managerial staff, dismissed in the 1st half of 2006		
Krok Franciszek	32.99	131.95
Total Supervisory Board, including:	**147.47**	**25.46**
Supervisory staff as of 30 June 2006		
Wojciech Arkuszewski	16.02	-
Chrobak Kazimierz	16.02	10.18
Krzysztof Głogowski	16.02	-
Mieczysław Kawecki	16.02	-
Marcin Moryń	1.27	-
Mieczysław Puławski	19.19	-
Andrzej Rościszewski	16.02	-
Mirosław Szkałuba	16.02	-
Piotr Szwarc	16.02	-
Supervisory staff, dismissed in the 1st half of 2006		
Bąkowska Magdalena	14.87	15.28
Total	**669.96**	**319.72**

* Acts as chairman of the Management Board since 24 June 2006.
** Bartłomiej Pawlak did not collect any remuneration in 2005 for the performed functions.

(In PLN '000)

32.d. Remuneration paid to the Management Board and Supervisory Board in Capital Group entities

	30 June 2006	30 June 2005
Remuneration of the Management Board	**9 714**	**9 773**
Holding company	522	917
Subsidiaries	4 586	4 541
Co-subsidiary	3 884	4 093
Associated entities	722	222
Remuneration of the Supervisory Boards	**4 168**	**4 184**
Holding company	147	124
Subsidiaries	1 375	1 360
Co-subsidiary	2 109	2 467
Associated entities	537	233
Total	**13 882**	**13 957**

32.e. Loans granted to the Management Board and Supervisory Board in Capital Group entities

	30 June 2006	30 June 2005
Members of the Management Board		
Interest rate (%)	1%-6%	1.5%-6%
Repayment date (years)	3-12 years	3-12 years
Due amount	215	189
Members of the Supervisory Boards		
Interest rate (%)	1%-6%	0%-6%
Repayment date (years)	3-5 years	1-5 years
Due amount	19	7
Due amount	**234**	**196**

32.f. 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. The share of PGNiG S.A. is 10%. To satisfy the terms of concession, one exploration well remains, which has to be drilled by 2006.
Within "Płotki" area, due to assignment of 50% of shares in FX Energy to CalEnergy, joint exploratory works were undertaken by PGNiG S.A. (51% shares), FX Energy (24.5%) and CalEnergy Resources Poland (24.5 %). The works resulted in opening of well Zaniemyśl-3 in 2003/2004, in which gas deposit was found of geological resources estimated at 1.4 billion cubic meters. Currently construction work aimed at developing the deposits 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.
The works aimed at bringing the deposit to operational stage are about to be completed.

EuroGas Polska

Registered office: 01-687 Warsaw, 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. The share of PGNiG S.A. is 30%. 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 Eurogas. Upon EuroGas's request, the activity of the office for joint operations was suspended until the company's financial situation has been 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 upon 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.
In the first half of 2006, PGNiG S.A. started negotiations on renewal of cooperation with Eurogas Polska Sp. z o.o.

FX Energy Poland

Registered office: 00-613 Warsaw, ul. Chałubińskiego 8.
In Poland, 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 Kłęka deposit, into an agreement on the sale of natural gas from the Kłęka 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: Kłęka 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 Settlement Agreement on Płotki area signed on 8 January 2003 between PGNiG S.A. and FX Energy, the latter had 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 deposits and initiating production in 2006 are 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 reinterpretaton 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.
The works aimed at bringing the deposit to operational stage are about to be completed.
The design of Roszków-1 exploration well (approx. 2970-meter deep) has been prepared. At this point the 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 Energy 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 "Poznań" area was signed, under provisions of which PGNiG S.A. acquired 51% shares, and FX Energy – 49%. Reprocessing and reinterpretation of approx. 2600 running kilometres 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 with minable resources) in a red clay formation. A subsequent well - Środa Wielkopolska-5, drilled in the neighbouring geological structure uncovered a small gas deposit with no commercial value. Further seismic work, reprocessing and interpretation of seismic adapt was conducted in order to prepare new sites for drilling in 2006 and subsequent years. Field works have been completed: 2D seismic works on Poznań-Śrem-Jarocin; 2D seismic works on Grundy II phase; 2D seismic works on Łuszczanów II phase. The final phase of design of the seismic well on 3D Kórnik-Środa is about to be completed. The design of Winna Góra-1 exploration well (approx. 3700-meter deep) has been prepared and approved, the tender proceedings aimed at selecting the contractor have been finished, and at this point drilling preparation works are in progress.

