

**POLSKIE GÓRNICtwo NAFTOWE  
I GAZOWNICTWO S.A.  
CAPITAL GROUP  
WARSAW, UL. KRUCZA 6/14**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE 2006 FINANCIAL YEAR  
WITH  
AUDITOR'S OPINION  
AND  
AUDIT REPORT**

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POLSKIE GÓRNICTWO NAFTOWE I GAZOWNICTWO S.A.  
FOR THE 2006 FINANCIAL YEAR**

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**REPORT ON THE ACTIVITIES OF THE CAPITAL GROUP**

## AUDITOR'S OPINION

### **To the Shareholders and Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo S.A.**

We have audited the attached consolidated financial statements of the Capital Group Polskie Górnictwo Naftowe i Gazownictwo S.A., with Polskie Górnictwo Naftowe i Gazownictwo S.A. with the registered office in Warsaw, Krucza 6/14 Street being its holding company, including:

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

Preparation of these consolidated financial statements is the responsibility of the Management Board of the Holding Company. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these consolidated financial statements.

The consolidated financial statements were drawn up using the full method as regards the holding company, 21 subsidiaries and the equity method as regards 1 associated company and 1 co-subsiidiary. The financial statements of 15 subsidiaries, associated company and co-subsiidiary were subject to audit by other entities authorized to audit financial statements. We received the financial statements of 15 subsidiaries together with opinions resulting from audits of these financial statements. Our opinion on the audit of the consolidated financial statements in respect to the data of these entities has been based on opinions of certified auditors authorized to perform the audits. The data from the financial statements of subsidiaries in the case of which our audit was fully based on opinions of other certified auditors account for 4,4 % and 7,2 % of consolidated assets and consolidated sales revenues before consolidation adjustments, respectively.

Our audit of the consolidated financial statements was planned and performed in accordance with:

- section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2002 No. 76, item 694 with subsequent amendments),
- auditing standards issued by the National Council of Certified Auditors in Poland

in such a way as to obtain reasonable and sufficient basis for expressing an opinion as to whether the consolidated financial statements were free of material misstatements. Our audit included in particular examination of the consolidation documentation supporting the amounts and disclosures in the consolidated financial statements, assessment of the accounting principles (policy) applied in

the preparation of the consolidated financial statements, related material estimates as well as evaluation of the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on the audit results and opinions of other certified auditors, the audited consolidated financial statements of Capital Group Polskie Górnictwo Naftowe i Gazownictwo S.A for the 2006 financial year give a true and fair view of all the information essential for evaluating the financial position and financial result of the Capital Group for the 12-month period ended 31 December 2006 and, as at that date, in accordance with the International Financial Reporting Standards as approved by the European Union.

Without raising any qualifications as to the correctness and fairness of the audited consolidated financial statements, we would like to draw your attention to the note no. 6 to the consolidated financial statements where Management Board of the holding company explained the reasons for impairment loss recognized for shares in the co-subsiary SGT EuRoPol Gaz S.A..

The Report on the Capital Group's activities in the 2006 financial year is complete in the meaning of Article 49 clause 2 of the Accounting Act and regulation of the Minister of Finance dated October 19<sup>th</sup> 2005 on current and periodic information to be published by the issuers of securities and consistent with the underlying information disclosed in the audited consolidated financial statements.

.....  
Maria Rzepnikowska  
Certified Auditor  
No. 3499/1028

.....  
represented by

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

Warsaw, 3 April 2007

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

**REPORT SUPPLEMENTING THE OPINION ON THE AUDIT OF  
THE CONSOLIDATED FINANCIAL STATEMENTS OF  
POLSKIE GÓRNICTWO NAFTOWE I GAZOWNICTWO S.A. CAPITAL GROUP  
FOR THE 2006 FINANCIAL YEAR**

**I. GENERAL INFORMATION**

**1. Details of the audited entity**

The Capital Group's parent company (hereinafter: the "Company") operates under the name Polskie Górnictwo Naftowe i Gazownictwo S.A. The Company's registered office is located in Warsaw, ul. Krucza 6/14.

