PGNiG

Polskie Górnictwo Naftowe i Gazownictwo SA

CONSOLIDATED FINANCIAL STATEMENTS

FOR 12-MONTH PERIODS ENDED ON 31 DECEMBER 2006 AND 31 DECEMBER 2005

DRAWN IN LINE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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Members of the Management Board

Chairman of the Board	Krzysztof Głogowski	
Vice Chairman of the Board	Jan Anysz	
Vice Chairman of the Board	Zenon Kuchciak	
Vice Chairman of the Board	Stanisław Niedbalec	
Vice Chairman of the Board	Tadeusz Zwierzyński	

Warsaw, 3 April 2007

SELECTED FINANCIAL DATA
for the period ended 31 December 2006

	PLN		EUR	
	31 December 2006	**31 December 2005**	**31 December 2006**	**31 December 2005**
I. Net revenues from sales of products, goods and materials	15 197 653	12 559 988	3 897 734	3 121 192
II. Profit (loss) on operating activities	1 464 609	1 397 720	375 627	347 337
III. Gross profit (loss)	1 566 641	1 254 355	401 796	311 711
IV. Net profit (loss)	1 323 525	880 663	339 444	218 847
V. Net cash flows from operating activities	1 535 008	2 399 051	393 683	596 171
VI. Net cash flows from investment activities	(867 160)	(732 253)	(222 400)	(181 967)
VII. Net cash flows from financial activities	(294 975)	626 884	(75 652)	155 782
VIII. Total net cash flows	372 873	2 293 682	95 631	569 986
IX. Total assets	30 739 647	30 363 665	8 023 503	7 866 642
X Liabilities and provisions for liabilities	9 531 536	9 596 085	2 487 872	2 486 161
XI. Long-term liabilities	6 661 886	6 624 923	1 738 851	1 716 390
XII. Short-term liabilities	2 869 650	2 971 162	749 021	769 771
XIII. Equity	21 208 111	20 767 580	5 535 631	5 380 481
XIV. Share capital	5 900 000	5 900 000	1 539 987	1 528 577
XV. Number of shares (weighted average in PLN '000)	5 900 000	5 258 904	5 900 000	5 258 904
XVI. Profit (loss) per ordinary share (in PLN/EUR)	0.22	0.17	0.06	0.04
XVII. Diluted profit (loss) per ordinary share (in PLN/EUR)	0.22	0.17	0.06	0.04
XVIII. Book value per share (in PLN/EUR)	3.59	3.52	0.94	0.91
XIX. Diluted book value per share (in PLN/EUR)	3.59	3.52	0.94	0.91
XX. Declared or paid dividend per share (in PLN/EUR)*	0.15	0.10	0.04	0.02

Items from I to VIII and from XVI to XVII were translated at the average EUR exchange rate in the period. Items from IX to XIV were translated at the EUR exchange rate at period end.

The average PLN exchange rates in relation to EUR are announced by the NBP

	31 December 2006	31 December 2005
Average exchange rate in the period	3.8991	4.0241
Exchange rate at period end	3.8312	3.8598

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the period ended 31 December 2006

	Additional information	31 December 2006	31 December 2005
		(in PLN '000)	
Sales revenues	**3**	**15 197 653**	**12 559 988**
Consumption of raw materials and materials		(8 611 516)	(6 438 991)
Employee benefits	4	(1 822 123)	(1 646 186)
Depreciation		(1 296 140)	(1 401 855)
External services		(2 652 543)	(1 779 138)
Manufacturing cost of benefits for internal purposes		564 979	499 100
Other operating expenses (net)	4	84 299	(395 198)
Operating expenses in total	**3**	**(13 733 044)**	**(11 162 268)**
Profit on operating activities		**1 464 609**	**1 397 720**
Financial revenues	5	520 161	645 011
Financial expenses	5	(495 582)	(837 980)
Share in financial result of entities measured using the equity method	6	77 453	49 604
Gross profit		**1 566 641**	**1 254 355**
Income tax	7	(243 114)	(206 839)
Profit sharing		(2)	(166 853)
Net profit for the financial year		**1 323 525**	**880 663**
Assigned to:	9		
Shareholders of the holding company		1 323 050	879 749
Minority shareholders		475	914
		1 323 525	**880 663**
Profit per share assigned per ordinary shareholder of the holding company	9		
- basic from profit for the financial year		0.22	0.17
- diluted from profit for the financial year		0.22	0.17

CONSOLIDATED BALANCE SHEET
as of 31 December 2006

	Additional information	31 December 2006	31 December 2005
ASSETS		(in PLN '000)	
Non-current assets (long-term)			
Tangible fixed assets	11	17 756 155	17 524 429
Investment property	12	6 765	10 553
Intangible assets	13	1 086 708	952 698
Investments in associated companies measured using the equity method	6	589 284	512 076
Financial assets available for sale	14	18 112	21 358
Other financial assets	15	3 275 379	4 107 585
Deferred tax asset	16	440 596	384 504
Other non-current assets	17	48 672	17 248
Total non-current assets (long-term)		**23 221 671**	**23 530 451**
Current assets (short-term)			
Inventory	18	1 351 203	815 345
Trade and other receivables	19	2 529 594	2 618 350
Receivables due to current tax	20	17 187	30 883
Prepayments	21	33 176	17 501
Financial assets held for trading	22	23 265	30 391
Assets due to derivative financial instruments	30	5 723	120 273
Cash and cash equivalents	23	3 557 828	3 200 471
Total current assets (short-term)		**7 517 976**	**6 833 214**
Total assets		**30 739 647**	**30 363 665**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	5 900 000	5 900 000
Exchange differences from translation of foreign branches		(15 609)	(14 086)
Surplus on sales of shares above face value		1 740 093	1 740 093
Other reserve capitals		2 890 068	2 624 841
Retained profits (losses)		10 685 888	10 509 489
Equity (assigned to the shareholders of the holding company)		**21 200 440**	**20 760 337**
Equity of minority shareholders		7 671	7 243
Total equity		**21 208 111**	**20 767 580**
Long-term liabilities			
Credits, loans and debt securities	25	2 343 846	2 369 082
Provisions	26	1 179 882	981 493
Deferred income	27	1 082 084	1 151 115
Provision for deferred tax	28	2 056 074	2 123 233
Total long-term liabilities		**6 661 886**	**6 624 923**
Short-term liabilities			
Trade and other liabilities	29	2 173 702	2 108 806
Credits, loans and debt securities	25	113 621	89 218
Liabilities due to derivative financial instruments	30	55 067	173 177
Liabilities due to current tax	20	184 556	75 201
Provisions	26	250 529	426 315
Deferred income	27	92 175	98 445
Total short-term liabilities		**2 869 650**	**2 971 162**
Total liabilities		**9 531 536**	**9 596 085**
Total equity and liabilities		**30 739 647**	**30 363 665**

CONSOLIDATED CASH FLOW STATEMENT
for the period ended 31 December 2006

	31 December 2006	31 December 2005
	(in PLN '000)	
Cash flows from operating activities		
Net financial result	1 323 525	880 663
Adjusted by:		
Share in financial result of entities measured using the equity method	(77 453)	(49 604)
Depreciation	1 296 140	1 401 855
Net exchange gains (losses)	33 039	(283 991)
Net interest and dividends	(191 952)	87 349
Profit/loss on investment activities	(145 201)	283 959
Income tax for the current period	243 114	206 839
Paid income tax	(243 315)	(239 687)
Other net items	37 229	(198 440)
Net cash from operating activities before changes in working capital	**2 275 126**	**2 088 943**
Change in working capital:		
Change in net receivables	(5 711)	(537 231)
Change in inventory	(535 802)	(217 014)
Change in provisions	(115 882)	132 259
Change in short-term liabilities	4 285	917 875
Change in prepayments	(47 100)	(147 882)
Change in deferred income	(39 907)	162 101
Net cash from operating activities	**1 535 009**	**2 399 051**
Cash flows from investment activities		
Inflows from sale of tangible fixed assets and intangible assets	19 159	19 376
Inflows from the sale of shares in entities not included in consolidation	4 598	2 570
Inflows from the sale of short-term securities	117 895	231 638
Acquisition of intangible assets and tangible fixed assets	(1 582 072)	(1 320 664)
Acquisition of shares in entities not included in consolidation	-	(1 698)
Acquisition of short-term securities	-	-
Received interest	285 190	165 122
Received dividends	1 415	1 506
Inflows from financial lease	243 248	125 886
Other net items	43 407	44 011
Net cash on investment activity	**(867 160)**	**(732 253)**
Cash flows from financial activities		
Net inflows from issuance of shares and other capital instruments and from capital contributions	-	2 640 093
Inflows from contracted credits and loans	22 797	2 305 445
Repayment of credits and loans	(15 072)	(1 164 818)
Inflows from issuance of debt securities	-	-
Redemption of debt securities	-	(2 799 327)
Repayment of liabilities due to financial lease	(25 335)	(50 757)
Inflows from forwards	230 350	277 504
Outflows from forwards	(242 434)	(281 289)
Paid dividends	(203 519)	(150 572)
Paid interest	(77 996)	(104 578)
Other net items	16 235	(44 817)
Net cash from financial activities	**(294 974)**	**626 884**
Change in the balance of net cash	**372 875**	**2 293 682**
Net exchange differences	(15 518)	191
Opening balance of cash and cash equivalents	**3 205 089**	**911 407**
Closing balance of cash and cash equivalents	**3 577 964**	**3 205 089**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
for the financial year ended 31 December 2006

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

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY – cont.
for the financial year ended 31 December 2006

	Equity (assigned to the shareholders of the holding company)						Minority equity	Total equity
	Share capital	Exchange differences from translation of foreign branches	Surplus on sales of shares above face value	Other reserve capitals	Retained profits (losses)	**Total**		
	(in 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	-	(1 523)	-	-	-	**(1 523)**	-	**(1 523)**
Inclusion of a subsidiary in consolidation	-	-	-	2 944	592	**3 536**	-	**3 536**
Other changes	-	-	-	42-	(2)	**40**	(47)	**(7)**
Dividend payment to owners of the holding company	-	-	-	-	(885 000)	**(885 000)**	-	**(885 000)**
Reclassifications	-	-	-	262 241	(262 241)	**-**	-	**-**
Net profit for 2006	-	-	-	-	1 323 050	**1 323 050**	475	**1 323 525**
31 December 2006	**5 900 000**	**(15 609)**	**1 740 093**	**2 890 068**	**10 685 888**	**21 200 440**	**7 671**	**21 208 111**

ADDITIONAL INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS as of 31 December 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 (Journal of Laws No. 116 of 1996, item 553).

The Company was entered in the commercial register kept by the District Court for the capital 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 capital 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. Assets 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, transmission 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 31 December 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 public trading of PGNiG S.A. shares, obliged the Group to draw the 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 (Journal of Laws 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").
The scope of information disclosed in the consolidated financial statements is in line with provisions of the IFRS and the Ordinance of the Council of Ministers of 19 October 2005 on current and periodical information submitted by issuers of securities (Journal of Laws 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.

Statement on compliance

The consolidated financial statements have been drawn in line with the International Financial Reporting Standards ("IFRS") and 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").
In the current year, the Group adopted all new and verified standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretation Committee (IFRIC), which are applicable to the business activity currently performed by it and which are effective in the annual reporting periods as of 1 January 2006. The adoption of new and verified standards and interpretations did not cause any changes in the Group's accounting principles which influence the values presented in the financial statements for previous years and the current year.

Impact 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 31 December 2006 were still not adopted for use:

- IFRIC 10 "Interim Financial Reporting and Impairment"
  IFRIC 10 is applicable for the first time to annual periods beginning on or after 1 November 2006. The interpretation provides guidelines on ambiguities in application of the requirements contained in IAS 34 "Interim Financial Reporting" and of the provisions contained in other standards concerning the recognition and reversal of impairment in financial statements with reference to goodwill and financial assets data.

- IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"
  IFRIC 11 is applicable for the first time to annual periods beginning on and after 1 March 2007. The interpretation provides guidelines on the recognition of transactions in which a given entity settles payments with the use of capital instruments of the entity or of the holding company.

- IFRS 8 "Operating Segments"
  IFRS 8 was issued on 30 November 2006 and replaces IAS 14 "Segment Reporting". IFRS 8 is applicable for the first time to annual periods beginning after 1 January 2009. This standard specifies how a given entity should present data on its operating segments and requires the presentation of information based on internally used reports. The standard introduces also the requirement to enter disclosures referring to products, services, geographical areas and major customers.

- IFRIC 12 "Service Concession Arrangements"
  IFRIC 12 is applicable for the first time to annual periods beginning on or after 1 January 2008. The interpretation provides guidelines for operators in service concession agreements between the public and the private sector on recognition of these agreements in books. IFRIC 12 refers to agreements in which the concession provider controls or regulates which services shall be provided by the operator via a specific infrastructure as well as controls the significant remaining share in the infrastructure at the end of the agreement's effective period.

According to the estimates of the holding company's Management Board the aforementioned standards and interpretations would not have any significant impact on the consolidated financial statements had they been applied by the Group on the balance sheet date.

The regulations adopted by the EU are 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 estimates of the holding company's Management Board, application of hedge accounting to the portfolio of financial assets and liabilities in line with the IAS 39 "Financial Instruments: Recognition and Measurement" would not have any material impact on the financial statements, if they were adopted by the EU for application as at the balance sheet date.