The area of block 255 (Wilga).
Cooperation pursuant 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 m^3. 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.
Works aimed at turning the Wilga natural gas deposit into operation and construction of pipeline are in progress.

32.g. 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: "Prawniczij 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 "Ukrnaftoburenie". As a result of an appeal launched against this decision, pursuant to the judgement 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 tonnes of condensate), No. 18 (daily output capacity – 130 thousand m3 of gas and 28 tonnes of condensate) and Nr 113 (daily output capacity – 150 thousand m3 of gas and 25 tonnes 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 income reached UAH 26,624 thousand (PLN 16.5 thousand, translated at the average rate 0.6204 PLN/1UAH).
- completed construction of mine (UKPG) together with service pipelines;
- development of appropriate gas field infrastructure (roads, power lines, network of gas collective lines from wells and other facilities);
- completed construction of transmission pipeline connecting the field with the Ukrainian transmission system.

The above work was financed by the shareholders and a bank. The Company's main creditors as: Miasto Bank and PGNiG S.A. (loan of USD 3.1 million).
At the beginning of 2006 the company started paying off loans to Miasto Bank. In September 2006 the Company plans to start paying off the loan contracted with PGNiG SA.
The company plans also to drill a further three wells.

Oman

Oman – Sahara Petroleum Technology Llc registered on 23 November 2000, with share capital of OMR 150,0, in which PGNiG S.A. acquired 49% shares (the capital employed by PGNiG S.A. in Sahara Petroleum Technology Llc is OMR 73.5). The interests of PGNiG S.A. in the company were represented by Zakład Robót Górniczych in Krosno, reporting to PGNiG S.A. Headquarters (currently PGNiG S.A. holds 100% of shares in this Company). Sahara Petroleum Technology was established following initiation of cooperation between Omanian Petroleum and Gas Technology and division of PGNiG S.A. Zakład Robót Górniczych Krosno.
The company's main objective is to provide technical services related to reconditioning and reconstruction of wells, linear technique operations, maintenance of heads of exploration machines as well as light and medium drilling jobs using 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 most 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 interconnect link between the Company and the European transmission system, which constitutes one of elements of diversification of gas supply 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 kilometres of old seismic profiles was commenced and they will be subsequently interpreted. Data from two wells previously drilled in this area was interpreted in parallel.
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 million, 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 an interpretation of archival seismic profiles after reprocessing was made and based on comprehensive geological-geophysical data "Seismic work project to the area of Kirthar block" was developed. According to plans the project was supposed to be executed in the period from September to November 2006. The contractor for seismic field works will be selected via unlimited tender. The work will be commenced after preparation of "Environmental evaluation of seismic works" and approval by competent state authorities in Pakistan. After completion of field exploration works an economic analysis of the exploration works planned will be conducted, including processing of new seismic profiles. Interpretation of data will be done after the above work is completed.
In addition to seismic research the company plans to conduct surface cartographical work as well as sedimentological study, which will have beneficial affect on catering and field protection costs, and the comprehensive material will be used in later analyses.
Depending on the result of work the Company considers conducting supplementary work necessary to document drilling trap (traps) with regard to the deposit constituting fulfilment of concession liabilities.
Exploration works in the Kirthar block will be conducted in cooperation with Pakistan Petroleum Ltd. The shares are distributed as follows: PGNiG S.A. – 70%, PPL – 30%. Investment costs will be split in line with the shares the companies hold.
Considering 70% share of PGNiG S.A. and under the assumption that USD 1 = PLN 3.2, the investment of PGNiG S.A. is approximately 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.

Foreign branches of subsidiaries:

Geofizyka Toruń Sp. z o.o.
Branch in Armaty, Kazakhstan
Branch Geofizyka Toruń Branch Office Jebel Ali in Dubai, United Arab Emirats

Geofizyka Kraków Sp. z o.o.
Pakistan Branch – Islamabad
Plant Słowacja in Bratislava
Plant Czechy in Ostrava
Libia Branch – Tripolis

PNiG Jasło Sp. z o.o.
Branch in Libya

PNiG Piła Sp. z o.o.
Branch in India

PNiG Kraków Sp. z o.o.
Branch in Pakistan
Branch in Kazakhstan
Representative Branch in Czech

Representative Branch in Lithuania
Representative Branch in Ukraine
Representative Branch in Russia
Representative Branch in India

Gazobudowa Zabrze Sp. z o.o.
Representative Branch in Germany

33. OBJECTIVE AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

Objective and principles of financial risk management

In business operations the holding company is exposed to financial risk, including in particular:

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

The holding company manages the exposure in various types of risk by aiming to reduce it to an acceptable level. To this end, the Company enters into hedging transactions involving derivatives.