The Company operates as a joint stock company established by the notarized deed of 21 October 1996 drawn up by Paweł Błaszczak, Notary Public, in Warsaw (Repertory No. A 18871/96).

The Company was registered in the Commercial Register kept by the District Court, XVI Business-Registry Division in Warsaw, under number RHB 48382, based on the decision of 27 December 2001. Currently, the Company is recorded in the register of entrepreneurs kept by the District Court, XII Business Registry Division for Warsaw under number KRS 0000059492.

The Company has the following tax identification number NIP: 525-000-80-28, assigned by the Second Tax Office Warszawa-Śródmieście on 22 November 1996.

The REGON number assigned to the Company by the Statistical Office on 14 November 1996 is 012216736.

The Company operates based on the provisions of the Code of Commercial Companies.

In accordance with its By-laws the Company conducts its business activities in the following areas:

- geological and engineering excavations and drillings;
- general construction works on line structures: pipelines, electric energy lines, electrical traction and telecommunication-transmission lines;
- construction of central heating and ventilation installations;
- service and repair of motor vehicles;
- retail sale of fuels;
- wholesale of solid, liquid and gas fuels as well as derivative products;
- wholesale of semi-finished products;
- freight road transport using specialized vehicles;
- freight road transport using general-purpose vehicles;
- pipeline transport;
- warehousing and storage of goods in other storage areas;
- production of crude oil;
- production of natural gas;
- services related to operation of crude oil and natural gas fields;
- mining of sulphur-bearing materials;
- other mining, not classified anywhere else;
- production of crude oil refined products;
- reprocessing of crude oil refined products;
- services related to installation, repair and maintenance of machines for mining and the building industry;

- production of heat (steam and hot water);
- distribution of heat (steam and hot water);
- fixed line telephony and telegraphy;
- mobile telephony;
- data transmission; information and communication technology;
- radio communications;
- research and development work in the field of technical science;
- geological and exploration activity;
- surveying and cartography;
- rental of real property on own account;
- buying and selling of real property on own account;
- activity of non-public libraries;
- archive activity;
- activity of museums;
- production of electricity;
- transmission of electricity;
- distribution of electricity;
- production of gas fuels;
- distribution of gas fuels through a network;
- general construction work on line structures: pipelines, electric energy lines, electrical traction and transmitting-telecommunication lines;
- service and repair of motor vehicles;
- hotels and motels with restaurants and without restaurants;
- activities of travel offices;
- production and distribution of heat (steam and hot water);
- geological and engineering excavations and drillings;
- construction of central heating and ventilation installations;
- construction of gas installations;
- management of residential and non-residential real property;
- lease of the Company's assets dedicated to the transmission of energy and gas;
- technical tests and analyses;
- other specialized wholesale trade.

In the audited period, the Company conducted activities in the area of exploration and operation of crude oil and gas fields, general construction work related to pipelines and mines, sale of crude oil and natural gas, lease of the Company's assets dedicated to the transmission of energy and gas.

As of 31 December 2006, the Company's share capital equalled PLN 5 900 000 000.00 and was divided into:

- 1) 4,250,000,000 A series bearer shares with a face value of PLN 1 each;
- 2) 750,000,000 A1 series bearer shares with a face value of PLN 1 each;
- 3) 900,000,000 B series bearer shares with a face value of PLN 1 each.

As of 31 December 2005, the Company's shareholders included:

- o the State Treasury – 84.74% of shares;
- o publicly traded shares – 15.26% of shares.

No changes in the Company's share capital took place during the financial year.

There were no changes in the ownership structure of the Company in the audited period.

No changes in the Company's share capital took place after the balance sheet date.

As of 31 December 2006 the Group's equity amounted to PLN 21,208,111 thousand.  
The Capital Group's financial year is the calendar year.