Moreover, in preparation of the consolidated financial statements the Group did not apply the following standards, amendments of standards and interpretations which were published and approved for application in EU, but are not applicable yet:

- Amendment of IAS 1 "Presentation of Financial Statements" - Disclosure of information about the capital. The amendment should be applied to annual periods beginning as of 1 January 2007 or later. It constitutes a supplement to IFRS 7 "Financial Instruments: Disclosures" and presents requirements referring to the disclosure, by all entities, of the following:
  - the entity's goals, capital management principles and processes;
  - quantity data referring to items which are recognized as capital by the entity;
  - did the entity fulfill all possible capital requirements and
  - if not, what are the consequences for the failure to fulfill them.

- IFRS 7 "Financial Instruments: Disclosures"
  IFRS 7 was issued on 18 August 2005 together with an additional amendment of IAS 1 "Presentation of financial statements - Capital disclosures". IFRS 7 applies to annual periods beginning as of 1 January 2007 or after this date. It introduces new requirements on disclosure of financial instruments. It replaces IAS 32 :Financial instruments: disclosure and presentation" which is effective as at the preparation date of these consolidated financial statements and moreover extends the scope of disclosures referring to financial instruments. IFRS 7 requires that disclosures are made as to quantity and quality in respect of risk management resulting from financial instruments: e.g. credit, liquidity and market risk. Earlier application of this standard is admissible.

- IFRIC 7 "Applying the restatement approach according to IAS 29 - Financial Reporting in Hyperinflationary Economies"
  IFRIC 7 provides guidelines on application of IAS 29 requirements in the reporting period in which an entity states the presence of hyperinflation in the country of its functional currency, in a situation where the economy was not hyperinflationary in the previous period, and therefore the entity is obliged to correct its financial statements pursuant to IAS 29.

- IFRIC 8, “Scope of IRFS 2”
  The IFRIC 8 interpretation was issued on 12 January 2006 in order to explain that IFRS 2 "Share-based Payment" is applicable to agreements on the basis of which the entity pays remuneration in the form of its own share for insufficient mutual consideration or without such consideration.

- IFRIC 9 “Reassessment of Embedded Derivatives"
  IFRIC 9 is applicable for the first time to annual periods beginning as of 1 June 2006. This interpretation specifies in its guidelines if the entity should reassess the issue whether an embedded derivative instrument should be recognized separately with the original agreement.

According to the estimates of the holding company's Management Board the aforementioned standards and interpretations would not have any significant impact on the consolidated financial statements had they been applied by the Group on the balance sheet date. The Management Board does not intend to apply these standards and interpretations before their effective dates.

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 31 December 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 acquired company are measured at their fair value. The surplus of the purchase price over fair value of identifiable net assets of the company is recognized 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 recognized 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 recognized 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 such control.
Minority shares in 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 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 ventures. Financial shares of the Capital Group in its associated companies are measured using the equity method, except for the situation when an investment is classified as held for sale (see below). Investments 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 until the balance sheet date, less impairment of individual investments. Losses of associated entities exceeding the value of the Group's share in these associated companies are not recognized.
As of the date of acquisition, the surplus of the purchase price over fair value of identifiable net assets of the associated company is recognized under goodwill. In case the purchase price is lower than the fair value of identifiable net assets of the associated company as of the date of acquisition, the difference is recognized 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 associated companies adjustments are introduced to unify the 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 venture

Share of the Capital Group in the joint venture is recognized using proportional consolidation method, according to which the proportional share in assets, liabilities, revenues and costs of the joint venture is recognized, 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 Finance BV. Transactions denominated in currencies are preliminarily recognized 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 recognized in the consolidated cash flow statement, except for exchange differences occurring

after translation of assets and liabilities of foreign entities. These differences are recognized 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 uses 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 of one subsidiary (PGNiG Finance BV). As of the balance sheet date the 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, whereas 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 recognized directly in equity as a separate item. As the moment of sales of the foreign entity, accumulated deferred exchange differences recognized under equity and relating to the foreign entity are recognized in the profit and loss account.

Tangible fixed assets

The items of tangibles fixed assets are initially recognized at acquisition price or manufacturing cost. After initial inclusion of tangible fixed assets in the valuation, the historic cost model less accumulated amortization and impairment write-downs is applied.
Depreciation is calculated for all fixed assets except for land and fixed assets under construction, during the estimated period of their economical useful life using the straight-line method.
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 their economic useful life, respectively as own assets, no longer however than 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 recognized in the profit and loss account.

Costs of external financing

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

Investment property

Investment property include real estates that are considered as source of revenues from rentals or / and kept for capital appreciation.
Initially, investment property is recognized at the purchase price adjusted by transaction costs. All investment property is 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 write-downs. Investment property is derecognized from the balance sheet in case it is sold or permanently withdrawn 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 recognized 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 venture as on the acquisition day.
Goodwill is disclosed as an item in assets and is, at least once a year, subject to an analysis in respect of 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 venture, an unamortized portion of goodwill is taken into account when calculating the profit or loss on the sale.

Intangible assets

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

Separately acquired and manufactured by the entity

Intangible assets acquired as part of a separate transaction are recognized at purchase price.
After the initial recognition at the purchase price the intangible assets are recognized 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 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 reserve capital item.
Depreciation of remeasured intangible assets is recognized in the profit and loss account. The intangible assets are depreciated according to a straight-line method in the period which corresponds to the estimated period of their economic useful life. The correctness of applied periods and depreciation rates is periodically verified, at least once a year at the end of the financial year, and potential adjustments to depreciation charges are applied in the following periods.
The typically applied economic useful lives for the depreciation of intangible assets are as follows:

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

Intangible assets with an unspecified useful life are not subject to depreciation.
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, whereas 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 recoverable value of assets corresponds to the higher of the two following values: net realizable price or value at use.

R&D expenses

R & D expenses are not capitalized 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 amortized using the straight-line method over their economic useful life.
If it is impossible to isolate the item of assets that was manufactured by the entity itself, R&D expenses are 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 recognized based on geological success principle. The cost of exploration and appraisal work is booked under intangible assets at the moment industrial usefulness of a 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 economic useful 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 possible impairment, provided that the asset has not been commissioned yet, or the Company has noticed circumstances under which its 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 in which they were incurred.

Leasing

Leasing is classified as financial leasing, when the terms and conditions of the agreement transfer, on principle, 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 recognized 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 adequate 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 straight-line 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 present 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 the interest and principal part, so that the interest rate on the remaining liability would be fixed. Financial expenses are recorded in the profit and loss account. Payments due to operating lease are recognized in the profit and loss account using the straight-line 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 straight - line 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 recognized in the profit and loss account for the given period.
Financial assets with fixed or determinable payments and with 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 than 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 finalize the sales transaction within a year from the reclassification.

Inventory

Inventory is measured at purchase price or manufacturing costs 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 gas received 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.).

Valuation of gas inventories

The gas in storage facilities is valuated at the weighted average unit price of gas from individual sources of origin. The averaged gas prices from individual sources are obtained as follows:

- gas from a given month which originates from individual import contracts is registered as per value and quantity and with a division into particular batches which correspond to individual points of entry to the Polish gas system. The weighted average price of gas from this source is calculated on the basis of the aforementioned data.
- gas produced from domestic mines is registered as per quantity and with a division into batches which correspond to individual mines. The value of this gas originates from the settlement, in a given month, of mining costs in a given mine. The technical cost of gas production which constitutes the price of gas produced in domestic mines is calculated on the basis of the aforementioned information.
- the price of gas originating from the Branch in Odolanów is based on the production cost of this gas, which consists of the technical production cost of nitrated gas used for production of high-methane gas as well as of the denitration costs of this gas in a given month.
- the price of high-methane gas obtained in the process where gas with higher calorific value is mixed with nitrated gases is calculated through division of the sum of mixed gases by the sum of the quantities of these gases.

The gas which is packed into storage facilities in a given month (the registration is performed in separate batches which correspond to individual Underground Gas Storage Facilities (PMG)) is valuated at the weighted average price.
The transfer of gas in a given month from PMG to the gas system is performed at a price which is based on the weighted average acquisition cost of gas in a given month and from a given storage facility.

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 repayment of receivables during the year. The repayment ratios which are used to establish write-downs according the ageing analysis of receivables are calculated based on results of the aforementioned analysis. A 100% write-down is created for receivables overdue by over 365 days and for all interest accrued.

The Company creates write-downs for gas delivery receivables, from customers from tariff groups 5-7, which are 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, depending on the type of receivables a given write-down refers to.
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 write-downs previously created for these receivables.
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 not more than three 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 credits on the current accounts.

Impairment

On every balance sheet date, the Group evaluates whether there is any evidence indicating 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 a particular asset does 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 this particular assets belongs.
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 possibility of impairment occurrence 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 (or 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 articles of association.
Share capital is disclosed at face value in amounts complying with the articles of association 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 contributions to the share capital decrease 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 measurement using the IFRS for the first time and all changes in the revaluated tangibles fixed assets and intangibles assets are recorded in the retained earnings/losses.

Amounts created from profit distribution are recognized under other reserve capitals, and the undistributed profit/loss from previous years as well as the current year are recognized in the financial statements as retained earnings.

Bank credits and 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 credits or 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 derecognition of the liability from the balance sheet or when impairment is assessed and as a result of depreciation.

Provisions

Provisions are created when, as a result of past events, a potential and reliably estimable liability is generated (legal obligation or constructive obligation), which in the future may most probably result in the outflow of assets that generate economic benefits from the Company. The value of created provisions is verified at the balance sheet date in order to adjust their 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 present 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.

Prepayments and 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, invoiced 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 together with trade liabilities as well as other liabilities.
The Capital Group’s constituent entities recognize deferred income in order to allocate these revenues to future reporting periods upon their realization.
The holding company and the Gas Companies classify the gas infrastructure which was received free of charge (by 1998) and connection fees as deferred income. Respective revenues are realized together with depreciation charges on the aforesaid service lines. The settlements are disclosed in the balance sheet as a separate item under liabilities.

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 employee benefits, as well as accrued expenses and public–legal liabilities.

Sales revenues

Revenues are recognized 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.

Provision of services

Revenues for services are recognized based on the degree to which they are realized as at 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 straight-line 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 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 which 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 as at the balance sheet date. The delivery status is usually measured as a proportion of incurred costs to all estimated 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 deferred revenues and next they are gradually, by way of annual write-offs, written off to 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 as well as items in expenses and revenues that will never be taxable. Tax liabilities are calculated based on tax rates that are binding in a particular financial 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 asset is recognized up to the amount, to which its is probable that future taxable profits will be decreased by the recognized temporary negative differences. The tax asset or tax liability item is not created, if temporary differences is created due to goodwill or due to the initial recognition of another asset or liability in a transaction, 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 ventures, unless the Group is capable of controlling the reversal of temporary differences and it is likely that in the foreseeable future the temporary difference will not be reversed.
The value of the deferred tax asset is subject to an analysis as at every balance sheet date, and when the expected future taxable profits are insufficient to realize 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 realized or the liability is due. Deferred tax is charged to the profit and loss account, except when it is related to the items directly recognized 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 swaps, currency forwards and options, strategic currency options and cross currency interest rate swaps, 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 asset or liability, the 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 which 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.
Hedges used by the Company do not meet the criteria which allow for application of special accounting principles related to hedges. Therefore, the profits and losses resulting from changes to the fair value of the hedging instrument 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 forwards is calculated based on the exchange rates which are forecasted at the balance sheet date for forwards with a similar maturity profile.
The fair value of interest rate swap transaction is determined based on discounted cash flows until expiry of the transaction.
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 and resulting risks, and if the 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 into business segments 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 the 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 activities 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 operating assets used by the segment, including mainly cash, receivables, inventory, tangible fixed assets less impairment 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 used by particular segments.
Liabilities of segments include all operational liabilities, mainly trade, payroll and tax liabilities, which are both due and accrued, as well as all provisions for liabilities that can be assigned to a particular segment.
Neither assets nor liabilities of a segment include deferred tax.
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 on 31 December 2006 and 31 December 2005.