Currency risk

The long-term portion of the holding 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 holding 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 realised in foreign currencies. In order to hedge its liabilities, the holding company uses primarily forwards, options and cross currency swaps with maturity of up to 5 years.

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 average weighted 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

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

Derivative financial instruments

In accordance with the International Financial Reporting Standards in the financial statements the holding company discloses measurement of all derivatives at fair value.
In the first half of 2006 the holding company did not apply hedge accounting. Therefore changes in fair vale 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 holding company applies fair value and cash flows hedges to a portion of its credit and trade liabilities that are denominated in USD and EUR. Therefore, 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 credit liabilities will need to be amended in order to adapt them to the new structure of debt.

(In PLN '000)

34. AVERAGE EMPLOYMENT BROKEN DOWN BY GROUPS (IN PERSONS)

	30 June 2006	31 December 2005	30 June 2005
Companies consolidated by full method, including:	**28 212**	**29 488**	**30 252**
Blue-collar positions	14 318	15 215	15 823
White-collar positions	11 075	11 498	11 517
Managerial positions	2 819	2 775	2 913
Companies consolidated by the equity method	**370**	**344**	**287**
Total	**28 582**	**29 832**	**30 539**

35. INFORMATION ON THE OF PGNiG CAPITAL GROUP'S RESTRUCTURING PROCESS

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

a. The Energy Law amended on 4 March 2005 and the "PGNiG restructuring and privatization program" adopted by the Council of Ministers (of 5 October 2004) – forced to implement assumptions provided for in Directive No. 2003/55/EC of the European Parliament and Council – impose an obligation to arrange legal split of trade and technical activity of distribution of gas and spin-off of Distribution System Operators (DSO) by 1 July 2007. This obligation also regards operations within the PGNiG Capital Group since 1 January 2003 of six regional Gas Companies (Dolnośląska, Górnośląska, Karpacka, Mazowiecka, Pomorska and Wielkopolska), due to the fact that they all deal with technical distribution of gas and trading activity, including customer service.
In the first half of 2006, PGNiG S.A. implemented works aimed at fulfilment of the above duties. Many detailed analyses of several potential options of implementation of this process were carried out, SWOT analysis was done with regard to accomplishment of goals of parties in question (clients, investors, State authorities – MG, MSP, URE, PGNiG SA, Gas Companies, Employees). Ultimately, based on Resolution No. 256/2006 of 11 April 2006, the Management Board of PGNiG S.A. adopted the concept of spin-off of trading and technical gas distribution activity based on the option assuming combination within PGNiG S.A. of wholesale and retail sale as well as transformation of six Gas Companies into Gas System Operators. On 12 May 2006 the Management Board gave its acceptance and on 22 June the Supervisory Board gave its positive opinion on the "Project of spin-off of trading and gas technical distribution activity within the PGNiG Capital Group" study, which was consulted with many parties, including the Ministry of State Treasury, Ministry of Economy, Energy Regulatory Office, and trade organizations operating inside the Company.
While selecting the most favourable option the Company took into consideration the network equipment of legally spun-off distribution system operators. The PGNiG SA restructuring and privatization program states that commercial law companies providing gas technical distribution services will own all assets necessary for being distribution system operator.
The selected process implementation option is based on the following assumptions:

1. Gas retails sale and nationwide customer service activity will be moved from Gas Companies to PGNiG S.A.
2. PGNiG S.A. will serve all clients – including clients served so far by Gas Companies.
3. Based on the existing network assets Gas Companies will provide gas technical distribution services and will act as Distribution System Operator 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 headquarters). The ultimate employment level will be determined based on further analyses, which will take transfer of necessary assets into account.
5. The new integrated trade organizational structure should be conducted in parallel with change of the customer service model. In the new segment-based customer service model each customer segment will be served by a dedicated unit.