As at the opinion date, the composition of the Company's Management Board was as follows:

- Krzysztof Głogowski – Chairman of the Management Board;
- Jan Anysz – Vice Chairman of the Management Board for Employee and Restructuring Issues;
- Zenon Kuchciak – Vice Chairman of the Management Board for Trade;
- Stanisław Niedbalec - Vice Chairman of the Management Board for Technical-Investment Issues;
- Tadeusz Zwierzyński – Vice Chairman of the Management Board for Strategic Projects.

The following changes in the Company's Management Board took place during the audited period:

- On 17 February 2006 pursuant to Resolutions no. 29/IV/06 and 30/IV/06 the Supervisory Board appointed Bogusław Marzec and Stanisław Niedbalec to the Management Board;
- On 3 March 2006 pursuant to Resolution no. 33/IV/06 the Supervisory Board dismissed Franciszek Krok from the position of Vice Chairman of the Management Board;
- On 6 April 2006 pursuant to Resolution no. 53/IV/06 the Supervisory Board appointed Bartłomiej Pawlak to the Management Board;
- On 7 April 2006 pursuant to Resolution no. 55/IV/06 the Supervisory Board appointed Zenon Kuchciak to the Management Board;
- On 25 April 2006 pursuant to Resolution no. 63/IV/06 the Supervisory Board appointed Bogusław Marzec as Chairman of the Management Board of PGNiG S.A.;
- Mr. Bogusław Marzec resigned as Chairman of the Management Board of PGNiG S.A. effective as of 21 June 2006;
- On 23 June, Mieczysław Puławski – a Member of the Supervisory Board, pursuant to Resolution no. 86/IV/06, was designated as the acting Chairman of the Management Board of PGNiG S.A. for the period from 24 June 2006 to 12 September 2006;
- Bartłomiej Pawlak resigned as Member of the Management Board effective as of 21 July 2006;
- On 12 September, Mieczysław Puławski – Member of the Supervisory Board, pursuant to Resolution no. 109/IV/06, was once again designated as the acting Chairman of the Management Board of PGNiG S.A. for the period from 13 September 2006 to 23 September 2006;
- Pursuant to Resolution no. 108/IV/06 of 11 September 2006 the Supervisory Board appointed Tadeusz Zwierzyński as Member of the Management Board – Vice Chairman for Strategic Projects;
- Pursuant to Resolution no. 107/IV/06 of 11 September 2006 the Supervisory Board appointed Krzysztof Głogowski as Chairman of the Management Board of PGNiG S.A. as of 1 October 2006.

The above changes were filed with and recorded in the proper court register.

As of 31 December 2006, Polskie Górnictwo Naftowe i Gazownictwo S.A. Capital Group included:

- parent company – Polskie Górnictwo Naftowe i Gazownictwo S. A.; and
- subsidiaries:
  - Geofizyka Kraków Sp. z o.o.- 100% of shares;
  - Geofizyka Toruń Sp. z o.o. - 100% of shares;
  - Poszukiwania Nafty i Gazu Jasło Sp. z o.o. – 100% of shares;
  - Poszukiwania Nafty i Gazu Kraków Sp. z o.o. – 100% of shares;
  - Poszukiwania Nafty i Gazu NAFTA Sp. z o.o. in Piła – 100% of shares;
  - Dolnośląska Spółka Gazownictwa Sp. z o.o. - 100% of shares;
  - Górnośląska Spółka Gazownictwa Sp. z o.o. - 100% of shares;
  - Karpacka Spółka Gazownictwa Sp. z o.o. - 100% of shares;