Period ended on 31 December 2006	Production and output	Trade and storage	Distribution	Other	Elimination	Total
Profit and loss account						
Sales to external customers	1 822 481	4 167 322	9 110 156	97 694	-	15 197 653
Sales between segments	1 145 820	6 798 679	8 821	199 398	(8 152 718)	-
Total segment revenues	2 968 301	10 966 001	9 118 977	297 092	(8 152 718)	15 197 653
Depreciation	(486 477)	(132 662)	(666 434)	(10 567)	-	(1 296 140)
Other costs	(1 494 106)	(10 574 781)	(8 226 653)	(285 415)	8 144 051	(12 436 904)
Total segment costs	(1 980 583)	(10 707 443)	(8 893 087)	(295 982)	8 144 051	(13 733 044)
Result on the segment's operating activity	**987 718**	**258 558**	**225 890**	**1 110**	**(8 667)**	**1 464 609**
Net financial expenses						24 579
Share in financial result of entities measured using the equity method		77 453				77 453
Gross result						**1 566 641**
Income tax						(243 114)
Result for the financial year on discontinued operations						-
Profit sharing						(2)
Net profit						**1 323 525**

Balance sheet						
Segment assets	7 822 420	10 901 993	11 591 636	281 251	(915 238)	29 682 062
Investments in entities measured using the equity method		589 284				589 284
Unassigned assets						27 705
Deferred tax asset						440 596
Total assets						**30 739 647**
Total equity						21 208 111
Segment liabilities	1 340 614	1 645 149	2 616 359	95 708	(915 238)	4 782 592
Unassigned liabilities						2 692 870
Provision for deferred tax						2 056 074
Total liabilities and equity						**30 739 647**
Other segment information						
Capital expenditure for tangible fixed assets	(388 142)	(433 623)	(753 399)	(6 908)		**(1 582 072)**
Revaluation write-downs on assets	(2 596 445)	(2 152 999)	(9 368 214)	(3 305)		**(14 120 963)**
Revaluation write-downs on unassigned assets						**(48 433)**

Period ended on 31 December 2005	**Production and output**	**Trade, storage and transmission**	**Distribution**	**Other**	**Elimination**	**Total**
Profit and loss account						
Sales to external customers	1 630 297	3 405 000	7 432 826	91 865	-	12 559 988
Sales between segments	952 363	5 316 520	22 311	173 084	(6 464 278)	-
Total segment revenues	2 582 660	8 721 520	7 455 137	264 949	(6 464 278)	12 559 988
Depreciation	(450 616)	(290 610)	(649 276)	(11 353)	-	(1 401 855)
Other costs	(1 376 171)	(7 899 807)	(6 672 670)	(258 633)	6 446 868	(9 760 413)
Total segment costs	(1 826 787)	(8 190 417)	(7 321 946)	(269 986)	6 446 868	(11 162 268)
Result on the segment's operating activity	**755 873**	**531 103**	**133 191**	**(5 037)**	**(17 410)**	**1 397 720**
Net interest and other financial expenses						(192 969)
Share in financial result of entities measured using the equity method		49 604				49 604
Gross result						**1 254 355**
Income tax						(206 839)
Result for the financial year on discontinued operations						-
Profit sharing						(166 853)
Net profit						**880 663**
Balance sheet						
Segment assets	7 584 199	11 650 318	11 241 439	247 919	(1 400 088)	29 323 787
Investments in entities measured using the equity method		512 076				512 076
Unassigned assets						143 298
Deferred tax asset						384 504
Total assets						**30 363 665**

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

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

3.b. Geographical segments

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

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

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

4. EMPLOYEE BENEFITS AND OTHER NET OPERATING EXPENSES

Employee benefits

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

Other operating expenses (net)

	31.12.06	31 December
Change in provisions (net)	104 513	(88 934)
Change in write-downs (net)	(111 295)	17 811
Taxes and charges	(433 952)	(407 178)
Interest on non-financial items (net)	318 079	248 980
Exchange differences on non-financial items (net)	62 622	(34 818)
Value of goods and materials sold	(44 337)	(26 129)
Other revenues from earlier recognized deferred income	77 454	91 753
Loss on disposal of non-financial fixed assets	(19 724)	(125 423)
Difference on valuation of property transferred as dividend	175 379	48 759
Other expenses (net)	(44 440)	(120 019)
Total	**84 299**	**(395 198)**

5. FINANCIAL REVENUES AND EXPENSES

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

6. MEASUREMENT OF ASSOCIATED ENTITIES USING THE EQUITY METHOD

	31 December 2006	31 December 2005
SGT EUROPOL GAZ S.A.		
The share of PGNiG S.A. Group in the Company's capital*	49.74%	49,74%
Core activity	Gas transmission	Gas transmission
Measurement of shares using the equity method	1 298 137	1 106 603
Acquisition price	38 400	38 400
Share in changes in capital	1 336 537	1 145 003
Impairment write-down	(780 537)	(651 203)
Carrying value of investments	**556 000**	**493 800**
GAS-TRADING S.A.		
The share of PGNiG S.A. Group in the Company's capital	43.41%	43.41%
Core activity	Trade	Trade
Measurement of shares using the equity method	31 993	16 985
Acquisition price	1 291	1 291
Share in changes in capital	33 284	18 276
Impairment write-down	-	-
Carrying value of investments	**33 284**	**18 276**
INVESTGAS S.A.		
The share of PGNiG S.A. Group in the Company's capital	Not applicable**	49.00%
Core activity	-	Work connected with investments in underground gas storage facilities
Measurement of shares using the equity method	-	-
Acquisition price	-	245
Share in changes in capital	-	245
Impairment write-down	-	(245)
Carrying value of investments		**-**
Total carrying value of investments	**589 284**	**512 076**

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

6a. Reconciliation of the value of shares in associated companies measured using the equity method.

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

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

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

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

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

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

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 comprise the Group is a separate taxpayer.

	Note	31 December 2006	31 December 2005
Gross profit		1 566 641	1 254 355
Binding tax rate		19%	19%
Tax according to the binding tax rate		(297 662)	(238 327)
Permanent differences between the gross result and income tax base		54 548	31 488
Tax liability disclosed in the consolidated profit and loss account		**(243 114)**	**(206 839)**
Effective tax rate		16%	16%
Current income tax	**7a**	**(366 366)**	**(311 566)**
Deferred income tax	**7b**	**123 252**	**104 727**
Tax rate applied for calculation of deferred tax		19%	19%

7.a. Current income tax

	31 December 2006	31 December 2005
Gross profit (loss) (consolidated)	1 566 641	1 254 355
Consolidation adjustments	713 221	568 447
Differences between the gross profit (loss) and income tax base	(432 254)	(246 698)
Revenues not included in the taxable income, including:	3 425 636	2 994 274
Write-downs released	353 929	435 005
Release of provisions	412 518	208 188
Interest accrued	20 776	51 402
Release of accrued income	508 424	107 993
Exchange gains	23 276	21 046
Foreign revenues	287 804	184 317
Revenues from gas sales with tax obligation in the following month	1 154 482	1 301 283
Revenues from hedging transactions	563 236	376 065
Difference on valuation of property transferred as dividend	-	192 002
Received dividends	59 337	101 108
Other	41 854	15 865
Costs not classified as tax-deductible expenses, including:	(3 019 360)	(2 823 646)
Accrued unpaid interest on credits and liabilities	(7 544)	(10 533)
Provisions created	(313 041)	(302 229)
Write-downs created	(485 972)	(429 041)
Costs of hedging transactions	(660 819)	(491 014)
Exchange losses	(62 787)	(83 190)
Depreciation settled against accrued income	56 466	(56 736)
Foreign costs	(267 478)	(176 648)
Costs related to sales with tax obligation in the following month	(1 087 577)	(1 058 225)
Value at the acquisition price of shares sold	-	(37 920)
Unpaid remuneration with unpaid Social Security premiums	(85 067)	(84 422)
Other	(105 541)	(93 688)
Taxable income not classified to accounting revenues, including:	1 571 801	1 219 491
Connection fees	67 503	71 414
Realized exchange gains	5 323	132 749
Revenues due to rental, lease, sales of gas, utilities with liability in the next month	1 229 681	881 238
Financial leasing - capital installment	225 327	118 843
Other	43 967	15 247
Tax-deductible expenses, not classified to accounting expenses, including:	(1 572 627)	(1 258 110)
Paid interest	(8 437)	(7 069)
Realized exchange losses from previous years	(75)	(303 007)
Costs of hedging transactions	(20 651)	(105 308)
Tax depreciation	(355 630)	(121 606)
Leasing installments	(16 501)	(15 056)
Expenses due to rental, lease, sales of gas, utilities payable in the next month	(1 046 929)	(653 019)
Paid remuneration and ZUS premiums from previous month	(51 281)	(300)
Other	(73 123)	(52 745)
Deductions from income, including:	(25 152)	(37 451)
Donations and subsidies	(2 098)	(1 675)
Foreign income	(8 427)	(4 039)
Loss from previous years	(14 627)	(31 737)
Income tax base	1 847 608	1 576 104
Tax rate for the given period	19%	19%
Income tax	(351 046)	(299 460)
Increases, releases, exemptions, deductions and reductions of taxes	(15 320)	(12 106)
Current income tax disclosed in tax return for the period	(366 366)	(311 566)
Current income tax recognized in the consolidated profit and loss account	**(366 366)**	**(311 566)**

7.b. Deferred income tax

	31 December 2006	31 December 2005
Occurrence and reversal of temporary differences due to negative temporary differences	47 903	(63 378)
Provisions due to payment of pension allowances	(11 266)	(1 851)
Provisions due to payment of retirement severance pay and jubilee bonuses	8 548	(3 263)
Provision for payment of termination benefits	(1 458)	1 511
Provision for unused vacation	831	(295)
Provision for reclamation of wells	(16 244)	2 837
Impairment write-downs on fixed assets	28 488	1 222
Impairment write-downs on shares	(1 828)	(2 129)
Revaluation write-downs on interest on loans	-	(5 790)
Revaluation write-downs on receivables	(68)	(27 009)
Measurement of forwards	(22 441)	(12 353)
Expenses related to transactions hedging against FX and interest rate risk	15 293	(6 857)
Exchange losses	2 678	(54 469)
Accrued interest on credits and liabilities	(354)	(1 182)
Connection fee	7 668	6 715
Tax loss	(1 070)	3 312
Unpaid payroll	2 338	13 934
Costs related to sales with tax obligation in the following month	28 107	-
Discontinued consolidation in connection with the disposal of a subsidiary	-	(29)
Other	8 681	22 318
Occurrence and reversal of temporary differences due to positive temporary differences	75 349	168 105
Exchange gains on credits and deposits	5 769	31 998
Accrued interest on loans	(548)	7 230
Accrued interest on receivables	26	26 996
Valuation of financial instruments	21 765	21 346
Tax depreciation higher than balance sheet depreciation	(54 110)	-
Revenues from tax obligation in the following month	3 182	(21 089)
Provision for interest accrued on received loan	-	(8 937)
Revaluation of fixed assets	113 467	112 403
Financial lease revenues	(12 423)	-
Other	(1 779)	(1 842)
Deferred income tax disclosed in the consolidated profit and loss account	**123 252**	**104 727**

The current reporting period covered the tax period from 1 January 2006 to 31 December 2006.
The CIT rate in force in the year 2006 was 19%. In a comparable period i.e. in 2005 this rate also amounted to 19%.
The regulations on VAT, CIT, PIT and social security contributions are subject to frequent changes as a result of which there is often no reference to established regulations or legal precedents. Additionally, valid regulations also include ambiguities which give rise to differences in opinions as to the legal interpretation of tax regulations both between national authorities as well as national authorities and companies. Tax and other settlements (e.g. customs or currency settlements) can be subject to inspection by authorities entitled to impose high penalties. The additional liabilities assessed as a result of inspections have to be settled together with high interest. As a result, tax risk in Poland is higher than in countries where the tax system is more mature. In Poland, there are no formal procedures for the reconciliation of the final level of tax settlement. Tax settlements can be subject to control during the course of five years. Consequently, the amounts presented in the financial statements can change at a later date, after they have been finally assessed by tax authorities.
The balance of deferred tax presented in the financial statements is reduced by the valuation adjustment arising from temporary differences whose realization for tax purposes is not 100% certain.

8. DISCONTINUED OPERATIONS

In 2006 the Group did not abandon any activity. The Group is not planning to abandon any of its present activities.

9. EARNINGS PER SHARE

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

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

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

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

10. PAID AND PROPOSED DIVIDENDS

	2006	2005
Dividends paid in the period		
Dividend paid per ordinary share (in PLN)	0,15	0,10
Number of shares (in thousand pieces)**	5 900 000	5 000 000
Value of dividend paid in thousand PLN, inclusive	885 000	500 000
- material dividend to the State Treasury	681 481	500 000
- cash dividend to the State Treasury	68 519	-
- cash dividend to other shareholders	135 000	-

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

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

11. TANGIBLE FIXED ASSETS

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

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

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

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

11a. Impairment write downs on tangible fixed assets

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

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

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

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

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

12. INVESTMENT PROPERTY

	31 December 2006	31 December 2005
Opening balance, including amortization	10 553	11 279
Increase	-	-
Decrease	(8)	(459)
Reclassifications from tangible fixed assets	(3 318)	32
Impairment write-down	-	250
Depreciation for the financial year	(462)	(549)
Closing balance, including accumulated depreciation	**6 765**	**10 553**

Opening balance		
Gross value	13 680	12 080
Accumulated depreciation and impairment write-down	(3 127)	(801)
Net carrying value	**10 553**	**11 279**

Closing balance		
Gross value	9 505	11 650
Accumulated depreciation and impairment write-down	(2 740)	(1 097)
Net carrying value	**6 765**	**10 553**

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

13. INTANGIBLE ASSETS

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

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

13a. Impairment write downs on intangible assets

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

14. FINANCIAL ASSETS AVAILABLE FOR SALE

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

* Less impairment write-down

15. OTHER FINANCIAL ASSETS

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

15a. Financial lease

The lease agreement of 6 July 2005 concluded between PGNiG S.A. and OGP Gaz - System Sp. z o.o. (OGP Gaz - System S.A. at present) constitutes an element of the "Restructuring and privatization program of PGNiG S.A." which was adopted by the Council of Ministers on 5 October 2004. The separation of the transmission activity from the production & trading activity was performed through the hand-over of the transmission property to Gaz-System S.A. The subject-matter of the lease covers real property, movable objects and property rights. The agreement was concluded for 17 years.
The sum of payments decreased by the discount, which was set on the conclusion date of the agreement and which is payable during the effective period of the agreement, exceeds 90% of the market value of the subject-matter of the agreement as of that date. Therefore, this lease is recognized as a financial lease pursuant to IAS 17. The lease payment is composed of the principal and the interest portion. The interest portion is established on the basis of WIBOR 3M rates in the month preceding the month to which the calculated lease installment refers to, and is increased by a margin.