In the case of transformation of Gas Companies into DSO, the scope of technical services rendered so far will be realized by the same company based on the existing network equipment. 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. In the period June 2005 – June 2006 the 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 leasing 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 exploitation 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.
The one agreement with conflict of interest between PGNiG S.A. and OGP Gaz-System Sp. z o.o. is: "Agreement on acceptance and realization of employee benefits due to jubilee awards and retirements".
Due to acceptance by the Energy Regulatory Office of OGP tariff – "Agreement on settlement of tariff costs)" expired on 31 March 2006.
In January this year two new agreements were signed, which are:
- Agreement on exploitation services in gas pipelines administered by OGP with the registered officer in Warsaw, Branch in Poznań (rendered by PGNiG S.A. in Odolanów for the benefit of OGP);
- Agreement on exploitation services in gas pipelines administered by OGP with the registered officer in Warsaw, Branch in Poznań (rendered by PGNiG S.A. in Odolanów for the benefit of OGP).

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:
  - 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 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 account 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 the outside legal environment.
The main changes in the Program involve: extension of the 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 a new, higher once-off severance payment. 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 forecasted total of 5,548 people.

In 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 internal assets restructuring process includes continuation of management of non-production assets, redundant in the Company's business activity, mainly through lease or sales (this mostly includes real estate). These assets remained after liquidation of mining plants in 2003, regional transmission branches in 2006, and became redundant in activity of mining plants. In this financial period the Company faced a problem of management of assets covered with the Leasing Agreement concluded in 2005 between PGNiG S.A, and OGP Sp. z o.o., which based on the contractual provisions was excluded by OGP in the amount of approx. PLN 220 million. These assets are partially given for use by mining branches, and distribution companies are seriously interest in taking the network assets. Due to the significant legal obstacle that occurred, which regards allowable forms of sales of assets by PGNiG, in the light of valid regulations sales without tender is excluded and the Company is working on the method how to make the assets available to the companies.
Total net value of fixed assets sold in the first half of 2006, excluded from activity as a result of internal restructuring is approx. PLN 11 million.

36. POST-BALANCE SHEET EVENTS

36a. On 12 July 2006 the Management Board of PGNiG S.A. adopted a resolution on temporary use of free cash, including cash from increase in the share capital of September 2005 for reduction of the Company's debt by EUR 600 million. The debt will be repaid after the Company ensures funds of at least the same amount in the form of a revolving credit line. The current cash flow balance in bank and trustee accounts, as well as forecast of cash flows until the end of the current year show that the Company will have sufficient cash to conduct the current operating and investment activity.

36b. 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.

36c. 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.

36d. 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.

36e. On 28 April 2005 the Extraordinary Shareholders' Meeting of PGNiG S.A. passed a decision on non-public issuance of bonds of the PGNiG Capital Group within the bonds issuance program. Internal issuance will provide for more effective use of funds within the PGNiG Capital Group. Companies with excessive cash flows will have the opportunity to invest surpluses in bonds issued by PGNiG S.A., and the companies in need for cash will have the opportunity to contract loans with PGNiG S.A. The maximum face value of non-purchased shares issued will not exceed PLN 500 million. The program will last 3 years. Unit face value will not be lower than PLN 10 thousand. Bonds will be issued on arms-length basis – the program provides for fixed interest and variable interest rate as well as at the discounted price.

36f. On 17 August 2006 the Management Board of PGNiG S.A. signed a gas sales agreement ("Agreement") with VHG – Verbundnetz Gas Aktiengesellschaft with the registered office in Lipsk, Germany ("VNG").
Based on the Agreement in the period from 1 October 2006 to 1 October 2008 PGNiG will purchase up to 500 million m^3 gas a year. Additionally, in the period from 1 October 2008 to 1 October 2016 the Agreement shall replace the existing contract with E.On-Ruhrgas A.G. and VNG suppliers from VNG up to 400 million m^3 of gas a year.
The estimated value of the contract in the whole period of supplies is PLN 4.9 milliard.

36g. On 31 August 2006 PGNiG S.A. signed transmission agreements with Operator Gazociągów Przesyłowych Gaz-System Sp. z o.o. The subject of one of agreements is rendering of high-methane gas transmission services with specification of conditions of supply of gas fuel to the transmission system and collection at the transmission system. The second agreement regulates provision of nitrated gas transmission services.
The agreements shall be valid from 1 September 2006 to 31 September 2007. The estimated total gross value of the agreements is approx. PLN 2.16 milliard.