- Mazowiecka Spółka Gazownictwa Sp. z o.o. - 100% of shares;
  - Pomorska Spółka Gazownictwa Sp. z o.o. - 100% of shares;
  - Wielkopolska Spółka Gazownictwa Sp. z o.o. - 100% of shares;
  - Budownictwo Urządzeń Gazowniczych Gazobudowa Sp. z o.o. – 100% of shares;
  - Budownictwo Naftowe Naftomontaż Sp. z o.o. – 88.83% of shares;
  - Zakład Urządzeń Naftowych Naftomet Sp. z o.o. - 100% of shares;
  - PN Diament Sp. z o.o. - 100% of shares;
  - Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A. – 75% of shares;
  - PGNiG Finance B.V. - 100% of shares;
  - ZRUG Pogórska Wola Sp. z o.o. - 100% of shares;
  - Górnictwo Naftowe Sp. z o.o. - 100% of shares;
  - Geovita Sp. z o.o. - 100% of shares;
  - Bud- Gaz PPUiH Sp. z o.o. in Warsaw – 100% of shares;
  - Zakład Robót Górniczych Krosno Sp. z o.o. – 100% of shares;
  - Investgas S.A. – 100% of shares;
  - PP-UiH TURGAZ Sp. z o.o. – 51.14% of shares;
  - Nysagaz Sp. z o.o. - 51% of shares.
- indirect subsidiaries:
    - “NAFT-STAL” Krosno Sp. z o.o. – 98.50% shares held by BN Naftomontaż Sp. z o.o.;
    - Zakład Gospodarki Mieszkaniowej Sp. z o.o. Piła – 100% of shares held by PNiG Piła Sp. z o.o.;
    - ZRUG Warszawa S.A. in liquidation – 49% of shares are held directly and 49% of shares are held by MSG Sp. z o.o.;
    - Oil Tech International F.Z.E. United Arab Emirates – 100% of shares held by PNiG Kraków Sp. z o.o.;
    - Gaz Sp. z o.o. – 51% of shares held by MSG Sp. z o.o.,
    - Gaz Media Sp. z o.o. - 51% of shares held by MSG Sp. z o.o.

Additionally, the holding company held shares in the following related parties:

- co-subsidiaries:
  - SGT EuRoPol Gaz S.A.- 49.74% of shares (48% - directly by PGNiG S.A.; 1.74% - indirectly through Gas-Trading S.A., who owns 4% of shares);
  - InterGas Trade GmbH – 50% of shares;
- associated entities:
  - Gas-Trading S.A.- 43.41% of shares;
  - Sahara Petroleum Technology Llc - 49% of shares;
  - Polskie Elektrownie Gazowe Sp. z o.o. - 48% of shares;
  - PFK Gaskon S.A. – 45.94% of shares;
  - Gazomontaż S.A. – 45.18% of shares;
  - ZRUG Poznań Sp. z o.o. – 40.08% of shares;
  - ZWUG Intergaz Sp. z o.o. – 38.30% of shares;
  - Dewon S.A. – 36.38% of shares;
  - HS Szczakowa S.A. in bankruptcy – 33.30% of shares;
  - ZRUG Toruń S.A. – 31.33% of shares;
  - Izostal S.A. – 26.15% of shares;
  - MED.-FROZ S.A. – 23.07% of shares;
  - ZRUG Zabrze Sp. z o.o. – 21.82% of shares;
  - WOC “TE-MA” Sp. z o.o. – 20.97% of shares;
  - PI Gazotech Sp. z o.o. – 69.44%.\*



*\* PGNiG S.A. has 46.3% in the total number of votes at the Shareholder's Meeting of Gazotech Sp. z o.o.*

- indirect associated entities:
  - Gazobudowa Poznań Sp. z o.o. – 49% of shares held by BUG Gazobudowa Sp. z o.o.;
  - Gazobudowa Kraków Sp. z o.o. – 47.2% of shares held by BUG Gazobudowa Sp. z o.o.;
  - "Naftek" Sp. z o.o. in Krosno – 44% of shares held by BN Naftomontaż Sp. z o.o.;
  - PPU "Pertomin " Wołomin – 40% of shares held by PNiG Jasło Sp. z o.o.;
  - "Geotermia" Stargard Szczeciński – 25% of shares held by PNiG Jasło Sp. z o.o.

The following companies have been covered by the consolidated financial statements as of 31 December 2006:

- a) Parent company - Polskie Górnictwo Naftowe i Gazownictwo S. A.