Inflows related to the transmission system lease agreement:

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

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

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

16. DEFERRED TAX ASSET

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

17. OTHER NON-CURRENT ASSETS

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

18. INVENTORY

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

19. TRADE AND OTHER RECEIVABLES

	31 December 2006	31 December 2005
Trade receivables	2 549 206	2 537 965
Trade receivables from related entities	48 207	44 705
Receivables from tax, customs and social security	274 997	327 150
Receivables from surplus of obligatory profit contribution for the owner	-	47 890
Due portion of loans granted	198 820	254 057
Receivables from associated entities measured by equity method	3 952	3 950
Receivables due to financial lease	218 924	262 200
Other receivables from related parties	83 747	86 538
Other receivables	215 766	187 105
Total gross receivables	**3 593 619**	**3 751 560**
Revaluation write-down on doubtful receivables (table 19a)	**(1 064 025)**	**(1 133 210)**
Total net receivables	**2 529 594**	**2 618 350**
including:		
Trade receivables	1 901 721	1 870 083
Trade receivables from related entities	3 182	1 868
Receivables from tax, customs and social security	274 997	326 277
Receivables from surplus of obligatory profit contribution for the owner	-	47 890
Due portion of loans granted	-	-
Receivables from associated entities measured by equity method	3 932	3 931
Receivables due to financial lease	218 924	262 200
Other receivables from related parties	30	2 933
Other receivables	126 808	103 168

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

19.a. Write-downs on receivables

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

20. SETTLEMENTS DUE TO CURRENT TAX

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

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

21. PREPAYMENTS

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

22. FINANCIAL ASSETS HELD FOR TRADING

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

* Less revaluation write-down

23. CASH

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

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

PGNiG S.A. Group entities deposit cash in renowned Polish and international banks as a result of which the concentration of deposit risk is limited.

Funds gained from increase in the capital in 2005 in line with the prospectus were invested in 2006 most of all in bills and bonds issued by the State Treasury and bonds issued by the National Bank of Poland, which are safe with respect to credit risk. The remaining part (several percent) was invested in renowned banks.

24. SHARE CAPITAL

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

25. CREDITS, LOANS AND DEBT SECURITIES

	Currency	31 December 2006	31 December 2005	Effective interest rate %	Repayment/ redemption date	31 December 2006	31 December 2005	Hedging
Long-term		Value in currency				Value in PLN		
Liabilities due to leasing	PLN	45 126	53 202	6,42%	2006-2010	45 126	53 202	-
Syndicate loan*	EUR	600 000	600 000	Euribor 3M+0.25	27.07.2010	2 298 720	2 315 880	Guarantees of distribution companies
Total long-term						**2 343 846**	**2 369 082**	

	Currency	31 December 2006	31 December 2005	Effective interest rate %	Repayment/ redemption date	31 December 2006	31 December 2005	Hedging
Short-term		Value in currency				Value in PLN		
Current portion of leasing liabilities	PLN	43 543	31 788	6,42%	2007	43 543	31 788	-
Current portion of syndicate loan*	EUR	1 283	2 165	Euribor 3M+0.25	27.07.2010	4 917	8 356	Guarantees of distribution companies
Short-term loan at Millennium S.A. Warszawa	PLN	-	5 616	Wibor 3M+0.65	27.04.2006	-	5 616	Blank bill of exchange
Credit line at Raiffeisen Bank S.A. Warsaw	PLN	-	4 886	Wibor 1M+0.5	31.05.2006	-	4 886	Blank bill of exchange
Working capital loan at Societe Generale S.A., Warsaw	USD	-	1 322	Libor 1M+0.8	13.01.2006	-	4 312	Real estate mortgage
Overdraft on current account at BPH S.A. I O/Kraków	PLN	-	12 992	Wibor 1M+0.4	29.09.2006	-	12 992	Mortgage on real property, assignment of receivables from contracts
Credit line at Societe Generale Kraków	PLN	-	2 197	Wibor 1M+0.8	31.10.2006	-	2 197	Assignment of receivables
Credit line at BPH S.A. Kraków	PLN	-	10 200	Wibor 1M+0.4	30.09.2006	-	10 200	Mortgage, transfer of the ownership
Credit line at Komercni Banka A.S. (Czech)	CZK		2 792	Pribor 3M+0.15	03.07.2006	-	371	Inflows from sales
Short-term loan at PeKaO S.A., Toruń	PLN	-	4 500	Wibor 1M+0.7	31.05.2006	-	4 500	Blank bill of exchange
Short-term loan at BRE Bank S.A., Bydgoszcz	PLN	-	4 000	Wibor 1M+0.7	25.08.2006	-	4 000	Blank bill of exchange
Credit line at BPH S.A. Branch in Kraków	PLN	13 264	-	Wibor 1M+0.4	28.09.2007	13 264	-	capped mortgage
Short-term loan at Komercni Banka A.S. (Czech)	PLN	5 000	-	Pribor 1M+1.5	30.06.2007	697	-	assignment of receivables
Current account loan at Komercni Banka A.S. (Czech)	PLN	4 198	-	Pribor 1M+1.5	31.05.2007	585	-	assignment of receivables
Short-term loan at Volkswagen Bank Polska S.A.	PLN	68	-	0% merchant loan	17.03.2007	68	-	conveyance
Current account loan at Millennium S.A.Warszawa	PLN	5 680	-	Wibor 3M+0.65	26.04.2007	5 680	-	Blank bill of exchange
Overdraft on current account at Raiffeisen Bank S.A. Warsaw	PLN	2 278	-	Wibor 1W+0.50	31.05.2007	2 278	-	Blank bill of exchange
Revolving credit at BRE S.A.	PLN	4 700	-	Wibor 3M+0.60	24.08.2007	4 700	-	Blank bill of exchange
Revolving credit at PeKaO S.A. O/Toruń	PLN	2 959	-	Wibor 3M+0.60	31.05.2007	2 959	-	Blank bill of exchange
Overdraft on current account at PeKaO S.A. O/Toruń	PLN	1 500	-	Wibor 3M+0.60	31.05.2007	1 500	-	Blank bill of exchange
Short-term loan at BPH S.A. O/Jasło	PLN	1 002	-	Wibor 1M+1.5	28.09.2007	1 002	-	Blank bill of exchange, inventory
Overdraft on current account at BPH S.A. I O/Kraków	PLN	13 923	-	Wibor 1M+0.4	28.09.2007	13 923	-	real estate mortgage
Overdraft on current account at Societe Generale Warsaw	CHF	1 668	-	Libor 1M+0.8	31.07.2007	3 978	-	assignment of receivables
Overdraft on current account at BPH S.A. O/Piła	PLN	5 899	-	Wibor 1M+0.6	30.09.2007	5 899	-	conveyance
Overdraft on current account at BGK S.A. O/Piła	PLN	8 283	-	Wibor 3M+1.1	25.04.2007	8 283	-	conveyance
Credit line at ING Bank Śląski S.A. O/Bytom	PLN	293	-	Wibor 1M+1.2	28.09.2007	293	-	blank bill of exchange, assignment of
Loan from a sole trader (in subsidiary)	PLN	52	-	Wibor 1M+0.5	31.12.2007	52	-	

Total short-term	**113 621**	**89 218**

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

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

26. PROVISIONS

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

Provisions for jubilee awards and retirement severance pay

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

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

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

	31 December 2006	31 December 2005
Jubilee awards		
Opening balance of liability recognized in the balance sheet	198 343	216 513
Cost of interest	3 769	8 227
Cost of current employment	14 519	12 078
Benefits paid	(34 216)	(32 545)
Actuarial profit/loss	58 061	(1 659)
Profits/losses on limitations and settlements	-	(4 271)
Closing balance of liability recognized in the balance sheet	240 476	198 343
Retirement severance pay		
Opening balance of liability recognized in the balance sheet	99 348	92 822
Cost of current employment	5 081	4 349
Cost of interest	1 717	3 549
Net value of actuarial profit/loss recognized over the year	(832)	(480)
Benefits paid	(5 816)	(4 895)
Cost of past employment	909	909
Profits/losses on limitations and settlements	-	(1 500)
Other	(3 384)	4 594
Closing balance of liability recognized in the balance sheet	**97 023**	**99 348**
Total closing balance of liability recognized in the balance sheet	**337 499**	**297 691**

Provision for gas allowances to former employees

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

Special funds

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

Provision for payment of termination benefits

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

Provision for well reclamation costs

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

Mine liquidation fund

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

Provision for penalty to the Office for Competition and Consumer Protection

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

Provision for environmental protection purposes

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

Provision for return of assets from leasing

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

Provision for renegotiation of import prices

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

Other provisions

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

27. DEFERRED INCOME

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

28. PROVISION FOR DEFERRED TAX

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

29. TRADE AND OTHER LIABILITIES

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

30. DERIVATIVE HEDGING INSTRUMENTS VALUATED AT FAIR VALUE AND RECOGNIZED IN THE PROFIT AND LOSS ACCOUNT

Face value in foreign currency	Due date	Instrument realization price or price range	Valuation of instrument to fair value	
			31 December 2006	31 December 2005
	Collar			
USD 10 million	10 January 2007	3.2900-2.9980	(890)	-
USD 10 million	10 January 2007	3.2600-2.9965	(876)	-
EUR 5 million	19 January 2007	4.0600-3.8985	(362)	-
USD 10 million	10 January 2007	3.1200-2.9080	(145)	-
EUR 5 million	19 January 2007	4.0200-3.8000	(48)	-
USD 10 million	18 January 2007	3.1100-2.9070	(208)	-
EUR 5 million	18 January 2007	3.1200-2.9250	(313)	-
USD 10 million	21 February 2007	3.2850-2.9985	(1 050)	-
USD 10 million	20 March 2007	3.2900-2.9980	(1 134)	-
USD 10 million	9 February 2007	3.2950-3.0185	(1 193)	-
USD 10 million	9 February 2007	3.2850-3.0200	(1 206)	-
USD 10 million	9 March 2007	3.2800-3.0060	(1 171)	-
USD 10 million	9 March 2007	3.2800-2.9900	(1 040)	-
USD 10 million	20 February 2007	3.2500-2.9970	(1 033)	-
USD 10 million	9 March 2007	3.2500-2.9970	(1 094)	-
USD 10 million	9 February 2007	3.2300-2.9940	(978)	-
USD 10 million	18 January 2007	3.2600-3.0000	(937)	-
USD 10 million	20 March 2007	3.2500-2.9980	(1 130)	-
EUR 5 million	20 February 2007	4.1100-3.8935	(391)	-
EUR 5 million	20 March 2007	4.1100-3.8870	(397)	-
USD 10 million	20 February 2007	3.2200-3.0025	(1 078)	-
EUR 5 million	20 February 2007	4.0900-3.8740	(316)	-
EUR 5 million	20 March 2007	4.0900-3.8800	(368)	-
USD 10 million	9 February 2007	3.1900-3.0275	(1 270)	-
USD 10 million	20 March 2007	3.1900-2.9995	(1 129)	-
USD 10 million	18 January 2007	3.2500-3.0015	(951)	-
EUR 5 million	10 April 2007	4.0000-3.8600	(278)	-
USD 10 million	18 January 2007	3.2100-3.0110	(1 041)	-
USD 10 million	9 February 2007	3.2200-3.0035	(1 060)	-
USD 10 million	9 March 2007	3.2100-3.0075	(1 175)	-
USD 10 million	10 April 2007	3.1400-2.9975	(1 134)	-
USD 10 million	10 April 2007	3.0900-2.9900	(1 034)	-
USD 10 million	10 January 2007	3.1500-2.9920	(832)	-
USD 10 million	10 April 2007	3.1000-2.9640	(851)	-
USD 10 million	10 May 2007	3.1000-2.9250	(651)	-
USD 10 million	20 March 2007	3.1000-2.9370	(622)	-
USD 10 million	10 May 2007	3.0900-2.9160	(586)	-
USD 10 million	10 May 2007	3.0900-2.9115	(561)	-
USD 10 million	20 April 2007	3.0800-2.9160	(543)	-
USD 10 million	18 May 2007	3.0800-2.9100	(551)	-
USD 10 million	20 April 2007	3.0700-2.8990	(437)	-
USD 10 million	18 May 2007	3.0600-3.8730	(334)	-
USD 10 million	20 February 2007	3.0450-2.9240	(423)	-
EUR 10 million	20 April 2007	3.0450-2.8815	(316)	-
USD 10 million	18 May 2007	3.0400-2.8565	(231)	-
EUR 5 million	10 May 2007	3.9500-3.7570	(8)	-
EUR 5 million	10 April 2007	3.9500-3.7580	(11)	-
USD 10 million	18 January 2007	2.9700-2.8890	(77)	-
USD 10 million	20 March 2007	2.9900-2.8600	(91)	-
USD 10 million	20 April 2007	2.9700-2.8635	(86)	-
USD 10 million	18 May 2007	2.9700-2.8560	(74)	-
USD 10 million	20 April 2007	2.9800-2.8505	(60)	-
USD 10 million	10 May 2007	2.9500-2.8460	31	-
USD 10 million	18 May 2007	2.9600-2.8230	76	-
USD 10 million	18 May 2007	2.9600-2.8175	94	-
USD 10 million	8 June 2007	2.9600-2.7875	175	-
EUR 5 million	20 June 2007	3.9200-3.7447	51	-
EUR 5 million	18 May 2007	3.9000-3.7335	88	-
			(33 260)	**-**
	Forward			
USD 10 million	10 January 2007	3.0853	(1 759)	-
USD 10 million	10 January 2007	3.0545	(1 451)	-
USD 10 million	10 April 2007	3.0797	(1 776)	-
USD 10 million	9 March 2007	3.0581	(1 538)	-
USD 10 million	20 February 2007	3.0595	(1 537)	-

USD 10 million	18 January 2007	3.0603	(1 516)	-
USD 10 million	18 January 2007	3.0434	(1 347)	-
USD 10 million	20 February 2007	3.0395	(1 338)	-
USD 10 million	10 April 2007	3.0336	(1 321)	-
USD 10 million	20 April 2007	2.9929	(925)	-
USD 10 million	20 March 2007	2.9964	(936)	-
USD 10 million	18 January 2007	2.9928	(843)	-
USD 10 million	10 May 2007	2.9857	(868)	-
USD 10 million	20 February 2007	2.9940	(886)	-
USD 10 million	20 February 2007	2.9862	(808)	-
USD 10 million	20 February 2007	2.9742	(689)	-
USD 10 million	20 March 2007	2.9719	(693)	-
USD 10 million	20 March 2007	2.9540	(515)	-
USD 10 million	20 February 2007	2.9599	(547)	-
USD 10 million	18 January 2007	2.8900	183	-
USD 10 million	8 June 2007	2.8561	384	-
USD 10 million	8 June 2007	2.8500	444	-
USD 10 million	10 January 2007	2.8595	496	-
USD 10 million	20 June 2007	2.8477	456	-
USD 10 million	8 June 2007	2.8490	453	-
USD 10 million	10 January 2007	2.8775	317	-
USD 10 million	9 February 2007	2.8760	299	-
USD 10 million	9 March 2007	2.8720	309	-
USD 10 million	9 February 2007	2.8733	326	-
USD 10 million	9 March 2007	2.8698	331	-
USD 10 million	10 January 2007	2.8771	321	-
USD 10 million	20 March 2007	2.8792	226	-
USD 10 million	9 February 2007	2.8842	217	-
USD 10 million	18 January 2007	2.8874	209	-
USD 10 million	18 January 2007	2.8874	209	-
USD 10 million	20 March 2007	2.8991	29	-
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
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)
			(16 084)	**(12 957)**
	Cross Currency Interest Rate Swap			
EUR 120 million	30 October 2006	3.8750	-	107 893
			-	**107 893**
	Cross Currency Rate Swap			
USD 100 million	22 June 2006	4.0150	-	(13 091)
USD 100 million	6 September 2006	4.2820	-	(26 599)
EUR 25 million	26 October 2006	3.9750	-	(2 362)
EUR 25 million	26 October 2006	3.9970	-	(2 956)
EUR 25 million	26 October 2006	4.3870	-	(13 083)
EUR 25 million	26 October 2006	4.2499	-	(10 012)
EUR 25 million	26 October 2006	4.3475	-	(12 100)
EUR 25 million	26 October 2006	4.3000	-	(11 184)
EUR 25 million	26 October 2006	4.1175	-	(6 868)
EUR 25 million	26 October 2006	4.2890	-	(10 378)
EUR 25 million	26 October 2006	4.4450	-	(14 503)
EUR 25 million	26 October 2006	4.4750	-	(15 248)
EUR 25 million	26 October 2006	4.2525	-	(9 456)
			-	**(147 840)**
Total			**(49 344)**	**(52 904)**

31. CONTINGENT LIABILITIES

31.a. Operating lease liabilities

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

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

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

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

31.c. Investment liabilities

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

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.						
EUROPOL GAZ S.A.	56 000	PLN	56 000	30 September 2012	Bank Gdański S.A.	credit surety
The President Islamic Republic of Pakistan	2 316	USD	6 741	31 December 2008	Societe Generale Branch in Poland	bank guarantee
Supreme Court in Pakistan	1 122	USD	3 267	30 January 2008	Societe Generale Branch in Poland	bank guarantee
Gazexport Ltd.	100 000	USD	291 050	8 February 2007	Societe Generale Branch in Poland	bank guarantee
Gazexport Ltd.	50 000	USD	145 525	8 February 2007	Bank PEKAO S.A. Head Office	bank guarantee
Gazprom-Export Ltd.	90 000	USD	261 945	8 February 2008	Societe Generale Branch in Poland	bank guarantee
Gazprom-Export Ltd.	90 000	USD	261 945	8 February 2008	Bank PEKAO S.A. Head Office	bank guarantee
Contingent liabilities granted by Gas Companies**						
Contingent liabilities granted by Gas Companies**	1 250 000	EUR	4 789 000	27 January 2012	Consortium of banks- agent Bank Handlowy S.A. in Warsaw	repayment guarantee
Contingent liabilities granted by Geofizyka Kraków Sp. z o.o.						
Customs Office in Pakistan	2 910	USD	8 470	31 December 2006	Customs Office	customs guarantee
Oil India Company LTD	2 363	USD	6 877	31 August 2008	Oil India Comany LTD	guarantee for good contract performance
Hydro Libia	600	USD	1 746	31 December 2007	Hydro Libia	guarantee for good contract performance
OGDC Pakistan	155	USD	452	26 April 2007	OGDC	guarantee for good contract performance
Contingent liabilities granted by Gazobudowa Zabrze Sp. z o.o.						
ERGO Hestia	239	PLN	239	25 October 2008	ZRUG Sp. z o.o. in Pogórska Wola	guarantee for good contract performance
Uniga Łódź	764	PLN	764	6 November 2007	PKN Orlen Płock	guarantee for good contract performance
Uniga Łódź	1 703	PLN	1 703	7 September 2007	PKN Orlen Płock	guarantee for good contract performance
ERGO Hestia	450	PLN	450	28 February 2008	ABB Zamech Gazpetro	guarantee for good contract performance
Contingent liabilities granted by Diament Sp. z o.o.						
PN Diament Sp. z o.o.	337	PLN	337	1 May 2009	NCC ROADS Sp.z o.o.	bank guarantee
PN Diament Sp. z o.o.	25	PLN	25	30 August 2009	WUPRINŻ Sp. z o.o. Poznań	bank guarantee
PN Diament Sp. z o.o.	77	EUR	77	30 June 2009	MITEX S.A. Warsaw	bank guarantee
PN Diament Sp. z o.o.	9	PLN	9	22 May 2009	Lasy Państwowe Nadlesnictwo Zielona Góra	bank guarantee
PN Diament Sp. z o.o.	14	PLN	14	31 October 2007	Strabag Sp. z o.o. Warsaw	bank guarantee
PN Diament Sp. z o.o.	10	PLN	10	31 October 2007	Strabag Sp. z o.o. Warsaw	bank guarantee
PN Diament Sp. z o.o.	15	PLN	15	10 December 2009	Municipal Council in Skarżysko-Kamienna	bank guarantee
PN Diament Sp. z o.o.	15	PLN	15	12 June 2009	Kozienice Community	bank guarantee
PN Diament Sp. z o.o.	178	PLN	178	24 August 2009	ABM Sp.z o.o. Legnica	bank guarantee
PN Diament Sp. z o.o.	55	PLN	55	29 November 2010	EKOMEL Sp.z o.o. Sulechów	bank guarantee
PN Diament Sp. z o.o.	59	EUR	226	15 November 2007	Strabag S.A.	bank guarantee
Contingent liabilities granted by Investgas S.A.						
PKN ORLEN S.A	717	PLN	717	31 December 2010	Deutche Bank PLC Warsaw	guarantee for good agreement performance
Total			**5 837 852**			

* Contingent liabilities in currencies translated at NBP exchange rates as of 31 December 2006.

** Six established gas companies (100% subsidiaries of PGNiG S.A.) jointly and severally guaranteed repayment of the syndicate credit taken by PGNiG S.A. The syndicate credit agreement of 27 July 2005 was concluded between PGNiG and Bank Handlowy w Warszawie S.A., Bank Polska Kasa Opieki S.A., Caylon S.A., Fortis Bank N.V., Powszechna Kasa Oszczędności Bank Polski S.A. and Société Générale S.A. branch in Poland

As at 31 December 2006, the agreement concluded by PGNiG S.A. on 22 September 2005 with all Gas Companies, regarding guarantee due to the Credit 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 credit repayment guarantee granted by the Companies to Bank Handlowy in Warsaw S.A. (Loan broker) up to the amount of EUR 1,250,000 thousand until the date falling 18 months after the termination of agreement regarding Tranche A, i.e. until 27 January 2012.

31.e. Contingent liabilities due to bills of exchange issued

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.				
Bank Polskiej Spółdzielczości S.A. Branch in Wrocław	2 400	PLN	2 400	15.12.07
Bills of exchange issued by PNiG Jasło Sp. z o.o.				
Bank PeKaO S.A.	5 000	PLN	5 000	31.12.07
Bank BPH S.A.	2 000	PLN	2 000	28.09.07
Bank PeKaO S.A.	2 440	PLN	2 440	31.08.07
Bills of exchange issued by Mazowiecka Spółka Gazownictwa Sp. z o.o.				
Polish Chamber of Commerce	1 691	PLN	1 691	30.04.08
Bills of exchange issued by Wielkopolska Spółka Gazownictwa Sp. z o.o.				
Europejski Fundusz Leasingowy	190	PLN	190	15.02.09
Bills of exchange issued by Gazobudowa Zabrze Sp. z o.o.				
PZU S.A. Warsaw	120	PLN	120	31.08.07
FORTIS Bank Polska S.A.	110	PLN	110	31.08.07
FORTIS Bank Polska S.A.	50	PLN	50	31.07.07
UNIQUA TU S.A.	2 467	PLN	2 467	06.11.07
PLN ORLEN S.A.	20	PLN	20	
BRE Bank S.A.	8 000	PLN	8 000	14.11.08
TU ALLIANZ Polska S.A. Warsaw	3 000	PLN	3 000	14.03.07
ERGO HESTIA Katowice	2 000	PLN	2 000	
UNIQUA TU S.A.	1 391	PLN	1 391	18.10.08
PLN ORLEN S.A.	10	PLN	10	
BRE Leasing Warszawa	339	PLN	339	22.09.07
BRE Leasing Warszawa	679	PLN	679	23.10.07
Bills of exchange issued by Naftomontaż Krosno Sp. z o.o.				
Control-Process Sp. z o.o. Tarnów	75	PLN	75	10.11.09
Control-Process Sp. z o.o. Tarnów	29	PLN	29	10.11.09
Control-Process Sp. z o.o. Tarnów	105	PLN	105	10.11.09
Bills of exchange issued by Diament Sp. z o.o.				
Bank BRE S.A.	2 000	PLN	2 000	01.05.09
Bank BRE S.A.	337	PLN	337	31.03.10
Europejski Fundusz Leasingowy	190	PLN	190	15.02.09
Total			**34 453**	

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, the 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 in Zielona Góra waived the enforcement of real estate tax; whereas some of them decided that the well development system was taxable.
The tax obligation with reference to pipelines exists as of 2001. The Branch in Zielona Góra created provisions for claims of the communes due to real estate tax in the amount of PLN 821.3 thousand (the value of this provision did not change in relation to 2005), whereas the Podkarpacie communes raised no claims in this respect yet. Mines located in Podkarpacie region did not declare or accrue real

estate tax on excavations for years 2001-2005. Potential tax liability not disclosed in the financial statements together with interest amounted to PLN 59,290.3 thousand as of 31 December 2006 (in 2005 the liability amounted to PLN 58,220.0 thousand).

Real estate claims

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

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

Potential liabilities arising from claims related to real property cannot be estimated, due to the fact that such claims, which are made by real property owners, 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 Gas Companies within the PGNiG Capital Group in respect to templates for gas sales agreements concluded with the consumers, these Companies recognized possible contingent liabilities in the amount of PLN 4,214.0 thousand due to potential costs of informing clients about changes in currently applicable tariffs (at the end of 2005 the value of this liability amounted to PLN 16,604.0 thousand).

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

[1)] At the end of 2005 the company was valued using the equity method
[2)] Indirect share through the subsidiary Naftomontaż Krosno Sp. z o.o. (88.83% shares owned by PGNiG S.A.), which has 67.42% shares in Naft-Stal Krosno Sp. z o.o.
[3)] The value of the share consists of a direct share of 48% and of an indirect share of 1.74% through GAS-TRADING S.A.

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

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

The payments of dividends presented in detail in note 10 were the most important transactions performed with the shareholders in 2006 and 2005.