We have audited the financial statements of the parent company - Polskie Górnictwo Naftowe i Gazownictwo S. A., for the period from 1 January to 31 December 2006. On 3 April 2007 as a result of the audit of these financial statements we issued an unqualified opinion with a comment stating that the presented financial statements are individual financial statements prepared in accordance with Polish Accounting Standards and that the Company also prepares consolidated financial statements in accordance with IFRS.

b) Companies subject to full consolidation:

| <b>Name and address of the Company</b>                  | <b>Share in the share capital (in %)</b> | <b>Name of entity that audited the financial statements and type of opinion issued</b>                                  | <b>Opinion date</b> |
|---|--|---|---------------------|
| GEOFIZYKA Kraków Sp. z o.o.                             | 100.00%                                  | BDO Numerica Sp. z o.o.<br>Unqualified opinion  | 15.03.2007          |
| GEOFIZYKA Toruń Sp. z o.o.                              | 100.00%                                  | "Bona FK" Sp. z o.o.<br>Unqualified opinion   | 28.02.2007          |
| Poszukiwania Nafty i Gazu Jasło Sp. z o.o.              | 100.00%                                  | Moore Stephens Józef Król Sp. z o.o.<br>Unqualified opinion   | 28.02.2007          |
| Poszukiwania Nafty i Gazu Kraków Sp. z o.o.             | 100.00%                                  | BDO Numerica Sp. z o.o.<br>No opinion was issued by the opinion date  |                     |
| Poszukiwania Nafty i Gazu NAFTA Sp. z o.o.              | 100.00%                                  | Kancelaria Biegłego Rewidenta Ryszard Żeglis<br>Unqualified opinion   | 01.03.2007          |
| Dolnośląska Spółka Gazownictwa Sp. z o.o.,              | 100.00%                                  | Deloitte Audyt Sp. z o.o.<br>Opinion with a comment pointing out the discontinuation of gas trading in 2007             | 23.02.2007          |
| Górnośląska Spółka Gazownictwa Sp. z o.o.,              | 100.00%                                  | Deloitte Audyt Sp. z o.o.<br>Unqualified opinion with a comment pointing out the discontinuation of gas trading in 2007 | 30.03.2007          |
| Karpacka Spółka Gazownictwa Sp. z o.o.,                 | 100.00%                                  | Deloitte Audyt Sp. z o.o.<br>Unqualified opinion with a comment pointing out the discontinuation of gas trading in 2007 | 21.03.2007          |
| Mazowiecka Spółka Gazownictwa Sp. z o.o.                | 100.00%                                  | Deloitte Audyt Sp. z o.o.<br>Unqualified opinion with a comment pointing out the discontinuation of gas trading in 2007 | 13.03.2007          |
| Pomorska Spółka Gazownictwa Sp. z o.o.                  | 100.00%                                  | Deloitte Audyt Sp. z o.o.<br>Unqualified opinion with a comment pointing out the discontinuation of gas trading in 2007 | 19.03.2007          |
| Wielkopolska Spółka Gazownictwa Sp. z o.o.              | 100.00%                                  | Deloitte Audyt Sp. z o.o.<br>Unqualified opinion with a comment pointing out the discontinuation of gas trading in 2007 | 09.03.2007          |
| Budownictwo Urzędzeń Gazowniczych Gazobudowa Sp. z o.o. | 100.00%                                  | Grupa Gumulka- Kancelaria Prawa Finansowego Sp. z o.o.<br>Unqualified opinion   | 09.03.2007          |
| Budownictwo Naftowe Naftomontaż Sp. z o.o., *           | 100% / 88.83 %                           | Moore Stephens Józef Król Sp. z o.o.,<br>Unqualified opinion  | 26.02.2007          |
| Zakład Urzędzeń Naftowych Naftomet Sp. z o.o.           | 100.00%                                  | Moore Stephens Józef Król Sp. z o.o.<br>Unqualified opinion   | 28.02.2007          |
| Poszukiwania Naftowe „Diament” Sp. z o.o.               | 100.00%                                  | Zespół Biegłych Rewidentów "Faber" Sp. z o.o.<br>Unqualified opinion  | 23.03.2007          |
| Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A.  | 75.00%                                   | PTF Consult Sp. z o.o.<br>Unqualified opinion   | 31.03.2007          |
| Geovita Sp. z o.o.                                      | 100.00%                                  | PTF Consult Sp. z o.o.<br>Unqualified opinion   | 30.03.2007          |
| PGNiG Finance B.V. (Netherlands)                        | 100.00%                                  | No opinion was issued by the opinion date   |                     |
| NAFT-STAL Krosno Sp. z o.o.                             | 67.40%                                   | Moore Stephens Józef Król Sp. z o.o.<br>Unqualified opinion   | 26.02.2007          |
| Zakład Robót Górniczych Krosno Sp. z o.o.               | 100.00%                                  | PTF Consult Sp. z o.o.<br>Unqualified opinion   | 28.02.2007          |
| Investgas S.A.  | 100.00%                                  | Kancelaria Biegłego Rewidenta A.Bombik Sp.z o.o. .<br>Unqualified opinion   | 02.03.2007          |