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

	31 December 2006		
Full name	Total value of remuneration, benefits and bonuses paid in 2006	Total value of remuneration due to execution of functions in subordinated entities in 2006	**Total remuneration paid in 2006**
Total Management Board, including:	**1 307,90**	**620,88**	**1 928,78**
Managerial staff as of 31 December 2006			
Głogowski Krzysztof - Chairman of the Board **	48.05	100.58	148.63
Anysz Jan- Member of the Board	196.59	9.80	206.39
Kuchciak Zenon - Member of the Board*	186.18	149.30	335.48
Niedbalec Stanisław - Member of the Board	172.24	29.97	202.21
Zwierzyński Tadeusz - Member of the Board*	80.69	9.28	89.97
Marzec Bogusław - proxy *	241.84	11.29	253.13
Bernacik Ewa - proxy **	53.89	32.03	85.92
Managerial staff in 2006 which no longer performs its functions as of 31 December 2006	-	-	
Krok Franciszek - Member of the Board	32.99	95.21	128.20
Pawlak Bartłomiej - Member of the Board *	52.21	149.30	201.51
Puławski Mieczysław - Chairman of the Board	48.05	-	48.05
Mikosz Maria Teresa - proxy ***	195.17	34.12	229.29
Total Supervisory Board, including:	**285.89**	**52.10**	**337,99**
Supervisory staff as of 31 December 2006			
Rościszewski Andrzej	32.03	-	32.03
Szwarc Piotr	32.03	52.10	84.13
Chrobak Kazimierz	32.03	-	32.03
Arkuszewski Wojciech	32.03	-	32.03
Kawecki Mieczysław	32.03	-	32.03
Moryń Marcin	17.29	-	17.29
Puławski Mieczysław	24.02	-	24.02
Szakułuba Mirosław	32.03	-	32.03
Wojtowicz Jarosław	5.87	-	5.87
Supervisory staff in 2006 which no longer performs its functions as of 31 December 2006	-	-	
Bąkowska Magdalena	14.87	-	14.87
Głogowski Krzysztof	24.02	-	24.02
Kamieński Zbigniew	7.64	-	7.64
Total	**1 593.79**	**672.98**	**2 266.77**

Full name	31 December 2005 Total value of remuneration, benefits and bonuses paid in 2005	Total value of remuneration due to execution of functions in subordinated entities in 2005	**Total remuneration paid in 2005**
Total Management Board, including:	**1 765.73**	**2 714.38**	**4 480.11**
Managerial staff as of 31 December 2005			
Anysz Jan	263.11	46.89	**310.00**
Krok Franciszek	222.98	203.64	**426.62**
Maria Teresa Mikosz - proxy	254.61	30.55	**285.16**
Zenon Kuchciak - proxy	16.50	-	**16.50**
Bartłomiej Pawlak* - proxy	-	-	**-**
Managerial staff in 2005 which no longer performs its functions as of 31 December 2005			
Foltynowicz Marek	249.63	266.41	**516.04**
Kossowski Marek	245.96	769.53	**1 015.49**
Jakiel Mieczysław	233.86	684.47	**918.33**
Kamiński Paweł	223.06	79.04	**302.10**
Staniewski Jerzy	56.02	633.85	**689.87**
Total Supervisory Board, including:	**239.02**	**779.82**	**1 018.84**
Supervisory staff as of 31 December 2005			
Bąkowska Magdalena	30.55	-	**30.55**
Chrobak Kazimierz	15.53	-	**15.53**
Krzysztof Głogowski	1.70	-	**1.70**
Mieczysław Kawecki	5.35	-	**5.35**
Mieczysław Puławski	3.69	-	**3.69**
Andrzej Rościszewski	1.70	-	**1.70**
Mirosław Szkałuba	5.35	-	**5.35**
Piotr Szwarc	1.70	-	**1.70**
Supervisory staff in 2005 which no longer performs its functions as of 31 December 2005			
Arendarski Andrzej	28.98	606.79	**635.77**
Kamieński Zbigniew	18.92	-	**18.92**
Kasprzyk Bogusław	17.07	3.39	**20.46**
Libera Wiesława	10.18	-	**10.18**
Macioszek Zbigniew	14.66	-	**14.66**
Niewiarowski Piotr	10.18	-	**10.18**
Perek Stanisław	7.29	15.53	**22.82**
Soroka Tadeusz	18.92	154.11	**173.03**
Speczik Stanisław	5.09	-	**5.09**
Stosur Stanisław	10.18	-	**10.18**
Sukacz Dawid	21.80	-	**21.80**
Zając Stanisław	10.18	-	**10.18**
Total	**2 004.75**	**3 494.20**	**5 498.95**

* Bartłomiej Pawlak did not collect any remuneration in 2005 for the performed functions.

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

	31 December 2006	31 December 2005
Remuneration of the Management Board	**14 340**	**23 684**
Holding company	1 308	1 766
Subsidiaries	11 320	10 074
Co-subsidiary	1 160	10 844
Associated entities	552	1 000
Remuneration of the Supervisory Boards Members	**6 151**	**10 169**
Holding company	286	239
Subsidiaries	3 196	2 741
Co-subsidiary	2 119	6 143
Associated entities	550	1 046
Total	**20 491**	**33 853**

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

	31 December 2006	31 December 2005
Members of Management Boards		
Interest rate (%)	1%-6%	1%-6%
Repayment date (years)	3-12 years	3-12 years
Due amount	190	232
Members of Supervisory Boards		
Interest rate (%)	0%-6%	0%-6%
Repayment date (years)	1-3 years	1-5 years
Due amount	9	1
Total due amount	**199**	**233**

32.f. Joint ventures not included in consolidation

In 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. and 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
As a result of the agreement signed on 26 October 2005 between PGNiG S.A., CalEnergy Resources Poland Sp. z o.o. and FX Energy Poland Sp. z o.o. ("Operating Agreement of Mining Users covering the Płotki - EZA area" (the so-called Expanded Zaniemyśl Area)), PGNiG S.A. obtained shares in this mining area in the value of 51%, whereas the other shares belong to the following companies: FX Energy – 24.5% and CalEnergy – 24.5%. In the first half of 2006 the agreement on purchase/sale of gas from the Zaniemyśl deposit was signed, whereas in the second half of 2006 the deposit was developed and gas production was initiated as part of trial exploitation.

Eurogas Polska Sp. z o.o.

PGNiG S.A. signed, in July 2006, a letter of intent with Eurogas Polska Sp. z o.o. on cooperation and sent a joint request to the Minister of the Environment for the transfer of the concession and the right of mining usufruct owned by Eurogas, which covered the following blocks: 416, 417, 436, 437, 438, 456, 457 and 458 onto PGNiG S.A., to which the Minister of the Environment agreed in the letter dated on 3 January 2007.
On the territory of the said concession blocks PGNiG S.A. and Eurogas Sp. z o.o. planned to perform joint exploratory activities. PGNiG shall take over 51% of shares in this venture, whereas the

remaining 49% was to be taken over by Eurogas. Eurogas provided half of its share (i.e. 24.5% of the whole) to the British oil company called Aurelian. The negotiations with the aforementioned companies which aim at signing of the agreement on joint operations are currently underway.

FX Energy Poland sp. z o.o.

Registered office: 00-613 Warsaw, ul. Chałubińskiego 8.
In Poland, the company operates as FX Energy Poland Sp. z o.o.
Its holding company is FX Energy Inc. - a joint-stock company in Utah, (USA).
PGNiG S.A. cooperates with FX Energy in the "Płotki" and "Poznań" area.

"Płotki" area
Pursuant to the agreement with FX Energy (as well as CalEnergy), PGNiG S.A. owns 51% of shares in this area, FX Energy holds 24.5% shares whereas the remaining shares i.e. 24.5% belong to CalEnergy.
In the second half of 2006 the Zaniemyśl deposit which is located in this area was developed and gas production was initiated as part of trial exploitation.
The design of the Roszków-1 exploration well (approx. 2970-meter deep) has been prepared and approved. The tender for drilling of the well was won by the Poszukiwania Nafty i Gazu Jasło company. The drilling of the well shall start in the first quarter of 2007.
The "Agreement on Transfer of Mining Usufruct on the 'Klęka' natural gas deposit" as well as the "Agreement on settlements of natural gas extracted from the 'Klęka 11' well" were signed at the beginning of 2007.

"Poznań" area
Pursuant to the agreement with FX Energy, PGNiG S.A. owns 51% shares, whereas FX Energy has 49% of shares in this area.
In the "Poznań" area in 2006 the following field works were performed: 2D seismic works on Poznań-Śrem-Jarocin; 2D seismic works on Grundy II phase; 2D seismic works on Łuszczanów II phase, 2D works on Lubinia as well as the 3D seismic photo on Kórnik-Środa Wielkopolska.
The drilling of the exploration well Winna Góra-1 up to the depth of ca. 3650 meters was finished. The well awaits for the production test to be taken.

The area of block 255 (Wilga).
In September 2006 the production of natural gas from the Wilga deposit was initiated. The division of gas production between PGNiG S.A. and FX Energy is performed pursuant to the amount of their respective shares.
The "Agreement on transfer of Mining Usufruct on block 255", in which FX Energy transfers 18.8% of the mining usufruct to PGNiG S.A., was signed at the beginning of 2007.

32.g. Foreign activities

<u>The shares of PGNiG S.A. in foreign companies</u>

Ukraine

The Company **"Dewon"-Z.S.A** ia a closed joint stock company (not listed). It was established on 17 November 1999. The basic aim and task of the Company is the execution of services related to the extraction of crude oil and natural gas, reconstruction of wells and development and exploitation of deposits in the Ukraine.

The authorized fund (initial capital) of the Company amounts to UAH 11,146.8 thousand which equals to PLN 6,420.6 thousand (acc. to the NBP exchange rate of 29 December 2006) and is divisible into 120.0 thousand shares with the nominal value of UAH 92.89 per share. The capital commitment in the company amounts to UAH 4,055.2 thousand which equals to PLN 2,335.8 thousand (acc. to the NBP exchange rate of 29 December 2006).

The ownership structure is as follows:

- PGNiG S.A. 36.38%
- Prawniczyj Alians Sp. z o.o. 25.99%
- Ferrous Trading Ltd. 25.08%
- NAK Neftiegaz Ukrainy 12.13%

- Oszkader Walentyna Georgijewna 0.41%
- SZJu Ltawa Sp. z o.o. 0.01%

The Company initiated the natural gas production in November 2003. The exploitation is performed on the "Sachalińskie" deposit of the gas condensate in the Krasnokutz Region of the Kharkov District (Eastern Ukraine). The Company extracts hydrocarbons, maintains production of natural gas and condensate and sells them on the Ukrainian market.

The exploitation of the Sachalinskoie deposit is based on a joint venture agreement with the PoltavaNaftoGasGeologia company. PoltavaNaftoGasGeologia is a subsidiary of the State-owned Company "Nadra Ukrainy" and owns a concession for the exploration and extraction of gas from the Sachalinskoie deposit.

Oman

The share capital of the "Sahara Petroleum Technology Llc" Company amounts to RO 150.0 thousand (Omani riyals) which equals to PLN 1,136.9 thousand (acc. to the average NBP exchange rate of 27 December 2006) and is divisible into 150.0 thousand shares in the value of 1 RO per share. The capital commitment of PGNiG S.A. in the Company amounts to RO 73.5 thousand which equals to PLN 557.1 thousand (acc. to the average NBP exchange rate of 27 December 2006). The ownership structure is as follows:

- PGNiG S.A. 49%
- Petroleum and Gas Technology llc 51%
  P.O. Box 3641, Ruwi, Oman Sultanate

The Company was established out of the initiative of Zakład Robót Górniczych in Krosno (which until 30 June 2005 was a Branch of PGNiG S.A., whereas at present it is a Company in which PGNiG S.A. owns 100% of shares) in 2000. The major aim for establishment of the Company was the provision of maintenance services in respect of 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. (ZRG).
PGNiG S.A. intends to withdraw from the company.

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 initial capital of the established Companies, whose registered seat is in Potsdam, amounts to EUR 200 thousand each (which equals to PLN 383.1 thousand according to the average NBP exchange rate of 29 December 2006).
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 capacities.

At present, pursuant to the decision of the Shareholders, InterTransGas GmbH operates under assumption that minimum costs necessary for the Company to operate are incurred. Once there are circumstances which will enable the construction of the gas pipeline, that would connect the Polish and German gas transmission system, the Company shall be able to undertake its basic activity specified in the Company's Articles of Association.

<u>The shares of PGNiG S.A. in exploration licenses:</u>

Pakistan

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

In 2006, the interpretation of archive seismic profiles after reprocessing was made, whereas the "Design of 2D Seismic Works in the Kirthar block area" was developed on the basis of complex geological & geophysical data . At the turn of September and October, Geofizyka Kraków was chosen to be the contractor of these works as a result of an unlimited tender. The seismic field works were preceded by an analysis of the impact of the seismic research on the natural environment. The seismic group was activated in December 2006 was followed by geodetic works, which precede the production cycle. The experimental works, the aim of which was to specify the methodological parameters, were performed at the beginning of February 2007. These works were followed by a production start-up. The end of the production cycle is planned for May 2007.

The exploration works in the Kirthar block area are conducted jointly with Pakistan Petroleum Ltd. The distribution of shares is as follows: PGNiG S.A. with 70% and Pakistan Petroleum Ltd with 30%. The cost of investments are adequate to the shares owned by the companies.

Norway

On 28 February 2007 PGNiG S.A. concluded a conditional agreement with Mobil Development Norway A/S and ExxonMobil Production Norway Inc. (ExxonMobil) for the purchase of 15% of shares in three concessions covering the Skarv and Snadd deposits on the Norwegian Continental Shelf. Pursuant to the provisions of the agreement, PGNiG S.A. shall acquire 15% of shares in the concessions for the price of USD 360 million, which equals to ca. PLN 1,069.2 million (calculated at the NBP exchange rate of 28 February 2007).

The execution of the Agreement depends on the fulfillment of the following conditions:

a) obtaining a consent of the Annual General Meeting of PGNiG S.A. and of other necessary corporate approvals;

b) obtaining a consent from the Norwegian Ministry for Hydrocarbons and Energy pursuant to Art. 10-12 of the Norwegian Hydrocarbons Act;

c) issue, by the Norwegian Ministry of the Finance, of a decision on tax pursuant to Art. 10 of the Act on taxation of business activity in the oil sector;

d) non-execution of the right of preemption.

The agreement may be terminated if at least one of the conditions is not fulfilled and if:

1) the condition specified under a) is not fulfilled until 15 May 2007,

2) the remaining conditions are not fulfilled until 1 November 2007.

Moreover, in order to execute the Agreement it is necessary for PGNiG S.A. to receive the so-called prequalification and qualification from the Norwegian Ministry for Hydrocarbons and Energy, which constitutes a standard procedure for companies which intent to invest in the gas and crude oil sector in Norway. Apart from the necessity to obtain the qualification until the date of fulfillment of all conditions, PGNiG S.A. must also obtain a permit for gas transportation within two months from the Closing Date.

Upon the purchase of the Licence, the Company shall become a party to a series of agreements referring to the organization and exploitation of deposits.

Pursuant to the data approved by the NPD (Norwegian Petroleum Directoriate) (2006 Fact Book), the total amount of all Deposits in which PGNiG shall acquire shares from ExxonMobil is estimated at the level of ca.:

- 35.8 billion cubic meters of natural gas;
- 18.3 million cubic meters of crude oil and condensate (ca. 15 million tons);
- 5.8 million tons of NGL (Natural Gas Liquids).

British Petroleum is the direct operator on the deposits. The other partners include Shell, Statoil and Norsk Hydro.

The beginning of gas and crude oil extraction is planned for the first half of 2011. Pursuant to the estimates of PGNiG S.A. the investment outlays for the development of deposits shall amount to ca. USD 5 billion, in that the investment outlays of PGNiG S.A. shall amount to ca. USD 600 million which equals to ca. PLN 1,781.9 million (calculated at the NBP exchange rate as of 28 February 2007).
The transaction documents shall be governed by the Norwegian law.
The investment of PGNiG S.A. in the licenses is a long-term investment.

India

In January 2007 PGNiG S.A. signed a MoU (Memorandum of Understanding) with GSPC (Gujart State Petroleum Company, a state-owned oil company of the Indian Gujarat state) on the possibility of cooperation on the territory of India as well as Yemen and Egypt.

In 2006 PGNiG S.A. applied for exploratory concessions in such countries as Libya, Algeria, Egypt and Denmark. In 2007 the aforementioned actions shall be continued.

Foreign branches of subsidiaries:

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

Geofizyka Kraków Sp. z o.o.
Pakistan Branch – Islamabad
Slovakia Plant in Bratislava
Czech Plant in Ostrava
Libya Branch – Tripolis

PNiG Jasło Sp. z o.o.
Branch in Libya

PNiG Piła Sp. z o.o.
Branch in India
Branch in Egypt

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

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

33. OBJECTIVES AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

In its business operations the company is exposed to financial risk and in particular to:

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

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

Currency risk

The long-term portion of the Company's financial liabilities is denominated in EUR, whereas trade liabilities due to long-term contracts for the purchase of gas are denominated in USD and EUR.
The key objective of the Company's activities connected with hedging against currency risk is to protect it against exchange rate fluctuations, inherent to payments of the capital installments, interest from credits as well as to payments for gas supplies realized in foreign currencies. In order to hedge its liabilities, the Company uses primarily forwards, options and cross currency swaps with maturity of up to 5 years.

Commodity price risk

The price risk connected with contracts for gas deliveries is substantial. Fluctuations in the price of crude oil derivative 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 gas acquisition increase by more than 5% during one quarter.

Credit risk

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

Derivative financial instruments

In accordance with International Financial Reporting Standards and with regulations in force since 2002, i.e. the Accounting Act and the Minister of Finance's Ordinance on financial instruments, the Company discloses all derivatives at fair value in its financial statements.
In 2006 the Company did not apply the hedge accounting principles. 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 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).
The following note presents a valuation of derivative financial instruments.

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

	31 December 2006	31 December 2005
Companies consolidated by full method, including:	**28 441**	**29 832**
Blue-collar positions	14 237	15 292
White-collar positions	11 404	11 706
Managerial positions	2 800	2 834
Companies consolidated by the equity method	293	**344**
Total	**28 734**	**30 176**

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

In 2006, PGNiG S.A. realized the restructuring process arising from the "PGNiG restructuring and privatization program" adopted by the Council of Ministers of the Republic of Poland on 5 October 2004.
The Energy Law which was amended on 4 March 2005 as well as the "PGNiG restructuring and privatization program" adopted by the Council of Ministers (on 5 October 2004), by implementing the assumptions specified in the Directive no. 2003/55/EC of the European Parliament and Council, impose the obligation of legal separation of the commercial activity and technical distribution of gas as well as the isolation of Distribution System Operators (DSO) until 1 July 2007. This obligation refers also to six regional Gas Companies (Dolnośląska, Górnośląska, Karpacka, Mazowiecka, Pomorska i Wielkopolska) which operate within the PGNiG Capital Group as of 1 January 2003 due to the fact that each one of them performs both the activity of technical distribution of gas as well as the commercial activity, inclusive of customer service.

Separation of the commercial activity and technical distribution of gas.

The Management Board of PGNiG S.A. by Resolution no. 256/2006 of 11 April 2006, adopted the model of separation of the commercial activity from the 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 six Gas System Operators.

While selecting the most favorable option the Company took into consideration the network equipment of legally separated distribution system operators.

Basic assumptions of the Project for separation of the commercial activity from technical distribution of gas:

- The retail sales of gas as well as customer service in the whole country shall be "moved" from the Gas Companies to PGNiG S.A. Thus, PGNiG S.A. apart from the mining and storage activity shall also run the entire commercial activity (wholesale and retail sale).
- The gas distribution activity shall still be performed by the Gas Companies which, after moving of the retail sale activity to PGNiG S.A., shall be transformed into Distribution System Operators. DSO shall have full ownership of the distribution network together with the technical infrastructure.
- The sales shall be executed within PGNiG S.A. by the Sales Division. This Division shall concentrate the entire gas sales activity , in that e.g. marketing, gas sales (from import and own sources), customer service as well as gas commercial balancing. Due to strategic reasons, the purchase of gas shall remain outside the Sales Division within the Headquarters structure of PGNiG S.A.
- Apart from the Division Headquarters, the organizational structure of the Sales Division shall cover the Sales Plants (Gasworks) together with field entities (Customer Service Offices - and other).

Project milestones:

- establishment of six Sales Divisions in the Gas Companies (one in each company) on the basis of 23 Sales Plants (Gasworks), separated concurrently from the Divisions of the Gas Companies, which deal with gas sales (December 2006).
- not later than until 1 July 2007 - division of the Gas Companies and transfer of the six Sales Divisions from the Gas Companies to the Gas Sales Companies already established by PGNiG S.A. (i.e. Temporary Companies) having their registered seats in Warsaw (the Sales Division of each Gas Company is put in a separate Gas Sales Company),
- in the shortest time possible (planned due date - third quarter of 2007) - incorporation of the Temporary Companies from PGNiG S.A., with observance of the principle for incorporation of 23 Sales Plants (Gasworks), into one Sales Division of PGNiG S.A. established in Warsaw.

Organization and flow of project and implementation activities

The project of separation of the commercial activity from the technical gas distribution is executed by the structure, adopted by the Management Board of PGNiG S.A., which covers three levels of work organization: Steering Committee, Project Committee, Task Teams appointed separately for each of the business areas which are composed of representatives of the PGNiG S.A. Headquarters and of the Gas Companies. The Project Committee shall be supported by a Consultative Team which will be composed of the Management Board representatives of the Gas Companies.
In the Project, 23 PGNiG S.A. Representatives were appointed in the Gas Plants of the Companies (from 1 January 2007 - Gasworks Directors).

On 10 August 2006 the Management Board of PGNiG S.A. adopted the basic "Concept for operation of the Sales Division at PGNiG S.A." which specifies the guidelines for detailed project tasks, which resulted in the preparation of the "Restructuring project" together with a schedule of implementation activities. On 3 November 2006 the, Extraordinary Annual Shareholders Meeting of PGNiG S.A. positively evaluated the aforementioned study and adopted resolutions on:

- approval for implementation of the Restructuring Project at the PGNiG Capital Group together with a detailed legal Schedule,
- approval for the establishment of 6 Temporary Companies having their registered seats in Warsaw,
- authorization of the Management Board of PGNiG S.A. to undertake all actions to perform the future merger of PGNiG S.A. and the Temporary Companies.

On 8 November 2006 the General Meeting of the Gas Companies' Shareholders adopted resolutions on approval for implementation of the Restructuring Project in the Gas Companies, in particular inclusive of the authorization of the Management Boards of these companies to undertake all actions in order to perform the division of Gas Companies.

On 31 December 2006 the Gas Companies established the Sales Divisions which were then entered in the National Court Register. On 31 December 2006 the Management Boards of the Gas Companies equipped them with an adequate property and human resources. It should be mentioned that the allocations performed shall still be subject to some corrections due to the adoption of further detailed business solutions.

On 27 December 2006 the Foundation Deeds of the following Temporary Companies were signed:

- Dolnośląska Spółka Obrotu Gazem Sp. z o.o. seated in Warsaw,
- Górnośląska Spółka Obrotu Gazem Sp. z o.o. seated in Warsaw,
- Karpacka Spółka Obrotu Gazem Sp. z o.o. seated in Warsaw,
- Mazowiecka Spółka Obrotu Gazem Sp. z o.o. seated in Warsaw,
- Pomorska Spółka Obrotu Gazem Sp. z o.o. seated in Warsaw,
- Wielkopolska Spółka Obrotu Gazem Sp. z o.o. seated in Warsaw,

All shares in the initial capital of these Companies were covered in full by the only shareholder i.e. PGNiG S.A.
The Gas Companies' Division Plans, which specify the detailed division principles together with draft documents necessary to perform the division procedure, were based on the Detailed Business Concept for the Sales Division of PGNiG S.A. adopted on 6 February 2007 by the Management Board of PGNiG S.A. The "Concept for operation of the Distribution System Operators established on the basis of Gas companies" which was drawn up in July 2006 is now being specified.

Communication within the Project

As of the implementation date of the Project, the people responsible for internal communication initiated a series of information activities about the project which are addressed to all interested groups of recipients. In January 2007 a special service was created which provides information about the Project to the employees of the PGNiG Capital Group.
The design and implementation phase of the Project involved dialogues with representatives of trade unions at the PGNiG Capital Group. The "Agreement between the PGNiG Trade Union Head Offices and PGNiG S.A. on assurance of protection rights to employees of the PGNiG Capital Group during the execution of the governmental restructuring and privatization program and on adjustment of the organizational structure to the energy law provisions, and in particular on Sales integration and transformation of Gas Companies into Distribution System Operators" was concluded on 7 December 2006.

Internal restructuring of PGNiG S.A.

The formal liquidation process (accounting & settlements) of six Regional Transmission Branches was performed and finished in 2006 and it ensured, among others, the cession of agreements with PGNiG S.A (RTBs) onto Operator Gazociągów Przesyłowych Gaz System Sp. z o.o. (OGP Gaz-System Sp. z o.o., at present OGP Gaz-System S.A.),

Realization of the Employment restructuring program

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

Moreover, the amended Program will enable the Company to provide partial financing of termination benefits to employees of the PGNiG Capital Group 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 assumed that a maximum of 4,142 individuals will be covered by the restructuring process during the period of 2004 – 2007, which together with the number of individuals covered by the restructuring process in 2003 (1,406 individuals) gives the forecasted total of 5,548 people.
In the period from 1 January 2004 until 31 December 2006 the Program in the entire PGNiG Capital Group covered 4,296 employees with various types of restructuring, in that:

- in the branches of PGNiG S.A. - 1,245 people,
- in gas companies - 1,982 people,

- in other subsidiaries - 962 people,
- in RTB's (up to 30 June 2005) - 107 people.

The savings in respect of remuneration and employee benefits in this period within the entire PGNiG Capital Group amounted to PLN 296 million, whereas the effect of the restructuring (after consideration of the restructuring costs and financial consequences resulting from necessary engagements of employees) amounted to PLN 128 million. The absolute headcount in the entities covered by the Program in the period from 1 January until 31 December 2006 decreased by 5,829 people (inclusive of the transfer of 2,181 people related to the separation of OGP Gaz-System Sp. z o.o. (at present OGP Gaz-System S.A.) outside of the PGNiG S.A. Capital Group).

Only in PGNiG S.A., in the period from 1 January 2004 until 31 December 2006, the restructuring covered 1,245 people. Relevant restructuring costs incurred amounted to PLN 10 million. The savings in respect of remuneration and employee benefits in the said period amounted to PLN 90 million, whereas the restructuring effect amounted to PLN 43 million.

3. 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 gas plants in 2003, regional transmission branches in 2006, and became redundant in activity of mining plants.

The management of assets excluded in 2006 from the Operating Lease Agreement, i.e. assets declared by OGP Gaz-System S.A. as redundant in the transmission process, constitutes a separate issue. The assets with the lease value of PLN 224 million were excluded from the Operating Lease Agreement, which at the exclusion date amounted to PLN 209 million (value decreased by the previous repayment). The assets of a distribution nature, which were excluded from the Operating Lease Agreement, were rendered operational by the Distribution Companies.

Pursuant to the resolution of the Management Board of 19 December 2006 these assets shall be provided to the Distribution Companies in 2007 in the form of a contribution. At present they are leased to the Companies.

The total net value of real property sold in 2006, which was excluded from the activity due to internal restructuring, amounts to ca. PLN 13.9 million. Moreover, PGNiG S.A. renounced its rights to 24 redundant real estates for the benefit of the State Treasury.