c) Companies subject to consolidation using the equity method:

| Name and address of the Company | Share in the share capital (in %) | Name of entity that audited the financial statements and type of opinion issued | Opinion date |
|---------------------------------|-----------------------------------|---|--------------|
| SGT EuRoPol Gaz S.A.            | 49.74%                            | No opinion was issued by the opinion date                                       |              |
| Gas Trading S.A.                | 43.41%                            | No opinion was issued by the opinion date                                       |              |

## **2. Information on the consolidated financial statements for the previous financial year**

As of 1 January 2005 the Capital Group's financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU).

The activities of the Capital Group in 2005 resulted in a net profit of PLN 880,663 thousand. The consolidated financial statements of the Capital Group for the 2005 financial year were audited by a certified auditor. The audit was performed by the authorized entity Deloitte Audyt Sp. z o.o. On 30 April 2006, the certified auditor issued an opinion on these financial statements with a comment pointing out the following facts:

*“Without insisting on the necessity to conduct changes in the attached consolidated financial statements we would like to point out note 6 of the additional information and explanations, which discusses uncertainties connected with the measurement of shares in the co-subsidiary EuRoPol Gaz S.A. The Management Board of the parent company performed an analysis of shares in EuRoPol Gaz S.A. as to their impairment. Based on this analysis, impairment write-downs were made on these shares and their value was lowered to PLN 493.8 million. In the aforementioned note of the Additional information and explanations, the Management Board explained the uncertainties regarding the assumptions adopted in this analysis which resulted from external risk factors. The financial statements of EuRoPol Gaz S.A. as of 31 December 2005 were audited by another certified auditor, who issued an unqualified opinion on these financial statements. These financial statements were prepared in accordance with Polish Accounting Standards.”*

The Annual Shareholders Meeting which approved the consolidated financial statements for the 2005 financial year was held on 28 July 2006.

The consolidated financial statements for the 2005 financial year were submitted in accordance with the law to the National Court Register on 2 August 2006 and submitted for publication in Monitor Polski B on 11 August 2006. The financial statements were published in Monitor Polski B No. 1097 on 10 October 2006.

## **3. Data identifying the entity authorized to audit financial statements and the certified auditor acting on its behalf**

The audit of the consolidated financial statements was performed based on the agreement of 1 December 2006 concluded between Polskie Górnictwo Naftowe i Gazownictwo S.A. and Deloitte Audyt Sp. z o.o. with the registered office in Warsaw, ul. Piękna 18, registered under number 73 on the list of entities authorized to provide audit services kept by the National Council of Certified Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of certified auditor Maria Rzepnikowska (No. 3499/1028), at the parent company's premises from 12 February 2006 to 3 April 2007.

The authorized entity was appointed by the parent company's Supervisory Board by the resolution of 28 June 2006 based on authorization defined in Article 33 of the Company's Articles of Association.