The above described and currently implemented "Project for separation of the commercial activity from the technical distribution of gas" significantly influences the activity of PGNiG S.A. and the PGNiG Capital Group. In the design phase, in September 2006 the following risks were identified:

- Large organizational changes in the sales activity which may have a short-term negative impact on the customer service level,
- Necessity to create a countrywide sales structure from scratch and in particular at the Sales Division Headquarters level,
- Probable additional unification costs of many changes implemented over the recent years by the Gas Companies in the sales activities, inclusive of IT systems, incentive systems, work organization models, etc.
- Change in the subject-matter and model of operation of the Gas Companies (solely distribution activity), which may (at least in a short and medium period of time) have a negative impact on customer service. However, it should be pointed out that each variant which aims at the separation of the commercial activity from the technical one results in a change of the previous operational model of the Gas Companies and may have a negative impact on the customer service level,
- Significant amount of legal formalities related to the transformations (legal procedures, external agreements, employee agreements, etc.).

In the present phase of Project implementation the aforementioned risks did not pose any danger to the operation of the PGNiG Capital Group and PGNiG S.A.

36. KEY SOURCES OF ESTIMATION UNCERTANITY

In the process of the Group's application of the accounting policy specified in section 2 herein, the Company adopted the following assumptions referring to uncertainties and estimates which had the most significant impact on the values contained in the financial statements. Therefore there is a risk that significant changes will occur in the following periods which will refer mainly to the following areas:

Additional contributions to the capital of Gazotech Sp. z o.o.

Until the date on which these financial statements were prepared, the claim of PGNiG S.A. for cancellation of the legal relation (cancellation of resolution no.1 adopted by the Shareholders Meeting of PI Gazotech Sp. z o.o. of 23 April 2004 on shares redemption) was not settled yet.
The Management Board estimated the probable occurrence of additional costs using the prudence principle. In the financial statements for 2006 the Company maintained in its books the liability and receivable from PI Gazotech Sp. z o.o. due to additional contribution to the share capital in the amount of PLN 82,472 thousand and the write off created for this receivable in the amount of PLN 82,472 thousand as well as a provision for possible costs in the amount of PLN 924 thousand.

Impairment of fixed assets

The basic operating assets of the Group cover the mining property, the transmission infrastructure as well as gas storage facilities. The value of the property was tested with respect to impariment. Based on the evaluation of the fixed assets' future and present usability, their planned liquidations or sales, the Group calculated and recorded in its books significant amounts for impairment write-offs. In case of some assets the assumptions, which were adopted due to possibility of the use, liquidation and sale of these assets, may change. Adequate information referring to the value of impairment write downs was included in Note 11a.

Economical useful life of fixed assets

The depreciation rates for major groups of fixed assets were indicated under section 2 of the financial statements. The economical useful life of fixed assets was based on the evaluation of the technical service teams which deal with their operation. The estimates are accompanied by an uncertainty as to the future business activity conditions, technological changes and competition on the market, which may result in another evaluation of the economical usability of these assets and of their remaining useful life, which in effect may have a significant impact on the value of fixed assets and on the depreciation costs in the future.

Provisions for environmental protection

A significant item in the consolidated financial statements is the provision for well liquidation costs and other provisions for environmental protection specified in note 26. This provision is based on the estimated costs of liquidation and reclamation which is significantly influenced by the discount rate adopted and estimates of the cash flow period.

Audit opinions of associated entities not received

As at the preparation date of these consolidated financial statements of the PGNiG S.A. Capital Group we haven't received opinions from the audit of:
- the co-subsidiary EuRoPol Gaz S.A., valuated using the equity method
- the associated company Gas-Trading S.A., valuated using the equity method.

According to the Management Board, there are no significant and undisclosed liabilities or provisions related to these entities which would have a significant influence on the consolidated financial statements.

Impairment of shares of SGT EuRoPol Gaz S.A.

The Management Board performed an analysis of the impairment of the valuated shares of SGT EuRoPol Gaz S.A. using the discounted cash flows method and based its calculation on the data contained in the financial plan of SGT EuRoPol Gaz S.A. for the years 2006-2019, which was specified in detail under section 6 of the Information. The results of the tests for impairment show significant differences depending on the assumptions adopted for future cash flows, the adopted discount rate and the estimated cash flows period, which in effect may have a significant impact on the value of shares in the future.

37. SPECIFICATION AND EXPLANATION OF DIFFERENCES BETWEEN THE DATA DISCLOSED IN THE FINANCIAL STATEMENT AND COMPARABLE FINANCIAL DATA AND THE PREVIOUSLY PREPARED AND PUBLISHED FINANCIAL STATEMENTS

Due to the audit of the financial statements for 2006 and the occurrence, after the preparation of statements for the fourth quarter of 2006, of significant information which have an impact on the financial result, the Company included in these financial statements the following adjustments suggested by the Company's Auditor.

Changes in profit on operating activity

Profit on operating activity from the statement for the fourth quarter of 2006	**1 313 573**
a) Change in provisions	49 505
b) Change in revaluation write downs	93 593
c) Other adjustments	7 938
Profit on operating activity from the annual statement for 2006	**1 464 609**

Change in net profit for the financial year

Net profit for the financial year from the statement for the fourth quarter of 2006	**1 227 724**
a) Change in provisions	49 505
b) Change in revaluation write downs	95 923
c) Other adjustments	3 597
d) Income tax related to the adjustments made	-28 744
e) Adjustment of deferred tax	-24 480
Net profit for the financial year from the annual statement for 2006	**1 323 525**

The company made also two presentation changes in the data for 2005 in order to make the data for the comparative year comparable to the current year.
The first change constituted in the transfer of revenues due to interest on financial lease (treated pursuant to the articles of association as an element of the operating activity) in the amount of PLN 145,082 thousand from the “Financial revenues” item to the “Other net operating costs” item. This change had an impact on the increase of profit on operating activity and decrease of the financial revenues by the said amount, whereas the remaining profit and loss items, including the net result, did not change.
The second change constituted in the transfer of net costs related to provisions for gas allowances as well as provisions for jubilee awards and retirement severance pays in the amount of PLN 336 thousand from the “Other net operating costs” item to the “Employment benefits" item. This change was made within the operating activity and had no impact on the profit and loss items.

38. POST-BALANCE SHEET EVENTS

a. On 17 January 2007 PGNiG S.A. received, from the XX Business Division of the District Court in Warsaw, a registered copy of the petition, filed by the shareholders of PGNiG S.A. namely Mr. Bolesław Potyrała, Mr. Józef Ryl and Mr. Juliusz Wroński, for a repeal of the resolution no. 2 of the Extraordinary Shareholders Meeting of PGNiG S.A. of 26 October 2006 on changes to the Company's Articles of Association.

b. On 5th February 2007 the Standard and Poor's Rating Services agency lifted the long-term rating of PGNiG S.A. from "BBB" to "BBB+" with a stable perspective.

c. On 28 February 2007, PGNiG S.A. concluded a conditional Agreement with Mobil Development Norway A/S together with ExxonMobil Production Norway Inc. („ExxonMobil”), for the purchase of 15% shares in the PL212, PL212B and PL262 Licenses covering the Skarv and Snadd deposits on the Norwegian Continental Shelf. Pursuant to the provisions of the Agreement, PGNiG shall acquire 15% of shares in the Licenses for the net price of USD 360 million (equal to the amount of ca. PLN 1,069.2 million pursuant to the exchange rates table no. 42/A/NBP/2007 of 28 February 2007). A more detailed description is contained under point 32.g of this statement.

d. On 28 February 2007 the Management Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. decided to merge PGNiG S.A. with the following six gas sales companies:

- Dolnośląską Spółką Obrotu Gazem Sp. z o.o.,
- Górnośląską Spółką Obrotu Gazem Sp. z o.o.,
- Karpacką Spółką Obrotu Gazem Sp. z o.o.,
- Mazowiecką Spółką Obrotu Gazem Sp. z o.o.,
- Pomorską Spółką Obrotu Gazem Sp. z o.o.,
- Wielkopolską Spółką Obrotu Gazem Sp. z o.o.

PGNiG S.A. owns 100% shares and 100% votes at the shareholders meeting in the aforementioned gas sales companies.
The merger of six Gas Sales Companies with PGNIG S.A. aims at the integration of the gas sales activity in PGNIG S.A. which shall bring benefits in the form of unification of all commercial processes and customer service, optimization of commercial activity costs as well as strengthening of the competitive position of the commercial activity in the face of gas sales market liberalization.
The Energy Law and the “PGNiG S.A. restructuring and privatization program” adopted by the Council of Ministers on 5 October 2004, by implementing the assumptions specified in the Directive no. 2003/55/EC of the European Parliament and Council, impose the obligation of legal separation of the commercial activity and technical distribution of gas until 1 July 2007. In particular, this obligation refers to the six regional Gas Companies (Dolnośląska, Górnośląska, Karpacka, Mazowiecka, Pomorska i Wielkopolska) which operate within the PGNiG Capital Group. All of these companies maintain the gas distribution activity as well as the commercial activity (inclusive of customer service).
The sign-off of the merger plan on 27 February 2007 results from the separation process of the commercial activity from the technical gas distribution which is being implemented in the PGNiG Capital Group as well as from the isolation of the Distribution System Operators in the aforementioned six Gas Companies. Within the process of isolation of the distribution network operators, the commercial activity shall be moved from the six Gas Companies to the six Gas Sales Companies (as a result of division of the Gas Companies through an isolation in the understanding of the Commercial Companies Code) and then integrated with PGNiG S.A. as a result of a merger of the Gas Sales Companies with PGNiG S.A.

e. On 8 March 2007 the Extraordinary Shareholders Meeting of PGNiG S.A. decided to use the funds from the reserve capital "Central Restructuring Fund for the period from 2005 until 2007" in the amount of PLN 1,170 thousand for one-off payments (termination benefits) for 25 former employees of ZUN Naftomet Sp. z o.o. in Krosno.

f. On 8 March 2007 the Extraordinary Shareholders Meeting of PGNiG S.A. agreed to acquire 33,000 new shares with the total value of PLN 33,000 thousand, in the increased initial capital of Geofizyka Toruń Sp. z o.o. covered by a money contribution.

g. On 8 March 2007 the Extraordinary Shareholders Meeting of PGNiG S.A. decided to acquire 6,381 new shares with the total value of PLN 6,381 thousand in the increased initial capital of Poszukiwania Nafty i Gazu Kraków Sp. z o.o. and to cover all shares with the money contribution through a contractual compensation of liabilities in respect of payment for the shares with the liability for payment of interest from a loan granted to PNiG Kraków Sp. z o.o. by PGNiG S.A. on 14 September 1998.

h. On 16 March 2007 PGNiG S.A. received the decision of the President of the Energy Regulatory Office of 14 March 2007 on extension of the effective period of the Tariff for gas fuels No. 4 approved by the decision of the President of the Energy Regulatory Office of 17 March 2006 no. DTA-4212-3(11)/2006/652/IV/TK amended with the decision of 15 December 2006 no. DTA-4212-3(62)/2006/652/IV/PB.
The effective period of the Tariff for gas fuels no. 4 was extended by further 6 months i.e. until 30 September 2007.

The following table presents the price of gas fuels in relation to tariff groups of high-methane and nitrated gas recipients as well as the subscription fees which are binding in the settlements with PGNiG S.A. Recipients from 1 January 2007 until 30 September 2007.

Tariff group	Price for gas fuel	Subscription fee rates
	PLN/cubic meters	PLN/month
For recipients of high-methane gas (GZ 50) E		
E1-E4	**0.7788**	**541.00**
For recipients of nitrated gas (GZ 35) Ls		
Ls1-Ls4	**0.4936**	**541.00**
For recipients of nitrated gas (GZ 41.5) Lw		
Lw1-Lw4	**0.5761**	**541.00**

i. On 27 March 2007, PGNiG S.A. signed the General Terms for Gas Sales with TOTAL E&P NORGE AS, a company seated in Norway.

The General Terms which are of a framework nature constitute a basis for conclusion of particular transactions for the supply of natural gas. They specify principles on the basis of which the cooperation in respect of gas supplies shall be executed, whereas the details which refers to particular supplies, e.g. quantity and price shall each time be specified in the Transaction Agreements concluded in the future. The General Terms contain provisions which provide PGNiG with the access to delivery stations of Norwegian gas on the territory of Europe. This will allow PGNiG to purchase gas in the period of increased demand and to resell any gas surplus.
The General Terms were concluded for an unspecified period.

j. On 29 March 2007 the Extraordinary Shareholders Meeting of PGNiG S.A. decided to use the funds from the reserve capital "Central Restructuring Fund for the period from 2005 until 2007" in the amount of PLN 560 thousand for one-off payments (termination benefits) for 11 former employees of Geovita Sp. z o.o. in Warsaw.

k. On 29 March 2007 the Annual General Meeting of PGNiG S.A. agreed on establishment of a limited liability company seated in Świnoujście, which shall conduct its business activity under the name: „Polskie LNG Sp. z o.o.", with an initial capital amounting to PLN 28,000,000 (say: twenty eight million PLN) and with a subject-matter of business activity covering in particular the regassification of gas fuels and on the take over by PGNiG S.A. of all shares in such company in return for the contributed funds in the nominal value of the initial capital. PGNiG S.A. shall acquire all of the new shares in case the initial capital of the aforementioned company is increased by the amount of PLN 11,000 thousand until 30 September 2007 and by the further amount of PLN 11,000 thousand until 31 December 2007, in both cases as replacement for the contributed funds in the nominal value of initial capital increase.