Deloitte Audyt Sp. z o.o. and the certified auditor Maria Rzepnikowska confirm that they are authorized to carry out audits and meet the requirements of Article 66 clauses 2 and 3 of the Accounting Act to express an unbiased and independent opinion on the consolidated financial statements of Polskie Górnictwo Naftowe i Gazownictwo S.A.

**4. Availability of data and management's representations**

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the certified auditor, as confirmed in a written representation of the Management Board of the parent company of 3 April 2007.

## 5. Economic and financial position of the Capital Group

Presented below are the main items from the consolidated income statement as well as financial ratios describing the financial result of the Capital Group and its economic and financial position compared with the previous years.

| <u>Main items from the income statement (PLN '000)</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|-------------|-------------|-------------|
| Sales revenues   | 15,197,653  | 12,559,998  | 10,908,691  |
| Operating expenses                                     | 13,733,044  | 11,162,268  | 9,583,116   |
| Financial revenues                                     | 520,161     | 645,011     | 977,780     |
| Financial expenses                                     | 495,582     | 837,980     | 1,285,954   |
| Income tax   | 243,114     | 206,839     | 218,880     |
| Profit distribution                                    | 2           | 166,853     | 145,775     |
| Net profit (loss)                                      | 1,323,525   | 880,663     | 793,113     |
| <br>   |             |             |             |
| <u>Profitability ratios</u>                            | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| - gross profit margin                                  | 10%         | 10%         | 11%         |
| - net profit margin                                    | 9%          | 7%          | 7%          |
| - net return on equity                                 | 6%          | 4%          | 4%          |
| <br>   |             |             |             |
| <u>Effectiveness ratios</u>                            |             |             |             |
| - assets turnover ratio                                | 49%         | 41%         | 38%         |
| - receivables turnover in days                         | 62          | 75          | 88          |
| - liabilities turnover in days                         | 24          | 23          | 25          |
| - inventory turnover in days                           | 29          | 23          | 22          |
| <br>   |             |             |             |
| <u>Liquidity/Net working capital</u>                   |             |             |             |
| - debt ratio   | 31%         | 32%         | 38%         |
| - equity to fixed assets ratio                         | 69%         | 68%         | 62%         |
| - net working capital (PLN '000)                       | 4,305,622   | 3,337,292   | - 2,382,367 |
| - current ratio  | 2.34        | 1.95        | 0.62        |
| - quick ratio  | 1.92        | 1.72        | 0.53        |

The analysis of the above figures and ratios identified the following trends occurring in 2006:

- an increase in the net profit margin and net return on equity;
- an increase in the assets turnover ratio;
- a decrease in receivables turnover in days;
- a decrease in the debt ratio;
- an increase in liquidity ratios and the equity to fixed assets ratio.

## **II. DETAILED INFORMATION**

### **1. Information on the audited consolidated financial statements**

The audited consolidated financial statements were prepared as of 31 December 2006 and include:

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

The structure of assets and liabilities plus equity as well as items affecting the financial result was presented in the consolidated financial statements.

The audit covered the period from 1 January 2006 to 31 December 2004 and was mainly focused on:

- the audit of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the parent company;
- audit of the consolidation documentation;
- evaluation of the correctness of consolidation methods and procedures applied during consolidation;
- review of opinions and reports on the audits of financial statements of subsidiaries and associated entities included in consolidation that were prepared by other certified auditors;

The audit of the consolidated financial statements was conducted in line with the relevant applicable legal regulations as well as auditing standards issued by the National Council of Certified Auditors.

### **2. Consolidation documentation**

The parent company presented the consolidation documentation including:

- 1) financial statements of related parties, including:
  - a) individual (original) financial statements of related parties;
  - b) financial statements of controlled entities adjusted to the accounting principles (policy) applied in consolidation;
  - c) restatement of previously published consolidated financial statements in accordance with the provisions of International Financial Reporting Standards;
- 2) all adjustments and eliminations made during consolidation, necessary for the preparation of the consolidated financial statements;
- 3) calculations of goodwill.

Basis of the preparation of the consolidated financial statements

The consolidated financial statements of the Capital Group for the 2006 financial year were prepared in accordance with International Financial Reporting Standards as approved by the European Union.

Description of entities within the Capital Group

International Financial Reporting Standards criteria were applied when determining relationships as well as the consolidation scope and methods.

Reporting period

The consolidated financial statements were prepared as of the same balance sheet date and for the same financial year as the financial statement of the parent company – Polskie Górnictwo Naftowe i Gazownictwo S.A. Subsidiaries, co-subsidiaries and associated entities included in consolidation prepared financial statements as of the same balance sheet date as the parent company. The financial year of all subsidiaries and associated companies included in consolidation ended 31 December 2006.

Consolidation method

The consolidation of the financial statements of the Capital Group was carried out in line with the full method by summing up individual items of respective financial statements of subsidiaries and the parent company included in consolidation.

After summing values, consolidation adjustments and exclusions were applied to:

- the acquisition value of shares held by the parent company in subsidiaries and the part of net assets of subsidiaries, corresponding to the share of the parent company in the ownership of these companies;
- mutual receivables and liabilities of entities included in consolidation;
- significant revenues and expenses related to transactions between entities included in consolidation;
- uncapitalized profit on intra-Group transactions that are recognized in the carrying amount of assets.

The equity method was applied to co-subsidiaries and associated entities. The value of the parent company's share in associated entities was adjusted by increases or decreases in the net assets of these companies to which the parent company is entitled that occurred in the period covered by consolidation and decreased by dividends due from these companies.

**3. Justification of the opinion issued**

Without insisting on the necessity to conduct changes in the attached consolidated financial statements we would like to point out note 6 of the additional information and explanations, in which the parent company's Management Board explained the reasons for which impairment write-downs were created on shares in the co-subsidiary -

Our opinion on the audit of the consolidated financial statements in respect to the data of 15 subsidiaries has been based on the opinions of other certified auditors authorized to perform audits.

**4. Completeness and correctness of drawing up additional information and explanations and the report on the activities of the Capital Group**

The parent company confirmed the validity of the going concern principle followed in the preparation of the consolidated financial statements. The additional information and explanations to the consolidated financial statements give a correct and complete description of valuation principles regarding assets and liabilities plus equity, principles of measurement of the financial result as well as method of preparation of the consolidated financial statements.

The parent company provided the additional information and explanations consisting of tabular notes to individual items in the consolidated balance sheet and consolidated income statement well as narrative descriptions in line with IFRS.

Explanatory notes describing: property, plant and equipment, intangible assets, investments, liabilities and provisions, correctly presented increases and decreases as well as their basis during the financial year.

Limitations imposed on individual assets disclosed in the consolidated balance sheet arising from security for the benefit of creditors were described.

Individual assets and liabilities as well as revenues and expenses were correctly presented by the parent company in the consolidated financial statements. The consolidated financial statements, consolidated income statement, statement of changes in consolidated equity and consolidated cash flow statement with additional notes, information and explanations which constitute their integral part, contain all the items, whose disclosure in the financial statements is required by the provisions of IFRS.

The consolidated financial statements are supplemented with the Management Board's Report on the activities of the Capital Group in the 2006 financial year. The Report on the activities of the Capital Group consists of information required by Article 49 clause 2 of the Accounting Act and the Minister of Finance's ordinance of 19 October 2005 on current and periodical information submitted by issuers of securities. We have audited the Report with regard to the disclosed information derived directly from the audited consolidated financial statements.



**5. Final information and findings**

Management Board's Representations

Deloitte Audyt Sp. z o.o. and the certified auditor received a representation letter from the Management Board of the holding company in which the Board stated that the Capital Group complied with the laws in force.

.....  
Maria Rzepnikowska  
Certified auditor  
No. 3499/1028

.....  
Represented by

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

Warsaw, 3 April 2007